



The board of directors (the "Board") of First Tractor Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") prepared in accordance with the accounting principles generally accepted in Hong Kong for the six months ended 30 June 2004, together with the comparative figures for the corresponding period in 2003. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

For the six months ended 30 June 2004, the Group recorded a turnover of RMB2,134,888,000, representing an increase of 19% over the corresponding period last year. A net profit of RMB5,020,000 was recorded, representing a decrease of 79% from the corresponding period last year. Earnings per share was RMB0.64 cents.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004.

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT***For the six months ended 30 June 2004**(Prepared in accordance with Hong Kong accounting standards)*

	Notes	For the six months ended 30 June	
		2004 Unaudited RMB'000	2003 Unaudited RMB'000
TURNOVER	2	2,134,888	1,793,588
Cost of sales		<u>(1,930,185)</u>	<u>(1,563,866)</u>
Gross profit		204,703	229,722
Other revenue and gains	3	45,426	29,041
Selling and distribution costs		(69,635)	(59,716)
Administrative expenses		(116,042)	(118,806)
Other operating expenses		<u>(45,362)</u>	<u>(27,878)</u>
PROFIT FROM OPERATING ACTIVITIES	4	19,090	52,363
Finance costs		(3,770)	(6,067)
Share of profits and losses of:			
Jointly-controlled entity		1,319	990
Associates		3,518	5,770
Negative goodwill on acquisition of an associate recognised as income during the period		<u>303</u>	<u>303</u>
PROFIT BEFORE TAX		20,460	53,359
Tax	5	<u>(9,958)</u>	<u>(15,288)</u>
PROFIT BEFORE MINORITY INTERESTS		10,502	38,071
Minority interests		<u>(5,482)</u>	<u>(14,140)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>5,020</u>	<u>23,931</u>
EARNINGS PER SHARE - Basic	7	<u>RMB 0.64 cents</u>	<u>RMB 3.05 cents</u>



CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

(Prepared in accordance with Hong Kong accounting standards)

		As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
	Notes		
NON-CURRENT ASSETS			
Fixed assets		765,665	776,026
Construction in progress		86,986	68,730
Negative goodwill		(1,875)	(1,992)
Interest in a jointly-controlled entity		22,822	25,466
Interests in associates		113,375	109,809
Long term investments	8	65,105	65,105
Loans receivable	9	74,915	40,915
		1,126,993	1,084,059
CURRENT ASSETS			
Inventories		986,434	773,847
Trade and bills receivables	10	562,554	410,611
Loans receivable	9	186,589	189,699
Bills discounted receivable	11	260,961	155,390
Other receivables		271,585	238,927
Short term investments	12	21,225	6,955
Pledged deposits	13	101,917	120,157
Cash and cash equivalents	13	575,099	680,427
		2,966,364	2,576,013
CURRENT LIABILITIES			
Trade and bills payables	14	932,562	683,964
Tax payable		872	3,308
Other payables and accruals		440,965	355,197
Customer deposits	15	347,577	357,387
Interest-bearing bank loans		157,280	65,297
		1,879,256	1,465,153
NET CURRENT ASSETS		1,087,108	1,110,860
TOTAL ASSETS LESS CURRENT LIABILITIES		2,214,101	2,194,919
MINORITY INTERESTS		143,911	129,749
		2,070,190	2,065,170
CAPITAL AND RESERVES			
Issued capital		785,000	785,000
Reserves		1,285,190	1,280,170
		2,070,190	2,065,170

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 June 2004**(Prepared in accordance with Hong Kong accounting standards)*

	Share capital Unaudited RMB'000	Share premium Unaudited RMB'000	Statutory surplus reserve Unaudited RMB'000	Statutory public welfare fund Unaudited RMB'000	Reserve fund Unaudited RMB'000	Enterprise expansion fund Unaudited RMB'000	Accumulated losses Unaudited RMB'000	Total Unaudited RMB'000
At 1 January 2004	785,000	1,378,840	61,699	62,749	1,759	1,515	(226,392)	2,065,170
Net profit for the period	—	—	—	—	—	—	5,020	5,020
At 30 June 2004	<u>785,000</u>	<u>1,378,840</u>	<u>61,699</u>	<u>62,749</u>	<u>1,759</u>	<u>1,515</u>	<u>(221,372)</u>	<u>2,070,190</u>
At 1 January 2003	785,000	1,378,840	59,455	59,455	1,172	928	(236,008)	2,048,842
Net profit for the period	—	—	—	—	—	—	23,931	23,931
Transfer to reserves	—	—	—	—	587	587	(1,174)	—
At 30 June 2003	<u>785,000</u>	<u>1,378,840</u>	<u>59,455</u>	<u>59,455</u>	<u>1,759</u>	<u>1,515</u>	<u>(213,251)</u>	<u>2,072,773</u>



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

(Prepared in accordance with Hong Kong accounting standards)

