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)

(Stock Code: 0038)

2006 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

Turnover	:	**RMB3,076,351,000**
Profit Attributable to the Equity Owners of the Parent	:	**RMB30,519,000**
Earnings per share	:	**RMB3.89 cents**

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 (the "**Group**") for the six months ended 30 June 2006 prepared in accordance with the accounting principles generally accepted in Hong Kong, together with the comparative figures for the corresponding period in 2005. The condensed consolidated interim financial statements are unaudited, but have been reviewed by the audit committee (the "**Audit Committee**") of the Company.

For the six months ended 30 June 2006, the Group recorded a turnover of approximately RMB3,076,351,000, representing an increase of approximately RMB447,348,000 or 17.02% as compared over the same period last year. Profit attributable to equity holder of the parent amounted to RMB30,519,000. Earnings per share was approximately RMB3.89 cents.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2006

	Notes	For the six months ended 30 June 2006 Unaudited *RMB'000*	2005 Unaudited *RMB'000*
REVENUE	3	**3,076,351**	2,629,003
Cost of sales		**(2,765,328)**	(2,430,349)
Gross profit		**311,023**	198,654
Other income and gains	3	**46,281**	49,752
Selling and distribution costs		**(109,464)**	(109,809)
Administrative expenses		**(159,098)**	(121,853)
Other operating expenses, net		**(33,191)**	(35,210)
Finance costs	4	**(4,941)**	(6,503)
Share of profits and losses of associates		**5,393**	1,037
PROFIT/(LOSS) BEFORE TAX	5	**56,003**	(23,932)
Tax	6	**(24,110)**	(6,183)
PROFIT/(LOSS) FOR THE PERIOD		**31,893**	(30,115)
Attributable to:			
Equity holders of the parent		**30,519**	(25,350)
Minority interests		**1,374**	(4,765)
		31,893	(30,115)
DIVIDEND	7	**—**	—
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		**RMB3.89 cents**	(RMB3.23 cents)
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
30 June 2006

	Notes	As at 30 June 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**694,224**	785,143
Construction in progress		**190,302**	151,620
Prepaid land premiums		**20,476**	13,761
Interests in associates		**85,766**	98,726
Available-for-sale equity investments		**81,344**	71,984
Loans receivable		**177,149**	195,664
Deferred tax assets		**13,096**	28,235
Total non-current assets		**1,262,357**	1,345,133
CURRENT ASSETS			
Inventories		**742,041**	755,227
Trade and bills receivables	9	**657,638**	448,641
Loans receivable		**155,230**	193,685
Bills discounted receivable		**181,354**	167,437
Other receivables		**300,870**	244,378
Equity investments at fair value through profit or loss		**3,141**	3,576
Pledged deposits		**279,184**	121,124
Cash and cash equivalents		**377,755**	542,429
		2,697,213	2,476,497
Assets classified as held for sale	11	**202,403**	—
Total current assets		**2,899,616**	2,476,497
CURRENT LIABILITIES			
Trade and bills payables	10	**1,190,439**	843,988
Tax payable		**6,869**	5,459
Other payables and accruals		**360,716**	388,223
Customer deposits		**125,935**	199,028
Interest-bearing bank borrowings		**177,048**	172,250
Provisions		**29,154**	16,785
		1,890,161	1,625,733
Liabilities directly associated with the assets classified as held for sale	11	**46,192**	—
Total current liabilities		**1,936,353**	1,625,733
NET CURRENT ASSETS		**963,263**	850,764
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,225,620**	2,195,897
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**—**	1,000
Provisions		**17,546**	17,442
Total non-current liabilities		**17,546**	18,442
Net assets		**2,208,074**	2,177,455
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**785,000**	785,000
Reserves		**1,275,510**	1,245,919
		2,060,510	2,030,919
Minority interests		**147,564**	146,536
Total equity		**2,208,074**	2,177,455

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2006 INTERIM RESULTS ANNOUNCEMENT

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information 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. Assets classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell. The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial information:

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

The impact of adopting the above new and revised HKFRSs is summarised as follows:

(a) HKAS 21 Amendment — "Net Investment in a Foreign Operation" and HKAS 39 Amendment — "The Fair Value Option"

The adoption of these amendments does not result in substantial changes to the Group's accounting policies.

