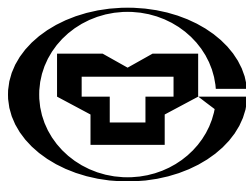


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FIRST TRACTOR COMPANY LIMITED

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)

BREACH OF CONNECTED TRANSACTIONS REQUIREMENTS AND ONGOING CONNECTED TRANSACTIONS

Breached connected transactions

The Group announces that during 5 July 2002 and 18 March 2003, First Tractor Finance, a subsidiary of the Company, had entered into certain connected transactions for providing financial services with China Yituo, Yituo-Made, Yituo Diesel, Yituo Mould, YTO International and Yituo Vehicle, who are connected parties of the Company under the Listing Rules. First Tractor Finance has not accepted additional deposits after 18 March 2003, nor have the Group provided additional loans or bills discounting services or guarantee or entered into any additional connected transaction after 11 February 2003, save for the Agreement. Nonetheless, as the above connected transactions had been conducted by the Company, the failure by the Company to report and announce the details of the above connected transactions and to report, announce and seek Independent Shareholders' approval of the above connected transactions have constituted a breach of Rule 14.26 of the Listing Rules.

Ongoing connected transactions

The Group also announces that on 29 May 2003 First Tractor Finance entered into the conditional Agreement with China Yituo to provide the Financial Services. The Agreement is conditional upon, inter alia, approval of the Independent Shareholders and the grant of Waiver by the Stock Exchange. Given that China Yituo holds 57.3% equity interests of the Company, China Yituo is a connected party under the Listing Rules and the Financial Services will constitute ongoing connected transactions of the Company under the Listing Rules.

The Company has made an application to the Stock Exchange for a Waiver from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules in respect of the Financial Services subject to the conditions set out in the section headed "Waiver application" below.

An extraordinary general meeting will be convened at which an ordinary resolution will be proposed to approve the Agreement and the Financial Services under the Agreement. A circular containing, among other things, details of the Agreement, the recommendation from the independent board committee of the Company and the advice of the independent financial adviser to the independent board committee will be sent to the shareholders of the Company within 21 days of this announcement together with a notice convening an extraordinary general meeting of the Company.

BREACHED CONNECTED TRANSACTIONS

The Group announces that First Tractor Finance, since it was acquired as subsidiary of the Company on 14 June 2002, had entered into the following connected transactions with China Yituo, Yituo- Made, Yituo Diesel, Yituo Mould and YTO International:

- (a) **Deposit.** During 5 July 2002 to 18 March 2003, First Tractor Finance had accepted deposits from China Yituo Group, namely, China Yituo, Yituo-Made, Yituo Diesel, Yituo Mould and YTO International with deposit interest rates determined with reference to the relevant interest rates set by PBOC from time to time;

	China Yituo	Yituo- Made	Yituo Diesel	Yituo Mould	YTO International
Deposit outstanding balance (including interests payable)					
As at 31 December 2002					
RMB'000	12,333	15,323	43,316	1,471	96
% of NTA at 30 June 2002	0.59%	0.74%	2.08%	0.07%	0.005%
As at Latest Practicable Date					
RMB'000	13,180	2	8,885	1,440	125
% of NTA at 31 December 2002	0.64%	0.0001%	0.43%	0.07%	0.006%
Maximum deposit balance up to Latest Practicable Date					
RMB'000	35,000	15,323	43,316	2,100	1,090
% of NTA at 31 December 2002	1.71%	0.75%	2.11%	0.1%	0.05%
Interest rates (per annum)	0.72%	0.72%	0.72%	0.72%	0.72%
			to 1.98%	to 1.98%	

First Tractor Finance accepted deposits (including interests payable) from China Yituo Group amounting to about RMB72,539,000 (representing about 3.48% of NTA at 30 June 2002) as at 31 December 2002 and RMB23,632,000 (representing about 1.15% of NTA at 31 December 2002) as at the Latest Practicable Date.

- (b) **Loan.** First Tractor Finance had provided the following loans to China Yituo Group, namely, China Yituo, Yituo-Made, Yituo Diesel, Yituo Mould and Yituo Vehicle with interest rates determined with reference to the relevant interest rates set by PBOC from time to time;

(i) Loans provided to China Yituo

Date of loan	Amount (RMB'000)	Interest rate (per annum)	Maturity
29 July 2002	15,000	5.31%	12 months
9 August 2002	15,000	5.31%	12 months
28 August 2002	20,000	5.31%	12 months
8 November 2002	20,000	5.31%	12 months
24 January 2003	14,000	5.31%	12 months
28 January 2003	19,000	5.49%	36 months

Loan outstanding balance

As at 31 December 2002	
RMB'000	70,000
% of NTA at 30 June 2002	3.36%

As at Latest Practicable Date	
RMB'000	103,000
% of NTA at 31 December 2002	5.02%

Maximum loan balance up from	
14 June 2002 to Latest Practicable Date	
RMB'000	103,000
% of NTA at 31 December 2002	5.02%

ChinaYituo has confirmed in writing to First Tractor Finance that certain assets beneficially owned by China Yituo with net carrying value of about RMB172 million will be pledged to First Tractor Finance for securing the outstanding loan balance due to First Tractor Finance as at the Latest Practicable Date and any future borrowings and obligations of China Yituo that will arise under the Agreement (as described below).