	For the six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	RMB'000	RMB'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(175,403)	128,091
INVESTING ACTIVITIES	204,942	(5,167)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	29,539	122,924
FINANCING ACTIVITIES	91,363	30,444
NET INCREASE IN CASH AND CASH EQUIVALENTS	120,902	153,368
Cash and cash equivalents at beginning of period	384,994	345,669
CASH AND CASH EQUIVALENTS AT END OF PERIOD	505,896	499,037
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	491,523	482,489
Non-pledged time deposits with original maturity of less than three months when acquired	14,373	16,548
	505,896	499,037



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement 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 unaudited condensed consolidated interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2003.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods sold, net of trade 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.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

2. TURNOVER AND SEGMENT INFORMATION (continued)

(a) Business segments

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Financial operations		Others		Eliminations		Consolidated		
	For the six months ended 30 June																
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	
	Unaudited	Unaudited	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	RMB'000	RMB'000	
Segment revenue:																	
Sales to external customers	1,383,465	1,043,550	466,112	506,368	216,750	144,715	68,549	96,208	—	—	12	2,717	—	—	2,134,888	1,793,588	
Intersegment revenue	32,892	8,306	—	—	10,962	14,984	—	—	6,340	3,843	—	—	(50,194)	(27,133)	—	—	
Other revenue and gains	—	—	—	—	—	—	—	—	17,624	7,743	—	—	—	—	17,624	7,743	
	<u>1,416,357</u>	<u>1,051,856</u>	<u>466,112</u>	<u>506,368</u>	<u>227,712</u>	<u>159,699</u>	<u>68,549</u>	<u>96,208</u>	<u>23,964</u>	<u>11,586</u>	<u>12</u>	<u>2,717</u>	<u>(50,194)</u>	<u>(27,133)</u>	<u>2,152,512</u>	<u>1,801,331</u>	
Segment results	<u>2,410</u>	<u>(12,684)</u>	<u>3,102</u>	<u>50,951</u>	<u>(4,326)</u>	<u>6,058</u>	<u>304</u>	<u>(2,437)</u>	<u>14,818</u>	<u>6,006</u>	<u>(502)</u>	<u>20</u>	<u>—</u>	<u>—</u>	<u>15,806</u>	<u>47,914</u>	
Interest, dividend, investment income and negative goodwill recognised as income															5,392	4,449	
Unallocated expenses															(2,108)	—	
Profit from operating activities															19,090	52,363	
Finance costs															(3,770)	(6,067)	
Share of profits and losses of:																	
Jointly-controlled entity	1,319	990	—	—	—	—	—	—	—	—	—	—	—	—	1,319	990	
Associates	—	—	—	—	—	—	—	—	—	—	3,518	5,770	—	—	3,518	5,770	
Negative goodwill on acquisition of an associate recognised as income during the period	—	—	—	—	—	—	—	—	—	—	303	303	—	—	303	303	
Profit before tax															20,460	53,359	
Tax															(9,958)	(15,288)	
Profit before minority interests															10,502	38,071	
Minority interests															(5,482)	(14,140)	
Net profit from ordinary activities attributable to shareholders															5,020	23,931	

(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

30 June 2004

3. OTHER REVENUE AND GAINS

	For the six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	RMB'000	RMB'000
Other revenue		
Interest income	4,230	3,952
Interest income from financial operations	16,929	7,220
Profit from sundry sales	12,737	5,324
Rental income	1,843	2,391
Dividend income from long term unlisted investments	501	379
Others	8,107	8,973
	<u>44,347</u>	<u>28,239</u>
Gains		
Gain on disposal of fixed assets	418	684
Gain on disposal of short term listed investments	544	—
Negative goodwill recognised	117	118
	<u>1,079</u>	<u>802</u>
	<u><u>45,426</u></u>	<u><u>29,041</u></u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	RMB'000	RMB'000
Depreciation of fixed assets	44,796	49,110
Impairment of construction in progress	—	7,405
Provision for doubtful debts	32,169	3,424
Unrealised loss on changes in fair values of short term listed investments	2,108	—
Interest income	(4,230)	(3,952)
Interest income from financial operations	(16,929)	(7,220)
Dividend income from long term unlisted investments	(501)	(379)
Gain on disposal of short term listed investments	(544)	—
Gain on disposal of fixed assets	(418)	(684)
Negative goodwill on acquisition of a subsidiary recognised as income during the period	(117)	(118)



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

5. TAX

	For the six months ended 30 June	
	2004	2003
	Unaudited	Unaudited
	RMB'000	RMB'000
Group:		
PRC corporate income tax provided for the period	8,684	14,284
Deferred tax	—	—
	8,684	14,284
Share of tax attributable to:		
Jointly-controlled entity	219	312
Associates	1,055	692
	9,958	15,288
Total tax charge for the period	9,958	15,288

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 two periods ended 30 June 2004 and 2003.

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 2003: 12% to 33%) on their estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

Profits tax of the subsidiary operating outside the PRC is subject to the rates applicable in its jurisdiction. No provision for overseas profits tax has been made for the Group as there were no overseas assessable profits for the period (six months ended 30 June 2003: Nil).

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 2003: 15% to 33%) on the respective company's assessable profits determined in accordance with the relevant PRC laws and regulations.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

5. TAX (continued)

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.

6. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of approximately RMB5,020,000 (six months ended 30 June 2003: RMB23,931,000) and the weighted average of 785,000,000 (six months ended 30 June 2003: 785,000,000) ordinary shares in issue during the period.

No diluted earnings per share amounts are presented as the Company does not have any dilutive potential shares in both periods presented.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

8. LONG TERM INVESTMENTS

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Unlisted equity investments, at fair value	67,228	67,228
Provision for impairment	(2,123)	(2,123)
	65,105	65,105

9. LOANS RECEIVABLE

Notes	As at 30 June 2004			As at 31 December 2003		
	Gross	Provision	Net	Gross	Provision	Net
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Audited RMB'000	Audited RMB'000	Audited RMB'000
Loan to the ultimate holding company (a)	158,000	3,720	154,280	124,000	3,720	120,280
Loans to associates (b)	20,000	200	19,800	20,000	200	19,800
Loans to related companies (c)	13,360	400	12,960	19,680	390	19,290
Loans to customers (d)	80,360	5,896	74,464	77,150	5,906	71,244
	271,720	10,216	261,504	240,830	10,216	230,614
Portion classified as current assets	(195,540)	(8,951)	(186,589)	(198,650)	(8,951)	(189,699)
Long term portion	76,180	1,265	74,915	42,180	1,265	40,915



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

9. LOANS RECEIVABLE (continued)

Notes:

- (a) *Loan to the ultimate holding company represents the loan granted by China First Tractor Group Finance Company Limited ("FTGF"), a subsidiary, to China Yituo Group Corporation Limited (the "Holding" or "China Yituo Group").*
- (b) *The loans to associates represent the loans granted by FTGF to the associates of the Group.*
- (c) *The loans to related companies represent the loans granted by FTGF to the companies in which the Holding has significant influence therein.*
- (d) *The loans to customers represent the loans granted to the specific customers as permitted by the People's Bank of China (the "PBOC").*

The maturity profile of the Group's loans receivable at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Repayable:		
Three months or less	126,270	37,430
One year or less but over three months	69,270	161,220
Five years or less but over one year	76,180	42,180
	<u>271,720</u>	<u>240,830</u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

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.

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Within 90 days	368,438	246,175
91 days to 180 days	105,772	62,159
181 days to 365 days	44,856	64,918
1 to 2 years	41,372	35,110
Over 2 years	2,116	2,249
	<u>562,554</u>	<u>410,611</u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

11. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of provisions) of the Group as at 30 June 2004 are approximately RMB101,435,000 (31 December 2003: RMB82,190,000) related to the Holding; approximately RMB43,715,000 (31 December 2003: RMB32,561,000) related to associates; and approximately RMB12,593,000 (31 December 2003: RMB495,000) related to related companies.

The maturity profile of the Group's bills discounted receivable at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Maturing within:		
Three months or less	131,899	77,960
Six months or less but over three months	131,698	79,000
	263,597	156,960
Less: Provision for bills discounted receivable	(2,636)	(1,570)
	260,961	155,390

12. SHORT TERM INVESTMENTS

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Listed equity securities, at market value:		
Hong Kong	7,184	5,369
Mainland China	14,041	1,586
	21,225	6,955



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Cash and bank balances	491,523	247,404
Cash deposits in the PBOC - Note	66,125	44,606
Time deposits	119,368	508,574
	677,016	800,584
Less: Pledged time deposits	(101,917)	(120,157)
	575,099	680,427

Note:

The balance represents FTGF's mandatory reserve deposits placed in the PBOC. In accordance with the regulations of the PBOC, such balance should be no less than a specific percentage of the amounts of the customer deposits placed with FTGF. Such mandatory reserve deposits are not available for use in the Group's day to day operations.

The maturity profile of the Group's time deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Maturing within:		
Three months or less	116,290	240,881
One year or less but over three months	3,078	267,693
	119,368	508,574



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

14. TRADE AND BILLS PAYABLES

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Within 90 days	615,766	510,542
91 days to 180 days	246,505	72,179
181 days to 365 days	40,149	71,995
1 to 2 years	18,036	14,301
Over 2 years	12,106	14,947
	932,562	683,964

15. CUSTOMER DEPOSITS

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Deposits from the ultimate holding company	45,843	42,880
Deposits from associates	151,470	181,373
Deposits from related companies	64,894	24,543
Deposits from customers	85,370	108,591
	347,577	357,387



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

15. CUSTOMER DEPOSITS *(continued)*

The maturity profile of the Group's customer deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity as follows:

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Repayable:		
On demand	319,777	329,695
Three months or less	—	—
One year or less but over three months	27,800	27,692
	<u>347,577</u>	<u>357,387</u>

16. CONTINGENT LIABILITIES

As at 30 June 2004, FTGF and the Holding had given a joint guarantee to the extent of RMB52 million (31 December 2003: Nil) to a financial institution for securing the loans granted to Yituo (Luoyang) Fuel Jet Co., Ltd. ("YLFJ"). The Company, the Holding and Yituo (Luoyang) Diesel Co., Ltd. ("YLDC") hold 7%, 75% and 18% of the shareholding of YLFJ, respectively.

