

CHAIRMAN'S STATEMENT



Mr. Liu Dagong
Chairman of the Company

To shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of First Tractor Company Limited ("First Tractor" or the "Company") and its subsidiaries (collectively the "Group"), I announce to shareholders of the Company (the "Shareholders") that the Group recorded a turnover of RMB4,765,828,000 in 2005, representing a year-on-year increase of 12.23% and a loss attributable to equity holder of the Parent of RMB50,436,000, representing a decrease of 6.42 cents per share (the "Share") of the Company. I would also like to take this opportunity to express our sincere gratitude to the Shareholders and all walks of life who have given their kind supports to the Company's development.

BUSINESS REVIEW

Principal Business

During the reporting period, benefited from a notifiable increase in market demands, the agricultural machinery business, one of the Group's principal businesses, achieved remarkable operating results with a turnover of RMB3,751,521,000, representing a year-on-year increase of 22.44% from last year. Sales of large/medium wheeled tractors, harvest machinery and agricultural machinery increased substantially over last year, whereas operating results of the construction machinery business were unsatisfactory due to various factors with a turnover of RMB1,013,898,000 representing a decrease of 14.3% from last year. Sales of certain large construction machinery products including industrial bulldozers, pavers and mixers, incurred a year-on-year decrease of more than 30%.

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Export business

During the reporting period, the Group recorded a turnover of US\$21,553,600 from export business, increased by 48.71% over the same period last year. The Group exported 1,479 units of tractors, increasing by 94.6% over the same period last year, and 162 units of construction machinery, increasing by 54.28% over the same period last year. The said products were mainly exported to Asia, Africa, South America, North America, Oceania and Europe.

Research and development of new products

During the reporting period, in line with its product development philosophy "to optimise product mix", the Group took initiatives in research and development of new products based on the market responses and the changing customers' needs. Such new products mainly included "Dongfanghong" series tractors and harvest machinery, earthwork machinery, road construction machinery, maintenance machinery, as well as small loaders and excavators, some of which have launched into the market and received various approvals from dealers and users.

Corporate governance

- The Company took efforts to improve the corporate governance in strict compliance with (i) the relevant regulations and rules on corporate governance of listed companies promulgated by domestic and overseas regulatory authorities; and (ii) operated in accordance with the articles of association (the "Articles of Association") of the Company.
- The Company set up an audit committee (the "Audit Committee"), and a remuneration and review committee of the Board. In such special committees, independent non-executive Directors represented a majority and served as the chairman of such committee.
- While attending the meetings of the Board and the special committees, the independent non-executive Directors provided constructive opinions and recommendations in accordance with relevant laws and regulations and expressed their independent opinions, thus performing their duties with due diligence.
- Directors and senior management of the Company accepted the supervision of the supervisory committee of the Company in accordance with the Articles of Association of the Company. Supervisors (the "Supervisors") of the Company attended the Board meetings, and gave their opinions with respect to major decisions made by the Board when performing their supervisory duties.

BUSINESS OUTLOOK

In 2006, sticking to its business concept "to create value for customers", the Group will continue to achieve its long term strategic aim "to become an excellent manufacturer of agricultural machinery and construction machinery in the PRC" by making itself as a domestically advanced and internationally well-known manufacturing base for agricultural machinery and construction machinery.

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Year 2006 is the opening year of the "State's Eleventh Five-Year Plan" as well as in the process of constructing a new socialist countryside. As one of the largest enterprise for manufacturing agricultural and construction machinery in the PRC, it is an important mission for the company to provide agricultural machinery with good-quality for the new countryside establishment in China. As a result, the Group has set and activated "China Yituo New Countryside Construction Action Plan", in order to provide suitable, advanced, affordable, usable technology and agricultural and construction products that is cater to the agricultural and scientific development for the general users, and to support the upgrade of the agricultural industry. By implementation the idea of independence and innovation, reinforcement of technical upgrade and technical correction, upgrading the level and ability of manufacturing, enhancement of innovative operation, improving brands operation, and by transforming economic growth mode and improving its business operations, the Group aims to promote its comprehensive business capacity and operating results to accomplish its business targets in 2006

1. Grasping opportunities to sustain the fast growth of agricultural machinery business

Crawler tractors: based on the crawler machinery technology, the Group will optimise product mix and constantly improve product performance, enhance crawler machinery technology, develop simple machinery products towards the integration of mechanical, electrical and hydraulic technology, to maintain the leading position of its crawler tractor technology in the PRC and join into the international advanced crawler tractor technology.

