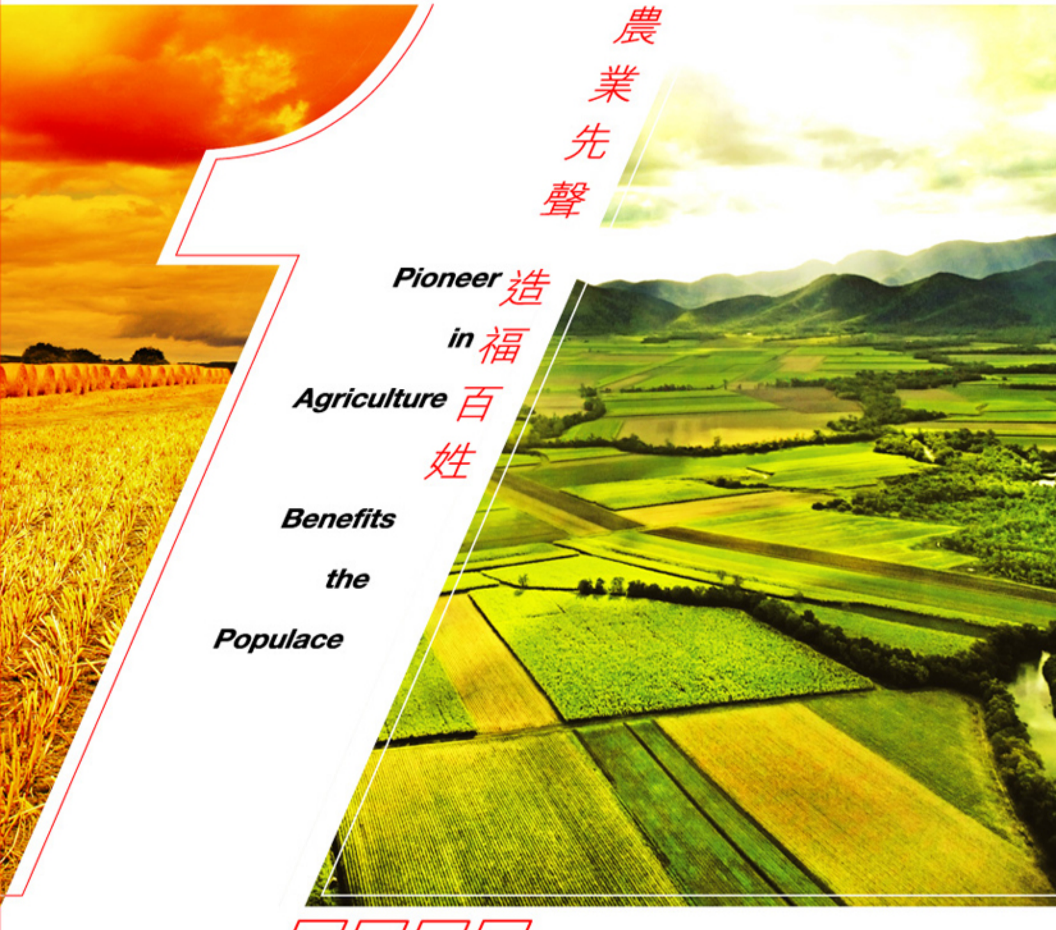
FIRST TRACTOR COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code 0038



2008 中期業績報告
INTERIM REPORT

The board (the "**Board**") of directors (the "**Directors**") of First Tractor Company Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2008 (the "**Reporting Period**") with the comparative figures for the corresponding period in 2007. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the audit committee (the "**Audit Committee**") of the Company.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June 2008 Unaudited *RMB'000*	2007 Unaudited *RMB'000*
REVENUE	3	**4,040,685**	3,595,702
Cost of sales		**(3,532,576)**	(3,141,865)
Gross profit		**508,109**	453,837
Other income and gains	3	**71,064**	128,608
Selling and distribution costs		**(148,020)**	(116,895)
Administrative expenses		**(223,517)**	(239,395)
Other expenses		**(57,764)**	(27,324)
Finance costs	4	**(21,568)**	(14,979)
Share of profits and losses of associates		**(2,111)**	(3,150)
PROFIT BEFORE TAX	5	**126,193**	180,702
Tax	6	**(38,908)**	(50,819)
PROFIT FOR THE PERIOD		**87,285**	129,883
Attributable to:			
Equity holders of the parent		**77,943**	119,730
Minority interests		**9,342**	10,153
		87,285	129,883
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**RMB9.21 cents**	RMB15.25 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	Notes	**As at 30 June 2008 Unaudited *RMB'000***	As at 31 December 2007 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,235,440**	1,256,455
Prepaid land premiums	10	**30,416**	30,374
Goodwill		**52,990**	52,990
Interests in associates		**18,489**	19,800
Available-for-sale investments		**131,669**	187,150
Loans receivable	11	**214,949**	83,554
Deferred tax assets		**38,001**	28,331
Total non-current assets		**1,721,954**	1,658,654
CURRENT ASSETS			
Inventories		**886,813**	841,800
Trade and bills receivables	12	**1,443,520**	925,946
Loans receivable	11	**168,913**	194,215
Bills discounted receivable	13	**127,003**	56,053
Prepayments, deposits and other receivables	14	**623,693**	465,326
Equity investments at fair value through profit or loss		**28,596**	47,365
Pledged deposits	15	**263,254**	151,640
Cash and cash equivalents	15	**881,190**	1,147,084
Total current assets		**4,422,982**	3,829,429

CONDENSED CONSOLIDATED BALANCE SHEET *(CONTINUED)*

30 June 2008

	Notes	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
CURRENT LIABILITIES			
Trade and bills payables	16	**1,646,089**	1,144,065
Other payables and accruals	17	**597,857**	575,971
Customer deposits	18	**128,489**	131,231
Due to banks and other financial institutions		**20,000**	—
Interest-bearing bank borrowings		**496,000**	459,900
Tax payable		**47,961**	20,824
Provisions		**40,247**	34,153
Total current liabilities		**2,976,643**	2,366,144
NET CURRENT ASSETS		**1,446,339**	1,463,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,168,293**	3,121,939
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**250,000**	214,000
Deferred income		**108,944**	105,154
Deferred tax liabilities		**13,709**	25,225
Provisions		**21,329**	24,667
Total non-current liabilities		**393,982**	369,046
Net assets		**2,774,311**	2,752,893
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**845,900**	845,900
Reserves		**1,744,923**	1,703,768
Proposed final dividend		**—**	25,377
		2,590,823	2,575,045
Minority interests		**183,488**	177,848
Total equity		**2,774,311**	2,752,893

