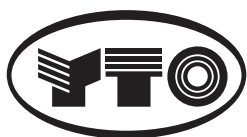

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in First Tractor Company Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



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)

CONTINUING CONNECTED TRANSACTIONS AND CHANGE OF AUDITORS

Independent financial adviser to the Independent Board Committee and the Independent Shareholders of First Tractor Company Limited in respect of the Continuing Connected Transactions



CMB International Capital Corporation Limited

A letter from the Board is set out on pages 1 to 16 of this circular.

A letter from the Independent Board Committee is set out on page 17 of this circular.

A letter from CMB International, the independent financial adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 39 of this circular.

A notice for convening an extraordinary general meeting ("EGM") of First Tractor Company Limited (the "**Company**") to be held at 9:00 a.m. on Tuesday, 22 December 2009 at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**") is set out on pages 44 to 46 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein and lodge the same with the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC (for holders of Domestic Shares), or the Company's H Share registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not less than 24 hours before the time scheduled for holding of the EGM (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

6 November 2009

* For identification purposes only

CONTENTS

	<i>Pages</i>
Definitions	ii
Letter from the Board	1
Introduction	1
Background and reasons for the Non-exempt CCT Transactions	3
Particulars of YTO Supply Agreements	3
Particulars of First Tractor Supply Agreement	5
Particulars of Financial Services Agreement	6
Historical Caps and transaction amounts	9
Basis of relevant Cap amounts	10
Change of auditors	15
EGM	15
Recommendations	16
Additional information	16
Letter from the Independent Board Committee	17
Letter from CMB International	18
Appendix — General information	40
Notice of EGM	44

DEFINITIONS

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

“associates”	has the same meaning as ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Cap(s)”	the maximum aggregate annual values for each of the Non-exempt CCT Transactions for each of the three years ending 31 December 2012
“China Machinery”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a wholly State-owned company incorporated in the PRC managed by the State-owned Assets Supervision and Administrative Commission of the PRC, the ultimate controlling shareholder of the Company and the controlling shareholder of YTO
“CMB International”	CMB International Capital Corporation Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
“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
“Composite Services Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to provide certain welfare and other services, including but not limited to storage services, transportation services, management services and other services to the Group
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules

DEFINITIONS

“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary shares of the Company of RMB 1.00 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”	an extraordinary general meeting of the Company to be convened on 22 December 2009 at 9:00 a.m. for the purpose of considering and approving each of the New Agreements and their respective proposed Cap amounts, and the change of the Company’s auditors
“Energy Supply Services Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to supply various kind of energy to the Group
“Financial Services”	the financial services provided by First Tractor Finance to YTO Group pursuant to the Financial Services Agreement
“Financial Services Agreement”	the agreement dated 21 October 2009 entered into between First Tractor Finance and YTO, on behalf of YTO Group, pursuant to which First Tractor Finance agreed to provide the Financial Services to YTO Group
“First Tractor Finance”	China First Tractor Group Finance Company Limited* (中國一拖集團財務有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“First Tractor Supply Agreement”	the material supply agreement dated 21 October 2009 entered into between the Company, on behalf of the Group, as supplier and/or supplying agent and YTO, on behalf of YTO Group, as purchaser and/or purchasing agent pursuant to which the Group agreed to supply certain materials to YTO Group

DEFINITIONS

“Group”	the Company and its subsidiaries
“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
“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, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, and Mr. Hong Xianguo
“Independent Shareholders”	Shareholders other than YTO and its associates
“Latest Practicable Date”	3 November 2009, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Material Supply Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to supply certain materials to the Group
“New Agreements”	Composite Services Agreement, Energy Supply Services Agreement, Material Supply Agreement, First Tractor Supply Agreement and Financial Services Agreement (as the context may require)

DEFINITIONS

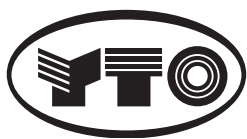
“New Land Lease Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which (i) YTO agreed to lease land use rights with a gross land area of approximately 852,067 sq.m. to the Company; (ii) YTO agreed to give the Group pre-emptive rights of leasing additional land use rights with a gross land area of no more than 150,000 sq.m.; and (iii) the existing land lease agreement shall cease to have effect from the effective date of the New Land Lease Agreement. The transaction contemplated under this agreement is a continuing connected transaction of the Company, which is exempt from independent shareholders’ approval requirements. Details of this agreement were announced in the Company’s announcement dated 21 October 2009
“Non-exempt CCT Transactions”	the transactions contemplated under the New Agreements
“Old Agreements”	the (i) composite services agreement, material supply agreement and energy supply services agreement, all dated 13 October 2006 entered into between YTO, on behalf of YTO Group, as supplier and supplying agent and the Company, on behalf of the Group, as purchaser; (ii) material supply agreement dated 13 October 2006 entered into between the Company, on behalf of the Group, as supplier and supplying agent and YTO, on behalf of YTO Group, as purchaser and purchasing agent; and (iii) financial services agreement dated 13 October 2006 entered into between First Tractor Finance and YTO, on behalf of YTO Group
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)

DEFINITIONS

“Share(s)”	share(s) of RMB1.00 each of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq. m.”	square metre
“State Price”	mandatory price of certain goods and services promulgated by the relevant governmental authorities of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“YTO Properties 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, pursuant to which YTO Group agreed to lease to the Group premises with a gross floor area of approximately 66,805 sq.m. and give the Group pre-emptive rights of leasing additional premises with a gross floor area of no more than 40,000 sq.m. The transaction contemplated under this agreement is a continuing connected transaction of the Company, which is exempt from independent shareholders’ approval requirements. Details of this agreement were announced in the Company’s announcement dated 21 October 2009
“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
“YTO Group”	YTO, its controlling shareholder and their respective 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
“YTO Supply Agreements”	Composite Services Agreement, Material Supply Agreement and Energy Supply Services Agreement
“%”	per cent

* *for identification purpose only*

LETTER FROM THE BOARD



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)

Board of Directors:

Mr. Liu Dagong (*Chairman*)

Ms. Dong Jianhong

Mr. Qu Dawei

Mr. Li Xibin

Mr. Zhao Yanshui

Mr. Yan Linjiao

Mr. Shao Haichen

Mr. Liu Yongle

Mr. Chan Sau Shan, Gary**

Mr. Luo Xiwen**

Mr. Hong Xianguo**

Registered and principal office:

No. 154 Jianshe Road

Luoyang

Henan Province

The PRC

** *Independent non-executive Director*

6 November 2009

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND CHANGE OF AUDITORS

INTRODUCTION

Continuing Connected Transactions

On 21 October 2009, the Company announced that on 21 October 2009, the Group entered into, among others, the New Agreements (for a period of three years commencing from 1 January 2010 to 31 December 2012) with YTO with a view to renewing the Old Agreements (which will expire on or about 31 December

* *For identification purposes only*

LETTER FROM THE BOARD

2009) so as to ensure the continued provision of goods and services such as material supply, energy supply and financial services, etc. to or from the Group in the light of its operation needs and the continuous corporate and/or business developments of the Group. Save for the effective period of each of the New Agreements, the terms and conditions of each of the New Agreements are similar to those in the respective Old Agreements.

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. Accordingly, the transactions contemplated under the New Agreements constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcements and independent shareholders' approval requirements under the Listing Rules. In view of the interests of YTO and its associates in the Non-exempt CCT Transactions, YTO and its associates will abstain from voting on the resolutions in relation to each of the New Agreements and their respective proposed Cap amounts at the EGM. At the EGM, votes will be taken by poll.

In addition, the Company is required to comply with the annual review requirements under Rules 14A.37 to 14A.41 of the Listing Rules in respect of each of the Non-exempt CCT Transactions.

Change of Auditors

UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Company Limited will be appointed as the Company's new International and PRC auditors for the financial year 2009 respectively. Ernst & Young and Ernst & Young Hua Ming have agreed to cease to act as the Company's International and PRC auditors respectively. The change of the above auditors will take effect upon the approval by the Shareholders at the EGM.

General

The purpose of this circular is (i) to provide you with information relating to each of the New Agreements and their respective proposed Cap amounts; (ii) to set out the letter of advice from the Independent Board Committee and the letter of advice from CMB International regarding the New Agreements and their respective proposed Cap amounts; (iii) to provide you with information relating to the change of the Company's auditors; and (iv) to give you notice of the EGM to be convened for the Independent Shareholders to approve each of New Agreements and their respective proposed Cap amounts, and for the Shareholders to approve the change of the Company's auditors.

LETTER FROM THE BOARD

BACKGROUND AND REASONS FOR THE NON-EXEMPT CCT TRANSACTIONS

The Group is principally engaged in the production and sale of agricultural machineries and construction machineries. First Tractor Finance, a subsidiary of the Company, is principally engaged in the provision of non-banking financial services. The raw materials, spare parts and components required by the Group for its production include metallurgical products such as steel, pig iron, waste steel, coke and other components such as tyres, etc. Certain raw materials and components used by the Group and all of the energy used for the Group's production are supplied by YTO Group. YTO Group also provides the Group with composite services such as welfare and security services, etc.

