第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED

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

(Stock Code: 0038)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

Financial Highlights

Turnover	**:**	**RMB6,101,451,000**
Profit attributable to equity holders of the parent	**:**	**RMB72,849,000**
Profit per share attributable to ordinary equity holders of the parent	**:**	**RMB9.28 cents**

The board (the "Board") of directors (the "Directors") of First Tractor Company Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 (the "Reporting period"), which have been prepared in accordance with the generally accepted accounting principles in Hong Kong, together with 2005 comparative figures, set out (unless otherwise stated, the figures contained in this announcement are denominated in Renminbi) as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	**2006** **RMB'000**	2005 RMB'000
REVENUE	3	**6,101,451**	4,765,828
Cost of sales		**(5,509,093)**	(4,408,063)
Gross profit		**592,358**	357,765
Other income and gains	3	**106,716**	103,523
Selling and distribution costs		**(229,618)**	(172,021)
Administrative expenses		**(338,610)**	(262,482)
Other operating expenses, net		**(28,613)**	(86,126)
Finance costs	5	**(16,593)**	(11,186)
Share of profits and losses of associates		**1,827**	(6,955)
PROFIT/(LOSS) BEFORE TAX	4	**87,467**	(77,482)
Tax	6	**(15,251)**	17,183
PROFIT/(LOSS) FOR THE YEAR		**72,216**	(60,299)
Attributable to:			
Equity holders of the parent		**72,849**	(50,436)
Minority interests		**(633)**	(9,863)
		72,216	(60,299)

EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**RMB9.28 cents**	RMB(6.42) cents

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,005,697**	785,143
Construction in progress		**226,543**	151,620
Prepaid land premiums		**20,192**	13,761
Goodwill		**52,990**	—
Interests in associates		**20,449**	98,726
Available-for-sale investments		**251,399**	71,984
Loans receivable		**146,699**	195,664
Deferred tax assets		**34,273**	28,235
Total non-current assets		**1,758,242**	1,345,133
CURRENT ASSETS			
Inventories		**852,366**	755,227
Trade and bills receivables	9	**744,774**	448,641
Loans receivable		**174,820**	193,685
Bills discounted receivable		**219,561**	167,437
Prepayments, deposits and other receivables		**349,628**	244,378
Equity investments at fair value through profit or loss		**3,487**	3,576
Pledged deposits		**122,440**	121,124
Cash and cash equivalents		**765,904**	542,429
Total current assets		**3,232,980**	2,476,497

CURRENT LIABILITIES			
Trade and bills payables	10	**1,279,361**	843,988
Tax payable		**17,700**	5,459
Other payables and accruals		**495,308**	388,223
Customer deposits		**156,814**	199,028
Interest-bearing bank borrowings		**441,558**	172,250
Provisions		**28,066**	16,785
Total current liabilities		**2,418,807**	1,625,733
NET CURRENT ASSETS		**814,173**	850,764
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,572,415**	2,195,897
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**120,000**	1,000
Other long term liability		**27,680**	—
Deferred tax liability		**47,850**	—
Provisions		**8,836**	17,442
Total non-current liabilities		**204,366**	18,442
Net assets		**2,368,049**	2,177,455
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**785,000**	785,000
Reserves		**1,413,031**	1,245,919
		2,198,031	2,030,919
Minority interests		**170,018**	146,536
Total equity		**2,368,049**	2,177,455

NOTES:

1.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

1.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 21 Amendment	Net Investment in a Foreign Operation

The principal changes in accounting policies are as follows:

(a) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Group/Company and the comparative amounts for the year ended 31 December 2005 have been restated. The effects of the above change are summarised below.

	2006	2005
	RMB'000	*RMB'000*
Company balance sheet at 31 December		
Cumulative increase in investments in subsidiaries	**32,000**	18,388
Cumulative increase in financial guarantee liabilities	**(32,000)**	(18,388)
	—	—

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(b) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

(c) HKAS 21 *The Effects of Changed in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

1.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 F*inancial Reporting in Hyperinflationary Economies*
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosures that include general information about how an entity identifies its operating segment, the type of products and services from which each operating segment derives its revenue and the information to be disclosed in the identified segment.

