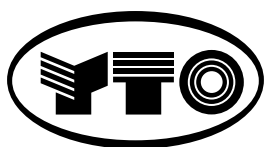

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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, makes 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
— FINANCIAL SERVICES AGREEMENTS

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



A letter from the Board is set out on pages 1 to 13 of this circular.

A letter from the Independent Board Committee is set out on page 14 of this circular.

A letter from China Merchant Securities (HK) Co., Limited, the independent financial adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 32 of this circular.

A notice for convening the extraordinary general meeting (“EGM”) of First Tractor Company Limited (the “Company”) to be held at 9:00 a.m., on Monday, 16 August 2010 at No. 154 Jianshe Road, Luoyang, Henan Province, the People’s Republic of China (the “PRC”) is set out on pages 37 to 45 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 thereon. In case of H Shares, the proxy form shall be lodged with the Company’s branch 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; and in case of Domestic Shares, the proxy form shall be lodged at the registered address and principal place of business of the Company at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, 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.

20 July 2010

* For identification purpose only

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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
“Bills Acceptance Agreement”	the agreement dated 28 June 2010 entered into between First Tractor Finance and YTO for the provision of the bills acceptance services by First Tractor Finance to YTO Group, the details of which are set out under the section headed “Particulars of Bills Acceptance Agreement” of this circular
“Bills Discounting Agreement”	the agreement dated 28 June 2010 entered into between First Tractor Finance and YTO for the provision of the bills discounting services by First Tractor Finance to YTO Group, the details of which are set out under the section headed “Particulars of Bills Discounting Agreement” of this circular
“Board”	the board of Directors
“Cap(s)”	the maximum outstanding amount for each of the Non-exempt CCT Transactions for each of the three years ending 31 December 2012
“CBRC”	China Banking Regulatory Commission
“China Machinery”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a wholly State-owned group enterprise incorporated in the PRC and 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
“China Merchants Securities”	China Merchants Securities (HK) Co., Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Transactions, being a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

DEFINITIONS

“Company”	First Tractor Company Limited*(第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares of which are listed on the Stock Exchange (Stock Code: 0038)
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Deposit Agreement”	the agreement dated 28 June 2010 entered into between First Tractor Finance and YTO for the provision of the deposit services by First Tractor Finance to YTO Group, the details of which are set out under the section headed “Particulars of Deposit Agreement” of this circular
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the ordinary shares of the Company of RMB1.00 each which are subscribed for in Renminbi by PRC nationals and/or PRC incorporated entities, all of which have been allotted and issued and are fully paid up
“EGM”	the extraordinary general meeting of the Company to be convened and held at 9:00 a.m., on Monday, 16 August 2010 at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, for the Independent Shareholders to consider and, if thought fit, approve, among other things, the resolutions in respect of each of the Non-exempt CCT Agreements and their respective proposed Cap amounts
“Financial Services”	the financial services to be provided by First Tractor Finance to YTO Group pursuant to the Financial Services Agreements
“Financial Services Agreements”	Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement and Deposit Agreement (as the context may require)
“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 owned as to approximately 87.80% by the Company

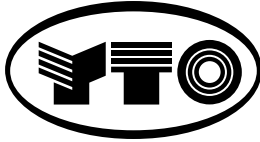
DEFINITIONS

“Group”	the Company and its subsidiaries
“Historical Cap(s)”	the maximum outstanding amount for each of the Old Financial Services for each of the three years ended 31 December 2009
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange
“Independent Board Committee”	an independent committee of the Board comprising all 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”	15 July 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Loan Agreement”	the agreement dated 28 June 2010 entered into between First Tractor Finance and YTO for the provision of the loan services by First Tractor Finance to YTO Group, the details of which are set out under the section headed “Particulars of Loan Agreement” of this circular
“Non-exempt CCT Agreements”	Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement (as the context may require)
“Non-exempt CCT Transactions”	the transactions contemplated under the Non-exempt CCT Agreements
“PBOC”	The People’s Bank of China

DEFINITIONS

“PRC”	The People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Old Financial Services”	the deposit, loan, bills discounting and bills acceptance services provided by First Tractor Finance to YTO Group pursuant to the Old Financial Services Agreement
“Old Financial Services Agreement”	the financial services agreement dated 13 October 2006 entered into between First Tractor Finance and YTO, on behalf of YTO Group, which expired on 31 December 2009
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Share(s)”	share(s) of RMB1.00 each of the Company
“Shareholder(s)”	registered holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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, holding approximately 52.48% equity interest in the Company
“YTO Group”	YTO and its controlled companies/entities (the “ Relevant Parties ”) and/or the non-wholly owned subsidiaries of the Company in which the Relevant Parties, whether individually or jointly, has 10% or more voting rights
“%”	per cent.