YTO Group is principally engaged in the production of transportation machineries, casting parts, vehicles products, spare parts and components, etc. Certain parts and components required by YTO Group such as diesel engines, fuel injection pump and fuel jet are supplied by the Group.

In view of the above operation needs, the Group previously entered into the Old Agreements with YTO Group, all of which will expire on or about 31 December 2009. As the transactions under the Old Agreements would directly affect the normal business operation of the Group, the New Agreements are entered into between YTO Group and the Group with a view to renewing the Old Agreements so as to ensure the continued provision of the above goods and services to or from the Group in the light of the above operation needs and the continuous corporate and business developments of the Group. Save for the effective period of each of the New Agreements, the terms and conditions of each of the New Agreements are similar to those in the respective Old Agreements.

In view of the above, the Directors consider that the New Agreements have been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the New Agreements are fair and reasonable and in the interests of the Shareholders and the Group as a whole.

PARTICULARS OF YTO SUPPLY AGREEMENTS

Date

21 October 2009

Period

From 1 January 2010 to 31 December 2012.

LETTER FROM THE BOARD

Parties

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

Goods and services to be provided/rendered:

Composite Services Agreement	certain welfare and other services, including but not limited to storage services, transportation services, fire prevention services, security services, management services such as legal consultancy, internal auditing, sales and marketing planning, and human resources management, administrative services for retired employees such as social insurance services, advertising and promotion services in relation to enterprise culture and image, public relation services such as provision of conference venue, re-employment services, ability testing services, communications and network services, landscaping and road services, and cleaning services, etc.
Material Supply Agreement	materials including but not limited to steel, pig iron, waste steel, coke, nonferrous metals, oil-bearing materials, equipments, spare parts, components and other necessary essentials for the relevant agricultural machineries, construction machineries, diesels engines and other industrial products.
Energy Supply Services Agreement	energy, including but not limited to electricity, gas, oxygen, water, heat, compressed air, acetylene, steam, etc.

Price

With respect to each of the YTO Supply Agreements, the price of the goods and services to be supplied or provided thereunder is determined with reference to:

- (a) the applicable State Price;
- (b) if there is no applicable State Price, then the market price;
- (c) if there are no applicable prices as mentioned in (a) and (b) above or the prices as mentioned in (a) or (b) above are not applicable, then costs plus a percentage mark-up.

In any event, the applicable price of the goods or services offered to the Group shall not be less favourable than that offered to independent third party customers of YTO Group for the same goods or services.

LETTER FROM THE BOARD

Payment terms

Composite Services Agreement	Storage services: shall be cleared quarterly and paid next month Transportation services: shall be cleared and paid monthly or in the following month Other services: shall be cleared and paid before the end of each accounting year
Material Supply Agreement	Shall be cleared and paid monthly or in the following month; subject to negotiations between the parties, prepayments of no more than 6 months are acceptable
Energy Supply Services Agreement	Shall be cleared and paid monthly; subject to negotiations between the parties, prepayments of no more than 6 months are acceptable

Conditions

Each of the YTO Supply Agreements shall become effective from 1 January 2010 subject to the approval by the Independent Shareholders at the EGM as required under the Listing Rules and, where applicable for the Energy Supply Services Agreement only, the approval by the relevant governmental authorities of the PRC.

PARTICULARS OF FIRST TRACTOR SUPPLY AGREEMENT

Date

21 October 2009

Period

From 1 January 2010 to 31 December 2012.

Parties

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

LETTER FROM THE BOARD

Goods to be provided

Raw materials, spare parts, components, equipments and other necessary essentials for the production of transportation machineries products, casting parts, vehicles products, spare parts, components and other industrial products.

Price

The applicable price is determined with reference to:

- (a) the applicable State Price;
- (b) if there is no applicable State Price, then the market price;
- (c) if there are no applicable prices as mentioned in (a) and (b) above or the prices mentioned in (a) or (b) above are not applicable, then costs plus a percentage mark-up.

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

Payment terms

The payment shall be cleared and made monthly or in the following month. Subject to negotiations between the parties, prepayments of no more than 6 months are acceptable.

Conditions

The First Tractor Supply Agreement shall become effective from 1 January 2010 subject to the approval by the Independent Shareholders at the EGM as required under the Listing Rules.

PARTICULARS OF FINANCIAL SERVICES AGREEMENT

Date

21 October 2009

Parties

- (1) First Tractor Finance, a subsidiary of the Company; and
- (2) YTO, on behalf of YTO Group.

LETTER FROM THE BOARD

Period

From 1 January 2010 to 31 December 2012.

Financial Services to be provided by First Tractor Finance to YTO Group

(a) Loan

First Tractor Finance will provide loans to YTO Group with interest rate determined with reference to the relevant interest rates set by the PBOC from time to time;

(b) Bills discounting

First Tractor Finance will provide bills discounting services to YTO Group, whereby First Tractor Finance will pay the face value of bills presented by YTO Group net of the discount interests with the discount rate determined with reference to the relevant discount rates set by the PBOC from time to time;

(c) Finance lease

First Tractor Finance will provide lease financing to YTO Group pursuant to which First Tractor Finance will purchase properties from parties other than the Group chosen by YTO Group and lease the properties to YTO Group for a one-off lease charge determined with reference to the costs of purchase of such properties, loan interest rate of banks (according to the interest rate determined with reference to the relevant interest rates set by the PBOC from time to time), insurance fees of such properties (with reference to the fee charged by the licensed insurance company in the PRC), and handling charges of approximately 1% to 3% of the lease amount;

(d) Bills acceptance

First Tractor Finance will provide bills acceptance services to YTO Group, whereby First Tractor Finance guarantees the payment of bills issued by YTO Group. In return, First Tractor Finance shall charge a one-off services fee of 0.05% of value of such bills with reference to the relevant service fees charged for the same or similar transactions by the same or similar industries in the PRC;

(e) Guarantee

First Tractor Finance will provide performance guarantee or credit guarantee for bank loans and other liabilities of YTO Group with a one-off service charge of approximately 0.5% to 1% of the guarantee amount with reference to the relevant service fees charged for the same or similar transactions by the same or similar industries in the PRC;

LETTER FROM THE BOARD

(f) *Designated loan*

First Tractor Finance will accept designated deposits placed by YTO Group or other parties, which are not connected persons within the meanings of the Listing Rules, and according to the decisions of YTO Group or such other parties on the designated target properties, properties' uses, loan amounts, duration and interest rate to release the loans to, monitor its use and assist its collection from the debtor parties, which may or may not be connected persons within the meanings of the Listing Rules. First Tractor Finance will charge a one-off service fee of 0.1% to 0.3% of the amount of designated deposits. Under this arrangement, First Tractor Finance does not bear any credit risks; and

(g) *Deposit Services*

First Tractor Finance will accept deposit from YTO Group with savings interest rate determined with reference to the relevant interest rates set by the PBOC from time to time. The deposit services to be provided constitute financial assistance provided by YTO Group, for the benefit of First Tractor Finance on normal commercial terms where no security over the assets of the Group is granted in respect of such financial assistance. This financial assistance is exempted from reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules.

Conditions

The Financial Services Agreement shall become effective on 1 January 2010 subject to the approval by the Independent Shareholders at the EGM as required under the Listing Rules.

Other financial services to be provided

Apart from the Financial Services mentioned above, First Tractor Finance will also provide the following financial services:

- (h) First Tractor Finance will provide lease financing to the parties which are not connected persons within the meanings of the Listing Rules (the "**Parties**"), pursuant to which First Tractor Finance will purchase the properties from YTO Group chosen by the Parties and lease the properties to the Parties for a one-off lease charge determined with reference to the costs of purchase of such properties, loan interest rate of banks (with the interest rate determined with reference to the relevant interest rates set by the PBOC from time to time), insurance fees of such properties (with reference to the fee charged by the licensed insurance company in the PRC) and handling charges of about 1% to 3% of the lease amount;

LETTER FROM THE BOARD

- (i) First Tractor Finance will also provide loans to the Parties for certain percentage of total consideration for purchasing YTO Group's products with interest rate determined with reference to the relevant interest rates set by the PBOC from time to time. Such financing will be reviewed and considered on a case-by-case basis having regard to the credit quality of such customers; and First Tractor Finance will accept deposit (including the time deposit, deposit with savings interest rate and also the transfer of fund within YTO Group) for YTO Group with savings interest rate determined with reference to the relevant interest rates set by the PBOC from time to time, the capital interest rate for the settlement account will be determined with reference to the current interest rates, i.e. the relevant interest rates set by the PBOC from time to time.

