

CHAIRMAN'S STATEMENT



8

To Shareholders,

On behalf of the board of directors (the "Directors"), I am pleased to present the annual report of First Tractor Company Limited ("First Tractor" or the "Company") for the year 2002. I would also like to take this opportunity to express our sincere gratitude to the shareholders of the Company.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

During the reporting period, First Tractor Company Limited (the "Company") and its subsidiaries (the "Group") realized a sales revenue of RMB2,300,223,000 and recorded a loss of RMB59,490,000 which represents a decrease in loss by 49% against the corresponding period last year. The Company's results have shown signs of recovery growth.

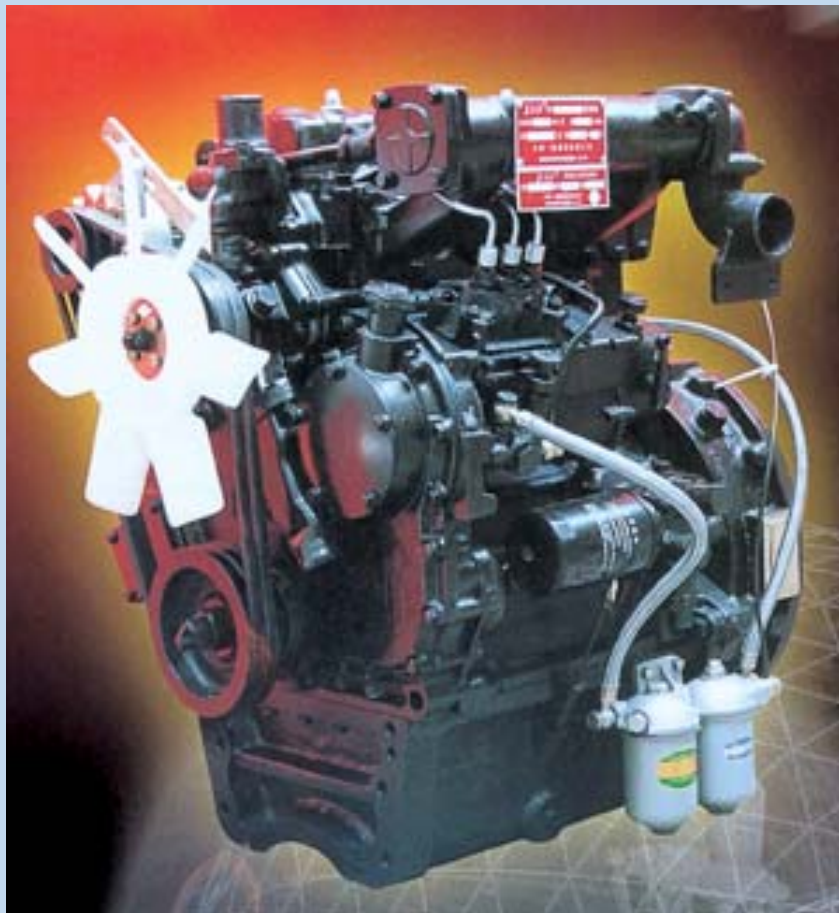
In 2002, the Group's loss dropped by 49% against the same period last year because:

1. The Board of Directors and the management of the Company undertook a major restructuring under which the new decision-making level and the new management level formulated development strategies aimed at stepping up the agricultural and construction machinery business, specializing in the parts and components business, integrating the operations of subsidiaries and seeking international cooperation. According to a comprehensive analytic consultants' proposal of A. T. Kearney Co., Ltd. for the Company, implementation of internal reform and management innovation, identification of correct positioning and clarification of mindset would serve as the basis for the Company to return to growth in the Company's results in 2002.
2. The Company's principal business grew and turnover revenue increased by 23% over 2001. Sales volume of tractor products recorded a substantial growth of which: (1) the sales volume of large-wheeled tractors was 1,372 units, representing an increase of 968 units over the same period last year, up 2.4 times; (2) the sales volume of medium-wheeled tractors was 2,080 units, representing an increase of 278 units, up 15.4%; (3) the sales volume of small four-wheeled tractors was 65,351 units, representing an increase of 12,587 units, up 23.9%; and (4) other operating revenue increased by 109% over the same period last year.
3. Profit from the Company's investments increased. Profit attributable to the Company from associates and jointly-controlled entity increased by RMB24,000,000 over the same period last year. The sales volume of products of subsidiaries of the Group grew rapidly, of which: (1) the sales volume of industrial bulldozers was 666 units, representing an increase of 452 units over the same period last year, up 2.1 times; (2) the sales volume of road rollers was 1,588 units, representing an increase of 358 units over the same period last year, up 29.1%; (3) the sales volume of pavers was 310 units, representing an increase of 146 units over the same period last year, up 89%; (4) the sales volume of mixing machinery was 101 units, representing an increase of 53 units over the same period last year, up 2.1 times; and (5) the sales volume of harvesters was 522 units, representing an increase of 33 units over the same period last year, up 6.75%.
4. Remarkable results were achieved by the Company in management fees by means of appraisal, control of procurement costs, integration of the sales business of tractors and construction machinery, and development of new products.