Save as disclosed above, the Group did not have any other significant contingent liabilities.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

17. CAPITAL COMMITMENTS

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

	As at 30 June 2004 Unaudited RMB'000	As at 31 December 2003 Audited RMB'000
Contracted, but not provided for:		
Purchase of land use right	—	2,483
Purchase of plant and machinery	84,103	81,369
	84,103	83,852
Authorised, but not contracted for:		
Purchase of plant and machinery	59,262	65,506
Investment in an associate	—	800
	59,262	66,306
	143,365	150,158



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

18. 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:

		For the six months ended 30 June	
		2004	2003
		Unaudited	Unaudited
		RMB'000	RMB'000
Sales of raw materials and components	(i)	182,108	100,909
Purchases of raw materials and components	(i)	255,898	126,762
Purchases of utilities	(ii)	65,959	56,387
Fees paid for welfare and support services	(iii)	12,162	12,391
Purchases of transportation services	(iii)	5,543	2,810
Research and development expenses paid	(iv)	2,748	1,928
Fees paid for the use of land	(v)	2,500	2,500
Fees paid for the use of trademark	(vi)	2,748	1,928
Rentals paid in respect of:			
Buildings	(vii)	993	1,070
Plant and machinery	(vii)	1,043	1,480
Rentals received in respect of:			
Buildings	(vii)	918	—
Plant and machinery	(vii)	1,165	—
Interest income, inclusive of discounted bills charges	(viii)	10,120	4,341
Interest paid for customer deposits	(ix)	368	—

The above transactions included the significant transactions carried out between the Group and its associates, YLDC, Yituo (Luoyang) Casting & Forging Company Limited ("YLCF") and Yituo (Luoyang) Engine Machinery Company Limited ("YEMC"). YLDC is a subsidiary of the Holding and holds 50% equity interest in YEMC, whereas the Holding holds 50% equity interest in YLCF.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

18. RELATED PARTY TRANSACTIONS (continued)

Particulars of the significant transactions carried out between the Group and YLDC, YLCF and YEMC after the Group's acquisition of the equity interests in the aforesaid associates are summarised as follows:

	Notes	For the six months ended 30 June	
		2004	2003
		Unaudited RMB'000	Unaudited RMB'000
Sales of raw materials and components	(i)	124,842	36,189
Purchases of raw materials and components	(i)	142,993	29,229
Rentals received in respect of:			
Buildings	(vii)	710	—
Plant and machinery	(vii)	1,165	—
Interest income, inclusive of discounted bills charges	(viii)	1,291	783
Interest paid for customer deposits	(ix)	76	—
		<u>76</u>	<u>—</u>

- (b) The significant transactions carried out between the Group and Luoyang First Motor Company Limited, an associate of the Group, during the period are summarised as follows:

	Notes	For the six months ended 30 June	
		2004	2003
		Unaudited RMB'000	Unaudited RMB'000
Sales of raw materials and components	(i)	2,654	—
Interest paid for customer deposits	(ix)	1,104	—
		<u>1,104</u>	<u>—</u>



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

18. RELATED PARTY TRANSACTIONS (continued)

- (c) The significant transactions carried out between Yituo Qingjiang Tractor Company Limited, a former subsidiary disposed of in 2003, and its minority shareholder during the prior period are summarised as follows:

		For the six months ended 30 June	
		2004	2003
		Unaudited	Unaudited
		RMB'000	RMB'000
Sales of raw materials and components	(i)	—	1,115
Purchases of raw materials and components	(i)	—	7,252
Sales of utilities	(ii)	—	395

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

18. RELATED PARTY TRANSACTIONS (continued)

Notes: (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 RMB5,000,000 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) The interest income related to the bills discounting service and loans granted by FTGF to the Holding and its subsidiaries and associates. Pursuant to relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC. Details of the outstanding balance of the bills discounted receivable and loans receivable as at the balance sheet date are set out in notes 11 and 9 to the condensed consolidated interim financial statements, respectively.
- (ix) The interest expense paid for customer deposits related to the customer deposits placed in FTGF by the Holding and its subsidiaries and associates. Pursuant to relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC. Details of the customer deposits balance as at the balance sheet date are set out in note 15 to the condensed consolidated interim financial statements.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

