The board (the "**Board**") of directors (the "**Directors**") of First Tractor Company Limited (the "**Company**") announced the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2005 prepared in accordance with the accounting principles generally accepted in Hong Kong, together with the comparative figures for the corresponding period in 2004. The consolidated interim financial statements are unaudited, but have been reviewed by the audit committee of the Company (the "**Audit Committee**").

For the six months ended 30 June 2005, the Group recorded a turnover of approximately RMB2,629,003,000, representing an increase of approximately RMB494,115,000 over the same period last year. A loss attributable to equity holders of the parent of approximately RMB25,350,000 was recorded. Loss per share was RMB3.23 cents.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June 2005 *Unaudited* *RMB'000*	2004 *Unaudited* *RMB'000*
TURNOVER - Sale of goods		**2,629,003**	2,134,888
Cost of sales		**(2,430,349)**	(1,930,185)
Gross profit		**198,654**	204,703
Other revenue and gains	4	**49,752**	45,426
Selling and distribution costs		**(109,809)**	(69,635)
Administrative expenses		**(121,853)**	(116,042)
Other operating expenses		**(35,210)**	(45,362)
Finance costs	5	**(6,503)**	(3,770)
Share of profits and losses of associates		**1,037**	3,563
Negative goodwill on acquisition of an associate recognised as income during the period		**—**	303
PROFIT/(LOSS) BEFORE TAX	6	**(23,932)**	19,186
Tax	7	**(6,183)**	(8,684)
PROFIT/(LOSS) FOR THE PERIOD		**(30,115)**	10,502
ATTRIBUTABLE TO:			
Equity holders of the parent		**(25,350)**	5,020
Minority interests		**(4,765)**	5,482
		(30,115)	10,502
EARNINGS/(LOSS) PER SHARE	8		
Basic		**(RMB3.23 cents)**	RMB0.64 cents
Diluted		**N/A**	N/A
DIVIDEND PER SHARE	9	**Nil**	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	Notes	30 June 2005 *Unaudited* *RMB'000*	31 December 2004 *Audited* *(Restated)* *RMB'000*
NON-CURRENT ASSETS			
Fixed assets	10	**735,698**	781,073
Prepaid land premiums		**7,645**	7,747
Construction in progress	10	**166,184**	106,338
Negative goodwill		**—**	(1,758)
Interests in associates		**141,857**	137,645
Available-for-sale investments		**71,747**	67,794
Loans receivable	11	**192,376**	205,750
		1,315,507	1,304,589
CURRENT ASSETS			
Inventories		**786,397**	865,110
Trade and bills receivables	12	**697,042**	490,690
Loans receivable	11	**163,796**	96,926
Bills discounted receivable	13	**226,091**	131,985
Other receivables		**323,376**	274,061
Trading securities		**4,773**	19,661
Pledged deposits	14	**205,939**	69,206
Cash and cash equivalents	14	**369,462**	397,437
		2,776,876	2,345,076
CURRENT LIABILITIES			
Trade and bills payables	15	**1,120,450**	731,891
Tax payable		**4,445**	2,913
Other payables and accruals		**310,126**	361,718
Customer deposits	16	**152,556**	219,707
Interest-bearing bank borrowings		**292,333**	96,660
		1,879,910	1,412,889
NET CURRENT ASSETS		**896,966**	932,187
		2,212,473	2,236,776

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	Notes	**30 June 2005** ***Unaudited*** ***RMB'000***	31 December 2004 *Audited* *(Restated)* *RMB'000*
CAPITAL AND RESERVES			
Equity attributable to equity holders of the parent			
Issued capital		**785,000**	785,000
Other reserves	17	**1,513,297**	1,512,980
Accumulated losses	17	**(240,935)**	(220,849)
		2,057,362	2,077,131
Minority interests	17	**155,111**	159,645
		2,212,473	2,236,776

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June 2005 Unaudited RMB'000	2004 Unaudited (Restated) RMB'000
Total equity at 1 January:			
As previously reported as equity		**2,077,131**	2,065,170
As previously reported separately as minority interests		**159,645**	129,749
		2,236,776	2,194,919
Opening adjustments	1, 2	**6,001**	—
As restated		**2,242,777**	2,194,919
Changes in equity during the period:			
Profit/(loss) for the period	17	**(30,115)**	10,502
Capital contributions from minority shareholders	17	**2,700**	9,300
Dividends paid to minority shareholders	17	**(2,889)**	(620)
Total equity at 30 June		**2,212,473**	2,214,101
Total recognised income and expenses for the period attributable to:			
Equity holders of the parent		**(25,350)**	5,020
Minority interests		**(4,765)**	5,482
		(30,115)	10,502
Effects of opening adjustments attributable to:			
Equity holders of the parent		**5,581**	—
Minority interests		**420**	—
		6,001	—

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005	2004
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**66,351**	(175,403)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**(244,308)**	204,942
NET CASH INFLOW FROM FINANCING ACTIVITIES	**113,484**	91,363
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(64,473)**	120,902
Cash and cash equivalents at beginning of period	**361,625**	384,994
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**297,152**	505,896
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**288,152**	491,523
Non-pledged time deposits with original maturity of less than three months when acquired	**9,000**	14,373
	297,152	505,896

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37 and 38 have no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements. In summary, HKAS 1 has affected the presentation of minority interests, share of net after tax results of associates and other disclosures; and HKAS 24 has expanded the definition of related parties to include key management of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. ACCOUNTING POLICIES *(continued)*

The impact of adopting other HKFRSs are detailed as follows:

(a) HKAS 17 - Leases

In prior periods, land use rights and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's land use rights are classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and are reclassified from fixed assets to prepaid land premiums, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of land use rights.