(b) HKAS 39 & HKFRS 4 Amendments — "Financial Guarantee Contracts"

In prior years, financial guarantee contracts are accounted for under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and disclosed as contingent liabilities. In accordance with the above amendments, financial guarantee contracts issued are recognised as financial liabilities on the balance sheet. Financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of (i) the amount as provisions determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". This change in accounting policy has had no material impact on the results of the Group for the current and prior period. Accordingly, no prior period adjustment has been made.

(c) HK(IFRIC)-Int 4 — "Determining whether an Arrangement contains a Lease"

The adoption of HK(IFRIC)-Int 4 has no material impact to the Group's accounting policies.

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 they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The Group changed its identification of reportable segments in the preparation of its annual financial statements for the year ended 31 December 2005. The Group consolidated its previous six business segments, namely "Tractors", "Road machinery", "Construction machinery", "Harvesting machinery", "Financial operations" and "Others" into four new business segments, namely "Agricultural machinery", "Construction machinery", "Financial operations" and "Others". Prior period segment information for the six months ended 30 June 2005 is restated for comparative purposes. Summary details of the four new 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; and

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

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

	Agricultural machinery		Construction machinery		Financial operations		Others		Eliminations		Consolidated	
	For the six months ended 30 June											
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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*
		(Restated)		*(Restated)*						*(Restated)*		
Segment revenue:												
Sales to external customers	**2,429,335**	2,013,933	**646,973**	615,070	**—**	—	**43**	—	**—**	—	**3,076,351**	2,629,003
Intersegment revenue	**187,534**	198,633	**10,021**	8,806	**7,560**	7,304	**—**	—	**(205,115)**	(214,743)	**—**	—
Other income and gains	**—**	—	**—**	—	**16,557**	19,199	**—**	—	**—**	—	**16,557**	19,199
Total	**2,616,869**	2,212,566	**656,994**	623,876	**24,117**	26,503	**43**	—	**(205,115)**	(214,743)	**3,092,908**	2,648,202
Segment results	**71,973**	26,620	**(19,417)**	(58,448)	**11,664**	15,340	**(1,640)**	(3,912)	**—**	—	**62,580**	(20,400)
Interest, dividend and investment income											**2,971**	3,028
Unallocated expenses											**—**	(26)
Provision for other receivable											**(10,000)**	—
Finance costs											**(4,941)**	(6,503)
Share of profits and losses of associates	**—**	6,870	**—**	—	**—**	—	**5,393**	(5,833)	**—**	—	**5,393**	1,037
Impairment of interest in an associate	**—**	—	**—**	—	**—**	—	**—**	(1,068)	**—**	—	**—**	(1,068)
Profit/(loss) before tax											**56,003**	(23,932)
Tax											**(24,110)**	(6,183)
Profit/(loss) for the period											**31,893**	(30,115)

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	
	2006	2005
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**3,076,351**	2,629,003
Other income		
Interest income	**1,969**	3,028
Interest income from financial operations	**15,314**	19,199
Profit from sundry sales	**11,984**	10,684
Rental income	**1,941**	2,114
Dividend income from unlisted available-for-sale equity investments	**465**	—
Others	**14,071**	14,727
	45,744	49,752
Gains		
Gain on disposals of listed equity investments at fair value through profit or loss, net	**442**	—
Fair value gain on listed equity investments at fair value through profit or loss, net	**95**	—
	537	—
	46,281	49,752

4. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	Unaudited	*Unaudited*
	RMB'000	*RMB'000*
Interest on bank loans	**4,941**	6,503

