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 INTERIM FINANCIAL STATEMENTS

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	9	**694,224**	785,143
Construction in progress	9	**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	10	**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	11	**657,638**	448,641
Loans receivable	10	**155,230**	193,685
Bills discounted receivable	12	**181,354**	167,437
Other receivables	13	**300,870**	244,378
Equity investments at fair value through profit or loss		**3,141**	3,576
Pledged deposits	14	**279,184**	121,124
Cash and cash equivalents	14	**377,755**	542,429
		2,697,213	2,476,497
Assets classified as held for sale	15	**202,403**	—
Total current assets		**2,899,616**	2,476,497

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	As at 30 June 2006 Unaudited RMB'000	As at 31 December 2005 Audited RMB'000
CURRENT LIABILITIES			
Trade and bills payables	16	**1,190,439**	843,988
Tax payable		**6,869**	5,459
Other payables and accruals	17	**360,716**	388,223
Customer deposits	18	**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	15	**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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the parent											
	Issued share capital	Share premium account	Statutory surplus reserve	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	General and statutory reserve	Exchange fluctuation reserve	Accumulated losses	Total	Minority interests	Total equity
	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*
At 1 January 2006	785,000	1,378,840	68,817	64,744	2,525	2,153	2,217	(1,357)	(272,020)	2,030,919	146,536	2,177,455
Exchange realignment	—	—	—	—	—	—	—	(912)	—	(912)	—	(912)
Total income and expense recognised directly in equity	—	—	—	—	—	—	—	(912)	—	(912)	—	(912)
Net profit for the period	—	—	—	—	—	—	—	—	30,519	30,519	1,374	31,893
Total income and expense for the period	—	—	—	—	—	—	—	(912)	30,519	29,607	1,374	30,981
Contributions from minority interests	—	—	—	—	—	—	—	—	—	—	3,417	3,417
Utilisation of statutory public welfare fund	—	—	—	(16)	—	—	—	—	—	(16)	—	(16)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	(3,763)	(3,763)
Transfer from/(to) reserves	—	—	337	168	145	—	—	—	(650)	—	—	—
At 30 June 2006	785,000	1,378,840	69,154	64,896	2,670	2,153	2,217	(2,269)	(242,151)	2,060,510	147,564	2,208,074
At 1 January 2005	785,000	1,378,840	65,597	63,171	2,398	2,974	—	—	(215,268)	2,082,712	160,065	2,242,777
Net loss for the period	—	—	—	—	—	—	—	—	(25,350)	(25,350)	(4,765)	(30,115)
Total income and expense for the period	—	—	—	—	—	—	—	—	(25,350)	(25,350)	(4,765)	(30,115)
Contributions from minority interests	—	—	—	—	—	—	—	—	—	—	2,700	2,700
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	(2,889)	(2,889)
Transfer from/(to) reserves	—	—	182	135	—	—	—	—	(317)	—	—	—
At 30 June 2005	785,000	1,378,840	65,779	63,306	2,398	2,974	—	—	(240,935)	2,057,362	155,111	2,212,473

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB'000	*RMB'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	**69,478**	66,351
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(154,161)**	(244,308)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**1,260**	113,484
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(83,423)**	(64,473)
Cash and cash equivalents at beginning of period	**435,067**	361,625
Effect of foreign exchange rates, net	**(912)**	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**350,732**	297,152
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**335,735**	288,152
Non-pledged time deposits with original maturity of less than three months when acquired	**14,997**	9,000
	350,732	297,152

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. 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 statements 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 statements:

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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

(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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

2. SEGMENT INFORMATION *(Continued)*

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

2. SEGMENT INFORMATION *(Continued)*

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)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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

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)**	—

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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. PROPERTY, PLANT AND EQUIPMENT, AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2006, the Group acquired construction in progress and items of property, plant and equipment in an aggregate amount of approximately RMB80.8 million (six months ended 30 June 2005: RMB77.8 million) and disposed of items of property, plant and equipment with an aggregate net book value of approximately RMB3.7 million (six months ended 30 June 2005: RMB14.8 million) and resulted in a net loss on disposal of approximately RMB1.3 million (six months ended 30 June 2005: RMB4.2 million). No impairment (six months ended 30 June 2005: RMB4.5 million) was made on items of property, plant and equipment during the period.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