IFRIC - Int 7, IFRIC - Int 8, IFRIC - Int 9, IFRIC - Int 10, IFRIC - Int 11, IFRIC - Int 12, shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7, and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**4,699,191**	3,751,521	**1,198,603**	1,013,898	**—**	—	**203,614**	—	**43**	409	**—**	—	**6,101,451**	4,765,828
Intersegment revenue	**321,956**	285,549	**28,358**	46,692	**19,206**	15,373	**158,062**	—	**—**	—	**(527,582)**	(347,614)	**—**	—
Other income and gains	**—**	—	**—**	—	**31,864**	33,480	**—**	—	**—**	—	**—**	—	**31,864**	33,480
Total	**5,021,147**	4,037,070	**1,226,961**	1,060,590	**51,070**	48,853	**361,676**	—	**43**	409	**(527,582)**	(347,614)	**6,133,315**	4,799,308
Segment results	**148,020**	23,254	**(72,642)**	(122,768)	**35,112**	33,477	**(1,179)**	—	**(4,609)**	(3,015)	**—**	—	**104,702**	(69,052)
Interest, dividend and investment income and negative goodwill on acquisition of a subsidiary recognised as income													**8,691**	8,640
Gain on disposal of a subsidiary													**—**	735
Gain on disposal of an associate													**—**	11,000
Provision for other receivable													**(5,000)**	(9,220)
Unallocated expenses													**(6,160)**	(1,444)
Finance costs													**(16,593)**	(11,186)
Share of profits and losses of associates	**—**	7,589	**—**	—	**—**	—	**—**	—	**1,827**	(14,544)	**—**	—	**1,827**	(6,955)
Profit/(loss) before tax													**87,467**	(77,482)
Tax													**(15,251)**	17,183
Profit/(loss) for the year													**72,216**	(60,299)

	Agricultural machinery		Construction machinery		Financial operations		Diesel engines and fuel jets		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	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 assets	2,412,533	2,363,035	1,016,994	929,758	1,104,229	1,052,074	870,929	–	74,891	77,667	(890,767)	(826,411)	4,588,809	3,596,123
Interests in associates	–	–	–	–	–	–	–	–	20,449	98,726	–	–	20,449	98,726
Unallocated assets													381,964	126,781
Total assets													4,991,222	3,821,630
Segment liabilities	1,094,414	1,009,779	801,146	644,593	559,573	512,670	367,894	–	104,886	124,835	(890,767)	(826,411)	2,037,146	1,465,466
Unallocated liabilities													586,027	178,709
Total liabilities													2,623,173	1,644,175
Other segment information:														
Capital expenditure	138,863	147,658	24,962	35,426	88	125	15,839	–	1,236	339	–	–	180,988	183,548
Depreciation	63,033	65,053	19,749	18,641	523	567	13,685	–	374	677	–	–	97,364	84,938
Impairment and reversal of impairment of items of property, plant and equipment and construction in progress, net	(11,392)	7,637	15,000	9,353	–	–	–	–	3,985	2,661	–	–	7,593	19,651
Provision for impairment of trade receivables, net	(7,801)	2,448	14,887	20,650	–	–	(1,433)	–	242	–	–	–	5,895	23,098
Provision/(reversal of provision) against obsolete inventories, net	(772)	(215)	(10,810)	6,452	–	–	(824)	–	503	–	–	–	(11,903)	6,237
Net charge for impairment losses and allowances for loans receivable	–	–	–	–	(353)	(2,038)	–	–	–	–	–	–	(353)	(2,038)

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:

	2006	2005
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**6,101,451**	4,765,828
Other income		
Bank interest income	**5,310**	7,460
Interest income from financial operations	**29,592**	26,982
Profit from sundry sales	**35,622**	29,046
Rental income	**6,075**	5,614
Dividend income from listed investments	**2,000**	—
Dividend income from unlisted investments	**665**	156
Others	**22,783**	21,339
	102,047	90,597

Gains		
Gain on disposal of items of property, plant and equipment, net	**3,953**	167
Gain on disposal of a subsidiary	**—**	735
Gain on disposal of an associate	**—**	11,000
Fair value gain on listed equity investments at fair value through profit or loss, net	**716**	—
Gain on disposal of listed equity investments at fair value through profit or loss, net	**—**	1,024
	4,669	12,926
	106,716	103,523

4. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2006	2005
	RMB'000	*RMB'000*
Cost of inventories sold	**5,509,093**	4,408,063
Depreciation	**97,364**	84,938
Amortisation of prepaid land premiums	**553**	188
Impairment and reversal of impairment of construction in progress, net	**(5,335)**	6,990
Impairment and reversal of impairment of items of property, plant and equipment, net	**12,928**	12,661
Provision for impairment of trade receivables, net	**5,895**	23,098
Provision for other receivable	**5,000**	9,220
Net charge for impairment losses and allowances for loans receivable	**(353)**	(2,038)
Net charge for impairment losses and allowances for bills discounted receivable	**527**	358

Interest expense on financial operations	**5,882**	6,868
Provision /(reversal of provision) against obsolete inventories, net	**(11,903)**	6,237
Gain on disposal of items of property, plant andequipment, net	**(3,953)**	(167)
Fair value (gain)/loss on listed equity investments at fair value through profit or loss, net	**(716)**	1,444
Gain on disposal of a subsidiary	**—**	(735)
Gain on disposal of an associate	**—**	(11,000)
(Gain)/loss on disposal of listed equity investments at fair value through profit or loss, net	**252**	(1,024)
Dividend income from unlisted investments	**(665)**	(156)
Dividend income from listed investments	**(2,000)**	—
Bank interest income	**(5,310)**	(7,460)
Interest income from financial operations	**(29,592)**	(26,982)

