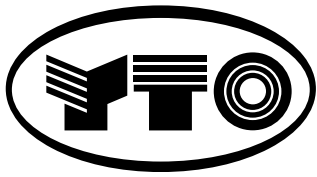


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第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED*

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

(Stock Code: 0038)

REVISION OF 2014 AND 2015 ANNUAL CAPS FOR A CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement of the Company dated 29 October 2012 and the circular of the Company dated 28 November 2012 in respect of, among other things, the continuing connected transaction under the Sale of Goods Agreement. Pursuant to the Sale of Goods Agreement, the Group agreed to supply and YTO Group and the subsidiaries of Sinomach agreed to purchase raw materials, spare parts, components, equipment and other necessary essentials. The Sale of Goods Agreement and the Existing Annual Caps were approved by the then Independent Shareholders at the Company's extraordinary general meeting held on 20 December 2012.

Taking into account (i) a project contracting agreement proposed to be entered into between YTO (as contractor) and a foreign government (as contractee) which will involve supply and provision of agricultural tractors, spare parts and relevant after-sales services, and it is expected that YTO will procure the above goods from the Group; (ii) YTO (Luoyang) Zhongcheng Machinery Company Limited* (一拖(洛陽)中成機械有限公司), being a subsidiary of YTO, is expected to continue the procurement of raw materials and spare parts from the Group; and (iii) a proposed cooperation between YTO and an automotive manufacturer in relation to the production of cargo trucks, and it is expected that YTO will procure part of the raw materials and spare parts from the Group, the Directors believe that the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015 will be insufficient to satisfy the Group's current need. Therefore, on 24 September 2014, the Board proposes to revise the amounts of the Existing Annual Caps to RMB275,000,000 and RMB475,000,000 for the years ending 31 December 2014 and 31 December 2015, respectively.

YTO is the immediate controlling shareholder of the Company. Pursuant to the Listing Rules, YTO is a connected person of the Company. The transaction contemplated under the Sale of Goods Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and shareholders' approval requirements in respect of the Revised Annual Caps. Since the applicable percentage ratios are more than 5%, the transaction contemplated under the Sale of Goods Agreement constitutes a non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Revised Annual Caps at the EGM.

The Company will convene the EGM for the purpose of, among other things, seeking the Independent Shareholders' approval for the Revised Annual Caps. YTO and its associates will abstain from voting on the resolution(s) in respect of the Revised Annual Caps at the EGM. At the EGM, votes will be taken by poll.

The Independent Board Committee will be established to give recommendations to the Independent Shareholders in respect of the Revised Annual Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Revised Annual Caps, (ii) a letter of recommendation from the Independent Board Committee, (iii) a letter of advice from the Independent Financial Adviser, and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 16 October 2014.

INTRODUCTION

Reference is made to the announcement of the Company dated 29 October 2012 (the “**Announcement**”) and the circular of the Company dated 28 November 2012 (the “**Circular**”) in respect of, among other things, the continuing connected transaction under the Sale of Goods Agreement.

On 29 October 2012, the Sale of Goods Agreement was entered into between the Company, on behalf of the Group, as supplier and/or supplying agent, and YTO, on behalf of YTO Group and the subsidiaries of Sinomach, as purchaser and/or purchasing agent, pursuant to which the Group agreed to supply and YTO Group and the subsidiaries of Sinomach agreed to purchase raw materials, spare parts, components, equipment and other necessary essentials. The Sale of Goods Agreement and the Existing Annual Caps were approved by the then Independent Shareholders at the Company’s extraordinary general meeting held on 20 December 2012.

SUMMARY OF THE SALE OF GOODS AGREEMENT

Principal Terms of the Sale of Goods Agreement

The principal terms of the Sale of Goods Agreement were disclosed in the Announcement and the Circular and are set out below:

- Date** : 29 October 2012
- Parties** : (1) The Company, on behalf of the Group, as supplier and/or supplying agent; and
- (2) YTO, on behalf of the YTO Group and the subsidiaries of Sinomach, as purchaser and/or purchasing agent.
- Goods to be provided** : Raw materials, spare parts (including casting parts), components (including semi-finished parts and finished parts), equipment and other necessary essentials.

- Term** : From 1 January 2013 to 31 December 2015
- Payment terms** : The payment shall be settled within 3 months after the delivery of goods by the supplier in principal. Subject to negotiations between the parties, prepayment of no more than 6 months from the estimated delivery of the goods are acceptable.
- Undertakings** : Provided the Group manufactures such goods, the Group undertakes it will give priority to the YTO Group's orders for such goods over other third parties' similar orders.

Pricing Standards of the Transactions under the Sale of Goods Agreement

Under the Sale of Goods Agreement, the applicable price of the goods to be supplied or provided will be:

- (1) the State price;
- (2) if there is no State price, the price following the governmental guidance (the **“government-guided price”**);
- (3) if there is no State price nor government-guided price, the market price determined by an independent third party (the **“market price”**);
- (4) if there is no State price, government-guided price nor market price, the transaction price between the Company and an independent third party; and
- (5) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%.