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the parent												
	Issued share capital	Share premium account	Statutory surplus reserve	General surplus reserve	Reserve fund	Enterprise expansion fund	General and statutory reserve	Available-for-sale investments revaluation reserve	Exchange fluctuation reserve	Retained profit/ (Accumulated losses)	Total	Minority interests	Total equity
	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*
At 1 January 2008	845,900	1,539,938	99,695	64,744	3,373	2,356	4,841	74,932	(8,772)	(51,962)	2,575,045	177,848	2,752,893
Changes in fair value of available-for-sale investments	–	–	–	–	–	–	–	(23,583)	–	–	(23,583)	–	(23,583)
Disposal of available-for-sale investments	–	–	–	–	–	–	–	(10,221)	–	–	(10,221)	–	(10,221)
Exchange realignment	–	–	–	–	–	–	–	–	(2,984)	–	(2,984)	–	(2,984)
Total income and expense recognised directly in equity	–	–	–	–	–	–	–	(33,804)	(2,984)	–	(36,788)	–	(36,788)
Net profit for the period	–	–	–	–	–	–	–	–	–	77,943	77,943	9,342	87,285
Total income and expense for the period	–	–	–	–	–	–	–	(33,804)	(2,984)	77,943	41,155	9,342	50,497
Final 2007 dividend declared	–	–	–	–	–	–	–	–	–	(25,377)	(25,377)	–	(25,377)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,702)	(3,702)
Transfer from/(to) reserves	–	–	–	–	217	217	–	–	–	(434)	–	–	–
At 30 June 2008	845,900	1,539,938	99,695	64,744	3,590	2,573	4,841	41,128	(11,756)	170	2,590,823	183,488	2,774,311
At 1 January 2007	785,000	1,378,840	77,570	64,744	2,873	2,356	4,446	97,150	(4,244)	(210,704)	2,198,031	170,018	2,368,049
Changes in fair value of available-for-sale investment	–	–	–	–	–	–	–	13,643	–	–	13,643	–	13,643
Disposal of available-for-sale investment	–	–	–	–	–	–	–	(62,873)	–	–	(62,873)	–	(62,873)
Exchange realignment	–	–	–	–	–	–	–	–	(1,722)	–	(1,722)	–	(1,722)
Total income and expense recognised directly in equity	–	–	–	–	–	–	–	(49,230)	(1,722)	–	(50,952)	–	(50,952)
Net profit for the period	–	–	–	–	–	–	–	–	–	119,730	119,730	10,153	129,883
Total income and expense for the period	–	–	–	–	–	–	–	(49,230)	(1,722)	119,730	68,778	10,153	78,931
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(150)	(150)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(2,671)	(2,671)
Transfer from/(to) reserves	–	–	334	–	500	–	–	–	–	(834)	–	–	–
At 30 June 2007	785,000	1,378,840	77,904	64,744	3,373	2,356	4,446	47,920	(5,966)	(91,808)	2,266,809	177,350	2,444,159

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(181,646)**	(1,622)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(152,016)**	(136,228)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**68,397**	45,830
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(265,265)**	(92,020)
Cash and cash equivalents at beginning of period	**1,049,905**	708,030
Effect of foreign exchange rates, net	**(2,984)**	(1,722)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**781,656**	614,288
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**769,637**	600,214
Non-pledged time deposits with original maturity of less than three months when acquired	**12,019**	14,074
	781,656	614,288

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting". They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. 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 2007, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which also included HKASs and Interpretations), that affect the Group and are adopted for the first time for the current period's financial statements.

HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also address the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any impact on the Group.

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

30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial assets and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS19 Employee Benefits on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, HK(IFRIC)-Int 14 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and condensed income statement arising from the above-mentioned accounting standards.

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

30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

Impact of issued but not yet effective HKASs and HKFRSs

The Group has not applied the following new and revised HKASs and HKFRSs, which have been issued but not yet effective, in these interim financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 1 and HKAS 32 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKFRS 2 (Amendment)	Share-based Payments — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[2]

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 July 2008*
3 *Effective for annual periods beginning on or after 1 July 2009*

HKAS 1 (Revised) will affect the presentation of owner changes in equity and comprehensive income. The revised standard will use "statement of financial position" and "statement of cash flows" to replace the titles "balance sheet" and "cash flow statement", and in making reference to these two statements within a complete set of financial statements.

The amendment to HKAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The amendment to HKAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The Group does not expect these amendments to impact the financial statements of the Group.

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

30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

Impact of issued but not yet effective HKASs and HKFRSs *(Continued)*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

HKFRS 2 (Amendment) restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

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

30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

Impact of issued but not yet effective HKASs and HKFRSs *(Continued)*

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award credits, HK(IFRIC)-Int 13 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. Up to the date of this report, it has concluded that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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

30 June 2008

2. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the five business segments are as follows:

(a) the "Agricultural machinery" segment engages in the manufacture and sale of agricultural machinery, including tractors, harvesters, relevant parts and components;

(b) the "Construction machinery" segment engages in the manufacture and sale of construction and road machinery;

(c) the "Financial operations" segment engages in the provision of loan lending, bills discounting and deposit-taking services;

(d) the "Diesel engines and fuel jets" segment engages in the manufacture and sale of diesel engines and fuel injection pumps; and

(e) the "Others" segment comprises, principally, the manufacture and sale of biochemical products.

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

30 June 2008

2. SEGMENT INFORMATION *(Continued)*

The following table presents revenue and results for the Group's primary segments:

	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	For the six months ended 30 June													
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:														
Sales to external customers	**2,656,944**	2,435,904	**894,016**	821,275	**–**	–	**489,725**	338,523	**–**	–	**–**	–	**4,040,685**	3,595,702
Intersegment revenue	**323,195**	196,090	**37,069**	10,198	**9,029**	8,765	**247,626**	170,030	**–**	–	**(616,919)**	(385,083)	**–**	–
Other income and gains	**–**	–	**–**	–	**22,160**	12,398	**–**	–	**–**	–	**–**	–	**22,160**	12,398
Total	**2,980,139**	2,631,994	**931,085**	831,473	**31,189**	21,163	**737,351**	508,553	**–**	–	**(616,919)**	(385,083)	**4,062,845**	3,608,100
Segment results	**95,253**	83,571	**(40,544)**	(11,838)	**21,402**	14,282	**80,510**	48,548	**–**	(141)	**–**	–	**156,621**	134,422
Interest, dividend and investment income													**9,270**	82,835
Gain on disposal of a subsidiary													**–**	90
Unallocated expenses													**(16,019)**	(18,516)
Finance costs													**(21,568)**	(14,979)
Share of profits and losses of associates	**–**	–	**–**	–	**–**	–	**–**	–	**(2,111)**	(3,150)	**–**	–	**(2,111)**	(3,150)
Profit before tax													**126,193**	180,702
Tax													**(38,908)**	(50,819)
Profit for the period													**87,285**	129,883

