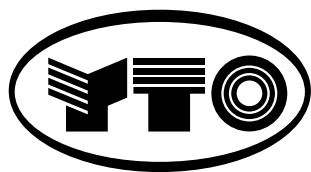


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# **第一拖拉机股份有限公司** **FIRST TRACTOR COMPANY LIMITED** \*

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 0038)

- (1) PROPOSED ISSUE OF A SHARES;**
- (2) DISCLOSEABLE AND CONNECTED TRANSACTIONS:  
PROPOSED DISPOSAL OF EQUITY INTEREST IN  
YTO B&C MACHINERY AND YTO MACHINERY SALES;**
- (3) PROPOSED AMENDMENTS TO  
THE ARTICLES OF ASSOCIATION;**
- (4) PROPOSED ADOPTION OF THE RULES OF PROCEDURES AND  
THE INTERNAL RULES;**
- (5) VARIATION OF MATERIAL TERMS  
OF NEW LAND LEASE AGREEMENT; AND**
- (6) APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

## **PROPOSED ISSUE OF A SHARES**

The Board announces that the Company is prepared to apply to the CSRC and the other relevant regulatory authorities in the PRC for approval of allotment and issue of not more than 150,000,000 A Shares to qualified public investors (except those prohibited by the PRC laws and regulations and other regulatory requirements to which the Company is subject).

## **THE DISPOSAL**

The Board announces that on 28 June 2010, the Company and YTO entered into the Sale and Purchase Agreement, pursuant to which the Company agreed to sell and YTO agreed to purchase (i) 100% equity interest in YTO B&C Machinery and (ii) 100% equity interest in YTO Machinery Sales, at a total consideration in cash of RMB259,805,933 (or approximately HK\$296,178,764) (subject to adjustment).

The Disposal contemplated under the Sale and Purchase Agreement constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. The relevant percentage ratios of the Disposal are more than 5% but less than 25%, however, the consideration of the Disposal is more than HK\$10,000,000. Therefore, the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, the Disposal constitutes discloseable transactions of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements only under Chapter 14 of the Listing Rules.

## **PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND PROPOSED ADOPTION OF THE RULES OF PROCEDURES AND THE INTERNAL RULES**

For the purpose of Issue of A Shares, the Company is also prepared to amend its Articles of Association and adopt the Rules of Procedures and the Internal Rules.

## **VARIATION OF MATERIAL TERMS OF NEW LAND LEASE AGREEMENT**

In light of the proposed Issue of A Shares and in compliance with the listing rules of the Shanghai Stock Exchange, the Company, on behalf of the Group, as lessee entered into the Supplemental Land Lease Agreement with YTO as lessor to amend certain terms of the New Land Lease Agreement. Pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with the reporting and announcement requirements under Rules 14A.35(3) of the Listing Rules in respect of the Supplemental Land Lease Agreement.

## **APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

Pursuant to the Articles of Association, the Board shall comprise 12 Directors. The current Board comprises 11 Directors after the resignation of Mr. Chen Zhi, an independent non-executive Director, on 21 August 2009. Therefore, the Company proposes to appoint Mr. Zhang Qiusheng as the independent non-executive Director, with a term of office from the date of approval of his appointment by the Shareholders at the EGM to 30 June 2012.

### **GENERAL**

The Company will convene the EGM for the purpose of, among other things, seeking Independent Shareholders' approval on the Disposal, and seeking Shareholders' approval on the Issue of A Shares, the proposed amendments to the Articles of Association, the proposed adoption of the Rules of Procedures and the Internal Rules and the appointment of independent non-executive Director. The Issue of A Shares will also be put forward to the Shareholders for approval at the respective Class Meetings.

A circular containing, among other things, details of the Issue of A Shares, the Disposal, the proposed amendments to the Articles of Association, the proposed adoption of the Rules of Procedures and the Internal Rules and the appointment of the independent non-executive Director, the letter of advice from the independent Board committee and the letter of advice from the Independent Financial Adviser will be despatched to the Shareholders on or before 20 July 2010.

**The Issue of A Shares may or may not proceed to completion. Investors are advised to exercise caution in dealings in the H Shares. Further details about the Issue of A Shares will be disclosed by the Company in the PRC in due course and the relevant information will be disclosed in Hong Kong concurrently in accordance with the Listing Rules.**

## **(1) PROPOSED ISSUE OF A SHARES**

The Board announces that the Company is prepared to apply to the CSRC and the other relevant regulatory authorities in the PRC for approval of allotment and issue of not more than 150,000,000 A Shares to qualified public investors (except those prohibited by the PRC laws and regulations and other regulatory requirements to which the Company is subject). Upon obtaining the relevant approvals from the CSRC and the other relevant regulatory authorities in the PRC, the Company will apply to the Shanghai Stock Exchange for the listing and dealings of the A Shares as well as the 443,910,000 Domestic Shares currently held by YTO on the Shanghai Stock Exchange.

The Directors are of the view that the Issue of A Shares will further enhance the Company's financing channels and improve its capital and debt raising capabilities via the booming PRC stock market. The fund raised through the Issue of A Shares will be used by the Company for its intended expansion of business (details of which are set out in the paragraph headed "Use of Proceeds" below), which will further consolidate the Company's leading position and competitiveness in the PRC market. Therefore, the Directors consider that the Issue of A Shares is in the interest of the Group and Shareholders as a whole.