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5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Depreciation	**44,177**	45,975
Amortisation of prepaid land premiums	**254**	102
Impairment of items of property, plant and equipment	**—**	4,500
Impairment of interest in an associate	**—**	1,068
Provision/(reversal of provision) against obsolete inventories, net	**(11,447)**	12,498
Provision and write-off of bad and doubtful debts, net	**6,736**	14,793
Net charge for impairment losses and allowances for loans receivable	**5,926**	188
Net charge for impairment losses and allowances for bills discounted receivable	**141**	142
Provision for other receivable	**10,000**	—
Interest expense from financial operations	**1,101**	5,163
Loss on disposal of items of property, plant and equipment	**1,343**	4,178
Bank interest income	**(1,969)**	(3,028)
Interest income from financial operations	**(15,314)**	(19,199)
Dividend income from unlisted available-for-sale equity investments	**(465)**	—
Loss/(gain) on disposals of listed equity investments at fair value through profit or loss, net	**(442)**	26
Fair value gain on equity investments at fair value through profit or loss, net	**(95)**	—

6. TAX

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Group		
Current - PRC corporate income tax	**8,971**	6,183
Deferred tax	**15,139**	—
Total tax charge for the period	**24,110**	6,183

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 2006 and 2005.

The PRC corporate income tax for the Company and its subsidiaries is calculated at rates ranging from 0% to 33% (six months ended 30 June 2005: 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 People's Republic of China (the "**PRC**") is subject to the rates applicable in its jurisdiction. No provision for overseas profits tax has been made for the Group as there were no overseas assessable profits for the period (six month ended 30 June 2005: Nil).

The Group's share of tax attributable to associates for the period amounting to approximately RMB3,021,000 (six months ended 30 June 2005: RMB3,106,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

7. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

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

The calculation of basic earnings/(loss) per share for the six months ended 30 June 2006 is based on the net profit for the period attributable to equity holders of the parent of approximately RMB30,519,000 (six months ended 30 June 2005: net loss of RMB25,350,000), and the weighted average of 785,000,000 (six months ended 30 June 2005: 785,000,000) ordinary shares in issue during the period.

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

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.

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 2006	As at 31 December 2005
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 90 days	**425,226**	220,839
91 days to 180 days	**173,735**	107,639
181 days to 365 days	**33,595**	85,303
1 to 2 years	**22,767**	30,123
Over 2 years	**2,315**	4,737
	657,638	448,641

10. 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 2006	As at 31 December 2005
	Unaudited	Audited
	RMB'000	*RMB'000*
Within 90 days	**822,245**	531,402
91 days to 180 days	**267,787**	225,677
181 days to 365 days	**58,108**	40,617
1 to 2 years	**21,305**	29,446
Over 2 years	**20,994**	16,846
	1,190,439	843,988

11. ASSETS CLASSIFIED AS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

Pursuant to a conditional assets restructuring agreement (the "**Assets Swap Agreement**") entered into between the Company and the ultimate holding company, China Yituo Group Corporation Limited ("**China Yituo**" or the "**Holding**") on 8 May 2006, the Company agreed with the Holding to exchange the assets and liabilities ("**Casting Factories Interests**"), with an aggregate net carrying amount of approximately RMB156.22 million, of the Company's certain factories in the agricultural machinery segment (including Precision Casting Factory, No. 1 Iron Casting Factory, Steel Casting Factory and Nodular (Graphite) Cast Iron and Aluminum Factory Casting Factories) as stipulated in the Assets Swap Agreement at an aggregate consideration of approximately RMB158.24 million for certain equity interests in Yituo (Luoyang) Diesel Co., Ltd. ("**Yituo Diesel**") and Yituo (Luoyang) Fuel Jet Company Limited ("**Yituo Fuel Jet**"), at an aggregate consideration of approximately RMB198.02 million, the net consideration payable in cash by the Company to the Holding pursuant to the Assets Swap Agreement is approximately RMB39.78 million.

12. COMPARATIVE AMOUNTS

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

BUSINESS REVIEW

Agricultural machinery business

During the reporting period, the PRC agricultural machinery market witnessed a continuous rapid growth, with a steady rapid development in large and medium tractors market, a shrink in small tractors market, a huge growth in the harvesting machinery market and a fast growth in ancillary agricultural tools market driven by the large and medium tractors market. According to the industrial statistics, during the reporting period, sales volume of large and medium tractors, harvesting machinery and ancillary agricultural tools achieved an increase of 67.56%, 45% and 20% as compared over the same period last year respectively, while sales volume of small tractors decreased by 13.71% as compared over the same period last year.