18. RELATED PARTY TRANSACTIONS *(continued)*

- (d) On 26 February 2004, the Company entered into an agreement with the Holding to establish Yituo (Luoyang) Dongfanghong Tyre Company Limited ("Dongfanghong Tyre") with the Holding. Dongfanghong Tyre is engaged in the manufacture and sales of tyre tube and casing and rubber products. The registered capital of Dongfanghong Tyre is RMB2 million, of which RMB1.2 million (constituting 60% thereof) is contributed by the Holding and RMB0.8 million (constituting 40% thereof) is contributed by the Company.
- (e) On 29 March 2004, the Company and YEMC entered into a disposal agreement pursuant to which YEMC agreed to acquire the assets (including fixed assets and receivable balances) from the Company for a consideration of RMB27 million and to assume the liabilities in the amount of RMB4.23 million. The net consideration under the disposal agreement is RMB 22.77 million payable by YEMC to the Company in cash. YEMC is owned as to 42% by the Company and 50% by YLDC, which is a 75% subsidiary of the Holding.
- (f) On 8 April 2004, the Company entered into an agreement with the Holding and a number of individuals to establish Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST"). The registered capital of YLST is RMB13,000,000, of which RMB6,500,000 (constituting 50% thereof) is contributed by the Company in the form of cash, RMB3,120,000 (constituting 24% thereof) is contributed by the Holding in the form of assets transfer, the remaining RMB3,380,000 (constituting 26% thereof) is contributed by the aforesaid individuals in form of cash.
- (g) During the period, the Holding advanced RMB81 million to the Company. The balance is unsecured and interest-free. As at 30 June 2004, RMB20 million of the balance was repaid to the Holding, and subsequent to 30 June 2004, a further RMB20 million of the balance has been repaid to the Holding.
- (h) FTGF and the Holding had provided a joint guarantee to the extent of RMB52 million to a financial institution for securing the loans granted to YLFJ. Service charge of RMB260,000, representing 0.5% of the guarantee amount, was received by FTGF during the period. Further details of the guarantee are disclosed in note 16 to the condensed consolidated interim financial statements.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2004

19. POST BALANCE SHEET EVENT

On 23 July 2004, the Company entered into an agreement with Luoyang Changhong High Technology Trading Company Limited ("Changhong"), a subsidiary of the Company, to establish Luoyang Changxing Agricultural Machinery Company Limited ("Changxing"). The registered capital of Changxing is RMB3,000,000, of which RMB2,100,000 (constituting 70% thereof) and RMB900,000 (constituting 30% thereof) are contributed respectively by the Company and Changhong in the form of cash. Changxing is engaged in the sales of tractors, diesel engines, construction machinery and spare parts and accessories.

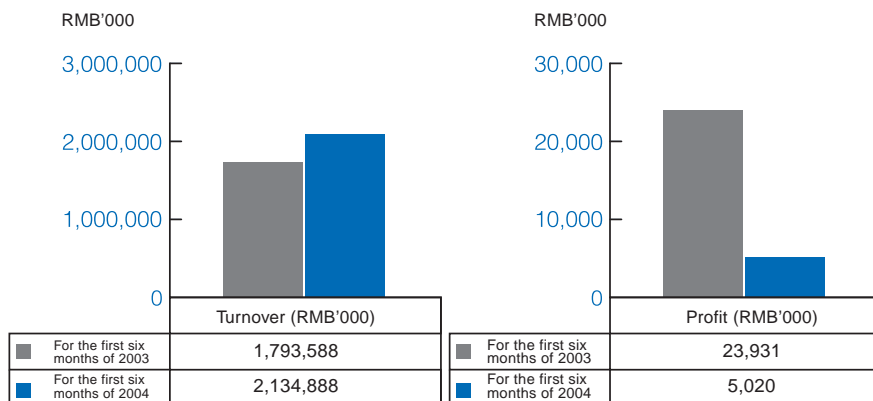
20. COMPARATIVE AMOUNTS

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



REVIEW ON OPERATING RESULTS

For the six months ended 30 June 2004, agricultural machinery products, one of the Group's core businesses, achieved an increase in the sales volume thanks to the state's policy of "agriculture, rural areas and farmers" whereas the sales volume of road machinery products, the other core business of the Group, recorded a year-on-year decrease as a result of the state's macro-control policies including stringent financial credit and control on the increase of fixed assets for construction and road machinery products. Due to the increased prices of raw materials including steel products during the reporting period, a decrease was recorded in the Group's gross profit, which was lower than the expectation at the beginning of the year notwithstanding the efforts of the Company's management team and staff. Particulars of which are analysed as follows:



ANALYSIS OF OPERATING RESULTS

1. Increase in Turnover

During the reporting period, the Group's turnover increased by 19%, which was principally attributable to: (1) the increase in the sales volume of agricultural machinery products; especially, sales volume of large and medium wheeled tractors increased by 80% as compared with the same period last year; and (2) the year-on-year increase of 492% in the sales volume of loaders.



ANALYSIS OF OPERATING RESULTS

2. Decrease in Profit

- (1) The sales volume of road machinery products of the Group decreased as compared with the same period last year, among which the sales of pavers recorded a decrease of 22% and the sales of rolling machinery decreased by 14%.
- (2) The Group's gross profit decreased by approximately 3 percentile as compared with the same period last year due to the continuously increasing steel prices and the prices of products remain low.
- (3) The Group's provision for doubtful debts increased relatively large as compared with the same period last year.

CURRENT CAPITAL

	30 June 2004 RMB'000	31 December 2003 RMB'000	Increase/ (decrease)
Cash and bank deposits	677,016	800,584	(15.43%)
Trade and bills receivables	562,554	410,611	37.00%
Inventories	986,434	773,847	27.47%

As at 30 June 2004, the Group's bank loans amounted to RMB157,280,000, increased 140.87% since the end of 2003. The Group did not have any long-term bank loan.

