



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2001, except for the following new/revised SSAPs which have been adopted for the first time in the preparation of the current period’s condensed consolidated interim financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 33: “Discontinuing operations”
- SSAP 34: “Employee benefits”

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has not had any material impact on these condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods sold, net of discounts and returns, and excludes sales taxes and intra-group transactions. The Group is principally engaged in the manufacture and sale of agricultural tractors and related parts and components, construction machinery, road machinery and agricultural harvesting machinery.

(a) Business segments

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Others		Eliminations		Consolidated	
	For the six months ended 30 June													
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:														
Sales to external customers	695,917	649,643	242,247	194,056	86,668	39,162	10,317	26,205	5,088	3,104	—	—	1,040,237	912,170
Intersegment sales	10,958	21,731	—	—	12,432	68,882	—	—	—	—	(23,390)	(90,613)	—	—
Total	706,875	671,374	242,247	194,056	99,100	108,044	10,317	26,205	5,088	3,104	(23,390)	(90,613)	1,040,237	912,170
Segment results	(26,409)	(61,422)	13,905	18,968	(1,674)	(161)	(6,965)	(3,663)	(19)	(496)	—	—	(21,162)	(46,794)
Interest, dividend and investment income													9,616	17,399
Loss from operating activities													(11,546)	(29,395)
Finance costs													(10,617)	(11,851)
Share of profits of:														
Jointly-controlled entity	2,109	1,424											2,109	1,424
Associates									2,016	15			2,016	15
Loss before tax													(18,038)	(39,807)
Tax													(5,083)	(4,912)
Loss before minority interests													(23,121)	(44,719)
Minority interests													(963)	6,770
Net loss from ordinary activities attributable to shareholders													(24,084)	(37,949)

(b) Geographical segments

Over 90% of the Group's revenue and results are derived from operations carried out in the People's Republic of China (the "PRC") and accordingly, no geographical segment information is presented.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS (continued)

3. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2002 Unaudited RMB'000	2001 Unaudited RMB'000
Depreciation of fixed assets	50,765	41,860
Impairment of fixed assets	10,000	—
Provision for doubtful debts	13,000	36,600
Interest income	(8,113)	(17,399)
Dividend income from unlisted investments	(1,503)	—

4. TAX

	For the six months ended 30 June	
	2002 Unaudited RMB'000	2001 Unaudited RMB'000
The Company and subsidiaries:		
PRC income tax	5,648	4,376
Deferred tax	(1,234)	—
	4,414	4,376
Share of tax attributable to:		
Jointly-controlled entity	422	461
Associates	247	75
Tax charge for the period	5,083	4,912

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. TAX *(continued)*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits earned in or derived from Hong Kong during the period ended 30 June 2002 (six months ended 30 June 2001: Nil).

The PRC income tax for the Company and its subsidiaries is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

No provision for overseas profits tax has been made for the Group as there were no overseas assessable profits for the period.

There was no material unprovided deferred tax during the period or at 30 June 2002 (30 June 2001: Nil).

5. TRANSFER TO RESERVES

No appropriations were made to the statutory common reserve and statutory public welfare fund by the Company for the six months ended 30 June 2002 (six months ended 30 June 2001: Nil). Such appropriations will be made at the year end in accordance with the PRC Company Law and the Company's articles of association.

6. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (six months ended 30 June 2001: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of approximately RMB24,084,000 (six months ended 30 June 2001: approximately RMB37,949,000) and the weighted average of 785,000,000 shares (six months ended 30 June 2001: 785,000,000 shares) in issue during the period.

No diluted loss per share is presented as the Company does not have any dilutive potential shares.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, where payment in advance for customers is normally required. The credit periods to its customers are 30 to 90 days.

