

# FIRST TRACTOR COMPANY LIMITED

## 第一拖拉機股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0038)

### EXCEEDING OF EXISTING CAPS ON ONGOING CONNECTED TRANSACTIONS AND ONGOING CONNECTED TRANSACTIONS

#### EXCEEDING OF EXISTING CAPS ON ONGOING CONNECTED TRANSACTIONS

The Directors wish to announce that regarding the Ongoing Connected Transactions entered into between First Tractor Finance and China Yituo, the existing caps for the provision of deposit (with interest) and loan (with interest) services under the Financial Services as set out in the Circular have been exceeded.

One of the conditions of the Existing Waiver for the Ongoing Connected Transactions was that the outstanding balances of the Ongoing Connected Transactions should not exceed the existing caps at any time during the relevant periods as set out in the Existing Waiver and if such condition was not fulfilled, the Company should re-comply with Rule 14A.35 of the Listing Rules.

The Company's omission to fulfill the disclosure and Independent Shareholders' approval requirements in relation to any Ongoing Connected Transactions subsequent to the revocation of the Existing Waiver has resulted in non-compliance with the Listing Rules. *The Stock Exchange has indicated that it reserves its rights to take appropriate action against the Company and/or its Directors as a result of such non-compliance.*

#### ONGOING CONNECTED TRANSACTIONS

The Directors also wish to announce that, in view of the rapid business expansion of China Yituo Group, they consider that the relevant cap amounts of the Financial Services as set out in the Circular are insufficient. Therefore, the New Agreement was entered into between First Tractor Finance and China Yituo on 2 June 2004 in order to terminate and to replace the Old Agreement (having a term of 3 years commencing from 29 May 2003 to 28 May 2006) and to increase the relevant cap amounts catering for the business expansion and the smoothness of the operations of the Group.

An extraordinary general meeting will be convened for the purpose of seeking the Independent Shareholders' approval which will be taken by poll for the New Agreement and the New Caps in relation to the Ongoing Connected Transactions. China Yituo together with its associates (as defined in the Listing Rules) with interest in such Ongoing Connected Transactions will abstain from voting in this regard. A circular containing, among other things, further details of the New Agreement, a letter from the independent financial adviser containing its advice to the independent board committee and the recommendation of the independent board committee will be despatched to the Shareholders together with a notice convening an extraordinary general meeting of the Company as soon as practicable.

#### BACKGROUND

Reference is made to the announcement of the Company dated 29 May 2003 and the Circular of the Company dated 19 June 2003 in connection with the Ongoing Connected Transactions and the Existing Waiver.

The Existing Waiver was granted to the Company by the Stock Exchange on 13 August 2003 in respect of the Ongoing Connected Transactions entered into between First Tractor Finance and China Yituo in relation to the provision of the Financial Services, including deposit, loan, bills discounting, finance lease, bills acceptance, guarantee and designated loan to China Yituo Group.

#### EXCEEDING OF EXISTING CAPS ON ONGOING CONNECTED TRANSACTIONS

The Directors wish to announce that regarding the Ongoing Connected Transactions entered into between First Tractor Finance and China Yituo, the existing caps for the provision of deposit (with interest) and loan (with interest) services under the Financial Services as set out in the Circular, which are RMB60 million and the lower of 20% total asset value of First Tractor Finance or RMB165 million respectively, have been exceeded. Details are as follows:

	RMB million			Existing Caps		
	As at 30 April 2004	As at 31 December 2003		For the year ending 31 December 2003	2004	2005
Deposit (with interest)	85.23	99.66 <sup>1</sup>		60	80	100
Loan (with interest)	191.36	163.68 <sup>2</sup>		The lower of 20% of total asset value of First Tractor Finance or 165	205	245
Bills discounted receivables		116.41		The lower of 15% of total asset value of First Tractor Finance or 120	160	200
Finance Lease provided to China Yituo Group		0		The lower of 10% of total asset value of First Tractor Finance or 35	65	100
Bills acceptance		0		The lower of 10% of total asset value of First Tractor Finance or 60	100	140
Guarantee		3.21		The lower of 15% of total asset value of First Tractor Finance or 100	150	200
Designated loan		3		3	5	7
	Note 1: As at 30 April 2004, the amount of deposit (with interest) was approximately RMB85.23 million.					
	Note 2: For the year ended 31 December 2003, the existing cap relating to loan (with interest) had been exceeded. Details are as follows:					
	(1) as at 24 October 2003, the amount of loan (with interest) was approximately RMB167.68 million and had exceeded the existing cap for the year ended 31 December 2003 by approximately RMB2.68 million;					
	(2) as at 7 November 2003, the amount of loan (with interest) was approximately RMB167.68 million and had exceeded the existing cap for the year ended 31 December 2003 by approximately RMB2.68 million;					
	(3) as at 26 November 2003, the amount of loan (with interest) was approximately RMB177.68 million and had exceeded the existing cap for the year ended 31 December 2003 by approximately RMB12.68 million.					

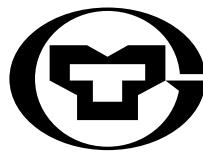
However, as at 26 December 2003, the amount of loan (with interest) was approximately RMB163.68 million which fell within the existing cap for the year ended 31 December 2003. As at 30 April 2004, the amount of loan (with interest) was approximately RMB191.36 million.

One of the conditions of the Existing Waiver for the Ongoing Connected Transactions was that the outstanding balances of the Ongoing Connected Transactions should not exceed the existing caps at any time during the relevant periods as set out in the Existing Waiver. As per the Existing Waiver, the Company should re-comply with Rule 14A.35 of the Listing Rules if the relevant cap amounts have been exceeded.

The Directors noticed the above exceeding of the relevant cap amounts during both the review of the operations result of the Group and the preparation for the audited results of the Company for the year ended 31 December 2003 i.e. in late March 2004.

First Tractor Finance has accepted additional deposits from China Yituo Group subsequent to late March 2004. The outstanding amounts of deposits and loans were approximately RMB98.4 million and RMB199.36 million respectively as of 21 May 2004. The Company's omission to fulfill the disclosure and Independent Shareholders' approval requirements in relation to any Ongoing Connected Transactions subsequent to the existing caps have been exceeded has resulted in non-compliance with the Listing Rules.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## FIRST TRACTOR COMPANY LIMITED 第一拖拉機股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0038)

### EXCEEDING OF EXISTING CAPS ON ONGOING CONNECTED TRANSACTIONS AND ONGOING CONNECTED TRANSACTIONS

The decision of the Directors (including the independent non-executive Directors) to continue the Ongoing Connected Transactions subsequent to late March 2004 was made after the due consideration of the following reasons:

- (1) due to the ongoing nature of the provision of the deposit and loan services, it may be impracticable for such services to be terminated unilaterally due to the following:
  - (a) as the deposits are used to finance the provision of the loan services, should First Tractor Finance cease accepting the deposits immediately, it would have an adverse effect on the liquidity of First Tractor Finance; and
  - (b) as the maturity periods of the loans provided by First Tractor Finance to China Yituo Group as shown in the announcement of the Company dated 29 May 2003 vary from a minimum of 6 months to a maximum of 36 months, the immediate termination of the loan services may constitute a breach of the contractual terms of the Old Agreement which are legally binding on the contractual parties i.e. First Tractor Finance and China Yituo and the latter may take legal action and to claim damages for any loss arisen from First Tractor Finance for its failure to fulfill its contractual obligations under the Old Agreement; and
- (2) as the outstanding amounts of both deposit and loan services in March 2004 were much larger than those in 2003, it may have material adverse impact on First Tractor Finance for such services to be ceased.

Having taken the above factors into account, the Directors (including the independent non-executive Directors) consider that the continuation of the Ongoing Connected Transactions before entering into the New Agreement and the entering into the New Agreement are in the interest of the Company and its Shareholders as a whole.

