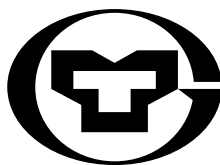


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## **FIRST TRACTOR COMPANY LIMITED**

### **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)

## **EXCHANGE OF THE CASTING FACTORIES INTERESTS FOR THE EQUITY INTERESTS IN YITUO DIESEL AND YITUO FUEL JET MAJOR AND CONNECTED TRANSACTION FINANCIAL ASSISTANCES TO CHINA YITUO CONTINUING CONNECTED TRANSACTIONS AND SUSPENSION AND RESUMPTION OF TRADING**

### **Financial Adviser**



### **ORIENTAL PATRON ASIA LIMITED**

#### **THE ASSETS SWAP**

The Company and China Yituo entered into the Assets Swap Agreement on 8 May 2006 pursuant to which the Company agreed with China Yituo to exchange the Casting Factories Interests at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in Yituo Diesel and 70% equity interest in Yituo Fuel Jet at a consideration of RMB154.75 million and RMB43.27 million respectively. At Completion, the net consideration payable by the Company to China Yituo pursuant to the Assets Swap Agreement is approximately RMB39.78 million.

#### **REASONS AND BENEFITS OF THE ASSETS SWAP**

Due to a gradual shift of the Group's product mix from mainly crawler tractors to wheeled tractors and other agricultural and construction machineries over the years, the purchase of diesel engines and related parts and components from Yituo Diesel and Yituo Fuel Jet by the Group increased accordingly. On the other hand, the output of the Casting Factories, which are mainly designed for crawler tractors, has decreased substantially and the continuation of maintaining the operations of the Casting Factories becomes increasingly costly.

## **CONTINUING CONNECTION TRANSACTIONS**

On 8 May 2006 the following agreements were entered into:

Yituo Diesel and China Yituo entered into the Diesel Land Lease for a term with effect from the Effective Date to 31 December 2009, pursuant to which Yituo Diesel agreed to lease from China Yituo a site with an area of approximately 71,542 sq.m on which factory and ancillary premises of Yituo Diesel are erected on. The annual rental payable under the Diesel Land Lease is approximately RMB720,000.

Yituo Fuel Jet and China Yituo entered into the Fuel Jet Land Lease for a term with effect from the Effective Date to 31 December 2009, pursuant to which Yituo Fuel Jet agreed to lease from China Yituo a site with an area of approximately 30,236 sq.m on which factory and ancillary premises of Yituo Fuel Jet are erected on. The annual rental payable under the Fuel Jet Land Lease is approximately RMB300,000.

Yituo Diesel and China Yituo entered into the Diesel Factory Buildings Lease, pursuant to which Yituo Diesel agreed to lease from China Yituo factory and ancillary premises having an aggregated factory floor area of approximately 10,300 sq.m erected on the leased land under the above conditional land lease agreement between Yituo Diesel and China Yituo for a term with effect from the Effective Date to 31 December 2006. The annual rental payable under the Diesel Factory Buildings Lease is approximately RMB4,000,000.

When aggregated under Rule 14A.27 of the Listing Rules and assuming the Effective Date is on 1 August 2006, the total annual rental payable under the Diesel Land Lease, Fuel Jet Land Lease and the Diesel Factory Buildings Lease for year ending 31 December 2006 is amounted to approximately RMB2.09 million and for each of the three years ending 31 December 2009 amounted to approximately RMB1.02 million.

On 8 May 2006, the Company and China Yituo entered into the Casting Factories Buildings Lease, pursuant to which China Yituo agreed to lease from the Company factory and ancillary premises of Casting Factories having an aggregated floor area of approximately 169,146 sq.m for a term with effect from the Effective Date to 31 December 2006. The monthly rental payable under the Casting Factories Buildings Lease is approximately RMB800,000.

## **FINANCIAL ASSISTANCES TO CHINA YITUO FOLLOWING THE ASSETS SWAP**

On 8 May 2006, Yituo Diesel and Yituo Fuel Jet respectively entered into the Diesel Repayment Agreement and the Fuel Jet Repayment Agreement with China Yituo, pursuant to which, each of the Yituo Diesel and Yituo Fuel Jet has agreed the repayment terms for China Yituo to repay the existing financial assistances provided from Yituo Diesel and Yituo Fuel Jet of approximately RMB81 million and RMB26 million respectively following the completion of the Assets Swap.

The Directors, including the independent non-executive Directors, consider that the Assets Swap Agreement, Diesel Land Lease, Fuel Jet Land Lease, Casting Factories Buildings Lease, Diesel Factory Buildings Lease, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Company, the terms of which are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

## **GENERAL**

As China Yituo is the controlling Shareholder of the Company, holding approximately 57.32% of the equity interests in the Company, China Yituo is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Assets Swap Agreement, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement constitute connected transactions and are subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated under the Assets Swap Agreement also constitute a major transaction under Rule 14.08 of the Listing Rules. China Yituo and its associates are required to abstain from voting in respect of the Assets Swap Agreement, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement at the EGM and the voting shall be taken by poll.

An Independent Board Committee will be appointed to advise the Independent Shareholders in relation to the Assets Swap Agreement, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement and the transactions contemplated thereunder. South China has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders. A circular, containing, among other things, a notice convening the EGM to approve the Assets Swap Agreement, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement and further details relating thereto will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30a.m. on 8 May 2006 pending the release of this announcement. Application has been made to the Stock Exchange by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30a.m. on 12 May 2006.