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

30 June 2008

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of trade discounts and returns, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**4,040,685**	3,595,702
Other income		
Bank interest income	**5,073**	1,076
Interest income from financial operations	**21,711**	11,468
Profit from sundry sales	**22,276**	15,904
Rental income	**865**	2,445
Dividend income from listed investments	**59**	70
Others	**16,942**	15,866
	66,926	46,829

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

30 June 2008

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Gains		
Gain on disposal of available-for-sale investment	**4,138**	73,780
Gain on disposal of listed equity investments at fair value through profit or loss, net	**—**	5,730
Fair value gain on listed equity investments at fair value through profit or loss, net	**—**	2,179
Gain on disposal of a subsidiary	**—**	90
	4,138	81,779
	71,064	128,608

4. FINANCE COSTS

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Interest on bank and other loans	**21,568**	14,979

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

30 June 2008

5. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Depreciation	**61,010**	54,549
Impairment of property, plant and equipment	**11,000**	—
Provision for impairment of trade receivables, net	**18,337**	17,469
Loss/(gain) on disposal of listed equity investments at fair value through profit or loss, net	**10,502**	(5,730)
Fair value loss/(gain) on listed equity investments at fair value through profit or loss, net	**4,208**	(2,179)
Interest expense from financial operations	**3,006**	1,094
Provision for other receivable	**1,192**	781
Net charge/(reversal) for impairment losses and allowances for bills discounted receivable	**717**	(1,345)
Amortisation of prepaid land premiums	**590**	366
Loss on disposal of items of property, plant and equipment	**227**	2,227
Interest income from financial operations	**(21,711)**	(11,468)
Bank interest income	**(5,073)**	(1,076)
Gain on disposal of available-for-sale investment	**(4,138)**	(73,780)
Reversal of provision against obsolete inventories, net	**(3,434)**	(4,022)
Gross rental income	**(865)**	(2,445)
Net charge/(reversal) for impairment losses and allowances for loans receivable	**(537)**	1,676
Dividend income from listed investments	**(59)**	(70)
Gain on disposal of a subsidiary	**—**	(90)

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

30 June 2008

6. TAX

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Group		
Current—PRC corporate income tax	**48,825**	62,233
Deferred tax	**(9,917)**	(11,414)
Total tax charge for the period	**38,908**	50,819

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two periods ended 30 June 2008 and 2007.

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 18% to 25% (six months ended 30 June 2007: 10% 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 Mainland China is subject to the rates applicable within the jurisdiction in which it operates. 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 2007: Nil).

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

30 June 2008

7. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the profit for the period attributable to ordinary equity holders of the parent of approximately RMB77,943,000 (six months ended 30 June 2007: RMB119,730,000) and the weighted average of 845,900,000 (six months ended 30 June 2007: 785,000,000) ordinary shares in issue during the period.

Diluted earnings per share amounts for both periods ended 30 June 2008 and 2007 have not been disclosed as no diluting events existed during both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired construction in progress and items of property, plant and equipment in an aggregate amount of approximately RMB59.2 million (six months ended 30 June 2007: RMB69.1 million) and disposed of items of property, plant and equipment with an aggregate net book value of approximately RMB8.3 million (six months ended 30 June 2007: RMB19.5 million) and resulted in a net loss on disposal of approximately RMB0.2 million (six months ended 30 June 2007: RMB2.2 million). Impairment of items of property, plant and equipment recognised in the condensed consolidated income statement during the period was RMB11.0 million (six months ended 30 June 2007: Nil).

At 30 June 2008, certain of the Group's buildings and machinery with an aggregate net carrying value of approximately RMB61,133,000 (31 December 2007: RMB62,321,000) were pledged to secure certain short term bank loans granted to the Group.

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

30 June 2008

10. PREPAID LAND PREMIUMS

The leasehold lands are held under a medium term leases and is situated in Mainland China.

At 30 June 2008, certain of the Group's prepaid land premiums with an aggregate net carrying value of approximately RMB7,991,000 (31 December 2007: RMB8,095,000) were pledged to secure bank loans granted to the Group.

11. LOANS RECEIVABLE

		As at 30 June 2008			As at 31 December 2007		
		Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
		Unaudited	Unaudited	Unaudited	Audited	Audited	Audited
	Notes	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Loans to the Holding	(a)	**302,800**	**4,338**	**298,462**	252,800	4,803	247,997
Loans to related companies	(b)	**78,634**	**5,242**	**73,392**	24,503	5,107	19,396
Loans to customers	(c)	**14,219**	**2,211**	**12,008**	12,794	2,418	10,376
		395,653	**11,791**	**383,862**	290,097	12,328	277,769
Portion classified as current assets		**(177,580)**	**(8,667)**	**(168,913)**	(205,255)	(11,040)	(194,215)
Long term portion		**218,073**	**3,124**	**214,949**	84,842	1,288	83,554

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

30 June 2008

11. LOANS RECEIVABLE *(Continued)*

Notes:

(a) *The loans to the holding company, China Yituo Group Corporation Limited ("**the Holding**"), are granted by China First Tractor Group Finance Company Limited ("**FTGF**"), a subsidiary of the Group, and are unsecured, bear interest at rates ranging from 6.57% to 7.56% (31 December 2007: 6.39% to 6.56%) per annum and repayable within one to five years (31 December 2007: one to five years).*

(b) *The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein. These loans are unsecured, interest-bearing at rates ranging from 6.70% to 9.71% (31 December 2007: 6.67% to 9.11%) per annum and are repayable within one to five years (31 December 2007: one to five years).*

(c) *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 2008 Unaudited ***RMB'000***	As at 31 December 2007 Audited *RMB'000*
Repayable:		
Within three months	**106,740**	125,855
Within one year but over three months	**70,840**	79,400
Within five years but over one year	**216,626**	83,266
Over five years	**1,447**	1,576
	395,653	290,097

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

30 June 2008

12. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, where payment in advance from customers is normally required. The credit periods granted 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 2008 Unaudited *RMB'000*	As at 31 December 2007 Audited *RMB'000*
Within 90 days	**1,093,919**	654,962
91 days to 180 days	**257,874**	162,067
181 days to 365 days	**51,096**	73,205
1 to 2 years	**37,194**	32,681
Over 2 years	**3,437**	3,031
	1,443,520	925,946

Included in the trade and bills receivables of the Group as at 30 June 2008 are trade receivables from the associates of approximately RMB261,000 (31 December 2007: RMB4,123,000).

