

CHAIRMAN'S STATEMENT



Mr. Liu Da Gong
Chairman of the Company

To shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of First Tractor Company Limited ("First Tractor" or the "Company") and its subsidiaries (collectively the "Group"), I announce to shareholders of the Company (the "Shareholders") that the Group recorded a turnover of RMB4,246,554,000 in 2004, representing a year-on-year increase of 29.57% and a profit of RMB11,961,000, representing a decrease of 26.75% from 2003. I would also like to take this opportunity to express our sincere gratitude to the Shareholders and all walks of life who have given their kind supports to the Company's development.

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BUSINESS REVIEW

During the reporting period, the agricultural machinery business, one of the two principal businesses of the Company, achieved a noticeable increase whereas the construction machinery business, the other of the two principal businesses, saw an overall downturn.

Agricultural machinery business

During the reporting period, agricultural machinery business realised a turnover of RMB3,064,060,000, representing an increase of 44.3% over last year, with substantial increase in the large wheeled tractor business among other businesses of the Group.

In 2004, the Group sold 156,971 units of wheeled tractors in various types, of which:

- the sales volume of large wheeled tractors was 8,583 units, increased 140.89% over the same period last year;
- the sales volume of medium wheeled tractors was 3,624 units, increased 36.09% over the same period last year;
- the sales volume of small wheeled tractors was 144,764 units, increased 19.89% over the same period last year.

During the year, the Group's spare parts business maintained a growing trend and revenue received from external operations increased by 70.05% to RMB466,340,000.

Construction machinery business

During the reporting period, the construction machinery business realised a turnover of RMB1,182,482,000, representing an increase of 2.86% over last year. Sales of some construction machinery such as industrial bulldozers, road rollers and pavers, the backbone of the operating results of the Group, decreased enormously. Although there was a considerable increase in the sales volume of other construction machinery products and new products, such increase failed to curb the backsliding operating results of the construction machinery business of the Group.

In 2004, the Group sold 7,890 units of construction machinery in various types, of which:

- the sales volume of industrial bulldozers decreased 22.95% as compared with the same period last year;
- the sales volume of road rollers decreased 22.19% as compared with the same period last year;
- the sales volume of pavers decreased 38.58% as compared with the same period last year.

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Export business

During the reporting period, the Group recorded a profit of US\$14,493,000 from export business, increased 42.2% over the same period last year. The Group exported 760 units of tractors, increased 239.3% over the same period last year, and 105 units of construction machinery. The said products were mainly exported to Southeast Asia, Northeast Asia, South Asia, Africa, South America and Europe.

Research and development of new products

During the reporting period, the Group continuously developed and launched a number of new products in accordance with the changing customers' demands. New products mainly comprised:

Agricultural machinery products

- The Group researched, improved and developed various types of tractors, including 1004YZ/1204YZ, 1604/1804, X700/1204 and X550 series "Dongfanhong" tractors and 20-40 HP electric start-up tractors.
- The Group researched and developed new luxurious "Century Wind" harvest machinery, which is in the progress of making an application for patent of utility model in the PRC.

Construction machinery products

The Group developed and launched LSS220D, LRS1626H and 3YJ18 x 21 rolling machinery; T120 series, T140D, ZL50G, ZL50H, ZL50DX and ZL30 earth moving machinery; 2.1M milling machinery; WBS650, BUD1120, BUD1150, BUD1130 and other mixing machinery.

Business reorganisation

In line with the overall development strategy, the Group integrated its resources and reorganised its businesses during the reporting period.

- To integrate its marketing resources of construction machinery products, the Group established Yituo (Luoyang) Construction Machinery Sales Company Limited ("Yituo Construction") for the sales of most of the Group's construction machinery products. Yituo Construction commenced its operation in December 2004.
- Reorganisation of the agricultural machinery business: taking full use of the reserve resources of its agricultural machinery, the Group established Yituo (Luoyang) Agricultural Tools Company Limited to provide ancillary agricultural tools to customers.

Corporate governance

- The Company took efforts to improve the corporate governance in strict compliance with (i) the relevant regulations and rules on corporate governance of listed companies promulgated by domestic and overseas regulatory authorities; and (ii) operated in accordance with the articles of association of the Company (the "Articles of Association").

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- The Company set up an audit committee and a remuneration and auditing committee of the Board. In such special committees, independent non-executive Directors represented a majority and served as the chairman.
- While attending the meetings of the Board and the special committees, the independent non-executive Directors provided constructive opinions and recommendations in accordance with relevant laws and regulations and expressed their independent opinions, thus performing their duties with due diligence.
- Directors and senior management of the Company accepted the supervision of the supervisory committee of the Company in accordance with the Articles of Association. Supervisors of the Company (the "Supervisors") attended the Board meetings, and gave their opinions with respect to major decisions made by the Board when performing their supervisory duties.