## **PARTICULARS OF THE ASSETS SWAP AGREEMENT**

### **Date**

8 May 2006

### **Parties**

- (1) The Company; and
- (2) China Yituo

### **Consideration**

#### ***(1) Assets being exchanged to the Company***

- (a) 58.80% equity interest in Yituo Diesel (together with 18% equity interest in Yituo Fuel Jet and 50% equity interest in Yituo Engine Machinery held by Yituo Diesel); and
- (b) 70% equity interest in Yituo Fuel Jet.

**(2) Assets being exchanged out of the Company**

- (a) the Casting Factories Interests

The Casting Factories Interests are conditionally exchanged out of the Company to China Yituo free from all liens, charges and encumbrances.

**(3) Net consideration**

Net consideration of approximately RMB39.78 million, calculation of which are as follows:

	<b>Transfer in/(out) Consideration RMB' million</b>
<b>Assets being exchanged to the Company</b>	
58.80% equity interest in Yituo Diesel (together with 18% equity interests in Yituo Fuel Jet and 50% equity interests in Yituo Engine Machinery held by Yituo Diesel)	154.75
70% equity interest in Yituo Fuel Jet	43.27
<b>Assets being exchanged out of the Company</b>	
The Casting Factories Interests	(158.24)
Net consideration payable	<u>39.78</u>

**Payment of the net consideration**

The net consideration of approximately RMB39.78 million payable by the Company to China Yituo shall be satisfied in cash and payable within 30 business days from the Effective Date. The consideration for each of the assets to be exchanged to the Company and to be exchanged out of the Company under Assets Swap Agreement has been determined after arm's length negotiations between the Company and China Yituo.

**Conditions Precedent**

The Assets Swap Agreement shall be subject to, among other things, the following conditions being satisfied:

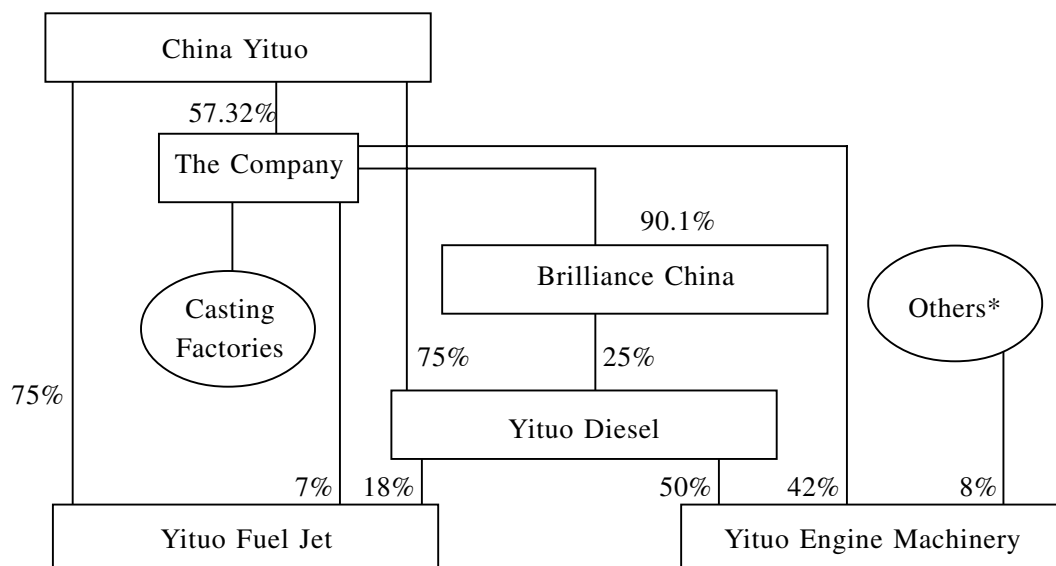
- (1) the granting of the necessary approvals by relevant governmental and regulatory authorities in relation to the implementation of the Assets Swap Agreement and all transactions contemplated thereunder; and
- (2) the passing by the Independent Shareholders of all necessary resolutions at the EGM approving the Assets Swap Agreement, Diesel Repayment Agreement, Fuel Jet Repayment Agreement and all the transactions contemplated thereunder.

If any of the above conditions are not fulfilled, by 31 December 2006 (or such later date as the parties to the Assets Swap Agreement may agree in writing) the Assets Swap Agreement will be terminated and have no effect.