Included in the trade and bills receivables of the Group as at 30 June 2008 are trade receivables from the Holding of approximately RMB10,000 (31 December 2007: RMB383,000).

As at 30 June 2008, certain of the Group's bills receivables of approximately RMB55,759,000 (31 December 2007: RMB57,035,000) were pledged for the issuance of bills payable.

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

30 June 2008

13. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of impairment) of the Group are approximately RMB83,358,000 (31 December 2007: RMB53,559,000) related to the Holding and approximately RMB41,580,000 (31 December 2007: RMB693,000) 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 2008 Unaudited *RMB'000*	As at 31 December 2007 Audited *RMB'000*
Maturing:		
Within three months	**86,720**	6,619
Within six months but over three months	**41,566**	50,000
	128,286	56,619
Less: Impairment allowance	**(1,283)**	(566)
	127,003	56,053

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

30 June 2008

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(a) Included in other debtors are other receivables due from the minority shareholders of certain subsidiaries of the Group of approximately RMB27,709,000 (31 December 2007: RMB29,602,000). Included in such balance is an amount of RMB23,089,000 (31 December 2007: RMB26,152,000) due from Jiangsu Huatong Machinery Co., Ltd. ("**Huatong**") (a minority shareholder of Zhenjiang Huachen Huatong Road Machinery Company Limited ("**ZHHRM**"), a subsidiary of the Group) to ZHHRM, of which RMB18,382,000 has been overdue and not yet settled as at the date of these condensed financial statements. Pursuant to an agreement between Huatong and the Holding dated 27 March 2007, Huatong has agreed in writing to repay the part of balance due to ZHHRM of RMB18,382,000 by 31 December 2007 and has pledged its equity interest in ZHHRM to the Holding for securing such balance of RMB18,382,000 due from Huatong, and the Holding in turn guaranteed that any proceeds on disposal of such equity interest in Huatong will be solely used to compensate for any loss suffered by ZHHRM should Huatong ultimately default in payment to ZHHRM.

The directors are of the view that the outstanding balance due from Huatong is recoverable, and therefore no provision has been made in respect thereof.

Other balances are unsecured and interest-free, and have no fixed terms of repayment.

(b) Other receivables included a balance due from the Holding of RMB109,974,000 (31 December 2007: RMB109,221,000), and such balance is unsecured, interest-free and have no fixed terms of repayment.

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

30 June 2008

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2008 Unaudited *RMB'000*	As at 31 December 2007 Audited *RMB'000*
Cash and bank balances — *Note (a)*	**769,637**	987,148
Mandatory reserve deposits with the PBOC — *Note (b)*	**89,534**	85,952
Time deposits	**285,273**	225,624
	1,144,444	1,298,724
Less: Pledged time deposits	**(263,254)**	(151,640)
	881,190	1,147,084

Notes:

(a) *The balance included FTGF's placements with the PBOC and other banks of approximately RMB103,951,000 (31 December 2007: RMB356,437,000) and RMB209,216,000 (31 December 2007: RMB186,543,000), respectively.*

(b) *The balance represents 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 *(CONTINUED)*

30 June 2008

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(Continued)*

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 2008 Unaudited *RMB'000*	As at 31 December 2007 Audited *RMB'000*
Maturing:		
Within three months	**275,273**	214,397
Within one year but over three months	**10,000**	11,227
	285,273	225,624

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

30 June 2008

16. TRADE AND BILLS PAYABLES

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

	As at 30 June 2008 Unaudited	As at 31 December 2007 Audited
	RMB'000	*RMB'000*
Within 90 days	**1,259,882**	787,267
91 days to 180 days	**239,227**	209,153
181 days to 365 days	**70,968**	57,333
1 to 2 years	**29,389**	49,326
Over 2 years	**46,623**	40,986
	1,646,089	1,144,065

The Group's bills payables amounting to approximately RMB324,850,000 (31 December 2007: RMB231,117,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB249,570,000 (31 December 2007: RMB147,168,000).

Included in the trade and bills payables of the Group are trade payables to the Holding and the associates of approximately RMB11,135,000 (31 December 2007: RMB12,093,000) and RMB449,000 (31 December 2007: Nil), respectively.

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

30 June 2008

17. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals of the Group are amounts due to the Holding and minority shareholders of subsidiaries of the Group of approximately RMB79,218,000 (31 December 2007: RMB64,335,000) and RMB19,945,000 (31 December 2007: RMB29,190,000), respectively. Such balances are unsecured, interest-free and have no fixed terms of repayment.

18. CUSTOMER DEPOSITS

	As at 30 June 2008	As at 31 December 2007
	Unaudited	Audited
	RMB'000	*RMB'000*
Deposits from the Holding	**89,123**	83,310
Deposits from associates	**1,268**	469
Deposits from related companies	**33,538**	44,903
Deposits from customers	**4,560**	2,549
	128,489	131,231

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

30 June 2008

18. 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 2008 Unaudited *RMB'000*	As at 31 December 2007 Audited *RMB'000*
Repayable:		
On demand	**127,591**	127,584
Within three months	**—**	143
Within one year but over three months	**48**	2,659
Over one year	**850**	845
	128,489	131,231

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

30 June 2008

19. CONTINGENT LIABILITIES

(a) As at 30 June 2008, ZHHRM had outstanding guarantee to the extent of RMB14 million (31 December 2007: RMB14 million) provided to a bank for securing the loan granted to a previous customer of the Group. The borrower has defaulted in repayment of the bank loan when it was due on 28 October 2007. Certain receivable of RMB19 million owed to the borrower was frozen by a court order since then for the purpose of settlement of the bank loan. On 24 December 2007, Huatong has expressed to the court its willingness to provide a counter-guarantee to ZHHRM to use certain of its land use rights to settle the bank loan. In addition, ZHHRM has received a court order on 26 September 2007 to freeze its assets amounting to RMB16 million for securing the settlement of the bank loan, and actually ZHHRM's bank balance of RMB761,200 was frozen as at 30 June 2008. The directors are of the view that such guarantee will not have material adverse effect on the Group, and therefore no provision has been made in respect thereof.

(b) As at 30 June 2008, FTGF provided guarantees to the extent of RMB9 million (31 December 2007: Nil) to certain financial institutions for securing loans granted to Yituo International Commerce Company Limited ("**YICC**"), a subsidiary of the Holding.

