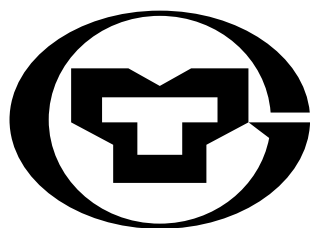


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# **FIRST TRACTOR COMPANY LIMITED**

## **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)*

(Stock Code: 0038)

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

#### **CONTINUING CONNECTED TRANSACTIONS**

On 19 August 2004, the Group entered into Yituo Supply Agreements with China Yituo Group under which China Yituo Group will provide to the Group: (a) raw materials, parts and components; (b) energy supply such as electricity, gas, water, heat; and (c) composite services such as storage services, delivery services and building maintenance services, etc.

On 19 August 2004, the Group entered into Import and Export Agency Agreement with YIET under which YIET will provide import and export services for the Group's business.

On 19 August 2004, the Group also entered into First Tractor Supply Agreement with China Yituo Group under which the Group will provide parts and components to China Yituo Group.

The Directors consider that the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement 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 taken as a whole having regard to the circumstances in which the above agreements were entered into.

The Yituo Supply Agreements, the Import and Export Agency Agreement, the First Tractor Supply Agreement and the respective connected transactions contemplated thereunder constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules which are subject to the approval of the Independent Shareholders at the EGM. China Yituo and its associates will abstain from voting in respect of the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement at the EGM and the voting will be taken by poll.

An Independent Board Committee will be appointed to advise the Independent Shareholders in relation to the Yituo Supply Agreements, the Import and Export Agency Agreement, the First Tractor Supply Agreement and the respective connected transactions contemplated thereunder. South China Capital Limited has been appointed as independent financial adviser to advise the Independent Board Committee.

A special resolution will also be proposed at the EGM to approve the amendments to the Articles of Association. A circular containing, among others, details of the proposed amendments to the Articles of Association and the Continuing Connected Transactions, the recommendation of the Independent Board Committee, the letter of advice from South China Capital Limited, together with a notice of the EGM to approve the amendments to the Articles of Association and the Continuing Connected Transactions will be despatched to the Shareholders as soon as practicable.

## **NON-COMPLIANCE WITH THE LISTING RULES**

There have been continuing connected transactions contemplated under the Original Agreements since the expiry of the Original Agreements on 7 May 2004. The Company has not fulfilled the disclosure and Independent Shareholders' approval requirements under the Listing Rules in relation to the Continuing Connected Transactions subsequent to the expiry of the Existing Waiver and therefore 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 of the Listing Rules.

## **1. BACKGROUND**

The Group previously entered into the Original Agreements with China Yituo Group on 6 June 1997 and 21 September 1998, respectively. The Original Agreements first expired on 7 May 2001, 7 May 2002 and 8 October 2002, respectively, had then been renewed and all were expired on 7 May 2004.

The Existing Waiver was granted to the Company by the Stock Exchange on 14 September 2001 in respect of the continuing connected transactions contemplated under the Original Agreements and it expired on 7 May 2004.

## **2. CIRCUMSTANCES LEADING TO THE NON-COMPLIANCE OF THE LISTING RULES**

Although the Original Agreements expired on 7 May 2004, there have been Continuing Connected Transactions contemplated under the Original Agreements after the expiry of the Existing Waiver. As the Listing Rules were amended on 31 January 2004 and became effective on 31 March 2004, the Company did not fully apprehend the amended Listing Rules regarding the Continuing Connected Transactions and therefore it did not timely comply with the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules and therefore has resulted in non-compliance with the Listing Rules.

Nevertheless, the Directors considered continuing the Continuing Connected Transactions subsequent to the above date as necessary after due consideration of the following reasons:

- (1) it would be impracticable to terminate all the transactions contemplated under the Original Agreements due to their ongoing nature (for instances, the provision of the raw materials or spare parts and components for the production of agricultural machinery and construction machinery under the Materials Supply Agreement, the provision of energy under the Energy Supply Services Agreement and the provision of spare parts and components for the production of vehicle products, diesel engines products, agricultural construction machineries, and fuel pump and fuel adaptor nozzle etc.); and
- (2) the above transactions would directly affect the normal course of business of the Company and China Yituo, hence, the termination of such transactions would have an adverse effect to the operation of the Company and China Yituo.

Having taken the above factors into account, the Directors consider that the continuation of the Continuing Connected Transactions is 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.

