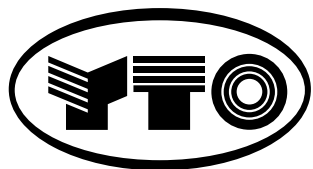


Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

DISCLOSEABLE TRANSACTION PROVISION OF GUARANTEE

The Board announces that on 1 February 2011, the Company (on behalf of the Group) and CEB entered into the CEB Agreement, pursuant to which CEB shall grant to the Group the CEB Credit Line of RMB629,000,000 (equivalent to approximately HK\$742,220,000) for the period from 6 February 2011 to 5 February 2012 (subject to extension, if necessary). The CEB Credit Line will be specifically used by the Dealers recommended by the Company or Authorized Agents for applying to CEB for issuance of the CEB Acceptance Bills for the purpose of purchasing machinery products from the Company or Authorized Agents. In return, the Company shall provide guarantee in the maximum guarantee amount of RMB440,300,000 (equivalent to approximately HK\$519,554,000) by executing the Undertaking Letter, such that if any of the Dealers is in default on repaying the outstanding amounts due under the CEB Acceptance Bills within the prescribed period, the Company shall be responsible to repay such outstanding amounts to CEB.

The provision of guarantee contemplated under the CEB Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements only but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

THE CEB AGREEMENT

Summary of the principal terms of the CEB Agreement is set out below:

Date

1 February 2011

Parties

- (i) the Company (on behalf of the Group); and
- (ii) CEB. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, CEB and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Provision of the CEB Credit Line by CEB

Pursuant to the CEB Agreement, CEB shall grant to the Group the CEB Credit Line of RMB629,000,000 (equivalent to approximately HK\$742,220,000) for the period from 6 February 2011 to 5 February 2012 (subject to extension, if necessary). The CEB Credit Line shall be specifically used by the Dealers recommended by the Company or Authorized Agents for applying to CEB for issuance of the CEB Acceptance Bills for the purpose of purchasing machinery products from the Company or Authorized Agents.

The Company shall distribute the credit amounts under the CEB Credit Line to the Dealers, which shall be determined with reference to the operating and financial conditions of the respective Dealers, and send the Dealers' Acceptance Bills Limit Distribution List to CEB (Luoyang branch). The Dealers' Acceptance Bills Limit Distribution List shall set out the maximum credit amount that a Dealer may obtain from CEB for issuance of the CEB Acceptance Bills under the CEB Financing Net. Subject to CEB's approval, the Dealers' Acceptance Bills Limit Distribution List may be adjusted by the Company from time to time.

Issuance of the CEB Acceptance Bills to the Dealers

A Dealer who is recommended by the Company or Authorized Agents and intends to apply for issuance of the CEB Acceptance Bills shall enter into a Subordinate Agreement with the Company or Authorized Agent(s) and the relevant branch(es) of CEB. The Subordinate Agreement shall set out the procedure for applying for issuance of the CEB Acceptance Bills, repayment mechanism as well as the parties' rights and obligations. It shall also set out the maximum credit amount that a Dealer may obtain from CEB for issuance of the CEB Acceptance Bills under the CEB Financing Net. Such credit amount to be granted to the Dealers will remain valid for 1 year.

According to the CEB Agreement, the Company or Authorized Agent(s) shall enter into a sale and purchase agreement with the respective Dealers in connection with the purchase of machinery products, which stipulates that the Dealers shall apply to CEB for issuance of the CEB Acceptance Bills with the Company or Authorized Agents as the payee for settlement of the purchase price of the machinery products.

When a Dealer recommended by the Company or Authorized Agents applies to CEB for entry into the CEB Financing Net, it shall pay to CEB a security deposit amounting to 30% of the denomination of the relevant CEB Acceptance Bills, which shall be applied for settlement of the relevant CEB Acceptance Bills. CEB shall then proceed with issuance of the CEB Acceptance Bills, and deliver the same to the representative of the Company or Authorized Agents correspondingly to pay to the Company or Authorized Agents (as the case may be) for the purchase of the machinery products by the Dealers.