For the purposes of the Sale of Goods Agreement:

- State price means mandatory price of certain goods promulgated by the relevant governmental authorities of the PRC.
- Government-guided price means price with reference to any pricing guidelines or pricing recommendations set by the government of the PRC or any regulatory authorities.
- Market price means the price at which the same or comparable type of products is provided to independent third parties in the same area on normal commercial terms in the ordinary course of business.

In any event, the applicable price of the goods offered to YTO by the Company shall not be more favourable than that offered to independent third party customers of the Group.

Measures of Internal Control

To ensure the Company's conformity with the above pricing policies from time to time, the Company would adopt a series of internal control policies for its daily operation. Such internal control policies would be conducted and supervised by the finance department, the office of the Board and the audit department of the Company:

- the Company has adopted and implemented a management system on connected transactions. According to the system, the office of the Board and finance department are responsible for the information gathering on and monitoring of connected transactions, and conducting evaluation on the fairness of the transaction terms and the pricing terms;
- the independent non-executive Directors of the Company have also reviewed and would continue to review the continuing connected transaction under the Sale of Goods Agreement to ensure such agreement is entered into on normal commercial terms, is fair and reasonable, and is carried out pursuant to the terms of such agreement. The auditors of the Company would also conduct an annual review on the pricing and annual caps of the continuing connected transaction under the Sale of Goods Agreement; and
- the internal audit department of the Company will conduct periodical monitoring and evaluation, on whether the procedures of connected transactions are conformed with the internal control requirements of the Company.

REASONS AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION

The Group and YTO Group have been carrying out transactions with each other to facilitate their productions and operations since 1997. In view of the long-established relationship between the Group and YTO Group, the satisfaction of YTO Group's procurement need for spare parts for its daily production by the components products manufactured by the Group to some extent and the geographical convenience among the Group and YTO Group, they can bring reliable supply of materials and components. Meanwhile, the entering into of the Sale of Goods Agreement can enhance the Company's centralized purchasing advantages and play a role in centralizing purchasing platform, and was beneficial to the Group's operations. Further, the Company's operations would be adversely affected if the cross-supply of materials is terminated.

THE EXISTING ANNUAL CAPS

Set out below are the Existing Annual Caps for the Sale of Goods Agreement for the years ended 31 December 2013 and ending 31 December 2014 and 31 December 2015 as approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 20 December 2012:

	For the year ended 31 December 2013 RMB	For the year ending 31 December 2014 RMB	For the year ending 31 December 2015 RMB
Existing Annual Caps	120,000,000	135,000,000	150,000,000

THE REVISED ANNUAL CAPS AND REASONS FOR REVISION

Taking into account (i) a project contracting agreement proposed to be entered into between YTO (as contractor) and a foreign government (as contractee) which will involve supply and provision of agricultural tractors, spare parts and relevant after-sales services (the "Foreign Contract"), and it is expected that YTO will procure the subject goods under the Foreign Contract from the Group (the "Foreign Contract Procurement"); (ii) YTO (Luoyang) Zhongcheng Machinery Company Limited* (一拖(洛陽)中成機械有限公司) ("YTO Zhongcheng Machinery"), being a subsidiary of YTO, is expected to continue the

procurement of raw materials and spare parts from the Group, following the completion of the sale of 73% equity interest in YTO Zhongcheng Machinery by the Company to YTO in July 2014 (details of which were set out in the announcement of the Company dated 5 May 2014) (the “**Zhongcheng Procurement**”); and (iii) a proposed cooperation between YTO and an automotive manufacturer in relation to the production of cargo trucks, and it is expected that YTO will procure part of the raw materials and spare parts from the Group (the “**Automotive Procurement**”), the Directors believe that the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015 will be insufficient to satisfy the Group’s current need. Therefore, on 24 September 2014, the Board proposes to revise the amounts of the Existing Annual Caps to RMB275,000,000 and RMB475,000,000 for the years ending 31 December 2014 and 31 December 2015, respectively.

Set out below are (i) the historical transaction amounts for the years ended 31 December 2010, 31 December 2011, 31 December 2012 and 31 December 2013 and eight months ended 31 August 2014 under the Sale of Goods Agreement; and (ii) the comparison between the Existing Annual Caps and the Revised Annual Caps:

The historical transaction amounts under the Sale of Goods Agreement:

For the year ended 31 December 2010 RMB	For the year ended 31 December 2011 RMB	For the year ended 31 December 2012 RMB	For the year ended 31 December 2013 RMB	For the eight months ended 31 August 2014 RMB
569,806,000	342,632,000	574,106,000	119,516,000	105,580,000

Comparison between the Existing Annual Caps and the Revised Annual Caps:

	For the year ended 31 December 2013 RMB	For the year ending 31 December 2014 RMB	For the year ending 31 December 2015 RMB
Existing Annual Caps	120,000,000	135,000,000	150,000,000
Revised Annual Caps	N/A	275,000,000	475,000,000

The Revised Annual Caps for the Sale of Goods Agreement for the years ending 31 December 2014 and 31 December 2015 are RMB275,000,000 and RMB475,000,000 respectively, which represent an increase of RMB140,000,000 and RMB325,000,000 from the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015, respectively. The Revised Annual Caps were determined based on the amounts of the Existing Annual Caps and the estimated increment in transaction volume under the Sale of Goods Agreement, which is attributable to (i) the expected Foreign Contract Procurement; (ii) the expected Zhongcheng Procurement after considering the historical sales revenue of YTO Zhongcheng Machinery; and (iii) the expected Automotive Procurement.