FINANCIAL STATISTICS

Items	Basis of calculation	30 June 2004	31 December 2003
Gearing ratio	Total liabilities/total assets x 100%	49.43%	43.58%
Current ratio	Current assets/current liabilities	1.58	1.76
Quick ratio	(Current assets - inventories)/ current liabilities	1.05	1.23
Debt equity ratio	Total liabilities/shareholders' equity x 100%	97.73%	77.23%



BUSINESS OUTLOOK

The Group dedicates itself to become the most prominent manufacturer of agricultural and construction machinery in the PRC. By carrying out development strategy designed to maximize its advantages, the Group expects to maintain a continuous growth in its principal business and operating results, so as to achieve its operating goal targeted for 2004.

Agricultural machinery business

- Large tractors: Leveraging the present favorable opportunities and keeping in line with the changing market, the Group will focus on large/mid agricultural machinery upgrading projects, making quick response and timely adjustment to its marketing strategy. Taking opportunities from the fast-growing large wheeled tractors market, the Group will speed up technological renovation of large wheeled tractors, so as to achieve scale production to meet market needs as soon as possible.
- The Group will continue to develop modified models of construction and transportation products based on crawler tractor chassis technology, aiming at an extension of its product chain and increases in market share and sales volume.
- The Group will improve operating quality of small wheeled tractors, continue to tap its brand advantage, and introduce cost-effective means to secure a larger market share.
- Agricultural machinery: Capitalizing on its brand advantage of “Dongfanghong”, the Group will speed up the development of ancillary agricultural machinery for tractors, and expedite development of half-feeding rice harvester and construction of sales network, laying a solid foundation for market expansion in 2005.

BUSINESS OUTLOOK

Construction machinery business

In the opinion of the management of the Group, the PRC's macro-control characterized by the selective and discriminative structural adjustments, despite an inevitable impact on the construction machinery industry, will make no compromise to the steady growth of the construction machinery market in the long run. The construction machinery industry is expected to reach a growth of approximately 20% for 2004. In view of this, the Group sets its operating strategies for construction and road machinery products for the second half of 2004 as follows:

- Keep a close eye on the state's key projects; focusing on sections along the roads under construction, introduce new selling modes such as mortgage to promote sales;
- Subdivide the market for research, development and promotion of new products;
- Optimize and align the present sales network, and meanwhile improve product quality and after-sales services;
- Increase in promotion and marketing of construction machinery products for industrial use in key regions.

Import and export business

- Based on the increased export volume during the first half of 2004, the Group will further develop international market. As such, the Group will improve its export services to bring into play its business-driven effects. Also the Group will expand the coverage of its international marketing network to secure a stable customer base and selling channels.



TO IMPROVE OPERATING RESULTS THROUGH MANAGERIAL INNOVATIONS

- The Group expects to improve its operating results by various initiatives, such as integrating and reorganizing its resources and business, refining its corporate governance and proactively seeking opportunities for international cooperation in product, technology and capital market.
- Taking minimization of variable costs as a breakthrough, the Group will introduce an evaluation means named “Reduction rate of variable costs” for an overall improvement in cost management.
- The Group will strengthen management on accounts receivable and inventory to improve operating efficiency.
- The Group will lay out remuneration policies and schemes for the members of the senior management of the Group where their responsibilities, authorities and interests are combined.
- Addressing the needs of its development and new business, the Group will establish a talent introduction mechanism to identify high calibre and multiple-use talents.
- The Group will establish a system of training and lifelong education for the staff. According to needs of development and new business, position trainings will be provided to enhance the staff's competence.

The Board believes that, by implementing the above-mentioned initiatives, the Company will improve its operating results for the second half of 2004, and eventually achieve its operating goal for the whole year with an increase in return on shareholders' investment.

APPLICATION OF THE PROCEEDS FROM THE ISSUE OF H SHARES

The Company raised approximately RMB1,615,500,000 (approximately HK\$1,507,500,000) by the issue of 335,000,000 new H shares (the “Shares”) under the initial public offering of the Company’s H Shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in 1997.

The proceeds, other than those amounting to RMB 1,249,095,000 which have been spent and disclosed in the previous annual reports, were also utilized for the following purposes during the six months ended 30 June 2004:

- approximately RMB19,539,000 was further utilized to finance the technological renovations including the capacity expansion of 100/105 medium-power diesel engines and large wheeled tractors; and
- the remaining balance of the proceeds were used as additional working capital of the Company.

CURRENCY EXCHANGE RISK

The Group carries out its day-to-day business activities mainly in the PRC. A large amount of capital income and expenditure is principally denominated in Renminbi, with a small amount of expenditure being denominated in Hong Kong dollars. The Group’s foreign exchange liabilities are mainly derived from the payment of commissions outside the PRC and payment of dividends to holders of H Shares. The Group’s cash balances are usually deposited with financial institutions in the form of short-term deposits. Bank loans were borrowed in Renminbi and can be repaid out of the income received in Renminbi.