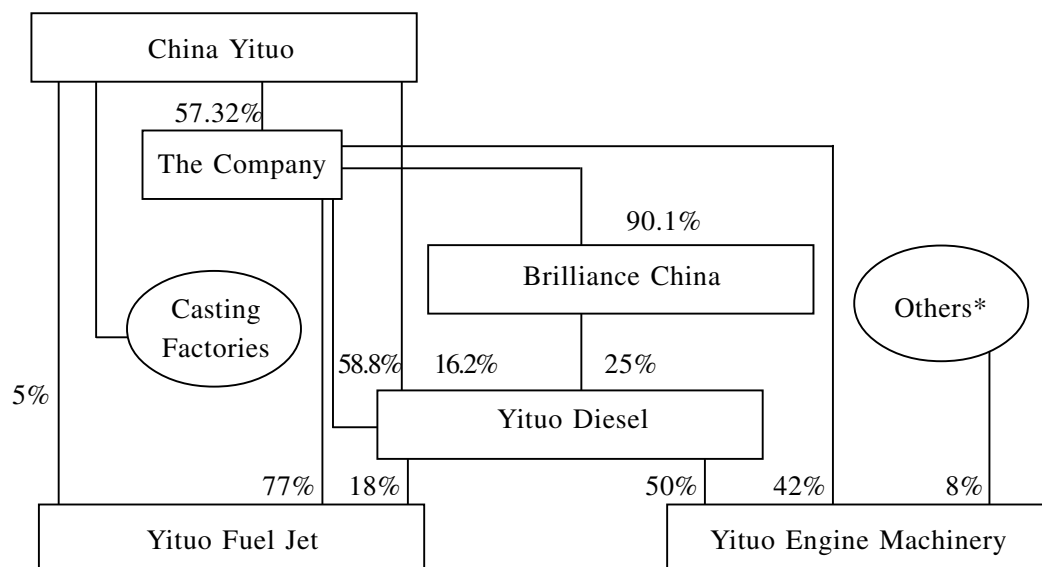
## SHAREHOLDING STRUCTURE IMMEDIATELY BEFORE AND AFTER COMPLETION OF THE ASSETS SWAP AGREEMENT

The following charts show the shareholding structure of the Group immediately before and after completion of the Assets Swap Agreement:

### Before completion of the Assets Swap Agreement



### After completion of the Assets Swap Agreement



\* Management of Yituo Engine Machinery

## **INFORMATION OF THE COMPANY AND CHINA YITUO**

### **The Company**

The Company is principally engaged in the production and sale of agricultural machineries and construction machineries.

### **China Yituo**

China Yituo is principally engaged in the production of motive power machinery, vehicles products, spare parts and components etc. and is the controlling Shareholder of the Company, holding approximately 57.32% of the equity interest in the Company.

## **INFORMATION OF ASSETS TO BE EXCHANGED UNDER THE ASSET SWAP AGREEMENT**

### **Yituo Diesel**

Yituo Diesel is private company principally engaged in the manufacture and sale of diesel engines. Yituo Diesel in turn holds 18% equity interest in Yituo Fuel Jet and 50% equity interest in Yituo Engine Machinery.

Before completion of the Assets Swap Agreement, Yituo Diesel is owned as to 75% by China Yituo and 25% by Brilliance China. The investment cost for the 75% equity interest in Yituo Diesel by China Yituo is approximately US\$4.50 million.

Pursuant to an employee stock option incentive plan initially adopted by Yituo Diesel in 2002 and as amended in 2003, certain members of senior management of Yituo Diesel were granted stock options for the four years ended 31 December 2002 to 2005 to acquire equity interest in Yituo Diesel from China Yituo in accordance with the terms and conditions of the employee stock option incentive plan. It is expected that all share options granted will be fully exercised by the option holders before Completion and an aggregate 16.20% equity interest in Yituo Diesel will be transferred from China Yituo to those relevant option holders upon approval from relevant authorities. Upon Completion, it is expected that the existing employee stock option incentive plan will be terminated and China Yituo will cease to have any equity interest in Yituo Diesel upon the exercise of the share options in full by the option holders and the duly transfer of its 16.20% equity interest in Yituo Diesel to the option holders.

Yituo Diesel's production facilities consist of factory and ancillary premises and are located on Huashan Road, Jianxi District, Luoyang on a site leased from China Yituo with an area of approximately 71,542 sq.m and an aggregated factory floor area of approximately 45,000 sq.m. Out of the aggregated factory floor area of approximately 45,000 sq.m, approximately 10,300 sq.m are leased from China Yituo. The production facilities are principally responsible for production of diesel engines for wheeled tractors and other wheeled agricultural and construction machineries. Yituo Diesel produced approximately 70,000 units of diesel engines in 2005 and employed approximately 1,271 employees as at 31 December 2005.

The unaudited net asset value (as adjusted to HK GAAP) of Yituo Diesel as at 31 December 2005 was approximately RMB208.37 million. The unaudited results (as adjusted to HK GAAP) of Yituo Diesel for the two years ended 31 December 2005 were as follows:

	<b>2005</b>	2004
	<b><i>RMB' million</i></b>	<i>RMB' million</i>
Net profit before taxation and extraordinary items	<b>39.21</b>	28.73
Net profit after taxation and extraordinary items	<b>33.74</b>	21.94

On 17 April 2006, Yituo Diesel entered into an agreement with China Yituo pursuant to which Yituo Diesel agreed to dispose of its 7.1% equity interest in a commercial bank in Luoyang, PRC to China Yituo at the consideration of approximately RMB30 million which represented the carrying value of such investment. Therefore such disposal will not have any profit or loss on the results of Yituo Diesel for the year ending 31 December 2006.

As at 31 December 2005, Yituo Diesel has an outstanding receivable of approximately RMB81 million due from China Yituo. As it is expected that the receivable of approximately RMB81 million due from China Yituo will remain outstanding after the Completion, this advance will constitute a connected transaction under Chapter 14A of the Listing Rules. Further detail regarding this connected transaction is set out in the paragraph headed "Connected Transaction" below in this announcement.