### **Details of the Proposed Issue of A Shares**

The structure of the Issue of A Shares is proposed as follows:

**(i) *Class of new Shares to be issued:***

A Shares

**(ii) *Nominal value of new Shares to be issued:***

RMB1.00 each

**(iii) *Stock exchange for listing:***

Shanghai Stock Exchange

**(iv) *Number of A Shares to be issued:***

A maximum of 150,000,000 A Shares

Assuming that the total of 150,000,000 A Shares are approved to be issued under the Issue of A Shares, such issued A Shares represent (a) approximately 33.79% of the aggregate Domestic Shares in issue as at the date of this announcement; (b) approximately 25.26% of the aggregate Domestic Shares in issue as enlarged by the Issue of A Shares; (c) approximately 17.73% of the total issued Shares of the Company as at the date of this announcement; and (d) approximately 15.06% of the total issued Shares of the Company as enlarged by the Issue of A Shares.

The final number of A Shares to be issued and the structure of the Issue of A Shares shall be subject to the approval by the CSRC and the other relevant regulatory authorities in the PRC, and subject to adjustment (if any) by the Board as authorised by the Shareholders at the EGM and Class Meetings, and within the range approved by the CSRC having regard to the relevant circumstances.

**(v) *Target subscribers:***

Qualified public investors (except those prohibited by the PRC laws and regulations and other regulatory requirements to which the Company is subject).

If any investors are connected persons of the Company, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules and make further disclosures, when appropriate, according to the Listing Rules.

**(vi) *Method of issue:***

The issue will be conducted via offline offering to investors and placement through online subscription at the issue price, or such other method as approved by the CSRC.

***(vii) Basis for determining the issue price:***

Upon obtaining approval of the CSRC for the Issue of A Shares, the Company and the lead underwriter shall conduct a preliminary price consultation with selected potential investors in the PRC in order to determine the range of the issue price of the proposed Issue of A Shares, and will thereafter within such price range conduct a further cumulative bidding price consultation in the PRC. The issue price of the proposed Issue of A Shares will be determined by the Board with reference to the results of the cumulative bidding price consultations and the market condition prevailing in the PRC securities market at the time of the Issue of A Shares. However, the issue price will not be lower than 90% of the average closing price of the Company's H Shares on the Stock Exchange for the 20 trading dates preceding to the date of the issue of A Shares prospectus.

The amount of funds to be raised from the proposed Issue of A Shares cannot be confirmed at the date of this announcement.

***(viii) Distribution plan of accumulated undistributed profits before the Issue of A Shares:***

If the Issue of A Shares completes before the publication of the 2010 annual report of the Company, the Company shall declare dividends from the accumulated undistributed profits of the Company as at 30 June 2010 to all Shareholders in accordance with the authorization granted to the Board at the 2009 annual general meeting of the Company and with the decision of the Board in respect of the declaration of the 2010 interim dividends. The Company's accumulated undistributed profits after the distribution of the above dividends and up to the day prior to completion of the Issue of A Shares shall be shared by all new and existing Shareholders of the Company after the Issue of A Shares.

If the Issue of A Shares completes after the publication of the 2010 annual report of the Company, the Company shall declare dividends from the accumulated undistributed profits of the Company as at 31 December 2010 to all Shareholders in accordance with the resolution(s) in respect of declaration of dividends to be proposed and approved at the 2010 annual general meeting to be held in 2011. The Company's accumulated undistributed profits after the distribution of the above dividends and up to the day prior to completion of the Issue of A Shares shall be shared by all new and existing Shareholders of the Company after the Issue of A Shares.

*(ix) Use of proceeds:*

The amount of funds to be raised from the proposed Issue of A Shares cannot be confirmed at the date of this announcement. However, the Company intends to apply the raised fund in the following three projects with total estimated investment amount of approximately RMB1,900,000,000:

1. project in respect of upgrading and improvement of the diesel engines (green environmental protection series), which involves upgrading and improvement of equipments, production lines and technology, as well as enhancement of production capability, with an estimated investment amount of approximately RMB900,000,000;
2. project in respect of enhancement of core capability of new wheeled tractors, which involves research and development and production of large horsepower tractors with power shifting transmission, as well as establishment of assembly station in Xinjiang, the PRC, with an estimated investment amount of approximately RMB800,000,000; and
3. project in respect of production of large and high efficiency agricultural machineries and ancillary machineries and tools, which involves development and production of agricultural machineries and tools for ancillary use with all types of large horsepower tractors, with an estimated investment amount of approximately RMB200,000,000.

The proceeds obtained from the Issue of A Shares (after deducting the administrative costs in relation to the Issue of A Shares) shall be used to finance the above projects first. In case that the net proceeds from the Issue of A Shares are higher than the above estimated investment amount, the remaining net proceeds shall be used as general working capital of the Company. If the net proceeds from the Issue of A Shares are not sufficient to finance the above projects, the Company shall source the outstanding balance from other means. Before receipt of the proceeds from the Issue of A Shares, the Company may commence the above three projects by using its internal resources or bank loans. Upon receipt of the proceeds, the Company may repay the said bank loans (if any) in accordance with the requirements of the regulatory authorities in the PRC and after complying with the relevant procedures.