### 3. SUMMARY OF FINANCIAL FIGURES OF THE CONTINUING CONNECTED TRANSACTIONS

The unaudited amount of the Continuing Connected Transactions transacted under the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement during the period from 8 May 2004 to 31 July 2004, the relevant amount transacted for the year ended 2003 and the proposed annual cap amount for the above agreements for the three years ending 31 December 2006 are summarized as follows:

	Amount of Continuing Connected Transactions transacted		Proposed Cap Amount		
	the unaudited amount transacted	for the year ended	For the year ending 31 December		
	from 8 May 2004 to 31 July 2004	31 December 2003	2004	2005	2006
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
<b>Yituo Supply Agreements:</b>					
Composite Services					
Agreement	9.0	23.1	68.0	80.0	96.0
Materials Supply					
Agreement	106.6	288.0	989.0	1,150.0	1,380.0
Energy Supply Services					
Agreement	25.8	105.2	301.0	350.0	420.0
<b>Import and Export</b>					
Agency Agreement	0	0	3.87	4.5	5.4
<b>First Tractor Supply</b>					
Agreement	66.0	185.5	503.0	585.0	702.0

### 4. REMEDIAL MEASURES TO BE TAKEN

In June 2004, the Company appointed financial advisers for these particular Continuing Connected Transactions to ensure proper compliance with the Listing Rules due to the complexity of the Listing Rules and the Continuing Connected Transactions. During June and July 2004, the Company continued to respond to queries from its advisers regarding the financial details to derive proper cap amounts.

In order to avoid recurrence of the incident herein mentioned above and to strengthen its internal control of the Company, the Group proposes to take the following remedial measures:

1. to produce monthly financial reports on all the continuing connected transactions of the Group by Mr. Yao Wei Dong (姚衛東先生), supervisor of the Finance Department of the Company;

2. to submit the reports mentioned in 1) to the company secretary department for its monthly review to ensure those connected transactions comply with the Listing Rules and the company secretary, Mr. Zhang Guo Long (張國龍先生), will prepare an analyzed report of the above regarding the execution of the above connected transactions to the audit committee and the Directors for their further review and to take appropriate action after their review;
3. to become more alert to any amendments to the Listing Rules from time to time by editing their internal handbook relating to the Listing Rules by Ms. Law Ji Yu (羅積豫小姐) of the company secretary department when there are any amendments to the Listing Rules. Similar to the previous mechanism which was in the form of a monthly newsletter issued to the Directors and the senior management of the Company, containing, amongst others, the news about the amended Listing Rules and provided a link to the website showing the amended Listing Rules in details, such handbook, which is relatively more direct, active and effective than the previous one, will be reviewed by Mr. Zhang Guo Long (張國龍先生), the company secretary, to ensure due compliance with the amended Listing Rules and the handbook will be provided to the Directors, the management and audit committee of the Company and to ensure implications of the Listing Rules are well understood by them; training or advise in relation to the Listing Rules will be conducted by the company secretary and/or in-house lawyer of the Company;
4. in addition to the internal handbook which has already been in place mentioned in (3) above, to appoint professional advisers from Hong Kong to provide training to the Directors, senior management and the staff of the Finance Department as and when necessary in relation to any further amendments to the Listing Rules in the future or any circumstances leading to the Company to seek for timely advice on the interpretation of the Listing Rules;
5. to appoint a qualified accountant to be a member of the senior management of the Company to oversee the Group's financial reporting procedures and internal controls and compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting-related issues; and
6. to start the preparation for renewing any agreements and their relevant cap amounts four months in advance of the proposed end of the contractual period of the agreements, being 31 December 2006.

The Company will also conform its existing management and internal controls to ensure the proposed cap amounts will not be exceeded as in the past or comply with the Listing Rules if circumstances change in the future.

## 5. PARTICULARS OF YITUO SUPPLY AGREEMENTS

### Date

19 August 2004

### Period

8 May 2004 to 31 December 2006

### Parties

- (1) China Yituo, on behalf of China Yituo Group, as supplier or supplying agent; and
- (2) The Company, on behalf of the Group, as purchaser.

