

PROSPECT

In the second half of the year 2001, the national economy will continue to develop steadily and the State will intensify its investment in agricultural infrastructure. However, the declining trend of agricultural machinery industry will not change obviously. The growth in farmers' income will still be slow. Their demands for agricultural machinery will be weak. The effective demand will be insufficient. The State will continue to implement policies of "Three Withdrawals and Three Returns", protecting ecological environment and adjusting the structure of agricultural products. All these will have adverse effects on the principal products of the Company and the Company's operating conditions will deteriorate. However, further adjustments in the structure of agricultural sector, the development of appropriate scale of operation for agriculture, the implementation of environmental protection projects, construction of small towns, implementation of the grand development strategy of Western Region and other large-scale infrastructure construction projects including transferring water from the South to the North, electricity from the West to the East, natural gas from the West to the East, railway from Qinghai to Tibet and five highways construction projects linking northern and southern regions and seven projects linking eastern and western regions carried out by the State will provide potential market prospect and opportunities for the Company's tractor versions and construction machinery. Facing the above-mentioned challenges as well as opportunities, the Company will adopt the following measures to improve the operation:

1. Continue to strengthen the development of tractor products to consolidate the position of tractor products as the foundation of the Company's economic development:
 - (1) To explore the full potential of crawler tractor versions, intensify the development of its extended products, satisfy the demand of developing small cities and towns, fulfill the requirement of connecting the road of poor counties with national and provincial road and reduce the pressure on the Company's effectiveness due to decrease in sale of crawler tractors.
 - (2) To refine the market segmentation, improve the capacity of 30/40 wheeled tractor and satisfy the increasing demand for this line of products as a result of the adjustment in the economic structure of the agricultural sector and development of appropriate scale of operation for agriculture.
 - (3) To improve product reliability of large wheeled tractors, satisfy both local and overseas market demand and focus on developing high and low class product in the 80-120 horse-power wheeled tractor series in order to satisfy the demands of various customers. It is expected that there will be comparatively significant increase in the sales of extended products of large wheeled tractors.
 - (4) To improve the functions of the existing agricultural machinery, stabilize its quality, utilize the opportunities brought by the State and local government's policy of increasing farmer's income and improving the environment and intensify the development of tractor's auxiliary agricultural machinery as a new foundation of growth for the Company's economic development.

2. To improve the technological component and technical aspect of construction machinery, maintain the competitive advantage of road machinery such as road roller and paver, intensify technological development, explore products with market potential such as road maintenance machinery.
3. To improve management skills and internal operating environment, continuously carry out management innovation, improve the effectiveness of quality system, strengthen cost management, effectively control purchasing cost, promote strategic purchase and ensure the realization of cost target.
4. To promote internal corporate reform on the basis of the diagnosis and plans proposed by A.T. Kearney Co. Ltd., facilitate the adjustment in corporate structure and integration of business and resources and improve the competitiveness of the corporation.

The Board believes that the Company will be on a positive development path after adjusting product mix, rationalising human resources, improving internal management, minimizing the effect of external unfavourable factors on the Company and preventing further decline in the effectiveness.