The financial services to be provided to the Parties under (h) and (i) do not constitute connected transactions under Listing Rules and therefore are not subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

HISTORICAL CAPS AND TRANSACTION AMOUNTS

The following table summarises the historical Cap amounts for each of the three years ending 31 December 2009 and their relevant historical transaction amounts for each of the Old Agreements (other than the old financial services agreement) for each of the two years ended 31 December 2008 and the eight months ended 31 August 2009:

	For the year ended 31 December 2007		For the year ended 31 December 2008		For the year ended 31 December 2009	For the eight months ended 31 August 2009
	Cap	Historical Transaction Amounts	Cap	Historical Transaction Amounts	Cap	Historical Transaction Amounts
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
YTO Supply Agreements						
— Composite Services Agreement	121,000	55,202	154,000	64,362	206,000	52,000
— Material Supply Agreement	963,000	707,260	1,227,000	889,152	1,646,000	780,000
— Energy Supply Services Agreement	321,000	109,356	409,000	124,438	549,000	68,000
First Tractor Supply Agreement	803,000	595,986	1,022,000	827,904	1,372,000	350,000

LETTER FROM THE BOARD

The following table summarises the historical Cap amounts for each of the three years ending 31 December 2009 and their relevant historical maximum outstanding amounts for each of the financial services under the old financial services agreement for each of the two years ended 31 December 2008 and the eight months ended 31 August 2009:

	For the year ended 31 December 2007		For the year ended 31 December 2008		For the year ended 31 December 2009	For the eight months ended 31 August 2009
	Cap	Maximum Outstanding	Cap	Maximum Outstanding	Cap	Maximum Outstanding
	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Old Financial Services Agreement						
— Loan	611,000	277,300	752,000	432,320	846,000	299,370
— Bills discounting	455,000	54,800	560,000	122,880	630,000	160,160
— Finance lease	109,200	0	134,300	25	151,100	25
— Bills acceptance	30,000	0	38,000	0	42,000	0
— Guarantee	416,000	0	510,000	9,000	570,000	0
— Designated loan	55,000	51,850	68,000	48,800	76,000	62,500

BASIS OF RELEVANT CAP AMOUNTS

The following table summarises the Cap amounts for each of the New Agreements (other than the Financial Services Agreement) for each of the three years ending 31 December 2012:

Year	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Composite Services Agreement	100,000	120,000	140,000
Material Supply Agreement	1,300,000	1,600,000	1,900,000
Energy Supply Services Agreement	200,000	240,000	300,000
First Tractor Supply Agreement	1,200,000	1,440,000	1,800,000

LETTER FROM THE BOARD

The following table summarises the maximum outstanding Cap amounts for each of the Financial Services under the Financial Services Agreement for each of the three years ending 31 December 2012:

Year	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial Services Agreement			
— Loan	550,000	660,000	810,000
— Bills discounting	300,000	360,000	440,000
— Finance lease	100,000	120,000	150,000
— Bills acceptance	50,000	100,000	200,000
— Guarantee	200,000	230,000	260,000
— Designated loan	120,000	150,000	180,000

Composite Services Agreement

The Cap amount for the Composite Services Agreement is determined on the basis that such amount will not exceed 1% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. The Cap amount, being set at approximately 1% of the estimated consolidated turnover, is based on (a) the historical transactions in the last two years (2007: approximately RMB55.20 million, 2008: approximately RMB64.36 million), which on average amounted to approximately 0.8% of the consolidated turnover of the Group; and (b) the increment of 0.2%, which was attributed from the net effect of (i) the increase in the gross land area to be leased by the Group from YTO Group by approximately 360,000 sq.m. and the pre-emptive rights to lease an additional gross land area of no more than 150,000 sq.m. from YTO Group pursuant to the New Land Lease Agreement, as well as the pre-emptive rights to lease an additional gross floor area of no more than 40,000 sq.m. from YTO Group pursuant to the YTO Properties Lease Agreement, both of which will become effective from 1 January 2010, which will lead to an increase in demand for some of the composite services including but not limited to the fire prevention and security services; (ii) the change in the provision of composite services, such as the addition of communications and network services; and (iii) the reorganization of the Group since 2007, including the formation of a joint venture in the PRC with China-Africa Development Fund Company Limited to invest and establish assembly factories and conduct sale of agricultural machineries and construction machineries to Africa, which will lead to an increase in the scale of operation of the Group, thus increasing the demand for composite services from YTO Group.

LETTER FROM THE BOARD

Material Supply Agreement

The Cap amount for the Material Supply Agreement is determined on the basis that such amount will be approximately 13% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. The Cap amount, being set at approximately 13% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions in the last two years (2007: approximately RMB707.26 million, 2008: approximately RMB889.15 million), which on average amounted to approximately 11% of the consolidated turnover of the Group; and (b) the increment of 2%, which was attributed from the net effect of (i) the change in the ultimate controlling shareholder of the Group in 2008 from Luoyang State-owned Assets Operation Company Limited to China Machinery, a state-owned group enterprise principally engaging in international trade, scientific research, construction and project contractor business focusing on machinery and electric products, which comprises of a number of member companies which requires the supply of materials from YTO Group; (ii) the modification of the product structure which includes the increase in the production of certain existing products and introduction of new products, which will therefore cause the increasing demand for the materials sourced from YTO Group; and (iii) the continuation of purchasing strategy of the Group, which aims at centralizing the purchase of materials through YTO Group in order to minimize the costs by bulk purchasing and to conduct materials purchase through YTO Group rather than third parties if such materials are available from YTO Group.

Energy Supply Services Agreement

The Cap amount for the Energy Supply Services Agreement is determined on the basis that such amount will not exceed 2% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. The Cap amount, being set at approximately 2% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions in the last two years (2007: approximately RMB109.36 million, 2008: approximately RMB124.44 million), which on average amounted to approximately 1.6% of the consolidated turnover of the Group; (b) the increment of 0.4%, which was attributed from the net effect of (i) the anticipated increase in coal price in the next three years in the PRC due to the integration of the coal industry in the PRC requesting for the closure of small-scale coal mines, which will lead to an increase in YTO Group's production cost of various kind of energy including gas, steam and heat and thus the selling price of the energy offered by YTO Group to the Group will increase; and (ii) the anticipated change in the structure of production, in particular, some processes such as purchasing parts from other parties in the past will become self-produced by the Company in the future in order to improve the quality of products and lower the costs.

LETTER FROM THE BOARD

First Tractor Supply Agreement

The Cap amount for the First Tractor Supply Agreement is determined on the basis that such amount will not exceed 12% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. The Cap amount, being set at approximately 12% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions in the last two years (2007: approximately RMB595.99 million, 2008: approximately RMB827.90 million), which on average amounted to approximately 9% of the consolidated turnover of the Group; and (b) the increment of 3%, which was attributed from the net effect of (i) the anticipated growth in the turnover of YTO Group; and (ii) the change in the ultimate controlling shareholder of the Group in 2008 from Luoyang State-owned Assets Operation Company Limited to China Machinery, a state-owned group enterprise principally engaging in international trade, scientific research, construction and project contractor business focusing on machinery and electric products, which comprises of a number of member companies which requires the supply of materials from the Group.

Financial Services Agreement

The proposed Cap amounts for the Financial Services provided under the Financial Services Agreement are determined after considering the following factors:

- (a) the financial resources of First Tractor Finance;
- (b) credit policy of First Tractor Finance;
- (c) the future growth and development of YTO Group; and
- (d) the past financial transactions which YTO Group has undertaken.

In particular, the relevant Cap amounts for each of the Financial Services are calculated as below:

Designated loan

The calculation of the Cap amount for designated loans is determined with reference to (i) the amount of designated loan made by financial institutions other than First Tractor Finance, which amounted to approximately RMB80 million as at 31 August 2009, due to the limitation of the historical cap amount set for the relevant services; and (ii) the anticipated increase in the amount of designated loan to be made to the subsidiaries of YTO, due to the anticipated growth in the turnover of YTO Group, to finance its business by using YTO's designated deposits with First Tractor Finance.

LETTER FROM THE BOARD

Financial Services other than the designated loan

Financial Services other than designated loan will be based on the percentage of increase in the total asset value of First Tractor Finance for each relevant year. The estimated total asset of First Tractor Finance is approximately RMB1,500 million, RMB1,800 million and RMB2,200 million respectively for each of the three years ending 31 December 2012, taking into account the historical growth trend of its business as well as its future business prospects. The percentages for each of the Financial Services over the total asset value of First Tractor Finance for each of the three years ending 31 December 2012 are as follows: loan (36.67%, 36.67%, 36.82%), bills discounting (20.00%, 20.00%, 20.00%), finance lease (6.67%, 6.67%, 6.82%), bills acceptance (3.33%, 5.56%, 9.09%) and guarantee (13.33%, 12.78%, 11.82%).

