FIRST TRACTOR COMPANY LIMITED

第一拖拉機股份有限公司

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

2002 INTERIM RESULTS ANNOUNCEMENT

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of First Tractor Company Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2002, together with the comparative figures for the corresponding period in 2001. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Prepared in accordance with Hong Kong accounting standards)

		For six months ended 30 June	
		2002	**2001**
	Notes	**Unaudited** *RMB'000*	**Unaudited** *RMB'000*
TURNOVER	2	1,040,237	912,170
Cost of sales		(909,554)	(795,477)
Gross profit		130,683	116,693
Other revenue and gains		28,038	39,581
Selling and distribution costs		(53,821)	(38,739)
Administrative expenses		(90,493)	(103,922)
Other operating expenses		(25,953)	(43,008)
LOSS FROM OPERATING ACTIVITIES	3	(11,546)	(29,395)
Finance costs		(10,617)	(11,851)
Share of profit of a jointly-controlled entity		2,109	1,424
Share of profits of associates		2,016	15
LOSS BEFORE TAX		(18,038)	(39,807)
Tax	4	(5,083)	(4,912)
LOSS BEFORE MINORITY INTERESTS		(23,121)	(44,719)
Minority interests		(963)	6,770
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(24,084)	(37,949)
LOSS PER SHARE - BASIC	7	RMB(3.07) cents	RMB(4.83) cents

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

A summary of their major effects is as follows:

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

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

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

2. TURNOVER AND SEGMENT INFORMATION

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

(a) Business segments

	Tractors		Road machinery		Construction machinery		Harvesting machinery		Others		Eliminations		Consolidated	
	For six months ended 30 June													
	2002 Unaudited *RMB'000*	**2001** Unaudited *RMB'000*	**2002** Unaudited *RMB'000*	**2001** Unaudited *RMB'000*	**2002** Unaudited *RMB'000*	**2001** Unaudited *RMB'000*	**2002** Unaudited *RMB'000*	**2001** Unaudited *RMB'000*	**2002** Unaudited *RMB'000*	**2001** Unaudited *RMB'000*	**2002** Unaudited *RMB'000*	**2001** Unaudited *RMB'000*	**2002** Unaudited *RMB'000*	**2001** Unaudited *RMB'000*
Segment revenue:														
Sales to external customers	695,917	649,643	242,247	194,056	86,668	39,162	10,317	26,205	5,088	3,104	—	—	1,040,237	912,170
Intersegment sales	10,958	21,731	—	—	12,432	68,882	—	—	—	—	(23,390)	(90,613)	—	—
Total	706,875	671,374	242,247	194,056	99,100	108,044	10,317	26,205	5,088	3,104	(23,390)	(90,613)	1,040,237	912,170
Segment results	(26,409)	(61,422)	13,905	18,968	(1,674)	(181)	(6,965)	(3,663)	(19)	(496)	—	—	(21,162)	(46,794)
Interest, dividend and investment income													9,616	17,399
Loss from operating activities													(11,546)	(29,395)
Finance costs													(10,617)	(11,851)
Share of profits of:														
Jointly-controlled entity	2,109	1,424											2,109	1,424
Associates									2,016	15			2,016	15
Loss before tax													(18,038)	(39,807)
Tax													(5,083)	(4,912)
Loss before minority interests													(23,121)	(44,719)
Minority interests													(963)	6,770
Net loss from ordinary activities attributable to shareholders													(24,084)	(37,949)

(b) Geographical segments

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

3. LOSS FROM OPERATING ACTIVITIES

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

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

4. TAX

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

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No provision for Hong Kong profits tax has been made as the Group had no assessable profits earned in or derived from Hong Kong during the two periods ended 30 June 2002.

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

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

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

5. TRANSFER TO RESERVES

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

6. INTERIM DIVIDEND

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

7. LOSS PER SHARE

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

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

BUSINESS REVIEW AND OPERATION ANALYSIS

During the period ended 30 June 2002, the Group recorded a turnover of RMB1,040,237,000, representing an increase of 14% over the corresponding period last year and incurred a loss of RMB24,084,000, representing a decrease of RMB13,865,000 over the corresponding period last year. The decrease in loss, which resulted in a significant improvement in the operating results, was primarily a result of the growth in principal operations of the Company and a reduction in administrative expenses and provision for bad debts to profit and loss account of the Group. Loss per share was RMB3.07 cents.