### Goods and Services to be provided/rendered

Composite Services Agreement	certain welfare and other services, including but not limited to landscaping, cleaning services, fire prevention services, security services, recreational services and facilities, storage services, road and transport services, education services to staff's children, administrative services for retired employees, legal consultancy services, internal auditing services, advertising services, quality assurance services, public relations services, re-employment and social insurance services and ability testing services etc.
Materials Supply Agreement	raw materials or spare parts and components for the production of agricultural machinery like tractors and harvestors, construction machinery like road rollers and hydraulic excavators
Energy Supply Services Agreement	energy, including electricity, gas, oxygen, water, heat, compressed air, acetylene and steam

### Price

With respect to the Composite Services Agreement, the Materials Supply Agreement and the Energy Supply Services Agreement, pricing in respect of the subject matter (as the context shall require) contemplated under the relevant agreement is determined by reference to the State Price or if there is no applicable State Price for any such service, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage not exceeding a percentage equal to the percentage increase in the consumer price index for Luoyang (which is the official measurement of inflation in Luoyang) for the immediately preceding year announced by the Statistics Bureau of Luoyang, whichever is lower. The market price shall be determined by the parties after consultation and the principal factors to be taken into account in deciding the market price which will be the price under arm's length negotiations between third parties in, or in the immediate vicinity of, Luoyang.

**Conditions**

Approval by the Independent Shareholders at the EGM as required by the Listing Rules

**6. PARTICULARS OF THE IMPORT AND EXPORT AGENCY AGREEMENT****Date**

19 August 2004

**Period**

8 May 2004 to 31 December 2006

**Parties**

- (1) YIET as import and/or export agent; and
- (2) the Company.

**Services to be rendered**

YIET to act as import and export services agent for the Group to: (i) export the Group's products; or (ii) import the goods, including raw materials or spare parts and fittings, which are required by the Group for the production of the Group's products.

**Price**

The administrative fee is agreed between the Group and YIET on a case by case basis and the maximum amount will be 2% of the invoiced value of the goods imported and exported.

**Conditions**

Approval by the Independent Shareholders at the EGM as required by the Listing Rules

**7. PARTICULARS OF FIRST TRACTOR SUPPLY AGREEMENT****Date**

19 August 2004

**Period**

8 May 2004 to 31 December 2006

**Parties**

- (1) The Company, on behalf of the Group, as supplier or supply agent; and
- (2) China Yituo, on behalf of China Yituo Group, as purchaser.

**Goods to be provided/rendered**

Spare parts and components for the production of vehicle products, diesel engines products, agricultural construction machinery, and fuel pump and fuel adaptor nozzle etc.



## Price

By reference to the State Price or if there is no applicable State Price for any such service, the market price or the agreed price which is not exceeding the price charged in the immediate preceding year increased by a percentage not exceeding a percentage equal to the percentage increase in the consumer price index for Luoyang (which is the official measurement of inflation in Luoyang) for the immediately preceding year announced by the Statistics Bureau of Luoyang, whichever is lower. The market price shall be determined by the parties after consultation and the principal factors to be taken into account in deciding the market price which will be the price under arm's length negotiations between third parties in, or in the immediate vicinity of, Luoyang.

## Conditions

Approval by the Independent Shareholders at the EGM as required by the Listing Rules

## 8. BASIS OF THE RELEVANT CAP AMOUNTS

The following table summarizes the turnover of the Group and the utilized cap amounts for the Continuing Connected Transactions transacted under the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement respectively for the three years ended 31 December 2003:

	Turnover of the Group					
	For the year ended 31 December					
	2001		2002		2003	
	RMB' million		RMB' million		RMB' million	
	1,863.82		2,300.22		3,277.29	
	Transactions amount					
	For the year ended 31 December					
	2001		2002		2003	
	RMB'	% of	RMB'	% of	RMB'	% of
	million	turnover	million	turnover	million	turnover
<b>Yituo Supply Agreements:</b>						
Composite Services Agreement	39.06	2.1%	21.86	0.9%	23.11	0.8%
Materials Supply Agreement	132.72	7.1%	139.06	6.0%	287.99	8.8%
Energy Supply Services Agreement	53.28	2.9%	73.59	3.2%	105.15	3.2%
<b>Import and Export Agency Agreement</b>						
	0.99	0.05%	0.75	0.03%	0	0%
<b>First Tractor Supply Agreement</b>	100.24	5.4%	87.14	3.8%	185.50	5.7%