10. LOANS RECEIVABLE

		As at 30 June 2006			As at 31 December 2005		
			Impairment			Impairment	
		Gross	allowances	Net	Gross	allowances	Net
		Unaudited	Unaudited	Unaudited	Audited	Audited	Audited
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan to the ultimate holding company	(a)	**252,800**	**2,528**	**250,272**	252,800	2,528	250,272
Loans to associates	(b)	**34,900**	**7,598**	**27,302**	86,900	3,368	83,532
Loans to related companies	(c)	**43,660**	**2,478**	**41,182**	41,710	1,582	40,128
Loans to customers	(d)	**15,771**	**2,148**	**13,623**	16,765	1,348	15,417
		347,131	**14,752**	**332,379**	398,175	8,826	389,349
Portion classified as current assets		**(168,192)**	**(12,962)**	**(155,230)**	(200,534)	(6,849)	(193,685)
Non-current portion		**178,939**	**1,790**	**177,149**	197,641	1,977	195,664

Notes:

(a) *The loan to the ultimate holding company, China Yituo Group Corporation Limited ("China Yituo" or the "Holding"), is granted by China First Tractor Group Finance Company Limited ("FTGF"), a subsidiary, and is unsecured, interest-bearing at 5.03% (31 December 2005: 5.76%) per annum and repayable within one to three (31 December 2005: one to two) years.*

(b) *The loans to associates are granted by FTGF. These loans are unsecured and bear interest at rates ranging from 5.12% to 5.36% (31 December 2005: 5.74% to 6.14%) per annum and repayable within one year.*

(c) *The loans to related companies represent the loans granted by FTGF to the companies which the Holding has significant influence therein. These loans are unsecured, interest-bearing at rates ranging from 4.65% to 6.65% (31 December 2005: 5.58% to 6.34%) per annum and repayable within one year.*

(d) *The loans to customers represent the loans granted to the specific customers as permitted by the People's Bank of China (the "PBOC").*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

10. LOANS RECEIVABLE *(Continued)*

The maturity profile of the Group's loans receivable at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *RMB'000*
Repayable:		
Within three months	**50,793**	68,024
Within one year but over three months	**117,399**	132,510
Within five years but over one year	**176,013**	194,066
Over five years	**2,926**	3,575
	347,131	398,175

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

11. 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 Unaudited ***RMB'000***	As at 31 December 2005 Audited *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

Included in the trade and bills receivables of the Group as at 30 June 2006 are trade receivables (net of provision) from the associates of approximately RMB4,119,000 (31 December 2005: RMB12,135,000).

Included in the trade and bills receivables of the Group as at 30 June 2005 was trade receivable (net of provision) from the Holding of approximately RMB8,136,000.

As at 30 June 2006, certain of the Group's bills receivable of approximately RMB27,493,000 (31 December 2005: RMB7,400,000) were pledged for the issuance of bills payable.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

12. BILLS DISCOUNTED RECEIVABLE

The bills discounted receivable arose from the Group's financial operation. Included in the bills discounted receivable (net of impairment allowance) of the Group are approximately RMB83,236,000 (31 December 2005: RMB56,103,000) related to the Holding; approximately RMB83,338,000 (31 December 2005: RMB97,238,000) related to an associate; and approximately RMB9,682,000 (31 December 2005: RMB9,267,000) related to related companies.

The maturity profile of the Group's bills discounted receivable at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2006 Unaudited ***RMB'000***	As at 31 December 2005 Audited *RMB'000*
Maturing:		
Within three months	**123,952**	105,697
Within six months but over three months	**59,234**	63,431
	183,186	169,128
Less: Impairment allowance	**(1,832)**	(1,691)
	181,354	167,437

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

13. OTHER RECEIVABLES

(a) Included in other receivables of the Group is an amount of RMB10 million (31 December 2005: RMB20 million) (net of provision) due from the branch of a securities company which represents the overdue balance of a government bond investment to be repaid to the Company. Pursuant to a court judgement in September 2004, the securities company is required to repay the overdue balance of RMB42.72 million to the Company and a repayment schedule has been agreed between the Company and the securities company such that the securities company should repay the overdue balance to the Company by unequal instalments over 2 years commencing from 15 January 2005. The Company received the first settlement of RMB13,500,000 in January 2005. Thereafter, the securities company commenced its restructuring and since July 2005, it is under court order protection against the execution of any claim on it until January 2007. As a result, the agreed repayment schedule for the remaining balance of RMB29.22 million was deferred. The directors are of the view that the Company should have valid legal claim on the outstanding balance and is able to recover such balance subsequent to the expiry of the court order. However, the directors consider it prudent to further provide an additional impairment allowance of RMB10,000,000 in the income statement for the six months ended 30 June 2006 (year ended 31 December 2005: RMB9,220,000) to cover for the overdue instalments at 30 June 2006.