The continuous rapid increase in the demand for agricultural machinery was mainly attributable to: (1) the strengthened purchasing powers of the farmers for agricultural machinery products with the increase in their income, as driven by a series of State policies for supporting the "countryside, farmers and agriculture", especially the abolishment of agricultural taxation and the granting of subsidies for the purchase of agricultural machinery and the involvement in the agricultural activities; (2) the farmers' enthusiasm of investment in agricultural machinery and purchase of advanced agricultural machinery as driven by the policy on constructing new countryside, adjustment of operation scale in countryside, industrial development of agriculture and State's policies for encouraging preservation of agriculture; and (3) the expanded scale of socialized services for agricultural machinery which brought about the development of agricultural machinery.

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Capturing on such market opportunities, the Group restructured its products mix and implemented various marketing measures, which lead to a considerable increase in sales volume of agricultural machinery products of the Group as compared over the same period last year. During the reporting period, the Group sold 75,754 units/sets of various agricultural machinery products. Amongst them, sales volume of large and medium tractors, harvesting machinery and agricultural machinery increased by 80.24%, 56.35% and 152.75% as compared over the same period last year respectively. However, due to the shrinking demands in the small tractors market, sales volume of small tractors recorded a decrease of 34.69% as compared over the same period last year.

Construction machinery business

During the reporting period, despite that the State continued to steadily implement the macro-economy policy, the construction machinery industry has passed through market adjustment in the past two years so as to release the long-term depressed demands. The whole industry is growing from recovery and demand for products is increasing, which is proven by the increase of 12.8%, 20.3% and 71% respectively in sales volume of loaders, industrial bulldozers and hydraulic excavators as compared over the same period last year respectively. Sales volume of small loaders, excavators, blenders and road rollers also increased by 64.3%, 25%, 17.9% and 3.2% respectively, while that of road pavers and mixing machinery decreased by 7.7% and 50.6% as compared over the same period last year respectively.

Facing with the rebounding market demand in the construction machinery industry, the Group took various promotion measures and sold 5,423 units of construction machinery products, representing an increase of 8.83% as compared over the same period last year. Amongst them, sales volume of industrial bulldozers, road rollers, excavators and small loaders increased by 42.48%, 11.52%, 53.45% and 33.09% respectively as compared over the same period last year. Sales volume of mixing machinery, pavers, maintenance machinery, loaders and small excavators decreased by 25.42%, 8.79%, 37.04%, 11.28% and 11.5% as compared over the same period last year respectively.

International trade

During the reporting period, the Group exported a total of 693 units of tractors (among which, exported 368 units of large and medium tractors and 325 units of small tractors), such export representing an increase of 21.37% as compared over the same period last year. The Group also exported in aggregate a total of 161 units of construction machinery, including road rollers, pavers, maintenance machinery and mixing machinery, of which road rollers amounted to 139 units, representing an increase of 215.91% as compared over the same period last year.

Development of new products

During the reporting period, the Group made the following progress on the research and development in respect of agricultural machinery and construction machinery products: development of small wheeled tractors such as SA20/28 DC driving wheeled tractor, and 180 duplex-cylinder Greenhouse King; development of medium wheeled tractors such as MS30/35 series for export purpose and 50~55 series; improvement of modified crawler tractors such as C1304 wheeled crawler tractor; development, trial production and experiment of large wheeled tractors such as 1404/1504 model; development of new models for tractors with power ranging from 130 HP to 180 HP; development and promotion of newly-structured multi-functional combined harvesting machinery for wheat, rice and corn; the trail production of harvesting machinery including silage and film packager; development of agricultural machinery such as double shaft stubble-cleaning rotary cultivator and stalk/stubble breaking and mulching machine; successful promotion of environmental friendly products of LCC226 refuse road roller and ultra-large-tonne LSD226 road roller; development of 8-tonne to 10-tonne wheeled hydraulic excavator and angle blade of T100 bulldozer; and improvement on the design of products such as T80, T120N and T140A bulldozers.