*The Stock Exchange has indicated that it reserves its rights to take appropriate action against the Company and/or its Directors as a result of such non-compliance of the Listing Rules.*

#### REMEDIAL MEASURES TO BE TAKEN

In order to avoid the recurrence of the incident herein mentioned above and to strengthen its control over the management of First Tractor Finance, the Group proposes to take the following remedial measures:

1. when considering whether or not to approve any new loan, apart from the regular credit check, the loan approving committee of First Tractor Finance will also conduct a compliance procedure i.e. performing compliance check specifically on the Ongoing Connected Transactions so as to ensure that they fall within the proposed New Caps and the conditions required under the Listing Rules in relation to the Ongoing Connected Transactions have been fulfilled;
2. imposing the internal audit department of First Tractor Finance with new duty i.e. verifying the execution of the Ongoing Connected Transactions monthly and provide a monthly written report relating to the above to the Directors for their review;
3. selecting suitable senior personnel i.e. Mr. Xie Jian Hua (謝建華先生) who is the Manager of First Tractor Finance and the Chief Accountant of the Company and is familiar with the Listing Rules to supervise the operations and vet the transactions of First Tractor Finance; and
4. establishing a channel of communication between the Company and First Tractor Finance by way of holding regular meetings between them to monitor the operations of First Tractor Finance.

#### NEW AGREEMENT DATED 2 JUNE 2004

The Directors also wish to announce that the New Agreement was entered into between First Tractor Finance and China Yituo on 2 June 2004 in order to terminate and to replace the Old Agreement (having a term of 3 years commencing from 29 May 2003 to 28 May 2006) and to increase the relevant cap amounts catering for the business expansion and the smoothness of the operations of the Group. The New Agreement and the New Caps are conditional upon, inter alia, approval of the Independent Shareholders taken by poll at the extraordinary general meeting to be convened. The provision of the Financial Services constitute non-exempt ongoing connected transactions of the Company under Rule 14A.35 of the Listing Rules. Major terms of the New Agreement are as follows:

##### *Parties involved*

First Tractor Finance and China Yituo

##### *Condition*

Subject to the Independent Shareholders' approval at the extraordinary general meeting.

##### *Term*

From 2 June 2004 to 31 December 2006

##### *Termination of the Old Agreement*

- (a) First Tractor Finance and China Yituo agree to unconditionally terminate the Old Agreement which will be replaced by the New Agreement.
- (b) Both First Tractor Finance and China Yituo will waive their respective rights to claim against each other for any loss arising out or in connection with the cancellation of the Old Agreement and will properly deal with the transactions which have been terminated under the Old Agreement.
- (c) First Tractor Finance agrees to provide the Financial Services to China Yituo in accordance to the terms of the New Agreement and to ensure that all the transactions will comply with the relevant provisions of the Listing Rules and the cap amounts for such transactions will not exceed the ones stated in the schedule attached to the New Agreement.

##### *Financial Services to be provided to China Yituo Group*

Pursuant to the New Agreement, First Tractor Finance will principally provide the following Financial Services to China Yituo Group during the term stated above:

##### **(a) Deposit**

First Tractor Finance will provide deposit services (including the provision of time deposit, deposit with saving interest rate and also the transfer of fund within China Yituo Group) for China Yituo Group with saving interest rate determined with reference to the relevant interest rates set by PBOC from time to time, the capital interest rate for the settlement account will be determined with reference to the current interest rate i.e. the relevant interest rates set by PBOC from time to time;

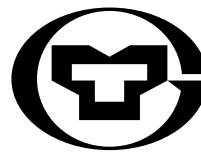
##### **(b) Loan**

First Tractor Finance will provide loans to China Yituo Group with interest rate determined with reference to the relevant interest rates set by PBOC from time to time;

##### **(c) Bills discounting**

First Tractor Finance will provide bills discounting services to China Yituo Group, whereby First Tractor Finance will pay the face value of bills presented by China Yituo Group net of interests in advance of the payment due date of the bills with interest rate determined with reference to the relevant interest rates set by PBOC from time to time;