The Board may, subject to the approval and authorization by the Shareholders at the EGM and Class Meetings, modify the investment amount of the abovementioned projects, allocate among such projects the proceeds from the Issue of A Shares by taking into account of the timing, amount and other circumstances of receiving such proceeds and the progress of such projects, and modify the investment plans for the abovementioned projects according to the instructions of the competent regulatory authorities.

**(x) *Authorization to the Board to process the Issue of A Shares and related matters:***

In order to smooth the process of the Issue of A Shares, the Company would put forward the Issue of A Shares to the EGM and Class Meetings to authorize the Board with full power to take all necessary actions and/or sign any documents in connection with the Issue of A Shares and to do all related matters in accordance with the relevant requirements of the CSRC, Stock Exchange and Shanghai Stock Exchange, and authorize the Board to sub-authorize such authorization (if obtained). The authorization to the Board from the EGM and Class Meetings includes but not limited to:

- (a) to deal with the issue and listing with respect to the Issue of A Shares and other related application procedures and other formalities (including but not limited to the proposed listing of A Shares on the Shanghai Stock Exchange);
- (b) to confirm the appropriate time of issue, manner of issue, target subscribers, and to determine the issue price, par value of A Shares and issue quantity according to the market conditions and in compliance with the relevant regulations;
- (c) to approve the application of the use of the net proceeds from the Issue of A Shares subject to the approval of the CSRC;
- (d) to approve and sign each of the documents and contracts relating to the Issue of A Shares including but not limited to offering circular(s), prospectus, sponsorship agreement, underwriting agreement, listing agreement and various announcements;



- (e) to make appropriate and necessary amendments to the relevant provisions of the Articles of Association and the procedure rules of the Company in connection with the Issue of A Shares;
- (f) to deal with the registration procedures in respect of the change in registered capital and the amendments to the Articles of Association upon completion of the Issue of A Shares; and
- (g) to deal with all procedures relating to the Issue of A Shares according to laws and regulations including all procedures that are required to be followed under the laws, regulations and listing rules of the places of listing of the Domestic Shares and H Shares.

The authorization, if approved by the Shareholders at the EGM and Class Meetings, shall be effective for a period of 12 months from the date on which such approval is obtained.

### **Application to the CSRC and Completion of Issue of A Shares**

Application for the Issue of A Shares to the CSRC will be made immediately after obtaining the approval from the Shareholders of the Issue of A Shares at the EGM and Class Meetings. Upon obtaining the approval of the CSRC, the Company will apply to the Shanghai Stock Exchange for the listing of and dealings in the A Shares as well as the 443,910,000 Domestic Shares currently held by YTO on the Shanghai Stock Exchange. The Company intends to complete the Issue of A Shares as soon as possible after all relevant approvals are obtained. However, the exact timing and structure of the Issue of A Shares are still subject to the market condition and other related factors.

## Effects of the Issue of A Shares on the Company's Shareholding Structure

Assuming that the total of 150,000,000 A Shares are approved to be issued under the Issue of A Shares and the Company will not issue and allot further Shares before completion of Issue of A Shares, the shareholding structure of the Company as at the date of this announcement and immediately after completion of Issue of A Shares is as follow:

	As at the date of this announcement		Immediately after completion of Issue of A Shares	
	Number of Shares	%	Number of Shares	%
<b>Domestic Shares</b>				
YTO <i>(Note)</i>	443,910,000	52.48	428,910,000	43.068
Qualified Public Investors	0	0	150,000,000	15.062
Social Security Fund <i>(Note)</i>	0	0	15,000,000	1.506
<b>H Shares</b>				
Public Investors	401,990,000	47.52	401,990,000	40.364
<b>Total</b>	<b>845,900,000</b>	<b>100</b>	<b>995,900,000</b>	<b>100</b>

*Note:* According to the “Implementation Measures in respect of the Transfer of Part of State-owned Shares to the State Social Security Fund in the Domestic Security Market (境內證券市場轉持部分國有股充實全國社會保障基金實施辦法)”, if any joint stock limited company with state-owned shares conducts initial public offering and listing of its state-owned shares in the domestic security market, part of the state-owned shares (based on 10% of the actual issued shares) of the listed company shall be transferred to the Social Security Fund for holding.

The transfer of the 15,000,000 Domestic Shares from YTO to the Social Security Fund is subject to the approval of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

## **Approval by the Shareholders**

The EGM and Class Meetings will be held to consider and, if thought fit, approve, among other things, the Issue of A Shares and the authorization to the Board to determine and implement the Issue of A Shares. It should be noted that the Issue of A Shares, upon approval by the Shareholders at the EGM and Class Meetings, is still subject to the approvals by the CSRC and the other relevant regulatory authorities in the PRC. In addition, examination and approval from the Shanghai Stock Exchange for the listing of and dealings in the A Shares and the 443,910,000 Domestic Shares currently held by YTO on the Shanghai Stock Exchange are also required.

The approval in respect of the Issue of A Shares, if obtained from the Shareholders at the EGM and Class Meetings, shall be effective for a period of 12 months from the date on which such approval is obtained.

The H Shares of the Company are currently listed on the Stock Exchange. There is no fund raising exercise carried out by the Company during the 12 months prior to the date of this announcement. Further announcements will be made by the Company in respect of the issue price, number of A Shares to be issued or other details of the Issue of A Shares as and when appropriate according to the Listing Rules.