RELATIONSHIPS BETWEEN PARTIES AND THE LISTING RULES IMPLICATIONS

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. Accordingly, the transactions contemplated under the New Agreements constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcements and independent shareholders' approval requirements under the Listing Rules. In view of the interests of YTO and its associates in the Non-exempt CCT Transactions, YTO and its associates will abstain from voting on the resolutions in relation to each of the New Agreements and their respective proposed Cap amounts at the EGM. At the EGM, votes will be taken by poll.

In addition, the Company is required to comply with the annual review requirements under Rules 14A.37 to 14A.41 of the Listing Rules in respect of each of the Non-exempt CCT Transactions.

LETTER FROM THE BOARD

CHANGE OF AUDITORS

Pursuant to the uniform managerial requirements and the relevant regulations promulgated by the State-owned Assets Supervision and Administration Commission of State Council of the PRC and the request from the Company's ultimate controlling shareholder, China Machinery, the Company is required to appoint UHY Vocation HK CPA Limited and Vocation International Certified Public Accountants Company Limited as the Company's International and PRC auditors for the financial year 2009 respectively.

Accordingly, Ernst & Young and Ernst & Young Hua Ming have agreed to cease to act as the Company's International and PRC auditors respectively. Resolutions regarding the above change of the Company's auditors will be proposed at the EGM for Shareholders' consideration and approval. The change of the above auditors will take effect upon the approval by the Shareholders at the EGM.

Ernst & Young and Ernst & Young Hua Ming have confirmed that there is no disagreement between the Board, Ernst & Young and Ernst and Young Hua Ming on the above change and there are no other matters which need to be brought to the attention of the Shareholders.

EGM

The EGM will be held on at 9:00 a.m. on Tuesday, 22 December 2009 at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC for the purpose of considering, and if thought fit, approving the New Agreements and their respective proposed Cap amounts, as well as the change of the Company's auditors. A notice of the EGM is set out on pages 44 to 46 of this circular.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions contained therein and lodge the same with the Company's registered address at No.154 Jianshe Road, Luoyang, Henan Province, the PRC (for holders of Domestic Shares), or the Company's H Share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not less than 24 hours before the time scheduled for holding of the EGM (or any adjourned meeting thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

LETTER FROM THE BOARD

RECOMMENDATIONS

CMB International has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to each of the New Agreements and their respective proposed Cap amounts. The text of the letter of advice from CMB International to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 39 of this circular.

The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of each of the New Agreements and their respective proposed Cap amounts, is also set out on page 17 of this circular.

The Board considers that each of the New Agreements and their respective proposed Cap amounts are in the interests of the Company and the Shareholders and that the terms and conditions of each of the New Agreements are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM for approving each of the New Agreements and their respective proposed Cap amounts as set out in the notice of the EGM.

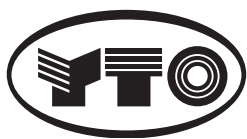
The Board considers that the change of the auditors of the Company is in the interests of the Company and the Shareholders as a whole and therefore recommends all Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of
First Tractor Company Limited
Liu Dagong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

6 November 2009

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to give our advice on the YTO Supply Agreements, First Tractor Supply Agreement and Financial Services Agreement and their respective proposed Cap amounts, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 6 November 2009 (the “**Circular**”), of which this letter forms a part. Terms used herewith shall have the same meanings as those defined in the Circular unless the context otherwise requires.

CMB International has been appointed as the independent financial adviser to advise us regarding the YTO Supply Agreements, First Tractor Supply Agreement and Financial Services Agreement and their respective proposed Cap amounts. The letter from CMB International is set out on pages 18 to 39 of the Circular.

Having considered the terms and conditions of the YTO Supply Agreements, First Tractor Supply Agreement and Financial Services Agreement and their respective proposed Cap amounts, the advice given by CMB International and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that each of the YTO Supply Agreements, First Tractor Supply Agreement and Financial Services Agreement and their respective proposed Cap amounts are in the interests of the Company and the Shareholders as a whole, and the terms and conditions of the YTO Supply Agreements, First Tractor Supply Agreement and Financial Services Agreement are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the YTO Supply Agreements, First Tractor Supply Agreement and Financial Services Agreement and their respective proposed Cap amounts.

Yours faithfully,
Independent Board Committee

Mr. Chan Sau Shan, Gary
*Independent non-executive
Director*

Mr. Luo Xiwen
*Independent non-executive
Director*

Mr. Hong Xianguo
*Independent non-executive
Director*

* *For identification purposes only*

LETTER FROM CMB INTERNATIONAL

The following is the text of the letter of advice from CMB International to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



CMB International Capital Corporation Limited

18th Floor, Bank of America Tower
Harcourt Road, Hong Kong

6 November 2009

First Tractor Company Limited
No.154 Jianshe Road
Luoyang
Henan Province
The PRC

To the Independent Board Committee and the Independent Shareholders of First Tractor Company Limited

Dear Sirs,

NON-EXEMPT CCT TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Transactions and the Caps. Details of the Non-exempt CCT Transactions and the Caps are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 6 November 2009 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether or not (i) the Non-exempt CCT Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; (ii) the Caps have been determined on a fair and reasonable basis; and (iii) it would be fair and reasonable for the Independent Shareholders to approve the New Agreements and the Caps. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

LETTER FROM CMB INTERNATIONAL

In formulating our advice and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions expressed, by the Company, its Directors and its management to us. We have also assumed that all statements of belief and intention made by the Directors in the Circular were made after due enquiry. We have assumed that all information, representations and opinion made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, its Directors and its management and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Group or YTO Group nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, its Directors and its management.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Non-exempt CCT Transactions and the Caps, we have considered the following principal factors and reasons:

I. Background of the Company and the Non-exempt CCT Transactions

The Group is principally engaged in the production and sale of agricultural machineries and construction machineries. The raw materials, spare parts and components required by the Group for its production include metallurgical products such as steel, pig iron, waste steel, coke and other components such as tyres, etc. Certain raw materials and components used by the Group and all of the energy used for the Group's production are supplied by YTO Group. YTO Group also provides the Group with composite services (such as welfare and security services, etc.). Further, certain factory buildings and facilities used by the Group are leased from YTO Group.

LETTER FROM CMB INTERNATIONAL

First Tractor Finance, a subsidiary of the Company and a licensed financial institution in the PRC subject to rules and regulation set by China Banking Regulatory Commission. As stated in its financial institution license issued by China Banking Regulatory Commission, First Tractor Finance's scope of business comprises, among others, the provision of non-banking financial services to the Group and YTO Group.

YTO Group is principally engaged in the production of transportation machineries, casting parts, vehicles products, spare parts and components, etc. Certain parts and components required by YTO Group such as diesel engines, fuel injection pump and fuel jet are supplied by the Group. In addition, certain factories for housing the casting facilities are also leased from the Group.

As the Old Agreements will be expired on or about 31 December 2009, the Group entered into the New Agreements with YTO on 21 October 2009 with a view to renewing the Old Agreements so as to ensure the continued provision of the above mentioned goods and services in the light of the above operation needs and the continuous operations and the business development of the Group and YTO Group.

YTO beneficially owns approximately 52.48% of the issued share capital of the Company, and is the controlling Shareholder. Thus, YTO Group and its associates are regarded as connected persons of the Company under the Listing Rules. Accordingly, the Non-exempt CCT Transactions and the Caps constitute continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and announcements requirements under the Listing Rules and the approval of the Independent Shareholders at the EGM. In this connection, we have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether or not (i) the Non-exempt CCT Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; (ii) the Caps have been determined on a fair and reasonable basis; and (iii) it would be fair and reasonable for the Independent Shareholders to approve the New Agreements and the Caps.

LETTER FROM CMB INTERNATIONAL

II. Subject matter of the New Agreements

As stated in the Letter from the Board, subject matter of the New Agreements are set out below:

(i) *The YTO Supply Agreements*

The YTO Supply Agreements are entered into between YTO (on behalf of YTO Group) as supplier and/or supplying agent and the Company (on behalf of the Group) as purchaser and/or purchasing agent. The YTO Supply Agreements comprise three agreements, namely the Composite Services Agreement, the Material Supply Agreement and the Energy Supply Services Agreement, pursuant to which the following goods and services will be provided/rendered by YTO Group to the Group from 1 January 2010 to 31 December 2012:

Composite Services Agreement

Certain welfare and other services, including but not limited to storage services, transportation services, fire prevention services, security services, management services such as legal consultancy, internal auditing, sales and marketing planning, and human resources management, administrative services for retired employees such as social insurance services, advertising and promotion services in relation to enterprise culture and image, public relation services such as provision of conference venue, re-employment services, ability testing services, communications and network services, landscaping and road services and cleaning services, etc.

Material Supply Agreement

Materials including but not limited to steel, pig iron, waste steel, coke, nonferrous metals, oil-bearing materials, equipments, spare parts, components and other necessary essentials for the relevant agricultural machineries, construction machineries, diesels engines and other industrial products.