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



# FIRST TRACTOR COMPANY LIMITED

## 第一拖拉機股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0038)

### EXCEEDING OF EXISTING CAPS ON ONGOING CONNECTED TRANSACTIONS AND ONGOING CONNECTED TRANSACTIONS

**(d) Finance lease**

First Tractor Finance will provide lease financing to China Yituo Group pursuant to which First Tractor Finance will purchase properties from the other parties (not connected with the Group as defined in the Listing Rules) chosen by China Yituo Group and lease the properties to China Yituo Group for a lease charge determined with reference to the cost of purchase and interest rate for the purchase amount as if it were loan amount (with the interest rate determined with reference to the relevant interest rates set by PBOC from time to time). First Tractor Finance shall also charge an insurance fee based on fee charged by the licensed insurance company in the PRC and a one-off handling charge of 1% to 3% of the lease amount;

**(e) Bills acceptance**

First Tractor Finance will provide bills acceptance services to China Yituo Group, whereby First Tractor Finance guarantees the payment of bills issued by China Yituo Group. In return, First Tractor Finance shall charge a one-off service fee of 0.05% of the value of such bills;

**(f) Guarantee**

First Tractor Finance will provide corporate or credit guarantee for bank loans and other liabilities of China Yituo Group with a one-off service charge of approximately 0.5% to 1% of the guarantee amount with reference to the relevant service fee charged by other licensed financial institutions in the PRC; and

**(g) Designated loan**

First Tractor Finance will accept designated deposits placed by China Yituo Group and funded loans made by First Tractor Finance to parties ("Parties") (which are not connected with the Group within the meanings of the Listing Rules) designated by China Yituo Group (who place the designated deposits); and accept designated deposits placed by Parties (which are not connected with the Group within the meanings of the Listing Rules) and funded loans made by First Tractor Finance to the other parties designated by the Parties (who place the designated deposits). First Tractor Finance will charge a one-off service fee of about 1% of the amount of designated deposits. Under this arrangement, First Tractor Finance does not bear any credit risks.

*Financial Services to be provided to the Parties*

Apart from the Financial Services mentioned above, First Tractor Finance will provide the following Financial Services to the Parties:

- (h) First Tractor Finance will provide lease financing to the Parties pursuant to which First Tractor Finance will purchase the properties from China Yituo Group chosen by the Parties and lease the properties to the Parties for a lease charge determined with reference to the cost of purchase and interest rate for the purchase amount as if it were loan amount (with the interest rate determined with reference to the relevant interest rates set by PBOC from time to time). First Tractor Finance shall also charge an insurance fee based on the fee charged by the licensed insurance company in the PRC and a one-off handling charge of about 1% to 3% of the lease amount; and
- (i) First Tractor Finance will provide loans to the Parties for certain percentage of the total consideration for purchasing China Yituo Group's products with interest rate determined with reference to the relevant interest rates set by PBOC from time to time. Such financing will be reviewed and considered on a case-by-case basis having regard to the credit quality of such customers.

*Proposed New Caps*

In view of the rapid business expansion of China Yituo Group, the value amount of the Financial Services has increased substantially. The Directors consider that the relevant cap amounts of the Financial Services as set out in the Circular are insufficient to fulfill the demand for the Financial Services by China Yituo Group amid the rapid expansion of the agriculture tractors and building machinery sector in the PRC and they propose to increase the relevant cap amounts in order to cater for the business expansion and the smoothness of the operations of the Group. New Caps for the Financial Services are proposed as detailed below:

*RMB million*

	<b>New Caps</b>			
	<b>For the year ending</b>			
	<b>31 December</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Deposit (with interest)		300	500	630
Loan (with interest)		230	380	470
Bills discounted receivables		260	420	530
Finance Lease				
provided to China Yituo Group		65	100	125
Bills acceptance		100	140	175
Guarantee		150	260	320
Designated loan		7	11	15

*Basis of the New Caps*

The New Caps, as agreed between First Tractor Finance and China Yituo, are the limits of the Financial Services which First Tractor Finance will provide to China Yituo Group as set out in the New Agreement. They are determined primarily after the following considerations:

- (a) the resources of First Tractor Finance;
- (b) credit control policy of First Tractor Finance;
- (c) the future growth and development of China Yituo Group; and
- (d) the past financial transactions which China Yituo Group has undertaken.