(ii) Loans provided to Yituo-Made

Date of loan	Amount (RMB'000)	Interest rate (per annum)	Maturity
5 July 2002	10,790 (<i>Note</i>)	5.04%	6 months
5 July 2002	3,210	5.49%	30 months
11 February 2003	1,200	5.292%	6 months

Loan outstanding balance

As at 31 December 2002	
RMB'000	14,000
% of NTA at 30 June 2002	0.67%

As at Latest Practicable Date	
RMB'000	4,410
% of NTA at 31 December 2002	0.22%

Maximum loan balance up from 14 June 2002 to Latest Practicable Date	
RMB'000	14,000
% of NTA at 31 December 2002	0.68%

Note: In January 2003, RMB10.79 million was repaid by Yituo-Made to First Tractor Finance

(iii) Loans provided to Yituo Diesel

Date of loan	Amount (RMB'000)	Interest rate (per annum)	Maturity
29 July 2002	400	5.49%	14 months
26 July 2002	15,000	5.841%	9 months

Loan outstanding balance

As at 31 December 2002	
RMB'000	15,400
% of NTA at 30 June 2002	0.74%

As at Latest Practicable Date	
RMB'000	15,400
% of NTA at 31 December 2002	0.75%

Maximum loan balance up from 14 June 2002 to Latest Practicable Date	
RMB'000	15,400
% of NTA at 31 December 2002	0.75%

(iv) Loans provided to Yituo Mould

Date of loan	Amount (RMB'000)	Interest rate (per annum)	Maturity
8 November 2002	2,100	5.49%	36 months

Loan outstanding balance

As at 31 December 2002	
RMB'000	2,100
% of NTA at 30 June 2002	0.10%

As at Latest Practicable Date	
RMB'000	2,100
% of NTA at 31 December 2002	0.10%

Maximum loan balance up from 14 June 2002 to Latest Practicable Date	
RMB'000	2,100
% of NTA at 31 December 2002	0.10%

(v) **Loans provided to Yituo Vehicle**

Date of loan	Amount (RMB'000)	Interest rate (per annum)	Maturity
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28 August 2002	6,000	5.31%	12 months
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Loan outstanding balance

As at 31 December 2002

RMB'000	6,000
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% of NTA at 30 June 2002	0.29%
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As at Latest Practicable Date

RMB'000	6,000
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% of NTA at 31 December 2002	0.29%
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Maximum loan balance up from

14 June 2002 to Latest Practicable Date

RMB'000	6,000
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% of NTA at 31 December 2002	0.29%
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First Tractor Finance provided loans to China Yituo Group amounting to about RMB107,500,000 (representing about 5.16% of NTA at 30 June 2002) as at 31 December 2002 and RMB130,910,000 (representing about 6.38% of NTA at 31 December 2002) as at the Latest Practicable Date. All loan interests due have been paid by China Yituo Group in accordance with the terms of the loans.

- (c) **Bills discounting.** During September 2002 to 8 February 2003, First Tractor Finance had provided bills discounting services to China Yituo Group, namely, China Yituo and Yituo Diesel, whereby First Tractor Finance pay the face value of bills presented by China Yituo and Yituo Diesel net of interests in advance of the payment due date with interest rates determined with reference to the relevant interest rates set by PBOC from time to time.

	China Yituo	Yituo Diesel
Bills discounted receivables outstanding balance (RMB'000)		
As at 31 December 2002		
RMB'000	63,711	22,550
% of NTA at 30 June 2002	3.06%	1.08%
As at Latest Practicable Date		
RMB'000	27,600	40,000
% of NTA at 31 December 2002	1.35%	1.95%
Maximum bills discounted receivables balance from 14 June 2002 up to Latest Practicable Date		
RMB'000	65,500	40,000
% of NTA at 31 December 2002	3.19%	1.95%
Fixed interest rates (per annum)	2.97%	3.24%

The bills discounted receivables in relation to China Yituo Group amounting to about RMB86,261,000 (representing about 4.14% of NTA at 30 June 2002) as at 31 December 2002 and RMB67,600,000 (representing about 3.30% of NTA at 31 December 2002) as at the Latest Practicable Date.