(b) HKASs 32 and 39 - Financial Instruments

(i) Equity securities

In prior periods, the Group classified and measured its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("**SSAP 24**"). Under SSAP 24, investments in debt or equity securities were classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in the income statement for the period in which gains or losses arose. Unrealised gains or losses of "non-trading securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period.

1. ACCOUNTING POLICIES *(continued)*

(b) HKASs 32 and 39 - Financial Instruments *(continued)*

(i) Equity securities *(continued)*

Upon the adoption of HKASs 32 and 39, equity securities are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in the income statement and equity respectively, except for certain "available-for-sale financial assets" that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

The adoption of HKASs 32 and 39 has had no effect on the condensed consolidated income statement and retained earnings of the Group. Upon the adoption of these HKASs, the Group's trading securities previously classified as short term investments are classified as "trading securities" and the Group's investments in equity securities previously classified as long term investments are classified "available-for-sale investments".

(ii) Loans receivable

In prior periods, loans receivable arising from financial operations of the Group were reported in the balance sheet at the principal amount outstanding net of provision for loans receivable. Specific provisions and general provisions were made for loans receivable by applying various percentages to the loans receivable balance classified as pass, special mention, substandard, doubtful and loss.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

1. ACCOUNTING POLICIES *(continued)*

(b) HKASs 32 and 39 - Financial Instruments *(continued)*

(ii) Loans receivable *(continued)*

Following the adoption of HKASs 32 and 39, such financial instrument has been classified into "loans and receivables". Loans and receivables are measured at amortised cost where the carrying amount of the asset is computed by discounting the future cash flows to the present value using the original effective interest rate. The previous approach of maintaining specific and general provisions is replaced with individual and collective impairment allowances after the adoption of HKAS 39. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment.

This change in accounting policy has had no material effect on the condensed consolidated balance sheet and condensed consolidated income statement.

(c) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in such case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

1. ACCOUNTING POLICIES *(continued)*

(c) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets *(continued)*

In the case of associates, any negative goodwill not yet recognised in the consolidated income statement was included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair values of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including the negative goodwill arising on the acquisition of a subsidiary which was carried on the face of the consolidated balance sheet, and that arising on the acquisition of an associate which was included in the Group's interests in associates) against retained earnings. Goodwill previously eliminated against consolidated reserves remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 to the unaudited condensed consolidated interim financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the opening balances of total equity as at 1 January 2005 and 1 January 2004

The following table sets out the adjustments that have been made to the opening balances as at 1 January 2005:

	Note	Accumulated losses *Unaudited* *RMB'000*	Minority interests *Unaudited* *RMB'000*	Total *Unaudited* *RMB'000*
Opening adjustments:				
HKFRS 3				
Derecognition of negative goodwill:				
— arising on the acquisition of a subsidiary	1(c)	1,758	—	1,758
— arising on the acquisition of an associate	1(c)	3,823	420	4,243
		5,581	420	6,001

In accordance with the relevant transitional provisions of the HKFRSs, the adoption of the HKFRSs did not result in retrospective adjustments being made to the opening balances as at 1 January 2004.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on profit/(loss) after tax for the six months ended 30 June 2005 and 2004

The impact of the adoption of the new HKFRSs is immaterial to the profit/(loss) after tax for the six months ended 30 June 2005 and 2004.

(c) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30 June 2005 and 2004

The adoption of the HKFRSs has no effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30 June 2005 and 2004.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following table presents revenue and results for the Group's primary segments.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

3. 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															
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	1,930,612	1,383,465	371,118	466,112	243,952	216,750	83,321	68,549	–	–	–	12	–	–	2,629,003	2,134,888
Intersegment revenue	208,384	32,892	2,457	–	8,116	10,962	365	–	7,304	6,340	–	–	(226,626)	(50,194)	–	–
Other revenue	–	–	–	–	–	–	–	–	19,199	17,624	–	–	–	–	19,199	17,624
Total	2,138,996	1,416,357	373,575	466,112	252,068	227,712	83,686	68,549	26,503	23,964	–	12	(226,626)	(50,194)	2,648,202	2,152,512
Segment results	27,844	2,410	(32,841)	3,102	(25,607)	(4,326)	(1,224)	304	15,340	14,818	(3,912)	(502)	–	–	(20,400)	15,806
Interest, dividend, investment income and negative goodwill recognised as income															3,028	5,392
Unallocated expenses															(26)	(2,108)
Finance costs															(6,503)	(3,770)
Share of profits and losses of associates	6,870	1,100	–	–	–	–	–	–	–	–	(5,833)	2,463	–	–	1,037	3,563
Impairment of interest in an associate	–	–	–	–	–	–	–	–	–	–	(1,068)	–	–	–	(1,068)	–
Negative goodwill on acquisition of an associate recognised as income during the period	–	–	–	–	–	–	–	–	–	–	–	303	–	–	–	303
Profit/(loss) before tax															(23,932)	19,186
Tax															(6,183)	(8,684)
Profit/(loss) for the period															(30,115)	10,502