On 28 April 2006, Yituo Diesel declared a dividend of approximately RMB73.41 million to its shareholders out of its retained profits. Pursuant to the terms of the Assets Swap Agreement, the 58.80% equity interest in Yituo Diesel conditionally to be exchanged to the Company will not be entitled for such dividend.

Upon Completion, Yituo Diesel will become a non-wholly owned subsidiary of the Group with a direct interest of 58.80% and an indirect interest of 25% in Yituo Diesel. It is expected that Yituo Diesel will (i) continue to provide products and services to China Yituo Group and (ii) as lessee, lease from China Yituo a site with an area of approximately 71,542 sq.m on which factory and ancillary premises of Yituo Diesel are erected on; and (iii) as lessee, lease from China Yituo factory buildings with an floor area of approximately 10,300 sq.m. Further details regarding these continuing connection transactions, are set out in the paragraph headed "Connected Transactions" below in this announcement.

### **Yituo Fuel Jet**

Yituo Fuel Jet is a private company principally engaged in the manufacture and sale of fuel injection pump and fuel jet.

Yituo Fuel Jet is owned as to 75% by China Yituo, 18% by Yituo Diesel and 7% by the Company. The investment cost for the 75% equity interest in Yituo Fuel Jet by China Yituo is approximately RMB39 million.

Pursuant to an employee stock option incentive plan initially adopted by Yituo Fuel Jet in 2003, certain members of senior management of Yituo Fuel Jet were granted stock options for the three years ended 31 December 2003 to 2005 to acquire its equity interest in Yituo Fuel Jet from China Yituo in accordance with the terms and condition of the employee stock option incentive plan. It is expected that all share options granted will be fully exercised by the option holders before Completion and an aggregate 5% equity interest in Yituo Fuel Jet will be transferred from China Yituo to those relevant option holders upon approval from relevant authorities. Upon Completion, it is expected that the existing employee stock option incentive plan will be terminated and China Yituo will cease to have any equity interest in Yituo Fuel Jet upon the exercise of the share options in full by the option holders and the duly transfer of its 5.0% equity interest in Yituo Fuel Jet to the option holders.

Yituo Fuel Jet production facilities consist of factory and ancillary premises and are located on Zhengzhou Road, Jianxi District, Luoyang on a site leased from China Yituo with an area of approximately 30,236 sq.m and a factory floor area of approximately 40,000 sq.m. The production facilities are principally responsible for production of fuel injection and fuel jets for diesel engines. Yituo Fuel Jet produced approximately 100,000 sets of fuel injection pump and approximately 350,000 sets of fuel jets in 2005 and employed approximately 1,214 employees as at 31 December 2005.

The unaudited net asset value (as adjusted to HK GAAP) of Yituo Fuel Jet as at 31 December 2005 was approximately RMB52.91 million. The unaudited results (as adjusted to HK GAAP) of Yituo Fuel Jet for the two years ended 31 December 2005 were as follows:

	<b>2005</b> <i>RMB' million</i>	2004 <i>RMB' million</i>
Net profit before taxation and extraordinary items	<b>6.39</b>	0.13
Net profit /(loss) after taxation and extraordinary items	<b>4.12</b>	(0.39)

As at 31 December 2005, Yituo Fuel Jet has an outstanding receivable of approximately RMB26 million due from China Yituo. As it is expected that the receivable of approximately RMB26 million due from China Yituo will remain outstanding after the Completion, this advance will constitute a connected transaction under Chapter 14A of the Listing Rules. Further detail regarding this connected transaction is set out in paragraph headed "Connected Transaction" below in this announcement.

On 28 April 2006, Yituo Fuel Jet declared a dividend to its shareholders of approximately RMB6.64 million to its shareholders out of its retained profits. Pursuant to the terms of the Assets Swap Agreement, the 70% equity interest in Yituo Fuel Jet conditionally exchanged to the Company will not be entitled for such dividend.

Upon Completion, Yituo Fuel Jet will become a non-wholly owned subsidiary of the Group with a direct interest of 77% and an indirect interest of 18% in Yituo Fuel Jet. It is expected that Yituo Fuel Jet will as lessee, continue to lease from China Yituo a site with an area of approximately 30,236 sq.m on which factory and ancillary premises of Yituo Fuel Jet are erected on. Further detail regarding this continuing connection transaction is set out in the paragraph headed "Connected Transactions" below in this announcement.

### **Yituo Engine Machinery**

Yituo Engine Machinery is principally engaged in the manufacture and sales of diesel engines. The Group currently owned approximately 42% equity interests in Yituo Engine Machinery. Upon Completion, Yituo Engine Machinery will become a non-wholly owned subsidiary of the Group with a direct interest of 42% and an indirect interest of 50% in Yituo Engine Machinery.

Upon Completion, Yituo Engine Machinery will become a non-wholly owned subsidiary of the Group. It is expected that Yituo Engine Machinery will continue to provide products and services to China Yituo Group. Further detail of this continuing connection transaction is set out in the paragraph headed "Connected Transactions" below in this announcement.



## **The Casting Factories**

The Casting Factories include Precision Casting Factory, No.1 Iron Casting Factory, Steel Casting Factory and Nodular (Graphite) Cast Iron and Aluminum Factory. Particulars of the Casting Factories are set out below.

