



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)

CONNECTED TRANSACTION

The Board is pleased to announce that the Company and China Yituo entered into the Agreement on 25 October 2005 pursuant to which the Company agreed to transfer to China Yituo and China Yituo agreed to acquire from the Company 65% of the equity interests in Yituo Standard Component at a consideration of approximately RMB5.65 million (equivalent to approximately HK\$5.42 million).

As China Yituo is the controlling shareholder of the Company, holding approximately 57.32% of the equity interests in the Company, China Yituo is regarded as a connected person (as defined under the Listing Rules) of the Company under Chapter 14A of the Listing Rules. As each of the percentage ratios (other than the profits ratio) is less than 2.5%, the transaction contemplated under the Agreement constitutes a connected transaction under Rule 14A.32 of the Listing Rules and is only subject to the reporting and announcement requirements but no independent Shareholders' approval is required under Chapter 14A of the Listing Rules. Relevant details will be included in the next annual report and accounts of the Company in accordance with Rule 14A.45 of the Listing Rules.

The Directors, including the independent non-executive Directors, consider that the Agreement was entered into after arm's length negotiations between the parties, based on normal commercial terms, and are in the ordinary and usual course of business of the Company. The terms of the Agreement are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

PARTICULARS OF THE AGREEMENT

The Board is pleased to announce that the Company and China Yituo entered into the Agreement on 25 October 2005 pursuant to which the Company agreed to transfer to China Yituo and China Yituo agreed to acquire from the Company 65% of the equity interests in Yituo Standard Component at a consideration of approximately RMB5.65 million (equivalent to approximately HK\$5.42 million). Major terms of the Agreement are set out as follows:

Date

25 October 2005

Parties

- (1) The Company as the vendor; and
- (2) China Yituo as the purchaser, a connected person (as defined under the Listing Rules) of the Company.

Assets being disposed

65% of the equity interests in Yituo Standard Component, such equity interests are not subject to any guarantee, pledge or lien or other rights exercised by third parties whether before or after the date of the Agreement.

Consideration

Approximately RMB5.65 million (equivalent to approximately HK\$5.42 million) which is determined with reference to 65% of the appraised net asset value of Yituo Standard Component as stated in the valuation report provided by 洛陽天誠會計師事務所有限公司(Luoyang Tiancheng Certified Public Accountants Company Limited) (which are independent PRC valuers qualified to carry out the valuation in the PRC and are not connected persons (as defined under the Listing Rules) of the Company) as at 31 July 2005 i.e. approximately RMB8.69 million (equivalent to approximately HK\$8.34 million).

Terms of payment

The consideration payable by China Yituo to the Company shall be satisfied within 180 days from the date of the Agreement by depositing the said amount into the designated bank account of the Company.

The Directors, including the independent non-executive Directors, are of the view that the payment method is fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Pre-emptive rights

The other shareholders of Yituo Standard Component including Yuyao Jieyu and the management of Yituo Standard Component have given up their pre-emptive rights in acquiring the equity interests in Yituo Standard Component.

YITUO STANDARD COMPONENT

Yituo Standard Component was established in the PRC in January 2004. The audited net profits (both before and after taxation and extraordinary items) of Yituo Standard Component as reflected in its account for the year ended 31 December 2004 were approximately RMB1.12 million (equivalent to approximately HK\$1.07 million) and RMB0.75 million (equivalent to approximately HK\$0.72 million) respectively.

Upon completion of the transaction contemplated under the Agreement, Yituo Standard Component will cease to be a subsidiary of the Company and the account of Yituo Standard Component will not be consolidated into the financial statements of the Company.

