RESULTS AND BUSINESS REVIEW

We had a spectacular year of 2006 with outstanding business and financial performance. Customers continued to support of our products, and sales are continued to increase. The Group's consolidated turnover for the Period was approximately RMB3,718 million representing an increase of approximately 39%.as compared to approximately RMB2,678 million over the same period of 2005. Gross profit from operations was approximately RMB957 million representing an increase of approximately 73% as compared to approximately RMB553 million when compared with the corresponding period in 2005. Overall gross margin has increased to approximately 25.7% as compared to approximately 20.6% from the year ended of 2005. The increase in gross margin for the Period was mainly attributable to the followings:- (i) cost savings from enhanced vertical integration manufacturing model; (ii) the average purchase price for raw materials has declined in the year of 2006 over 2005; (iii) benefits from increased economies of scales of production and (iv) continued increased in exports volume. Profits attributable to the Group equity holders for the Period was approximately RMB624 million representing an increase of approximately 165% as compared to that of 2005. The Company's basic earnings per share were approximately RMB0.60 representing an increase of approximately 87.5% over the corresponding period in 2005.

Geographical Results

The northern and north eastern regions of the PRC remained the Company's principal marketing regions and represented approximately 32% and approximately 8% of our total turnover respectively for the Period. We attribute such geographical turnover to the strong demand for infrastructure machinery in the northern region as caused by the PRC government's encouragement of investments in many major construction and development projects. We have enhanced our sales efforts in the north western and south western regions of the PRC and have experienced a rising sales trend in these regions which accounted for approximately 28% of our total turnover for the Period.

Wheel Loaders

Wheel loaders were primarily applied in a variety of infrastructure activities, including construction of roads, railways, tunnels, bridges, mining activities, water and electricity projects, steel and cements manufacturing and construction and real estates. Our products target mainly the PRC infrastructure and mining sectors. For the year ended 31 December 2006, approximately 40%, 40% and 10% of our turnover was attributable to entities involved in roads, railways and tunnels and bridges projects, mining and water and power supply, respectively.

We manufacture three principal series of wheel loaders, the ZL30, ZL40 and ZL50 series, with designed loading power ranging from three to five tons. Sales in wheel loaders were again the major sales generator for the Company which accounted for approximately 95% of the Company's turnover for the Period. ZL50 series continued to be the main revenue driver and achieved a turnover of approximately RMB3,042 million for the Period, representing an increase of approximately 40% when compared with the same period in 2005. ZL30 series is the second largest revenue contributor and has achieved a turnover of approximately RMB 477 million, showing an increase of approximately 28% when compared to the corresponding period last year. In this year, we are designing, manufacture and sale of mini loaders with loading power bellow three tons which has received strong market presence when they were first launched to the market. We have achieved approximately 18 million for the year ended 31 December 2006. The combined gross margin for wheel loaders was approximately 26% for the Period.

The increase in sales volume of wheel loaders was mainly attributable to the strong market perceptions on China Longgong's brand name; the increased in the PRC's mega infrastructural projects and the increased investments in fixed asset investments (FAI) in the year 2006.

Road Rollers

The Company has built up a strong market presence for road rollers since its first launch in the second half of year 2004. The operating revenues from road rollers amounted to approximately RMB50 million for the Period, representing an increase of approximately RMB21 million (or approximately 74%) when compared with the corresponding period last year. This increase was mainly attributable to the increase in customers' satisfaction and the enhanced quality of the product.

Fork Lifts

Fork lifts are our newly designed products and have achieved approximately RMB3 million for the Period. Currently we have invented approximately ten different models of fork lifts for factory, godowns, warehouse and ports.

FINANCIAL REVIEW

The Group financed its operations from internally generated cash flow, bank borrowings and accumulated retained earnings. The Group adopts a prudent finance strategy in managing Company's financing needs. The Group believes that its cash holding, cash flow from operation, future revenue and available banking facilities will be sufficient to fund its working capital requirements.

Cash and Bank Balance

The Group maintained a sound cash position during the Period. For the year ended 31 December 2006, the Group had bank balances and cash of approximately RMB129,439,000 (31 December 2005: approximately RMB408,014,000) and pledged bank deposit of approximately RMB59,593,000 (31 December 2005: approximately RMB14,008,000) secured for banking facilities granted to the Group. The Group also obtained banking facilities line secured by fixed deposits and corporate guarantee given by the Company.

