

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: 38)

CONNECTED TRANSACTION, ONGOING CONNECTED TRANSACTIONS AND WAIVER APPLICATION

The Directors wish to announce that on 29 March 2004, the Company and YEMC entered into the Disposal Agreement pursuant to which YEMC agreed to acquire the Assets from the Company for a consideration of RMB 27 million (equivalent to approximately HK\$25.35 million) and to assume the Liabilities in the amount of RMB 4.23 million (equivalent to approximately HK\$3.97 million). The net consideration under the Disposal Agreement is RMB 22.77 million (equivalent to approximately HK\$21.38 million) payable by YEMC to the Company in cash.

On 29 March 2004, the Company and YEMC also entered into the Machinery Leasing Agreement and the Tenancy Agreement pursuant to which YEMC will lease parts of the machineries and the production plants from the Company for a term of six years from the date of the Agreements herein mentioned above and the annual rental payable by YEMC to the Company will be approximately RMB 2.33 million (equivalent to approximately HK\$2.19 million) and RMB 1.42 million (equivalent to approximately HK\$1.33 million) under the Machinery Leasing Agreement and the Tenancy Agreement respectively.

The Directors consider that the Agreements were entered into after arm's length negotiations 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 as a whole.

As YEMC is owned as to 42% by the Company and 50% by Yituo Diesel, which is a 75% subsidiary of China Yituo Group, therefore, YEMC is a connected person of the Company under Chapter 14 of the Listing Rules. Accordingly, the transactions under the Agreements will constitute connected transactions for the Company under the Listing Rules. As the estimated aggregate annual amount under the Agreements is expected not to exceed 3% of the consolidated net tangible assets of the Company as at 31 December 2002, the Agreements are subject to the disclosure requirement under Rule 14.25 of the Listing Rules. The Machinery Leasing Agreement and the Tenancy Agreement also constitute ongoing connected transactions for the Company. In this connection, the Company has submitted the Waiver Application to the Stock Exchange to apply for a waiver from strict compliance with the disclosure requirements under the Listing Rules in respect of the Ongoing Connected Transactions.

THE DISPOSAL AGREEMENT DATED 29 MARCH 2004

Parties

The Company as the vendor and YEMC as the purchaser

Assets to be disposed of

Pursuant to the Disposal Agreement, YEMC agreed to acquire the Assets and to assume the Liabilities from the Company for the engagement of the Engine Business.

Consideration

The value of the Assets to be acquired by YEMC is RMB 27 million (equivalent to approximately HK\$25.35 million) and the amount of Liabilities to be assumed by YEMC is RMB 4.23 million (equivalent to approximately HK\$3.97 million). The net consideration under the Disposal Agreement is RMB 22.77 million (equivalent to approximately HK\$21.38 million) payable by YEMC in cash. Both the values of the Assets and Liabilities are determined with reference to the unaudited net book value as of 31 December 2003 of the Company.

Terms of Payment

The net consideration payable by YEMC to the Company shall be RMB 22.77 million (equivalent to approximately HK\$21.38 million) which shall be satisfied in five instalments in the following manner:

- (i) The first instalment in the sum of RMB 9.8 million (equivalent to approximately HK\$9.2 million) shall be paid within seven days after the date of the Disposal Agreement;
- (ii) The second instalment in the sum of RMB 1.7 million (equivalent to approximately HK\$1.6 million) shall be paid on or before 15 April 2004;
- (iii) The third instalment in the sum of RMB 4 million (equivalent to approximately HK\$3.8 million) shall be paid on or before 31 December 2004;
- (iv) The fourth instalment in the sum of RMB 4 million (equivalent to approximately HK\$3.8 million) shall be paid on or before 31 December 2005; and
- (v) The last instalment in the sum of RMB 3.27 million (equivalent to approximately HK\$3.07 million) shall be paid on or before 31 December 2006.

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

THE TENANCY AGREEMENT DATED 29 MARCH 2004

Parties

The Company as landlord and YEMC as tenant

Premises

The plant and buildings located at 154 Jianshe Road, Luoyang, Henan Province, the PRC

Construction floor area

Approximately 32,795 square meters

Term

Six years from the date of the Tenancy Agreement

Rent

Approximately RMB 118,333.33 (equivalent to approximately HK\$111,111.11) per month in 2004 will be payable quarterly in cash in arrear within ten days after the commencement of the next quarter, this amount of rent is in line with the market rate and is determined with reference to the annual depreciation expense of the Premises herein mentioned above and the tax arising from such rental income borne by the Company as landlord. The monthly rent herein mentioned above may be changed but will not be more than RMB 133,333.33 (equivalent to approximately HK\$125,195.62) in 2005 and 2006 subject to any impairment and improvement of the Premises.

