



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2003

1. BASIS OF PREPARATION AND 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 2002, 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 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

A summary of their major effects is as follows:

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and disclosures for other forms of government assistance. This SSAP has not had any material impact on these condensed consolidated interim financial statements.



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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 agriculture tractors and related parts and components, construction machinery, road machinery, agriculture harvesting machinery and financial operations.

(a) Business segments

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Financial operations		Others		Eliminations		Consolidated	
	For the six months ended 30 June															
	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Segment revenue:																
Sales to external customers	1,043,550	695,917	506,398	242,247	144,715	86,688	96,208	10,317	—	—	2,717	5,088	—	—	1,793,588	1,040,237
Intersegment revenue	8,306	10,958	—	—	14,984	12,432	—	—	3,843	—	—	—	(27,133)	(23,380)	—	—
Other revenue and gains	—	—	—	—	—	—	—	—	7,743	—	—	—	—	—	7,743	—
Total	1,051,856	706,875	506,398	242,247	159,699	99,100	96,208	10,317	11,586	—	2,717	5,088	(27,133)	(23,380)	1,801,331	1,040,237
Segment results	(12,684)	(26,409)	50,951	13,905	6,058	(1,674)	(2,437)	(6,965)	6,006	—	20	(19)	—	—	47,914	(21,162)
Interest, dividend, investment income and negative goodwill recognised as income															4,449	9,616
Profit/(loss) from operating activities															52,363	(11,546)
Finance costs															(6,067)	(10,617)
Share of profits and losses of:																
Jointly-controlled entity	990	2,109	—	—	—	—	—	—	—	—	—	—	—	—	990	2,109
Associates	—	—	—	—	—	—	—	—	—	—	5,770	2,016	—	—	5,770	2,016
Negative goodwill recognised as income on acquisition of an associate	—	—	—	—	—	—	—	—	—	—	303	—	—	—	303	—
Profit/(loss) before tax															53,359	(18,038)
Tax															(15,288)	(5,083)
Profit/(loss) before minority interests															38,071	(23,121)
Minority interests															(14,140)	(963)
Net profit/(loss) from ordinary activities attributable to shareholders															23,931	(24,084)



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2. TURNOVER AND SEGMENT INFORMATION *(continued)*

(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.

3. OTHER REVENUE AND GAINS

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Interest income	3,952	8,113
Interest income from financial operations	7,220	—
Profit from sundry sales	5,324	9,264
Rental income	2,391	1,046
Dividend income from long term unlisted investments	379	1,503
Gain on disposal of fixed assets	684	—
Others	9,091	8,112
	<u>29,041</u>	<u>28,038</u>



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4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2003	2002
	Unaudited	Unaudited
	RMB'000	RMB'000
Depreciation of fixed assets	49,110	50,765
Impairment of fixed assets	—	10,000
Impairment of construction in progress	7,405	—
Provision for doubtful debts	3,424	13,000
Interest income	(3,952)	(8,113)
Interest income from financial operations	(7,220)	—
Dividend income from long term unlisted investments	(379)	(1,503)
Negative goodwill recognised as income on acquisition of a subsidiary	(118)	—

5. TAX

	For the six months ended 30 June	
	2003	2002
	Unaudited	Unaudited
	RMB'000	RMB'000
The Company and subsidiaries:		
PRC corporate income tax	14,284	5,648
Deferred tax	—	(1,234)
	14,284	4,414
Share of tax attributable to:		
Jointly-controlled entity	312	422
Associates	692	247
Total tax charge for the period	15,288	5,083



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5. 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 2003 (six months ended 30 June 2002: Nil).

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 12% to 33% (six months ended 30 June 2002: 12% to 33%) on their 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.

The PRC corporate income tax of the associates and jointly-controlled entity is calculated at rates ranging from 15% to 33% (six months ended 30 June 2002: 18% to 33%) on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

No recognition of the potential deferred tax assets relating to tax losses and other deductible temporary differences have been made as the recoverability of the potential deferred tax assets is uncertain.

