

# 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)

### DISCONTINUED CONTINUING CONNECTED TRANSACTIONS AND NON-COMPLIANCE WITH THE LISTING RULES

For the year ended 31 December 2005, ZHHRM, a non wholly owned subsidiary of the Company, which the Company indirectly holds approximately 53.2% equity interest, conducted the Taipingyang Sales with Taipingyang, under which ZHHRM sold road construction machineries to Taipingyang amounted approximately RMB9.7 million. Sales made to Taipingyang were discontinued in May 2005 in light of its slow payment records. Taipingyang was a connected person of the Company under the Listing Rules since 20 December 2004.

Pursuant to Rule 14A.34, the relevant ratios of the Taipingyang Sales is less than 2.5% and hence, the Taipingyang Sales constitute continuing connected transactions exempted from the independent shareholders' approval requirements and should have been subject to reporting and announcement requirements. The failure of the Company to report, and announce the details of the Taipingyang Sales constitute breaches of Rule 14A.34 of the Listing Rules.

The Directors consider that the Taipingyang Sales have been entered into in the ordinary course of business of the Group, on normal commercial terms and on terms which are fair and reasonable to and are in the interest of the Company and the Shareholders as a whole.

This announcement is issued for the purpose of re-complying Rules 14A.45 to 14A.47.

#### RELATIONSHIPS BETWEEN PARTIES

**ZHHRM** a limited company established in the PRC, the principal activities of which is the manufacture and sales of road construction machinery. It is a non wholly owned subsidiary of the Company, which the Company indirectly holds approximately 53.2% equity interest.

**Taipingyang** a limited company established in the PRC, the principal activities of which is investment and development of infrastructure projects. It has been a customer of ZHHRM since early 2004. On 20 December 2004, Taipingyang acquired from Zhenjiang Machinery Assets Operation Company (a state owned enterprise) approximately 89.35% interest in Jiangsu Huatong Machinery Group Co., Ltd which is the substantial shareholder of ZHHRM, holding approximately 41% interest in its registered share capital. Subsequent to such acquisition, Taipingyang became a connected person of the Company under the Listing Rules. On 2 December 2005, Taipingyang and Zhenjiang Machinery Assets Operation Company entered into a further agreement for cancellation of the previous acquisition of the 89.35% interest in Jiangsu Huatong Machinery Group Co., Ltd. Upon approval from relevant authorities, Taipingyang ceased to be a connected person of the Company.

#### DETAILS OF THE TAIPINGYANG SALES

For the year ended 31 December 2005, ZHHRM, a non wholly owned subsidiary of the Company, which the Company indirectly holds approximately 53.2% equity interest, conducted the Taipingyang Sales with Taipingyang, under which ZHHRM sold road construction machineries to Taipingyang amounted approximately RMB9.70 million.

Sales made to Taipingyang were discontinued in May 2005 in light of its slow payment records. In addition, on 2 December 2005, ZHHRM, Jiangsu Huatong Machinery Group Co., Ltd and Taipingyang entered into a Substitution Agreement, under which, ZHHRM has agreed the substitution of Taipingyang by Jiangsu Huatong Machinery Group Co., Ltd as its trade debtor and the assumption of liabilities RMB20.08 million due from Taipingyang to ZHHRM to Jiangsu Huatong Machinery Group Co., Ltd. In addition, under the terms of the agreement, Jiangsu Huatong Machinery Group Co., Ltd has agreed to settle the outstanding trade debts of RMB20.08 million within six month from the date of the Substitution Agreement. As at 31 December 2005, the outstanding trade debts due from Jiangsu Huatong Machinery Group Co., Ltd amounted to approximately RMB20.08 million. The balance of trade debt of approximately RMB20.08 million includes the unsettled trade balances for both financial years ended 31 December 2004 and 2005. As of today, the outstanding balance of trade debt is approximately RMB20.08 million. After considering the financial position of Jiangsu Huatong Machinery Group Co., Ltd, ZHHRM has not made any provision for the outstanding balance of trade debt of approximately RMB20.08 million.

The purpose of the Substitution Agreement was to effect the assumption of trade debts by Jiangsu Huatong Machinery Group Co., Ltd, which has a better financial position, and to safe guard the recoverability of its trade debts arising from previous sales transactions between ZHHRM and Taipingyang since early 2004 and the Taipingyang Sales. The Substitution Agreement does not constitute new connected transaction for the purpose of the Listing Rules.

The Directors including independent non-executive Directors consider that the Taipingyang Sales and the Substitution Agreement have been entered into in the ordinary course of business, on normal commercial terms and on terms which are fair and reasonable to and are in the interest of the Company and the Shareholders as a whole.

