

MANAGEMENT DISCUSSION AND ANALYSIS

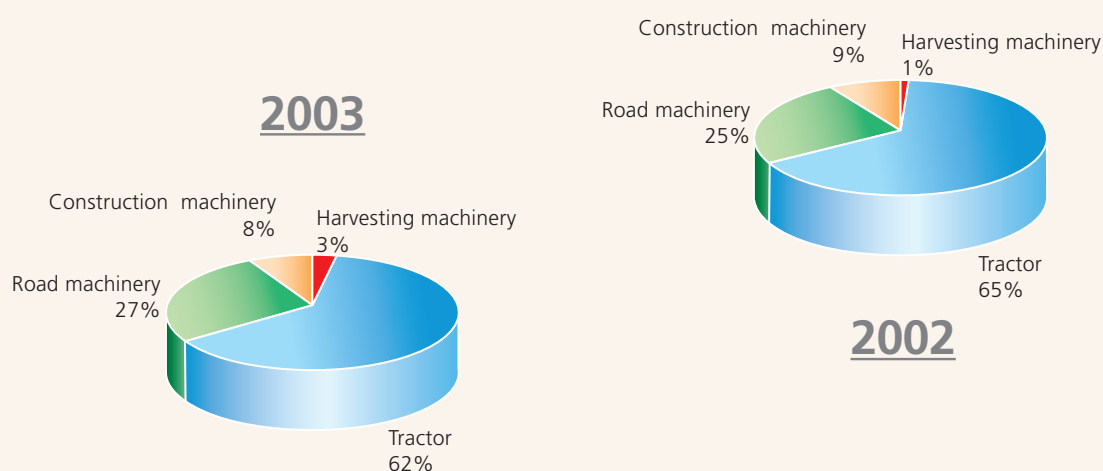
ANALYSIS OF FINANCIAL RESULTS

For the year ended 31 December 2003, the Group recorded a turnover of RMB3,277,297,000, representing an increase of 42% over the same period last year. Profit after tax and minority interests amounted to RMB16,328,000, representing an increase of RMB75,818,000 over the same period last year. Earnings per share was RMB2.08 cents.

The Group's turnover by business classification for 2002 and 2003

Classification by business	January - December 2003 RMB'000	January - December 2002 RMB'000	Increase / (decrease)
Tractor business	2,014,219	1,475,760	36%
Road machinery business	886,514	583,190	52%
Construction machinery business	263,099	198,078	33%
Harvesting machinery business	109,036	31,325	248%
Others	4,429	11,870	(63)%
Turnover	3,277,297	2,300,223	42%

Structure of the Group's turnover for 2002-2003



MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF COSTS

The Group implemented a comprehensive strategic procurement mode, namely, to minimise procurement cost of steel products by bulk purchase. Therefore, despite of the significant increase about 30%-50% in steel product prices in 2003, the Group successfully controlled its procurement cost.

With control on procurement cost, the Group also strengthen control on production and operating cost. Continuing its management method whereby the accountability chain was shortened, the management was able to be aware of the management loopholes quickly and make timely arrangement to cut down production cost. Among the Group's tractor business, gross profit margin of large wheeled tractors recorded an increase over last year, whereas the same of crawler tractors and small wheeled tractors recorded a slight decrease from last year due to dual impacts, i.e., the increased steel product prices and the decrease in their selling prices. Among construction machinery and road machinery, gross profit margins of pavers and milling machinery were up.

For 2003, the administrative expenses of the Group amounted to RMB237,211,000, up 15% against last year.

