



## BUSINESS REVIEW AND OPERATION ANALYSIS


During the period ended 30 June 2002, the Group recorded a turnover of RMB1,040,237,000, representing an increase of 14% over the corresponding period last year and incurred a loss of RMB24,084,000, representing a decrease of RMB13,865,000 over the corresponding period last year. The decrease in loss, which resulted in a significant improvement in the operating results, was primarily a result of the growth in principal operations of the Company and a reduction in administrative expenses and provision for bad debts to profit and loss account of the Group. Loss per share was RMB3.07 cents.

During the first half of 2002, the PRC government continued to implement prudent monetary policy and positive fiscal policy, which maintained the economic development with 7.8% growth in national economy. However, the agricultural machinery industry was adversely affected by various government policies and environmental factors. The demand in tractors market was still low and sales basically maintained its level over the corresponding period last year. There was still no improvement in the keen competition of the market. During the first half of the year, in the tractor market, sales of large and medium tractors increased by 3.63% over the corresponding period last year, while sales of small tractors increased by 4.46% over the corresponding period last year. The construction machinery market was boosted by the grand development strategy in western region and series of prime construction projects like “five highways construction projects linking northern and southern regions, and seven projects linking eastern and western regions” of the State, resulted in a substantial increase in the total sales over the corresponding period last year. In particular, sales of five major production plants of rollers increased by nearly 30% over the corresponding period last year, while sales of five major production plants of pavers increased by 57.8% over the corresponding period last year.

During the period, the Company sold 3,267 large and medium tractors, of which 1,950 are crawler tractors, representing a decrease of 17.3% over the corresponding period last year. The Company also sold 28,710 small tractors, representing a decrease of 0.6% over the corresponding period last year. Besides, 1,317 large and medium wheeled tractors were sold, representing an increase of more than 30% over the corresponding period last year.

During the period, the Company has speeded up the research and development of new products and achieved significant results. Sales of 30/40 tractors, a new product launched in the market, continued the uprise trend and increased by 36.35% over the corresponding period last year. Sales of crawler tractor transformed versions increased by 78.6% over the corresponding period last year. Dongfanghong 350-1, 304/404, 500 etc. tractors have been successfully developed. The development of key technologies of TG70 plateau bulldozers have achieved significant breakthroughs. The Company has strengthened its ability in responding swiftly to the market.

During the period, facing with sluggish market conditions, the management of the Company actively reform and integrate its sales system, launch management plans of A.T. Kearney Co., Ltd. and implement the divisional management approach. This has resulted in a significant enhancement in quality of economic operations. The positive effect was reflected on: administrative expenses of the Group decreased by approximately RMB13,429,000 or 12.9% over the corresponding period last year; provision for bad debts charged to profit and loss account decreased by RMB23,600,000 over the corresponding period last year and operational expansion income shows an increase of gross profit RMB29,220,000 over the corresponding period last year. Besides, there is a fall in the variable unit costs of both large and medium tractors as well as small tractors over the corresponding period last year.



During the period, the growth in the sales of major products of the subsidiaries increased and the operating results were significantly improved. Sales of rollers of Yituo (Luoyang) Building Machinery Co., Ltd. and Yituo (Luoyang) Construction Machinery Co., Ltd. increased by 36.72%, while sales of bulldozers increased by 200% when compared with the corresponding period last year. Sales of mixers machinery products of Zhenjiang Huatong Aran Machinery Company Limited increased by 100%. Sales of pavers of Zhenjiang Huachen Huatong Road Machinery Company Limited increased by 36.4% over the corresponding period last year and its market share reached 32%. Both its sales and market share are top-ranked in the industry. However, Yituo (Luoyang) Harvester Co., Ltd., First Tractor Qingjiang Tractor Company Limited and First Tractor Shenyang Tractor Company Limited still recorded a loss in its operating results.