THE MACHINERY LEASING AGREEMENT DATED 29 MARCH 2004

Parties

The Company as lessor and YEMC as lessee

Equipment to be leased

The machineries, including but not limited to grinding machine, milling machine, boring machine, drill press, for the engagement of the Engine Business (the "Equipment")

Term

Six years from the date of the Machinery Leasing Agreement

Rent

Approximately RMB 194,167.67 (equivalent to approximately HK\$182,317.06) per month in 2004 will be payable quarterly in cash in arrear within ten days after the commencement of the next quarter, this amount of rent is determined with reference to the annual depreciation expense of the Equipment and the tax arising from such rental income borne by the Company as lessor. The monthly rent of the Equipment may be changed but will not exceed RMB 194,167.67 (equivalent to approximately HK\$182,317.06) per month in 2005 and 2006 subject to the annual inspection on the conditions of the Equipment.

REASON FOR ENTERING INTO THE AGREEMENTS

The Engine Business of the Company has been operating at a loss for the past three years. The loss of such business in the years 2001, 2002 and 2003 were RMB 4,197,600 (equivalent to approximately HK\$3,941,408.45), RMB 11,691,100 (equivalent to approximately HK\$10,977,558.69) and RMB 11,657,800 (equivalent to approximately HK\$10,946,291.08), respectively. The loss was due to the abandoned usage of the Company's assets relating to the Engine Business; in addition, the Company had to bear all the benefits and welfare expenses of a total of 750 staff engaged in its Engine Business.

Due to the above reasons, the Directors believe that the arrangement under the Agreements will be beneficial to the Company and in the interests of the Shareholders as a whole. After entering into the Agreements, part of the Company's assets relating to the Engine Business will be leased to YEMC at a reasonable annual rental thereby reducing the Company's loss due to the abandoned usage of its assets. As the Engine Business of the Company will come to a halt, hence, the loss resulted from such business can be removed. Moreover, a total of 750 staff originally engaged in the Engine Business of the Company will be relocated to and managed by YEMC and, all the benefits and welfare of such staff will be borne by YEMC. Therefore, an aggregate annual amount of which amounting to RMB 8.38 million (equivalent to approximately HK\$7.87 million) will be payable by YEMC resulting in the substantial reduction of salary and welfare expenses which are originally responsible by the Company.

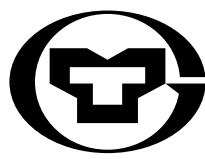
The Directors, including the independent non-executive Directors, consider that the Agreements were entered into after arm's length negotiations based on normal commercial terms and in the ordinary and usual course of business of the Company, and such terms are fair and reasonable and in the interests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

ONGOING CONNECTED TRANSACTIONS AND WAIVER APPLICATION

In view of the fact that YEMC is owned as to 42% by the Company and 50% by Yituo Diesel, which is a 75% subsidiary of China Yituo Group, therefore, YEMC is a connected person of the Company under Chapter 14 of the Listing Rules. Accordingly, the transactions under the Agreements will constitute connected transactions for the Company under the Listing Rules. As the estimated aggregate amount under the Agreements is expected not to exceed 3% of the consolidated net tangible assets of the Company as at 31 December 2002, the Agreements are subject to the disclosure requirement under Rule 14.25 of the Listing Rules.

The Tenancy Agreement and the Machinery Leasing Agreement also constitute ongoing connected transactions for the Company. In this connection, the Company has applied to the Stock Exchange for a waiver for the three years ending 31 December 2006 from strict compliance with the disclosure requirement in respect of the Ongoing Connected Transactions subject to the following conditions:

1. the Ongoing Connected Transactions will be:
 - (a) entered into by the Company in the ordinary and usual course of its business;
 - (b) conducted either (A) on normal commercial terms or (B) on terms no less favourable than those available to and from (as appropriate) independent third parties; and



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- (c) entered into in accordance with the terms of the Agreements governing such Ongoing Connected Transactions that are fair and reasonable and in the interests of the Shareholders and the Company as a whole;
2. the aggregate amount of each of the transactions under the Tenancy Agreement and the Machinery Leasing Agreement for each of the three financial years ending 31 December 2006 of the Company shall not exceed RMB 3.75 million (equivalent to approximately HK\$3.52 million), RMB 4 million (equivalent to approximately HK\$3.76 million) and RMB 4 million (equivalent to approximately HK\$3.76 million) respectively (the "Cap Amount") in the relevant financial year as tabled below;

	2004	2005	2006
Annual Rent of the Premises	RMB 1.42 million (equivalent to approximately HK\$1.33 million)	Shall not exceed RMB 1.6 million (equivalent to approximately HK\$1.5 million)	Shall not exceed RMB 1.6 million (equivalent to approximately HK\$1.5 million)
Annual Rent of the Equipment	RMB 2.33 million (equivalent to approximately HK\$2.19 million)	Shall not exceed RMB 2.33 million (equivalent to approximately HK\$2.19 million)	Shall not exceed RMB 2.33 million (equivalent to approximately HK\$2.19 million)
The Cap Amount	RMB 3.75 million (equivalent to approximately HK\$3.52 million)	Shall not exceed RMB 4 million (equivalent to approximately HK\$3.76 million)	Shall not exceed RMB 4 million (equivalent to approximately HK\$3.76 million)

3. the independent non-executive Directors shall review the Ongoing Connected Transactions annually and confirm in the Company's next and successive annual report that the Ongoing Connected Transactions have been conducted in the manner as stated in paragraphs (1) and (2) above;
4. the auditors of the Company shall review the Ongoing Connected Transactions annually and confirm in a letter (the "Letter") to the Directors (with a copy provided to the Stock Exchange) stating whether or not the Ongoing Connected Transactions:-

- (a) have received the approval of the Directors;
- (b) have been entered into in accordance with the terms of the agreements governing the Ongoing Connected Transactions; and
- (c) have exceeded the Cap Amount;

Where, for whatever reason, the auditors decline to accept the engagement or are unable to provide the Letter, the Directors shall contact the Listing Division of the Stock Exchange immediately.