(b) Geographical segments

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

4. OTHER REVENUE AND GAINS

	For the six months ended 30 June	
	2005	2004
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Other revenue		
Interest income	**3,028**	4,230
Interest income from financial operations	**19,199**	16,929
Profit from sundry sales	**10,684**	12,737
Rental income	**2,114**	1,843
Dividend income from unlisted investments	**—**	501
Others	**14,727**	8,107
	49,752	44,347
Gains		
Gain on disposal of trading securities	**—**	544
Gain on disposal of fixed assets	**—**	418
Negative goodwill recognised	**—**	117
	—	1,079
	49,752	45,426

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

5. FINANCE COSTS

	For the six months ended 30 June	
	2005	2004
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**6,503**	3,770

6. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging/(crediting):

	For the six months ended 30 June	
	2005	2004
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Depreciation	**45,975**	44,694
Amortisation of prepaid land premiums	**102**	102
Impairment of fixed assets	**4,500**	—
Impairment of interest in an associate	**1,068**	—
Impairment provision for trade receivables	**14,793**	32,169
Fair value loss on trading securities	**—**	2,108
Loss/(gain) on disposal of fixed assets	**4,178**	(418)
Interest income	**(3,028)**	(4,230)
Interest income from financial operations	**(19,199)**	(16,929)
Dividend income from unlisted investments	**—**	(501)
Loss/(gain) on disposal of trading securities	**26**	(544)
Negative goodwill on acquisition of a subsidiary recognised as income during the period	**—**	(117)

7. TAX

	For the six months ended 30 June	
	2005	2004
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Current - PRC corporate income tax	**6,183**	8,684
Deferred tax	**—**	—
Total tax charge for the period	**6,183**	8,684

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 six months ended 30 June 2005 and 2004.

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 10% to 33% (six months ended 30 June 2004: 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 People's Republic of China (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 2004: Nil).

The Group's share of tax attributable to associates for the period amounting to approximately RMB3,106,000 (six months ended 30 June 2004: RMB1,274,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2005 is based on the loss attributable to equity holders of the parent of approximately RMB25,350,000, and the weighted average of 785,000,000 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the profit attributable to equity holders of the parent of approximately RMB5,020,000, and the weighted average of 785,000,000 ordinary shares in issue during the period.

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

9. DIVIDEND

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

10. FIXED ASSETS AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2005, the Group acquired construction in progress and fixed assets in an aggregate amount of approximately RMB77.8 million and disposed of fixed assets with an aggregate net book value of approximately RMB14.8 million, resulting in a net loss on disposal of approximately RMB4.2 million. Fixed assets impairment of approximately RMB4.5 million was made during the period.

11. LOANS RECEIVABLE

		30 June 2005			31 December 2004		
		Gross	**Impairment allowances**	**Net**	Gross	Impairment allowances	Net
	Notes	***Unaudited RMB'000***	***Unaudited RMB'000***	***Unaudited RMB'000***	*Audited RMB'000*	*Audited RMB'000*	*Audited RMB'000*
Loan to the ultimate holding company		**282,800**	**8,484**	**274,316**	196,000	5,880	190,120
Loans to associates	(a)	**22,900**	**927**	**21,973**	22,900	927	21,973
Loans to related companies	(b)	**42,060**	**541**	**41,519**	15,750	2,443	13,307
Loans to customers	(c)	**19,464**	**1,100**	**18,364**	78,890	1,614	77,276
		367,224	**11,052**	**356,172**	313,540	10,864	302,676
Portion classified as current assets		**(167,979)**	**(4,183)**	**(163,796)**	(101,337)	(4,411)	(96,926)
Long term portion		**199,245**	**6,869**	**192,376**	212,203	6,453	205,750

Notes:

*(a) The loans to associates represent the loans granted by China First Tractor Group Finance Company Limited ("**FTGF**"), a subsidiary, to the associates of the Group.*

*(b) The loans to related companies represent the loans granted by FTGF to the companies in which the ultimate holding company of the Company, China Yituo Group Corporation Limited (the "**Holding**" or "**China Yituo**"), has significant influence therein.*

*(c) The loans to customers represent the loans granted to the specific customers as permitted by the People's Bank of China (the "**PBOC**").*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

12. TRADE AND BILLS RECEIVABLES

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

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on invoice date, and net of provision for impairment, is as follows:

	30 June 2005 *Unaudited* *RMB'000*	31 December 2004 *Audited* *RMB'000*
Within 90 days	**397,400**	314,146
91 days to 180 days	**189,868**	89,393
181 days to 365 days	**78,944**	59,185
1 to 2 years	**30,188**	27,151
Over 2 years	**642**	815
	697,042	490,690

Included in the trade and bills receivables of the Group as at 30 June 2005 are trade receivables from associates aggregating RMB1,520,000 (31 December 2004: RMB1,901,000).

13. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operations. Included in the bills discounted receivable (net of impairment allowance) of the Group are approximately RMB150,845,000 (31 December 2004: RMB53,064,000) relating to the Holding; approximately RMB36,878,000 (31 December 2004: RMB26,265,000) relating to associates; and approximately RMB20,609,000 (31 December 2004: RMB3,425,000) relating to related companies.

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2005	31 December 2004
	Unaudited	*Audited*
	RMB'000	*RMB'000*
Cash and bank balances	**531,090**	340,043
Cash deposits in the PBOC - *Note*	**26,738**	29,530
Time deposits	**17,573**	97,070
	575,401	466,643
Less: Pledged time deposits	**(205,939)**	(69,206)
	369,462	397,437

Note:

The balance represented mandatory reserve deposits placed with 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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15. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payable as at the balance sheet date, based on invoice date, is as follows:

	30 June 2005	31 December 2004
	Unaudited	*Audited*
	RMB'000	*RMB'000*
Within 90 days	**684,271**	432,112
91 days to 180 days	**357,233**	189,767
181 days to 365 days	**34,542**	77,545
1 to 2 years	**28,649**	19,636
Over 2 years	**15,755**	12,831
	1,120,450	731,891

The Group's bills payable amounting to approximately RMB474,643,000 (31 December 2004: RMB197,400,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB186,447,000 (31 December 2004: RMB54,382,000).