Energy Supply Services Agreement

Energy, including but not limited to electricity, gas, oxygen, water, heat, compressed air, acetylene, steam, etc.

LETTER FROM CMB INTERNATIONAL

(ii) *The First Tractor Supply Agreement*

The First Tractor Supply Agreement is entered into between the Company (on behalf of the Group) as supplier and/or supplying agent and YTO (on behalf of YTO Group) as purchaser and/or purchasing agent. Pursuant to the First Tractor Supply Agreement, raw materials, spare parts, components, equipments and other necessary essentials for the production of transportation machineries products, casting parts, vehicles products, spare parts, components and other industrial products will be provided by the Group to YTO Group from 1 January 2010 to 31 December 2012.

(iii) *The Financial Services Agreement*

The Financial Services Agreement is entered into between First Tractor Finance and YTO (on behalf of YTO Group), pursuant to which First Tractor Finance will provide the following Financial Services to YTO Group from 1 January 2010 to 31 December 2012:

Loan

First Tractor Finance will provide loans to YTO Group with interest rate determined with reference to the relevant interest rates set by the PBOC from time to time.

Bills discounting

First Tractor Finance will provide bills discounting services to YTO Group, whereby First Tractor Finance will pay the face value of bills presented by YTO Group net of the discount interests with the discount rate determined with reference to the relevant discount rates set by the PBOC from time to time.

Finance lease

First Tractor Finance will provide lease financing to YTO Group pursuant to which First Tractor Finance will purchase properties from parties other than the Group chosen by YTO Group and lease the properties to YTO Group for a one-off lease charge determined with reference to the costs of purchase of such properties, loan interest rate of banks (according to the interest rate determined with reference to the relevant interest rates set by the PBOC from time to time), insurance fees of such properties (with reference to the fees charged by the licensed insurance company in the PRC) and handling charges of approximately 1% to 3% of the lease amount.

LETTER FROM CMB INTERNATIONAL

Bills acceptance

First Tractor Finance will provide bills acceptance services to YTO Group, whereby First Tractor Finance guarantees the payment of bills issued by YTO Group. In return, First Tractor Finance shall charge a one-off services fee of 0.05% of value of such bills with reference to the relevant service fees charged for the same or similar transactions by the same or similar industries in the PRC.

Guarantee

First Tractor Finance will provide performance guarantee or credit guarantee for bank loans and other liabilities of YTO Group with a one-off service charge of approximately 0.5% to 1% of the guarantee amount with reference to relevant service fees charged for the same or similar transactions by the same or similar industries in the PRC.

Designated loan

First Tractor Finance will accept designated deposits placed by YTO Group or other parties, which are not the connected persons within the meanings of the Listing Rules, and according to the decisions of YTO Group or such other parties on the designated target properties, properties' uses, loan amounts, duration and interest rate to release the loans to, monitor its use and assist its collection from the debtor parties, which may or may not be connected persons within the meanings of the Listing Rules. First Tractor Finance will charge a one-off service fee of about 0.1% to 0.3% of the amount of designated deposits. Under this arrangement, First Tractor Finance does not bear any credit risks.

Deposit Services

First Tractor Finance will accept deposit from YTO Group with savings interest rate determined with reference to the relevant interest rates set by the PBOC from time to time.

III. Reasons for and benefits of the Non-exempt CCT Transactions

As mentioned in the Letter from the Board, as the transactions under the Old Agreements would directly affect the normal business operation of the Group, the New Agreements were entered into between YTO and the Group on 21 October 2009 with a view to renewing the Old Agreements and to ensure the continued provision of such goods and services.

(i) *The YTO Supply Agreements*

As advised by the Directors, the Company relies on YTO Group for the provision of goods and services under the YTO Supply Agreements owing to (a) regarding the Composite Services Agreement and the Materials Supply Agreement, certain goods and services are believed by the Directors not to be readily obtained from any other suppliers given the special features of those goods and services or are not to be readily obtained from other suppliers at similar or even lower cost; and (b) regarding the Energy Supply Services Agreement, the Company has its energy supply network connected to YTO Group only and the rebuilding of the energy supply network will be costly and lead to suspension of the operation of the Group. The Directors advised that the YTO Supply Agreements facilitate smooth and economic operation of the Group and ensure a more stable source for goods and services. We concur with the view of the Directors in these regards.

(ii) *The First Tractor Supply Agreement*

As advised by the Directors, certain raw materials, facilities and components used by the Group in its production and certain spare parts produced by the Group can also be used in the production of YTO Group. By entering into the First Tractor Supply Agreement, the Group and YTO Group can enjoy cost effectiveness and the Group can enhance the utilization of production capacity of the Group and generate revenue. We concur with the view of the Directors in these regards.

(iii) *The Financial Services Agreement*

Based on the First Tractor Finance's registered capital of RMB500 million and that First Tractor Finance shall provide the Financial Services not exceeding the Caps, the capital adequacy ratio of First Tractor Finance will not be less than 54%, 53% and 54% in 2010, 2011 and 2012 respectively, which is substantially higher than the minimum capital adequacy ratio of 10% imposed by China Banking Regulatory Commission. The high level of First Tractor Finance's capital adequacy ratio indicates a low level of credit risk associated with its lending exposure which is in the interest of the Group. Thus the Financial Services Agreement enhances the utilization of the resources of First Tractor Finance and generates revenue for the Group.

LETTER FROM CMB INTERNATIONAL

Based on the foregoing, we consider that (a) the goods and services to be provided to the Group under the YTO Supply Agreements are either not replaceable or not cost effective to be replaceable; (b) the goods to be provided by the Group under the First Tractor Supply Agreement can enhance cost effectiveness of the Group and generate revenue to the Group; and (c) the Financial Services to be provided by the Group can enhance the utilization of the resources of First Tractor Finance and generate revenue to the Group. As such, we are of the view that it is reasonable for the Group to enter into the Non-exempt CCT Transactions and the New Agreements have been entered into in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

IV. Basis of price determination of the Non-exempt CCT Transactions

The basis of price determination of the Non-exempt CCT Transactions are set out below:

(i) *The YTO Supply Agreements*

As stated in the Letter from the Board, the prices of the goods and services under the YTO Supply Agreements are determined by reference to (a) the applicable State Price; (b) if there is no applicable State Price for any such goods or services, then the market price; (c) if there are no applicable prices for any such goods and services as mentioned in (a) and (b) above or the prices as mentioned in (a) or (b) above are not applicable, then costs plus a percentage mark-up. Furthermore, it is also stated in the YTO Supply Agreements that, in any event, the applicable price of the goods or services offered to the Group shall not be less favourable than that offered to independent third party customers of YTO Group for the same goods or services. On the other hand, we noted that the payment terms of the YTO Supply Agreements are different according to their respective services/products nature. Most of them are on monthly or quarterly settlement basis, for example, transportation, storage and energy services. We have reviewed the relevant payment slips for the relevant services and noted that such payments were in line with the payment terms as stipulated under the YTO Supply Agreements. Thus, we consider that the payment terms are normal and acceptable. In view of the above, we consider that the YTO Supply Agreements are on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM CMB INTERNATIONAL

(ii) *The First Tractor Supply Agreement*

As stated in the Letter from the Board, the prices of the goods under the First Tractor Supply Agreement are determined by reference to (a) the applicable State Price; (b) if there is no applicable State Price for any such goods, then the market price; (c) if there are no applicable prices for any such goods as mentioned in (a) and (b) above or the prices as mentioned in (a) or (b) above are not applicable, then costs plus a percentage mark-up. Furthermore, it is stated in the First Tractor Supply Agreements that, in any event, the applicable price of the materials offered to YTO Group by the Group shall not be more favourable than the price offered to independent third party customers of the Group. On the other hand, the payment terms of the First Tractor Supply Agreement are on monthly basis or settled in next month. As advised by the Directors, such payment terms are in line with the credit policy of the Group. We have also reviewed the relevant payments slips for the relevant goods and noted that such payments were in line with the payment terms as stipulated under the First Tractor Supply Agreement. In view of the above, we consider that the First Tractor Supply Agreement is on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

(iii) *The Financial Services Agreement*

As advised by the Directors, the interest rate of each of the Financial Services is determined with reference to the relevant interest rate set by the PBOC from time to time and the services fee of each of the Financial Services is determined with reference to the fees charged by other licensed financial institutions in the PRC on transactions of similar nature. In this regard, we have reviewed (a) relevant notices dispatched by China Banking Regulatory Commission regarding interest rates for loan, bills discounting and finance lease; and (b) the fees charged by other licensed financial institutions in the PRC of similar nature for finance lease, bills acceptance, guarantee and designated loan services. Based on reviewing the above documents, we note that the interest rates under the Financial Services Agreement are determined with reference to the relevant interest rates set by the PBOC from time to time and the services fees under the Financial Services Agreement are determined with reference to the fees charged by other licensed financial institutions in the PRC on transactions of similar nature. As such, we consider that the Financial Services Agreement is on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM CMB INTERNATIONAL