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

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

30 June 2008

20. CAPITAL COMMITMENTS

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

	As at 30 June 2008 Unaudited *RMB'000*	As at 31 December 2007 Audited *RMB'000*
Contracted, but not provided for:		
Purchase of plant and machinery	**92,420**	86,167
Investment in an associate	**—**	4,000
	92,420	90,167
Authorised, but not contracted for:		
Purchases of land use rights	**255,900**	255,900
Purchase of plant and machinery	**850,160**	895,466
Investment in a joint venture	**120,526**	120,526
	1,226,586	1,271,892
	1,319,006	1,362,059

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

30 June 2008

21. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period.

(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	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Sales of raw materials, finished goods and components	**415,241**	305,452
Purchases of raw materials and components	**499,561**	445,960
Purchases of utilities	**59,908**	55,807
Fees paid for welfare and support services	**12,790**	10,746
Purchases of transportation services	**17,517**	11,456
Research and development expenses paid	**15,203**	29,098
Fees paid for the use of land	**3,911**	2,500
Fees paid for the use of trademark	**10,229**	8,475
Rentals paid for buildings	**5,801**	832
Sales of plant and machinery	**—**	9,718
Purchases of plant and machinery	**984**	4,516
Interest income, inclusive of discounted bill charges	**18,778**	10,570
Interest paid for customer deposits	**387**	954
Service charge for guarantees	**72**	—

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

30 June 2008

21. RELATED PARTY TRANSACTIONS *(Continued)*

(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: (Continued)

The transactions disclosed above also included the transactions between the Group and an associate, Yituo (Luoyang) Casting & Forging Company Limited ("**YLCF**") (in which the Holding holds a 50% equity interest) for period ended 30 June 2007.YLCF has become a wholly-owned subsidiary of the Holding in November 2007.

(b) Other transactions with related parties

(i) Designated deposits and designated loans

As at 30 June 2008, the Holding placed a designated deposit of approximately RMB15.6 million (31 December 2007: RMB19.9 million) in FTGF for lending to subsidiaries of the Holding.

As at 30 June 2008, the Holding placed a designated deposits of approximately RMB30 million (31 December 2007: RMB30 million) in FTGF for lending to an associate of the Holding.

As at 30 June 2008, YICC placed a designated deposit of RMB2 million (31 December 2007: RMB2 million) in FTGF for lending to a third party.

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

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

30 June 2008

21. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties (Continued)

(ii) Guarantees provided by the Group to related parties

As at 30 June 2008, FTGF provided guarantees to the extent of RMB9 million (31 December 2007: Nil) to certain financial institutions for securing loans granted to YICC.

(iii) Guarantees provided by related parties to the Group

As at 30 June 2008, the Holding provided a guarantee to the extent of RMB280 million (31 December 2007: RMB260 million) to banks for securing the banking facilities granted to the Company. As at 30 June 2008, the aforesaid banking facilities were utilised to the extent of RMB280 million (31 December 2007: RMB260 million).

(c) Outstanding balances with related parties

(i) Details of the Group's amount due from/to the Holding, its loans and deposits balances with the Holding as at the balance sheet date are disclosed in notes 14, 17, 11 and 18 to the condensed consolidated interim financial statements.

(ii) Details of the Group's deposits received from its associates as at the balance sheet date are included in notes 18 to the condensed consolidated interim financial statements.

(iii) Details of the Group's trade balances with its related parties as at the balance sheet date are disclosed in notes 12 and 16 to the condensed consolidated interim financial statements.

(iv) Details of the Group's amounts due from/to the minority shareholders as at the balance sheet date are disclosed in notes 14 and 17 to the condensed consolidated interim financial statements.

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

30 June 2008

21. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Short term employee benefits	**642**	575
Post-employment benefits	**128**	121
Total compensation paid/payable to key management personnel	**770**	696

22. POST BALANCE SHEET EVENTS

There is no significant post balance sheet events subsequent to the period ended 30 June 2008.

23. 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 22 August 2008.

BUSINESS REVIEW

During the Reporting Period, despite a series of serious natural calamities and the continued implementation of appropriate tight monetary policy by the State, the overall national economic development of our State remained steady and relatively rapid. The gross domestic product ("**GDP**") recorded a year-on-year increase of 10.4%, but the level of increase was lowered by 1.8%. In 2008, the State has continued to perfect the policies that support and provide favorable treatment to agriculture. For the purpose of agricultural modernization, the State has put further effort on subsidizing for the purchase of agricultural machinery, providing subsidies of up to RMB4 billion with the amount of funding further increased, and the subsidizing scope and variety further extended, which have further invoked enthusiasm of peasants for the cultivation of grains and purchase of agricultural machinery. In the first half of the year, the sales volume of large and medium tractors in the industry recorded a year-on-year growth of 19.7%, among which, the sales of medium and large wheeled tractors and the sales of medium wheeled tractors recorded year-on-year growth of 37.6% and 10% respectively. Besides, a year-on-year growth of 74.3% was recorded in the sales volume of wheat harvesters, attributable to improvements and increase in functions which enable the harvest of additional crops, etc. The consolidated mechanization level of tilling, planting and harvesting in the People's Republic of China (the "**PRC**") reached 43%, representing an increase of 2% as compared with that of 2007. Prejudiced by the State's emphasis on the support for the development of large and medium horsepower tractors and power enhancement of products, the sales volume of small wheeled tractors recorded a year-on-year decrease of 10.6%. Taking advantage of the new construction of countryside, the continued progression of urbanization and the commencement of large-scale infrastructure projects one after another, as well as progression of demands for exports, the construction machinery industry maintained a strong momentum. However, due to the increased pressure on obtaining profits in the industry arising from the price hikes in raw materials and energy, a year-on-year decrease was recorded in profit.

The Group proactively responded to the changes in business environment during the Reporting Period by unswervingly taking structural adjustment as paramount and focusing on building up its core capability, continuously boosting quality management, cost management, procurement management and sales and marketing management through innovations in technology, management, system and culture, so as to eliminate unfavorable factors such as price hikes in raw materials, enhance budget management and sharpen the Group's competitive edge continuously.

BUSINESS REVIEW *(CONTINUED)*

Expedite the adjustment of product mix through technological and management innovation. During the Reporting Period, the Group pressed ahead actively the construction of key projects, the construction of certain investment projects which have significant influences on adjustment in the product mix of the Group have either been completed or commenced. The technological innovation of large wheeled tractors and high pressure forged steel crankshaft production line had been completed, while the information system construction projects was advancing orderly. Meanwhile, the technological innovation project of heavy power duty diesel machines had been fully started up. The effects of technological innovations of large wheeled tractors had begun to reveal. The Group sold a total of 15,136 units of large wheeled tractors in the first half of the year, representing an increase of 62.4% over the same period last year.