During the period, the Company failed to turn loss into profit mainly because the business of crawler tractors which supported the Company's profit failed to grow and the Company's growth products have not yet been on scale. However, the management innovation and adjustment of product mix in 2002 laid down a foundation for the Company's sustained growth.

CHAIRMAN'S STATEMENT

1. Agricultural machinery business. The substantial growth in the Company's agricultural machinery business in 2002 benefited from: (1) the sales volume in the nation-wide tractor market ceased sliding after three consecutive years and began to pick up; (2) the marketing plan for agricultural machinery was changed in response to changes in the market. Achievements were made in tracing closely the market, raising the awareness for accountability, subjectivity and proprietorship , and overcoming the disadvantages of marketing management; and (3) the Company kept in close pace with changes in the market with its key products. The method of development was changed and the development cycle shortened such that the speed of development of new products was in line with changing market needs. For the research, production and sale of 50 HP and 70 HP wheeled tractors, these tractors were produced and sold in the same month so as to scramble for the market, making themselves a new star among the Company's new products.
2. Construction machinery business. In 2002, construction machinery such as rolling machinery, earthwork machinery and road machinery of Brilliance China Machinery Holdings Limited ("BCM") recorded a substantial growth due to: (1) a rapid rise in the sales volume of construction machinery products as a result of the implementation of the grand development strategies for the western part of China, and investment in the construction of infrastructure such as roads; and (2) remarkable achievements made in minimizing internal competition and sharing marketing, production and management resources to step up cooperation as a result of integration of the marketing of products such as rolling machinery and earthwork machinery.



CHAIRMAN'S STATEMENT

RESEARCH AND DEVELOPMENT OF PRODUCTS AND PRODUCT QUALITY

In 2002, a mechanism was established, through restructuring the Company's internal operations, for rapid market response, development and manufacture of marketable products and development of products for customers'satisfaction.

Research and development of agricultural machinery products: (1) modified products on the basis of the technology of crawler tractors mainly included Dongfanghong- 1362-80 crawler mobile power station, Dongfanghong-1302R/1502R rubber crawler tractor, Dongfanghong-WY10(R) hydraulic excavator, Dongfanghong-YZ1000 agricultural wheeled tractor and Dongfanghong-120R earth mover; (2) modified products of wheeled tractor mainly included Dongfanghong-X700/704, X750, X804, X904 and X1004/1204, etc., the high power "Century Star" series; Dongfanghong-500, 300-1, 354-3 and 404-1, etc. and the medium power series; (3) "King of the Field" low-price products of small wheeled tractor series have been launched in the market; (4) approval of the launch of harvesters such as Dongfanghong-4LZ-2.5 "Star of Harvest" and Dongfanghong-4LZ-180 rice combine harvester; and (5) ancillary products for Dongfanghong tractors such as the rotary cultivator series, the earth auger series and the straw thresher series, etc. The new products have been well-received after being launched in the market.

