

CHAIRMAN'S STATEMENT



8

To Shareholders,

On behalf of the board of directors (the "Directors") of First Tractor Company Limited ("First Tractor" or the "Company") and its subsidiaries (the "Group"), I am pleased to announce to shareholders that the Group achieved a turnaround from loss to profit for the year 2003. I would also like to take this opportunity to express our sincere gratitude to shareholders and all walks of life who have lent their kind supports to the Company's development.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

During the reporting period, principal business of the Group maintained an upward trend. The Group realized a turnover of RMB3,277,297,000, and profit increased by RMB75,818,000 to RMB16,328,000 over 2002. After loss-making for three consecutive years, the Group finally achieved a turnaround from loss to profit.

In 2003, the Group made a noticeable progress in its business because:

1. The Directors seized the opportunities and made swift decisions in its development strategy and material events. The management adopted market-oriented operating guideline to explore market share, and progresses were made in various fields such as restructures of product mix and internal business.
2. The Group's agricultural machinery business recorded an all-around growth. Turnover increased by 41% over 2002, of which:
 - the sales volume of crawler tractors was 4,564 units, up 24% over the same period last year;
 - the sales volume of large-wheeled tractors was 3,201 units, up 133% over the same period last year with a market share increased to 20% from 5%;
 - the sales volume of medium-wheeled tractors was 2,663 units, up 28% over the same period last year;
 - the sales volume of small-wheeled tractors was 120,754 units, up 85% over the same period last year;
 - the sales volume of harvesting machinery was 1,867 units, up 258% over the same period last year.
3. The Group's construction machinery products maintained a growth in sale volume and turnover increased 47% over 2002, of which:
 - the sales volume of industrial bulldozer was 941 units, up 41% over the same period last year;
 - the sales volume of road rollers was 2,754 units, up 73% over the same period last year;
 - the sales volume of pavers was 333 units, up 7% over the same period last year;
 - the sales volume of mixing equipment was 156 units, up 54% over the same period last year.
4. The Group's export recorded a slight growth over 2002. The Group exported various types of tractors totaling 258 units, 152 units of road rollers (up 700% over the same period last year), 5 units of pavers, 8 units of mixing equipment, 2 units of road maintenance machines and 2 units of milling machinery. Most of the said products were exported to Southeast Asia, Northeast Asia, South Asia, Africa, South America, North America and Europe.

CHAIRMAN'S STATEMENT

Agricultural machinery business. The substantial growth in the Group's agricultural machinery business in 2003 benefited from that: (1) the Group proactively introduced new marketing ideas such as local agency for principal machine, licensing operation for accessory and optimization of marketing network, so as to secure more market share; (2) in line with agricultural restructure, the Group launched modified models of crawler tractors and new series of large/mid wheeled tractors to address customers' demand; (3) as for small wheeled tractors, the Group capitalized on its brand advantage of "Dongfanghong". By virtue of joint ventures and cooperation, scale sales recorded an increase and market share for 2003 climbed to 23% from 9% for 2002; (4) with a perfection strategy for harvesting machinery, the Group captured market opportunities to strengthen mid China market and develop western market, thereby achieving a historical new high in its sales volume.

Construction machinery business. Leveraging such opportunities as the fast growing infrastructures of the nationwide road and construction in small rural towns during 2003, the Group took full use of the respective advantages of its five subsidiaries engaged in construction machinery business under an overall strategy. By various initiatives including effective industry layout and specialization, subdivision of market, efforts in development of new products, improvement in after-sales service network, flexible promotion policies and continuous improvement in product quality, the Group introduced to market its construction machinery products such as industrial bulldozer, road roller, paver, loader and mixing machinery to cater for customers' demand. As a result, the Group's construction machinery business maintained a fast growth.

10

PRODUCT QUALITY AND RESEARCH AND DEVELOPMENT OF NEW PRODUCTS

In light of its "humanized, quality-oriented, improving and customer-satisfied" product quality policy, the Group took efforts in increasing customers' satisfaction, improvement of product durability and quality, and noticeable achievement was made.