(b) Included in other receivables of the Group are amounts due from the Holding and the associates of approximately RMB56,799,000 (31 December 2005: RMB23,760,000) and RMB22,370,000 (31 December 2005: RMB5,076,000), respectively. Such balances are unsecured, interest-free and have no fixed terms of repayment.

(c) Included in other receivables of the Group are amounts due from minority shareholders of subsidiaries of the Group of approximately RMB22,811,000 (31 December 2005: RMB22,703,000). Such balances are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *RMB'000*
Cash and bank balances - *Note (a)*	**335,735**	416,883
Mandatory reserve deposits in the PBOC - *Note (b)*	**26,723**	38,362
Time deposits	**294,481**	208,308
	656,939	663,553
Less: Pledged time deposits	**(279,184)**	(121,124)
	377,755	542,429

Notes:

(a) *The balance included FTGF's placements with the PBOC and other banks of approximately RMB7,338,000 (31 December 2005: RMB52,764,000) and RMB64,490,000 (31 December 2005: RMB136,689,000), respectively.*

(b) *The balance represents mandatory reserve deposits placed in the PBOC. In accordance with the regulations of the PBOC, such balance should be no less than a specific percentage of the amounts of the customer deposits placed with FTGF. Such mandatory reserve deposits are not available for use in the Group's day-to-day operations.*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

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

The maturity profile of the Group's time deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	As at 30 June 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *RMB'000*
Maturing:		
Within three months	**178,397**	139,308
Within one year but over three months	**116,084**	69,000
	294,481	208,308

15. 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 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 (the "Casting Factories") (including Precision Casting Factory, No.1 Iron Casting Factory, Steel Casting Factory and Nodular (Graphite) Cast Iron and Aluminum Factory) 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 "Assets Swap"), the net consideration payable in cash by the Company to the Holding pursuant to the Assets Swap Agreement is approximately RMB39.78 million. The Assets Swap was effected subsequent to the balance sheet date. Further details of the Assets Swap are disclosed in notes 22(b) and 23 to these condensed consolidated interim financial statements.

Included in assets classified as held for sale as at 30 June 2006 is trade receivable from the Holding of approximately RMB8,100,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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16. TRADE AND BILLS PAYABLES

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

	As at 30 June 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *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

The Group's bills payables amounting to approximately RMB397,878,000 (31 December 2005: RMB211,375,000) are secured by the pledge of certain of the Group's deposits amounting to approximately RMB253,659,000 (31 December 2005: RMB105,570,000).

Included in the trade and bills payables of the Group are trade payables to the Holding and the associates of approximately RMB2,391,000 (31 December 2005: RMB2,865,000) and RMB13,406,000 (31 December 2005: RMB8,113,000), respectively.

17. OTHER PAYABLES AND ACCRUALS

(a) Included in other payables and accruals of the Group are amounts due to the Holding and minority shareholders of subsidiaries of the Group of approximately RMB19,144,000 (31 December 2005: RMB22,823,000) and RMB114,000 (31 December 2005: RMB6,541,000), respectively. Such balances are unsecured, interest-free and have no fixed terms of repayment.

(b) Included in other payables and accruals of the Group is receipt in advance from an associate of approximately RMB4,304,000 (31 December 2005: RMB3,772,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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18. CUSTOMER DEPOSITS

	As at 30 June 2006 Unaudited ***RMB'000***	As at 31 December 2005 Audited *RMB'000*
Deposits from the Holding	**47,147**	69,525
Deposits from associates	**17,137**	75,859
Deposits from related companies	**34,088**	28,184
Deposits from customers	**27,563**	25,460
	125,935	199,028

The maturity profile of the Group's customer deposits at the balance sheet date is analysed by the remaining periods to their contractual maturity as follows:

	As at 30 June 2006 Unaudited ***RMB'000***	As at 31 December 2005 Audited *RMB'000*
Repayable:		
On demand	**121,895**	195,128
Within three months	**—**	—
Within one year but over three months	**3,740**	3,900
Over one year	**300**	—
	125,935	199,028

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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19. ACQUISITION OF SUBSIDIARIES