* For identification purpose only



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*

20 July 2010

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
— FINANCIAL SERVICES AGREEMENTS**

INTRODUCTION

Continuing Connected Transactions

On 28 June 2010, the Company announced that First Tractor Finance (a subsidiary of the Company) entered into the Financial Services Agreements, namely the Loan Agreement, Bills Discounting Agreement, Bills Acceptance Agreement and Deposit Agreement, with YTO on 28 June 2010 with the view to renewing the Old Financial Services Agreements (which expired on 31 December 2009) for the provision of the Financial Services by First Tractor Finance to YTO Group in the light of their continued operation and financial needs.

* *For identification purposes only*

LETTER FROM THE BOARD

First Tractor Finance is a non-bank financial institution established under the relevant PRC laws and regulations and has been a subsidiary of the Company since June 2002. The initial functions of First Tractor Finance were to strengthen the operational and financial management of the Group through centralization of the internal financial and treasury management functions, which was then primarily carried out by a number of then subsidiaries of the Group, into one single entity.

Over the years, the operation of First Tractor Finance has experienced a steady growth and is currently one of the principal activities of the Group providing financial services to members of the Group as well as members of YTO Group.

Listing Rules Implications

YTO is the controlling Shareholder and thus, YTO and its associates are regarded as connected persons of the Company. Accordingly, the transactions contemplated under the Financial Services Agreements entered into between First Tractor Finance and YTO constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The deposit services to be provided under the Deposit Agreement 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 the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. The disclosure herein was made on voluntary basis.

As each of the applicable percentage ratios (as defined under the Listing Rules) under each of the Non-exempt CCT Agreements, namely the Loan Agreement, Bills Acceptance Agreement and Bills Discounting Agreement, on an annual basis, is more than 5% but less than 25% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Non-exempt CCT Agreements constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated under each of the Non-exempt CCT Agreements also constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules.

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

In view of the interests of YTO and its associates in the Non-exempt CCT Transactions, YTO and its associates, which in aggregate hold 443,910,000 Shares, representing approximately 52.48% of the equity interest in the Company, will abstain from voting on the resolutions in relation to each of the Non-exempt CCT Agreements and their respective proposed Cap amounts at the EGM. No Director has any interest in any of the Non-exempt CCT Agreements and thus no Director has to abstain from voting on the Board resolution for approving each of the Non-exempt CCT Agreements and their respective Cap amounts for each of the three years ending 31 December 2012.

General

The purpose of this circular is (i) to provide you with information relating to each of the Non-exempt CCT Agreements and their respective proposed Cap amounts; and (ii) to set out the letter of advice from the Independent Board Committee to the Independent Shareholders regarding each of the Non-exempt CCT Agreements and their respective proposed Cap amounts; (iii) to set out the letter of advice from China Merchants Securities regarding each of the Non-exempt CCT Agreements and their respective proposed Cap amounts; and (iv) to provide you with a notice of the EGM to be convened for the Independent Shareholders to approve, among other things, each of the Non-exempt CCT Agreements and their respective proposed Cap amounts.

FINANCIAL SERVICES AGREEMENTS

Set out below is a summary of the principal terms of each of the Financial Services Agreements:-

PARTICULARS OF LOAN AGREEMENT

Date

28 June 2010

Parties

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

Period

From the date of approval of the Loan Agreement at the EGM to 31 December 2012

Services to be provided

First Tractor Finance will provide loans to YTO Group.

LETTER FROM THE BOARD

Loan interest rate

YTO Group shall pay interest on the loan outstanding to First Tractor Finance with the interest rate to be determined with reference to the relevant interest rates set by the PBOC from time to time.

Security

First Tractor Finance can request YTO Group to provide pledge of assets or other guarantees to secure YTO Group's liabilities arising from the performance of the Loan Agreement.

Rights to demand for early repayment

First Tractor Finance shall first satisfy the funding needs of the Group. Depending on the shortfall of funding of the Group, First Tractor Finance has the right to issue a termination or terms amendments notice to YTO Group, requesting for termination or amendments to the terms of the loans granted to YTO Group so as to collect the money to support the production operation of the Group.

Conditions

The Loan Agreement is conditional upon the passing by the Independent Shareholders at the EGM of the ordinary resolution(s) in respect of the Loan Agreement as required under the Listing Rules.

PARTICULARS OF BILLS DISCOUNTING AGREEMENT

Date

28 June 2010

Parties

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

Period

From the date of approval of the Bills Discounting Agreement at the EGM to 31 December 2012.

LETTER FROM THE BOARD

Services to be provided

First Tractor Finance will provide bills discounting services to YTO Group, whereby First Tractor Finance will pay the face value of undue bills presented by YTO Group net of the discount interests.

Discount rate

The discount rates will be charged by First Tractor Finance for the provision of bills discounting services to YTO Group, which shall be determined with reference to the relevant discount rates set by the PBOC from time to time.