5. FINANCE COSTS

	Group	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank and other loans wholly repayable within five years	**16,593**	11,186
Less: Interest capitalised	**—**	—
	16,593	11,186

6. TAX

	Group	
	2006	2005
	RMB'000	*RMB'000*
Current - PRC corporate income tax charge for the year	**15,887**	10,811
Underprovision/(overprovision) in prior years	**(127)**	241
Deferred tax	**(509)**	(28,235)
Total tax charge/(credit) for the year	**15,251**	(17,183)

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the two years ended 31 December 2006 and 2005.

The PRC corporate income tax for the Company and the majority of its subsidiaries is calculated at rates ranging from 10% to 33% (2005: 10% to 33%) on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

Profits tax of the subsidiary operating outside Mainland China is subject to the rates applicable in its jurisdiction. No provision for overseas profits tax has been made for the Group as there were no assessable profits for the year (2005: Nil).

7. DIVIDENDS

No interim dividend was paid during the year and previous year. The Board does not recommend the payment of any final dividend for the year (2005: Nil).

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB72,849,000 (2005: loss of RMB50,436,000), and the weighted average number of 785,000,000 (2005: 785,000,000) ordinary shares in issue during the year.

A diluted earnings/(loss) per share amount for the year ended 31 December 2006 has not been disclosed as no diluting events existed during that year.

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, where payment in advance for customers is normally required. The credit periods to its customers are 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Trade receivables are non-interest bearing.

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Within 90 days	**459,454**	220,839
91 days to 180 days	**192,322**	107,639
181 days to 365 days	**65,324**	85,303
1 to 2 years	**22,581**	30,123
Over 2 years	**5,093**	4,737
	744,774	448,641

10. TRADE AND BILLS PAYABLES

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

	Group	
	2006	2005
	RMB'000	*RMB'000*
Within 90 days	**853,712**	531,402
91 days to 180 days	**258,328**	225,677
181 days to 365 days	**84,578**	40,617
1 to 2 years	**39,863**	29,446
Over 2 years	**42,880**	16,846
	1,279,361	843,988

11. POST BALANCE SHEET EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

BUSINESS REVIEW

During the reporting period, the agricultural machinery market experienced booming demands due to the farmers' strengthened purchasing power along with the increased income, as driven by the State's policies including the exemption of agricultural taxation and the granting of subsidies for the purchase of agricultural machinery and to grain-growers. Meanwhile, the farmers have greater incentive to purchase agricultural machinery with the improved systematisation of agricultural machinery services as a result of the farmers' euthusiasm in using agricultural machinery to ameliorate the agricultural operation environment. As a result, the demand of agricultural machinery was increased. The Group grasped such opportunities to strengthen technologies for the agricultural machinery business and speeded up adjustment to product mix. During the reporting period, the Group invested RMB50,790,000 in research and development of agricultural machinery with 48 projects completed, of which 17 projects were put into production in scale. The Group's production capacity and product quality were essentially improved. During the reporting period, the Group sold 154,000 units of agricultural machinery products with turnover amounting to RMB4,699,191,000, representing a year-on-year increase of 25.26%. Among them, sales of large/medium wheeled tractors were 42,166 units, rising by 68.86% over last year.

During the reporting period, as driven by the rapid increase in investments in fixed assets in society and the extensive rise in export of construction machinery products, there was an overall recovery in the construction machinery industry. As such, having analysed the market opportunities and the problems in its construction machinery business, the Group took a series of measures including enhancement of internal management, consolidation of internal marketing resources and increase in development of new products, thereby improving the economic operation of such segment. During the reporting period, 9,403 units of construction machinery products of various types were sold with turnover amounting to RMB1,198,603,000 in 2006, representing a year-on-year increase of 18.22%. Albeit the loss has been decreased noticeably, the operational result was not satisfactory.

On 28 July 2006, the Group completed assets swap with China Yituo Group Corporation Limited ("China Yituo"), a holding company of the Company, by acquisition of the equity interests in the engine machinery business of China Yituo and disposal of casting factories interests to China Yituo, so as to accomplish vertical integration and improve quality of assets and the Company's profitability. The engine machinery business provided a new scope of development of the Group. For the period from 1 August 2006 to 31 December 2006, the engine machinery business achieved a turnover of RMB203,614,000.

During the Reporting Period, the Group maintained a stable increase in its financial business, which has provided an effective support on the Group's internal financial resources management and production operation, and has a positive effect on the profitability of the Group.