- (d) **Guarantee.** On 5 July 2002, First Tractor Finance provided corporate guarantee of about RMB12.49 million to a bank in connection with purchases and tender made by Yituo-Made. In view of China Yituo providing a corporate guarantee of RMB12.49 million to First Tractor Finance in return and the corporate guarantee was a new services First Tractor Finance offered to China Yituo, First Tractor Finance did not charge China Yituo Group a service charge for the provision of corporate guarantee. About RMB6.49 million and RMB2.79 million of such corporate guarantee were released in January 2003 and February 2003, respectively. The outstanding balance of such corporate guarantee as at 31 December 2002 and the Latest Practicable Date was RMB 12.49 million (representing about 0.6% of NTA at 30 June 2002) and RMB3.21 million (representing about 0.16% of NTA at 31 December 2002), respectively. The remaining balance of corporate guarantee provided of RMB3.21 million shall be released on 31 January 2005.
- (e) **Designated loan.** In January 1999, China Yituo on normal commercial terms placed a designated deposit of RMB1.5 million in First Tractor Finance, which funded a fixed loan with fixed interest rate of 6.39% per annum made by First Tractor Finance to 鎮江脫粒機製造廠 (Zhen Jiang Harvest Machinery Manufacturing Factory) (which is not a connected person (as defined in the Listing Rules) of the Company) designated by China Yituo. First Tractor Finance receives an one-off service charge of RMB1,500 (0.1% of RMB1.5 million) from China Yituo. As at the Latest Practicable Date, the loan balance remains at RMB1.5 million (representing about 0.07% of the NTA at 31 December 2002).

In April 2002, 中國一拖集團有限公司工會委員會 (China Yituo Group Limited Union Association), which is not a connected person (as defined in the Listing Rules) of the Company, on normal commercial terms, place a designated deposit of RMB2 million in First Tractor Finance, which funded a fixed loan with fixed interest rate of 5.84% per annum made by First Tractor Finance to China Yituo designated by China Yituo Group Union Association. First Tractor Finance receives an one-off service charge of RMB2,000 (0.1% of RMB2 million) from China Yituo. As at the Latest Practicable Date, the loan balance remains at RMB2 million (representing about 0.10% of the NTA).

Under this arrangement, First Tractor Finance does not bear any credit risks. The respective deposits and loans under this arrangement are not reflected in the consolidated balance sheet of the Group, but disclosed by way of notes to the Hong Kong Accounting Standard financial statements of the Group.

The Board (including independent non-executive Directors) are of the view that the above connected transactions have been entered into under normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties and on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Relationships between First Tractor Finance and China Yituo, Yituo-Made, Yituo Diesel, Yituo Mould, YTO International and Yituo Vehicle

First Tractor Finance is a subsidiary of the Company, which is owned as to about 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. The Group effectively hold about 91% of equity interests in First Tractor Finance.

First Tractor Finance, which was established on 27 November 1992, obtained its financial institution license issued by PBOC on 4 August 1992. It was acquired by the Group in June 2002 as stated in the announcements of the Company dated 25 June 2002 and 3 July 2002 and its original financial institution licence became invalid. First Tractor Finance subsequently obtained its renewed financial institution license with effect from 25 June 2002. Its registered capital as at Latest Practicable Date was RMB300 million. It is a licensed financial institution in the PRC subject to the rules and regulation set by PBOC. Its scope of business as set out in its financial institution license issued by PBOC comprises the provision of banking related services to China Yituo Group including the Financial Services.

China Yituo is a company established in the PRC with limited liability principally engaged in the manufacture and sale of agriculture machineries, automobiles, electric generator and other related machines, parts and components. It holds 57.3% equity interests of the Company and thus is considered a connected party of the Company under the Listing Rules and transactions between the Group and China Yituo will constitute connected transactions under the Listing Rules.

Yituo-Made is a company established in the PRC principally engaged in the design, manufacture and sales of wind turbine and the relating equipment and is owned as to 50% by China Yituo and as to 50% by 西班牙美德再生技術公司(Spain Made Technologies Renovables Company) which is not a connected person (as defined in the Listing Rules) of the Company. Thus, Yituo-Made is considered a connected person of the Company under the Listing Rules and transactions between the Group and Yituo-Made will constitute connected transactions under the Listing Rules.

Yituo Diesel is a company established in the PRC with limited liability principally engaged in design and manufacture of diesel machinery and owned as to 75% and 25% by China Yituo and the Group, respectively. Thus, Yituo Diesel is considered a connected person of the Company under the Listing Rules and transactions between the Group and Yituo Diesel will constitute connected transactions under the Listing Rules.