During the first half of 2002, the PRC government continued to implement prudent monetary policy and positive fiscal policy, which maintained the economic development with 7.8% growth in national economy. However, the agricultural machinery industry was adversely affected by various government policies and environmental factors. The demand in tractors market was still low and sales basically maintained its level over the corresponding period last year. There was still no improvement in the keen competition of the market. During the first half of the year, in the tractor market, sales of large and medium tractors increased by 3.63% over the corresponding period last year, while sales of small tractors increased by 4.46% over the corresponding period last year. The construction machinery market was boosted by the grand development strategy in western region and series of prime construction projects like "five highways construction projects linking northern and southern regions, and seven projects linking eastern and western regions" of the State, resulted in a substantial increase in the total sales over the corresponding period last year. In particular, sales of five major production plants of rollers increased by nearly 30% over the corresponding period last year, while sales of five major production plants of pavers increased by 57.8% over the corresponding period last year.

During the period, the Company sold 3,267 large and medium tractors, of which 1,950 are crawler tractors, representing a decrease of 17.3% over the corresponding period last year. The Company also sold 28,710 small tractors, representing a decrease of 0.6% over the corresponding period last year. Besides, 1,317 large and medium wheeled tractors were sold, representing an increase of more than 30% over the corresponding period last year.

During the period, the Company has speeded up the research and development of new products and achieved significant results. Sales of 30/40 tractors, a new product launched in the market, continued the uprise trend and increased by 36.35% over the corresponding period last year. Sales of crawler tractor transformed versions increased by 78.6% over the corresponding period last year. Dongfanghong 350-1, 304/404, 500 etc. tractors have been successfully developed. The development of key technologies of TG70 plateau bulldozers have achieved significant breakthroughs. The Company has strengthened its ability in responding swiftly to the market.

During the period, facing with sluggish market conditions, the management of the Company actively reform and integrate its sales system, launch management plans of A.T. Kearney Co., Ltd. and implement the divisional management approach. This has resulted in a significant enhancement in quality of economic operations. The positive effect was reflected on: administrative expenses of the Group decreased by approximately RMB13,429,000 or 12.9% over the corresponding period last year; provision for bad debts charged to profit and loss account decreased by RMB23,600,000 over the corresponding period last year and operational expansion income shows an increase of gross profit RMB29,220,000 over the corresponding period last year. Besides, there is a fall in the variable unit costs of both large and medium tractors as well as small tractors over the corresponding period last year.

During the period, the growth in the sales of major products of the subsidiaries increased and the operating results were significantly improved. Sales of rollers of Yituo (Luoyang) Building Machinery Co., Ltd. and Yituo (Luoyang) Construction Machinery Co., Ltd. increased by 36.72%, while sales of bulldozers increased by 200% when compared with the corresponding period last year. Sales of mixers machinery products of Zhenjiang Huatong Aran Machinery Company Limited increased by 100%. Sales of pavers of Zhenjiang Huachen Huatong Road Machinery Company Limited increased by 36.4% over the corresponding period last year and its market share reached 32%. Both its sales and market share are top-ranked in the industry. However, Yituo (Luoyang) Harvester Co., Ltd., First Tractor Qingjiang Tractor Company Limited and First Tractor Shenyang Tractor Company Limited still recorded a loss in its operating results.

PROSPECT

In the second half of the year 2002, national economy will continue to develop steadily. The western development strategy of the State and the investment in basic infrastructure by all levels of local government will continue to drive the growth in demand for construction machinery products. This will create more opportunities for the Group to sell its construction machinery products. Although the overall demand in tractor market remained weak and could hardly improve in near term, it was expected that the demand will slowly increase and steadily retain in low track. For the second half of the year, with the adjustment in economic structure of farm villages, the market demand for large and medium wheeled tractors will continue to increase; while the possession rate of small tractors has basically reached saturation due to keen competition in market. In view of the market trends in the second half of the year, the Group will adopt effective measures to improve the Company's operating results:

1. Continue to strengthen and enlarge the agricultural machinery and construction machinery businesses of the Group; enlarge business opportunities by specialisation in the Company's specialised component plants; integrate businesses of subsidiaries, increase the investment return and actively seeking international cooperation opportunities. Besides, the Company will adjust the product mix and enlarge scale of operations to strive for enhancement in operating results.