Conditions

The Bills Discounting Agreement is conditional upon the passing by the Independent Shareholders at the EGM of the ordinary resolution(s) in respect of the Bills Discounting Agreement as required under the Listing Rules.

PARTICULARS OF BILLS ACCEPTANCE AGREEMENT

Date

28 June 2010

Parties

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

Period

From the date of approval of the Bills Acceptance Agreement at the EGM to 31 December 2012.

Services to be provided

First Tractor Finance will provide bills acceptance services to YTO Group, whereby (i) in respect of the bills issued by YTO Group and accepted by First Tractor Finance and drawn on the First Tractor Finance, First Tractor Finance commits to pay the face value of the bills to the holders on the due date; and (ii) in respect of the bills issued by YTO Group and accepted by a banker entrusted by First Tractor Finance and drawn on such banker, such banker commits to pay the face value of the bills to the holders on the due date.

LETTER FROM THE BOARD

Service fee

First Tractor Finance shall charge a one-off service fee of 0.05% of value of such bills, which was determined with reference to the relevant service fees charged for the same or similar transactions by the same or similar industry in the PRC.

Security

First Tractor Finance can request YTO Group to provide pledge of assets or other guarantees to secure the liabilities arising from the performance of YTO Group under the Bills Acceptance Agreement.

Conditions

The Bills Acceptance Agreement is conditional upon the passing by the Independent Shareholders at the EGM of the ordinary resolution(s) in respect of the Bills Acceptance Agreement as required under the Listing Rules.

PARTICULARS OF DEPOSIT AGREEMENT

Date

28 June 2010

Parties

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

Period

From 28 June 2010 to 31 December 2012

Services to be provided

First Tractor Finance will accept deposit from YTO Group.

Deposit interest rate

First Tractor Finance shall pay YTO Group interest on the deposit placed at First Tractor Finance with interest rate determined with reference to the relevant interest rate set by the PBOC from time to time.

LETTER FROM THE BOARD

Undertaking from YTO

YTO undertakes that under the same terms and conditions as offered by other parties, YTO will, and will procure YTO Group, to prioritize in depositing their fund with First Tractor Finance.

Right to offset

YTO irrevocably grants, and procures YTO Group to irrevocably grant, to First Tractor Finance a right to offset all liabilities arising from the performance of the Loan Agreement and/or the Bills Acceptance Agreement by YTO Group from the relevant deposit accounts of that member entity under YTO Group on default.

OTHER FINANCIAL SERVICES TO BE PROVIDED

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

- (i) First Tractor Finance will provide lease financing to the parties which are not connected persons of the Company (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 lease charge, payable by installments, determined with reference to the costs of purchase of such properties and 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). First Tractor Finance will also charge the Parties a one-off insurance fees of such properties (with reference to the fee charged by the licensed insurance company in the PRC) and a one-off handling charges of about 0.8% to 3% of the lease amount; and
- (ii) 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 Parties.

LETTER FROM THE BOARD

HISTORICAL CAPS, HISTORICAL MAXIMUM OUTSTANDING AMOUNTS AND YEAR END BALANCE

The following table summarises the Historical Cap amounts for each of the Old Financial Services under the Old Financial Services Agreement for each of the three years ended 31 December 2009, the relevant historical maximum outstanding amounts for each of the three years ended 31 December 2009, and their respective year end balance:

Year	2007			2008			2009		
	Historical	Maximum		Historical	Maximum		Historical	Maximum	
	Cap	Outstanding	Year End	Cap	Outstanding	Year End	Cap	Outstanding	Year End
	Amounts	Amounts	Balance	Amounts	Amounts	Balance	Amounts	Amounts	Balance
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Old Financial									
Services Agreement									
— Loan	611,000	315,630	277,300	752,000	432,820	432,320	846,000	422,820	392,430
— Bills discounting	455,000	196,370	54,800	560,000	190,860	122,880	630,000	214,600	150,020
— Bills acceptance	30,000	0	0	38,000	0	0	42,000	0	0

BASIS OF RELEVANT CAP AMOUNTS

The following table summarises the proposed Cap amounts for each of the Non-exempt CCT Agreements for each of the three years ending 31 December 2012:-

Year	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Loan Agreement	450,000	510,000	590,000
Bills Discounting Agreement	300,000	350,000	400,000
Bills Acceptance Agreement	250,000	300,000	350,000

LETTER FROM THE BOARD

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

- financial resources of First Tractor Finance;
- credit policy of First Tractor Finance;
- future growth and development of the Group and YTO Group; and
- past financial transactions which YTO Group has conducted.

