




## PROSPECT

In the second half of the year 2002, national economy will continue to develop steadily. The western development strategy of the State and the investment in basic infrastructure by all levels of local government will continue to drive the growth in demand for construction machinery products. This will create more opportunities for the Group to sell its construction machinery products. Although the overall demand in tractor market remained weak and could hardly improve in near term, it was expected that the demand will slowly increase and steadily retain in low track. For the second half of the year, with the adjustment in economic structure of farm villages, the market demand for large and medium wheeled tractors will continue to increase; while the possession rate of small tractors has basically reached saturation due to keen competition in market. In view of the market trends in the second half of the year, the Group will adopt effective measures to improve the Company's operating results:

1. Continue to strengthen and enlarge the agricultural machinery and construction machinery businesses of the Group; enlarge business opportunities by specialisation in the Company's specialised component plants; integrate businesses of subsidiaries, increase the investment return and actively seeking international cooperation opportunities. Besides, the Company will adjust the product mix and enlarge scale of operations to strive for enhancement in operating results.

- (1) Agricultural machinery business. In response to the needs of customers and to cater for market demand, the crawler tractor business will develop transformed products to maximize product sales; large and medium wheeled tractors will continuously improve and to develop new products based on market changes, and the launch of such tractor models as Dongfanghong-350-1, 304/404, 500 etc. into the market will be speeded up and reinforced, thereby creating an effective sales force to further enlarge its market share;

Based on the changes after adjusting the agricultural planting structure, the Company will produce and develop agricultural machinery with autonomous intellectual property right, and will take advantage of the competitive edge of tractor's auxiliary agricultural machinery of the Group to boost the simultaneous growth of tractors and agricultural machinery businesses;

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- (2) Construction machinery business. The prime objectives of product mix adjustment is to combine the competitive edge, to grasp the business opportunities and to accelerate the development. The Company will improve medium and small power industrial bulldozers, produce and develop the second- and third-generation rolling machinery, so as to pave the basis for enhancing sales of construction machinery products for 2003. For paving and mixing machinery, the Company will develop new products in response to market needs so as to maintain its leadership in the industry.
  - (3) The focus of components business will be to utilize resources of assets, to develop new markets and to improve operating results through scales of operations.
  - (4) Based on the economic operational conditions of the Group, the Company will continue to integrate its subsidiaries' business, reduce investment risk and enhance investment return.
2. Proactively implement the business management flow formulated by consultants A.T. Kearney Co., Ltd. based on its management consulting plan, reinforce and improve management on various aspects, improve staff quality and work efficiency and the focus is on enhancing product quality and after-sales service standard. Encourage innovation by way of rewarding scheme for talented staff. Reinforce fund management, control the total amount of trade receivables, reduce capital risk. Diversifying core types of procurement and further reduce variable cost.
  3. Continue to enforce the organizational structure of divisional management approach, establish scientific results appraisal and allocation system, keep abreast of the needs of market and users, establish sales mechanism to adapt to market changes, increase sales of physical products, maximize market share of major products.

The Board of the Company believes that the adoption of the above effective measures will help the Company to enhance its operating results and establish satisfactory investment return for shareholders.