		As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Trade receivables, net	(a)	346,892	354,333
Bills receivables		34,859	69,256
		<u>381,751</u>	<u>423,589</u>

(a) An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Within 3 months	178,458	168,939
4 to 6 months	52,429	53,960
7 to 12 months	63,528	72,625
1 to 2 years	46,542	48,666
Over 2 years	5,935	10,143
	<u>346,892</u>	<u>354,333</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

9. TRADE AND BILLS PAYABLES

		As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
	<i>Notes</i>		
Trade payables	(a)	315,648	307,611
Bills payables	(b)	66,401	65,643
		<u>382,049</u>	<u>373,254</u>

- (a) An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Within 3 months	203,384	179,238
4 to 6 months	35,998	40,861
7 to 12 months	24,004	38,860
1 to 2 years	23,545	27,092
Over 2 years	28,717	21,560
	<u>315,648</u>	<u>307,611</u>

- (b) As at the balance sheet date, the Group's bills payables amounting to approximately RMB59,781,000 (31 December 2001: RMB44,020,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB88,697,000 (31 December 2001: RMB23,302,000).



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

10. CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities.

11. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	As at 30 June 2002 Unaudited RMB'000	As at 31 December 2001 Audited RMB'000
Capital commitments in respect of plant and machinery:		
Contracted for	<u>16,150</u>	<u>19,241</u>
Capital commitments in respect of purchase of equity interest in an associate:		
Contracted for	<u>—</u>	<u>12,415</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

12. RELATED PARTY TRANSACTIONS

- (a) The significant transactions carried out between the Group and China First Tractor Group Company Limited (the "Holding"), inclusive of subsidiaries and associates of Holding, during the period are summarised as follows:

		For the six months ended 30 June	
		2002	2001
	<i>Notes</i>	Unaudited <i>RMB'000</i>	Unaudited <i>RMB'000</i>
Sales of raw materials and components	(i)	62,286	53,678
Purchases of raw materials and components	(i)	86,437	111,658
Purchases of utilities	(ii)	36,628	29,052
Fees paid for welfare and support services	(iii)	11,612	17,466
Purchases of transportation services	(iii)	1,880	1,718
Research and development expenses paid	(iv)	1,664	1,250
Fees paid for the use of land	(v)	2,500	2,500
Fees paid for the use of trademark	(vi)	1,664	1,250
Rentals paid in respect of:			
Buildings	(vii)	1,072	940
Plant and machinery	(vii)	1,178	2,747
Fees paid for agency services	(viii)	188	699



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

12. RELATED PARTY TRANSACTIONS (continued)

- (b) The significant transactions carried out between First Tractor Qingjiang Tractor Company Limited, a subsidiary of the Company and its minority shareholder during the period are summarised as follows:

		For the six months ended 30 June	
		2002	2001
	Notes	Unaudited RMB'000	Unaudited RMB'000
Sales of raw materials and components	(i)	1,274	681
Purchases of raw materials and components	(i)	3,994	3,177
Sales of utilities	(ii)	585	768

- (i) Pursuant to relevant agreements, the pricing in respect of raw materials and components is determined by reference to the state price (i.e. mandatory prices set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such raw material or components, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price index, whichever is lower.
- (ii) Pursuant to relevant agreements, the pricing in respect of utilities is determined by reference to the state price (i.e. mandatory prices set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price index, whichever is lower.
- (iii) Pursuant to relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the state price (i.e. mandatory prices set in accordance with relevant PRC regulations, where applicable) or if there is no applicable state price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price index, whichever is lower.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

12. RELATED PARTY TRANSACTIONS *(continued)*

- (iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services per annum is calculated at a rate of 0.2% of the Company's net annual turnover.
 - (v) Pursuant to relevant agreements, the annual rental for the use of land is RMB5 million subject to a further land rental adjustment announced by the relevant state land administration authorities.
 - (vi) Pursuant to relevant agreements, the pricing for the use of the trademark per annum is charged at the rate of 0.2% of the Company's net annual turnover.
 - (vii) Pursuant to relevant agreements, the rental of buildings and plant and machinery is charged with reference to the depreciation of relevant assets.
 - (viii) Pursuant to relevant agreements, the pricing of agency fees is based on certain percentage of the invoiced value of goods sold through the agent.
- (c) At the balance sheet date, the Holding guaranteed certain bank loans and other loans made to the Group up to RMB26.4 million (31 December 2001: RMB34.7 million) and RMB0.2 million (31 December 2001: RMB0.2 million), respectively.

13. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.