Settlement of the CEB Acceptance Bills

Each of the CEB Acceptance Bills shall remain valid for 6 months (unless the CEB Acceptance Bill is an electronic acceptance bill, the validity of which may be longer than 6 months). Pursuant to the CEB Agreement, a Dealer shall settle the outstanding amounts due under its CEB Acceptance Bills from the sales proceeds of machinery products in accordance with the following manner:

1. at least 50% of the denomination of the CEB Acceptance Bill shall be repaid within 3 months from the date of issue;
2. at least 70% of the denomination of the CEB Acceptance Bill shall be repaid within 5 months from the date of issue; and

3. 100% of the denomination of the CEB Acceptance Bill shall be repaid before the expiry date of the CEB Acceptance Bill.

Where a CEB Acceptance Bill is an electronic acceptance bill, settlement may be made in 3 to 4 installments with the first installment of at least 50% of the denomination of the CEB Acceptance Bill to be repaid in the fourth month of the issue date of the electronic CEB Acceptance Bill.

Guarantee provided by the Company

In return for CEB's grant of the CEB Credit Line of RMB629,000,000 (equivalent to approximately HK\$742,220,000) to the Group and after taking into account of the abovementioned security deposit to be paid by the Dealers (i.e. 30% of the denomination of the CEB Acceptance Bills), the Company has agreed to provide guarantee in the maximum guarantee amount of RMB440,300,000 (equivalent to approximately HK\$519,554,000) and shall execute the Undertaking Letter, such that if any of the Dealers is in default on repaying the outstanding amounts due under the CEB Acceptance Bills within the prescribed period, the Company shall be responsible for repayment of such outstanding amounts to CEB up to the maximum guarantee amount.

Pursuant to the CEB Agreement, the Company shall pay 5% of the maximum guarantee amount of RMB440,300,000, being RMB22,015,000, to CEB as security deposit. The remaining principal of the Company's security deposit together with its interest shall be returned by CEB to the Company within 10 days after termination of the CEB Agreement.

Default of the Dealers

In the event that a Dealer is in default on repaying the outstanding amounts due under the relevant CEB Acceptance Bills within the prescribed period, a grace period of 7 business days will be granted by CEB. If, upon expiry of such grace period, the Dealer still fails to settle the outstanding amounts due under the relevant CEB Acceptance Bills, CEB shall notify the Company and request the Company for repayment of such outstanding amounts. In such case, the credit amount distributed to that Dealer under the CEB Credit Line will be forfeited. CEB shall stop issuing new CEB Acceptance Bills to that Dealer and may deduct the outstanding amounts from the security deposit paid by that Dealer whereas the Company shall not distribute any credit amounts under the CEB Credit Line to that Dealer for at least 1 year.

FINANCIAL EFFECTS

The entering into of the CEB Agreement and the provision of guarantee to CEB by the Company will foster CEB's confidence to issue the CEB Acceptance Bills to the Dealers. Such CEB Acceptance Bills are to be used for the specific purpose of purchasing machinery products from the Company or Authorized Agents, which in turn will have a positive effect on the sales volume of the Group, and shall have no immediate financial effect on the Group's earnings, net assets and liabilities. The Company will determine whether a credit amount shall be granted to a Dealer after strict examination of the Dealer's credit standing. By payment of a security deposit by the Dealer, the repayment risk shall be reduced. Meanwhile, the Company and the Authorized Agents will designate agents to keep track of and implement the repayment of each of the CEB Acceptance Bills, thereby effectively controlling the repayment risk and preventing non-repayment.

REASONS FOR ENTERING INTO THE CEB AGREEMENT

In recent years, the PRC government has been increasing subsidies for the purchase of agricultural machineries. In consideration of such favorable agricultural policy, significant growth of the sales of agricultural machinery products in the PRC is expected, which will in turn lead to risks such as an increase in the scale of the amounts advanced by the corporate dealers and a longer repayment cycle in respect of their credit sales. In order to relieve the capital pressure on both the manufacturers and the dealers as well as to alleviate the risk of high ratio of account receivables to capital, the Company and the Dealers cooperate with CEB on the establishment of the CEB Financing Net to improve the capital efficiency of the Group and facilitate the purchase of more machinery products by the Dealers from the Company or Authorized Agents so as to enhance the marketing management and capital operation standards of the Group.