Asset Reorganization

In order to improve the asset quality, the Company entered into the Asset Swap Agreement with China Yituo, during the reporting period. Pursuant to the Asset Swap Agreement, the Company agreed to exchange its assets and liabilities of No.1 Iron Casting Factory, Steel Casting Factory, Precision Casting Factory and Nodular (Graphite) Cast Iron and Aluminum Factory (the "**Casting Factories**") as stipulated in the Assets Swap Agreement for the 58.8% equity interests in Yituo Diesel and the 70% equity interests in Yituo Fuel Jet held by China Yituo. Upon completion of the asset swap as contemplated under the Asset Swap Agreement, Yituo Diesel and Yituo Fuel Jet will become the members of the Group. The diesel business and fuel injection pump businesses run by such two companies will be vertically integrated into the agricultural machinery and construction machinery businesses of the Group, and thus greatly enhance the financial performance of the Group.

Analysis of Business Results

During the reporting period, the Group's turnover increased by approximately RMB447,348,000 as compared over the same period last year, of which, turnover of agricultural machinery and construction machinery increased by approximately RMB415,402,000 and RMB31,903,000 respectively, representing a increase of 20.63% and 5.19% respectively as compared over the same period last year.

During the reporting period, the increase in the Group's profit was mainly attributable to significant growth in the results of agricultural machinery business. Construction machinery business was also recorded an improved results due to enhanced trade receivables, cost control and management of inventory, which reduced the loss of approximately 67% as compared over the same period last year.

LIQUIDITY AND FINANCIAL RESOURCES

Table of the Group's major current assets

	30 June 2006	31 December 2005	change (+ / -)
	RMB'000	*RMB'000*	
Cash and bank deposits	**656,939**	663,553	-1.00%
Trade and bills receivables	**657,638**	448,641	+46.58%
Inventories	**742,041**	755,227	-1.75%

As at 30 June 2006, the Group's bank loans amounted to RMB177,048,000, increased by 2.19% as compared with the end of 2005. The Group did not have long term bank loan. The interest rates for such back loans are ranged from 5.58% to 5.85% per annum.

Financial Statistics

Items	**Basis of calculation**	**30 June 2006**	31 December 2005
Gearing ratio	Total liabilities / Total assets x 100%	**46.95%**	43.02%
Current ratio	Current assets / Current liabilities	**1.50**	1.52
Quick ratio	(Current assets - inventories) / Current liabilities	**1.11**	1.06
Debt equity ratio	Total liabilities/shareholders' equity x 100%	**94.83%**	80.96%

Note: Shareholders' equity does not include minority shareholders' interests.

BUSINESS PROSPECTS

In the second half year of 2006, the Group, focusing on the adjustment to its product mix, will proactively cater for the changing market and take specified promotion measures to increase the sales volume of its products and improve its operating results.

Agricultural machinery business

In the second half year of 2006, the agricultural machinery will continue to develop rapidly in the PRC. The production and sales volume of large and medium tractors is expected to exceed 200,000 units in 2006, representing an increase of approximately 30%. The harvesting machinery market will maintain a favorable momentum throughout this year despite the impact on the market demands for the second half year of 2006 as a result of the fast growth in the first half year of 2006. As such, the Group's operating strategies for agricultural machinery business are as follows:

Tractors: the Group will continue to adjust the product mix and market structure to address the changes in both domestic and international markets. Following trial production of new products in the first half year of 2006, the Group will speed up the production in scale, and proceed on the promotion campaign. At the same time for securing the market share of large and medium tractors, the Group will accelerate the production of 1004 / 1204 and 1604/1804 models of large wheeled tractors and reach the production and sale in scale so as to continue to consolidate its leading position in the industry for the tractor with 100HP or above. In addition, the Group will proactively expand its business for large and medium wheeled tractors in overseas and will expand its business for the small tractor mainly in Xinjiang and northeast China.

Harvesting machinery: the Group will continue to develop new products so as to further improve and extend the functions of the harvesting machinery. The Group will concentrate on the research and development and preparation work for the development of rice harvesters and rice transplanting machinery so as to cater for the southern market. It will improve its services ability by increasing the number of sales outlets to enhance the sales volume and market share in regional market in order to raise its position in the industry. Regarding the international trade, the Group will keep abreast of the information from the international market to explore new paths for export.