During the Reporting Period, apart from its efforts in strengthening its status in the local market, the Group strengthened its expansion to the international markets in order to develop an international marketing network and system for a shift from the passive sale to the active marketing. As a consequence of the intensified product export pattern focusing on agricultural machinery and construction machinery, the altered export modes, the optimised export product mix and timely adjusted international marketing modes, sales volume of the Group's products were substantially increased in the international markets. Particularly, the Group exported 1,211 large wheeled tractors to Kyrgyzstan in one lot, setting a new record in terms of the export volume of a single order for the domestic tractor business. With 3,175 and 368 units of agricultural machinery of various types and construction machinery exported respectively during the Reporting Period, the Group recorded an aggregate turnover of US$42,141,500 from export business in 2006, representing a rise of 76.10% from the same period last year.

CORPORATE GOVERNANCE

During the Reporting Period, the Company has enhanced and improved its corporate governance. The Group improved its regulations and rules on the internal control system and evaluated and reviewed the operation effectiveness thereof. To enhance the management on the Company's subsidiaries, the Group formulated "Opinions on Standardising Subsidiaries' Corporation Governance Structure", thus ensuring the standard operation and proper decisions of the subsidiaries of the Company. During the Reporting Period, the Group did not have any significant risk or loss.

BUSINESS OUTLOOK

As a large agricultural country, China's agricultural mechanisation and modernization strategically guarantee the national food supply. Therefore, the Governement, by adopting a series of policies of supporting agriculatural sector, building new countryside and accelerating agricultural mechanisation, has increased investment in agricultural sector and raised the income of farmers. Given the State's "three policies for agriculture" and structural change in domestic economy, rural lands are in the process of transition to intensive operation at a faster pace. All the factors above brought huge opportunities for the rapid and stable development of agricultural machinery. China is currrently at an early stage of agricultural mechanisation and is progressing into a middle stage. In order to meet the needs arising from agricultural mechanisation, the Group will accelerate technological innovation and structural adjustment of agricultural machinery. The Company also strives to explore international markets for more developmental opportunities. In the meantime, the Government put efforts on infrastructure construction and road construction in rural areas during the period of "Eleventh Five-Year Plan", which have created opportunities for machinery and small construction machinery of the Group. Following rising environmentally-technological requirement for engine machinery imposed by the Government, the engine machinery business of the Group will face new developmental opportunities.

Looking ahead, following the development trend of China's agricultural mechanisation, the Group will stick to the philosophy of "creating value for shareholders and users" to secure the continuous and stable growth in the results and requite shareholders by launching various agricultural mechanical products that address the domestic agricultural mechanisation and the demands from international markets, and pressing ahead adjustments to industrial structure and product mix as well as consolidation of resources and business based on independent innovation, introduction and absorption.

Sustaining the fast growth of agricultural machinery business: In 2007, the Group will put more efforts in research and development of technology as well as research on market segment for large/medium wheeled tractors. By upgrading products with increased adaptability, broadening and deepening the product lines and highlighting branding operation to exert brand advantages, the Group aims to strengthen its prime position in the industry.

Crawler tractor: the Group will upgrade the market structure and product mix to further improve existing products, as to meet customers' needs.

Large/medium wheeled tractors: capturing the market capacity for large/medium wheeled tractors resulting from the expedited development of new countryside, the Group wishes to expand continuously on the fast growth of large/medium wheeled tractors, to maintain its leading status in the industry and to participate in international competition through development of new products and market exploration.

Small wheeled tractors: along with the rising demands for large/medium wheeled tractors in the tractor market, the traditional small wheeled tractors market is expected to further shrink. In order to improve its competitiveness and profitability, the Company will alter its structure upgrade its products, develop modified product varieties and to strengthen its cost control.

Harvesters and agricultural machinery: the Group will upgrade the sales network and improve services for wheat harvesters based on its well-developed product techniques. Meanwhile, it will accelerate development of rice and corn harvesters as well as the large-feeding wheat and rice harvesters with enhanced adaptability and reliability in order to enhance its status in the industry.

Improving the operation of construction machinery business

Raising the profitability of engine machinery business:

In 2007, while capturing the time and opportunities of constructing new countryside by the Government, the Group provides new equipments that meet the needs of construction of new countryside. The Group also consolidated and improved the competitiveness of road machinery and small construction machinery products, through acceleration of product mix adjustment and establishment of new sales system and upgrade of technology for products, and raise its operation capability. The Group will undergo business and assets reorganisation in respect of loss-making products and businesses, by introducing strategic partners and system reform, and raise asset quality and profitability.

Consolidating the leading position of non-road engine machinery

The Group will speed up co-operation with international research institutes and promote upgrade of engine machinery products for higher better functions, higher economic efficiency and lower gas emission. While accommodating the needs of main products such as high horsepower tractors and consolidating the leading position of engine machinery business in ancillary agricultural machinery market in the PRC, the Group will accelerate the research and development of heavy power duty diesel machine so as to explore the market of business vehicles.