During 2003, the Group kept abreast of the market situation and developed and launched a number of new products, mainly comprising:

Agricultural machinery:

- Based on the technology for crawler tractors, the Group accordingly improved WY10 series hydraulic excavator which has been introduced into market in batch;
- New large/mid wheeled tractors such as Dongfanghong-250 series, Dongfanghong-X904 and X800 were developed in response to market demands;
- At the small wheeled tractors front, the Group took its brand advantage of "Dongfanghong". According to requirements from different regions, the Group subdivided market, developed and produced more than 10 products including "King of Northeast" and "King of Upland" which have been introduced to markets with respective characteristics.

CHAIRMAN'S STATEMENT

- At the harvesting machinery front, "Star of Harvest" series for Dongfanghong and "Century Wind" series of horseless rice combine harvester were developed and achieved a sales volume of 1,014 units;
- At the agricultural machinery front, in line with the latest changes in agricultural planting structure, the Group developed ancillary agricultural machinery to its Dongfanghong series products, including 9 types of rotary cultivators, 2 types of straw threshers and 4 types of earth auger.

Construction machinery products:

Catering for military needs, the Group developed TG80 bulldozer which has passed adaptive test, gained users' acknowledgement and received purchasing orders. According to road construction and market demands, the Group also improved YZC12B and YZC12BD rolling machinery, meanwhile developed and launched 5 types of ZJY cement mixing trucks; 12.5M, 7.5M and 9M pavers; 1.3M and 2M milling machinery; as well as 5 types of cement mixing machinery.

BUSINESS REORGANIZATION

While tapping on new fields in 2003, the Group continued to integrate and reorganize its internal resources.

1. Internal business reorganization:

- Disposal of loss-making subsidiaries and associates. In order to minimize losses, the Group disposed its interests in certain companies during 2003, including Shanghai Yitianxia Property Development Company Limited, Yituo Qingjiang Tractor Company Limited and Yituo (Zhenjiang) Harvester Co., Ltd., which maintained a poor profitability or had no prospect of eliminating loss.
- reorganization of Engine Machinery business: The Company took out its engine machinery business to establish a joint venture Yituo (Luoyang) Engine Machinery Company Limited with Yituo (Luoyang) Diesel Company Limited which owns leading technology and management in production of diesel engines.
- reorganization of spare parts business: By utilizing its standby resources, the Company established two joint ventures, namely Yituo (Luoyang) Standard Components Company Limited and Yituo (Luoyang) Casting and Forging Company Limited respectively with a private company and China Yituo. With a conversion in operating mechanism, the Company took initiatives to explore ancillary market of spare parts, thus broadening its product lines.

2. Expansion in new fields:

- Taking full use of the financial platform provided by its China First Tractor Group Finance Company Limited ("FTGF"), the Group put more efforts in integration of its financial resources and achieved obvious effect in 2003;
- Based on prospect estimation of the PRC motorlorry market, the Group made investment in Luoyang First Tractor Motors Company Limited and held a 29.5% stake thereof.

CHAIRMAN'S STATEMENT

CORPORATE GOVERNANCE

In accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company further established a remuneration and auditing committee in addition to the established auditing committee under the Board during 2003. The remuneration and auditing committee is responsible for determination of remuneration policy and scheme for directors and senior management, with an aim to further improve corporate governance structure. During the year, the Board performed its duties stipulated in the Articles of Association of the Company under the supervision of the Supervisory Committee. Supervisor attended the Board meetings, and gave their opinions with respect to major decisions made by the Board when performing their supervisory duties.

BUSINESS OUTLOOK AND OPERATING STRATEGY

The Group dedicated its effort to become the most prominent manufacturer of agricultural and construction machinery in China. Focusing on products operations, we will carry out development strategy designed to maximize the Group's advantages and maintain continuous growth in its core operation, so as to realize its operating goal set for 2004.