Included in the trade and bills payables of the Group as at 30 June 2005 are trade payables to associates aggregating RMB16,864,000 (31 December 2004: RMB13,817,000).

16. CUSTOMER DEPOSITS

	30 June 2005	31 December 2004
	Unaudited	*Audited*
	RMB'000	*RMB'000*
Deposits from the Holding	**37,297**	32,407
Deposits from associates	**36,768**	77,323
Deposits from related companies	**18,355**	18,557
Deposits from customers	**60,136**	91,420
	152,556	219,707

17. RESERVES

	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*	Total *Unaudited RMB'000*	Accumulated losses *Unaudited RMB'000*	Minority interests *Unaudited RMB'000*
At 1 January 2004	1,378,840	61,699	62,749	1,759	1,515	1,506,562	(226,392)	129,749
Profit for the period	—	—	—	—	—	—	5,020	5,482
Capital contributions from minority shareholders	—	—	—	—	—	—	—	9,300
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(620)
At 30 June 2004	1,378,840	61,699	62,749	1,759	1,515	1,506,562	(221,372)	143,911

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

17. RESERVES *(continued)*

	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*	Total *Unaudited* *RMB'000*	Accumulated losses *Unaudited* *RMB'000*	Minority interests *Unaudited* *RMB'000*
At 1 January 2005								
As previously reported	1,378,840	65,597	63,171	2,398	2,974	1,512,980	(220,849)	159,645
Opening adjustments: *(notes 1 and 2)*								
HKFRS 3 — Derecognition of negative goodwill	—	—	—	—	—	—	5,581	420
As restated	1,378,840	65,597	63,171	2,398	2,974	1,512,980	(215,268)	160,065
Loss for the period	—	—	—	—	—	—	(25,350)	(4,765)
Capital contributions from minority shareholders	—	—	—	—	—	—	—	2,700
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(2,889)
Transfer from/(to) reserves	—	182	135	—	—	317	(317)	—
At 30 June 2005	1,378,840	65,779	63,306	2,398	2,974	1,513,297	(240,935)	155,111

18. CONTINGENT LIABILITIES

At 30 June 2005, FTGF and the Holding had jointly given guarantee to the extent of RMB52 million (31 December 2004: RMB52 million) 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**"), an associate of the Group, hold 7%, 75% and 18% of the equity interests in YLFJ respectively.

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

19. CAPITAL COMMITMENTS

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

	30 June 2005 *Unaudited* *RMB'000*	31 December 2004 *Audited* *RMB'000*
Contracted, but not provided for:		
Purchases of plant and machinery	**84,710**	102,386
Authorised, but not contracted for:		
Purchases of plant and machinery	**114,165**	174,871
Investments in joint ventures	**—**	7,550
	114,165	182,421
	198,875	284,807

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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20. 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 2005 *Unaudited* *RMB'000*	2004 *Unaudited* *RMB'000*
Sales of raw materials and components	(i)	**166,341**	182,108
Purchases of raw materials and components	(i)	**287,390**	255,898
Purchases of utilities	(ii)	**57,404**	65,959
Fees paid for welfare and support services	(iii)	**7,876**	12,162
Purchases of transportation services	(iii)	**11,252**	5,543
Research and development expenses paid	(iv)	**4,037**	2,748
Fees paid for the use of land	(v)	**2,500**	2,500
Fees paid for the use of trademark	(vi)	**4,037**	2,748
Rentals paid in respect of:			
Buildings	(vii)	**632**	993
Plant and machinery	(vii)	**1,165**	1,043
Rentals received in respect of plant and machinery	(viii)	**1,610**	2,083
Sales of plant and machinery	(ix)	**1,009**	—
Purchases of plant and machinery	(x)	**624**	—
Interest income, inclusive of discounted bills charges	(xi)	**15,197**	10,120
Interest paid for customer deposits	(xii)	**236**	368

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

20. RELATED PARTY TRANSACTIONS *(continued)*

(a) Particulars of the significant transactions carried out between the Group and YLDC, YLCF and YEMC during the period are summarised as follows:

		For the six months ended 30 June	
		2005	2004
		Unaudited	*Unaudited*
	Notes	***RMB'000***	*RMB'000*
Sales of raw materials and components	(i)	**86,934**	124,842
Purchases of raw materials and components	(i)	**115,395**	142,993
Rentals received in respect of plant and machinery	(viii)	**1,610**	1,875
Interest income, inclusive of discounted bills charges	(xi)	**2,818**	1,291
Interest paid for customer deposits	(xii)	**40**	76

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

		For the six months ended 30 June	
		2005	2004
		Unaudited	*Unaudited*
	Notes	***RMB'000***	*RMB'000*
Sales of raw materials and components	(i)	**2,772**	2,654
Purchases of raw materials and components	(i)	**1,993**	—
Interest paid for customer deposits	(xii)	**607**	1,104

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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20. RELATED PARTY TRANSACTIONS *(continued)*

(c) The significant transactions carried out between Zhenjiang Huachen Huatong Road Machinery Company Limited ("**ZHHRM**"), a subsidiary of the Group, and its minority shareholder during the period are summarised as follows:

		For the six months ended 30 June	
		2005	2004
		Unaudited	*Unaudited*
	Notes	***RMB'000***	*RMB'000*
Purchases of raw materials and components	(xiii)	**1,627**	—
Fees paid for the use of trademark	(xiv)	**200**	200
Rentals paid in respect of:			
Plant and machinery	(xiii)	**100**	100
Land	(xiii)	**460**	460
Buildings	(xiii)	**125**	250
Fees paid for support services	(xiii)	**50**	50
Management fees paid	(xiii)	**100**	175

(d) The significant transactions carried out between Yituo (Luoyang) Standard Components 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	
		2005	2004
		Unaudited	*Unaudited*
	Note	***RMB'000***	*RMB'000*
Sales of standard parts and components	(xiii)	**1,778**	—

20. 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 materials 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 indexes, 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 indexes, whichever is lower.*

(iii) *Pursuant to relevant agreements, the pricing in respect of each of the welfare and supporting 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 indexes, 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% (2004: 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 (2004: RMB5 million) subject to further land rental adjustments announced by the relevant state land administration authorities.*

(vi) *Pursuant to relevant agreements, the pricing for the use of trademark per annum is charged at a rate of 0.2% (2004: 0.2%) of the Company's net annual turnover.*

(vii) *Pursuant to relevant agreements, the rentals of buildings and plant and machinery are charged with reference to the depreciation of the relevant assets.*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

20. RELATED PARTY TRANSACTIONS *(continued)*

Notes: (continued)

(viii) Pursuant to relevant agreements, the rentals of plant and machinery are received with reference to the depreciation of the relevant assets.

(ix) The sales of plant and machinery are conducted under mutually agreed terms.

(x) The purchases of plant and machinery are conducted under mutually agreed terms.

(xi) 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 loans receivable and bills discounted receivable as at the balance sheet date are set out in notes 11 and 13 to the unaudited condensed consolidated interim financial statements, respectively.

(xii) The interest expense paid for customer deposits relates 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 16 to the unaudited condensed consolidated interim financial statements.

(xiii) These transactions were conducted according to the prices and conditions, mutually agreed between the Group and the minority shareholders.

(xiv) Pursuant to the relevant agreement, the annual fees paid for the use of trademark are RMB400,000 for the years from 2000 to 2005.

20. RELATED PARTY TRANSACTIONS *(continued)*

(e) Designated deposits and designated loans

As at 30 June 2005, the Holding and one of its subsidiaries placed designated deposits in aggregate of approximately RMB5 million in FTGF for lending to certain subsidiaries and an associate of the Holding.

As at 31 December 2004, the Holding placed a designated deposit of RMB1 million in FTGF for lending to YLCF.

Since the credit risk is borne by the depositors, the related assets and liabilities of such transactions are not included in the Group's unaudited condensed consolidated interim financial statements.

(f) As at 30 June 2005, FTGF provided guarantees to the extent of RMB52 million (31 December 2004: RMB52 million) to a financial institution for securing the loans to YLFJ, a subsidiary of the Holding.

(g) As at 30 June 2005, the Holding provided guarantees to the extent of RMB30 million (31 December 2004: Nil) to a bank for securing the loans to the Company.

(h) As at 30 June 2005, YLDC provided guarantees to the extent of RMB30 million (31 December 2004: RMB20 million) to a bank for securing the loans to the Company.

(i) As at 30 June 2005, the holding company of the minority shareholder of ZHHRM provided guarantees to the extent of RMB20 million (31 December 2004: RMB8.6 million) to banks for securing the loans to ZHHRM.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2005

20. RELATED PARTY TRANSACTIONS *(continued)*

(j) Outstanding balances with related parties

In addition to those loans receivable, trade receivable, bills discounted receivable, trade payable and customer deposits balances with related parties as disclosed in notes 11, 12, 13, 15 and 16, respectively, to these unaudited condensed consolidated interim financial statements, the Group also has the following outstanding balances with related parties:

	30 June 2005 *Unaudited* *RMB'000*	31 December 2004 *Audited* *RMB'000*
Receivables from related parties included in other receivables:		
The Holding	**39,096**	—
Associates	**13,455**	12,905
Minority shareholders of a subsidiary	**2,570**	19,293
Payables to related parties included in other payables:		
The Holding	**17,876**	65,168
Minority shareholders of a subsidiary	**592**	2,679

The above outstanding balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

20. RELATED PARTY TRANSACTIONS *(continued)*

(k) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005	2004
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Short term employment benefits	**286**	398
Post-employment benefits	**72**	99
Total compensation paid/payable to key management personnel	**358**	497

21. COMPARATIVE AMOUNTS

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

22. APPROVAL OF THE INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 26 August 2005.

BUSINESS REVIEW

Agricultural machinery business

During the reporting period, agricultural machinery business witnessed a continuous rapid growth in large and medium tractors market, a steady development in small tractors market, another hot sale in harvest machinery market and a fast growth in ancillary agricultural machinery market. Sales volume of large and medium tractors, small tractors and combined harvesters achieved an increase of 40.1%, 3.38% and 16.3% over the same period last year respectively, while ancillary agricultural machinery grew at a rate of 20% to 30%. The increase in the demand for agricultural machinery was mainly attributable to: (1) the national policies, including the increase in the investment in the agriculture industry of the PRC, the increase of the central and local governments' subsidies for agricultural machinery and the implementation of Agricultural Machinery Incentive Methods; (2) the market factors such as expanding the scope and the scale of agricultural machinery socialised services together with cross-region operation of agricultural machinery; (3) the increase in the purchasing powers of the farmers for the agricultural machinery products due to their continuing increase in average revenue per capita; and (4) the increasing demand for large and medium tractors and ancillary agricultural machinery for deep ploughing to enhance farming efficiency.