Utilising on financial rescources

In 2007, the Group will utilise the financial resources of China First Tractor Group Finance Co., Ltd.. On one hand, the Group will seek to explore businesses of buyer credit and credit lease for the products of the Group, which provides strong support to its business development. On the other hand, the Group, through cooperation with other financial institutions, will broaden its business scope and improve its performance.

International market and international cooperation

In addition to enhancing its export of large wheeled tractors, the Group will focus on the expansion of international market for medium wheeled tractors and road roller. The Group will speed up the construction of international marketing network and channels in order to improve its capability to explore international market. The Group will also actively advance its joint venture with internationally renowned corporations while continuously deepening and broadening the cooperation in terms of products, technology and capital and to enhance the Group's competitiveness and its influence internationally.

Analysis of Operation:

During the Reporting Period, the Group recorded a turnover of RMB6,101,451,000, representing an increase of 28.02% over the same period of last year, of which, turnover of agricultural machinery and construction machinery recorded year-on-year increase of 25.26% and 18.22%, respectively. Engine machinery contributed RMB203,614,000 to the turnover of the Group.

Table of turnover and segment results of the Group during the Reporting Period

By business	Analysis of turnover			Analysis of segment results		
	2006	2005	% of change	**2006**	2005	change as compared with the same period last year
	RMB	*RMB*		***RMB***	*RMB*	*RMB*
	'000	*000*	%	***'000***	*'000*	*'000*
Agricultural machinery	**4,699,191**	3,751,521	25.26	**148,020**	23,254	124,766
Construction machinery	**1,198,603**	1,013,898	18.22	**(72,642)**	(122,768)	50,126
Engine machinery	**203,164**	—	N/A	**(1,179)**	—	(1,179)
Financial	**—**	—	—	**35,112**	33,477	1,635
Others	**43**	409	(88.49)	**(4,609)**	(3,015)	(1,594)
Total	**6,101,451**	4,765,828	28.02	**104,702**	(69,052)	173,754
Less: not deducted expenses	**—**	—	—	**(17,235)**	(8,430)	(8,805)
Profit (loss) before tax	**—**	—	—	**87,467**	(77,482)	164,949

During the Reporting Period, the Group's turnover was mainly attributable to agricultural machinery business, which accounted for 77.02% of the turnover. Construction machinery business accounted for 19.64% of the turnover and engine machinery only accounted for 3.34% of the turnover.

During the reporting period, the Group's profit mainly generated from agricultural machinery business and financial business. Operating results of agricultural machinery business increased by RMB124,766,000 as compared with the same period last year while the operating results of financial business increased by RMB1,635,000 as compared with the same period last year. Although construction machinery business did not turn loss into profit, the loss decreased by RMB50,126,000 when compared with the same period last year as the Group purchased the engine machinery business at fair value price by reference to price to earning ratio and price to book value ratio, and the difference of purchased price in excess of its book value will be eliminated gradually in the cost. Therefore, the engine machinery business did not contribute any profit to the Group from August 2006 to December 2006.

During the Reporting Period, the Group adopted a series of measures in exploring international markets, which included active participation in international fair, adjustment to exported product mix in line with international market demand after studying the market, establishment of international sales networks, upgrade of service awareness and quality to ensure timely delivery of after-sale services. In order to facilitate the development of international markets, the Group enhanced communication with overseas dealers by hosting promotion events for exported products and international business conferences so as to increase overseas dearers' confidence in the Group. During the Reporting Period, export sales of the Group amounted to US$42,141,500, representing an increase of 76.10% over the same period of last year, of which export sales of agricultural machinery and construction machinery amounting to US$24,542,100 and US$17,599,400, representing increase of 49.32% and 134.79%, respectively, over the corresponding period last year.

Analysis of agricultural machinery business

During the Reporting Period, except for a slide in sales of small wheeled tractors, the Group's agricultural machinery products all recorded growth in their respective sales. The growth of the sales, has a led to a growth in the financial result of the agricultural machinery business. During the Reporting Period, the sales of agricultural machinery and its segment results are set out in the table as follows:

Table of sales volume of agricultural machinery products of the Group during the Reporting Period:

		2006	2005	% of change
Analysis of sales volume	Crawler tractors (unit)	**3,511**	3,418	2.72
	Large/medium wheeled tractors (unit)	**42,166**	24,970	68.87
	Small wheeled tractors (unit)	**98,674**	131,200	(24.79)
	Harvesting machinery (unit)	**2,970**	2,319	28.07
	Agricultural machinery (set/unit)	**7,049**	4,146	70.02
	Total units of agricultural machinery (unit/ set)	**154,370**	164,053	(5.90)

In addition to the increased turnover of agricultural machinery benefiting from market opportunities arising from the State's policies in supporting the agricultural sector, the Group's continued efforts on adjustment to product mix also achieved significant results. Technological renovation and production expansion of high and medium horsepower crawler tractors and harvesters guarantee production and quality. Meanwhile, capitalising on its extensive sales networks and adopting flexible marketing strategies, the Group has expanded its market share and improved after sales services by strengthening sales management and improving its service standard.