CAPITAL LIQUIDITY AND FINANCIAL ANALYSIS

The detailed table of the Group's major current assets

	31 December 2003 RMB'000	31 December 2002 RMB'000	Increase/ (decrease)
Cash and bank deposits	800,584	989,935	(19)%
Trade receivable and bills receivable	410,611	319,263	29%
Inventories	773,847	629,704	23%

Trade receivable control: In 2003, the Group continued its order-credit management system for accounts receivables. Besides, a new "Ten-Ten" management method was introduced, under which receivables will be classified according to respective amounts and ageing status whereby the top ten debtors in terms of amounts or ageing will be taken as the focus of recovery of receivables. Accordingly, the auditing department linked the recovery of receivables to the interest of the person-in-charge, thereby responsibility of the person-in-charge was enhanced. By adoption of the various aforesaid means, the Group achieved a significant growth in turnover, while trade receivable increased by 29% as compared with 2002.

Inventory control: The headquarter has applied a colored accounts books management method since 2002. In view of its good performance for a year, the method was implemented throughout the Group in 2003. The Group's inventory for 2003 amounted to RMB773,847,000, representing an increase of 23% from last year due to scale production of harvesting machinery and road machinery as well as the industry characteristics.

As at 31 December 2003, the Group's bank loans amounted to RMB65,297,000, down 62% over 2002. The Group did not have any long-term bank loan.

MANAGEMENT DISCUSSION AND ANALYSIS

INVESTMENTS

During the reporting period, Yituo (Luoyang) Diesel Company Limited (an associate of the Group) and First Tractor Ningbo C.S.I. Tractor & Automobile Corp. Ltd., (a jointly controlled entity of the Group) contributed profit of RMB9,222,000 and RMB1,698,000 respectively to the Group. Other associates Yituo (Luoyang) Casting and Forging Company Limited and Luoyang First Motors Company Limited ("LFMC") incurred loss of RMB999,000 and RMB1,177,000 respectively for the Group.

ANALYSIS OF ASSETS AND FINANCIAL POSITION OF THE GROUP

Financial Statistics

Items	Basis of calculation	31 December 2003	31 December 2002
Gearing ratio	Total liabilities/total assets x 100%	43.58%	38.55%
Current ratio	Current assets/current liabilities	1.76	2.00
Quick ratio	(Current assets - inventories)/current liabilities	1.23	1.47
Debt equity ratio	Total liabilities/shareholders' equity x 100%	77.23%	62.75%

Analysis of Equity and Reserves

Items	31 December 2003 RMB'000	31 December 2002 RMB'000	increase/ (decrease) RMB'000
Share capital	785,000	785,000	—
Share premium account	1,378,840	1,378,840	—
Statutory surplus reserve	61,699	59,455	2,244
Statutory public welfare fund	62,749	59,455	3,294
Reserve fund	1,759	1,172	587
Enterprise expansion fund	1,515	928	587
Retained profits/(accumulated losses)	(226,392)	(236,008)	9,616

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 during the year and the Company is expected to continue with the investment in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2003, the Group's certain buildings and machinery with an aggregate net carrying value of approximately RMB27,779,000 (2002: RMB39,990,000), time deposits of approximately RMB13,233,000 (2002: RMB5,301,000), and inventories of approximately RMB8,967,000 (2002: Nil) are pledged to banks to secure certain short term bank loans granted to the Group.

In addition, the Group's deposits amounting to approximately RMB103,714,000 (2002: RMB152,568,000) and certain bills receivable of the Group amounting to RMB16,000,000 (2002: Nil) are pledged to banks to secure certain banking facilities (including issuance of bills payable) of the Group.

As at 31 December 2003, the Group's deposits of RMB3,210,000 (2002: RMB16,210,000) are pledged to a bank for securing a performance bond issued by that bank on behalf of a related company.

THE COMPANY'S STAFF AND TRAINING FOR STAFF

As at 31 December 2003, the Company had a total of 13,818 staff members of whom 8,689 were production staff, 480 were engineering technicians, 164 were financial staff, 1,135 were administrative staff, and 3,350 were service, marketing and other staff.

In 2003, the Company conducted "training as required" in a number of ways. 14,870 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 2003 are set out in note 39 to the financial statements.

Save for the aforesaid disclosure, the Group and the Company had no material contingent liability as at the balance sheet day.