In December 2005, the Company entered into a capital injection agreement with Yituo (Luoyang) Transportation Machinery Co., Ltd. ("YLTM"), whereby the Company agreed to inject capital of RMB50,880,000 in the form of cash and other assets into YLTM. Before the aforesaid capital injection, the registered capital of YLTM was RMB5 million and the Holding held 73.836% equity interest in YLTM, while the remaining 26.164% equity interest were held by certain individuals. After the aforesaid capital injection, the registered capital of YLTM will be increased to RMB55,880,000, of which RMB50,880,000 (constituting 91.05% thereof) will be attributed to the Company and RMB5,000,000 (constituting 8.95% thereof) will be attributable to the Holding and certain individuals. YLTM engages in the manufacture and sale of transportation machinery. YLTM holds 70% equity interest in Yituo (Luoyang) Fork Lift Trading Company Limited ("YLFT"). In January 2006, the Company injected capital of RMB19.2 million in the form of cash into YLTM. Thereafter, YLTM and its subsidiary,YLFT (collectively "YLTM Group") became subsidiaries of the Group. The remaining capital injection of RMB31.7 million, which will be in form of non-cash assets, is expected to be completed in September 2006.

Details of the assets and liabilities of YLTM Group immediately before the capital injection were as follows:

	Carrying amount Unaudited *RMB'000*
Property, plant and equipment	375
Construction in progress	323
Cash and bank balances	1,725
Trade and bills receivables	1,052
Other receivables	1,985
Inventories	7,948
Trade and bills payables	(8,883)
Other payables and accruals	(608)
Interest-bearing bank loans	(500)
Minority interests	(184)
	3,233

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

19. ACQUISITION OF SUBSIDIARIES *(Continued)*

The above carrying amounts of the assets and liabilities of YLTM Group approximate to their fair values.

Since its acquisition, YLTM Group contributed RMB18,190,000 to the Group's turnover and reduced the consolidated profit after tax of RMB313,000 for the six months ended 30 June 2006.

20. CONTINGENT LIABILITIES

(a) As at 30 June 2006, FTGF, a subsidiary, had given guarantees to the extent of RMB100 million (31 December 2005: RMB100 million) and RMB55 million (31 December 2005: RMB20 million) to certain financial institutions for securing the loans granted to the Holding and Yituo Diesel, respectively. As at 30 June 2006, the aforesaid loans of the Holding and Yituo Diesel were drawn down to RMB100 million (31 December 2005: RMB100 million) and RMB55 million (31 December 2005: RMB20 million), respectively.

(b) As at 30 June 2006, FTGF had given guarantee to the extent of RMB4.5 million (31 December 2005: Nil) to a bank for securing the banking facilities granted to the Holding.

(c) As at 30 June 2006, the Holding and FTGF, had jointly given guarantee to the extent of RMB52 million (31 December 2005: RMB52 million) to a financial institution for securing the loans granted to Yituo Fuel Jet, a subsidiary of the Holding. The aforesaid loans were drawn down to RMB52 million (31 December 2005: RMB52 million) as at 30 June 2006.

(d) As at 30 June 2006, Zhengjiang Huachen Huatong Road Machinery Company Limited ("ZHHRM"), a subsidiary of the Group, had provided a guarantee to the extent of RMB20 million (31 December 2005: RMB20 million) to a bank for securing the loan granted to a customer of the Group.

(e) As at 30 June 2006, the Group had given guarantee to the extent of RMB1 million to a bank for securing a loan granted to Yituo (Luoyang) Engine Machinery Co. Ltd. ("YEMC"), an associate of the Group. The aforesaid loan of YEMC was drawn down to RMB1 million as at 30 June 2006.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

20. CONTINGENT LIABILITIES *(Continued)*

The fair values of the above financial guarantee contracts recognised in the accordance with HKAS 39 and HKFRS 4 Amendments are immaterial to the Group's condensed consolidated interim financial statements.

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

21. CAPITAL COMMITMENTS

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

	As at 30 June 2006 Unaudited *RMB'000*	As at 31 December 2005 Audited *RMB'000*
Contracted, but not provided for:		
Purchase of plant and machinery	**91,547**	92,129
Investment in a joint venture	**31,721**	50,880
Acquisition of subsidiaries	**198,020**	—
	321,288	143,009
Authorised, but not contracted for:		
Purchase of plant and machinery	**73,394**	170,186
Investment in a joint venture	**—**	9,360
	73,394	179,546
	394,682	322,555

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS

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

(a) The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the period are summarised as follows:

		For the six months ended 30 June	
		2006	2005
		Unaudited	Unaudited
	Notes	***RMB'000***	*RMB'000*
Sales of raw materials, finished goods and components	(i)	**261,012**	166,341
Purchases of raw materials and components	(i)	**351,283**	287,390
Purchases of utilities	(ii)	**77,559**	57,404
Fees paid for welfare and support services	(iii)	**12,534**	7,876
Purchases of transportation services	(iii)	**24,969**	11,252
Research and development expenses paid	(iv)	**18,548**	4,037
Fees paid for the use of land	(v)	**2,500**	2,500
Fees paid for the use of trademark	(vi)	**6,204**	4,037
Rentals paid in respect of:			
Buildings	(vii)	**800**	632
Plant and machinery	(vii)	**2,040**	1,165
Rentals received in respect of plant and machinery	(viii)	**1,855**	1,610
Sales of plant and machinery	(ix)	**198**	1,009
Purchases of plant and machinery	(x)	**5,817**	624
Interest income, inclusive of discounted bill charges	(xi)	**12,734**	15,197
Interest paid for customer deposits	(xii)	**283**	236
Service charge for guarantees	(xiii)	**1,175**	—

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the period are summarised as follows: *(Continued)*

The above transactions included the significant transactions carried out between the Group and its associates, Yituo Diesel (which is also a subsidiary of the Holding), Yituo (Luoyang) Casting & Forging Company Limited ("YLCF") (where the Holding holds a 50% equity interest) and YEMC (where Yituo Diesel holds a 50% interest).

Particulars of the significant transactions carried out between the Group and Yituo Diesel, YLCF and YEMC during the period are summarised as follows:

		For the six months ended 30 June	
		2006	2005
		Unaudited	Unaudited
	Notes	***RMB'000***	*RMB'000*
Sales of raw materials and components	(i)	**129,739**	86,934
Purchases of raw materials and components	(i)	**142,256**	115,395
Rentals received in respect of plant and machinery	(viii)	**1,855**	1,610
Purchase of plant and machinery	(x)	**164**	—
Interest income, inclusive of discounted bill charges	(xi)	**1,831**	2,818
Interest paid for customer deposits	(xii)	**27**	40
Service charge for guarantees	(xiii)	**175**	—

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the period are summarised as follows: *(Continued)*

Particulars of the significant transactions carried out between the Group and Luoyang First Motors Company Limited, an associate, during the period are summarised as follows:

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Unaudited RMB'000
Sales of raw materials and components	(i)	**3,279**	2,772
Purchases of raw materials and components	(i)	**—**	1,993
Interest income	(xi)	**609**	—
Interest paid for customer deposits	(xii)	**55**	607

During the period, ZHHRM and Zhenjiang Huatong Aran Machinery Company Limited ("ZHAM") carried out various transactions with Jiangsu Huatong Machinery Co., Ltd. ("Jiangsu Huatong") (the minority shareholder of ZHHRM and ZHAM) and the then holding company of Jiangsu Huatong. Particulars of these transactions are summarised as follows:

	Notes	For the six months ended 30 June 2006 Unaudited RMB'000	2005 Unaudited RMB'000
Sales of raw finished goods and components	(xiv)	**649**	9,704
Purchases of raw materials and components	(xiv)	**206**	1,627
Fees paid for the use of trademark	(xiv)	**250**	200
Rentals paid in respect of:			
Plant and machinery	(xiv)	**—**	100
Land	(xiv)	**460**	460
Buildings	(xiv)	**—**	125
Fees paid for support services	(xiv)	**50**	50
Management fees paid	(xiv)	**100**	100

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the period are summarised as follows: *(Continued)*

Notes:

(i) Pursuant to relevant agreements, the pricing in respect of raw materials and components is determined by reference to the state price (i.e., mandatory price set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such raw materials or components, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

(ii) Pursuant to relevant agreements, the pricing in respect of utilities is determined by reference to the state price (i.e., mandatory price set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

(iii) Pursuant to relevant agreements, the pricing in respect of each of the welfare and support services and transportation services is determined by reference to the state price (i.e., mandatory prices set in accordance with relevant PRC regulations, where applicable), or if there is no applicable state price for any such services, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage equal to certain PRC consumer price indexes, whichever is lower.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The significant transactions carried out between the Group and the Holding group, inclusive of subsidiaries and associates of the Holding, during the period are summarised as follows: *(Continued)*

Notes: (Continued)

(iv) Pursuant to relevant agreements, the pricing in respect of routine research and development services is calculated at a rate of 0.2% (2005: 0.2%) of the Company's net annual turnover, while the pricing in respect of non-routine research and development services is determined at rates mutually agreed between the Group and the respective related parties.

(v) Pursuant to relevant agreements, the annual rental for the use of land is RMB5 million (2005: RMB5 million) subject to a further land rental adjustment announced by the relevant state land administration authorities.