PLEDGE OF ASSETS

As at 30 June 2004, the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB26,050,000 (31 December 2003: RMB27,779,000) and inventories of approximately RMB9,597,000 (31 December 2003: RMB8,967,000) are pledged to banks to secure certain short term bank loans granted to the Group.

In addition, the Group's deposits amounting to approximately RMB101,917,000 (31 December 2003: RMB103,714,000) and certain bills receivable of the Group amounting to RMB31,603,000 (31 December 2003: RMB16,000,000) are pledged to banks to secure certain banking facilities (including issuance of bills payable) of the Group.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group as at 30 June 2004 are set out in note 16 to the condensed consolidated interim financial statements.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2004 were any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors, supervisors of the Company, or their respective spouse or minor children, or were any rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors or supervisors of the Company to acquire such rights in any other body corporate.



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the six months ended 30 June 2004, there was no change in the registered or issued share capital of the Company, nor did the Company issue any convertible securities, options, warrants or similar rights.

DISCLOSURE OF MATERIAL EVENTS

1. On 26 February 2004, the Company entered into an Agreement on Joint Venture with China Yituo Group Corporation Limited ("China Yituo Group") pursuant to which Yituo (Luoyang) Dongfanghong Tyre Company Limited ("Dongfanghong Tyre") was established under joint investment. The registered capital of Dongfanghong Tyre is RMB2,000,000, of which the Company contributed RMB800,000, representing 40% of its interests, and China Yituo Group contributed RMB1,200,000, representing 60% of its interests. Dongfanghong Tyre is principally engaged in manufacture and sales of tyre tube and casting and rubber products.
2. On 16 March 2004, Mr. Liu Da Gong was elected as Chairman of the Company at the 9th meeting of the 3rd Board of Directors of the Company. Mr. Yan Lin Jiao was appointed as the General Manager, and Mr. Zhao Yan Shui was appointed as the Executive Deputy General Manager of the Company. Due to changes in work arrangements, Mr. Dong Yong An ceased to serve as Chairman, and Mr. Shao Hai Chen and Mr. Yang You Liang ceased to serve as the General Manager and Deputy General Manager of the Company respectively.



DISCLOSURE OF MATERIAL EVENTS

3. On 8 April 2004, the Company entered into an Agreement on Joint Venture with China Yituo Group and other parties including Mr. Jin Yang, pursuant to which Yituo (Luoyang) Shentong Construction Machinery Company Limited ("YLST") was established under joint investment. The registered capital of YLST is RMB13,000,000, of which China Yituo Group contributed RMB3,120,000, or 24% of its interests, by way of valued net assets, 46 management executives of YLST, including Mr. Jin Yang, contributed RMB3,380,000, or 26% of its interests, in total, and the Company contributed RMB6,500,000, or 50% of its interests. YLST is principally engaged in research and development, manufacture, sales of agricultural machinery, construction machinery and specialised motor vehicle, leasing of agricultural machinery and specialised motor vehicle, leasing of agricultural machinery and specialised motor vehicle, as well as manufacture and sales of tractor spare parts and engine spare parts.
4. On 18 June 2004, Mr. Yan Lin Jiao was further appointed as an executive director of the 3rd Board of the Directors of the Company at 2003 Annual General Meeting, with a term of office up to 30 June 2006 as same as that of the 3rd Board of the Directors of the Company.
5. To speed up the product mix adjustment and meet the market demand, an additional investment of RMB103,927,200 in the technological renovation of wheeled tractors with great and medium horse-power, based on the original investment of RMB46,072,800 approved at the 7th meeting of the 3rd Board of Directors of the Company, was considered and approved at the 13th meeting of 3rd the Board of the Directors of the Company on 2 July 2004. Accordingly, the total investment in the said project aggregated to RMB150,000,000, with an annual production capability of 15,000 units for each type of wheeled tractors with great and medium horse-power respectively.
6. On 16 August 2004, the new agreement in relation to the Financial Services together with the contemplated ongoing connected transactions thereunder entered into between China First Tractor Group Finance Company Limited ("FTGF"), a subsidiary of the Company, and China Yituo Group on 2 June 2004, was approved at the Company's Extraordinary General Meeting.



DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' SHAREHOLDINGS

During the reporting period, none of the directors, supervisors or chief executives of the Company held any shares in the Company, nor was there any change to it.

As at 30 June 2004, none of the directors, supervisors, chief executives of the Company or their associates had any interests or short positions in any shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as required to be notified to the Company and the Stock Exchange under the provisions of the Divisions 7 and 8 of Part XV of the SFO (including the interests held or deemed to be held by them under such provisions of the SFO), or as recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers and the Takeovers Code.