   (1) Agricultural machinery business. In response to the needs of customers and to cater for market demand, the crawler tractor business will develop transformed products to maximize product sales; large and medium wheeled tractors will continuously improve and to develop new products based on market changes, and the launch of such tractor models as Dongfanghong-350-1, 304/404, 500 etc. into the market will be speeded up and reinforced, thereby creating an effective sales force to further enlarge its market share;

   Based on the changes after adjusting the agricultural planting structure, the Company will produce and develop agricultural machinery with autonomous intellectual property right, and will take advantage of the competitive edge of tractor's auxiliary agricultural machinery of the Group to boost the simultaneous growth of tractors and agricultural machinery businesses;

   (2) Construction machinery business. The prime objectives of product mix adjustment is to combine the competitive edge, to grasp the business opportunities and to accelerate the development. The Company will improve medium and small power industrial bulldozers, produce and develop the second- and third-generation rolling machinery, so as to pave the basis for enhancing sales of construction machinery products for 2003. For paving and mixing machinery, the Company will develop new products in response to market needs so as to maintain its leadership in the industry.

   (3) The focus of components business will be to utilize resources of assets, to develop new markets and to improve operating results through scales of operations.

   (4) Based on the economic operational conditions of the Group, the Company will continue to integrate its subsidiaries' business, reduce investment risk and enhance investment return.

2. Proactively implement the business management flow formulated by consultants A.T. Kearney Co., Ltd. based on its management consulting plan, reinforce and improve management on various aspects, improve staff quality and work efficiency and the focus is on enhancing product quality and after-sales service standard. Encourage innovation by way of rewarding scheme for talented staff. Reinforce fund management, control the total amount of trade receivables, reduce capital risk. Diversifying core types of procurement and further reduce variable cost.

3. Continue to enforce the organizational structure of divisional management approach, establish scientific results appraisal and allocation system, keep abreast of the needs of market and users, establish sales mechanism to adapt to market changes, increase sales of physical products, maximize market share of major products.

   The Board of the Company believes that the adoption of the above effective measures will help the Company to enhance its operating results and establish satisfactory investment return for shareholders.

LIQUIDITY AND FINANCIAL ANALYSIS

As at 30 June 2002, the cash and bank balances of the Group amounted to approximately RMB824,237,000 which had decreased by approximately RMB89,117,000, representing a decline of 9.76% compared with the end of 2001.

As at 30 June 2002, the Group's bank loans amounted to RMB305,100,000, an increase of RMB48,040,000 compared to the end of 2001. The Group had no long term bank loans.

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As at 30 June 2002, trade and bills receivables of the Group amounted to approximately RMB381,751,000, decreased by approximately RMB41,838,000 compared with the end of 2001. The Group assessed its trade receivables through reviewing of creditability of customers by specialised department and confirmed lending terms based on the creditability of these customers. This has resulted in a substantial decrease of RMB23,600,000 provision for bad debts charged to profit and loss account in the first half of 2002.

Financial Statistics:

Items	Basis of calculation	As at 30 June 2002	As at 31 December 2001
Gearing ratio	Total liabilities/total assets x 100%	35.52%	31.74%
Current ratio	Current assets/current liabilities	2.10	2.31
Quick ratio	(Current assets – inventories)/current liabilities	1.57	1.69
Debt equity ratio	Total liabilities/shareholders' equity x 100%	55.09%	46.49%

CURRENCY EXCHANGE RISK

Normal operating activities of the Group were mainly carried out in the PRC and most of the capital income and expenditures were made in Renminbi while few of them were made in Hong Kong dollars. Cash balances of the Group were usually placed in the financial institutions in the form of short-term time deposits. The banking facilities of the Group were granted in Renminbi which could be repaid out of the income received in Renminbi.

As at 30 June 2002, the Group has not pledged any of its foreign currency deposits.

PLEDGE OF ASSETS

As at 30 June 2002, certain of the Group's buildings and machinery with an aggregate carrying value of approximately RMB36,376,000 were pledged to banks to secure certain short term bank loans granted to the Group.

Apart from this, certain deposits amounting to approximately RMB88,697,000 were pledged to banks to secure general banking facilities granted by banks to the Group.

APPLICATION OF THE PROCEEDS FROM THE H SHARES ISSUE

The Company raised approximately RMB1,615,500,000 (approximately HK$1,507,500,000) by the issue of 335,000,000 new H shares under the initial public offering of the Company's H Shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 June 1997 and two subsequent partial exercises of over-allotment option.