In particular, the relevant Cap amounts for each of the Financial Services are calculated after taking into account of the following specific factors:

Loan and bills discounting services

The proposed Cap amounts for each of the loan and bills discounting services under the Loan Agreement and the Bills Discounting Agreement respectively are determined with reference to, among others, (i) the expected increase in the total assets of First Tractor Finance; (ii) the funding requirements of the Group to satisfy its business needs, given that First Tractor Finance will provide financing to YTO Group only after satisfying the funding needs of the Group; and (iii) the maximum outstanding amounts of each of the loan services and bills discounting services under the Old Financial Services Agreement for the year ended 31 December 2009.

Bills acceptance services

As at the Latest Practicable Date, First Tractor Finance has secured credit facilities from three PRC commercial banks under which First Tractor Finance will be able to arrange bills issued by YTO Group to be accepted by and drawn on its bankers. The Directors believe such credit facilities significantly improve the credit worthiness and acceptability of bills issued by YTO Group.

First Tractor Finance is also designated by PBOC as the second batch of banking and non banking financial institutions for the implementation of the national wide Electronic Commercial Bills System (“ECBS”) on 28 June 2010. The Directors believe that with the implementation of the ECBS by First Tractor Finance, the demand for its bills acceptance services will significantly increase. This is because the ECBS will (i) improve authentication of bills; (ii) reduce the costs of delivery and custody of the bills; (iii) enhance the clearing and payment of the accepted bills; and (iv) reduce the operation costs of the bills acceptance services.

LETTER FROM THE BOARD

The proposed Cap amount for the bills acceptance services under the Bills Acceptance Agreement is determined with reference to, among others, (i) the expected demand for the bills acceptance services from YTO Group as a result of the significant improvement of creditworthiness and acceptability of bills being issued with the credit facilities granted by the commercial banks; and (ii) the implementation of the ECBS by First Tractor Finance.

REASONS AND BENEFITS FOR ENTERING INTO THE FINANCIAL SERVICES AGREEMENTS

In considering the reasons and benefits for entering into the Financial Services Agreements, the Directors have considered the following key factors:

- (a) The operation of First Tractor Finance is one of the four key business segments of the Group and has contributed to the consolidated profit before tax of the Group for the three years ended 31 December 2009 amounted to approximately RMB26.80 million, RMB40.13 million and RMB33.38 million respectively, which represent approximately 11.27%, 44.39% and 9.32% of the Group's consolidated profit before tax of the three respective financial years.
- (b) As shown in the table below, the Financial Services Agreements collectively facilitate First Tractor Finance to centralize the excess financial resources of YTO Group and utilizes such financial resources to the Group as well as YTO Group.

Year	2007	2008	2009
	Maximum	Maximum	Maximum
	Outstanding	Outstanding	Outstanding
	Amount	Amount	Amount
	RMB'000	RMB'000	RMB'000
Old Financial Services Agreement			
— Deposit	665,001	724,715	831,314
— Sum of loan and bills discounting services	512,000	623,680	637,420

- (c) The provision of financial services to the member entities under the Group and YTO Group enables the Group to earn the interest rate differential between the applicable fee of the relevant financial services and the deposit interest paid to YTO Group. The financial operation is the most profitable business segment of the Group in terms of profit margin.
- (d) The continuation of the Financial Services Agreements is critical for First Tractor Finance to keep its operation to an economical scale and as an efficient and effective channel to deploy of any excess idle cash from its depositors.

LETTER FROM THE BOARD

The transactions contemplated under each of the Financial Services Agreements were entered into in the ordinary and usual course of business of the Group and the terms of the Financial Services Agreements were negotiated and agreed between the relevant parties on an arm's length basis. The Directors consider that the terms of the Financial Services Agreements are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

INFORMATION ON FIRST TRACTOR FINANCE

First Tractor Finance, a subsidiary of the Company, is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities. First Tractor Finance provides non-banking financial services to YTO Group, the Group and their respective member entities in the PRC. Financial services that it can provide to the member entities under the Group and YTO Group are provision of financial and fund raising advisory services, credit forensic and related consultancy services, agency services, assistance to member entities in the collection and payment of transaction considerations, approved insurance agency service, provision of guarantee, designated loan and designated investment, bills acceptance and bills discounting, internal fund transfer and related settlement services, design of liquidation proposals, deposit services, loan services, finance leasing, inter-industry lending and borrowing, approved issuance of finance company bonds, underwriting of corporate bonds issued by member entities under the Group and YTO Group, equity investment in financial institutions, securities investment, consumer credit, purchaser credit and finance lease for products. It has a registered capital of RMB500 million.

INFORMATION ON THE GROUP, YTO GROUP AND CHINA MACHINERY

The Group is principally engaged in the production and sale of agricultural machineries and construction machineries and non-bank financial operations.

YTO is the controlling Shareholder, holding approximately 52.48% of the equity interest in the Company. YTO Group is principally engaged in the production of agricultural machineries, vehicle products and parts.