An economy of scale was achieved following a significant rise of sales of agricultural machinery. By taking a series of measures such as strategic merchandising and commencement of valuable projects, the Group successfully lowered the production costs and raised gross profit margin of products. During the Reporting Period, the average consolidated profit margin of tractor products increased 2.3% year-on-year to approximately 10.36%. By improving the percentage of self-produced key spare parts of harvesters, unit variable cost fell by RMB532 and the quality and functions of harvesters were also improved.

Due to the charge of the market stature of tractor market, the overall market of small wheeled tractors shrunk, leading to a slide in sales of small wheeled tractors of the Group by 24.79%. However, the fast-growing large/medium wheeled tractors business in turn contributed to the better performance of overall turnover and operating results of agricultural machinery.

Analysis of construction machinery business

Table of sales volume of construction machinery products of the Group during the Reporting Period:

	2006	2005	% of change
Analysis of sales volume			
Road machinery (unit)	**2,673**	2,365	13.02
Scraper (unit)	**1,503**	1,365	10.11
Transportation machinery (unit)	**183**	—	N/A
Small construction machinery (unit)	**5,256**	5,456	(3.67)
Total units of construction machinery (unit)	**9,615**	9,186	**4.67**

(*Note:* Road machinery: road roller, mixing machinery, road pavers, blenders, milling machinery; Scraper: bulldozer, grader, loader, excavator; Transportation machinery: industrial forklift; Small construction machinery: small excavator and small loader)

During the Reporting Period, construction machinery business started to rebound. Given the recovery of the overall industry, the Group has taken a series of measures to address problems such as insufficient adaptability to the market and inadequate marketing strategies, which include enhancing operational ability of the management team, streamlining internal sales network, integrating internal sales resources, increasing investment in research and development of new products in construction machinery business, timely adjusting product mix in response to the market demand. Construction machinery business of the Group is gradually moving out of its bottom which consolidated profit amounted to 7.61%, representing an increase of 2%, it takes time for the Group to recover and reach its best result of the past. During the Reporting Period, the construction machinery business was still at a loss.

Engine machinery business analysis

Engine machinery business was injected in the Group on 28 July 2006 as a result of assets swap and business reorganization, which offered a strong support to the agricultural machinery business and ancillary support for some of the construction machinery. During the Reporting Period, the consolidated profit for engine machinery amounted to 15.4%. From August to December 2006, the engine machinery business did not contribute any profit to the Group. However, the Group believes that the engine machinery business will become a future new profit driver of the Group.

Analysis on period expenses during the Reporting Period

By business	**31 December 2006** *RMB'000*	31 December 2005 *RMB'000*	Difference *RMB'000*	% of Change
Selling costs	**229,618**	172,021	57,597	33.48
Administration expenses	**338,610**	262,482	76,128	29.00
Other operating expenses	**28,613**	86,126	(57,513)	(66.78)
Finance costs	**16,593**	11,186	5,407	48.34
Total	**613,434**	531,815	89,619	15.35

Analysis of selling costs: The group's selling costs increased by 33.48% from the previous year, which is attributable to: 1. an increase of selling costs of RMB18,500,000 as a result of the inclusion of engine machinery business; 2. an increase of transportation costs of RMB26,472,000 arising from the increase of sales of agricultural machinery business and construction machinery business of the Group; 3. a reduction of selling costs of RMB13,000,000, due to change of the charging sales discount in the construction machinery business of the group. Taking into account the aforesaid factors, selling costs of the Group increased by 14.89% when compared with the same period of last year.

Analysis of administrative expenses: The Group's administrative expenses increased by 29% from the previous year, which is attributable to: 1. an increased investment in research and development of the Group's products in 2006, leading to an increase of administrative expenses of RMB37,911,000 in research and development and technology services expenses; 2. the inclusion of engine machinery business gave rise to the increase of administrative expenses of RMB29,174,000; 3. assets and business reorganization led to an increase of administrative expenses of RMB10,000,000 in agency charges.

Other operating expenses: Other operating expenses primarily include provisions for impairment, loss from exchange difference, interest expenses for financial institutions and welfare expenses for early retired employees, etc. During the Reporting Period, the Group's other operating expenses decreased by 66.78%, it is attributable to: 1. some of the Group's construction-in-progress experienced favourable changes in their operations during the Reporting Period and provision for impairment on construction-in-progress decreased by RMB12,325,000 over the previous year; 2. during the Reporting Period, the Group strengthened the collection of receivables which improved the condition of receivables and thus provision for receivables decreased by approximately RMB17,203,000 over the previous year; 3. During the Reporting Period, no substantial change in the number of early retired employees, the welfare expenses for early retired employees was at its first time made in 2005, hence the provision decreased by RMB30,914,000 from the corresponding period of last year.