## **(2) DISCLOSEABLE AND CONNECTED TRANSACTIONS**

The Board announces that on 28 June 2010, the Company and YTO entered into the Sale and Purchase Agreement, pursuant to which the Company agreed to sell and YTO agreed to purchase (i) 100% equity interest in YTO B&C Machinery and (ii) 100% equity interest in YTO Machinery Sales, at a total consideration in cash of RMB259,805,933 (or approximately HK\$296,178,764) (subject to the final approval of the relevant government authorities and the adjustment as described below).

## **THE DISPOSAL**

### **The Sale and Purchase Agreement**

#### **(1) *Date***

28 June 2010

#### **(2) *Parties***

Vendor:           The Company

Purchaser:       YTO, being the controlling shareholder of the Company

#### **(3) *Details of the transaction***

The Company and YTO entered into the Sale and Purchase Agreement on 28 June 2010, pursuant to which the Company will conditionally sell (i) 100% equity interest in YTO B&C Machinery and (ii) 100% equity interest in YTO Machinery Sales to YTO. The sale of the equity interest in the respective Selling Companies by the Company will take place simultaneously.

#### **(4) *Consideration***

Subject to the final approval of the relevant government authorities and the adjustment as described below, the total consideration in respect of the Selling Interest is RMB259,805,933 (or approximately HK\$296,178,764), which will be settled by YTO in cash. The consideration in respect of the Selling Interest was determined by the Company and YTO after arm's length negotiations with reference to the appraised total net asset value of the Selling Companies, being RMB259,805,933 as at 31 May 2010. The appraisal was conducted by China United Assets Appraisal Co., Ltd. (中聯資產評估有限公司), an independent professional valuer in the PRC, on the basis of the asset based valuation approach. As compared between the appraised total net asset value and the book value of the total net asset of the Selling Interest as at 31 May 2010, the total consideration of the Selling Interest (assuming that the relevant government authorities having approved the same and no adjustment is occurred) represents a gain of RMB20,882,919 with a premium of 8.74%.

The total consideration in respect of the Selling Interest is subject to the final approval of the relevant government authorities and the adjustment below:

Total Consideration = RMB259,805,933 + (the audited net asset value of the Selling Companies as at the end of the month preceding to the Completion - the audited net asset value of the Selling Companies as at 31 May 2010)

In view of the substantial gain which is expected to be recorded by the Company on Completion of the Disposal as well as the valuation of the Selling Companies was conducted by an independent professional valuer in the PRC, the Directors (excluding the independent non-executive Directors who will express their opinions on the Disposal after taking into account of the advice from the Independent Financial Adviser) consider that the consideration in respect of the Selling Interest is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**(5) *Conditions Precedent***

The Sale and Purchase Agreement shall take effect upon fulfillment of the following conditions precedent:

- (i) the Company obtaining the requisite approval from the Independent Shareholders at the EGM in accordance with the Listing Rules;
- (ii) YTO obtaining the approval from its shareholders at general meeting; and
- (iii) the Disposal be approved by China National Machinery Industry Corporation\* (中國機械工業集團有限公司) (“**China Machinery**”), the ultimate controlling shareholder of the Company and the controlling shareholder of YTO.

**(6) *Payment terms***

The total consideration of the Selling Interest shall be settled by YTO in cash within 30 Business Days after fulfillment of all the conditions precedent set out above.

## **(7) Completion**

Upon fulfillment of the conditions precedent set out above, the following shall be conducted and required to be satisfied before Completion takes place:

1. the Selling Companies obtain their respective shareholders' approvals on the Sale and Purchase Agreement and the sale of the Selling Interest;
2. the articles of association of the Selling Companies are amended legally and appropriately to reflect the sale of the Selling Interest;
3. the consideration of the Selling Interest is settled in full; and
4. the registration procedures relating to the sale of the Selling Interest with Administration for Industry and Commerce are completed.

Completion shall take place upon fulfillment of the above. The sale of the equity interest in the respective Selling Companies by the Company will take place simultaneously. Upon Completion, the Company owns no equity interest in the Selling Companies, and the Selling Companies will cease to be subsidiaries of the Company.

## **Reasons for the Disposal**

Owing to the over-diversification of the construction machinery products and the sliding sales of the construction machinery business of the Selling Companies, the operating results of the construction machinery business in recent years are unsatisfactory and the Selling Companies have recorded losses in recent years. In addition, there is a potential competition between the Company and the subsidiaries of its ultimate controller in part of the construction machinery business. As such, it is proposed to sell the Selling Companies in order to increase the overall profitability of the Group and avoid the competition.

The Directors consider that the Disposal by the Company to realise the Selling Interest at a reasonable price will reduce the loss and thereby increase the profits of the Company. Upon Completion of the Disposal, based on both the generally accepted accounting standards in the PRC and the International Financial Reporting Standards, the Company is expected to realize a gain of approximately RMB20,882,919, which is the difference between the total consideration of RMB259,805,933 (assuming that the relevant government authorities having approved the same and no adjustment is occurred) and the book value of the total net asset of the Selling Interest of RMB238,923,014 as at 31 May 2010. The Directors intend to apply the sale proceeds as general working capital of the Company.

