Management Discussion and Analysis

ANALYSIS OF RESULTS

For the year ended 31st December, 2000, the total turnover of the Group amounted to approximately RMB1,997,314,000, representing a decrease of 30.29% over the same period of last year. The consolidated loss after tax and minority interests was RMB157,053,000, representing a 296% decrease over the previous year. Loss per share amounted to RMB20.01 cents.

The Company has incurred a loss which was mainly due to (i) the operating loss of approximately RMB107 million and (ii) various provisions made during the year amounting to approximately RMB50 million. The loss was mainly attributable to the structural adjustment in the agricultural industry implemented by the State during the past few years and the persistence of decline in the prices of grains and agricultural products during the reporting period, resulting in a reduction in farmers' income. Consequently, there was a significant decrease in the purchasing power of agricultural machinery in the agricultural market. Due to the above reasons, the sales volume of smaller tractors and crawler tractors decreased by approximately 41.16% and 34.34% respectively during the reporting period. Such decreases in sales volume resulted in a decline in profit by RMB93,030,000. The Directors did not recommend the payment of a final dividend for the year ended 31st December, 2000.

COST ANALYSIS

Facing increasing competition in the industry, the management of the Company emphasized on target cost management in 2000. The Company implemented the target cost management on design, purchase, production and sales on the basis of full participation and comprehensive control in different production procedures. The Company adopted "sunlight purchase" (「陽光採*　」), which was a tender system with respect to purchase, and "market retrospective method" (「市場倒逼(tm)k」), which was a method of determining the costs of products based on market prices, on purchasing and production respectively. The Company has set up a target cost index for the specialized plants aiming at setting performance targets and assigning responsibilities to each individual worker. In 2000, the average purchasing cost reduced by 4.3% and controllable expenses of the specialized plants reduced by nearly

RMB40,000,000 over the previous year. There was a greater decrease in operating loss of the Company in the second half than the first half of the year.

For the year ended 31st December, 2000, the administrative expenses of the Company amounted to RMB124,830,000, representing a decrease of 17.44% from the same period of the previous year. The decrease in administrative expenses of the Company indicated that the cost reduction measures adopted by the Company was not limited to production procedure but was implemented comprehensively and was observed by each of the staff. Furthermore, emphasis was placed on the importance of quality of the products. The three tier guarantee expenses decreased by nearly RMB3,000,000 during the year as compared with the same period in last year.

LIQUIDITY AND FINANCIAL ANALYSIS

As at 31st December, 2000, the cash and bank balances of the Group amounted to RMB967,290,000, which had decreased by RMB153,140,000, representing a decline of 13.66% as compared with 1999 (RMB:1,120,430,000).

Short-term bank and other loans of the Group amounted to RMB194,040,000, which had decreased by RMB3,930,000, representing a decrease of 1.98% as compared with 1999 (RMB:197,970,000). Long-term bank loans of the Group amounted to RMB24,790,000, representing an increase of 100% as compared with 1999.

The Group's accounts receivable before doubtful debt provision amounted to RMB670,330,000, which had increased by RMB16,170,000, representing an increase of 2.47% from that of 1999 (RMB654,160,000). Increase in trade receivables was mainly attributable to the financial difficulties suffered by certain agricultural machinery companies in the past few years that led to inability to settle the outstanding debts owing to the Company. As a result, the overdue amounts had increased. For financial prudence, the Company therefore had already made provisions for such unsettled trade receivables in 2000. At present, the Company has adopted various sales and marketing strategies such as requesting payment or account transfers upon delivery of goods in order to adapt to the changing market situation in an endeavouring attempt to expedite the repayment process. Meanwhile, the Company has formed a professional team for such purpose to put more efforts in obtaining payment of trade receivables.

INVESTMENTS

Until the present, the Company has already had a few subsidiaries. In 2000, the performance of the subsidiaries were different. For instance, the results of the road machinery business were satisfactory and generated income of over RMB22,000,000 to the Group. However, the tractor business failed to attain the targets. As the harvester machinery business has been invested for a short period of time, the scale of the business was not that large. The Company will make appropriate adjustment in the way of investment of its subsidiaries in the future. The Company will develop those businesses which have good development potential. It is expected that after undergoing rationalization, the subsidiaries will bring about more satisfactory returns to the Group.

ANALYSIS OF ASSETS AND THE FINANCIAL POSITION OF THE GROUP

Financial Statistics

Analysis of Equity and Reserves

USE OF PROCEEDS ARISING FROM THE ISSUE OF 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") under the initial public offering of the Company's H Shares listed on The Stock Exchange of Hong Kong Limited on 23rd June, 1997 and by two subsequent partial exercises of over-allotment option.

The proceeds from the H Shares issue were used in accordance with the Prospectus as follows:

* as to approximately RMB87,900,000 for payment of new issue expenses;

* as to approximately RMB274,700,000 for the acquisition of shares in Brilliance China Machinery Holdings Limited ("BCM"), Shanghai Qiangnong (Group) Company Limited and First Tractor Ningbo C.S.I. Tractor & Automobile Corp., Ltd. as well as investment in First Tractor Qingjiang Tractor Company Limited, First Tractor Shenyang Tractor Company Limited, Yituo (Luoyang) Harvester Co., Ltd. and Yituo (Luoyang) Construction Machinery Co., Ltd.;

* as to approximately RMB271,630,000 for the acquisition of fixed assets and additional construction in progress (for production lines of 100-120 horse-power wheeled tractors and 100-120 horse-power crawler tractors and large pressure die-casting lines and other technological improvement projects);

* as to approximately RMB305,900,000 for the repayment of bank loans and as to approximately RMB102,000,000 for the repayment of a debt owing to China First Tractor Group Company Limited; and

* as to the balance for the Company's additional general working capital.

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

For the year ended 31st December, 2000, the Group will not make investment and capital contribution of material importance in the coming year.

CURRENCY EXCHANGE RISK

Normal operating activities of the Group were mainly carried out in the PRC and capital income and expenditures were mainly made in Renminbi or Hong Kong dollars. Cash balances of the Group were usually placed in the financial institutions in the form of short-term time deposits. The banking facilities of the Group were granted in Renminbi which could be repaid out of the income received in Renminbi. The only debt in foreign currency was the payment of dividends to the holders of H shares. Accordingly, the Group did not incur any risk in relation to foreign currencies.

For the year ended 31st December, 2000, the Company has not pledged any of its foreign currency deposits.

PLEDGE OF ASSETS

The details of the pledge of assets of the Group and the Company are set out in note 11 to the financial statements.

NUMBER OF STAFF AND COMPOSITION

As at 31st December, 2000, there was a total of approximately 15,163 staff members, of which 11,248 were production officers, 2,717 were engineering technicians, 286 were financial officers and 912 were administrative personnel.

The Company placed emphasis on educating its staff. In 2000, there were 2000 staff members who had received on-the-job training, senior staff training and special duty training. Senior technological and professional groups formed an integral part of our staff.

MAJOR ACQUISITION

The details of major acquisition of the Company during 2000 are set out in the section headed "Important Events" in the Report of the Directors herein.

CONTINGENT LIABILITIES

As at the balance sheet date, the Group and the Company did not have any significant contingent liabilities.