In particular, the New Caps of each of the Financial Services are calculated as set out below:

**(a) Deposits**

The calculation of the cap amount for deposits for the year ending 31 December 2004 is based on the connected transactions conducted by First Tractor Finance in relation to its provision of deposit services for the year ended 31 December 2003 and the credit facility provided by China Yituo. The highest amount of deposit of First Tractor Finance was RMB99.66 million (the amount as at 31 December 2003) for the year ended 31 December 2003. China Yituo has agreed First Tractor Finance to accept trust deposit at approximately RMB200 million in 2004. Hence, the total of two kinds of deposits will be RMB300 million.

The calculation of the cap amounts for deposits for the two years ending 31 December 2005 and 2006 is based on the cap amounts for deposits in its preceding year and in accordance with the rate of increase in the turnover of China Yituo i.e. 67% and 25% respectively.

**(b) Designated Loans**

The calculation of the cap amount for designated loans comprises two parts:

- (i) the amount of outstanding designated loans as at the year end of the previous year; and
- (ii) the additional designated loans for this financial year.

Therefore, the calculation of the cap amount for designated loans for the financial year will use the aggregate amount of designated loans in the preceding year as basis and will also take into account the rate of increase in the turnover of China Yituo.

**(c) Financial Services other than those stated in (a) and (b) above**

The calculation of the cap amounts for the Financial Services other than those stated in (a) and (b) above will be based on the percentage of increase in the total asset value of First Tractor Finance for each year. The Directors estimate that the total asset value of First Tractor Finance will be approximately RMB1,060.24 million, RMB1,770.60 million and RMB2,213.25 million, respectively, for each of the three years ending 31 December 2006.

The percentages for each of the Financial Services as the percentage of the total asset value of First Tractor Finance for each of the three years ending 31 December 2006 are as follows: loans (25%), bills discounting (25%), finance lease (10%), bills acceptance (10%) and guarantee (15%).



# FIRST TRACTOR COMPANY LIMITED

## 第一拖拉機股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0038)

### EXCEEDING OF EXISTING CAPS ON ONGOING CONNECTED TRANSACTIONS AND ONGOING CONNECTED TRANSACTIONS

#### ONGOING CONNECTED TRANSACTIONS

The Directors consider that it is necessary to propose to increase the relevant cap amounts of the Financial Services provided by First Tractor Finance after taking into account the rapid business expansion of China Yituo Group. The Directors consider that the New Agreement was entered into after arm's length negotiations between the parties, based on normal commercial terms and in the ordinary and usual course of business of the Company, and such terms are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

An extraordinary general meeting will be convened for the purpose of seeking the Independent Shareholders' approval of the New Agreement and the New Caps in relation to the Ongoing Connected Transactions. The vote will be taken by poll. China Yituo together with its associates (as defined in the Listing Rules) with interest in such Ongoing Connected Transactions will abstain from voting in this regard. A circular containing, among other things, further details of the New Agreement, a letter from the independent financial adviser containing its advice to the independent board committee and the recommendations of the independent board committee will be despatched to the Shareholders together with a notice convening an extraordinary general meeting of the Company as soon as practicable.

#### DIRECTORS

As at the date of this announcement, the Board comprises nine executive Directors, namely Mr. Liu Dagong, Mr. Dong Yong An, Mr. Liu Wenying, Mr. Shao Haichen, Mr. Li Tengjiao, Mr. Zhao Yanshui, Mr. Zhang Jing, Mr. Liu Shuangcheng and Mr. Huang Yanzhao and four independent non-executive Directors, namely Mr. Lu Zhongmin, Mr. Tao Xiang, Mr. Chen Zhi and Mr. Chan Sau Shan, Gary.