Construction machinery products: (1) by adjusting the product mix, the Company kept in pace with the market for rolling machinery, and developed and launched new products such as Models LR22030, LDD210, LY9X16, 3Y21X24, etc.; (2) the development of new products of industrial bulldozer moved towards two directions with the launch of Dongfanghong T80, T140 and other products; (3) ZL50 loaders have been developed and launched in the market; (4) the development of pavers moved towards the provision of both large and mini, full-range and specialized, high-grade and multi-purpose as well as intelligent and reliable products. Multi-purpose SP125 pavers, four-wheeled milling machinery and HTH6000 sliding cement pavers were developed by the Company itself; and (5) mixing equipment such as ABH2500 asphalt mixers, BUDI20, BUDI300 storeyed cement mixers and imported 8m³ chassis mixers were researched and developed by the Company itself. The development of these products provides an assurance so that the Company possesses the core competitiveness to participate in market competition.

The Company's policy on product quality is to meet market needs, seek customers' satisfaction, continue with improvement and raise brand value. During the reporting period, 139 management standards were revised or replaced in accordance with the ISO9000 Standards for enhancing the unification, coordination and applicability of the management standards. Customers' satisfaction of our products was further increased.

CHAIRMAN'S STATEMENT

APPLICATION OF FUNDS

In 2002, in line with the needs for operation and strategic development, the Company/the Group: (1) acquired a 79.67% equity interest in China First Tractor Group Finance Company Limited for approximately RMB240,000,000 and carried out a restructuring. The acquisition would provide a platform for the Group's internal financing; (2) established a joint venture Yituo (Luoyang) Building Construction Machinery Co., Ltd. for RMB6,406,000, in which it holds a 35% equity, in order to expand the production and sale of construction machinery and increase its competitiveness on the market; (3) the Company's subsidiary Brilliance China Machinery Holdings Limited acquired a 25% equity interest in Yituo (Luoyang) Diesel Co., Ltd. for USD1,500,000. Satisfactory results were achieved in restructuring the assets and business operations of the some of the subsidiaries of the Group.

BUSINESS DEVELOPMENT STRATEGY

The Group's strategic target is to become the most prominent manufacturer of agricultural and construction machinery in China. In 2003, our strategies are:

1. Strengthening and expanding the agricultural and construction machinery businesses in line with the trend.

- (1) Agricultural machinery business

The Company's agricultural machinery products must be able to meet the needs of agriculture, farms and farmers. While the conventional tractor business is under restructuring and consolidation, focus must be placed on the research, manufacture and development of modified products on the basis of the technology of crawler tractors in line with market's and customers' needs. In particular, a breakthrough must be made in the development and marketing of crawler excavators. For the series of wheeled tractors within the range between 15 HP and 120 HP, focus will be placed on the development of wheeled tractors with over 50 HP. The development of harvester business and ancillary agricultural machinery business will be stepped up. The Company provides customers not only with the principal machinery but also its ancillary agricultural machinery for greater development of the agricultural machinery business. The internal combustion engine business will be opened up for the market for medium power tractors, medium-sized carriers and ancillary agricultural vehicles.

- (2) Construction machinery business

The Group has to seize the opportunity arising from China's stepping up of infrastructure construction and grand development of the western part of the country. Led by products such as the road machinery, earthwork machinery and rolling machinery series, focus will be placed on the development of loaders and mixing machinery products by targeting the construction machinery with a large market size in combination with the Group's comprehensive resource advantage to create a broad series of various construction machinery products for customers so that new progress will be made in the operating results of the construction machinery products.

CHAIRMAN'S STATEMENT

2. The Company's parts and components factory will take full advantage of its existing skills, technology and scale to establish a press and casting centre. While improving its internal ancillary market, it will strive to open up the market for ancillary parts and components for expanding room for development.
3. Speed up asset restructuring, optimize resource allocation and carry out merges, cooperation, lease, subcontracting and lease in respect of some of the assets for maximizing the operation efficiency of assets.
4. Continue with integrating and restructuring the business of subsidiaries for increasing the Company's investment return.
5. Seek international cooperation in a proactive approach by importing foreign state-of-the-art products, technology, management and experience.

COMMIT TO DEVELOPMENT BY POOLING TOGETHER STRATEGIES AND EFFORTS

The Company's new management team will focus on establishing regulatory corporate governance for the Company and is committed to the development of the Company for maintaining the interest of shareholders. The Company will respond to the changing environment in a positive way by absorbing advanced management concept and experience, innovating management and profiteering methods and achieving efficiency. An efficient results management system for operators will be established for stimulating their initiative and creativity in production operation.

By order of the Board

Dong Yong An

Chairman

Luoyang, the PRC

25 April 2003