The terms of the Sale and Purchase Agreement have been determined after arm's length negotiations and are on normal commercial terms. The Directors (excluding the independent non-executive Directors who will express their opinions on the Disposal after taking into account of the advice from the Independent Financial Adviser) consider that the Disposal is in the ordinary course of business and on normal commercial terms and is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **Information of the Selling Companies**

YTO B&C Machinery is owned as to 100% by the Company and is principally engaged in the manufacture and sale of building machineries, construction machineries such as small road rollers and components.

YTO Machinery Sales is owned as to 100% by the Company and is principally engaged in the sale of construction machineries, building machineries and components. As at the date hereof, YTO Machinery Sales holds 100 % of the equity interest in each of YTO Building Machinery and YTO Construction Machinery.

Set out below is the basic financial information of the Selling Companies:

	<b>YTO B&amp;C Machinery</b>	<b>YTO Machinery Sales</b>
Book value of the net asset as at 31 May 2010	RMB6,748,406	RMB232,174,608
Appraised net asset value as at 31 May 2010	RMB32,423,611	RMB227,382,322
Net profits before taxation and extraordinary items for the year ended 31 December 2008 (audited)	RMB-10,607,295	RMB-20,640,796
Net profits after taxation and extraordinary items for the year ended 31 December 2008 (audited)	RMB-10,607,295	RMB-20,641,237
Net profits before taxation and extraordinary items for the year ended 31 December 2009 (audited)	RMB-8,425,849	RMB-20,768
Net profits after taxation and extraordinary items for the year ended 31 December 2009 (audited)	RMB-8,425,849	RMB-20,768

Upon completion of the Disposal, the Company owns no equity interest in each of YTO B&C Machinery, YTO Machinery Sales, YTO Building Machinery and YTO Construction Machinery.

### **Information of the Group, YTO and China Machinery**

The Group is principally engaged in the production and sale of agricultural tractors.

YTO beneficially owns approximately 52.48% of the issued share capital of the Company and is the controlling shareholder of the Company. Thus, YTO and its associates are regarded as connected persons of the Company under the Listing Rules.

China Machinery is the ultimate controlling Shareholder of the Company and the controlling shareholder of YTO. It is a state-owned group enterprise principally engaging in international trade, scientific research, construction and project contractor business focusing on machinery and electric products, etc.



## **The Listing Rules Implications**

The Disposal contemplated under the Sale and Purchase Agreement constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. The relevant percentage ratios of the Disposal are more than 5% but less than 25%, however, the consideration of the Disposal is more than HK\$10,000,000. Therefore, the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, the Disposal constitutes discloseable transactions of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements only under Chapter 14 of the Listing Rules. No Directors have material interest in the Disposal and have abstained from voting on the Board resolution approving the Disposal.

### **(3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

For the purposes of Issue of A Shares and in order to comply with the “Guidelines on Articles of Associations of Listed Companies 《上市公司章程指引》” dated 16 March 2006 issued by the CSRC and the “Guidelines on Corporate Governance of Listed Companies 《上市公司治理準則》” dated 7 January 2002 jointly issued by the CSRC and the former National Economic and Trade Commission (國家經濟貿易委員會), the Company proposes to make certain amendments to the Articles of Association, including but not limited to amending articles relating to the Shareholders' general meetings and rights and obligations of Shareholders, and making other amendments in relation to the Issue of A Shares as required by the applicable PRC laws and regulations and the relevant rules of the Shanghai Stock Exchange. In case there are discrepancies in the requirements according to the Listing Rules and the listing rules of the Shanghai Stock Exchange, the Company shall apply the stricter articles in the Articles of Association. The proposed amendments to the Articles of Association will improve and enhance the corporate governance structure of the Company and make the Articles of Association complying with the relevant requirements of both the Listing Rules and the listing rules of the Shanghai Stock Exchange.

Details regarding the proposed amendments to the Articles of Association will be set out in the circular to be despatched to the Shareholders.

The proposed amendments to the Articles of Association are subject to Shareholders' approval at the EGM and any other approval or endorsement from or registration with the relevant regulatory authorities in the PRC. The amendments to Articles of Association shall come into effect upon approval by the CSRC and completion of the Issue of A Shares.

#### **(4) PROPOSED ADOPTION OF THE RULES OF PROCEDURES AND THE INTERNAL RULES**

For the purposes of Issue of A Shares, the Company proposed to adopt the Rules of Procedures and the Internal Rules pursuant to the requirements of the applicable PRC laws and regulations and the relevant rules of the Shanghai Stock Exchange.

Details of the Rules of Procedures and the Internal Rules will be set out in the circular to be despatched to the Shareholders.

The proposed adoption of the Rules of Procedures and the Internal Rules is subject to Shareholders' approval at the EGM. The Rules of Procedures and the Internal Rules shall come into effect at the same time as the above proposed amendments to the Articles of Association coming into effect and upon completion of the Issue of A Shares.

#### **(5) VARIATION OF MATERIAL TERMS OF NEW LAND LEASE AGREEMENT**

In order to cope with the new business development of the Group which requires additional land use, on 21 October 2009, YTO, on behalf of YTO Group, as lessor and the Company, on behalf of the Group, as lessee, entered into the New Land Lease Agreement in respect of, among other things, the lease of land use rights with a gross land area of approximately 852,067 sq.m. by YTO to the Company. The transaction contemplated under the New Land Lease Agreement constituted continuing connected transaction of the Company and was exempted from independent shareholders' approval requirements but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. The New Land Lease Agreement therefore was disclosed in the Company's announcement dated 21 October 2009.