## **A. Yituo Supply Agreements:**

### *Composite Services Agreement*

The cap amount for the Composite Services Agreement is derived based on not exceeding 1.6% of the estimated consolidated turnover of the Group for the three years ending 31 December 2004, 2005 and 2006 respectively. The estimated consolidated turnover of the Group is derived based on the future growth and development of the Group as accords to the industry development, market share, capacity and the business strategy of the Group. The cap amount, being set at 1.6% of the estimated consolidated turnover, is based on 1) the historical transactions in the last three years (2001: RMB39.06 million, 2002: RMB21.86 million, 2003: RMB23.11 million), which on average amounted to 1.25% of the consolidated turnover of the Group; 2) the difference in the provision of composite services, such as the cancellation of the following services: dinning facilities, bathroom facilities, medical and health related services, vocational training, building maintenance, dormitories for employees and the introduction of legal consulting, internal auditing, road and transport services and reception services and the increase in weighting of delivery services to be provided for the Group in the future as compared to those in the past due to the growth in production and sales in the future. In particular, the increment of 0.35% was attributed from a) the anticipation of a substantial increase in the amount of delivery services due to reason mentioned in 2) and b) reorganization and an anticipated expansion of the Group such as the establishment of new subsidiaries which will increase the demand of composite services from China Yituo Group.

### *Materials Supply Agreement*

The cap amount for the Materials Supply Agreement is derived based on not exceeding 23% of the estimated consolidated turnover of the Group for the three years ending 31 December 2004, 2005 and 2006 respectively. The estimated consolidated turnover of the Group is derived based on the future growth and development of the Group as accords to the industry development, market share, capacity and the business strategy of the Group. The cap amount, being set at 23% of the estimated consolidated turnover, is based on 1) the historical transactions in the last three years (2001: RMB132.72 million, 2002: RMB139.06 million, 2003: RMB287.99 million), which on average amounted to 7.3% of the consolidated turnover of the Group; 2) the increment of 15.7% was attributed from a) the newly adopted purchasing strategy of the Group which aims at centralising the purchase of materials through China Yituo Group in order to minimise the cost by bulk purchasing and to conduct materials purchase through China Yituo Group rather than third parties if available from China Yituo Group; b) reorganization and anticipated expansion of the Group which will increase the materials purchase through China Yituo Group; and c) modification of the product structure which includes the introduction of modified models and new series of products which therefore derive the amount of materials needed.

### *Energy Supply Services Agreement*

The cap amount for the Energy Supply Services Agreement is derived based on not exceeding 7% of the estimated consolidated turnover of the Group for the three years ending 31 December 2004, 2005 and 2006 respectively. The estimated consolidated turnover of the Group is derived based on the future growth and development of the Group as accords to the industry development, market share, capacity and the business strategy of the Group. The cap amount, being set at 7% of the estimated consolidated turnover of the Group, is based on 1) the historical transactions in the last three years (2001: RMB53.28 million, 2002: RMB73.59 million, 2003: RMB105.15 million), which on average amounted to 3.1% of the consolidated turnover of the Group; 2) the increment of 3.9% was attributable from a) the anticipated increase in energy price in the next three years due to energy shortage in the PRC, in particular, an increase in price of electricity is anticipated according to research conducted by the Company; b) the anticipated expansion and reorganisation of the Group such as the establishment of new subsidiaries which will increase the demand of energy supply from China Yituo Group; c) the anticipated change in weighting of different types of products as the revenue stream for the Group in the future as compared to the past as the change will alter the demand of energy as each type of product has different level of demand in energy supply. In particular, the Group anticipated a substantial growth in engineering products in the future which demand a higher level of energy supply; and d) the anticipated change in the structure of production, in particular, some process such as purchasing parts from other parties in the past will become self production by the Group in the future in order to improve the quality of products and lower cost.

### **B. Import and Export Agency Agreement:**

The cap amount for the Import and Export Agency Agreement is derived based on not exceeding 0.09% of the estimated consolidated turnover of the Group for the three years ending 31 December 2004, 2005 and 2006 respectively. The estimated consolidated turnover of the Group is derived based on the future growth and development of the Group as accords to the industry development, market share, capacity and the business strategy of the Group. The cap amount, being set at 0.09% of the estimated consolidated turnover of the Group, is based on 1) the unaudited actual import and export amount of the Group during the first five months in 2004, i.e. 79.11 million; 2) the anticipated import and export amount for the year ending 31 December 2004 based on 1) above and the anticipated import and export ratio of about 4.4% based on the anticipated total turnover of the Group for the year ending 31 December 2004; and 3) the administrative fee of such import and export services to be supported through China Yituo Group which is on a case by case basis, essentially depends on the volume of transaction, and the maximum amount will be 2% of the invoiced value of the goods imported and exported.