Large/medium wheeled tractors (Note 1): capturing the new opportunities from the fast growing agricultural industry and countryside and driven by market demands, the Group will speed up technology renovations for large/medium wheeled tractors, expand production capacity and carry out differential competition to win more market share with quality and service. Thereby, the Group wishes to maintain its market competitive advantage and leading position in the industry.

Small wheeled tractors (Note 2): faced with the violent market competition, the Group will improve its service and shape branding concept through control over first-grade sales channels and construction of county and town sales networks. Meanwhile, it will develop new products according to the findings from market sub-division to optimise and adjust product mix, hence addressing the changing market demands. Value analysis will be carried out to further cut down the manufacturing cost, and hence improving the products' competitiveness.

Agricultural machinery: for harvest machinery products, the Group will develop high end products to satisfy the market demands through cooperation and digesting international advanced technology. Capitalising the "Dongfanghong" brand and its competitive advantage in the large/medium wheeled tractors market, the Group will speed up the development of agricultural machinery business including farm management machinery, round bander, film packager, double shaft stubble-cleaning rotary cultivator and straw threshers, aiming at gaining more market share.

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

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

2. Taking measures to improve operating results of construction machinery business

In line with the government's policies and the industry's development, the Group's construction machinery will set a foothold on business areas including road construction, shoveling and moving, transportation, pavement and small construction machinery to upgrade the position and brand recognition of its construction machinery products in each industry.

- Under an integrated strategic layout of the Group, each subsidiaries will determine the direction for the adjustment to its product mix and operating strategies according to its own characteristics and strengths;
- Research and development of new construction and maintenance machinery products will be enhanced to address the growing demands from the national road construction and the town transportation construction. Earthwork operating machinery and small construction machinery facilitate irrigation construction projects, medium/small projects, building of new socialite countryside and development of small towns to explore markets and enter new perspective.



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Excavator

- Making use of its marketing resource advantages, the Group will unify its sales and service modes to form interactive, complementary and integrated marketing channels for improved network distribution capability.
- The Group will establish complete customer records, promote the credit sales mode and standardise the appraisal system for choosing distributors, to breed strategic alliance and improve its brand force.

3. Strengthening the international market exploration with a more reasonable export structure for more international communication

In 2006, the Group will set up a strategic co-operative platform with overseas corporations, suppliers and distributors, facilitate technical exchange and strategic alliance, and put more efforts in advertising, creation of mutual benefit for win-win and optimization of the product mix so as to increase profit from export.

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- The Group will open up more cooperation, facilitate technical exchange and reinforce technical improvement of agricultural and construction products.
- The Group will reinforce the cooperation of the supply chain, lengthen the industrial chain and implement strategic alliance with the suppliers and distributors.
- In optimizing the export structure, the Group will maintain the large wheeled tractors export, while stress is laid on such emerging businesses as medium wheeled tractors and small construction machinery.
- The Group will proactively advance its joint venture with internationally renowned corporations while introducing modern operating concepts, advanced technologies and capital from the international world to strengthen its competitiveness and international influence.
- The Group aims to promote international recognition of “Dongfanghong” brand with increased propaganda by participating in international exhibitions.
- strengthen construction of international sales networks and speed up establishment of offices in East European, Central Asia and South America.

4. In line with the principle of “advancement, assets optimization and emphasis identification” and the business needs and strategic targets, the Group will continue to reorganise and integrate its resources and businesses and strengthen the capital operation and strategic alliance to improve its operations and increase the return on investment.

5. Promoting transformation of economic growth mode by improving economic operations.

With return on investment as the focus, cash management as the core and management innovation as the base, the Group will set up an efficient performance appraisal system to enhance the management on its investment, financing, manufacturing, marketing and cost for better economic operations, hence facilitating the transformation of economic growth mode.

By order of the Board

Liu Dagong

Chairman

Luoyang, the PRC
21 April 2006