### **Precision Casting Factory**

The Precision Casting Factory is located on a site leased from China Yituo with an area of approximately 19,100 sq.m and has a factory floor area of approximately 15,975 sq.m. The factory is principally responsible for manufacturing crawler tractor parts which require precision casting. For the year ended 31 December 2005, the Precision Casting Factory produced approximately 3,000 tonnes of precision castings and employed approximately 255 employees as at 31 December 2005.

### **No. 1 Iron Casting Factory**

The No. 1 Iron Casting Factory is located on a site leased from China Yituo with an area of approximately 61,529 sq.m and has a factory floor area of approximately 48,565 sq.m. The factory is principally responsible for casting of engine cylinder blocks and cylinder heads, and rear axle housings for crawler tractors. For the year ended 31 December 2005, the No. 1 Iron Casting Factory produced approximately 25,000 tonnes of cast iron parts and employed approximately 787 employees as at 31 December 2005.

### **Steel Casting Factory**

The Steel Casting Factory is located on a site leased from China Yituo with an area of approximately 67,297 sq.m and has a factory floor area of approximately 66,667 sq.m. The factory is principally responsible for the casting of crawler tractors shoes, track driving sprockets, idlers and rollers. For the year ended 31 December 2005, the Steel Casting Factory produced approximately 25,000 tonnes of cast steel parts and employed approximately 650 employees as at 31 December 2005.

### **Nodular (Graphite) Cast Iron and Aluminium Factory**

The Nodular (Graphite) Cast Iron and Aluminium Factory is located on a site leased from China Yituo with an area of approximately 53,904 sq.m and has a factory floor area of approximately 37,939 sq.m. The factory is principally responsible for casting of nodular (graphite) cast iron and aluminium parts. For the year ended 31 December 2005, the Nodular (Graphite) Cast Iron and Aluminium Factory produced approximately 10,000 tonnes of nodular (graphite) cast iron and aluminium parts and employed approximately 387 employees as at 31 December 2005.

Along with its Casting Factories Interest, the relevant employees of the Casting Factories will also be transferred to China Yituo upon Completion.

The unaudited net asset value (as adjusted to HK GAAP) of the Casting Factories Interests as at 31 December 2005 was approximately RMB156.21 million.

Under the Assets Swap Agreement, the factory and related premises for each of the Casting Factories will not be disposed of and will continue to be owned by the Group following the Completion for its own use. Upon Completion, it is expected the Group (i) will continue to acquire products and services from the Casting Factories; and (ii) as lessor, lease to China Yituo for the temporary use of the factory and related premises of Casting Factories. Further details regarding these continuing connected transactions are set out in the paragraph headed "Connected Transactions" below in this announcement.

## **REASONS FOR AND BENEFITS OF THE ASSETS SWAP**

Due to a gradual shift of the Group's product mix from mainly crawler tractors to wheeled tractors and other agricultural and construction machineries over the years, the purchases of diesel engines and related parts and components from Yituo Diesel and Yituo Fuel Jet by the Group increased accordingly. On the other hand, the output of the Casting Factories, which are designed mainly for crawler tractors, has decreased substantially and the continuation of maintaining the operation of the Casting Factories becomes increasingly costly. The Directors believe the Assets Swap will allow the Group to improve its operational and financial performance.

The Assets Swap is expected to bring about the following benefits to the Group:

- the production of diesel engines and fuel injection pumps which are one of the key components of Group's products such as wheeled agricultural tractors and other agricultural and construction machineries can be vertically integrated into the operations of the Group;
- reduction of the volume of connected transactions between the Group and China Yituo Group; and
- disposing of costly Casting Factories Interests thereby improving financial performance of the Group.

The Directors consider that the Assets Swap Agreement was entered into on normal commercial terms and are in the ordinary and usual course of business of the Company, the terms of the Asset Swap Agreement are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

## **FACTORS TAKEN INTO ACCOUNT FOR THE CONSIDERATION OF THE ASSETS SWAP**

The consideration for each of the assets to be exchanged to the Company and to be exchanged out of the Company under Assets Swap was determined after arm's length negotiation between the parties to the Assets Swap Agreement. The Directors have also taken the following factors into account:

In respect of the assets to be exchanged to the Company:

- (1) unaudited net profit after tax of Yituo Diesel and Yituo Fuel Jet for the year ended 31 December 2005 of approximately RMB33.74 million and RMB4.12 million respectively;
- (2) unaudited net asset value of Yituo Diesel and Yituo Fuel Jet as at 31 December 2005 of approximately RMB208.37 million and RMB52.91 million respectively;
- (3) the dividends declared by Yituo Diesel and Yituo Fuel Jet subsequent to 31 December 2005 for the benefits of their existing shareholders of approximately RMB73.41 million and RMB6.64 million respectively;
- (4) applicable rules and regulations in relation to the disposal of state-owned assets; and
- (5) improvement of operating performance by further vertical integration of the Group's operations.

In respect of the assets to be exchanged out of the Company:

- (1) the aggregated unaudited net asset value of Casting Factories as at 31 December 2005 of approximately RMB156.21 million;

- (2) applicable rules and regulations in relation to the disposal of state-owned assets; and
- (3) improvement of financial performance of the Group by disposing of costly Casting Factories Interests.

## **CONNECTED TRANSACTIONS**

Upon Completion the following new connected transactions between the Group and China Yituo Group are anticipated.