V. Basis of the Caps

The following table summarises the historical caps amount for each of the three years ending 31 December 2009 and the proposed Caps for each of the three years ending 31 December 2012:

	Historical caps			Proposed Caps		
	2007	2008	2009	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
YTO Supply Agreements						
— Composite Services Agreement	121,000	154,000	206,000	100,000	120,000	140,000
— Material Supply Agreement	963,000	1,227,000	1,646,000	1,300,000	1,600,000	1,900,000
— Energy Supply Services Agreement	321,000	409,000	549,000	200,000	240,000	300,000
First Tractor Supply Agreement	803,000	1,022,000	1,372,000	1,200,000	1,440,000	1,800,000
Financial Services Agreement						
— Loan	611,000	752,000	846,000	550,000	660,000	810,000
— bills discounting	455,000	560,000	630,000	300,000	360,000	440,000
— finance lease	109,200	134,300	151,100	100,000	120,000	150,000
— bills acceptance	30,000	38,000	42,000	50,000	100,000	200,000
— guarantee	416,000	510,000	570,000	200,000	230,000	260,000
— designated loan	55,000	68,000	76,000	120,000	150,000	180,000

LETTER FROM CMB INTERNATIONAL

(i) *The YTO Supply Agreements and the First Tractor Supply Agreement*

As stated in the Letter from the Board, the Caps for the YTO Supply Agreements and the First Tractor Supply Agreement are calculated as below:

(a) *The YTO Supply Agreements*

Composite Services Agreement

The Cap amount for the Composite Services Agreement is determined on the basis that such amount will not exceed 1% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. We noted that, the Cap amount, being set at approximately 1% of the estimated consolidated turnover, is based on (a) the historical transactions in the last two years (2007: RMB55.20 million, 2008: RMB64.36 million), which on average amounted to approximately 0.8% of the consolidated turnover of the Group; and (b) the increment of 0.2%, which was attributed from the net effect of (i) the increase in the gross land area to be leased by the Group from YTO Group by approximately 360,000 sq.m. and the pre-emptive right to lease an additional gross land area of no more than 150,000 sq.m. from YTO Group pursuant to the New Land Lease Agreement, as well as the pre-emptive rights to lease an additional gross floor area of no more than 40,000 sq.m. from YTO Group pursuant to the YTO Properties Lease Agreement, both of which will become effective from 1 January 2010, which will lead to an increase in demand for some of the composite services including but not limited to the fire prevention and security services; (ii) the change in the provision of composite services, such as the addition of communications and network services; and (iii) the reorganization of the Group since 2007, including the formation of a joint venture in the PRC with China-Africa Development Fund Company Limited to invest and establish assembly factories and conduct sale of agricultural machineries and construction machineries to Africa which will lead to an increase in the scale of operation of the Group, thus increasing the demand for composite services from YTO Group. In view of the above, we concur with the view of the Directors that the reorganization of the Group since 2007 will lead to an increase in demand for the services as stipulated under the Composite Services Agreement.

Material Supply Agreement

The Cap amount for the Material Supply Agreement is determined on the basis that such amount will be approximately 13% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. We noted that, the Cap amount, being set at approximately 13% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions in the last two years (2007: approximately RMB707.26 million, 2008: approximately RMB889.15 million), which on average amounted to approximately 11% of the consolidated turnover of the Group; and (b) the increment of 2%, which was attributed from the net effect of (i) the change in the ultimate controlling shareholder of the Group in 2008 from Luoyang State-owned Assets Operation Company Limited to China Machinery, a state-owned group enterprise principally engaging in international trade, scientific research, construction and project contractor business focusing on machinery and electric products, which comprises of a number of member companies which requires the supply of materials from YTO Group; (ii) the modification of the product structure which includes the increase in the production of certain existing products and introduction of new products which will therefore cause the increasing demand for the materials sourced from YTO Group; and (iii) the continuation of purchasing strategy of the Group, which aims at centralizing the purchase of materials through YTO Group in order to minimize the costs by bulk purchasing and to conduct materials purchase through YTO Group rather than third parties if such materials are available from YTO Group.

Energy Supply Services Agreement

The Cap amount for the Energy Supply Services Agreement is determined on the basis that such amount will not exceed 2% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. We noted that, the Cap amount, being set at approximately 2% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions in the last two years (2007: approximately RMB109.36 million, 2008: approximately RMB124.44 million), which on average amounted to approximately 1.6% of the consolidated turnover of the Group; (b) the increment of 0.4%, which was attributed from the net effect of (i) the anticipated increase in coal price in the next three years in the PRC due to the integration of the coal industry in the PRC requesting for the closure of the small-scale coal mines, which will lead to an increase in YTO Group's production cost of various kind of energy including gas, steam and heat and thus the selling price of the energy offered by YTO Group to the Group will increase; and (ii) the anticipated change in the structure of production, in particular, some processes such as purchasing parts from other parties in the past will become self-produced by the Company in the future in order to improve the quality of products and lower the costs.

LETTER FROM CMB INTERNATIONAL

(b) *The First Tractor Supply Agreement*

The Cap amount for the First Tractor Supply Agreement is determined on the basis that such amount will not exceed 12% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2012. The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. We noted that, the Cap amount, being set at approximately 12% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions in the last two years (2007: approximately RMB595.99 million, 2008: approximately RMB827.90 million), which on average amounted to approximately 9% of the consolidated turnover of the Group; and (b) the increment of 3%, which was attributed from the net effect of (i) the anticipated growth in the turnover of YTO Group; and (ii) the change in the ultimate controlling shareholder of the Group in 2008 from Luoyang State-owned Assets Operation Company Limited to China Machinery, a state-owned group enterprise principally engaging in international trade, scientific research, construction and project contractor business focusing on machinery and electric products, which comprises of a number of member companies which requires the supply of materials from the Group.

As mentioned above, the basis of the Caps for the YTO Supply Agreements and the First Tractor Supply Agreement for each of the three years ending 31 December 2012 is fixed at a percentage of the estimated turnover of the Group for the respective year.

Estimated turnover

The estimated consolidated turnover of the Group is estimated with reference to the future growth and development of the Group according to the industry development, market share, capacity and business strategy of the Group. We have discussed the assumptions underlying the Directors' estimation for the growth of turnover of the Group for the respective years. We noted that the estimation has, in particular, taken into account (a) the historical annual growth rate in the turnover of the Group for the past three financial years were approximately 28.02%, 11.04% and 11.70% respectively, as a result of the increased production capacity and sales volume of heavy horsepower tractor and the continued enhancement of international sales network.; (b) the unaudited turnover of the Group for the six months ended 30 June 2009; (c) the business plan of the Group for the three financial years ending 31 December 2012 in which the product structure and sales network will be optimized and integrated to meet the rapid increasing demand of agricultural machineries in some new markets inland and abroad; (d) the investment plan in the coming years to improve production capacity of heavy horsepower tractor and diesel engines which the Directors consider that it is a huge market to be developed; e) the favorable policies of the PRC government to make the subsidy for the purchase of agricultural machinery is on a continuous rising trend for the past several years. For the above (d) mentioned investment plan, we have reviewed such plan. The underlying assumption of such plan are based on the overall development trend of mechanical tractors industry, the policy of《農業機械化「十一五」計劃》(the Agricultural Mechanization in Eleventh- five Plan) issued by the Agriculture Department of the PRC government in August 2006 as well as the forecast demand of heavy horsepower tractors conducted by (i) the strategic planning department of China Machinery; (ii) the strategic planning department of YTO; (iii) the Third Machinery Industry of Design and Research Institute (機械工業第三設計研究院) and (iv) the Fourth Machinery Industry of Design and Research Institute (機械工業第四設計研究院) . In view of the above, we consider that the investment plan has been made with due care and objectivity and fair and reasonable. In addition, we noted from the《農業機械化「十一五」計劃》(the Agricultural Mechanization in Eleventh- five Plan) that it is the plan of the PRC government that the percentage of agricultural mechanization should be increased from 36% to 45%. Accordingly, we concur with the view of the Directors that it is huge market for heavy horsepower tractors and diesel engines.

LETTER FROM CMB INTERNATIONAL

For the above (e) mentioned subsidy, the favorable policy is referring to 《中華人民共和國農業機械化促進法》(Law of the PRC concerning the encouragement of Agricultural Mechanization) issued by the Agriculture Department of the PRC government in June 2004. According to such law, the PRC government should make subsidy to the farmers or farm-operators for their purchase of agricultural machineries. We further noted the figures from the Agriculture Department of the PRC government that the subsidy for the purchase of agricultural machineries amounted to approximately RMB 70 million, RMB 300 million, RMB 600 million, RMB 1,200 million and RMB 4,000 million for each of the five years 2004 to 2008. In view of the above, we consider that these assumptions of the estimated consolidated turnover of the Group have been made with due care and objectivity.