(vi) Pursuant to relevant agreements, the pricing for the use of the trademark is charged at a rate of 0.2% (2005: 0.2%) of the Company's net annual turnover.

(vii) Pursuant to relevant agreements, the rental of buildings and plant and machinery is charged with reference to the depreciation of the relevant assets.

(viii) Pursuant to relevant agreements, the rental of plant and machinery is received mutually agreed with the related parties.

(ix) The sales of plant and machinery are conducted under mutually agreed terms.

(x) The purchases of plant and machinery are conducted under mutually agreed terms.

(xi) The interest income related to the bills discounting service and loans granted by FTGF to the Holding and its subsidiaries and associates. Pursuant to relevant agreements, the transactions are conducted with reference to the terms and rates stipulated by the PBOC.

(xii) The interest paid for customer deposits relates to the customer deposits placed in FTGF by the Holding and its subsidiaries and associates. Pursuant to the relevant agreements, the transactions are conduced with reference to the terms and rates stipulated by the PBOC.

(xiii) The service charge for guarantees related to the service charge paid by the Holding group for guarantee provided by FTGF. Pursuant to the relevant agreements, the service charges are reference to the rates stipulated by the PBOC.

(xiv) These transactions were conducted according to the prices and conditions, mutually agreed between the Group and its minority shareholder.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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22. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Assets swap transaction with the Holding

On 8 May 2006 the following agreements were entered into:

(i) The Company and the Holding entered into the Assets Swap Agreement pursuant to which the Company agreed with the Holding to exchange the Casting Factories Interests at an aggregate consideration of approximately RMB158.24 million for the 58.80% equity interest in Yituo Diesel and 70% equity interest in Yituo Fuel Jet at a consideration of approximately RMB154.75 million and RMB43.27 million respectively, the net consideration payable by the Company in cash to the Holding pursuant to the Assets Swap Agreement is approximately RMB39.78 million.

(ii) Yituo Diesel and the Holding entered into a conditional land lease agreement ("Diesel Land Lease") for the lease of the existing site of Yituo Diesel, with a term with effect from the effective date ("Effective Date") of the Assets Swap Agreement (the date on which all the conditions of the Assets Swap Agreement are fulfilled) to 31 December 2009. The annual rental payable under the Diesel Land Lease is approximately RMB720,000.

(iii) Yituo Fuel Jet and the Holding entered into a conditional land lease agreement ("Fuel Jet Land Lease") for the lease of the existing site of Yituo Fuel Jet, with a term with effect from the Effective Date to 31 December 2009. The annual rental payable under the Diesel Land Lease is approximately RMB300,000.

(iv) Yituo Diesel and the Holding entered into a conditional factory buildings lease agreement ("Diesel Factory Buildings Lease") for the lease of the existing factory and ancillary premises of Yituo Diesel, with a term with effect from the Effective Date to 31 December 2006. The annual rental payable under the Diesel Factory Buildings Lease is approximately RMB4 million.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Assets swap transaction with the Holding *(Continued)*

(v) The Company and the Holding entered into a conditional factory buildings lease agreement ("Casting Factories Buildings Lease") for the lease of the existing factory and ancillary premises of the Casting Factories, with a term with effect from the Effective Date to 31 December 2006. The monthly rental payable under the Casting Factories Buildings Lease is approximately RMB800,000.

(vi) Yituo Diesel and Yituo Fuel Jet respectively entered into conditional repayment agreements (the "Diesel Repayment Agreement" and the "Fuel Jet Repayment Agreement") with the Holding, pursuant to which, each of the Yituo Diesel and Yituo Fuel Jet has agreed the repayment terms for the Holding to repay the existing financial assistances provided from Yituo Diesel and Yituo Fuel Jet of approximately RMB81 million and RMB26 million respectively following the completion of the Assets Swap.

(c) Other transactions with related parties

(i) Designated deposits and designated loans

As at 30 June 2006, the Holding placed a designated deposit of approximately RMB6.2 million (31 December 2005: RMB3.8 million) in FTGF for lending to YLCF.

As at 30 June 2006, Yituo International Commerce Company Limited, a subsidiary of the Holding, placed a designated deposit of RMB2 million (31 December 2005: RMB2 million) in FTGF for lending to a third party.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Other transactions with related parties *(Continued)*

(ii) Guarantees provided by the Group to related parties

As at 30 June 2006, FTGF provided guarantees to the extent of RMB100 million (31 December 2005: RMB100 million) and RMB55 million (31 December 2005: RMB20 million) to certain financial institutions for securing loans granted to the Holding and Yituo Diesel, respectively.