### **Continuing Connected Transactions Exempt from Independent Shareholder's Approval Requirements**

The Diesel Land Lease entered on 8 May 2006 between Yituo Diesel and China Yituo for a term with effect from the Effective Date to 31 December 2009, pursuant to which Yituo Diesel agreed to lease from China Yituo a site with an area of approximately 71,542 sq.m on which factory and ancillary premises of Yituo Diesel are erected on. The annual rental payable under the Diesel Land Lease is approximately RMB720,000.

The Fuel Jet Land Lease entered on 8 May 2006 between Yituo Fuel Jet and China Yituo for a term with effect from the Effective Date to 31 December 2009, pursuant to which Yituo Fuel Jet agreed to lease from China Yituo a site with an area of approximately 30,236 sq.m on which factory and ancillary premises of Yituo Fuel Jet are erected on. The annual rental payable under the Fuel Jet Land Lease is approximately RMB300,000.

The Diesel Factory Buildings Lease entered on 8 May 2006 between the Yituo Diesel and China Yituo for a term with effect from the Effective Date to 31 December 2006, pursuant to which Yituo Diesel agreed to lease from China Yituo factory and ancillary premises having an aggregated factory floor area of approximately 10,300 sq.m erected on the leased land under the above conditional land lease agreement between Yituo Diesel and China Yituo. The annual rental payable under the Diesel Factory Buildings Lease is approximately RMB4,000,000.

When aggregated under Rule 14A.27 of the Listing Rules and assuming the Effective Date is on 1 August 2006, the total annual rental payable under the Diesel Land Lease, Fuel Jet Land Lease and the Diesel Factory Buildings Lease for year ending 31 December 2006 is amounted to approximately RMB2.09 million and for each of the three years ending 31 December 2009 amounted to approximately RMB1.02 million.

The Casting Factories Buildings Lease entered on 8 May 2006 between the Company and China Yituo for a term with effect from the Effective Date to 31 December 2006, pursuant to which China Yituo agreed to lease from the Company factory and ancillary premises of Casting Factories having an aggregated floor area of approximately 169,146 sq.m. The monthly rental payable under the Casting Factories Buildings Lease is approximately RMB800,000.

Each of the above conditional lease agreement is entered into on normal commercial terms and in the ordinary and usual course of business. None of the applicable percentage ratios (as defined in the Listing Rules) exceeds 2.5% and the annual consideration for (i) Diesel Land Lease and Fuel Jet Land Lease and the Diesel Factory Buildings Lease; and (ii) the Casting Factories Buildings Lease is less than HK\$10 million, as stipulated under Rule 14A.34(2) of the Listing Rules, the above conditional lease agreements are exempted from Independent Shareholders' approval requirement but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Directors, including the independent non-executive Directors, consider that the Diesel Land Lease, Fuel Jet Land Lease, Diesel Factory Building Lease and the Casting Factories Buildings Lease were entered into on normal commercial terms and are in the ordinary and usual course of business of the Company, the terms of which are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Both of the term of the Diesel Land Lease and the Fuel Jet Land Lease are longer than three years and expire on 31 December 2009, the same expected expiry date on which the Group will renew its existing relevant continuing connected transactions agreements. South China has opined that it is more convenient, less costly and less administrative burdens to the Company should the terms of the Diesel Land Lease and the Fuel Jet Land Lease be extended to 31 December 2009 which is the date the other continuing connected transactions between the China Yituo Group and the Group are expected to be expired. South China also opined that it is normal for contracts of land leases such as the aforesaid leases to extend beyond three years on the basis that (i) the period of the Diesel Land Lease and the Fuel Jet Land Lease is fixed and reflect normal commercial terms; (ii) it is more convenient, less costly and less administrative burdens to the Company should the terms of the Diesel Land Lease and the Fuel Jet Land Lease be extended to 31 December 2009; and (iii) it is normal for contracts of land leases such as the aforesaid leases to extend beyond three years, and it is of the view that the entering into the Diesel Land Lease and the Fuel Jet Land Lease for a term of more than three years are justifiable and is in the interest of the Company and the Shareholders as a whole.

### **Non-exempt Continuing Connected Transactions**

Services and products to be provided by each of the Yituo Diesel and Yituo Engine Machinery to China Yituo will be made on normal commercial terms and in the ordinary and usual course of business pursuant to the material supply agreement dated 19 August 2004 entered between the Company, on behalf of the Group, as supplier or supplying agent and China Yituo, on behalf of China Yituo Group, as purchaser. Such agreement will expire on 31 December 2006 and had previously fully complied with the reporting, announcement, Independent Shareholders' approval requirements of the Listing Rules.

Services and products to be supplied by the Casting Factories to the Group will be made on normal commercial terms and in the ordinary and usual course of business pursuant to the material supply agreement dated 19 August 2004 entered between China Yituo, on behalf of China Yituo Group, as supplier or supplying agent and the Company, on behalf of the Group, as purchaser. Such agreement will expire on 31 December 2006 and had previously fully complied with the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules.

The Directors are currently conducting a review on all continuing connected transactions between the Group and China Yituo Group and will renew relevant continuing connected transactions agreements in accordance with requirement of the Listing Rules prior to their expiry on 31 December 2006. Subject to applicable requirements of the Listing Rules, it is expected that relevant continuing connected transactions agreements will be renewed for a further term of three years to 31 December 2009.