### **C. First Tractor Supply Agreement:**

The cap amount for the First Tractor Supply Agreement is derived based on not exceeding 11.7% of the estimated consolidated turnover of the Group for the three years ending 31 December 2004, 2005 and 2006 respectively. The estimated consolidated turnover of the Group is derived based on the future growth and development of the Group as accords to the industry development, market share, capacity and the business strategy of the Group. The cap amount, being set at 11.7% of the estimated consolidated turnover, is based on 1) the historical transactions in the last three years (2001: RMB100.24 million, 2002: RMB87.14 million, 2003: RMB185.50 million), which on average amounted to 5% of the consolidated turnover of the Group; 2) the increment of 6.7% was attributed from a) the newly adopted purchasing strategy of China Yituo Group which aims at centralising the purchase of materials through the Group in order to minimise cost by bulk purchasing and to purchase materials through the Group rather than third parties if available from the Group; b) reorganisation of the Group which will increase the materials purchase through the Group; and c) the anticipated growth in turnover of China Yituo Group.

## **9. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

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. The major raw materials, parts and components required by the Group include metallurgical products such as steel, pig iron, waste steel, coke, and mechanical and other components such as engines and tyres. Certain raw materials and components used by the Group and all of the energy used for the Group's production are supplied by China Yituo Group. China Yituo Group also provides the Group composite services such as storage services, delivery services and building maintenance services, etc. YIET acts as the Group's import and export agent for the distribution of the Group's products overseas and procurement of raw materials for the Group outside the PRC.

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

The Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement, with revised terms and structure from the Original Agreements, have been entered into by the Group with a view to replace the Original Agreements and to ensure the continuity of such services. The Original Agreements were entered into by the Company or the Company's subsidiaries on an individual basis. As the Group has been expanding and reorganization has been performed since last year and the Group anticipates expansion or establishment of new subsidiaries in the future, in order to avoid complexity, the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement are now entered into on a group basis. The Directors are of the view that the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement 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 best interest of the Company and its Shareholders taken as a whole having regard to the circumstances in which the above agreements were entered into.

## **10. CIRCUMSTANCES AND PROPOSED REMEDIAL ACTIONS IF RESOLUTIONS ARE NOT APPROVED BY THE SHAREHOLDERS**

If the Shareholders vote against the resolutions, the operations of the Group will be seriously affected and the Group will have to terminate its operation or to spend enormous effort to rebuild its energy supply network or to seek alternative material suppliers as its remedial actions in which there are currently no such material suppliers available for most of the special features materials of the Company. The turnover of the Group will therefore be seriously affected. As stated in the section “Reliance on China First Tractor” in the “Risk Factors” section in the prospectus of the Company dated 11 June 1997, the Company relies on China Yituo Group for, inter alia, the procurement of certain parts and components that are used in the manufacture of tractors. The Directors believe that these certain parts and components cannot be readily obtained from any other manufacturers as the Company is essentially the only manufacturer of some particular products in the PRC. Accordingly, there is little or no demand from other enterprises for such parts and components. By entering into the Materials Supply Agreement with China Yituo Group, the Company can minimize the risk of material interruption to the production of its products.

As for the energy supply, the Company has its energy supply network connected to China Yituo Group, therefore, if the Shareholders vote against the resolutions, it will be necessary for the Group to rebuild all its networking if the Company outsource to other independent third parties as its remedial action.

Additionally, composite services such as delivery and storage are the major services that can only be currently provided by China Yituo Group due to the nature of the delivery facilities possessed by China Yituo Group, the nature of the storage facilities as well as their locations and capacities. Therefore, if the Shareholders vote against the resolutions, the operation of the Company will be affected and the Company can only seek for independent third parties to provide such services as its remedial action but the Directors believe that such services provided by independent third parties will be at highest cost and not as convenient as it is at present in terms of the location of the existing storage facilities is close to the Group whereas other service providers may not be close to the Group and may not have such large capacity of storage.

Furthermore, regarding the import and export services provided by YIET, the Directors believe that YIET can provide better tailored services for the Group as they are closely connected with the potential customers and competitive pricing is offered by YIET. If the Shareholders vote against the resolutions, the Group will have to seek for independent third parties’ agent for such services, which are available in the market but at a higher cost to the Group.