No deferred tax liabilities have been recognised in respect of the temporary differences associated with undistributed profits of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.



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6. TRANSFER TO RESERVES

	For the six months ended 30 June	
	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Reserve fund	587	—
Enterprise expansion fund	587	—
	<u>1,174</u>	<u>—</u>

No appropriations were made to the statutory surplus reserve and statutory public welfare fund by the Company for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil). Such appropriations will be made at the year end in accordance with the PRC Company Law and the Company's articles of association.

During the period, the subsidiaries' aggregate appropriations to reserves dealt with in the Group's condensed consolidated interim financial statements were approximately RMB1,174,000.

7. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (six months ended 30 June 2002: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately RMB23,931,000 (six months ended 30 June 2002: loss of approximately RMB24,084,000) and the weighted average of 785,000,000 (six months ended 30 June 2002: 785,000,000) shares in issue during the period.

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



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9. LOANS RECEIVABLE

	Notes	As at 30 June 2003			As at 31 December 2002		
		Gross Unaudited	Provision Unaudited	Net Unaudited	Gross Audited	Provision Audited	Net Audited
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loan to the Holding		103,000	3,090	99,910	70,000	2,100	67,900
Loan to an associate	(a)	400	4	396	15,400	154	15,246
Loans to related companies	(b)	12,568	1,547	11,021	22,100	663	21,437
Loans to customers		53,350	4,827	48,523	7,140	2,916	4,224
		169,318	9,468	159,850	114,640	5,833	108,807
Loans receivable maturing within one year		(143,350)	(7,527)	(135,823)	(108,430)	(5,415)	(103,015)
Long term portion		25,968	1,941	24,027	6,210	418	5,792

- (a) The loan to an associate represents the loan granted by China First Tractor Group Finance Company Limited ("FTGF") to Yituo (Luoyang) Diesel Co., Ltd. ("YLDC"), an associate of the Group, whereby the Company's ultimate holding company, China Yituo Group Corporation Limited (the "Holding") holds 75% equity interest and the remaining 25% equity interest is held by a non-wholly owned subsidiary of the Company.
- (b) The loans to related companies represent the loans granted by FTGF to Yituo (Luoyang) Mould Factory, which is a wholly-owned subsidiary of the Holding, Yituo (Luoyang) Vehicle Co., Ltd., in which the Holding holds a 51% equity interest, and Yituo-Made (Luoyang) Wind Turbine Co., Ltd., in which the Holding holds a 50% equity interest.



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10. 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.

	<i>Notes</i>	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Trade receivable, net	(a)	407,367	260,794
Bills receivable	(b)	172,899	145,402
		<u>580,266</u>	<u>406,196</u>

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

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Within 3 months	257,803	129,391
4 to 6 months	47,846	44,541
7 to 12 months	65,675	49,460
1 to 2 years	28,377	34,657
Over 2 years	7,666	2,745
	<u>407,367</u>	<u>260,794</u>

(b) Included in the bills receivable balance as at 30 June 2003 are RMB53,138,000 (31 December 2002: RMB86,933,000) of discounted bills receivable, net of provision, and such discounted bills receivable arose from the Group's financial operations.



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11. TRADE AND BILLS PAYABLES

	<i>Note</i>	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Trade payable	(a)	545,161	371,910
Bills payable		228,580	122,179
		<u>773,741</u>	<u>494,089</u>

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

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Within 3 months	441,004	267,888
4 to 6 months	44,456	42,373
7 to 12 months	19,813	20,337
1 to 2 years	13,928	18,196
Over 2 years	25,960	23,116
	<u>545,161</u>	<u>371,910</u>

12. CUSTOMERS DEPOSITS

Included in the customers deposits of the Group are deposits placed by an associate of approximately RMB57,453,000 (31 December 2002: RMB43,316,000); the Holding of approximately RMB43,164,000 (31 December 2002: RMB12,333,000); and related companies of approximately RMB4,048,000 (31 December 2002: RMB16,890,000).