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

LETTER FROM THE BOARD

RELATIONSHIPS BETWEEN PARTIES AND THE LISTING RULES IMPLICATIONS

YTO is the controlling Shareholder and thus, YTO and its associates are regarded as connected persons of the Company. Accordingly, the transactions contemplated under the Financial Services Agreements entered into between YTO and First Tractor Finance constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The deposit services to be provided under the Deposit Agreement 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 the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(4) of the Listing Rules. The disclosure herein was made on voluntary basis.

As each of the applicable percentage ratios (as defined under the Listing Rules) under each of the Non-exempt CCT Agreements, namely the Loan Agreement, Bills Acceptance Agreement and Bills Discounting Agreement, on an annual basis, is more than 5% but less than 25% and the annual consideration is more than HK\$10,000,000, the transactions contemplated under the Non-exempt CCT Agreements constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions contemplated under each of the Non-exempt CCT Agreements also constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules.

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.

In view of the interests of YTO and its associates in the Non-exempt CCT Transactions, YTO and its associates, which in aggregate hold 443,910,000 Shares, representing approximately 52.48% of the equity interest in the Company, will abstain from voting on the resolutions in relation to each of the Non-exempt CCT Agreements and their respective proposed Cap amounts at the EGM. No Director has any interest in any of the Non-exempt CCT Agreements and thus no Director has to abstain from voting on the Board resolution for approving each of the Non-exempt CCT Agreements and their respective Cap amounts for each of the three years ending 31 December 2012.

EGM

The EGM will be convened and held at 9:00 a.m., on Monday, 16 August 2010 at which ordinary resolutions will be proposed to seek Independent Shareholders' approval for, among other things, each of the Non-exempt CCT Agreements and their respective Cap amounts. At the EGM, votes will be taken by poll.

LETTER FROM THE BOARD

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 thereon. In case of H Shares, the proxy form shall be lodged with the Company's branch 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; and in case of Domestic Shares, the proxy form shall be lodged at the registered address and principal place of business of the Company at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, 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.

RECOMMENDATIONS

China Merchants Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to each of the Non-exempt CCT Agreements and their respective proposed Cap amounts. The text of the letter of advice from China Merchants Securities to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 32 of this circular.

The letter from the Independent Board Committee, which contains its recommendation to the Independent Shareholders in respect of each of the Non-exempt CCT Agreements and their respective proposed Cap amounts, is set out on page 14 of this circular.

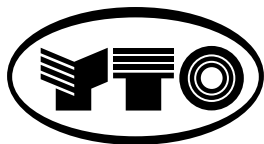
The Board considers that each of the Non-exempt CCT Agreements and their respective proposed Cap amounts are in the interests of the Company and the Shareholders and that the terms and conditions of each of the Non-exempt CCT Agreements are fair and reasonable so far as the Company and the Shareholders 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 Non-exempt CCT Agreements and their respective proposed Cap amounts as set out in the notice of 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



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)

20 July 2010

To the Independent Shareholders

Dear Sir or Madam

CONTINUING CONNECTED TRANSACTIONS
— FINANCIAL SERVICES AGREEMENTS

We have been appointed as members of the Independent Board Committee to give our advice on each of the Non-exempt CCT Agreements, namely the Loan Agreement, Bills Discounting Agreement and Bills Acceptance 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 20 July 2010 (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.

China Merchants Securities has been appointed as the independent financial adviser to advise us on each of the Non-exempt CCT Agreements and their respective proposed Cap amounts. The letter from China Merchants Securities is set out on pages 15 to 32 of the Circular.

Having considered the terms and conditions of each of the Non-exempt CCT Agreements and their respective proposed Cap amounts, the advice given by China Merchants Securities 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 Non-exempt CCT Agreements 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 each of the Non-exempt CCT Agreements 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 each of the Non-exempt CCT Agreements 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 purpose only*

LETTER FROM CHINA MERCHANTS SECURITIES

The following is the text of a letter from China Merchants Securities (HK) Co., Ltd. for the purpose of incorporation in this circular in connection with its advice to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Agreements and their respective proposed Cap amounts.



48th Floor
One Stock Exchange
Central
Hong Kong

20 July 2010

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS — FINANCIAL SERVICES AGREEMENTS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Agreements and their respective proposed Cap amounts, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in the circular dated 20 July 2010 (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) each of the Non-exempt CCT Agreements 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 Non-exempt CCT Agreements and their respective proposed Cap amounts. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

LETTER FROM CHINA MERCHANTS SECURITIES

On 28 June 2010, First Tractor Finance (a subsidiary of the Company) entered into the Financial Services Agreements, namely the Deposit Agreement, Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement with YTO with the view of renewing the Old Financial Services Agreements (which expired on 31 December 2009) for the provision of the Financial Services by First Tractor Finance to YTO Group in the light of their continued operation and financial needs.

The deposit services to be provided under the Deposit Agreement 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.