### **Other Non-exempt Connected Transaction**

#### ***Diesel Repayment Agreement***

#### **Date**

8 May 2006

**Parties**

- (1) Yituo Diesel, as creditor
- (2) China Yituo, as debtor

**Principal**

The outstanding balance of the advance made by Yituo Diesel to China Yituo as at the Effective Date. Such balance as at 31 December 2005 was approximately RMB81 million.

**Repayment terms**

- (1) China Yituo shall repay the principal in full on or before 31 December 2009; and
- (2) China Yituo has the option to repay the principal in part or in full with assets pledged under the Diesel Repayment Agreement based on a valuation to be determined by an independent valuer.

**Security**

- (1) China Yituo shall pledge certain of its machineries and facilities which functions are designed to enhance the technology, quality and capacity in the production of diesel engines in favour of Yituo Diesel as security;
- (2) Yituo Diesel has the right to use the assets pledged under the Diesel Repayment Agreement at any time prior to its termination at nil consideration; and
- (3) If the principal is not repaid by China Yituo in full on 31 December 2009, Yituo Diesel shall have the rights to dispose of the assets pledged under the Diesel Repayment Agreement.

**Interest**

No interest shall be payable by China Yituo.

**Other terms**

Upon the full repayment of the principal in cash by China Yituo in accordance with the terms of the Diesel Repayment Agreement, Yituo Diesel has the first right of refusal to lease the asset pledged under the Diesel Repayment Agreement for a maximum term of two years.

**Conditions**

The passing by the Independent Shareholders of all necessary resolutions at the EGM approving the Assets Swap Agreement, Diesel Repayment Agreement, Fuel Jet Repayment Agreement and all the transactions contemplated thereunder.

**Fuel Jet Repayment Agreement****Date**

8 May 2006

**Parties**

- (1) Yituo Fuel Jet, as creditor
- (2) China Yituo, as debtor

**Principal**

The outstanding balance of the advance made by Yituo Fuel Jet to China Yituo as at the Effective Date. Such balance as at 31 December 2005 was approximately RMB26 million.

**Repayment terms**

- (1) China Yituo shall repay the principal in full on or before 31 December 2009; and
- (2) China Yituo has the option to repay the principal in part or in full with assets pledged under the Fuel Jet Repayment Agreement based on a valuation to be determined by an independent valuer.

**Security**

- (1) China Yituo shall pledge certain of its machineries and facilities which functions are designed to enhance the technology, quality and capacity in the production of fuel injection pumps and fuel jets, in favour of Yituo Fuel Jet as security;
- (2) Yituo Fuel Jet has the right to use the assets pledged under the Fuel Jet Repayment Agreement any time prior to its termination at nil consideration; and
- (3) If the principal is not repaid by China Yituo in full on 31 December 2009, Yituo Fuel Jet shall have the rights to dispose of the assets pledged under the Fuel Jet Repayment Agreement.

**Interest**

No interest shall be payable by China Yituo.

**Other terms**

Upon the full repayment of the principal in cash by China Yituo in accordance with the terms of the Fuel Jet Repayment Agreement, Yituo Fuel Jet has the first right of refusal to lease the asset pledged under the Fuel Jet Repayment Agreement for a maximum term of two years.

**Conditions**

The passing by the Independent Shareholders of all necessary resolutions at the EGM approving the Assets Swap Agreement, Diesel Repayment Agreement, Fuel Jet Repayment Agreement and all the transactions contemplated thereunder.

The Directors consider that the Diesel Repayment Agreement and the Fuel Jet Repayment Agreement were entered into on normal commercial terms and are in the ordinary and usual course of business of the Company, the terms of which are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

Pursuant to Rule 14A.63 of the Listing Rules, the transactions contemplated under the Diesel Repayment Agreement and Fuel Jet Repayment Agreement will constitute non-exempted connected transactions of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **FINANCIAL EFFECT OF THE ASSETS SWAP**

Based on the unaudited net asset value of the Casting Factories Interests as at 31 December 2005 of approximately RMB156.21 million and the consideration of approximately RMB158.24 million, upon Completion an estimated gain of approximately RMB2.03 million will be accounted for by the Company in its consolidated financial statements in 2006 in the Company as a result of the Casting Factory Interests being exchanged out of the Company.

Upon Completion, (1) Yituo Diesel, Yituo Fuel Jet and Yituo Engine Machinery will become non-wholly owned subsidiaries of the Company and therefore leading to their financial statements to be consolidated into the financial statements of the Company; and (2) the Company will cease to have any interests in any of the Casting Factories Interests and their assets and liabilities will no longer be included into the financial statements of the Company.

## **RELATIONSHIPS BETWEEN THE COMPANY AND CHINA YITUO**

As China Yituo is the controlling Shareholder of the Company, holding approximately 57.32% of the equity interests in the Company, China Yituo is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Assets Swap Agreement, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement constitute connected transactions and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated under the Assets Swap Agreement also constitute a major transaction under Rule 14.08 of the Listing Rules. China Yituo and its associates are required to abstain from voting in respect of the 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 Assets Swap Agreement, Diesel Repayment Agreement and the Fuel Jet Repayment Agreement and the transactions contemplated thereunder. South China has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders. A circular, containing, among other things, a notice convening the EGM to approve the Assets Swap Agreement, Diesel Repayment Agreement, Fuel Jet Repayment Agreement and further details relating thereto will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 8 May 2006 pending the release of this announcement. Application has been made to the Stock Exchange by the Company for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 12 May 2006.