As at 30 June 2006, FTGF had given guarantee to the extent of RMB4.5 million (31 December 2005: Nil) to a bank for securing the banking facilities granted to the Holding.

As at 30 June 2006, the Holding and FTGF jointly provided a guarantee to the extent of RMB52 million (31 December 2005: RMB52 million) to a financial institution for securing loans granted to Yituo Fuel Jet.

As at 30 June 2006, the Group had given guarantee to the extent of RMB1 million to a bank for securing a loan granted to YEMC.

(iii) Guarantees provided by related parties to the Group

During the period, the Holding provided a guarantee to the extent of RMB100 million to a bank for securing the banking facilities granted to the Company. As at 30 June 2006, the aforesaid banking facilities were utilised to the extent of RMB30 million (31 December 2005: RMB30 million).

During the period, Yituo Diesel provided a guarantee to the extent of RMB20 million to a bank for securing a loan granted to the Company. As at 30 June 2006, the aforesaid loan was utilised to the extent of RMB20 million (31 December 2005: RMB20 million).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Other transactions with related parties *(Continued)*

(iv) During the period, pursuant to a capital injection agreement, the Group injected RMB19.2 million into YLTM, which is 73.836% owned by the Holding. Further details of which are disclosed in note 19 to these condensed consolidated interim financial statements.

(v) During the period, certain land and buildings acquired by FTGF in exchange for loans in order to achieve an orderly realisation were sold to the Holding at a consideration of approximately RMB5.48 million.

(d) Outstanding balances with related parties

(i) Details of the Group's amount due from/to the Holding, its loans and deposits balances with the Holding as at the balance sheet date are disclosed in notes 13, 17, 10 and 18 to the condensed consolidated interim financial statements.

(ii) Details of the Group's amount due from/to, loans to and deposits received from its associates as at the balance sheet date are included in notes 13, 17, 10 and 18 to the condensed consolidated interim financial statements.

(iii) Details of the Group's trade balances with its related parties as at the balance sheet date are disclosed in notes 11, 15 and 16 to the condensed consolidated interim financial statements.

(iv) Details of the Group's amounts due from/to the minority shareholders as at the balance sheet date are disclosed in notes 13 and 17 to the condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2006

22. RELATED PARTY TRANSACTIONS *(Continued)*

(e) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Short term employee benefits	**335**	286
Post-employment benefits	**114**	72
Total compensation paid/payable to key management personnel	**449**	358

23. POST BALANCE SHEET EVENTS

Subsequent to balance sheet date, the Assets Swap Agreement, Diesel Land Lease, Fuel Jet Land Lease, Diesel Factory Buildings Lease, Casting Factories Buildings Lease, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement in relation to the Assets Swap as mentioned in note 22(b) above were approved on an extraordinary general meeting held on 28 July 2006.

Since the Assets Swap was effected shortly before the date of approval of these condensed consolidated interim financial statements, it is not practicable to disclose further details about the Asset Swap.

24. COMPARATIVE AMOUNTS

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

25. APPROVAL OF THE INTERIM FINANCIAL REPORT

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 25 August 2006.

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 as 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.

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 a conditional assets restructuring agreement (the "**Asset Swap Agreement**") with China Yituo Group Corporation Limited ("**China Yituo**") during the reporting period. Pursuant to the Asset Swap Agreement, the Company agreed to exchange its assets and liabilities (the "**Casting Factories Interests**") 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 (Luoyang) Diesel Co., Ltd ("**Yituo Diesel**") and the 70% equity interests in Yituo (Luoyang) Fuel Jet Company Limited ("**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 an 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 interest rates for such back loans are ranged from 5.58% to 5.85% per annum. The Group did not have long term bank loan.

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 to 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.

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

- 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 report for details.

During the reporting period, the Group did not held any significant investment.

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 and such sum is funded by the working capital of the Company. Upon completion of asset swap, Yituo Diesel and Yituo Fuel Jet will become the subsidiaries of the Company.

CURRENCY EXCHANGE RISK

The Group manages its foreign exchange revenue and expenditure in accordance with the relevant laws and regulations of foreign exchange management issued by the State, and has established internal foreign exchange flows with cash balance usually deposited with financial institutions in the form of deposits. As the Group carries out its day-to-day business activities mainly in the PRC, a large amount of capital income and expenditure is principally denominated in Renminbi. with a small amount of expenditure being denominated in Hong Kong dollars. The Group's foreign exchange liabilities are mainly derived from the payment of fees to the professional parties outside the PRC. Bank loans required for the Group's operating activibes and technological renovations were borrowed and denominated in Renminbi and such loans can be repaid out of income received in Renminbi. Therefore, the movement in exchange rate has minor impact on the Group's operation results.