1. Strengthening and expanding the agricultural and construction machinery businesses based on their respective advantages.

(1) Agricultural machinery business

- Crawler tractors: On the basis of its traditional advantages, the Group will put efforts in increasing sales volume and developing modified models based on crawler chassis technology, so as to exploit new market of crawler tractors;
- Large/mid wheeled tractor ¹: Taking opportunities from growth of the whole industry of large/mid wheeled tractors, the Group will make quick response to changes in customers' demand, and increase its investments in technological renovation and capability of large wheeled tractors, aiming to an fast growing production scale, a leading position and an increase in sales volume.
- Small wheeled tractor ²: In view of its low technological content and intensified market competition, the Company will tap its brand advantage and cost-effective means to secure a larger market share.
- Agricultural machinery. Based on its experience in the past three years and the foundation of fast growth in the year, Yituo (Luoyang) harvesting machinery Company Limited sets its target at a breakthrough in rice harvesting machinery, namely, to provide complete sets of agricultural machinery to customers and speed up development of ancillary agricultural machinery under its brand advantages, including rotary cultivator, straw thresher and earth auger.

1. It is an industry's practice to call tractors with power ranging from 18.4KW (25HP) - 44.1KW (60HP) as medium tractors and tractors with working frequency of over 44.1KW as large tractors.
2. It is an industry's practice to call tractors with power of below 18.4KW (25HP) as small tractors.

CHAIRMAN'S STATEMENT

(2) Construction machinery business

Most of the Group's construction machinery business was undertaken by its five subsidiaries. The Group will seize the strategic opportunities arising from the fast growing construction machinery industry, while focusing its efforts to:

- rationalize the corporate governance structure, and create a system platform for fast growth of subsidiaries; under the Group's unified strategy, fully exert the respective advantages of subsidiaries, meanwhile make reasonable product positioning and development strategy to maximize synergy effect.
- reinforce and expand market share of the existing products lines; maintain the leading position of road rollers and pavers, aiming to be the No.1 player in the industry.
- with the Group's advantages in resources, focus on development of construction machinery products with good market demand, such as industrial bulldozer, loader, hydraulic excavator, commercial cement equipment and small construction machinery products for industrial use, so as to restructure the Group's construction machinery products.

2. Spare parts business

Leveraging its existing process, technology and scale advantages as well as the integrated resources of the established Yituo (Luoyang) Casting and Forging Company Limited and Yituo (Luoyang) Standard Components Company Limited, the Group will start from improvement in its internal ancillary market, meanwhile proactively explore external market, especially the spare part ancillary market for motor vehicle and construction machinery. By means of increasing investment in technological renovations, the Group is committed to become a professional vendor of spare parts business, targeting an increase in product value-addition and broadened operating fields.

3. In 2004, the Group will actively seek opportunities of multilevel international cooperation in product, technology and capital. In addition, the Group will improve its product export which will become a pivot of its business. In 2004, the Group will first focus on a breakthrough in export of agricultural machinery and construction machinery, then gradually increase coverage of its international marketing network and foster a stable base of customers and channels by taking initiatives to explore overseas market, thereby enhancing competitive edge and recognition of the Group's products in international market.
4. The Group will advance reorganization and integration of its resources, aiming at an increase in results and return on investment.

CHAIRMAN'S STATEMENT

COMMITTED TO REBUILDING IMAGE BY INNOVATIONS

The Group's management team will take efforts in establishing regulatory corporate governance, meanwhile focus on restructure of products and industries as well as expansion and integration of businesses. Furthermore, the Group 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. By improving its operating performance and results, the Group is committed to a long term development and rebuilding its image in the industry and investors.

The Directors believe that the Group's management team, with confidence and capability to win over various difficulties, is able to realize the Group's operating plan and long term development target, and eventually bring a return to shareholders in their best interests.

By order of the Board

Liu Da Gong

Chairman

Luoyang, the PRC

17 April 2004