Agricultural machinery: the Group will continue to carry out the development and trial production of sugarcane harvesters and farm management machinery, and launch those new products which have completed the experiment with capacity for production in scale into the market as soon as possible.

Construction machinery business

The second half year of 2006 will witness an unfavorable situation where the growth of construction machinery market is expected to slow down. It is because (1) 2006 is the start-up year of the "Eleventh Five-Year Plan" of the PRC when new projects are in stage of seeking approval. Moreover, as year 2002 and 2003 experienced explosive growth for consecutive two years, machinery for many construction units are fully utilized; (2) The production capacity of engine machinery significantly exceeds the demand contributing to the over-capacity of 30%; (3) As the economy remains over-heated, the national macro-economic decision bodies are beginning to pursue the subsequent control measures, which may affect the market demand for construction machinery to a certain extent. As such, the Group will proactively address to the changing market in construction machinery by restructuring its products, strengthening the management of its accounts receivable, reducing production costs adopting effective marketing strategies to increase the sales volume and improving the quality on operation and operating results.

Engine machinery business

Engine machinery business is a new business of the Group obtained as a result of the asset swap. At the same time for consolidating the leading position in traditional ancillary agricultural machinery market for diesel machine, the Group will put efforts in supporting and pursuing ahead the development of heavy power duty diesel machine to foster a new profit source. In addition, the Group will also actively expand the ancillary markets of vehicles, ships, delivery machinery, rice harvesters and corn harvesters so as to expand the scope and volume of ancillary products, and increase the market share.

International Trade

The Group will continue to optimize the product mix for export, explore the international market of large and medium tractors and engine machinery products, and speed up the establishment of international sales network.

The Board believes that through the above-mentioned strategies, the Group will keep steady development and eventually achieve its operating goals for 2006.

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)

(Stock Code: 0038)

2006 INTERIM RESULTS ANNOUNCEMENT

APPLICATION OF THE PROCEEDS RAISED FROM THE ISSUE OF THE H SHARES

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

The proceeds (other than those amounting to approximately RMB1,472,435,000, which have been used by the Company as disclosed in the previous annual reports of the Company) were utilised for the following purposes for the six months ended 30 June 2006:

— approximately RMB79,345,000 continued to be used for financing technological renovations for large and medium wheeled tractors, 125MN hot-die forging, forklifts and flexible line of gear shells and forklifts, and construction of factory buildigs for gear shells and forklifts; and

— remaining balance of the proceeds were used as additional working capital of the Company.

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

The Group continues to invest in technological renovations for large and medium wheeled tractors, 125MN hot-die forging, delivery machinery and etc in the second half year of 2006.

With regard to the Group's significant investments in the second half year of 2006, please refer to the paragraph under the section headed "Acquisition and Disposal of Subsidiaries" in this announcement for details.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

At the Company's Extraordinary General Meeting held on 28 July 2006, the Asset Swap Agreement entered into between the Company and China Yituo was approved and pursuant to the Asset Swap Agreement , the Company agreed to acquire 58.8% equity interest in Yituo Diesel and 70% equity interest in Yituo Fuel Jet held by China Yituo at consideration of RMB154,750,000 and RMB43,270,000 respectively, and agreed to dispose Casting Factories Interests to China Yituo at consideration of RMB158,240,000. The difference in the sum of RMB39,780,000 between the acquisition and disposal is payable by the Company to China Yituo. Upon completion of asset swap, Yituo Diesel and Yituo Fuel Jet will become the subsidiaries of the Company.

CONTINGENT LIABILITIES

As at 30 June 2006, China First Tractor Group Finance Company Limited ("**FTGF**"), acting as the second guarantor of Yituo Fuel Jet, had provided a guarantee to the extent of RMB52 million to a financial institution for securing the loan granted to Yituo Fuel Jet.

As at 30 June 2006, FTGF had given guarantees to the extent of RMB100 million (31 December 2005: RMB100 million) and RMB55 million (31 December 2005: 20 million) to certain financial institutions for securing the loans granted to China Yituo and Yituo Diesel, respectively.