Improve international marketing strategy to speed up the adjustment of market structure. During the Reporting Period, the Group further improved the international marketing strategy and put more efforts in the exploration of major international markets including North America, Eastern Europe and West Asia. The Group completed construction of 6 entrepot storages, and 17 overseas distributors have newly joined. By bringing the performance-price ratio advantage into full play, the Company advanced the progress of product certification, in line with the requirement of target market. Meanwhile, it strengthened the construction of marketing channels and service network in the international market, products in series and sizable export setting having been formed basically. Further, it optimized the structure of export products. Accordingly, 2,140 units of large wheeled tractors with higher added value and 3,470 units of various products were exported, representing an increase of 310% and 145.7% respectively over the same period last year. The Company achieved export sales of US$61,790,000, up by 126.6% over the same period last year.

BUSINESS REVIEW *(CONTINUED)*

Push ahead product research and development and quality improvement to continually enhance independent innovation ability. During the Reporting Period, the Group formulated and implemented the 2008 Research and Development Plan for New Products, 2008 Adaptability Improvement Plan for Export Product of Large and Medium Wheeled Tractors. By standardizing process discipline and strengthening key technology development, the Group boosted products standards gradually. In addition, the Group attached more importance on the research and development of new products and improvement of traditional products. During the Reporting Period, 41 product development projects was approved, of which the system analysis, function design and parts development for diesel engine electronic control project had been completed. Great progresses had been made in key projects including the research and development of new generation 160-200 horsepower wheeled tractors, development of new generation 70-90 horsepower series wheeled tractors, 5 aspects of improvements in 東方紅-LG1304/1504 series tractors and development of 東方紅-C1602 second generation model machine.

Enhance cost and procurement management to alleviate effectively the pressures from price hikes. During the Reporting Period, the Group, amid the rising raw material price and hiking cost, capitalized its scale advantage and improved its procurement management. Meanwhile, in line with the market trend and climatizing the seasonal features, the Group carried out strategic reserves and built up reserves continually for bulk materials such as pig iron, tyre and steel products, etc, which have relatively significant impact on the manufacturing cost, thus lowering the procurement cost effectively. The Group formulated and executed the Value Engineering Project Proposal and established the cost accounting model. Based on the cost analysis to procurement of key materials, production and sales, the cost control ability of the Group was further improved, achieving the dynamic management on cost analysis. By virtue of above measures, the impact from surging raw material price on the Group's profitability was lowered effectively.

During the Reporting Period, the Group recorded a turnover of RMB4,040,685,000, representing an increase of 12.4% over the same period last year. Earnings attributable to equity holders of the parent was RMB77,943,000, representing a decrease of RMB41,787,000 from the same period last year, or an increase of 11% (taking no account of the one-off investment income from disposal of shares of Bank of Communications Co., Ltd.). Earnings per share was RMB9.21 cents.

BUSINESS REVIEW *(CONTINUED)*

Agricultural machinery business: During the Reporting Period, in light of the change of domestic agricultural machinery market, the Group furthered the structural adjustment of products and the market, focused on improving internal management in various aspects, endeavored to create new networking mode, promoted the integration and optimization of marketing resources. The Group's total sales of agriculture machines of different modes amounted to 68,369 units, of which the sales of large and medium tractors amounted to 27,630 units, representing a growth of 29.8% as compared to the corresponding period last year. Sales of small wheeled tractors amounted to 37,677 units, representing a year-on-year decrease of 19.6%, while sales of harvesters amounted to 1,132 units, representing a year-on-year growth of 59.7%. 2,713 units of various types of agricultural machineries were exported, representing an increase of 190.34% as compared to the same period last year. During the Reporting Period, the turnover of agricultural machinery business of the Group amounted to RMB2,656,944,000, representing a year-on-year growth of 9.1%. The operating results increased by 14% as compared to the corresponding period last year.

The growth in turnover and operating results of agricultural machinery business was primarily attributable to: The Group sold 15,156 units of large wheeled tractors with higher value addition, representing a year-on-year increase of 5,825 units or 62.4%, which is 24% higher than the industry growth. Market share of the Company's large wheeled tractors amounted to 31.7%, representing a year-on-year increase of approximately 5%. The growth in sales of large wheeled tractors was mainly attributable to the popular products in the 90-120 horsepower range, in which the Group enjoys a market share of over 40%. By marketing integration with large wheeled tractors to share resources, marketing efforts for medium wheeled tractors were strengthened. As a result, the Group sold 11,086 units of medium wheeled tractors, representing a year-on-year increase of 1,056 units or 10.5% which held the line of industry growth, of which medium wheeled tractors of 25-40 horsepower recorded a year-on-year increase of 28.7% in sales volume; addressing the changing market demand, the Group focused on technology and product upgrading to uplift selling prices and profitability of the small wheeled tractors, leading to a year-on-year growth in turnover despite the diminished sales volume; and through promoting inventories and extending functions, harvesting machinery products recorded a noticeable growth.

BUSINESS REVIEW *(CONTINUED)*

Construction machinery business: According to the different market competitions faced by various construction machinery products, the Group made specific improvements to market and product structures as well as marketing strategies, so as to strengthen international market development and integration of internal and external resources. Sales volume of products such as large loaders, road rollers and road pavers achieved year-on-year growths of approximately 55%, 18% and 14% respectively, with a significant increase in market shares of road rollers and road pavers. Sales volume of small construction machinery (small loaders and hydraulic excavators), however, decreased by 539 units year-on-year due to the intensifying industry competition and surging prices of raw materials and energy. With a progress in international market development, the export of different kinds of construction machinery products increased by 48% over the corresponding period last year, where export of loaders posted a year-on-year growth of 69%. During the Reporting Period, the Group's construction machinery business achieved turnover of RMB894,016,000, representing an increase of 8.9% over the same period last year. Nevertheless, due to factors such as the surging prices of raw materials, only a slight increase in principal machinery and the lack of scale merit for certain product lines, the construction machinery business still recorded a loss.