In light of the proposed Issue of A Shares and in compliance with the listing rules of the Shanghai Stock Exchange, the Company, on behalf of the Group, as lessee entered into the Supplemental Land Lease Agreement with YTO as lessor on 28 June 2010 to amend certain terms of the New Land Lease Agreement. Pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with the reporting and announcement requirements under Rules 14A.35(3) of the Listing Rules in respect of the Supplemental Land Lease Agreement. The relevant percentage ratios are less than 5%, however, the annual consideration involved is more than HK\$1,000,000. Therefore, the continuing connected transaction under the New Land Lease Agreement and the Supplemental Land Lease Agreement is exempted from independent shareholders' approval requirements but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Set out below is a summary of the principal terms of this continuing connected transaction under the New Land Lease Agreement and the Supplemental Land Lease Agreement:

**(1) Parties Involved**

- (a) YTO as lessor (*as opposed to “YTO, on behalf of YTO Group, as lessor” in the New Land Lease Agreement*); and
- (b) The Company, on behalf of the Group, as lessee

**(2) Period**

From 1 January 2010 to 31 December 2012

**(3) Particulars of the land use rights**

Land use rights on the land located at 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC and 72 Zhong Zhou Zhong Road, Luoyang City, Henan Province, the PRC, with an aggregate gross land area of approximately 852,067 sq.m.

During the term of the New Land Lease Agreement, if any of the present subsidiaries of the Company cease to be subsidiaries of the Company, the land to be leased will be reduced proportionally (*newly added terms in the Supplemental Land Lease Agreement*).

**(4) Pre-emptive rights**

- (a) Apart from the gross land area to be leased by the Group as mentioned in the subsection headed “Particulars of the land use rights” above, the Group has the pre-emptive rights to lease from YTO additional land use rights with a gross land area of no more than 150,000 sq.m. located at 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC and 72 Zhong Zhou Zhong Road, Luoyang City, Henan Province, the PRC in accordance with the terms and conditions of the New Land Lease Agreement in all material aspects;
- (b) YTO agrees to provide the Company with the pre-emptive rights of renewal to lease the land and the pre-emptive rights to purchase the leased land;

- (c) Within 30 days before the expiry date of the New Land Lease Agreement, the Company shall have the rights to renew the New Land Lease Agreement, provided that there is no change of terms under the New Land Lease Agreement and the Supplemental Land Lease Agreement (including the area of leased land which is subject to the adjustment due to any present subsidiary of the Company ceasing to be a subsidiary of the Company as mentioned above, the rent, rental period and rights and obligations of the parties), and YTO cannot reject the renewal request (*newly added terms in the Supplemental Land Lease Agreement*);
- (d) The Company has the rights of renewal as described in (c) above in each of the expiry of the New Land Lease Agreement (*newly added terms in the Supplemental Land Lease Agreement*); and
- (e) During the term of the New Land Lease Agreement, YTO agrees not to sell, pledge, charge or create other encumbrances to the leased land without prior written consent from the Company. Further, upon request by the Company, YTO agrees to progressively or in one-off transaction transfer the leased land to the Company in the way allowed according to the laws of the PRC (*newly added terms in the Supplemental Land Lease Agreement*).

## **(5) Rent**

The annual rent shall be determined with reference to:

- (i) the market price;
- (ii) if there is no applicable market price or the market price is not applicable, then the annual amortization plus the management fee which is not more than 5% of the annual amortization (collectively, the “**Rent I**”) and the relevant tax (currently 5.5% on the Rent I, subject to the tax rate imposed by the government of the PRC from time to time).

The rent shall be adjusted according to the relevant laws and regulations of the PRC and the relevant requirements relating to the supervision and administration of state-owned assets (*newly added terms in the Supplemental Land Lease Agreement*).

In any event, the applicable rent offered to the Group by YTO shall not be less favourable than the rent offered to independent third party lessee by YTO.

## **(6) Payment terms**

The Group shall pay the rent for the year by the end of each rental year in cash.

### **Basis of Relevant Cap Amounts**

The following table summarises the cap amounts for the New Land Lease Agreement together with the Supplemental Land Lease Agreement for each of the three years ending 31 December 2012:

	<b>2010</b>	<b>2011</b>	<b>2012</b>
Cap amounts	RMB22,000,000	RMB24,000,000	RMB26,000,000

The above cap amounts are determined based on (i) a maximum gross land area of approximately 852,067 sq.m. and the pre-emptive rights to lease additional land use rights with gross land area of no more than 150,000 sq.m. from YTO; (ii) monthly rent of RMB24.4 per sq.m. in 2009; and (iii) annual increment of approximately 10% thereafter.

The Directors consider that the entering into of the Supplemental Land Lease Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Supplemental Land Lease Agreement as well as the amended and newly added terms mentioned above are fair and reasonable and in the interests of the Company and its Shareholders as a whole. No Directors have material interest in the Supplemental Land Lease Agreement and have abstained from voting on the Board resolution approving the Supplemental Land Lease Agreement.