Level of percentage

We have enquired with and were advised by the Directors that there are principal factors, among others, in determining the level of percentage against the turnover of the Group for the Caps for the three years ending 31 December 2012, namely the historical transactions in the last two years, the modification of product structure and the optimization and integration of sales network to meet rapid market growth and the change of ultimate controlling shareholder of the Group (the “**Reorganization**”).

As advised by the Directors, the Reorganization refers to i) the change in the ultimate controlling shareholder of the Group from Luoyang Stated-owned Assets Operation Company Limited to China Machinery, a stated-owned group enterprise principally engaging in international trade, scientific research, construction and project contractor business focusing on machinery and electric products, which comprises of a number of member companies which requires the supply of materials from the Group; and ii) the formation of a joint venture in the PRC with China-Africa Development Fund Company Limited since 2007, to invest and establish assembly factories and conduct sale of agricultural machineries and construction machineries to Africa which will lead to an increase in the scale of operation of the Group, thus increasing the demand of composite services from YTO Group.

LETTER FROM CMB INTERNATIONAL

Based on the above, we consider that the Caps for the YTO Supply Agreements and the First Tractor Supply Agreement for each of three years ending 31 December 2012 are made by the Directors after due care and consideration and objectively. As such, we consider that the factors stated above can justify the Caps for the YTO Supply Agreements and the First Tractor Supply Agreement for the years of 2010 to 2012 and the increase in such Caps as compared to the historical caps for the YTO Supply Agreements and the First Tractor Supply Agreement for the years of 2007 to 2009 and the Caps for the YTO Supply Agreements and the First Tractor Supply Agreement have been determined on a fair and reasonable basis.

(ii) *The Financial Services Agreement*

As advised by the Directors, the Caps for the Financial Services Agreement are determined after considering the following factors:

(a) *The financial resources of First Tractor Finance*

According to its business license, First Tractor Finance's scope of business mainly comprises, among other things, the provision of non-banking financial services to the Group and YTO Group. Pursuant to the relevant regulations set by China Banking Regulatory Commission, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the capital adequacy ratio of not less than 10%. Based on the registered capital of RMB500 million of First Tractor Finance and that First Tractor Finance shall provide the Financial Services not exceeding the annual Caps, First Tractor Finance sets its capital adequacy ratio at not less than 54%, 53% and 54% in 2010, 2011 and 2012 respectively which is much higher than the 10% threshold set by China Banking Regulatory Commission. In considering whether the projected capital adequacy ratio of First Tractor Finance is justifiable and in the interest of the Company and the Shareholders, we have taken into account the standard set by China Banking Regulatory Commission as well as utilization of resources of the Company. In this regard, we consider that (aa) the respective projected capital adequacy ratios for each of the the three years ending 2012 are above the 10% threshold set by China Banking Regulatory Commission, which risk level is acceptable to the Company and the Shareholders; and (bb) based on the available resources of First Tractor Finance, to maintain an appropriate adequacy level means that financing and financial services have been provided in a low risk manner, and hence better utilization of resources under acceptable risk level. Therefore, the respective capital adequacy ratio is justifiable and in the interest of the Company and the Shareholders.

LETTER FROM CMB INTERNATIONAL

(b) *The credit policy of First Tractor Finance*

As advised by the Directors, First Tractor Finance has sufficient resources to provide the Financial Services at the amount over the Caps for the Financial Services Agreement as set out above. However, in order to further safeguard its financial condition and to better manage its credit risks, in addition to comply with the relevant regulations set by China Banking Regulatory Commission, First Tractor Finance has implemented certain stricter internal control policies including, among other things, (i) a capital adequacy ratio higher than the 10% threshold set by China Banking Regulatory Commission; and (ii) restrictions in respect of assets and liabilities composition, liquidity, assets and loans quality in accordance with guidelines issued by China Banking Regulatory Commission. We consider these internal control policies are fair, reasonable and justifiable and serve the purpose of protecting the interest of the Company and the Shareholders as a whole.

(c) *The future growth and development of YTO Group*

As advised by the Directors, YTO Group's business is expected to continue to grow for the three years ending 31 December 2012. The Directors have provided us the projected turnover of YTO Group and we have discussed the assumptions underlying the projected growth of the turnover of YTO Group. In addition, as advised by the Directors, due to YTO's strong capacity of casting and parts production, engineering vehicles business concerning casting and parts production will be its one of the major business development areas in the coming years and hence, enhance the turnover of YTO Group. In view of the above, we consider that these assumptions have been made with due care and objectivity and are fair and reasonable.

As a licensed financial institution to provide financial services to YTO Group, the business development of First Tractor Finance relates to the operation of YTO Group. The Directors have expected that the future market condition and operating environment of the industry in which YTO Group are principally engaged will continue to improve given the quick recovery of PRC economy from the financial crisis and especially the rapid growth of the agricultural machinery industry in the PRC. The improving market condition will enhance the turnover of YTO Group, resulting in the increase in financial services provided by First Tractor Finance. On the above basis, we consider that the expected growth in YTO Group's business development is reasonable and will provide First Tractor Finance with more opportunities for the provision of Financial Services to YTO Group.

LETTER FROM CMB INTERNATIONAL

(d) *The past financial transactions which YTO Group has undertaken*

The Caps for each of the Financial Services are determined having regard to the amount of each of the Financial Services of the previous year.

In particular, the Caps for each of the transactions contemplated under the Financial Services are calculated as below:

(a) *Designated loan*

The calculation of the Caps for the designated loans is determined with reference to:

- (i) the amount of designated loan made by financial institutions other than First Tractor Finance, which amounted to approximately RMB80 million as at 31 August 2009, due to the limitation of the historical cap amount set for the relevant services; and
- (ii) the anticipated increase in the amount of designated loan to the subsidiaries of YTO, due to the anticipated growth in the turnover of YTO Group.

As at 31 December 2008 and 31 August 2009, First Tractor Finance has provided RMB48.8 million and RMB62.5 million designated loan to YTO Group respectively.

LETTER FROM CMB INTERNATIONAL

As advised by the Directors, the large increase in Cap of the designated loan for the coming three years ending 31 December 2012 is mainly due to the strong demand of designated loan from YTO Group. Although there is a strong demand of designated loan from YTO Group, the amount of the designated loan to YTO Group during the year of 2009 is restricted by the cap of the designed loan for the year ending 31 December 2009. And the demand on designated loan will increase steadily for the coming three years ending 31 December 2012. As advised by the Directors, First Tractor Finance will accept designated deposits from the ultimate financiers to fund and grant loans designated by such ultimate financiers. As such, First Tractor Finance will not repay the designated deposit to the ultimate financiers in the event the designated loan could not be recovered. Therefore, the credit risk is borne by the ultimate financiers rather than First Tractor Finance. Accordingly, there is no credit risk to First Tractor Finance in providing the designated loan given the nature of the designated loan. In assessing the expected demand on designated loan from YTO Group for the three year ending 31 December 2012, the major factor is the expected turnover of YTO. Therefore, we consider that the expected annual growth rate of the Cap for the designated loan which determined with reference to the expected annual growth rate of the turnover of YTO is fair and reasonable. In addition, we consider that, by increasing the Cap of designated loan, it will increase the amount of designated loan made by YTO Group from the First Tractor Finance and hence, enhance the revenue of the Group.

After considered the above mentioned, we consider that the basis of the expected designated loans from YTO Group is fair and reasonable. Further, given the nature of the designated loan transaction, there is no credit risk to First Tractor Finance in providing such services. Accordingly, we consider such annual Caps are fair and reasonable.

LETTER FROM CMB INTERNATIONAL

(b) Financial Services other than the designated loan

Financial Services other than designated loan will be based on the percentage of the total asset value of First Tractor Finance for each relevant year. The estimated total asset of First Tractor Finance will be approximately RMB 1,500 million, RMB1,800 million and RMB2,200 million respectively for each of the three years ending 31 December 2012, taking into account the historical growth trend of its business as well as its future business prospects. As advised by the Directors, in order to manage the funding of YTO Group in a centralized manner, the saving and deposit from YTO Group to the First Tractor Finance will be increased. For the eight months ended 31 August 2009, the total asset of the First Tractor Finance has increased approximately RMB 203 million or 17% to approximately RMB 1,378 million. In view of the above, we consider that the growth rate of the total asset of First Tractor Finance for the three years ending 31 December 2009 is fair and reasonable. The percentages for each of the Financial Services other than the designated loan over the total asset value of First Tractor Finance for each of the three years ending 31 December 2012 of First Tractor Finance and the credit policy of First Tractor Finance for YTO Group are as follows:

	2010	2011	2012	Credit policy of First Tractor Finance for YTO Group
Loan	36.67%	36.67%	36.82%	40%
Bills discounting	20.00%	20.00%	20.00%	25%
Finance lease	6.67%	6.67%	6.82%	10%
Bills acceptance	3.33%	5.56%	9.09%	10%
Guarantee	13.33%	12.78%	11.82%	20%

As illustrated above, all the percentages for the above financial services over the total asset value of First Tractor Finance for each of the three years ending 31 December 2012 are within the credit control policy of First Tractor Finance for YTO Group.