Analysis of Change in Current Assets

	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*	Difference *RMB'000*	% of Change
Cash and cash equivalents	**765,904**	542,429	223,475	41%
Pledged deposits	**122,440**	121,124	1,316	1%
Trade and bills receivable	**744,774**	448,641	296,133	66%
Inventories	**852,366**	755,227	97,139	13%

Cash & bank deposits: As at 31 December 2006, the Group's current cash and bank deposit amounted to RMB765,904,000, of which the Company owns as to RMB290,369,000 and the remaining cash and bank deposit are attributable to the subsidiaries.

Pledged deposits: Pledged deposits is a mean of financing to double the banking facilities. As at 31 December 2006, the Group's pledged deposit is basically the same as the previous year.

Trade and bills receivable analysis: The Group's trade receivable increased by 66%, primarily attributable to: 1. trade receivable of agricultural machinery business increased by approximately RMB30,000,000, mainly because the regional government subsidy for purchasing machineries was not fully used by the end of the year and such receivable was collected up to date; 2. bills receivable of agricultural machinery business increased by approximately RMB97,000,000 and the Group's bills receivable are all in bank acceptance; 3. the inclusion of engine machinery business led to an increase of trade receivables of approximately RMB104,000,000, while bills receivable increased by approximately RMB64,000,000. During the Reporting Period, the Group adopted different approaches to strengthen the management of the trade receivable, including the establishment of order credit management system, application of different credit sales policies to different clients according to their credit ratings so as to lower the risk of trade receivable. "Life-long" accountability is implemented for the inter-segment sales from sales of goods to receivable collection and goods collection are linked to the interest of person-in-charge, and legal actions were taken to enhance the collection of long-term arrears. The term of the trade receivable was improved.

Change in inventory: During the Reporting Period, the Group's inventories increased by 13%, mainly attributable to: 1. the inclusion of engine machinery business led to an increase in inventories of approximately RMB75,000,000, 2. as to neutralise the effect on the increase in the price surge in raw materials, the Group increased its inventories of raw materials by approximately RMB20,000,000 by the end of the year 2006.

The Group's Operating Strategies in 2007

Grasping the opportunities arising from the State's macro-policies, the Group will strengthen every aspect of the operation in deploying a comprehensive management strategy, to improve the cutting-edge of the Group and meet the Board's strategic requirements on the Group's future development.

Reinforcing supply chain management and enhancing merchandising management: The Group will continue to advance and strengthen the centralised merchandising system to further strengthen the management system and internal control. Meanwhile, the Group will strengthen the supply channel to enjoy the benefit of mass merchandising and lower the merchanrdising costs.

Finance management: The Group will strengthen cost management and improve its supply chain to conduct key monitoring in planning, merchandising and cost of sales. It will also put more efforts in the recovery of receivables and promoting utilization efficiency of capital. It plans to adjust national stock to reduce use of capital. The Group will strongly promote the internal assessment system in which return on assets is the core criteria and cash flows is a constraint factor, and strengthen the management of subsidiaries.

Marketing and sales management: The Group will enhance regional market consolidation to reduce marketing expenses and implement a new marketing model that integrates sales of major machinery, provision of spare parts, after-sales services and feedback. By adhering to the marketing philosophy of "services promote sales", a sound file management system of dealers and customers was built to regulate the order of inter-group sales. The Group will also formulate a more personalised mechanism in sales assessment, for the purposes to encourage marketing staff to be more procative to initiate the activeness of sales force, improve the after-sale service standard and raise their service awareness.

Financial business: the Group will make full use of its edges in internal financing resources and centralized financial management and clearing platform. With the mission as "serving the Group where its foothold set", the Group will strengthen research of the capital market and devise a target-based financing scheme based on the Group's production and operation to progressively develop new business in providing buyer's facilities, the Group will further expand itself towards external markets to enhance its sustainability and expansion.

International market: The Group will improve the product mix of its export products and progressively promote and obtain accreditation of its 16 products' from E-mark, CE, EPA, OECD, with a view to laying a solid foundation for expanding to the international market. Apart from that, the Group will set up a unified technical service standard for its export products, establish management system for overseas technical service engineers, improve file management system for export product and international customers, reinforce training for international technical service team, gather talents who possess skills in overseas technical services. Based on the market conditions and the business development situation, the Group will optimise distribution networks and speed up establishment of international marketing outlets by developing export products that meet the requirement of international market.

Investments

For the period from 31 January 2006 to 31 July 2006, Yituo (Luoyang) Diesel Company Limited, an associate of the Company, gained profit for the Company.

