MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF FINANCIAL RESULTS

For the year ended 31 December 2002, the Group recorded a turnover of RMB 2,300,223,000, representing an increase of 23.41% over the same period last year. The consolidated loss after tax and minority interests amounted to RMB59,490,000, representing a decrease of 49.5% over the same period last year. The loss per share was RMB7.58 cents.

Classification by business	**January - December 2002** ***RMB'000***	January - December 2001 *RMB'000*
Tractor business	**1,497,862**	1,333,838
Road machinery business	**583,190**	433,218
Construction machinery business	**225,836**	178,571
Harvesting machinery business	**31,325**	32,192

From the above, it could be observed that during the year, the turnover of the Group's three major products other than harvesting machinery products, namely tractor, road rolling and construction machinery products, was on the increase. The road rolling machinery recorded the highest growth in turnover, representing an increase of 34.62% over the same period last year.

In 2002, the Company's management proposed a management concept that growth in quantity would be led by marketing; quality of economic operation would be ensured by management; and room for development would be opened up by products. Through the integration of marketing of construction machinery business, allocation of marketing resources was optimized; through the disintegration of marketing organizations for agricultural machinery business, accountability of the marketing staff was increased. These measures yielded satisfactory results in terms of the sales volume of tangible goods in various businesses. In 2002, the sales volume of the Company's lead product - tractor - increased by 26% over the same period last year. The sales volume of construction machinery products also grew by one time over the same period last year. Their sales revenue also increased as indicated in the above table.

ANALYSIS OF COSTS

With respect to cost control, the Company started with the sources. On the basis of the strategic procurement method formulated by A. T. Kearney Co., Ltd. and by means of procurement of large quantities to reduce the procurement prices for materials, the Company's procurement costs of material showed a downward trend in 2002 over last year.

In the production management process, changes were made in the cost and marginal profit. By means of a management method whereby the accountability chain was shortened and accountability area was narrowed, operators would be able to be aware of the management loopholes quickly and make rectification on a timely basis. In 2002, apart from the decline in gross profit of single unit of small tractors as result of the adoption of a price-market sales strategy, the gross profit of single unit of other products was up.

With respect to management fee control, the Company still adopted the target control method by setting a fee control target for various departments to increase the utilization of funds. For the year ended 31 December 2002, the administrative expenses of the Group amounted to RMB205,735,000, down 4.86% against last year, which completely demonstrated that the management yielded good results.

CAPITAL LIQUIDITY AND FINANCIAL ANALYSIS

The detailed table of the Group's major current assets

	31 December 2002 *RMB'000*	31 December 2001 *RMB'000*	**Increase/ (decrease)**
Cash and bank deposits	**989,935**	913,354	8.38%
Accounts receivables, net	**260,794**	354,333	(26.40)%
Inventories, net	**629,704**	559,455	12.56%

In 2002, the Group adopted an order-credit management system for new accounts receivables, under which different sell-on-credit policies were introduced on the basis of the credit rating of customers. Internally, a sales-payment "life-long" accountability system was adopted, under which the recovery of receivables was linked to the interest of the person-in-charge. Furthermore, settlement of long overdue receivables was stepped up by legal means. By adoption of the various aforesaid means, there was a substantial decline in receivables in 2002.

With respect to inventory control, the management applied a colored accounts books management method in which inventories in different periods were recorded in different colors so that the duration of inventories was clear. The above table indicates a rise in inventory fund. On the basis of the needs for the overall development of the Group, there will be a greater growth in the sales volume of various products in 2003. In view of the characteristics of construction machinery, road machinery and harvesting machinery, a certain amount of finished product stock should be kept in the fourth quarter of 2002 in order to meet the sales volume in 2003.

As at 31 December 2002, the Group's bank loans amounted to RMB170,050,000, down 33.85% over 2001. The Group did not have any long-term bank loan.

INVESTMENTS

For the year ended 31 December 2002, satisfactory growth was maintained in the performance of two subsidiaries of the Company, namely, Zhenjiang Huachen Huatong Road Machinery Company Limited and Yituo (Luoyang) Construction Machinery Co., Ltd.. The profit generated by these two subsidiaries amounted to RMB33,160,000 and RMB5,810,000 respectively, representing an increase of 94% and turning loss to profit over the same period last year. The loss of First Tractor Qingjiang Tractor Company Limited declined to RMB6,240,000 in 2002. Performance of First Tractor Shenyang Tractor Company Limited and Yituo (Luoyang) Harvester Co., Ltd. was not satisfactory as loss was still recorded in 2002.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Financial Statistics

Items	**Basis of calculation**	**As at 31 December 2002**	As at 31 December 2001
Gearing ratio	Total liabilities/total assets x 100%	**38.55%**	31.74%
Current ratio	Current assets/current liabilities	**2.00**	2.31
Quick ratio	(Current assets - inventories)/current liabilities	**1.47**	1.69
Debt equity ratio	Total liabilities/shareholders' equity x 100%	**62.75%**	46.49%

Analysis of Equity and Reserves

	As at 31 December 2002 ***RMB'000***	As at 31 December 2001 *RMB'000*	**Changes in amount increase/ (decrease)** ***RMB'000***
Share capital	**785,000**	785,000	**—**
Share premium	**1,378,840**	1,378,840	**—**
Statutory surplus reserve	**59,455**	58,578	**877**
Statutory public welfare fund	**59,455**	58,578	**877**
Reserve fund	**1,172**	834	**338**
Enterprise expansion fund	**928**	590	**338**
Accumulated losses	**236,008**	174,088	**61,920**

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

The Group's proposed investment in Brilliance China Machinery Holdings Limited, one of its subsidiaries, by USD19,500,000 (equivalent to approximately RMB0.16 billion) in 2002 has not been completed yet and the Group is expected to continue with the investment in 2003.

CURRENCY EXCHANGE RISK

The Group carries out its day-to-day business activities mainly in the PRC. A large amount of capital income and expenditure is principally denominated in Renminbi, with a small amount of expenditure being denominated in Hong Kong dollars. The Group's foreign exchange debt is mainly applied to the payment of commissions outside China and payment of dividends to holders of H shares. The Group's cash balances are usually deposited with financial institutions in the form of short-term deposits. Bank loans were borrowed in Renminbi and can be repaid out of the income received in Renminbi.

PLEDGE OF ASSETS

As at 31 December 2002, the Group's certain buildings and machinery with an aggregate carrying value of approximately RMB39,990,000, time deposits of approximately RMB5,301,000 and bills receivable of approximately RMB2,431,000, were pledged to banks to secure certain short term bank loans granted to the Group.

In addition, the Group's deposits amounting to approximately RMB152,568,000 are pledged to banks to secure certain bills payables of the Group.

As at 31 December 2002, the Group's deposits amounting to RMB16,210,000 are pledged to a bank for securing certain performance bonds issued by that bank on behalf of a related company.

THE COMPANY'S STAFF AND TRAINING FOR STAFF

As at 31 December 2002, the Company had a total of 14,645 staff members of whom 9,016 were production staff, 490 were engineering technicians, 227 were financial staff and 1,270 were administrative staff.

In 2002, the Company conducted "training as required" in a number of ways. 2,312 staff in different areas were trained so that the professional quality of the staff was raised.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group and the Company as at 31 December 2002 are set out in note 38 to the financial statements.