The entering into of each of the Non-exempt CCT Agreements, namely the Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement constitutes non-exempted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

As at the Latest Practicable Date, YTO beneficially owned 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. Accordingly, the transactions contemplated under the Financial Services Agreements between YTO Group and First Tractor Finance shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. In view of their interest, YTO and its associates will abstain from voting in the resolutions in respect of each of the Non-exempt CCT Agreements and their respective proposed Cap amounts at the EGM. No Directors has any interest in any of the Financial Services Agreements and thus no Director will abstain from voting on the Board resolutions for approving each of the Non-exempt CCT Agreements and their respective proposed Cap amounts for each of the three years ending 31 December 2012.

The Independent Board Committee comprising all the three independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo, has been formed to advise the Independent Shareholders in respect of the Non-exempt CCT Agreements and their respective proposed Cap amounts.

LETTER FROM CHINA MERCHANTS SECURITIES

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete at the date of the Circular or the Latest Practicable Date (as the case maybe) and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors and management of the Group that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have performed all necessary steps as required under Rule 13.80 of the Listing Rules, including the notes thereto, to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions and have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have assumed that all representations contained or referred to in the Circular are true as at the date of the Circular or the Latest Practicable Date (as the case may be) and will remain so up to the time of the EGM. 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 Agreements and the proposed Cap amounts, we have considered the following principal factors and reasons:

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

The Group is principally engaged in the production and sale of agricultural machineries and construction machineries and non-bank financial operations.

YTO is the controlling Shareholder, holding approximately 52.48% of the equity interest in the Company. YTO Group is principally engaged in the production of agricultural machineries, vehicles products and parts.

First Tractor Finance, a 87.8%-owned subsidiary of the Company, is a non-bank financial institution established, approved and regulated by the relevant PRC regulatory authorities in 1992. First Tractor Finance provides non-banking financial services to YTO Group, the Group and their member companies in the PRC. Financial services that it can provide to the member entities under the Group and YTO Group are provision of financial and fund raising advisory services, credit forensic and related consultancy services, agency services, assistance to member entities in the collection and payment of transaction considerations, approved insurance agency service, provision of guarantee, designated loan and designated investment, bills acceptance and bills discounting, internal fund transfer and related settlement services, design of liquidation proposals, deposit services, loan services, finance leasing, inter-industry lending and borrowing, approved issuance of finance company bonds, underwriting of corporate bonds issued by member entities under the Group and YTO Group, equity investment in financial institutions, securities investment, consumer credit, purchaser credit and finance lease for products. It has a registered capital of RMB500 million. The Group acquired the equity interest of First Tractor Finance from YTO in June 2002 with the aim of strengthening the operational and financial management of the Group through centralizing the internal financial and treasury management functions, which was then primarily carried out by a number of the then subsidiaries of the Group, into one single entity. For many years, First Tractor Finance played a very important role of providing low cost financing platform and financial consulting functions, given it has the specific advantages like: reasonably allocate capital resources in authorized daily operating scale, managing and avoiding financial risks, promoting the Group's internal and YTO's settlement efficiency, the First Tractor Finance has now becoming one of the major profit segments of the Group.

The Group entered into the Financial Services Agreements with YTO with a view to renewing the Old Financial Services Agreements (which expired on 31 December 2009) for the provision of the Financial Services by First Tractor Finance to YTO Group in the light of their continuing operation and financial needs. At an extraordinary general meeting of the Company held on 22 December 2009, the said resolution regarding the Old Financial Services Agreements was not passed by the then Independent Shareholders. It was stated in the announcement of the Company dated 22 December 2009 that the Company would revisit the terms of the Old Financial Services Agreements and put forward to Independent Shareholders for approval.

LETTER FROM CHINA MERCHANTS SECURITIES

II. Terms of the Financial Services Agreements

Pursuant to the Financial Services Agreements, First Tractor Finance will provide the following services to the YTO:

Deposit : First Tractor Finance will accept deposit from YTO Group.

YTO has irrevocably granted to First Tractor Finance a right to offset all liabilities arising from the performance of the Loan Agreement and/or Bills Acceptance Agreement by YTO Group from the relevant deposit accounts of that member entity under YTO Group on default.

The deposit services to be provided under the Deposit Agreement 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.

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

First Tractor Finance can request YTO Group to provide pledge of assets or other guarantees to secure YTO Group's liabilities arising from the performance of the Loan Agreement.

First Tractor Finance shall first satisfy the funding needs of the Group. Depending on the shortfall of funding of the Group, First Tractor Finance has the right to issue a termination or terms amendments notice to YTO Group, requesting for termination or amendments to the terms of the loans granted to YTO Group so as to collect the money to support the production operation of the Group.

LETTER FROM CHINA MERCHANTS SECURITIES

Bills discounting : First Tractor Finance will provide bills discounting services to YTO Group, whereby First Tractor Finance will pay the face value of undue bills presented by YTO Group net of the discount interests. The discount rates to be charged by First Tractor Finance for the provision of bills discounting services to YTO Group shall be determined with reference to the relevant discount rates set by the PBOC from time to time.