BUSINESS OUTLOOK

To cater for the changing customers' needs with the aim at becoming an excellent manufacturer of agricultural and construction machinery in the PRC, the Group will focus on the improvement of operating results and adjustment to product and sector structures to consolidate the core businesses and reinforce the operating strength of the Group, thus enhancing the stable growth of operating results and realising the operating targets of the Group in 2005.

1. Advancing adjustment to the product mix of agricultural machinery

Crawler tractors: focusing on adjustment to the product mix, the Company will build a full spectrum of crawler tractors including customised series of small power crawler tractors, large power crawler tractors and series of hydraulic excavators, so as to explore and develop new markets and new products.

Large/medium wheeled tractors (note 1): as driven by the national and local governments' subsidies for upgrading the agricultural machinery, the demand for large/medium wheeled tractors is expected to increase. Capturing such an opportunity, the Group will accelerate the technological renovation for large wheeled tractors, improve techniques and quality assuring capability, achieve production in scale within the shortest time and maintain the leading position in the technology and the industry in the PRC. For medium wheeled tractors, emphasis will be put on development of 25-35 HP tractors, renovation of 30-40 HP tractors and preparations for exported types of machinery to create product distinctive advantages for fast growth.

Small wheeled tractors (note 2): facing the homogenised and fierce market competition, the Group will shape a branding concept and integrate industry resources by its branding strategy, emphasizing on the importance of the brand advantage. At the same time, the Group will continue to introduce cost-effective means to secure a larger market share to maintain and improve the existing market share.

Agricultural machinery: for harvest machinery products, the Group will form series of product lines focusing on wheat and rice harvesters in accordance with the product development philosophy of "transforming, innovative and unique" to address customers' needs. By utilising the brand advantage of "Dongfanghong", the Group will speed up the development of the ancillary agricultural machinery business, paving a way to a further advance.

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Spare parts: capitalising on its technical and technological resources, the Group will capture the market cut-in for developing crank shaft processing products and gear case products and thereby prolonging the industry chain, increasing the value added to products, giving shape to the advantageous brands to the spare parts business and laying a strategic foundation for the leading position of the spare parts business.

Note 1: it is an industry's practice to define tractors with power ranging from 18.4KW (25 HP) - 58.5KW (80 HP) as medium tractors and tractors with working frequency over 58.5KW as large tractors.

Note 2: it is an industry's practice to define tractors with power of below 18.4KW (25 HP) as small tractors.

2. Establishing the development strategy for construction machinery products based on adjustment to the product mix and operating strategies

- (1) Under an integrated strategic layout, the Group will determine the direction for the adjustment to the product mix and operating strategies according to the characteristics and strengths of each of its subsidiaries.
- (2) Keeping abreast of the development of construction machinery, the Group will expedite its research and development of new products and apply new technologies and techniques to construction machinery products and improve their performance and reliability.
- (3) To address the demands from customers, the Group will explore new markets for large loaders and hydraulic excavators, small loaders and excavators as well as small maintenance machinery, and increase its market share with continuous growth in sales volume.
- (4) By fully exerting the resources advantage and distributing platform of Yituo Construction, the Group will integrate the distributing channels and service networks and operate with financial institutions to develop new distributing network.

3. Strengthening export and actively seeking international cooperation to secure more international market share

In 2005, the Group will expand and deepen the international cooperation with emphasis on key products, markets and projects.

- (1) The Group will adjust exported product mix and extend an active presence in international competition of key exported products including large/medium wheeled tractors, construction machinery and forging parts.
- (2) The Group will make good preparations for international cooperation plans for large wheeled tractors and agricultural machinery to attract international investors, aiming at achieving a breakthrough in the utilisation of international resources, capital and technologies.
- (3) The Group will take efforts in the promotion of the brand advantage of "Dongfanghong" to increase its worldwide recognition and expand the coverage of its international market network to secure a stable customers base.

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4. Improving management with innovative thinking

Possessed with excellent talents, advanced concept and managerial evolving as foundation and leveraging scientific tools and methods, the Group will focus on managing its manufacturing and sales of products, procurement and capital so as to explore better business operations.

5. The Group will continue to reorganise, integrate its resources and businesses to improve its operating results and return on investment

The Group's achievements in the past year are attributable to the joint efforts of all Shareholders and staff of the Group. I would like to take this opportunity to express, on behalf of the Board, our sincere gratitude to the Shareholders and the staff of the Group.

By order of the Board
Liu Da Gong
Chairman

Luoyang, PRC
22 April 2005



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