As at 30 June 2006, Zhenjiang Huachen Huatong Road Machinery Company Limited ("**ZHHRM**"), a subsidiary of the Group, had provided a guarantee to the extent of RMB 20 million to a bank for securing the loan granted to a customer of ZHHRM.

As at 30 June 2006, FTGF had given guarantee to the extent of RMB4.5 million to a bank for securing the banking facilities granted to China Yituo.

As at 30 June 2006, FTGF had given guarantee to the extent of RMB1 million to a bank for securing a loan granted to Yiuto (Luoyang) Engine Machinery Co. Ltd., an associate of the Group.

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

PLEDGE OF ASSETS

As at 30 June 2006, the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB16,458,000 (31 December 2005: RMB18,806,000) were pledged to banks for securing certain short term bank loans granted to the Group.

In addition, the Group's deposits of approximately RMB279,184,000 (31 December 2005: RMB121,124,000) and bills receivable of approximately RMB27,493,000 (31 December 2005: RMB7,400,000) were pledged to banks for securing certain banking facilities (including issuance of bills payable) of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

THE COMPANY'S STAFF AND REMUNERATION FOR STAFF

As at 30 June 2006, the Company had a total of 10,670 employees. The total remuneration paid during the reporting period amounted to approximately RMB86,860,000. 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 year of 2006, the Company conducted "training as required" in a number of ways. Employees in different level were trained for 9,254 times so that the quality of employees was improved.

DESIGNATED DEPOSITS

The Company deposited a sum of RMB119,898,000 with FTGF, a subsidiary of the Company. FTGF which is a non-banking financial institution approved by the People's Bank of China and is principally engaged in providing financial and monetary services to the group members of China Yituo. The Company did not have any deposits (other than those aforesaid deposits) deposited with any of the non-banking financial institution.

The Company granted a loan of RMB61,000,000 to its subsidiaries. The loan was granted in the form of designated deposits deposited with FTGF. The Company did not have any other designated deposits other than the aforesaid. Save for the above-mentioned deposits in FTGF, all the cash deposits of the Company were deposited with commercial banks in the PRC in compliance with the relevant laws and regulations. The Company has not experienced any incident of not being able to withdraw bank deposits when due.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2006 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 2006 and the 2006 interim report of the Company.

The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2006.

SIGNIFICANT EVENTS

1. Upon expiry of the Company's third Board and Supervisory Committee, 2005 Annual General Meeting was held by the Company on 16 June 2006, which elected Mr. Liu Dagong, Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Liu Shuangcheng, Mr. Li Youji and Mr. Zhao Fei as executive Directors of the fourth Board of the Company, and elected Mr. Lu Zhongmin, Mr. Chenzhi, Mr. Chan Sau Shan, Gary and Mr. Luo Xiwen as independent non-executive Directors of the fourth Board of the Company. The fourth Supervisory Committee comprises Mr. Liu A Nan, Mr. Kong Lingfu, Mr. Xu Weilin, Mr. Zhao Shengyao and Mr. Shao Jianxin. The term of the fourth Board and the fourth Supervisory Committee is three years with effect from 1 July 2006.
2. The first meeting of the fourth Board of the Company elected Mr. Liu Dagong as Chairman of the Company and resolved to appoint Mr. Yan Linjiao as General Manager. As nominated by the General Manager, it was resolved to appoint Mr. Guo Zhiqiang, Mr. Zhang Youxu, Mr. Yuan Rongqing as Deputy General Manager, Ms. Dong Jianhong as the Chief Accountant and Ms. Yu Lina as the Secretary to the Board.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that during the reporting period, the Company has complied with all code provisions stipulated in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), implemented improved governance and disclosure measures, and improved the internal control systems of its own and the subsidiaries. During the reporting period, there is 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.

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
25 August 2006

As at the date of this announcement, the Board comprises ten executive Directors: Mr. Liu Dagong (Chairman), Mr. Liu Wenying, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei, and four independent non-executive Directors: Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary, Mr. Chen Zhi and Mr. Luo Xiwen.