Along with the expansion of the agricultural machinery market, the Group restructured its products and seized market opportunities to boost its sales volume and thus achieved effective results. During the reporting period, the Group sold 13,550 units of various types of large and medium tractors, representing an increase of 69.48% over the same period last year. The sales volume of large and medium wheeled tractors rose by 104% over the same period last year; the sales volume of harvesters was 1,368 units, representing an increase of 21.48% over the same period last year; the sales volume of agricultural machinery was 1,638 units, representing an increase of 60.9% over the same period last year. However, due to the substitution by large wheeled tractors, the sales volume of crawler tractors decreased by 10.63% as compared with the same period last year; while due to the substitution by adjustment of product structure, the sales volume of small wheeled tractors recorded a decrease of 2.53% over the same period last year.

BUSINESS REVIEW

Construction machinery business

During the reporting period, due to the PRC's implementation of mild or stringent macroeconomic policies based on the implementation of macro-control in 2004, the demand in the construction machinery industry decreased, resulting in both considerable decreases in sales revenue and profit for the whole industry as compared with the same period of last year. Of which, the sales revenue of loaders decreased by 7.8%, with a net profit decreased by 40.2% and the inventories increased by 11.0% over the same period of last year; the sales volume of road rollers and pavers also decreased by 40.58% and 25.43% over the same period of last year respectively.

During the reporting period, faced with the decreasing demand in the construction machinery market, the sales volume of major construction machinery products decreased despite the Group's various promotion strategies. Of which, the sales volume of industrial bulldozers was 228 units, representing a decrease of 60.96% over the same period last year; the sales volume of road rollers was 1,183 units, representing a decrease of 13.21% over the same period last year; the sales volume of mixing machinery decreased by 34.4% over the same period last year; the sales volume of pavers decreased by 27.97% over the same period last year and the sales volume of maintenance machinery was about the same as the same period last year. Although the sales volume of small construction machinery and loaders increased by 45.79% and 20.78% over the same period last year to 2,735 units and 622 units respectively, the Group's overall operating results of construction machinery business still declined.

International trade business

During the reporting period, the Group exported 418 units of large and medium tractors and 153 units of small tractors, representing an increase of 35.39% and 82.14% respectively over the same period last year. The Group also exported in aggregate 63 units of road rollers, pavers, maintenance machinery and mixing machinery, and 30 units of loaders with a zero breakthrough as compared with the same period last year.

Analysis of Business Results

During the reporting period, the increase in the Group's turnover was primarily due to the increase in revenue derived from the agricultural machinery business. During the reporting period, the turnover of the agricultural machinery business amounted to approximately RMB2,013,933,000, representing an increase of 38.70% over the same period last year; while the construction machinery (including road machinery) business recorded a turnover of approximately RMB615,070,000, representing a decrease of 9.93% over the same period last year.

Benefit from the growth in demand for the large and medium wheeled tractors, the Group recorded an increase of approximately RMB23,906,000 in the profit from the agricultural machinery business, but an increase of approximately RMB57,224,000 in the loss in the construction machinery business during the reporting period. The increase in the loss in construction machinery business was mainly due to: (i) the noticeable decrease in sales volume of the Group's profitable construction machinery segment as affected by the general market of the construction machinery industry; and (ii) the difficulty in shifting the increased production costs of raw materials to the customers through raising the prices of the machinery due to the intensified competition in this industry.

As the decrease in the operating results of the construction machinery business exceeded the growth in the agricultural machinery business, the Group recorded a loss during the reporting period.

Current Capital

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*	% of change
Cash and bank deposits	**575,401**	466,643	23.31%
Trade and bills receivables	**697,042**	490,690	42.05%
Inventories	**786,397**	865,110	-9.10%

As at 30 June 2005, the Group's bank loans amounted to approximately RMB292,333,000, increased by 202.43% as compared with the end of 2004. The Group did not have long term bank loan.

Financial Statistics

Items	Basis of calculation	30 June 2005	31 December 2004
Gearing ratio	Total liabilities *(note)* / Total assets x 100%	**45.94%**	38.71%
Current ratio	Current assets/ Current liabilities	**1.48**	1.66
Quick ratio	(Current assets - inventories) / Current liabilities	**1.06**	1.05
Debt equity ratio	Total liabilities/shareholders' equity x 100%	**91.37%**	68.02%

Note: minority interests was not included in the total amount of liabilities.

BUSINESS PROSPECTS

Focusing on the products and sectors restructuring and catering for the changing market of diversified businesses with a view of achieving better operating results, the Group will adopt corresponding methods in market exploration, marketing strategies, quality assurance, internal costs control and product development, so as to improve its operating results in the second half of the year.

Agricultural machinery business

For the second half of the year, the Board expects the agricultural machinery market will maintain a sound momentum, but changes will be seen in saleable products and varieties. The agricultural machinery industry is expected to reach a growth of 20% or more in both production and sales for 2005. Sales volume of large and medium wheeled tractors will outperform that of 2004, while the sales volume of small wheeled tractors is expected to increase by approximately 10% as compared with the same period last year. Therefore, the Group will adopt such operating strategy for agricultural machinery business as "continuously improving product mix and grasping the opportunities from increasing demand in the market of the large and medium wheeled tractors".