Engine machinery business: Grasping the opportunities from the fast growing agricultural machinery and construction machinery markets during the Reporting Period, the Group made full play of its brand and technology edges to continuously improve marketing and services. The Group sold 58,188 units of diesel engines of various specifications (including external sales of 38,831 units) representing a year-on-year growth of 44%, of which approximately 68% was used as components of tractors, approximately 20% as components of harvesting machinery, approximately 8% as components of construction machinery and the remaining 5% as components of power generating units, automobile and vessel engines. During the Reporting Period, the turnover (after elimination of inter-group sales) of the engine machinery business of the Group increased by 44.7% year-on-year to RMB489,725,000, realizing a relatively substantial growth in operation results over the same period last year.

BUSINESS REVIEW *(CONTINUED)*

During the Reporting Period, the Group took a series of initiatives including strategic storage of raw materials, product restructuring, promoting large wheeled tractors and other products with higher value addition, increasing product selling prices and stricter cost control, to minimize the adverse impact on the Group's profit from hiking prices of raw materials and energy resources. During the Reporting Period, the Group recorded a gross profit of RMB508,109,000, representing a year-on-year increase of 12%, with a consolidated gross profit margin of 12.6% which held the line of the same period last year.

Compared to the year-on-year increase of 12.4% in turnover, the Group's selling costs, administrative expenses and finance costs for the Reporting Period as a whole only recorded an increase of 5.9% due to the improved management.

As at 30 June 2008, the Group's trade and bills receivables increased by RMB517,574,000 as compared with last year, of which trade receivables increased by RMB534,861,000 and bills receivable decreased by RMB17,287,000. The increase in trade receivables mainly resulted from the outstanding amount of the funding arising from the subsidy for purchasing agricultural machinery for sales projects in the first half of 2008. Such subsidy was delayed as it was allocated by the state progressively. However, it carried no risks in recovery.

As at 30 June 2008, the Group enhanced inventory management and liquidated social inventory, keeping the inventory under well control. With increase in sales volume, the inventory increased by 5.4% over the same period last year. Due to the adjustment in the inventory structure, long-term inventory of more than one year decreased by 31% over the corresponding period last year.

FINANCIAL RATIO

Items	Basis of calculation	**30 June 2008**	31 December 2007
Gearing ratio	Total liabilities/Total assets x 100%	**54.85%**	49.84%
Current ratio	Current assets/Current liabilities	**1.49**	1.61
Quick ratio	(Current assets - inventories)/ Current liabilities	**1.19**	1.25
Debt equity ratio	Total liabilities/ shareholders' equity x 100%	**130.10%**	106.22%

Note: Shareholders' equity (excluding minority interests)

BUSINESS PROSPECT

In the second half of 2008, in addition to the tight monetary policy which will be continued to be adopted by the State for the purpose of curbing inflation, factors such as the relatively great pressure from the price hikes in raw materials like steel, and the appreciation of Renminbi, caused the amount of uncertainties in the operation environment of macro economy to maintain relatively large. As for the agricultural machinery industry, on the basis that over 70% of the State's subsidy for purchasing agricultural machinery was implemented during the first half of the year, it is expected that the sales of agricultural machinery is likely to slow down in the second half of the year. However, the prospect of the agricultural market remains brightening as the State continues to focus on agricultural development. The domestic construction machinery business remains its rapid momentum. Besides, the reconstruction of Sichuan, the disaster area of the earthquake will drive the demand for excavators, bulldozers and loaders. The Group will continue to implement the operating strategy formulated in the beginning of the year through a series of measures, including further funding for research and development, implementation of branding strategy and acceleration of product structure adjustment. The Group will proactively respond to the changing economy, optimize any opportunity and meet challenges.

BUSINESS PROSPECT *(CONTINUED)*

Agricultural machinery business: The Group will accelerate the development process of high-tech, highly functional and highly valued-added products so as to continue to consolidate and maintain the national leading position of high horsepower wheeled tractors. The focus of the market in the second half of the year is to strengthen the markets of Xinjiang and Heilongjiang. Furthermore, products of medium wheeled tractors shall be improved and the improvement of medium wheeled tractors with 25-40 horsepower which are popular in the market shall be accelerated. A higher performance-price ratio of such shall also be obtained to sharpen its competitive edge in the market. The Group will continue its integration of sales and marketing, better its sales network and realize the common share of predominant resources. By speeding up the upgrade of crawler tractors technology and products as well as the improvement of its modified products, the Group will make a breakthrough in the crawler machinery business. The Group will consummate and promote product certification, and take initiatives in international market seizure.

Construction machinery business: The Group will actively respond to the challenge of price hikes in raw materials, create synergy effect through the integration of internal resources, enhancing asset efficiency and lowering operating cost. Additionally, by taking advantage of the strengths in performance-to-price ratio, the Group will set foot in the international market and expand its sales. Improvement in capital management and cost control will help enhance the quality of economic operations. The operating results has been remarkably improved by furthering product structure adjustment, enhancing the core competitiveness of the main products, developing products to meet the demand of export and domestic high-end market and increasing sales volume of high-value added products.

Engine machinery business: The Group will respond to the need of technological improvement of power upgrades and energy saving of diesel machines not used for road machineries, expedite the research and development of products with high value, high power, low emission, little noise generation and low fuel consumption, focus on the development of the electronic control system of diesel engines and to make a breakthrough in the auxiliary product market of engine machinery and vehicles. Besides, to ensure a stable growth in the export business, the Group will accelerate the project of technical transformation of high-power agricultural diesel machines and stabilize the product technology of the S series diesel machines.

BUSINESS PROSPECT *(CONTINUED)*

International business: On top of enhancing market segmentation and product adaptation levels, the Group is committed to speed up the improvement of its machinery products to meet the needs of the international market. With spare parts and service being the paramount, the Group will focus on auxiliaries, capacity and quality, to perfect the structure of products for export and further its expansion in major international markets. Furthermore, the Group will further improve its sales and marketing network and after-sales service system, formulate a new assessment system of overseas distributors and enhance feedback measures in the international market, to provide support for the sustainable growth of international business.

The Board of the Company believes that, through adopting the abovementioned business strategies, the Group will develop steadily in the second half of the year and will achieve its operating target in 2008.

CONTINGENT LIABILITIES

As at 30 June 2008, Zhenjiang Huachen Huatong Road Machinery Company Limited, a subsidiary of the Group, provided a guarantee to a bank for securing a loan of RMB14 million granted to a customer of the Group.

As at 30 June 2008, China First Tractor Group Finance Company Limited provided a guarantee to a bank for securing a loan of RMB9 million granted to Yituo International Commerce Company Limited.

PLEDGE OF ASSETS

As at 30 June 2008, the Group's buildings and machinery with an aggregate book value of approximately RMB61,133,000 (year 2007: RMB62,321,000) were pledged to secure short term bank loans granted to the Group.