CHANGES IN SHAREHOLDERS AND SHARE CAPITAL STRUCTURE

As at 30 June 2004, the Company issued a total of 785,000,000 shares. Its share capital structure was as follows:

Class of shares	Number of shares	Percentage (%)
(1) Non-circulating State-owned legal person shares	450,000,000	57.32
(2) Circulating and listed on the Stock Exchange (H Shares)	335,000,000	42.68
Total	785,000,000	100.00



SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2004, the following shareholders (other than a director or chief executive or supervisor of the Company) had an interest or a short position in the shares or underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Domestic legal person's Shares

Name of Shareholder	Nature of interest	Number of class of securities	Approximate percentage of interest of the total issued share capital of the Company
China Yituo Group Corporation Limited	Beneficial owner	450,000,000 domestic shares	57.32%

H Shares

Name of Shareholder	Nature of interest	Number of class of securities (Note 1)	Approximate percentage of interest of the total H shares of the Company
GE Asset Management Incorporated	Investment manager	44,300,000 H Shares(L)	13.22%
BNP Paribas Asset Management	Investment manager	23,350,000 H Shares(L)	6.97%
Martin Currie China Hedge Fund Limited	Investment manager	17,832,000 H Shares(L)	5.32% (Note 2)



SUBSTANTIAL SHAREHOLDERS' INTERESTS

Note 1: The letter "L" represents the entities' long position in the shares of the Company.

Note 2: According to the Corporate Substantial Shareholder Notice submitted by Martin Currie China Hedge Fund Limited to the Stock Exchange on 19 January 2004, Martin Currie China Hedge Fund Limited held 17,832,000 H Shares of the Company, representing 5.17% of the Company's H Shares in issue. However, the correct figure should be 5.32% of the Company's H Shares in issue.

Note 3: HKSCC NOMINEES LTD held 330,899,998 H Shares on behalf of a number of clients. As confirmed by HKSCC Nominees Ltd, Standard Chartered Bank (Hong Kong) Ltd, The Hong Kong and Shanghai Banking Corporation Limited and Bank of China (Hong Kong) Ltd respectively, held 69,873,200, 64,385,000 and 29,258,000 H Shares as at 30 June 2004, representing 20.86%, 19.22% and 8.73% of the Company's H Shares in issue. However, no Corporate Substantial Shareholder Notice have been submitted by either Standard Chartered Bank (Hong Kong) Ltd or The Hong Kong and Shanghai Banking Corporation Limited or Bank of China (Hong Kong) Ltd to the Company in relation to their interests in the Company.

Note 4: According to the Corporate Substantial Shareholder Notice submitted by State Street Corporation to the Company dated 11 May 2004, State Street Corporation is the holding company of an approved lending agent and 21,372,000 H Shares of the Company are held in a lending pool.

Save as set out above, there is no other person (other than a director or chief executive or supervisor of the Company) who, as at 30 June 2004, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

STAFF AND REMUNERATION

As at 30 June 2004, there was a total of 12,361 staff in the Company. The total remuneration of the staff of the Company amounted to approximately RMB85,460,000 for the reporting period.

DESIGNATED DEPOSITS

The Company had a sum of RMB419,992,000 deposited with one of the Company's subsidiaries, FTGF, which is a non-banking financial institution approved by the People's Bank of China and is principally engaged in providing financial and monetary services to group members of China Yituo Group. The Company did not have any deposits other than those aforesaid deposited with any non-banking financial institution.

The Company granted a loan of RMB20,000,000 and a loan of RMB2,000,000 to two of its subsidiaries, Yituo (Luoyang) Building Machinery Company Limited and Guizhou Zhenning Biological Industrial Co., Ltd. respectively. These loans were granted in the form of designated deposits deposited with FTGF. The Company did not have any designated deposit other than those aforesaid. Save for the above-mentioned deposit in FTGF, all the cash deposits of the Company were deposited with commercial banks in the PRC in compliance with the relevant laws and regulations. The Company has not experienced any incident of not being able to withdraw bank deposits when due.



MATERIAL LITIGATION

During the reporting period, the Company was not engaged in any material litigation or arbitration.

POLICIES ON UNIFIED INCOME TAX

During the six months ended 30 June 2004, the corporate income tax of the Company is subject to 33% tax rate based on its assessable profits.

CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period ended 30 June 2004.

For the six months end 30 June 2004, the Company has adopted a code of conduct in accordance with the required standard set out in Appendix 10 to the Listing Rules, the Model Code for Securities Transactions by Directors of Listed Issuers. The Company having made specific enquiry of all directors and supervisors of the Company, its directors and supervisors have complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers regarding directors' securities transactions.

SUPPLEMENTARY INFORMATION ON FINANCIAL BUSINESSES OF THE GROUP

The Company's subsidiary, FTGF, an enterprise group finance company incorporated in the PRC, is a non-banking financial institution approved by the People's Bank of China and under the supervision of China Banking Regulatory Commission. With a well-established corporate governance structure, FTGF has set up an internal control committee, an assets-liabilities management committee and a loan approval committee.

FTGF has established a set of strict credit granting criterion and approving system to control and manage credit risks. With prudent policies for financial products or businesses involving market risks, FTGF monitored market risks on a regular basis and took proper measures to minimize its exposure to the relevant risks.

By order of the Board
Liu Da Gong
Chairman

Luoyang, Henan Province, China
26 August 2004