BUSINESS PROSPECTS

Agricultural machinery business *(continued)*

Large and medium wheeled tractors[1]: the Group will continue to accelerate technology renovation for large wheeled tractors and expand its production scale based on improving techniques and quality assuring capability so as to address the market needs. By speeding up the development and design optimisation of Dongfanghong medium wheeled tractors, the Group will enhance its reliabilities and achieve scale of production for fast launch into the market.

Small wheeled tractors[2]: facing the homogenised and fierce market competition, the Group will undertake adjustment of its product mix to increase its profitability, and will improve its servicing capabilities and increase its sales outlets to enhance regional market share.

Based on the sounded tractors business and according to the development trend of harvesters market, the Group will actively advance the research and development of half-feeding horseless rice combined harvesters and large-feeding horseless rice combined harvesters, laying a foundation for exploring harvesters market for 2006.

Note 1: It is the industry's practice to define tractors with power ranging from 18.4KW (25 HP) - 58.5KW (80 HP) as medium wheeled tractors and tractors with working frequency over 58.5KW as large tractors.

Note 2: It is the industry's practice to define tractors with power of below 18.4KW (25 HP) as small tractors.

Construction machinery business

For the second half of the year, confronted with the critical market and under existing market conditions, the Group will adopt the following strategies:

1. restructure its products and speed up the rollout of innovative products such as hydraulic excavators, vibrating road rollers, concrete trailer pumps and PY180 graders to satisfy the market demands;
2. increase promotion, develop various marketing modes, optimise and integrate marketing network and promote servicing capabilities to improve the sales volume and customers' satisfaction; and
3. exercise stringent supervision over accounts receivable and inventory as well as internal costs control, and set up targets for collecting accounts receivable and costs control to improve operating efficiency.

International trade business

With a pursuit of expansion in domestic market share, the Company will participate in international market competitions under its plans and targets for global market exploration.

The Board believes that through the above-mentioned strategies, the Group is geared up to improve its operating results, and eventually to achieve its operating goals for 2005.

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 of the Company (the "**Shares**") under the initial public offering of the H Shares listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in 1997.

The proceeds (other than those amounted to an aggregate sum of approximately RMB1,343,415,000, which have been used by the Company and disclosed in the previous annual reports of the Company) were utilised for the following purposes for the six months ended 30 June 2005:

- approximately RMB124,260,000 were applied to finance technological renovations for large and medium wheeled tractors, 125MN hot-die forging, forging crank processing and flexible manufacturing line of gear, medium power diesel and silent die casting line of bulb iron; and

- the remaining 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 such loans can be repaid out of the revenue received in Renminbi.

CONTINGENT LIABILITIES

As at 30 June 2005, FTGF and the Holding had given a joint guarantee to the extent of RMB52 million (31 December 2004: RMB52 million) to a financial institution for securing the loans granted to YLFJ . The Company, the Holding and YLDC, an associate of the Group, hold 7%, 75% and 18% of the equity interests in YLFJ respectively.

Details of contingent liabilities as at 30 June 2005 are set out in note 18 to the unaudited condensed consolidated interim financial statements.

PLEDGE OF ASSETS

As at 30 June 2005, the Group's time deposits amounting to approximately RMB205,939,000 (31 December 2004: RMB69,206,000) were pledged to banks to secure certain banking facilities granted to the Group.

As at 30 June 2005, the Group's certain buildings and machinery with an aggregate net book value of approximately RMB21,386,000 (31 December 2004: RMB27,417,000) were pledged to banks to secure certain short-term bank loans granted to the Group.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2005 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 (the "**Supervisors**") 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 to acquire such rights in any other body corporate.

SHAREHOLDING OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE COMPANY

Save as disclosed below, as at 30 June 2005, none of the Directors, Supervisors or chief executives of the Company had any interests and/or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), as to be notified to the Company and the Stock Exchange under the provisions of 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 by the Company 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:

Name	Company / Name of associated corporations	Capacity	Registered capital held *(Note 1)*	Approximate percentage in the total registered capital of the Company / associated corporations
Yan Linjiao (Director)	Yituo (Luoyang) Lutong Construction Machinery Co., Ltd. ("**Lutong Company**") *(Note 2)*	Beneficial owner	RMB290,000 (L)	0.5%

Note 1: The letter "L" represents the person's long positions in the registered capital of the member of the Group.

Note 2: Lutong Company is a company with limited liability established in the PRC with a registered capital of RMB58,000,000. Mr. Yan Linjiao contributed RMB290,000, representing 0.5%, to the total registered capital of Lutong Company.

CHANGE IN SHAREHOLDING AND STRUCTURE OF THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2005, the Company issued a total of 785,000,000 Shares. Its structure of share capital was as follows:

Type of Shares	Number of Shares	Percentage (%)
(1) Non-circulating state-owned legal person Shares ("**Domestic Shares**")	450,000,000	57.32
(2) Circulating and listed on the Stock Exchange (H Shares)	335,000,000	42.68
Total number of Shares in issue	785,000,000	100.00

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2005, the following shareholders (other than a Director, Supervisor or chief executive of the Company) have interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Domestic Shares

Name of shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of the total issued Share capital of the Company
China Yituo Group Corporation Limited	Beneficial owner	450,000,000 Shares (L)	57.32%

SUBSTANTIAL SHAREHOLDERS' INTERESTS

H Shares

Name of shareholder	Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of the total issued H Shares of the Company
GE Asset Management Incorporated	Investment manager	29,161,788 Shares (L)	8.7%

Note 1 : The letter "L" represents the entities' long positions in the Shares.