LETTER FROM CMB INTERNATIONAL

As a licensed financial institution to provide financial services to the Group and YTO Group, the business development of First Tractor Finance relates to the operation of the Group and YTO Group. The projected growth rates of the total asset value of First Tractor Finance for the three years ending 31 December 2012 are in line with the projected growth rates of the turnover of the Group and YTO Group of the respective years. We have reviewed the assumptions underlying the total asset value of First Tractor Finance and are of the view that these assumptions have been made with due care and objectivity. As such, we consider the projection of the total asset value of First Tractor Finance for the three years ending 31 December 2012 respectively are reasonable.

We noted that the assumptions underlying the Caps for the Financial Services Agreement are made by the management taking into account the financial resources of First Tractor Finance, the credit policy of First Tractor Finance, the future growth and development of YTO Group and the historical amount of the Financial Services. As such, we consider that the Caps for the Financial Services Agreement for each of three years ending 31 December 2012 are made by the Directors after due care and consideration and objectively and the factors stated above can justify the Caps for the Financial Services Agreement for the years of 2010 to 2012 and the increase in such Caps as compared to the historical caps for the Financial Services Agreement for the years of 2007 to 2009. As such, the Caps for the Financial Services Agreement have been determined on a fair and reasonable basis.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that, (i) the Non-exempt CCT Transactions are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and are in the interests of the Company and the Shareholders as a whole; (ii) the Caps have been determined on a fair and reasonable basis; and (iii) it would be fair and reasonable for the Independent Shareholders to approve the New Agreements and the Caps. We therefore recommend that the Independent Board Committee advises the Independent Shareholders to vote in favour of the respective resolutions relating to the New Agreements and their respective Caps at the EGM. We also recommend the Independent Shareholders to vote in favour of the respective resolutions relating to the New Agreements and their respective Caps at the EGM.

For and on behalf of
CMB INTERNATIONAL CAPITAL CORPORATION LTD.
Freeman Lau
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests of Directors, supervisors and chief executive of the Company**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company has an interest or short position in any Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which is required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, supervisors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at the Latest Practicable Date, none of the Directors or the controlling Shareholders of the Company and their respective associates has any interest in a business, apart from the business of the Company, which competes or may compete with the business of the Company or has any other conflict of interest with the Company which would be required to be disclosed under Rule 8.10 of the Listing Rules.

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

None of the Directors has any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2008, the date to which the latest published audited financial statement of the Group was made up.

None of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole.

(b) Substantial Shareholders' and other Shareholders' interests

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Directors or chief executive of the Company, no other person has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10 per cent (10%) or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

Domestic Shares

Name of Shareholder	Nature of interests	Number of Shares	Approximate percentage of the total issued Share capital of the Company
YTO <i>(Note)</i>	Beneficial owner	443,910,000 Shares (L)	52.48%

Note: Mr. Liu Dagong, the executive Director of the Company, and Mr. Zhao Yanshui and Mr. Yan Linjiao, the non-executive Directors of the Company, are also the directors of YTO. Further, Mr. Liu Dagong, Mr. Zhao Yanshui and Mr. Yan Linjiao are the chairman, general manager and deputy general manager of YTO respectively.

H Shares

Name of Shareholder	Nature of interests	Number of Shares	Approximate percentage of the total issued H Shares of the Company	Approximate percentage of the total issued Share capital of the Company
Pictet Asset Management Limited	Investment manager	24,816,500 (L)	6.17%	2.93%
DnB NOR Asset Management (Asia) Limited	Investment manager	47,748,000 (L)	11.88%	5.65%

Note: The letter “L” represents the entities’ long positions in the Shares of the Company.

3. EXPERTS AND CONSENTS

The following is the qualifications of the expert who has been named in this circular or have given opinion or advice contained in this circular:

Name	Qualification
CMB International Capital Corporation Limited	a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO

As at the Latest Practicable Date, CMB International is not beneficially interested in the Share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

CMB International has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and context in which they appear.

The letter and recommendation given by CMB International are given as of the date of this circular for incorporation herein.

CMB International has, or has had, no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, any member of the Group or are proposed to be acquired of by, or leased to, any member of the Group since 31 December 2008, the date to which the latest published audited financial statement of the Group was made up.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered or proposed to enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. MATERIAL ADVERSE CHANGE

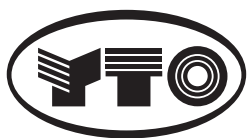
The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited accounts of the company were made up.

6. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Messrs. Li & Partners at 22nd Floor, World Wide House, Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date hereof:

- (a) Composite Services Agreement;
- (b) Energy Supply Services Agreement;
- (c) Material Supply Agreement;
- (d) First Tractor Supply Agreement; and
- (e) Financial Services Agreement.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “**EGM**”) of First Tractor Company Limited (the “**Company**”) will be held at 9:00 a.m. on Tuesday, 22 December 2009 at No.154 Jianshe Road, Luoyang, Henan Province, the People’s Republic of China (the “**PRC**”) for the purpose of passing the following resolutions:

AS ORDINARY RESOLUTIONS:

1. the Composite Services Agreement (as defined in the circular of the Company dated 6 November 2009 (the “**Circular**”), a copy of which has been produced to the EGM marked “1” and signed by the chairman of the EGM for the purpose of identification), and the terms and conditions thereof and its proposed cap amounts and the transaction contemplated thereunder and the implementation thereof be and are hereby approved and confirmed;
2. the Material Supply Agreement (as defined in the Circular, a copy of which has been produced to the EGM marked “2” and signed by the chairman of the EGM for the purpose of identification), and the terms and conditions thereof and its proposed cap amounts and the transaction contemplated thereunder and the implementation thereof be and are hereby approved and confirmed;
3. the Energy Supply Services Agreement (as defined in the Circular, a copy of which has been produced to the EGM marked “3” and signed by the chairman of the EGM for the purpose of identification), and the terms and conditions thereof and its proposed cap amounts and the transaction contemplated thereunder and the implementation thereof be and are hereby approved and confirmed;
4. the First Tractor Supply Agreement (as defined in the Circular, a copy of which has been produced to the EGM marked “4” and signed by the chairman of the EGM for the purpose of identification), and the terms and conditions thereof and its proposed cap amounts and the transaction contemplated thereunder and the implementation thereof be and are hereby approved and confirmed;
5. the Financial Services Agreement (as defined in the Circular, a copy of which has been produced to the EGM marked “5” and signed by the chairman of the EGM for the purpose of identification), and the terms and conditions thereof and its proposed cap amounts and the transaction contemplated thereunder and the implementation thereof be and are hereby approved and confirmed;

* *For identification purposes only*

NOTICE OF EGM

6. any one of the directors be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Composite Services Agreement, Material Supply Agreement, Energy Supply Services Agreement, First Tractor Supply Agreement and Financial Services Agreement (together the “**New Agreements**”) and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Agreements they may in their discretion consider to be desirable and in the interests of the Company and all the directors’ acts as aforesaid be hereby approved, ratified and confirmed;
7. the change of the Company’s International auditor from Ernst & Young to UHY Vocation HK CPA Limited be and are hereby approved and confirmed; and
8. the change of the Company’s PRC auditor from Ernst & Young Hua Ming to Vocation International Certified Public Accountants Company Limited be and are hereby approved and confirmed.

Yours faithfully,
By order of the Board
First Tractor Company Limited
Liu Dagong
Chairman

Luoyang, the PRC
6 November 2009

As at the date of this notice, 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.

NOTICE OF EGM

Notes:

1. The register of members of the Company will be temporarily closed from 22 November 2009 to 22 December 2009 (both days inclusive) during which no transfer of shares of the Company (the “**Shares**”) will be registered in order to determine the list of shareholders of the Company (the “**Shareholders**”) for attending the EGM. The last lodgment for the transfer of the H Shares and the domestic Shares of the Company should be made on 21 November 2009 at Hong Kong Registrars Limited and the Company’s registered and principal office respectively by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 21 November 2009 are entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Share registrar of the Company, is Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
2. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the Company’s registered address at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company’s H Share registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.
4. Shareholders who intend to attend the EGM are requested to deliver the duly completed and signed reply slip for attendance to the Company’s registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 1 December 2009.
5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the proxy form.
6. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
7. The Company’s registered address:

No.154 Jianshe Road, Luoyang, Henan Province, the PRC

Postal code: 471004

Telephone: (86379) 6496 7038

Facsimile: (86379) 6496 7438

Email: msc0038@ytogroup.com