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13. CONTINGENT LIABILITIES

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

14. CAPITAL COMMITMENTS

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

	As at 30 June 2003 Unaudited RMB'000	As at 31 December 2002 Audited RMB'000
Contracted, but not provided for:		
Purchase of plant and machinery	93,238	25,529
Purchase of a long term investment	—	3,640
	<u>93,238</u>	<u>29,169</u>
Authorised, but not contracted for:		
Purchase of plant and machinery	48,357	147,793
	<u>141,595</u>	<u>176,962</u>



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15. RELATED PARTY TRANSACTIONS

- (a) The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the period are summarised as follows:

	Notes	For the six months ended 30 June	
		2003 Unaudited RMB'000	2002 Unaudited RMB'000
Sales of raw materials and components	(i)	100,909	62,286
Purchases of raw materials and components	(i)	126,762	86,437
Purchases of utilities	(ii)	56,387	36,628
Fees paid for welfare and support services	(iii)	12,391	11,612
Purchases of transportation services	(iii)	2,810	1,880
Research and development expenses paid	(iv)	1,928	1,664
Fees paid for the use of land	(v)	2,500	2,500
Fees paid for the use of trademark	(vi)	1,928	1,664
Rentals paid in respect of:			
Buildings	(vii)	1,070	1,072
Plant and machinery	(vii)	1,480	1,178
Fees paid for agency services	(viii)	—	188
Loans granted during the period	(ix)	37,410	—
Bills discounted during the period	(ix)	44,505	—
Interest income, inclusive of discounted bills charges	(ix)	4,341	—



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15. RELATED PARTY TRANSACTIONS (continued)

The above transactions included the significant transactions carried out between the Group and its associate, YLDC, which is also a subsidiary of the Holding. Particulars of the significant transactions carried out between the Group and YLDC after the Group's acquisition of YLDC in March 2002 are summarised as follows:

		For the six months ended 30 June	
	Notes	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Sales of raw materials and components	(i)	36,189	9,527
Purchases of raw materials and components	(i)	29,229	18,906
Bills discounted during the period	(ix)	40,000	—
Interest income, inclusive of discounted bills charges	(ix)	783	—

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

		For the six months ended 30 June	
	Notes	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Sales of raw materials and components	(i)	1,115	1,274
Purchases of raw materials and components	(i)	7,252	3,994
Sales of utilities	(ii)	395	585



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15. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (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.
- (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.



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15. RELATED PARTY TRANSACTIONS *(continued)*

- (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.
 - (ix) The transactions are conducted with reference to the terms and rates stipulated by the Peoples' Bank of China.
- (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 2002: RMB26.4 million) and RMB0.2 million (31 December 2002: RMB0.2 million), respectively.

16. POST BALANCE SHEET EVENTS

- (a) On 22 July 2003, the Company entered into an agreement with the Holding, and three other parties to set up Luoyang First Motors Company Limited ("First Motors"), a company incorporated in the PRC with registered capital of RMB200 million, of which RMB18 million (representing 9.0% thereof) and RMB59 million (representing 29.5% thereof) were contributed by the Holding and the Company respectively. First Motors is engaged in the design, manufacture and sale of vehicles, mainly heavy loading trucks, and accessories for the chassis and the related ancillary services. The application for the business licence of First Motors was still being processed as at the date of this report.
- (b) On 10 August 2003, the Company entered into an agreement with Jiangsu Qingjiang Tractor Group Limited ("Qingtuo Group"), the minority shareholder of YTQT, whereby the Company agreed to dispose of its entire 51% equity interest in YTQT to Qingtuo Group at a consideration of RMB10,000.

17. COMPARATIVE AMOUNTS

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