#### IMPLICATION OF THE LISTING RULES

Under the Listing Rules each of Taipingyang and Jiangsu Huatong Machinery Group Co., Ltd is a connected person of the Company and that the Taipingyang Sales constitute continuing connected transactions exempted from the independent shareholders' approval requirements but should have been subject to reporting and announcement requirements. The failure of the Company to report, and announce the details of the Taipingyang Sales constitute breaches of Rule 14A.34 of the Listing Rules.

#### CIRCUMSTANCES LEADING TO THE NON-COMPLIANCE OF THE LISTING RULES

Taipingyang has been a customer of ZHHRM since early 2004. It became a connected person of the Company on 20 December 2004 when it acquired 89.35% interest in the registered capital of Jiangsu Huatong Machinery Group Co., Ltd. from Zhenjiang Machinery Assets Operation Company, a 41% joint venture partner in ZHHRM.

The Company did not aware of the changes in controlling shareholders of Jiangsu Huatong Machinery Group Co., Ltd until April 2005, when ZHHRM pressing Taipingyang for the repayment of its long over due trade debts which resulted in the Substitution Agreement. Due to disputes between Taipingyang and Zhenjiang Machinery Assets Operation Company over the acquisition of 89.35% interest in Jiangsu Huatong Machinery Group Co., Ltd, the Company was unable to determine whether Taipingyang was a connected person under the Listing Rules at the material time. This announcement is made late due to the fact that the Company did not seek professional advice until course of the annual audit for the year ended 31 December 2005.

#### GENERAL

The Group is principally engaged in the production and sale of agricultural tractors and machinery, road rollers, road construction machinery and harvesting machinery and non-banking financial operations.

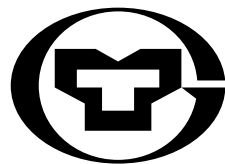
This announcement is issued for the purpose of re-complying Rules 14A.45 to 14A.47.

#### DEFINITION

In this announcement, the following expressions shall have the meanings stated below unless the context otherwise requires:

|               |   |
|---------------|---|
| "Board"       | the board of Director(s)  |
| "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   |
| "Director(s)" | the director(s) of the Company, including the independent non-executive Director(s)   |
| "Group"       | the Company and its subsidiaries  |
| "H Shares"    | overseas listed foreign shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange, and subscribed for and traded in Hong Kong dollars |
| "HK\$"        | Hong Kong Dollars, the lawful currency of Hong Kong   |

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### DISCONTINUED CONTINUING CONNECTED TRANSACTIONS AND NON-COMPLIANCE WITH THE LISTING RULES

|                          |  |                     |   |
|--------------------------|--|---------------------|---|
| “Hong Kong”              | the Hong Kong Special Administrative Region of the PRC   | “Taipingyang Sales” | the sales of road construction machineries to Taipingyang conducted by ZHHRM for the year ended 31 December 2005 amounted to approximately RMB9.7 million   |
| “Listing Rules”          | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)   | “ZHHRM”             | 鎮江華晨華通路面機械有限公司 (Zhenjian Huachen Huatong Road Machinery Company Limited), a limited company established in the PRC, the principal activities of which is the manufacture and sales of road construction machinery. It is a non wholly owned subsidiary of the Company |
| “PRC”                    | the People's Republic of China   | “%”                 | per cent  |
| “RMB”                    | Renminbi, the lawful currency of the PRC   |                     |   |
| “Share(s)”               | state-owned legal person shares and H Shares   |                     |   |
| “Shareholder(s)”         | the holder(s) of the Shares of the Company   |                     |   |
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited  |                     |   |
| “Substitution Agreement” | the substitution agreement dated 2 December 2005 entered into between ZHHRM, Jiangsu Huatong Machinery Group Co., Ltd and Taipingyang pursuant to which ZHHRM has agreed the substitution of Taipingyang by Jiangsu Huatong Machinery Group Co., Ltd as its trade debtor for an amount of approximately RMB20.08 million |                     |   |
| “Taipingyang”            | 江蘇太平洋建設集團有限公司, (Jiangsu Taipingyang Construction Group Limited), a limited company established in the PRC, the principal activities of which is investment and development of infrastructure projects. Taipingyang is a connected person of the Company (as defined under the Listing Rules)                             |                     |   |

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 RMB1.04.

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

Luoyang, Henan Province, the PRC, 8 May 2006

As at the date of this announcement, the Board comprises ten executive Directors, namely Mr. Liu Dagong, Mr. Liu Wenyong, Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Li Tengjiao, Mr. Shao Haichen, Mr. Zhang Jing, Mr. Li Youji, Mr. Liu Shuangcheng and Mr. Zhao Fei, and three independent non-executive directors, namely Mr. Lu Zhongmin, Mr. Chen Zhi and Mr. Chan Sau Shan, Gary.