Yituo Mould is a company established in the PRC principally engaged in manufacture and sale of moulds and wholly owned by China Yituo and thus is considered a connected person of the Company under the Listing Rules and transactions between the Group and Yituo Mould will constitute connected transactions under the Listing Rules.

YTO International is a company established in the PRC principally engaged in import and export business and wholly owned by China Yituo and thus is considered a connected person under the Listing Rules and transactions between the Group and YTO International will constitute connected transactions under the Listing Rules.

Yituo Vehicle is a company established in the PRC principally engaged in manufacture of vehicles and is owned as to 51% by China Yituo and as to 49% by Mr Ni Rui Hua who is not a connected person (as defined in the Listing Rules) of the Company. Thus, Yituo Vehicle is considered a connected person of the Company under the Listing Rules and transactions between the Group and Yituo Vehicle will constitute connected transactions under the Listing Rules.

The requirements of the Listing Rules

As the above-mentioned connected transactions, in aggregate, exceed the higher of HK\$10,000,000 or 3% of the latest published consolidated net tangible assets of the Company, the above connected transactions are subject to Independent Shareholders' approval and the disclosure requirements applicable to connected transactions under the Listing Rules.

First Tractor Finance has not accepted additional deposits after 18 March 2003, nor have the Group provided additional loans or bills discounting services or guarantee or entered into any additional connected transaction after 11 February 2003, save for the Agreement detailed below. Nonetheless, as the above connected transactions had been conducted by the Company, the failure by the Company to report and announce the details of the above connected transactions and to report, announce and seek Independent Shareholders' approval of the above connected transactions have constituted a breach of Rule 14.26 of the Listing Rules. As such, the Stock Exchange reserve its right to take any action against the Company and/or its Directors.

THE AGREEMENT DATED 29 MAY 2003

The Group also announces that on 29 May 2003 First Tractor Finance, a subsidiary of the Company, entered into the conditional Agreement with China Yituo to provide the Financial Services. The Agreement is conditional upon, inter alia, approval of the Independent Shareholders at the extraordinary general meeting to be convened and the grant of Waiver. The Financial Services will constitute connected transactions of the Company under Rule 14.26 of the Listing Rules.

Parties

1. First Tractor Finance
2. China Yituo

Terms of the Agreement

Pursuant to the Agreement, First Tractor Finance will provide the following Financial Services to China Yituo Group from 29 May 2003 to 28 May 2006:

- (a) **Deposit.** First Tractor Finance will provide deposits services for China Yituo Group with saving interest rate determined with reference to 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 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;
- (d) **Finance lease.**
 - i. First Tractor Finance will provide lease financing to China Yituo Group with 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 licensed insurance company in the PRC and an one-off handling charge of 1% to 3% of the lease amount;

- ii. First Tractor Finance will provide lease financing to parties (“Parties”) who are not connected persons (as defined in the Listing Rules) of the Company pursuant to which First Tractor Finance will purchase the goods from China Yituo Group as chosen by the Parties and lease the goods to the Parties for a lease charge determined with reference to the relevant interest rate set by PBOC from time to time. First Tractor Finance shall also charge an insurance fee based on the fee charged by licensed insurance company in the PRC and an one-off handling charge of about 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 an 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 an one-off service charge of not more than 1% of the guarantee amount;
- (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 (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 China Yituo Group designated by the parties (who place the designated deposits). First Tractor Finance will charge an one-off service fee of about 0.1% of the amount of designated deposits. Under this arrangement, First Tractor Finance does not bear any credit risks.

First Tractor Finance will also provide financing to parties who are not connected persons (as defined in the Listing Rules) of the Company for the purchases made from China Yituo 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.

The Agreement is conditional upon, inter alia, approval of the Independent Shareholders at the extraordinary general meeting to be convened and the grant of Waiver by the Stock Exchange.

The Board intended that First Tractor Finance would primarily provide internal financial and treasury functions to the Group. The Board believe the existing resources of First Tractor Finance (including its human resources and administrative capabilities), can support the provision of the Financial Services, in addition to serving the Group. As such, the Financial Services can enhance the utilization of the existing resources of First Tractor Finance and earn additional revenue for the Group.

The Directors are of the view that the Agreement is entered into under normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties and on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Security

Pursuant to the Agreement, First Tractor Finance may at its discretion to require China Yituo Group to provide guarantee/asset pledge from China Yituo Group or other parties for securing the obligations of China Yituo Group under the Agreement.