Bills acceptance : First Tractor Finance will provide bills acceptance services to YTO Group, whereby (i) in respect of the bills issued by YTO Group and accepted by First Tractor Finance and drawn on the First Tractor Finance, First Tractor Finance commits to pay the face value of the bills to the holders on the due date; and (ii) in respect of the bills issued by YTO Group and accepted by a banker entrusted by First Tractor Finance and drawn on such banker, such banker commits to pay the face value of the bills to the holders on the due date. First Tractor Finance shall charge a one-off services fee of 0.05% of value of such bills, which is determined with reference to the relevant service fees charged for the same or similar transactions by the same or similar industry in the PRC.

First Tractor Finance can request YTO Group to provide pledge of assets or other guarantees to secure the liabilities arising from the performance of YTO Group under the Bill Acceptance Agreement.

III. Background to and reasons for entering into the Financial Services Agreements

As stated in the Letter from the Board, the operation of First Tractor Finance is one of the four key business segments of the Group and has contributed to the consolidated profit before tax of the Group for the three years ended 31 December 2009 amounted to approximately RMB26.80 million, RMB40.13 million and RMB33.38 million respectively, which represent approximately 11.27%, 44.39% and 9.32% of the Group's consolidated profit before tax of the three respective financial years.

LETTER FROM CHINA MERCHANTS SECURITIES

We understand that customer base of First Tractor Finance includes the Group and YTO Group under the relevant PRC regulations. The provision of financial services to the member entities under the Group and YTO Group enables the Group to earn the interest rate differential between the applicable fee of the relevant financial services and the deposit interest paid to YTO Group. The financial operation is the most profitable business segment of the Group in terms of profit margin. If First Tractor Finance is unable to continue the provision of financial services to YTO Group, its customer base and, possibly, business opportunities and profitability will be substantially reduced.

Deposits from YTO Group is one of the principal sources of funding for First Tractor Finance for the provision of other financial services such as loan and bills discounting services to member entities under the Group and/or YTO Group. The maximum outstanding deposit from YTO Group is 116% to 130% of the sum of maximum outstanding amount for each of the loan and bill discounting services during the year 2007 to 2009. The provision of financial services to the member entities under the Group and YTO Group enables the Group to earn the interest rate differential between the applicable fee of the relevant financial services and the deposit interest paid to YTO Group.

Apart from the fees earned from the provision of the Financial Services under the Financial Services Agreements to YTO Group, the Company will share the benefit from First Tractor Finance's profits as the Company directly holds 87.8% equity interest of First Tractor Finance.

First Tractor Finance will satisfy the funding needs of the Group as its first priority and reserve sufficient buffer to the Group. Thus, the provision of Financial Services to YTO Group by First Tractor Finance will not affect its provision of financial services to the Group and at the same time, can earn fees by efficient use of its resources.

The provision of bills acceptance services by First Tractor Finance will not occupy the resources but can increase the source of funding, asset base and fees earned by First Tractor Finance. The increase in deposits can be used to serve the funding needs of the Group.

LETTER FROM CHINA MERCHANTS SECURITIES

The following is the segmental results of the Group for the year ended 31 December 2008 and 2009:

	Revenue			Segment results		
	2009	2008	% change	2009	2008	% change
	RMB'000	RMB'000		RMB'000	RMB'000	
Agricultural machinery business	6,811,536	5,572,154	22.24	196,507	83,219	136.13
Construction machinery business	922,508	1,542,220	(40.18)	(68,170)	(83,177)	18.04
Engine machinery business	1,203,963	777,209	54.91	173,213	91,854	88.57
Financial business	33,254	42,138	(21.08)	33,376	40,133	(16.84)
Unallocated and eliminations	—	—	—	23,215	(41,622)	—
Total	8,971,261	7,933,721	13.08	358,141	90,407	296.14

During the year 2009, under the influences of 5 consecutive rates cuts by the PBOC in 2008, low interest spread between loans and deposits and the smaller scales of loan and discount businesses to YTO and its subsidiaries, operating revenue from the financial business (after intra-group eliminations within the Group) was RMB33,254,000, representing a year on-year decrease of 21%; operating results was RMB33,376,000, representing a year on-year decrease of 16.8%.

First Tractor Finance has registered capital of RMB500 million and should First Tractor Finance provide the Financial Services not exceeding the proposed Cap amounts (details of which are stated below), the capital adequacy ratio of First Tractor Finance will not be less than 28.99%, 24.76% and 23.95% in 2010, 2011 and 2012 respectively, which is substantially higher than the minimum capital adequacy ratio of 10% imposed by CBRC. 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 Agreements enhances the utilization of the resources of First Tractor Finance and generates revenue for the Group. As such, we are of the view that it is reasonable for the Group to enter into the Financial Services Agreements which 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.