As at 30 June 2006, there was no pledge of any deposit in foreign currency by the Group.

During the reporting period, there was no pledge activity made in respect of foreign exchange risk.

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 and RMB55 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 RMB20 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.

Details of contingent liabilities as at 30 June 2006 are set out in note 20 to the unaudited condensed consolidated interim financial statements.

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.

SHARE CAPITAL, CONVERTIBLE SECURITIES, OPTIONS AND WARRANTS

During the six months ended 30 June 2006, there was no change in the registered or issued share capital of the Company nor did the Company issue any convertible securities, options, warrants or similar rights during the six months ended 30 June 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 six months ended 30 June 2006.

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

As at 30 June 2006, save as disclosed below, none of the Directors, supervisors (the "**Supervisors**") or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "**SFO**")), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests held or deemed to be held by them under such provision of the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Name	Company / Name of associated corporation	Capacity	Registered capital held *(Note 1)*	Approximate percentage in the total registered capital of the Company / associated corporation
Yan Linjiao (Director)	Yituo (Luoyang) Lutong Construction Machinery Co., Ltd. ("**Lutong Company**") *(Note 2)*	Beneficial owner	RMB290,000 (L)	0.5%

Note 1: The letter "L" represents the person's long position in the registered capital of the member of the Group.

Note 2: Lutong Company is a company with limited liability established in the PRC with a registered capital of RMB58,000,000. Mr Yan Linjiao contributed RMB290,000 representing 0.5% of the total registered capital of Lutong Company.

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

As at 30 June 2006, the Company issued a total of 785,000,000 Shares. Its structure of share capital was as follows:

Type of Shares	**Number of Shares**	**Percentage** (%)
(1) Non-circulating state-owned legal person Shares (the "**Domestic Shares**")	450,000,000	57.32
(2) Circulating Shares listed in the Stock Exchange (the "**H Shares**")	335,000,000	42.68
Total number of Shares in issue	785,000,000	100.00

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the following shareholders (other than the Director, Supervisor or chief executive of the Company) of the Company have interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Domestic Shares

Name of shareholder	Nature of interests	Number of Shares *(Note 1)*	Approximate percentage of the total issued share capital of the Company
China Yituo Group Corporation Limited	Beneficial owner	450,000,000 Shares (L)	57.32%

H Shares

Name of shareholder	Nature of interests	Number of Shares *(Note 1)*	Approximate percentage of the total issued H Shares of the Company
Fidelity International Limited	Investment manager	24,216,600 Shares (L)	7.23%
DnB Nor Asset Management (Asia) Limited	Investment manager	16,716,000 Shares (L)	4.99%

Notes:

1 : The letter "L" represents the entities' long positions in the Shares.

2 : According to the Corporate Substantial Shareholder Notice submitted by State Street Corporation to the Company dated 23 September 2005, State Street Corporation is the holding company of an approved lending agent, and 15,639,756 H Shares are held in a lending pool.

Save as disclosed above, so far as is known to the Directors, Supervisors or chief executive of the Company, there is no other person (other than the Director, Supervisor or chief executive of the Company) who, as at 30 June 2006, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

THE COMPANY'S STAFF AND REMUNERATION FOR STAFF

As at 30 June 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. Chen Zhi, 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 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company held its 2005 Annual General Meeting on 16 June 2006, which approved the appointment of Mr. Lu Zhongmin, Mr. Chan Sau Shan, Gary , Mr. Chen Zhi and Mr. Luo Xiwen as independent non-executive Directors. Amongst them, Mr. Lu Zhongmin and Mr. Chan Sau Shan, Gary have been the independent non-executive Directors for nine years. However, they are considered as independent from the Company under relevant requirements of the Listing Rules by the Company, and hence are re-appointed as independent non-executive Directors. The term of office for the four independent non-executive Directors is three years with effect from 1 July 2006.

The Company has complied with the requirements under Rule 3.10(1) and 3.10(2) of the Listing Rules during the reporting period. The Company has appointed four independent non-executive Directors as at 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the six months ended 30 June 2006, the Company has adopted a code of conduct for securities transactions by its Directors and Supervisors in accordance with the required standards stipulated in the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors and Supervisors, the Company confirmed that all the Directors and Supervisors have complied with the required standard set out in the Model Code for Securities Transaction by Directors of Listed Issuers.

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