China Yituo has confirmed in writing to First Tractor Finance that certain assets beneficially owned by China Yituo with net carrying value of about RMB172 million are pledged for the existing borrowings and any future borrowings and obligations of China Yituo that will arise under the Agreement.

Relationship between the parties

The relationship between First Tractor Finance and China Yituo is set out under the heading “Relationships between First Tractor Finance and China Yituo, Yituo-Made, Yituo Diesel, Yituo Mould, YTO International and Yituo Vehicle” above.

Waiver application

Given that China Yituo holds 57.3% equity interests of the Company, China Yituo is considered a connected person under the Listing Rules. Accordingly, the Financial Services (excluding lease financing provided to parties who are not connected persons (as defined in the Listing Rules) of the Company pursuant to which First Tractor Finance will purchase the goods from China Yituo Group as chosen by the parties and lease the goods back to the parties and excluding the financing First Tractor Finance will provide to parties who are not connected persons (as defined in the Listing Rules) of the Company for the purchases made from China Yituo Group) will constitute ongoing connected transactions of the Company. As the cap amounts in relation to the Financial Services as set out in (b) below is expected to exceed HK\$10,000,000 and 3% of the latest published consolidated net tangible assets of the Company, the Financial Services will be subject to Independent Shareholders’ approval (with China Yituo and its associates abstaining from voting) and the disclosure requirements applicable to connected transactions under Rule 14.26 of the Listing Rules.

The Directors intend that the Financial Services which constitute ongoing connected transactions will be of a continuing nature. The Directors are of the view that it would be impractical and unduly burdensome if the Group had to obtain prior shareholders’ approval and make disclosure for each such transaction in the future. The Group has therefore made an application to the Stock Exchange for a conditional waiver from strict compliance with Rule 14.26 of the Listing Rules to the Company regarding the Financial Services in respect of each and every occasion they arise during each of the three financial years ending 31 December 2005, subject to the following conditions:

- (a) that the Financial Services which constitute ongoing connected transactions shall be:
 - (i) conducted either (A) on normal commercial terms (which will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) if there is not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to independent third parties; and

- (ii) fair and reasonable so far as the shareholders of the Company are concerned;
- (b) the outstanding balances of the Financial Services which constitute ongoing connected transactions shall not exceed the cap amounts at any time during the relevant periods as set out below:

	For the year ending 31 December		
	2003	2004	2005
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Deposit (with interests)	60	80	100
Loan (with interests)	The lower of 20% of total asset value of First Tractor Finance or		
	165	205	245
Bills discounted receivables	The lower of 15% of total asset value of First Tractor Finance or		
	120	160	200
Finance lease (with interests) provided to China Yituo Group	The lower of 10% of total asset value of First Tractor Finance or		
	35	65	100
Bills acceptance	The lower of 10% of total asset value of First Tractor Finance or		
	60	100	140
Guarantee	The lower of 15% of total asset value of First Tractor Finance or		
	100	150	200
Designated loan	5	7	9

- (c) the independent non-executive Directors shall review the Financial Services which constitute ongoing connected transactions annually and confirm in the Company's next annual report that these transactions were conducted in the manner as stated in paragraphs (a) and (b) above;
- (d) the Company's auditors shall review the Financial Services which constitute ongoing connected transactions annually and confirm in writing to the Directors (a copy of which is to be provided by the Company to the Listing Division of the Stock Exchange) that:
- (i) the Financial Services which constitute ongoing connected transactions have received the approval of the Company's board of Directors;
 - (ii) the Financial Services which constitute ongoing connected transactions have been entered into in accordance with the pricing policies of the First Tractor Finance;
 - (iii) the Financial Services which constitute ongoing connected transactions have been conducted on terms no less favourable than those prescribed by PBOC; and
 - (iv) the Financial Services which constitute ongoing connected transactions have been entered into within the limit stated in paragraph (b) above;

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

- (e) China Yituo shall undertake to the Stock Exchange, for the purpose of the auditors' review of the Financial Services which constitute ongoing connected transactions referred to in paragraph (d) above, that the auditors of the Company will be granted access to such of its relevant record, and where required by the auditors, use its best efforts to procure China Yituo and its associates to provide the auditors with access to the relevant records; and
- (f) details of the Financial Services which constitute 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 together with a statement of the opinion of the independent non-executive Directors referred to in paragraph (c) above.

Basis of cap amounts

The cap amounts, as agreed between First Tractor Finance and China Yituo, are the limits of financial services First Tractor Finance would provide to China Yituo Group as set out in the 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 China Yituo Group has undertaken.