## **11. RELATIONSHIPS BETWEEN THE PARTIES**

China Yituo beneficially owns approximately 57.32% of the issued share capital of the Company. YIET is a wholly-owned subsidiary of China Yituo. Thus, China Yituo and YIET are regarded as connected persons of the Company under the Listing Rules. Accordingly, the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement and the respective connected transactions contemplated thereunder constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules which are subject to the approval of the Independent Shareholders at the EGM. China Yituo and its associates will abstain from voting in respect of the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement at the EGM and the voting will be taken by poll.

An Independent Board Committee will be appointed to advise the Independent Shareholders in relation to the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement and the respective connected transactions contemplated thereunder. South China Capital Limited has been appointed as independent financial adviser to advise the Independent Board Committee.

In addition, the Company is required to comply with the reporting, announcement and annual review requirements under Rules 14A.35 to 14A.40 of the Listing Rules in respect of the Continuing Connected Transactions.

## **12. GENERAL**

A special resolution will also be proposed at the EGM to approve the amendments to the Articles of Association.

A circular containing, among others, details of the proposed amendments to the Articles of Association and the Continuing Connected Transactions, the recommendation of the Independent Board Committee, the letter of advice from South China Capital Limited, together with a notice of the EGM to approve the amendments to the Articles of Association and the Continuing Connected Transactions will be despatched to the Shareholders as soon as practicable.

## **13. DEFINITIONS**

“associates”	has the same meaning ascribed to it under the Listing Rules
“Articles of Association”	the articles of association of the Company in the effect from time to time
“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, the controlling shareholder and holding company of the Company, holding approximately 57.32% of the equity interests of the Company



“China Yituo Group”	China Yituo and its subsidiaries/controlled companies or entities (for the purpose of this announcement excluding the Group)
“Company”	First Tractor Company Limited (第一拖拉機股份有限公司), a joint stock limited company incorporated under the PRC Company Law
“Continuing Connected Transactions”	the transactions contemplated under the Yituo Supply Agreements, the Import and Export Agency Agreement and the First Tractor Supply Agreement (as the context may require)
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to approve the Yituo Supply Agreements, the Import and Export Agency Agreement, the First Tractor Supply Agreement and the transactions contemplated thereunder
“Existing Waiver”	the waiver granted to the Company by the Stock Exchange on 14 September 2001 from strict compliance of the Listing Rules in respect of the continuing connected transactions contemplated under the Original Agreements
“First Tractor Supply Agreement”	material supply agreement dated 19 August 2004 entered into between the Company, on behalf of the Group, as supplier or supplying agent and China Yituo, on behalf of China Yituo Group, as purchaser
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Import and Export Agency Agreement”	import and export agency agreement dated 19 August 2004 entered between the Company and YIET as import and/or export agent
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Lu Zhong Min, Mr. Tao Xiang, Mr. Chen Zhi and Mr. Chan Sau Shan, Gary

“Independent Shareholders”	Shareholders other than China Yituo and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Original Agreements”	means the long-term supply agreements entered into by the Group with China Yituo Group on 6 June 1997 and 21 September 1998, respectively
“PRC”	the People’s Republic of China
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Share(s)”	state-owned legal person shares and H Shares
“Shareholder(s)”	holder(s) of Shares of the Company
“State Price”	mandatory prices in respect of welfare and supporting services, raw materials and components, and utilities set by the central government of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“YIET”	Yituo International Economic and Trade Company Limited (一拖國際經濟貿易有限公司), a wholly-owned subsidiary of China Yituo
“Yituo Supply Agreements”	Composite Services Agreement, Materials Supply Agreement and Energy Supply Services Agreement all dated 19 August 2004 entered into between China Yituo, on behalf of China Yituo Group, as supplier or supplying agent and the Company, on behalf of the Group, as purchaser

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  
**First Tractor Company Limited**  
**Zhang Guo Long**  
*Company Secretary*

Luoyang, Henan Province, the PRC 19 August 2004

*As at the date of this announcement, the Board comprises ten executive Directors, namely Mr. Liu Dagong (Chairman), Mr. Dong Yong An, Mr. Liu Wenying, Mr. Shao Haichen, Mr. Li Tengjiao, Mr. Zhao Yanshui, Mr. Zhang Jing, Mr. Liu Shuangcheng, Mr. Yan Linjiao 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.*

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