## **(6) APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

Pursuant to the Articles of Association, the Board shall comprise 12 Directors. The current Board comprises 11 Directors after the resignation of Mr. Chen Zhi, an independent non-executive Director, on 21 August 2009. Therefore, the Company proposes to appoint Mr. Zhang Qiusheng (張秋生) as the independent non-executive Director, with a term of office from the date of approval of his appointment by the Shareholders at the EGM to 30 June 2012.

### **Mr. Zhang Qiusheng (張秋生), aged 42**

Mr. Zhang Qiusheng was born in Yongchun County, Quanzhou City, Fujian Province, the PRC on 16 August 1968. Mr. Zhang studied at Beijing Jiaotong University from 1983 to 1992 and obtained bachelor and master degrees in accounting and doctorate degree in industrial economics. He qualified as a Chinese Certified Public Accountant (CCPA) in 1995 and a Chinese Certified Tax Agent (CCTA) in 1998.

Mr. Zhang stayed in University of Colorado at Boulder in the United States as a senior visiting scholar in 1996. He has been a professor at Accounting Department of School of Economics and Management at Beijing Jiaotong University since 1999, and an instructor to doctorate candidates majoring in industrial economics, business management and accounting since 2000.

From 2008 to 2009, Mr. Zhang took a temporary post as Deputy Mayor of Liuzhou City, Guangxi Zhuang Autonomous Region (廣西壯族自治區) in the PRC. Mr. Zhang has been appointed as an expert consultant to China Accounting Standards Committee (財政部會計準則委員會) in respect of accounting standards, a director of Accounting Society of China (中國會計學會) and a young academic pacemaker at Beijing Higher Education (北京高等學校).

Mr. Zhang had taken charge of multiple projects by National Social Science Foundation (國家社會科學基金), National Natural Science Foundation (國家自然科學基金), National Software Science Program (國家軟體學計劃) and a series of provincial scientific research projects, and won 4 awards for scientific research at provincial or ministerial level. He has published over a hundred academic theses on corporate mergers and acquisitions as well as financial accounting, and has individually or jointly published 30 works and translation works, including Studies on Mergers and Acquisitions (《併購學》) and Corporate Mergers and Acquisitions (《企業兼併與收購》).

Mr. Zhang provides expert services in financial accounting as well as mergers and acquisitions for the government and enterprises. He is currently the director of China Mergers & Acquisition Research Centre (中國企業兼併重組研究中心). Mr. Zhang currently is also an independent director of Yuyuan Holding Co., Ltd\* (玉源控股股份有限公司), Beijing Dinghan Technology Co., Ltd.\* (北京鼎漢技術股份有限公司) and Beijing Saidi Media Investment Co., Ltd.\* (北京賽迪傳媒投資股份有限公司), all of which are companies listed on the Shenzhen Stock Exchange.

Save as disclosed above, Mr. Zhang Qiusheng does not hold any positions in the Company or any other members of the Company, nor did he hold any directorship in any other listed companies in the last three years.

### **Length of service and emolument**

If Mr. Zhang Qiusheng is appointed as an independent non-executive Director of the Company, he will enter into a service agreement with the Company for a term of office from the date of approval of his appointment by the Shareholders at the EGM to 30 June 2012 and he will receive an annual remuneration of RMB60,000. The remuneration is determined with reference to Mr. Zhang Qiusheng's duties and responsibilities with the Company and the market rate for the position.

### **Relationships**

Mr. Zhang Qiusheng has no relationship with any Directors, supervisors or the senior management of the Company or with any management Shareholders, substantial Shareholders or controlling Shareholders of the Company.

### **Interests in Shares**

So far as the Directors of the Company are aware as at the date hereof, Mr. Zhang Qiusheng does not have any interest in the Shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)).

## **Matters that need to be brought to the attention of the Shareholders**

In relation to the appointment of Mr. Zhang Qiusheng as an independent non-executive Director, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholders of the Company.

## **GENERAL**

The Company will convene the EGM for the purpose of, among other things, seeking Independent Shareholders' approval on the Disposal, and seeking Shareholders' approval on the Issue of A Shares, the proposed amendments to the Articles of Association, the proposed adoption of the Rules of Procedures and the Internal Rules and the appointment of independent non-executive Director. The Issue of A Shares will also be put forward to the Shareholders for approval at the respective Class Meetings.

YTO and its associates, holding 443,910,000 or 52.48% voting Shares of the Company, will abstain from voting in respect of the resolutions relating to the Disposal. For resolutions relating to the Issue of A Shares, the proposed amendments to the Articles of Association, the proposed adoption of the Rules of Procedures and the Internal Rules and the appointment of independent non-executive Director, no Shareholders are required to abstain from voting. The votes to be taken at the EGM and the respective Class Meetings in relation to the proposed ordinary and special resolutions will be taken by poll.

An independent Board committee comprising all the independent non-executive Directors (namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo) will be established to provide recommendation to the Independent Shareholders in respect of the Disposal. The Company has appointed China Merchant Securities (HK) Co., Limited as the Independent Financial Adviser to advise the independent Board committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Issue of A Shares, the Disposal, the proposed amendments to the Articles of Association, the proposed adoption of the Rules of Procedures and the Internal Rules and the appointment of the independent non-executive Director, the letter of advice from the independent Board committee and the letter of advice from the Independent Financial Adviser will be despatched to the Shareholders on or before 20 July 2010.