中國財務公司協會 (China Finance Company Association) has indicated in China Finance Companies periodical that financial institutions which provide financial services to group companies are developing rapidly, and in 2001, the industry-wide growth rate of the total assets value of all financial institutions in the PRC which provide financial services to group companies in the industries including manufacturing, oil, electricity, and the industry of manufacturing of agricultural equipment in which China Yituo Group is principally engaged is about 33%. Between 1987 and 1997, the total asset value of such finance companies has increased from about RMB8 billion to RMB172.3 billion, representing an average yearly growth rate of about 35%.

Similar growth rate of First Tractor Finance was not recorded prior to its acquisition by the Company in June 2002. But First Tractor Finance has undergone substantial changes since the acquisition. The registered capital of First Tractor Finance was substantially raised to RMB300 million and the operation is substantially expanded both in terms of the amounts and the kinds of financial services First Tractor Finance is able to provide. The original board and the senior management of First Tractor Finance prior to the acquisition have been replaced. First Tractor Finance is under a new leadership which will focus on the development of the operation of First Tractor Finance.

Acting to provide financial services to China Yituo Group, the business of First Tractor Finance hinges on the operation of China Yituo Group. In 2000 and 2001, the agricultural equipment industry was under structural adjustment implemented by the PRC Government, culminating in contraction in the agricultural industry. The turnover of the China Yituo Group declined by about 9% in 2001 when compared to previous year. In 2002, the China Yituo Group rejuvenated its operation by concentrating on its marketing strategies. The turnover of the China Yituo Group grew by about 33% in 2002 when compared to previous year and the turnover continue to grow even faster at 84% in the first quarter of 2003 when compared to previous year.

For the Board, under current market conditions, do not foresee that the industry of the financial institutions which provide financial services to group companies and China Yituo Group will be subject to adversities, the Board are of the view that that the conditions and operating environment of the industry of such financial institutions and China Yituo Group would remain, the industry of such financial institutions and China Yituo Group will continue to grow. Based on the total asset value of First Tractor Finance of about RMB648 million as at 31 December 2002, the Board project the total asset value of First Tractor Finance to be about RMB862 million, RMB1,146 million and RMB1,524 million, respectively, as at each of the three years ending 31 December 2005.

In particular, the cap amounts of each financial service are set out below:

- (a) **Deposits.** As at 31 December 2002, First Tractor Finance accepted deposits from China Yituo Group amounting to about RMB72.5 million. China Yituo Group agree to continue to place deposits with First Tractor Finance amounting to not more than RMB60 million in the year ending 31 December 2003, being the cap amounts of deposit for the year ending 31 December 2003.

The turnover of China Yituo Group grew by 33% in 2002. The Board expected that China Yituo Group will continue to grow and the working capital of China Yituo Group will increase as the China Yituo Group grow, which in turn will place more deposits with First Tractor Finance as agreed by China Yituo Group. As such, the cap amounts of deposits are RMB80 million and RMB100 million in 2004 and 2005, respectively.

- (b) **Loans.** Since 14 June 2002 when First Tractor Finance was acquired as subsidiary of the Company, First Tractor Finance provided loans to China Yituo Group amounting to about RMB107.5 million as at 31 December 2002. If the amounts of loans provided to China Yituo Group are extrapolated annually, the loans amount to about RMB200 million as at 31 December 2003, representing about 23% of the projected total asset value of First Tractor Finance as at 31 December 2003.

However, it is the internal credit control policy of First Tractor Finance, which is not prescribed by PBOC, that loans provided to China Yituo Group shall not exceed 20% of the total asset value of the First Tractor Finance. It does not represent the maximum capacity which can be provided by First Tractor Finance. The cap amounts of loans for the three years ending 31 December 2005 are RMB165 million, RMB205 million and RMB245 million, respectively, representing about 19%, 18% and 16%, respectively, of projected total asset value of First Tractor Finance of RMB862 million, RMB1,146 million and RMB1,524 million, respectively, as at each of the three years ending 31 December 2005.

- (c) **Bills discounting.** Since 14 June 2002 when First Tractor Finance was acquired as subsidiary of the Company, the bills discounted receivable in relation to China Yituo Group amounted to about RMB86.3 million as at 31 December 2002. If the amounts of bills discounted receivables from China Yituo Group are extrapolated annually, they amount to about RMB160 million as at 31 December 2003, representing about 19% of the projected total asset value of First Tractor Finance as at 31 December 2003.

However, it is the internal credit control policy of First Tractor Finance, which is not prescribed by PBOC, that the bills discounted receivable from China Yituo Group shall not exceed 15% of the total asset value of the First Tractor Finance. It does not represent the maximum capacity which can be provided by First Tractor Finance. As such, the cap amounts of bills discounted receivables for the three years ending 31 December 2005 are set at RMB120 million, RMB160 million and RMB200 million, respectively, representing about 14%, 14% and 13%, respectively, of projected total asset value of First Tractor Finance of RMB862 million, RMB1,146 million and RMB1,524 million, respectively, as at each of the three years ending 31 December 2005.