As at 30 June 2008, the Group's prepaid land premiums with an aggregate book value of approximately RMB7,991,000 (year 2007: RMB8,095,000) were pledged to secure bank loans granted to the Group.

As at 30 June 2008, the Group's deposits of approximately RMB249,570,000 (year 2007: RMB147,168,000) were pledged to secure the Group's bills payable of approximately RMB324,850,000 (year 2007: RMB231,117,000).

CURRENCY EXCHANGE RISK

As the Group currently carries out its business activities mainly in the PRC, its operating expenditure as well as capital income and expenditure are principally denominated in Renminbi, with a small amount of income and expenditure denominated in Hong Kong dollars. The Group's debt in foreign currency is mainly applied to the payment of commissions for intermediaries outside the PRC and dividends to holders of H Shares. During the Reporting Period, fluctuations in exchange rates did not have material effects on the Group's operating business and operating cash. The Group's cash balances are usually deposited with financial institutions in the form of short-term deposits. The bank loans are all in Renminbi and can be repaid by Renminbi.

As at 30 June 2008, there was no pledge of any deposits in foreign currency by the Group.

During the Reporting Period, the Group has no foreign exchange risks and there was no hedge activity made in respect of foreign exchange risk.

APPLICATION OF THE PROCEEDS FROM THE H SHARES ISSUE

In October 2007, the Company placed 60,900,000 H Shares and listed them on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), raising net proceeds of approximately RMB222,000,000 (approximately HK$229,400,000). During the Reporting Period, all proceeds were applied in the Company's technical renovation project of wheeled tractors and used as supplementary working capital.

PLAN FOR SIGNIFICANT INVESTMENT OR ACQUISITION OF CAPITAL ASSETS OF THE GROUP IN THE FUTURE

In the second half of 2008, the Group intends to make an investment of RMB219,260,000, which will be mainly used for the acquisition of land and construction required by heavy power duty diesel machines project, technological renovation of large horsepower tractors, construction of information projects such as electronic purchasing platform and office automation system, high pressure forged steel crankshaft production lines of diesel machines and other technological renovation projects.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

During the Reporting Period, the Group did not acquire or dispose shares of its subsidiaries.

SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the six months period ended 30 June 2008, the Company did not issue any convertible securities, options, warrants or similar rights.

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 period ended 30 June 2008.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, none of the Directors, supervisors (the "**Supervisors**") and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "**SFO**")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests held or deemed to be held by them under such provision of the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

As at 30 June 2008, the Company issued a total of 845,900,000 Shares. Its structure of share capital was shown as follows:

Type of Shares	**Number of Shares**	**Percentage** *(%)*
(1) Non-circulating state-owned legal person Shares (the "**Domestic Shares**")	443,910,000	52.48
(2) Circulating Shares listed in the Stock Exchange (the "**H Shares**")	401,990,000	47.52
Total share capital	845,900,000	100.00

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, the following shareholders (other than the Director, Supervisor or chief executive of the Company) of the Company have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Domestic Shares

Name of shareholder	Nature of interests	Number of Shares *(Note)*	Approximate percentage of the total issued share capital of the Company
YTO Group Corporation Limited ("**YTO Group**")	Beneficial owner	443,910,000 Shares (L)	52.48%

H Shares

Name of shareholder	Nature of interests	Number of Shares *(Note)*	Approximate percentage of the total issued H Shares of the Company
UBS AG	Investment manager	17,046,000 (L)	5.09%
JPMorgan Chase & Co.	Investment manager	20,226,000 (L)	5.03%
DnB NOR Asset Management (Asia) Limited	Investment manager	47,748,000 (L)	11.88%

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

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS *(CONTINUED)*

Save as disclosed above, so far as is known to the Directors, Supervisors or chief executive of the Company, there is no other person (other than the Director, Supervisor or chief executive of the Company) who, as at 30 June 2008, 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.

On the basis of the published information and to the best knowledge of the Directors, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as at the date of this report.

THE COMPANY'S STAFF AND REMUNERATION FOR STAFF

As at 30 June 2008, the Company had a total of 8,146 employees. The total remuneration paid during the Reporting Period amounted to approximately RMB77,310,000. The pay levels of the employees are commensurate with their responsibilities, performance and contribution. The emolument policy of the employees of the Group is set up by the personnel department on the basis of their merit, qualification and competence.

Remuneration of the Company's executive Directors is subject to their positions, performance and contribution and is linked with the operating results of the Group.

In the first half of 2008, the Company conducted "training as required" in a number of ways. Employees in different levels were trained for 830 times so that the working quality of the Company's employees was improved.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2008 were any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors, 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 or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

AUDIT COMMITTEE

The Company has set up the Audit Committee in accordance with Rule 3.21 of the Listing Rules, which comprises of three independent non-executive Directors.

The Audit Committee has reviewed the accounting principles, standards and practices adopted by the Group and discussed internal controls and financial reporting matters of the Group including a review of the unaudited interim financial statements of the Group for the six months ended 30 June 2008 and the 2008 interim report of the Company.

The Audit Committee agreed with the financial accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2008.

PLEDGE OF SHARES

On 29 September 2006, YTO Group, the controlling shareholder of the Company, pledged its 50,000,000 Domestic Shares of the Company to Shanghai Pudong Development Bank Company Limited ("**Pudong Bank**") Zhengzhou Branch as a security to secure a loan facility of RMB50,000,000 granted by Pudong Bank, to YTO (Luoyang) Fuel Jet Company Limited ("**Fuel Jet Company**"), a non-wholly owned subsidiary of the Company. With regard to this matter, the Company has received Corporate Substantial Shareholder Notices from YTO Group and Pudong Bank and made an announcement. During the Reporting Period, the loans of Fuel Jet Company has been expired and settled and the share pledges was released in February 2008.

SIGNIFICANT EVENTS

During the Report Period, the Company had no significant events to be disclosed.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that during the Reporting Period covered in the interim results report, the Company has complied with all code provisions stipulated in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, implemented sound governance and disclosure measures, and improved the internal control systems of its own and its subsidiaries. During the Reporting Period, there was no breach of the Listing Rules or any material uncertainty relating to events or conditions that may affect the Company's ability to continue as a going concern.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the six months ended 30 June 2008, 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 the Directors and Supervisors, the Company confirmed that all the Directors and Supervisors have complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers and the code of conduct.

MATERIAL LITIGATION

During the Reporting Period, none of the Company, its Directors, Supervisors or chief executives was involved in any material litigation or arbitration.

By order of the Board
Liu Dagong
Chairman

Luoyang, Henan Province, the PRC
22 August 2008