Note 2 : According to the Corporate Substantial Shareholder Notice submitted by State Street Corporation to the Company dated 10 May 2005, State Street Corporation is the holding company of State Street Bank & Trust Company, an approved lending agent, and its 13,244,892 H Shares are held in a lending pool.

Save as disclosed above, so far as known to the Directors, Supervisors or chief executives of the Company, there is no other person/entity (other than a Director, Supervisor or chief executive of the Company) who, as at 30 June 2005, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

THE COMPANY'S STAFF AND REMUNERATION FOR STAFF

As at 30 June 2005, the Company had a total of 11,689 staff. The total staff salary for the reporting period amounted to approximately RMB80,451,000.

The individual staff remuneration is measured according to with their respective duties, performance and contributions. The staff remuneration policy is determined by the Group's human resource department based on the staff's achievement, experience and calibre.

DESIGNATED DEPOSITS

The Company deposited a sum of RMB203,956,000 with one of the subsidiaries of the Company, FTGF, which is a non-banking financial institution approved by the PBOC and is principally engaged in providing financial and monetary services to the group members of China Yituo. The Company did not have any deposits other than those aforesaid deposits deposited with any non-banking financial institution.

The Company granted loans in the sum of RMB54,000,000 to its subsidiaries in the form of designated deposits in FTGF. Save for the above-mentioned deposits 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") during the reporting period.

AUDIT COMMITTEE

The Company has set up the Audit Committee in accordance with Rule 3.21 of the Listing Rules.

The Audit Committee and the management of the Company have reviewed the accounting principles, standards and methods adopted by the Company, its internal control and financial report, including the unaudited interim accounts for the six months ended 30 June 2005 and the 2005 interim report of the Company.

The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1) and 3.10(2) of the Listing Rules during the reporting period. The Company has appointed four independent non-executive Directors as at 30 June 2005. Mr. Tao Xiang, an independent non-executive Director, passed away because of illness on 4 July 2005. Therefore, the Company currently has three independent non-executive Directors, which is also complied with Rules 3.10(1) and 3.10(2) of the Listing Rules. Biographical details of the other independent non-executive Directors are set out in the Company's 2004 Annual Report dated 22 April 2005. The Company is seeking a suitable candidate to fill in the vacancy.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

For the six months ended 30 June 2005, the Company has adopted a code of conduct for securities transactions by its Directors and Supervisors in accordance with the required standards stipulated in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to all Directors and Supervisors, the Company confirmed that all the Directors and Supervisors have complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers.

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 2005.

SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the six months ended 30 June 2005, 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.

MATERIAL LITIGATION

During the reporting period, none of the Company, its Directors, Supervisors or chief executives of the Company was engaged in any material litigation or arbitration.

OTHERS

Under the disclosure requirement of Rule 13.20 of the Listing Rules, details of advances granted by FTGF to relevant entities as at 30 June 2005 are as follows:

Entity	Date of the loan agreement	Advances as at 30 June 2005 *RMB'000,000*	Interest rate per annum (%)	Maturity date	Note
China Yituo	28 January 2003	19	5.76	28 January 2006	1
	7 November 2003	20	5.76	7 November 2006	2
	7 January 2004	20	5.76	7 January 2006	1
	7 January 2004	14	5.76	7 January 2006	1
	21 July 2004	15	5.76	21 July 2007	2
	30 July 2004	20	5.76	30 July 2007	2
	9 September 2004	25	5.76	9 September 2007	1
	10 September 2004	25	5.76	10 September 2007	1
	21 September 2004	30	5.76	21 September 2006	3
	24 November 2004	8	5.76	24 November 2006	1
	26 January 2005	20	5.76	26 January 2008	1
	28 January 2005	15	5.76	28 January 2008	1
	2 February 2005	4	5.76	2 February 2007	4
	15 February 2005	2.8	5.76	16 October 2007	1
	25 May 2005	15	5.58	25 May 2006	5
	27 June 2005	20	5.22	22 July 2005	1
	28 June 2005	10	5.22	19 July 2005	1
Total		282.8			

OTHERS

Notes:

(1) *These advances represent loans to China Yituo as working capital and are unsecured, due on the maturity date and guaranteed by YLDC. As at the date of this interim report, two advances totalling RMB30,000,000 with maturity dates on 19 July 2005 and 20 July 2005 respectively were due and repaid.*

(2) *These advances represent loans to China Yituo as working capital and are unsecured, due on the maturity date and guaranteed by Yituo International Economic and Trade Company Limited, a wholly owned subsidiary of the Holding. As at the date of this interim report, no advances were due or repaid.*

(3) *These advances represent loans to China Yituo as working capital and are unsecured, due on the maturity date and guaranteed by YLCF. As at the date of this interim report, no advances were due or repaid.*

(4) *These advances represent loans to China Yituo as working capital and are unsecured, due on the maturity date and guaranteed by Dongfanghong (Luoyang) Property Company Limited, a subsidiary of the Holding. As at the date of this interim report, no advances were due or repaid.*

(5) *These advances represent loans to China Yituo as working capital and are unsecured, due on the maturity date and guaranteed by Luoyang Yituo Dongfang Industry Co., Ltd., an independent third party. As at the date of this interim report, no advances were due or repaid.*

By order of the Board
Liu Dagong
Chairman

Luoyang, Henan Province, the PRC
26 August 2005