- (d) **Finance lease.** Since 14 June 2002 when First Tractor Finance was acquired as subsidiary of the Company, First Tractor Finance have not provided any finance lease services to China Yituo Group.

China Yituo Group has submitted to First Tractor Finance development plans of China Yituo Group. In particular, China Yituo Group intends to purchase equipment in 2003 amounting to about RMB35 million by way of finance lease provided by First Tractor Finance, representing about 4.06% of the projected total asset value of First Tractor Finance of RMB862 million as at 31 December 2003.

It is the internal credit control policy of First Tractor Finance, which is not prescribed by PBOC, that the finance lease provided to China Yituo Group shall not exceed 10% of the total asset value of the First Tractor Finance. It does not represent the maximum capacity which can be provided by First Tractor Finance. As such, the cap amounts of finance lease for the three years ending 31 December 2005 are set at RMB35 million, RMB65 million and RMB100 million, respectively, representing about 4%, 6% and 7%, respectively, of projected total asset value of First Tractor Finance of RMB862 million, RMB1,146 million and RMB1,524 million, respectively, as at each of the three years ending 31 December 2005.

- (e) **Bills acceptance.** Since 14 June 2002 when First Tractor Finance was acquired as subsidiary of the Company, First Tractor Finance have not provided any bills acceptance services to China Yituo Group. Bills acceptance is a new kind of financial transactions China Yituo Group participate in since March 2003. For the month of March 2003, China Yituo Group already conducted bills acceptance transactions with financial institutions other than First Tractor Finance amounting to about RMB20 million. First Tractor Finance have not conducted bills acceptance transactions with China Yituo Group, save for the Financial Services.

It is the internal credit control policy of First Tractor Finance, which is not prescribed by PBOC, that the bills acceptance provided to China Yituo Group shall not exceed 10% of the total asset value of the First Tractor Finance. It does not represent the maximum capacity which can be provided by First Tractor Finance. The cap amounts of bills acceptance for the three years ending 31 December 2005 are RMB60 million, RMB100 million and RMB140 million, respectively, representing about 7%, 9% and 9%, respectively, of projected total asset value of First Tractor Finance of RMB862 million, RMB1,146 million and RMB1,524 million, respectively, as at each of the three years ending 31 December 2005.

- (f) **Guarantee.** As at 31 December 2002, First Tractor Finance provided corporate guarantee in favour of China Yituo Group amounting to about RMB12.5 million, representing about 1.9% of the total asset value of First Tractor Finance as at 31 December 2002. Corporate guarantee provided by other companies in favour of China Yituo Group amounted to RMB1,780 million as at 31 December 2002.

The guarantee service is a new service provided by First Tractor Finance since it was acquired by the Group in June 2002. In line with the internal credit control policy of First Tractor Finance, which is not prescribed by PBOC, First Tractor Finance has agreed to provide corporate guarantee in favour of China Yituo Group not exceeding 15% of the total asset value of the First Tractor Finance. It does not represent the maximum capacity which can be provided by First Tractor Finance. The cap amounts of guarantee for the three years ending 31 December 2005 are RMB100 million, RMB150 million and RMB200 million, respectively, representing about 12%, 13% and 13%, respectively, of projected total asset value of First Tractor Finance of RMB862 million, RMB1,146 million and RMB1,524 million, respectively, as at each of the three years ending 31 December 2005.

- (g) **Designated loans.** As at 31 December 2002, First Tractor Finance have designated loans in relation to China Yituo Group amounting to RMB3.5 million.

The turnover of China Yituo Group grew by 33% in 2002. The Board expected that China Yituo Group will continue to grow and First Tractor Finance agreed to raise the limits of designated loans in relation to China Yituo Group. As such, the cap amounts of designated loans are RMB5 million, RMB7 million and RMB9 million, respectively, in each of the three years ending 31 December 2005.

First Tractor Finance is not required by PBOC to limit its lending exposure to a percentage of its total asset value. For the purpose of safe credit control, First Tractor Finance limits its lending exposure to China Yituo Group to a percentage of its total asset value as set out above.

First Tractor Finance has also complied and will continue to comply with the requirements imposed by PBOC. Examples of the requirements are:

- Proper internal control system;
- Treatment of non-performing loans;
- Capital adequacy ratio of not less than 10%; and
- External borrowing not to exceed borrowing from group companies.