**The Issue of A Shares may or may not proceed to completion. Investors are advised to exercise caution in dealings in the H Shares. Further details about the Issue of A Shares will be disclosed by the Company in the PRC in due course and the relevant information will be disclosed in Hong Kong concurrently in accordance with the Listing Rules.**

## **DEFINITIONS**

In this announcement, the following terms have the following meanings:

“Articles of Association”	the articles of association of the Company, as amended from time to time
“A Shares”	the ordinary shares of the Company of RMB1.00 each proposed to be allotted, issued and listed on the Shanghai Stock Exchange
“associates”	has the meaning as defined under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which banks are generally open for business in the PRC
“Class Meetings”	the class meeting for holders of H Shares to be held immediately after the conclusion of the EGM and the class meeting for holders of Domestic Shares to be held immediately after the conclusion of the said class meeting for holders of H Shares, or any adjournment thereof respectively
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares of which are listed on the Stock Exchange (Stock Code: 0038)
“Completion”	completion of the Sale and Purchase Agreement
“connected person(s)”	has the meaning as defined under the Listing Rules

“CSRC”	China Securities Regulatory Committee ( 中國證券監督管理委員會 )
“Directors”	the directors of the Company, including the independent non-executive directors
“Disposal”	the disposal of the Selling Interest by the Company to YTO pursuant to the Sale and Purchase Agreement
“Domestic Share(s)”	the ordinary shares of the Company of RMB1.00 each which are subscribed for in Renminbi by PRC nationals and/or PRC incorporated entities, all of which have been allotted and issued and are fully paid up
“EGM”	the extraordinary general meeting of the Company to be convened and held at 9:00 a.m., on Monday, 16 August 2010 at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, for the Shareholders or the Independent Shareholders to consider and, if thought fit, approve, among other things, the Disposal, the Issue of A Shares, the proposed amendments to the Articles of Association, the proposed adoption of the Rules of Procedures and the Internal Rules and the appointment of independent non-executive Director
“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
“H Share(s)”	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange

“Independent Financial Adviser”	China Merchants Securities (HK) Co., Limited., the independent financial adviser to the independent Board committee of the Company and the Independent Shareholders in respect of the Disposal, being a licensed corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Independent Shareholders”	Shareholders other than YTO and its associates
“Issue of A Shares”	the proposed issue of not more than 150,000,000 A Shares to qualified public investors (except those prohibited by the PRC laws and regulations and other regulatory requirements to which the Company is subject)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Land Lease Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as lessor and the Company, on behalf of the Group, as lessee, in respect of, among other things, the lease of land use rights with a gross land area of approximately 852,067 sq.m. by YTO to the Company, details of which were set out in the Company’s announcement dated 21 October 2009
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong and the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“Rules of Procedures and the Internal Rules”	the rules of procedures for general meetings, the rules of procedures for the Board meetings, the rules of procedures for the supervisory committee of the Company, management principles on external guarantee and management principles on use of proceeds
“Sale and Purchase Agreement”	a sale and purchase agreement entered into between the Company and YTO on 28 June 2010 whereby the Company has agreed to sell the Selling Interest to YTO
“Selling Companies”	YTO B&C Machinery and YTO Machinery Sales
“Selling Interest”	100% equity interest in YTO B&C Machinery and 100% equity interest in YTO Machinery Sales
“Shares”	Domestic Shares and H Shares
“Shareholder(s)”	registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning as defined under the Listing Rules
“Supplemental Land Lease Agreement”	the agreement dated 28 June 2010 entered into between YTO as lessor and the Company, on behalf of the Group, as lessee, to amend certain terms of the New Land Lease Agreement
“YTO”	中國一拖集團有限公司 (YTO Group Corporation*), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 52.48% equity interest in the Company as at the date of this announcement

“YTO B&C Machinery”	一拖(洛陽)建工機械有限公司 (YTO (Luoyang) Building & Construction Machinery Company Limited*), a limited liability company incorporated in the PRC and a subsidiary of the Company, owned as to 100% by the Company as at the date of this announcement
“YTO Building Machinery”	一拖(洛陽)建築機械有限公司 (YTO (Luoyang) Building Machinery Company Limited*), a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company through YTO Machinery Sales as at the date of this announcement
“YTO Construction Machinery”	一拖(洛陽)工程機械有限公司 (YTO (Luoyang) Construction Machinery Company Limited*), a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company through YTO Machinery Sales as at the date of this announcement
“YTO Group”	YTO and its respective controlled companies/entities (the “ <b>Relevant Parties</b> ”) and/or the non-wholly owned subsidiaries of the Company in which the Relevant Parties has 10% or more voting rights
“YTO Machinery Sales”	一拖(洛陽)工程機械銷售有限公司 (YTO (Luoyang) Construction Machinery Sales Company Limited*), a limited liability company incorporated in the PRC and a subsidiary of the Company, owned as to 100% by the Company as at the date of this announcement
“%”	per cent.

*For the purpose of this announcement, the exchange rate of RMB1.00 = HK\$1.14.*

By Order of the Board  
**First Tractor Company Limited**  
**Liu Dagong**  
*Chairman*

Luoyang, the PRC  
28 June 2010

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Liu Dagong, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin, and four non-executive Directors, namely Mr. Zhao Yanshui, Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle, and three independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo.*

\* *For identification purposes only*