Bank Borrowings

For the Period, the Group had bank borrowings of approximately RMB266,869,000 (31 December 2005: approximately RMB455,320,000). The Group's gross debt-to-equity ratio, representing the interest-bearing debt divided by the total equity of the Company was approximately 15% (31 December 2005: approximately 39%). The Group's net debt-to-equity ratio, representing the interest-bearing debt minus bank balances and cash divided by the total equity of the Company was approximately 8% (31 December 2005: approximately 4%)

Cash flow from Operating Activities

For the year ended 31 December 2006, the Group's net cash flow from operating activities was approximately RMB330,473,000 representing an increase of approximately 2165% over the same period of last year.

Cash flow used in Investing Activities

For the year ended 31 December 2006, the Group's net cash flow used in investing activities was approximately RMB400,107,000, representing an increase of approximately RMB200,593,000 when compared to the corresponding period in 2005. The increase was mainly due to the expansion of production capacity and increase in the acquisition of production plant and equipment.

Cash flow used in Financing Activities

For the year ended 31 December 2006. The Group's net cash flow used in financing activities was approximately RMB208,941,000, representing a decrease of approximately RMB552,668,000 over the same period in year 2005 . The decrease was mainly attributable to the reduction of new bank loans raised and the increase in repayment of bank borrowings.

Net Working Capital

The Group's liquidity position also remained healthy. As at 31 December 2006, the current assets of the Group were approximately RMB1,970,772,000 representing an increase of approximately RMB430,162,000 from the year end of 2005, which was in line with our business expansion. As at 31 December 2006 the current liabilities of the Group were approximately RMB1,063,829,000 which included trade and bills payables of approximately RMB559,481,000, and bank borrowings due within one year of approximately RMB266,869,000. The Group' s current ratio, representing the current assets divided by the current liabilities, as at 31 December 2006 was approximately 1.85 times (31 December 2005: approximately 1.67 times).

Capital Commitment

As at 31 December 2006, the Group had contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB98,848,000 (31 December 2005: approximately RMB41,016,000)

Contingent Liability

As at 31 December, 2006, the Group had issued corporate guarantees to the extent of approximately RMB325,600,000 (31 December, 2005: approximately RMB185,000,000) to the banks to secure certain banking facilities of the Group's sales agents, such banking facilities being used by the sales agents to issue bank acceptance drafts in the Group's favour for the settlement of the purchase from the group. The amount of such facilities being utilised as at 31 December 2006 amounted to approximately RMB273,210,000 (31 December, 2005: approximately RMB87,559,000).

STRATEGIES AND PROSPECT

2006 was a prosperous year to the Group achieving brilliant financial and business performance and as a result gaining market shares up to 18.9%. We believe year 2007 will be another fruitful year continued with our momentum in the year of 2006.

Taking advantage of domestic PRC strong infrastructure machinery market demand and Government's economic plan to support industrial and

agricultural sectors

The Company's growth is closely related to the FAI and economic developments of the PRC. Year 2006 is the beginning year of the "Eleventh Five-Year Development Plan for National Economic and Social Development (2006-2010)", and a lot of infrastructural projects are in pipeline in the PRC. Domestic demand and consumption capacity continued to raise, the level of industrial investment increased, the level of industrialization, modernization and internationalization continued to increase, and the volume of trading rose rapidly. These developments have provided a favorable business environment and provided the Company potentials for further growth in the PRC.

The Company is in the best position to take advantage of this market trend, given the Group's unrivalled competitive edges and in-depth understanding of market trends, China Longgong will further enhance its product mix to achieve outstanding performance in the next year of 2007.

Widening the breath of the Company's product portfolio

Sticking to the Company's management philosophy "to maximize our product mix", the Company took initiatives in research and development of new products based on market responses and the changing customers' needs. Since the inception of the business in 1993, the Company had invented more than 30 new models of wheel loaders. Apart from wheel loaders and road rollers, the Company has successfully invented its own models of fork lifts and has successfully launched to the market in the second half of the year which built up strong market presence. The Company had invented our China Longgong's brand excavators in the first half year of 2006 and has targeted to launch to the market in the first half year of 2007. The Company has also committed to explore new products which would enhance the Company's profits. The Company will also exploring opportunities in acquiring business in another machinery equipment segment so as to strengthen our product lines.

Building up strong overseas distribution network

The Company aim to increasing sales and broaden customer base through better network coverage, the Company will further expand its nationwide distribution system and service network. The Company

distinguished after-sales service provides an effective competitive edge in attracting and retaining customers. The Company will also explore opportunities in the overseas market. With the improved quality and excellent value to price ratio, the Company will develop customized product to meet the specific requirements and needs of overseas customers. The Company will adopt a proactive promotion strategy to raise its profile and brand awareness of the China Longgong brand name in the overseas market. For the year ended 31 December 2006, the Company has achieved approximately RMB 95million exports sales to Middle East and Russia. The Company will adopt a selective strategy in pairing with overseas distributors so as to ensure our quality and stable supply.