Based on the registered capital of RMB300 million of First Tractor Finance and that First Tractor Finance shall provide the financial services not exceeding the cap amounts, the capital adequacy ratio of First Tractor Finance will be not less than 55%, 40% and 30% in 2003, 2004 and 2005, respectively.

General

In the event that the relevant advance (as defined under Practice Note 19 of the Listing Rules) to China Yituo Group exceeds 25% of the consolidated net asset value of the Company, the Company shall make an announcement pursuant to Practice Note 19 of the Listing Rules.

The Agreement are subject to the approval of the Independent Shareholders at an extraordinary general meeting of the Company at which China Yituo and its associates will abstain from voting. An independent board committee comprising four independent non-executive directors of the Company has been appointed to advise the Independent Shareholders on the terms of the Agreement and the Waiver application to the Stock Exchange and an independent financial adviser will be appointed to advise the independent board committee as to whether the terms of the Agreement and the Waiver application to the Stock Exchange are fair and reasonable for the Company and its shareholders as a whole.

A circular containing, among other things, details of the Agreement, the recommendations of the independent board committee of the Company and the advice of the independent financial adviser to the independent board committee of the Company will be sent to the shareholders of the Company within 21 days of this announcement together with a notice convening an extraordinary general meeting of the Company at which an ordinary resolution will be proposed for the approval of the Agreement and the Financial Services. China Yituo and its associates will abstain from voting in respect of the resolution.

DEFINITIONS

“Agreement”	the agreement dated 29 May 2003 entered into between First Tractor Finance and China Yituo, pursuant to which First Tractor Finance provides the Financial Services to China Yituo Group
“Board”	the board of Directors
“China Yituo”	China Yituo Group Corporation Limited (中國一拖集團有限公司), a PRC company with limited liability and holds about 57.3% equity interests of the Company
“China Yituo Group”	China Yituo and its subsidiaries
“Company”	First Tractor Company Limited
“Directors”	the directors of the Company
“Financial Services”	The financial services provided by First Tractor Finance to China Yituo Group pursuant to the terms of the Agreement
“First Tractor Finance”	China First Tractor Group Finance Company Limited (中國一拖集團財務有限責任公司), a subsidiary of the Company since it was acquired on 14 June 2002, which is owned as to about 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
“Group”	the Company and its subsidiaries, principally engaged in the manufacture and sale of agriculture tractors and construction machinery
“Independent Shareholders”	shareholders of the Company other than China Yituo and its associates
“Latest Practicable Date”	29 May 2003, being the latest practicable date for ascertaining certain information in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NTA at 30 June 2002”	the Group’s consolidated net tangible asset value of about RMB2,084,248,000 as at 30 June 2002 as set out in the Company’s interim report for the six months ended 30 June 2002

“NTA at 31 December 2002”	the Group’s consolidated net tangible asset value of about RMB2,051,069,000 as at 31 December 2002 as set out in the Company’s 2002 annual report
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Waiver”	the conditional waiver being sought by the Company from strict compliance with Rule 14.26 of the Listing Rules regarding the Financial Services which constitute ongoing connected transactions in respect of each and every occasion they arise during each of the three financial years ending 31 December, 2005
“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, which is owned as to 49% by the Company and as to 51% by Brilliance China Machinery Holdings Ltd. which is 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
“Yituo Diesel”	Yituo (Luoyang) Diesel Engine Company Limited (一拖(洛陽)柴油機有限公司), a company established in the PRC with limited liability and owned as to 75% and 25% by China Yituo and the Group, respectively
“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 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
“Yituo-Made”	一拖美德洛陽風電設備有限公司 (Yituo-Made (Luoyang) Wind Turbine Co., Ltd.), a company established in the PRC with limited liability and owned as to 50% by China Yituo and as to 50% by 西班牙美德再生技術公司 (Spain Made Technologies Renovables Company), which is not a connected person (as defined in the Listing Rules) of the Company
“Yituo Mould”	一拖(洛陽)模具廠 (Yituo (Luoyang) Mould Works), a company established in the PRC and wholly owned by China Yituo
Yituo Vehicle	一拖(洛陽)車輛有限公司 (Yituo (Luoyang) Vehicle Limited, a company established in the PRC with limited liability and owned as to 51% by China Yituo and as to 49% by Mr Ni Rui Hua, which is not a connected person (as defined in the Listing Rules) of the Company

“YTO International”

一拖國際經濟貿易有限公司(YTO International Limited), a company established in the PRC with limited liability and wholly owned subsidiary of China Yituo

By order of the Board of
First Tractor Company Limited
Dong Yong An
Chairman

Luoyang, Henan Province, the PRC, 29 May 2003

Please also refer to the published version of this announcement in The Standard / Hong Kong Economic Times.