## **DIRECTORS**

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

## DEFINITIONS

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

“Assets Swap”	the exchange of the Casting Factories Interests for the equity interests in Yituo Diesel and Yituo Fuel Jet as contemplated under the Assets Swap Agreement
“Assets Swap Agreement”	the conditional assets restructuring agreement dated 8 May 2006 entered into between the Company and China Yituo pursuant to which the Company agreed with China Yituo to exchange the Casting Factories Interests at an aggregate consideration of RMB158.24 million for the 58.80% equity interest in Yituo Diesel and 70% equity interest in Yituo Fuel Jet at a consideration of RMB154.75 million and RMB43.27 million respectively
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Director(s)
“Brilliance China”	Brilliance China Machinery Holdings Limited (華晨中國機械控股有限公司), a company incorporated in Bermuda with limited liability and is owned as to approximately 90.1% by the Company, approximately 9.9% by Brilliance China Holdings Ltd and one share is owned by Mr. Yang Rong, both of which are not connected persons (as defined under the Listing Rules) of the Company
“Casting Factories”	including Precision Casting Factory, No.1 Iron Casting Factory, Steel Casting Factory and Nodular (Graphite) Cast Iron and Aluminum Factory
“Casting Factories Interests”	the assets and liabilities of the Casting Factories stipulated in the Assets Swap Agreement
“Casting Factories Buildings Lease”	the conditional building lease entered on 8 May 2006 between the Company and China Yituo for a term with effect from the Effective Date to 31 December 2006, pursuant to which China Yituo agreed to lease from the Company factory and ancillary premises of Casting Factories having an aggregated floor area of approximately 169,146 sq.m
“China Yituo”	China Yituo Group Corporation Limited (中國一拖集團有限公司), a PRC company with limited liability, the controlling Shareholder of the Company, holding approximately 57.32% of the equity interests in the Company
“China Yituo Group”	China Yituo and its 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 established 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
“Completion”	Completion of the Assets Swap in accordance with the terms and conditions of the Assets Swap Agreement
“Diesel Factory Buildings Lease”	the conditional building lease entered on 8 May 2006 between the Yituo Diesel and China Yituo for a term with effect from the Effective Date to 31 December 2006, pursuant to which Yituo Diesel agreed to lease from China Yituo factory and ancillary premises having an aggregated factory floor area of approximately 10,300 sq.m.
“Diesel Land Lease”	the conditional land lease entered on 8 May 2006 between the Yituo Diesel and China Yituo for a term with effect from the Effective Date to 31 December 2009, pursuant to which Yituo Diesel agreed to lease from China Yituo a site with an area of approximately 71,542 sq.m on which factory and ancillary premises of Yituo Diesel are erected on
“Diesel Repayment Agreement”	the conditional repayment agreement date 8 May 2006 entered into between Yituo Diesel and China Yituo in connection with the repayment of approximately RMB81 million by China Yituo to Yituo Diesel
“Director(s)”	the director(s) of the Company
“Effective Date”	the day on which all the conditions of the Assets Swap Agreement are fulfilled
“EGM”	the extraordinary general meeting of the Company to be convened to approve the Assets Swap Agreement, Diesel Repayment Agreement, Fuel Jet Repayment Agreement and all transactions contemplated thereunder or any adjournment thereof
“Fuel Jet Land Lease”	the conditional land lease entered on 8 May 2006 between the Yituo Diesel and China Yituo for a term with effect from the Effective Date to 31 December 2009, pursuant to which Yituo Diesel agreed to lease from China Yituo a site with an area of approximately 30,236 sq.m on which factory and ancillary premises of Yituo Fuel Jet are erected on
“Fuel Jet Repayment Agreement”	the conditional repayment agreement date 8 May 2006 entered into between Yituo Fuel Jet and China Yituo in connection with the repayment of approximately RMB26 million by China Yituo to Yituo Fuel Jet
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK GAAP”	Accounting Principles Generally Accepted in Hong Kong

“Independent Board Committee”	the independent board committee of the Company to be comprised of independent non-executive Directors to advise the Independent Shareholders in relation to the Assets Swap Agreement, Diesel Repayment Agreement, Fuel Jet Repayment Agreement and the transactions contemplated thereunder
“Independent Shareholders”	The 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)
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the shares of the Company
“Shares”	shares of the Company
“South China”	South China Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a licensed corporation under the Securities and Future Ordinance (Chapter 571, Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“Yituo Diesel”	Yituo (Luoyang) Diesel Co., Ltd. (一拖(洛陽)柴油機有限公司), a limited liability company established in the PRC
“Yituo Engine Machinery”	Yituo (Luoyang) Engine Machinery Company Limited (一拖(洛陽)動力機械有限公司), a limited liability company established in the PRC
“Yituo Fuel Jet”	Yituo (Luoyang) Fuel Jet Company Limited (一拖(洛陽)燃油噴射有限公司) a limited liability company established in the PRC
“%”	per cent.

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

Luoyang, Henan Province, the PRC, 11 May 2006