



BUSINESS REVIEW AND OPERATION ANALYSIS

During the first half of 2003, the national economy was able to overcome the adverse effect of SARS on the economy and maintained a rapid growth of 8.2% generally. During the first half of the year, in the tractors market, sales of large and medium tractors increased by 25.19% over the corresponding period last year while sales of four-wheeled small tractors decreased by 6.6% over the corresponding period last year. Because of SARS, harvesters were restricted from being used in other areas, thus stimulating a sharp demand for harvesters in major wheat producing regions. As a result, both production and sales boomed.

During the reporting period, the Company sold 5,680 large and medium tractors, of which 2,674 are crawler tractors, representing an increase of 37.1% over the corresponding period last year. 3,006 large- and medium-wheeled tractors were sold, representing an increase of 1.28 times over the corresponding period last year, while 58,450 small-wheeled tractors were sold, representing an increase of 103.6% over the corresponding period last year. Harvesters grew by ten times over the corresponding period last year.

During the reporting period, there was a major change in the Company's tractor product mix in the sense that the sales volume of large- and medium-wheeled tractors exceeded that of crawler tractors for the first time. The development of new products was speeded up and as a result the debugging and modeling of WY10R crawler excavator were completed. The Company is almost able to carry out mass production of it. Mass production of wheeled tractors within the range between 25 HP and 28 HP has commenced for launch in the market. Wheeled tractors within the range between 60 HP and 65 HP have come into mass production. Trial fitting of multi-modeled short-range medium power diesel engine 105 series has been completed and the product will soon be launched in the market. As a result, the capability of the Company to adapt itself to the market and to counter risk exposure is further enhanced.

During the reporting period, although the external market environment has not fundamentally improved and the adverse effect of SARS and surge in the prices of raw materials has been made on its operation, the Company was positive in exploring markets externally, providing services to customers, regulating sales channels and appointing regional agents to enhance the initiative of dealers so that the sales growth was increased. Internally, performance appraisal was strengthened by establishing a performance appraisal system based on benefit, efficiency and product mix. The management of account receivables was strengthened. Given a substantial growth in the revenue from principal business, account receivables should be controlled efficiently. After the capability to explore the market for parts and components was enhanced, revenue from the new business increased by RMB45,130,000 over the corresponding period last year.



In the first half of the year, the increase of 29.7% in infrastructure investment in China led to the continuous rapid growth of construction machinery market, of which the first five enterprises with the largest sales of road rolling machines achieved a growth in sales by 53.28% over the corresponding period in previous year; and there was also relatively significant growth for bulldozer and pavers whereby 4,312 sets and 512 sets respectively were sold in the first half of the year.

During the reporting period, the Group generated foreign exchange of US\$4,855,000 from export due to the substantial growth export, representing an increase of two times over the corresponding period last year. Of the export, 156 tractors of various models were exported, representing an increase of 2.9 times over the corresponding period last year; two pavers and clutivators were exported; and 130 rollers were exported, representing an increase of nearly five times over the corresponding period last year. The foresaid products were mainly exported to Southeast Asia, Northeast Asia, Africa, South America, North America, Europe, etc.

During the reporting period, there was a significant rise in the sales volume of the construction machinery products of subsidiary companies as compared with the same period of last year and operating results increased rapidly. Sales volume of rolling machinery products increased by 47.9% over the corresponding period last year. Sales volume of industrial bulldozer products increased by 104.2% as compared with the same period last year. Sales volume of pavers and mixing equipment increased by 38.4% over the same period last year. The revenue from the principal construction machinery operations of Yituo (Luoyang) Construction Machinery Co., Ltd., Yituo (Luoyang) Building Machinery Co., Ltd., Zhenjiang Huatong Aran Machinery Co., Ltd and Zhenjiang Huachen Huatong Road Machinery Co., Ltd. increased by 90% in the first half of the year over the same period last year. There was a substantial growth in profit over the same period last year. Yituo (Luoyang) Harvester Co., Ltd. changed from a loss position to a profitable situation. However, Yituo Shenyang Tractor Company Limited and Yituo Qingjiang Tractor Company Limited continued to incur losses.