The Directors consider that the Sale of Goods Agreement and the Revised Annual Caps are fair and reasonable, are on normal commercial terms and in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP AND YTO

The Group is principally engaged in the production and sales of agricultural machineries and power machineries. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and other accessories of tractors, forklifts and mining trucks, etc.

YTO is the immediate controlling shareholder of the Company, holding 443,910,000 A Shares of the Company, and is principally engaged in the production of specific transporting machineries, vehicles products and components, etc.

LISTING RULES IMPLICATION

As mentioned above, YTO is the immediate controlling shareholder of the Company. Pursuant to the Listing Rules, YTO is a connected person of the Company. The transaction contemplated under the Sale of Goods Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and shareholders' approval requirements in respect of the Revised Annual Caps. Since the applicable percentage ratios are more than 5%, the transaction contemplated under the Sale of Goods Agreement constitutes a non-exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Revised Annual Caps at the EGM.

The Company will convene the EGM for the purpose of, among other things, seeking the Independent Shareholders' approval for the Revised Annual Caps. YTO and its associates will abstain from voting on the resolution(s) in respect of the Revised Annual Caps at the EGM. At the EGM, votes will be taken by poll.

The Independent Board Committee will be established to give recommendations to the Independent Shareholders in respect of the Revised Annual Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Revised Annual Caps, (ii) a letter of recommendation from the Independent Board Committee, (iii) a letter of advice from the Independent Financial Adviser, and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 16 October 2014.

DEFINITIONS

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

“associate(s)”	has the same meaning as ascribed to this term under the Listing Rules;
“Board”	the board of Directors;
“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 and A shares of which are listed on the main board of the Stock Exchange (Stock Code: 0038) and the Shanghai Stock Exchange (Stock Code: 601038) respectively;
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules;
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules;

“Directors”	the directors of the Company, including the independent non-executive directors;
“EGM”	the extraordinary general meeting of the Company to be convened for the purposes of, among other things, seeking the Independent Shareholders’ approval for the Revised Annual Caps;
“Existing Annual Caps”	the annual caps for the continuing connected transaction under the Sale of Goods Agreement for the years ended 31 December 2013 and ending 31 December 2014 and 31 December 2015 as approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 20 December 2012, which were RMB120,000,000, RMB135,000,000 and RMB150,000,000, respectively;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors;
“Independent Financial Adviser”	Goldin Financial Limited, a licensed corporation under the Securities and Futures Ordinance licensed to carry on type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the proposed Revised Annual Caps;
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“percentage ratios”	has the same meaning as ascribed to this term under the Listing Rules, as application to a transaction;
“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;
“Revised Annual Caps”	the annual caps for the continuing connected transaction under the Sale of Goods Agreement for the years ending 31 December 2014 and 31 December 2015 as adjusted by the Board on 24 September 2014 subject to the approval of the Independent Shareholders at the EGM, which are RMB275,000,000 and RMB475,000,000, respectively;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale of Goods Agreement”	the sale of goods agreement dated 29 October 2012 entered into between the Company, on behalf of the Group, as supplier and/or supplying agent, and YTO, on behalf of YTO Group and the subsidiaries of Sinomach, as purchaser and/or purchasing agent, pursuant to which the Group agreed to supply and YTO Group and the subsidiaries of Sinomach agreed to purchase raw materials, spare parts, components, equipment and other necessary essentials;
“Shareholder(s)”	the shareholder(s) of the Company;
“Sinomach”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC and the ultimate controlling shareholder of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding 443,910,000 A shares of the Company;
“YTO Group”	YTO and its controlled companies/entities (the “ Relevant Parties ”) and/or the non-wholly owned subsidiaries of the Company in which the Relevant Parties has 10% or more voting rights; and
“%”	per cent.

By order of the Board
First Tractor Company Limited
YU Lina
Company Secretary

Luoyang, the PRC
24 September 2014

As at the date of this announcement, Mr. Zhao Yanshui is the Chairman of the Company and Mr. Wang Erlong is the vice Chairman of the Company. Other members of the Board are six Directors, namely, Mr. Yan Linjiao, Mr. Wu Zongyan, Mr. Wang Kejun, Mr. Guo Zhiqiang, Mr. Liu Jiguo and Mr. Wu Yong; and four independent non-executive Directors, namely, Mr. Hong Xianguo, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao.

* *For identification purposes only*