The proceeds from the H Shares issue were used in accordance with the prospectus as follows:

- as to approximately RMB87,900,000 for payment of new issue expenses.
- as to approximately RMB281,395,000 for the acquisition of shares in Brilliance China Machinery Holdings Limited ("BCM"), Shanghai Qiangnong (Group) Company Limited and First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd. as well as investment in First Tractor Qingjiang Tractor Company Limited, First Tractor Shenyang Tractor Company Limited, Yituo (Luoyang) Harvester Co., Ltd. and Yituo (Luoyang) Building Machinery Co., Ltd.
- as to approximately RMB342,580,000 for the acquisition of fixed assets and additional construction-in-progress;
- as to approximately RMB305,900,000 for the repayment of bank loans and approximately RMB102,000,000 for the repayment of a debt owing to China First Tractor Group Company Limited (the "Holding"); and
- as to the balance for the Company's additional general working capital.

SHARES HELD BY DIRECTORS AND SUPERVISORS

None of the directors, supervisors or members of the senior management of the Company or their associates had any interests in the shares or debentures of the Company or any of its associated corporations during the period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company during the six months ended 30 June 2002.

DISCLOSURE OF SIGNIFICANT EVENTS

In June 2002, the Company acquired 99.9% interest in First Tractor Group Finance Limited (the "Finance Company") from the Holding for a consideration of RMB838,000. Subsequently, the Company has undertaken reorganization in respect of the registered capital and shareholding of the Finance Company in accordance with the provisions and requirements of the People's Bank of China. Currently, the Finance Company is applying to the People's Bank of China for the relevant approval.

On 23 August 2002, the Board of the Company unanimously approved the appointment of Mr. Zhang Guo Long as company secretary and the retirement of Mr. Jiang Guo Liang from the position of company secretary.

CHANGES IN SHAREHOLDERS AND SHARE CAPITAL STRUCTURE

Share capital structure

As at 30 June 2002, the Company issued a total of 785,000,000 shares. Its share capital structure was as follows:

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

SHARE HELD BY SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of shareholders maintained pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) ("SDI Ordinance") shows that the following shareholders with interests representing 10% or more of the Company's issued share capital:

Name of Shareholder	Class of shares	Number of shares	Percentage of total share capital (%)
China First Tractor Group Company Limited	State-owned legal person shares	450,000,000	57.32
The HKSCC Nominees Limited	H shares	329,167,999	41.93

The HKSCC Nominees Limited confirmed that as at 30 June 2002, Hongkong & Shanghai Banking Corporation Ltd. and Bank of China (Hong Kong) Limited held 35,648,000 H shares and 42,196,000 H shares of the Company, respectively, accounting for 10.64% and 12.6% of the issued H shares of the Company, respectively.

Save as disclosed herein, the Board is not aware of any persons directly or indirectly interested in 10% or more in the shares of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance.

STAFF, REMUNERATION AND TRAINING

As at 30 June 2002, there was a total of 15,029 staff in the Company. Remuneration totalled RMB69,290,000 were the total emoluments of the staff during the reporting period.

During the reporting period, the Company strengthened the staff's internal exchange and vocational training. 1,346 staff of the Company participated in over 20 hours systematic training so as to further enhance their technical and vocational skills.

STAFF QUARTER

As all staff quarters have been retained by the Holding, the Company does not have any staff quarters to sell to its staff. Pursuant to its existing policy, the staff of the Company shall buy the staff quarters at their own expenses (including quarters retained by the Holding).

DESIGNATED DEPOSITS

All deposits of the Company were placed in the PRC State-owned banks and their branches and the Company had no deposits with any non-banking financial institutions. The Company has granted loans of RMB70,000,000 and RMB2,000,000 to its two subsidiaries, namely, Yituo (Luoyang) Building Machinery Co., Ltd. and Guizhou Zhenning Biological Industrial Co., Ltd., respectively. However, in accordance with the requirement of prohibition of inter-company loans in the PRC, certain banks have been appointed to handle the loan matter. Such amount has been eliminated upon the preparation of the Group's condensed consolidated balance sheet. Save as aforesaid, all deposits of the Company were not in the form of designated deposits with the banks and there were no unrecovered fixed deposits upon maturity.

MATERIAL LITIGATION

During the period, the Company was not involved in any material litigation or arbitration of any material importance.

POLICY ON UNIFIED INCOME TAX

For the six months ended 30 June 2002, the corporate income tax of the Company is subject to 33% tax rate based on its assessable profits.

CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the period ended 30 June 2002.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE

A compact disc containing the detailed results of the Company as required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be delivered to the Stock Exchange before 30 August 2002 and will be available for publication on the web-site of the Stock Exchange.

By Order of the Board
Dong Yong An
Chairman

Luoyang, Henan Province, the PRC
23 August 2002