Other associates of the Company, namely Yituo (Luoyang) Casting and Forging Company Limited and Luoyang First Motors Company Limited are still making a loss.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Financial Statistics:

Items	**Basis of calculation**	**31 December 2006**	31 December 2005
Gearing ratio	Total liabilities/total assets x 100%	52.56%	43.02%
Current ratio	Current assets/current liabilities	1.34	1.52
Quick ratio	(Current assets - inventories)/ current liabilities	0.98	1.06
Debt equity ratio	Total liabilities/Shareholders' equity (note) x 100%	119.34%	80.96%

Note: Shareholders' equity (excluding minority interests)

Analysis of Equity and Reserves

Items	**31 December 2006** *RMB'000*	31 December 2005 *RMB'000*	Increase/ (decrease) *RMB'000*
Share capital	**785,000**	785,000	—
Share premium account	**1,378,840**	1,378,840	—
Statutory surplus reserve	**77,570**	68,817	8,753
Statutory public welfare fund	—	64,744	(64,744)
Reserve fund	**2,873**	2,525	348
Enterprise expansion fund	**2,356**	2,153	203
General and statutory reserve	**4,446**	2,217	2,229
General surplus reserve	**64,744**	—	64,744
Available-for-sale investment revaluation reserve	**97,150**	—	97,150
Exchange fluctuation reserve	**(4,244)**	(1,357)	(2,887)
Retained profit/ (Accumulated losses)	**(210,704)**	(272,020)	61,316

SIGNIFICANT INVESTMENT OR ACQUISITION OF CAPTIAL ASSETS OF THE GROUP IN THE FUTURE

In 2007, the Company intends to make an additional investment of approximately RMB31,720,000 in Yituo (Luoyang) Transportation Machinery Company Limited ("YLTM") (一拖(洛陽)搬運機械有限公司), and the Company's equity interest in YLTM will represent 91.052% upon investment. Apart from this, the Group does not have any plan for significant investment and capital acquisition in 2007. There was no significant investment in 2006.

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 Reporting Period.

SIGNIFICANT EVENTS

The Company had the following significant events during 2006:

1. On 8 May 2006, the Board of the Company approved the acquisition of 58.8% equity interests in Yituo (Luoyang) Diesel Co., Ltd. ("Yituo Diesel Company") and 70% equity interests in Yituo (Luoyang) Fuel Jet Company Limited ("Yituo Fuel Jet Company")by the Company from China Yituo at a consideration of RMB154,750,000 and RMB43,270,000 respectively, which were determined based on the evaluated net assets of Yituo Diesel Company and Yituo Fuel Jet Company and with reference to the two companies' profitability, and meanwhile the Company was approved to dispose the assets and interests of its four casting factories (assets and liabilities under the Asset Swap Agreement) to China Yituo with the evaluated net value of RMB158,240,000 as consideration. The difference between the acquisition of equity interests and the disposal of assets and interests was RMB39,780,000 which was payable to China Yituo by the Company. The aforesaid transactions were approved by the Shareholders at the extraordinary general meeting of the Company on 28 July 2006.

2. On 29 December 2006, the Board of the Company approved the joint establishment of Yituo Shunxing (Luoyang) Spare Parts Company Limited ("Shunxing Spare Parts Company") with Liaoning Shunxing Combustion Engine Crankshaft Company Limited ("Liaoning Shunxing Company") and 17 natural persons with registered capital of RMB40,000,000, of which the company contributed RMB16,000,000 in cash, representing 40% equity interests, Liaoning Shunxing Company contributed RMB15,200,000 in cash, representing 38% equity interests, and such natural persons contributed RMB8,800,000 in cash, representing 22% equity interests. Shunxing Spare Parts Company mainly engaged in production of forged steel crankshafts.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the opinion that the Company has complied with the requirements of all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules during the Reporting Period. The Company took comprehensive measures in respect of corporate governance and disclosure to ensure a healthy and sustainable development of the Company. The Board has established Audit Committee and Remuneration and Review Committee so as to ensure the efficient operation of the Board. The Company also set up a regulation system catering to the management of the Company for performance of their respective duties efficiently. The Company will continue to enhance its corporate governance measures and transparency in the Shareholders' regard.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of practice (the "Model Code") with standards not less competent than those prescribed in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions conducted by the Directors. During the Reporting Period, all Directors (after specific enquiries by the Company), have complied with the Model Code in relation to securities transactions conducted by the Directors.

AUDIT COMMITTEE

The Company has set up Audit Committee. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2006.

By order of the Board
Liu Dagong
Chairman

Luoyan, the PRC
20 April 2007

As at the date of this announcement, the Board comprises ten executive Directors, namely, Mr. LIU Dagong (Chairman), Messrs. ZHAO Yanshui, LIU Wenying, YAN Linjiao, LI Tengjiao, SHAO Haichen, ZHANG Jing, LI Youji, LIU Shuangcheng and ZHAO Fei and four independent non-executive Directors, namely, Messrs. LU Zhongmin, CHEN Zhi, CHAN Sau Shan, Gary and LUO Xiwen.