#### TERMS USED IN THIS ANNOUNCEMENT

"associate(s)"	has the meaning ascribed to it under the Listing Rules	"First Tractor Finance"	China First Tractor Group Finance Co., Ltd. (中國一拖集團財務有限公司), a subsidiary of the Company since it was acquired on 14 June 2002, which is owned as to approximately 79.67% by the Company, 10% by Yituo Building, 1.33% by Yituo Dongfang, 1% by YTO International, 7% by Yituo Diesel and 1% by China Yituo
"Brilliance China"	Brilliance China Machinery Holdings Limited (華晨中國機械控股有限公司), a Bermuda incorporated company with limited liability and is owned as to 90.1% by the Company and as to 9.9% by Brilliance China Holdings Ltd., which is not a connected person (as defined under the Listing Rules) of the Company	"Group"	the Company and its subsidiaries
"China Yituo"	China Yituo Group Corporation Limited (中國一拖集團有限公司), a PRC company with limited liability, the controlling shareholder and holding company of the Company, holding approximately 57.32% of the equity interests of the Company	"HK\$"	Hong Kong Dollars, the lawful currency of Hong Kong
"China Yituo Group"	China Yituo and its subsidiaries/controlled companies or entities	"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Circular"	the circular dated 19 June 2003 issued by the Company in respect of the Ongoing Connected Transactions	"Independent Shareholders"	shareholders of the Company other than China Yituo and its associates
"Company"	First Tractor Company Limited (第一拖拉機股份有限公司), a joint stock limited company incorporated under the Company Law	"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress (全國人民代表大會) on 29 December 1993 and came into force on 1 July 1994, as amended, supplemented or otherwise modified from time to time	"New Agreement"	the agreement dated 2 June 2004 entered into between First Tractor Finance and China Yituo pursuant to which First Tractor Finance agreed to provide the Financial Services to China Yituo Group
"Director(s)"	the director(s) of the Company, including the independent non-executive director(s)	"New Caps"	the maximum aggregate annual values of the Ongoing Connected Transactions as set out in this announcement
"Existing Waiver"	the waiver granted to the Company by the Stock Exchange on 13 August 2003 from strict compliance with the relevant requirements of the Listing Rules in respect of the Ongoing Connected Transactions for the three financial years ending 31 December 2005	"Old Agreement"	the agreement dated 29 May 2003 entered into between First Tractor Finance and China Yituo pursuant to which First Tractor Finance provided the Financial Services to China Yituo Group
"Financial Services"	the financial services set out in the Circular and provided by First Tractor Finance to China Yituo Group pursuant to the Old or New Agreement (as the context may require)	"Ongoing Connected Transactions"	the transactions contemplated under the Old or New Agreement (as the context may require)
		"PBOC"	the People's Bank of China
		"PRC"	the People's Republic of China
		"RMB"	Renminbi, the lawful currency of the PRC
		"Shareholder(s)"	the holder(s) of the shares of the Company
		"Stock Exchange"	The Stock Exchange of Hong Kong Limited
		"Yituo Building"	Yituo (Luoyang) Building Machinery Co., Ltd. (一拖(洛陽)建築機械有限公司), a company established in the PRC and is owned as to 49% by the Company and as to 51% by Brilliance China
		"Yituo Diesel"	Yituo (Luoyang) Diesel Co., Ltd. (一拖(洛陽)柴油機有限公司), a company established in the PRC and is owned as to 75% by China Yituo Group and 25% by Brilliance China
		"Yituo Dongfang"	Luoyang Yituo Dongfang Industry Company Limited (洛陽一拖東方實業公司), a company established in the PRC and is owned as to 94.9% and 5.1% by 中國第一拖拉機工程機械有限公司東方實業公司工會委員會(Yituo Dongfang Industry Company Limited - Staff Union Committee) and 20 individuals, respectively, all of which are not connected persons (as defined in the Listing Rules) of the Company
		"YTO International"	YTO International Limited (一拖國際經濟貿易有限公司), a company established in the PRC with limited liability and is a wholly-owned subsidiary of China Yituo
		"%"	per cent
			In this announcement, unless otherwise stated, certain amounts denominated in RMB have been converted (for information only) into HK\$ using an exchange rate of HK\$1.00 to RMB1.065.

By order of the board of  
**First Tractor Company Limited**  
**Zhang Guo Long**  
*Company Secretary*