The Board believes that the entering into of the CEB Agreement and the establishment of the CEB Financing Net can lead to an increase in the sales volumes in machinery products of the Company and Authorized Agents, which will have a positive effect on the business of the Group. The terms of the CEB Agreement are determined after arm's length negotiation between the Company and CEB and are in the ordinary and normal course of business. The credit amount under the CEB Credit Line was determined with reference to the estimated demand for the working capital of the Company and Authorized Agents as well as the Dealers' demand for the products of the Company and Authorized Agents. The Directors (including the independent non-executive Directors) believe that the terms of the CEB Agreement and the provision of guarantee to CEB are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION OF THE GROUP AND CEB

The Group is principally engaged in the production and sale of agricultural machineries, engine machineries and certain construction machineries.

CEB is a financial institution incorporated in the PRC which is founded under the approval of the State Council of the PRC and the People's Bank of China. CEB engages in corporate, treasury, investment banking, wealth management and mortgage businesses. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, CEB and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

LISTING RULES IMPLICATION

The provision of guarantee contemplated under the CEB Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements only but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Authorized Agents”	the authorized agents for the Company under the CEB Agreement, namely the subsidiaries of the Company, including but not limited to Luoyang Changxing Agriculture Machinery Company Limited (洛陽長興農業機械有限公司)
“Board”	the board of Directors
“CEB”	China Everbright Bank
“CEB Acceptance Bills”	the bank's acceptance bills (銀行承兌匯票) or electronic acceptance bills (電子承兌匯票) to be issued by CEB to the Dealers under the CEB Credit Line pursuant to the CEB Agreement for the purpose of purchasing machinery products from the Company or Authorized Agents

“CEB Agreement”	a co-operation agreement dated 1 February 2011 entered into between the Company (on behalf of the Group) and CEB in relation to the establishment of the CEB Financing Net and the grant of the CEB Credit Line by CEB to the Group for the Dealers to apply to CEB for issuance of the CEB Acceptance Bills
“CEB Credit Line”	the credit amount of RMB629,000,000 (equivalent to approximately HK\$742,220,000) to be granted by CEB to the Group under the CEB Financing Net pursuant to the CEB Agreement
“CEB Financing Net”	Full Link Machinery Financing Network (全程通機械金融網), a system to be established by the Company, CEB and the Dealers under the CEB Agreement for the purpose of facilitating the Dealers’ purchase of machinery products from the Company or Authorized Agents
“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)
“connected persons”	has the same meaning as ascribed to this term under the Listing Rules
“Dealer(s)”	any party, being an independent third party to the Company and its connected persons, who intends to purchase machinery products from the Company or Authorized Agents and uses the CEB Acceptance Bills to settle the purchase price of the machinery products through the CEB Financing Net
“Dealers’ Acceptance Bills Limit Distribution List”	the list to be provided by the Company to CEB (Luoyang branch) setting out the maximum credit amount that a Dealer may obtain from CEB for issuance of the CEB Acceptance Bills under the CEB Financing Net pursuant to the CEB Agreement

“Directors”	the directors of the Company, including the independent non-executive directors
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subordinate Agreement(s)”	the subordinate agreement(s) to be entered into among the Company or Authorized Agent(s), the relevant branch(es) of CEB and a Dealer setting out the maximum credit amount that a Dealer may obtain from CEB for issuance of the CEB Acceptance Bills under the CEB Financing Net, the procedure for applying for issuance of the CEB Acceptance Bills as well as the repayment mechanism
“Undertaking Letter”	an undertaking letter to be executed by the Company according to the provisions of the CEB Agreement, pursuant to which the Company undertakes to provide guarantee to CEB for repayment of the outstanding amounts due under the CEB Acceptance Bills up to the maximum guarantee amount of RMB440,300,000 (equivalent to approximately HK\$519,554,000)

For the purpose of this announcement, the exchange rate of RMB1.00 = HK\$1.18 has been used, where applicable, for the purposes of illustration only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates.

By Order of the Board
FIRST TRACTOR COMPANY LIMITED
YU Lina / LIU Pui Yee
Joint Company Secretaries

Luoyang, the PRC
1 February 2011

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

* *For identification purposes only*