REASONS FOR ENTERING INTO THE AGREEMENT

Yituo Standard Component is principally engaged in the processing, manufacture and trade of standard and non-standard parts, machinery spare parts and metal materials. In the first half of 2005, China Yituo established a spare parts business department which was responsible for the planning and management of the spare parts business. As the businesses of Yituo Standard Component are more aligned with those of the spare parts business department of China Yituo than the principal businesses of the Company and in order to facilitate the management and planning of the spare parts business department of China Yituo, the Company entered into the Agreement to dispose its equity interests in Yituo Standard Component to China Yituo. Subsequent to the entering into the Agreement, the Company may purchase standard and non-standard parts from other suppliers instead of Yituo Standard Component. Should the Company decide to purchase those products from Yituo Standard Component, such transaction will be conducted in normal commercial terms and if requires, will be subject to the relevant requirements of the Listing Rules.

The Directors, including the independent non-executive Directors, consider that the Agreement was entered into after arm's length negotiations between the parties, based on normal commercial terms, and are in the ordinary and usual course of business of the Company. The terms of the Agreement are fair and reasonable and in the interests of the Shareholders and the Company as a whole as after entering into the Agreement, the Company can be more focused on its principal businesses such as tractors and construction machinery products, hence, it will be beneficial to the long-term business development of the Company.

FINANCIAL EFFECT OF THE TRANSACTION

By reference to 65% of the difference between the carrying value of the net asset value in the accounts of Yituo Standard Component as at 31 July 2005 i.e. approximately RMB8.06 million (equivalent to approximately HK\$7.74 million) and the appraised net asset value of Yituo Standard Component as stated in the valuation report provided by 洛陽天誠會計師事務所有限公司(Luoyang Tiancheng Certified Public Accountants Company Limited) (which are independent PRC valuers qualified to carry out the valuation in the PRC and are not connected persons (as defined under the Listing Rules) of the Company) as at 31 July 2005 i.e. approximately RMB8.69 million (equivalent to approximately HK\$8.34 million), it is expected that a gain in the sum of approximately RMB0.41 million (equivalent to approximately HK\$0.39 million) will be accrued to the Company. The Company intends to use the proceeds i.e. approximately RMB5.65 million (equivalent to approximately HK\$5.42 million) as its general working capital.

INFORMATION OF THE COMPANY AND CHINA YITUO

The Company 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.

China Yituo is principally engaged in the production of motive power machinery, vehicles products and engineering products etc.

CONNECTED TRANSACTION

As China Yituo is the controlling shareholder of the Company, holding approximately 57.32% of the equity interests in the Company, China Yituo is regarded as a connected person (as defined under the Listing Rules) of the Company under Chapter 14A of the Listing Rules. As each of the percentage ratios (other than the profits ratio) is less than 2.5%, the transaction contemplated under the Agreement constitutes a connected transaction under Rule 14A.32 of the Listing Rules and is only subject to the reporting and announcement requirements but no independent Shareholders' approval is required under Chapter 14A of the Listing Rules. Relevant details will be included in the next annual report and accounts of the Company in accordance with Rule 14A.45 of the Listing Rules.

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CONNECTED TRANSACTION

DIRECTORS

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

DEFINITIONS

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

“Agreement”	the sale and purchase agreement dated 25 October 2005 entered into between the Company and China Yituo pursuant to which the Company agreed to transfer to China Yituo and China Yituo agreed to acquire from the Company 65% of the equity interests in Yituo Standard Component
“Board”	the board of Director(s)
“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 of the Company, holding approximately 57.32% of the equity interests in the Company
“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
“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
“Director(s)”	the director(s) of the Company, including the independent non-executive Director(s)
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“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 Standard Component”	Yituo (Luoyang) Standard Component Co., Ltd. (一拖(洛陽)標準零件有限公司), a company established in the PRC and is owned as to 65% by the Company, as to 25% by Yuyao Jieyu and as to 10% by the management of Yituo Standard Component who are not connected persons (as defined under the Listing Rules) of the Company
“Yuyao Jieyu”	Yuyao Jieyu Machinery Company Limited (余姚市捷宇機械有限公司), a company established in the PRC and is owned as to 60% by Mr. Zhao Zhige and as to 40% by Ms. Zhao Manyun, all of whom are not connected persons (as defined under the Listing Rules) of the Company
“%”	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 RMB1.042.

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