5. details of the Ongoing Connected Transactions in each financial year shall be disclosed as required under Rule 14.25(1)(A) to (D) of the Listing Rules in the annual report of the Company for that financial year;
6. the Company and YEMC shall provide to the Stock Exchange an undertaking that, for so long as the Company's shares are listed on the Stock Exchange, YEMC will provide the auditors of the Company with full access to its relevant records for the purpose of the auditors' review of the Ongoing Connected Transactions referred to in paragraph (4) above.

The waiver, if granted by the Stock Exchange, will expire on 31 December 2006, upon expiry of the waiver, the Company will ensure compliance of the Listing Rules. In addition, in the event that the Cap Amount is exceeded, or if any of the terms of Agreement governing the Ongoing Connected Transactions as mentioned above are altered, the Company must strictly comply with the relevant provisions of the Listing Rules relating to connected transactions. In the event that any future amendments to the Listing Rules imposing more stringent requirements than as at the date of this announcement on transactions of the kind to which the Ongoing Connected Transactions belong including, but not limited to, a requirement that such transactions be made conditional on approval by the independent Shareholders, the Company shall take immediate steps to ensure compliance with such requirements within a reasonable time.

INFORMATION RELATING TO THE COMPANY AND YEMC

The Company was established in the PRC as a joint stock limited company. The Company is principally engaged in the manufacture of agricultural tractors in the PRC.

YEMC was established in the PRC on 4 December 2003. It is principally engaged in the research, design, manufacture, sales and servicing of engine, engine compact, generator and the accessories, electromechanical and other non-standardized products as well as providing professional technology consultation services.

TERMS USED IN THIS ANNOUNCEMENT

- "Agreements" the Disposal Agreement, the Machinery Leasing Agreement and the Tenancy Agreement
- "Assets" the assets, including but not limited to the production machineries and equipment, inventories and accounts receivable, of the Company in relation to the Engine Business to be acquired by YEMC pursuant to the Disposal Agreement

- "China Yituo Group" 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
- "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
- "Disposal Agreement" the agreement dated 29 March 2004 entered into between the Company and YEMC in respect of the sale of Assets and transfer of Liabilities by the Company to YEMC
- "Director(s)" the director(s) of the Company, including the independent non-executive director(s)
- "Engine Business" the research, design, manufacture, sales and servicing of engine, engine compact, generator and the accessories, electromechanical and other non-standardized products as well as providing professional technology consultation services currently carried out by the Company
- "HK\$" Hong Kong Dollars, the lawful currency of Hong Kong
- "Hong Kong" the Hong Kong Special Administrative Region of the PRC
- "Liabilities" the liabilities, comprising mainly the accounts payable and deposit received, of the Company in relation to the Engine Business to be assumed by YEMC pursuant to the Disposal Agreement
- "Listing Rules" The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
- "Machinery Leasing Agreement" the machinery leasing agreement dated 29 March 2004 entered into between the Company and YEMC in respect of the leasing of machineries by the Company to YEMC
- "Ongoing Connected Transactions" the transactions contemplated under the Machinery Leasing Agreement and the Tenancy Agreement
- "PRC" the People's Republic of China
- "RMB" Renminbi, the lawful currency of the PRC
- "Shareholder(s)" the holder(s) of the share of the Company
- "Stock Exchange" The Stock Exchange of Hong Kong Limited
- "Tenancy Agreement" the tenancy agreement dated 29 March 2004 entered into between the Company and YEMC in respect of the leasing of production plants by the Company to YEMC
- "Yituo Diesel" First Tractor (Luoyang) Diesel Engine Company Limited (一拖(洛陽)柴油機有限公司), a company incorporated in the PRC, of which its shareholding is held as to 75% by China Yituo Group and 25% by Brilliance China Machinery Holdings Limited (華晨中國機械控股有限公司)
- "YEMC" Yituo (Luoyang) Engine Machinery Company Limited (一拖(洛陽)動力機械有限公司), a limited liability company incorporated in the PRC on 4 December 2003, of which its shareholding as to 42% is held by the Company, 50% by Yituo Diesel and 8% by Mr Li Xibin together with 18 independent third parties who are not connected persons (as defined in the Listing Rules) of the Company
- "Waiver Application" the waiver application letter dated 29 March 2004 submitted to the Stock Exchange to apply for waiver from strict compliance with the disclosure requirements under Chapter 14 of the Listing Rules in respect of the Ongoing Connected Transactions
- "%" 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