LETTER FROM CHINA MERCHANTS SECURITIES

IV. Information on First Tractor Finance

As at 31 December 2009, First Tractor Finance has a registered and fully-paid capital of RMB500 million. Set out below is a summary of the financial information of First Tractor Finance, as extracted from its audited financial statements for each of the three years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December		
	2009	2008	2007
	RMB'000	RMB'000	RMB'000
Net interest income	42,985	52,245	39,900
Operating income	52,716	53,607	73,947
Profit before taxation	41,397	41,087	62,305
Profit after taxation	31,914	30,853	40,940
Capital adequacy ratio	64.2%	70.37%	88.13%

Capital adequacy ratio is a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets.

We have discussed with management of the Company regarding the operation and results of First Tractor Finance and have noted that First Tractor Finance has the following strengths:

- (i) a strong net assets base (with net assets value of approximately RMB559.41 million as at 31 December 2009);
- (ii) First Tractor Finance had been profitable for each of the three years ended 31 December 2007, 2008 and 2009, and recorded an increasing annual return on equity (defined as profit after taxation divided by share capital) of approximately 8.19%, 6.17% and 6.38% respectively for the three years ended 31 December 2007, 2008 and 2009; and
- (iii) First Tractor Finance had capital adequacy ratios of approximately 88.13%, 70.37% and 64.2% as at 31 December 2007, 2008 and 2009 respectively, which were higher than the minimum requirement of 10% as imposed by CBRC.

LETTER FROM CHINA MERCHANTS SECURITIES

As a licensed non-bank financial institution in the PRC, First Tractor Finance is subject to supervisions by PBOC and CBRC, Pursuant to Clause 34 to the Measures for Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) issued by CBRC, First Tractor Finance is required to deposit a mandatory proportion of the deposits they have received with POBC, and must comply with, among others, the following ratio requirements:

		First Tractor Finance		
		As at 31 December		
		2009	2008	2007
		%	%	%
Capital adequacy ratio	Not lower than 10%	64.2	70.37	88.13
Inter-bank borrowing balances				
shall not exceed total capital	Not higher than 100%	0	0	0
Outstanding guarantee amounts				
shall not exceed total capital	Not higher than 100%	5.36	1.8	1.79
Short-term securities investment				
to total capital ratio	Not higher than 40%	6.52	0	8.59
Long-term investments to total				
capital ratio	Not higher than 30%	6.32	0.48	0
Self-owned fixed assets to total				
capital ratio	Not higher than 20%	0.98	1.06	1.09

As shown in the above table, First Tractor Finance fulfilled the ratio requirements as at 31 December 2007, 2008 and 2009.

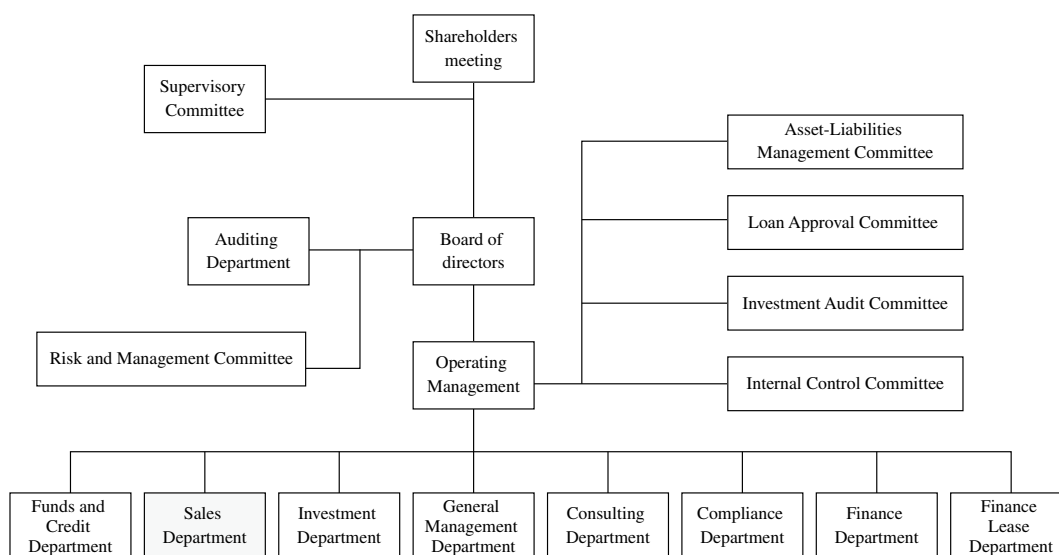
CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company. As advised by the management of the Group, CBRC has not issued such corrective or disciplinary orders, or imposed penalties or fines on First Tractor Finance since its incorporation.

LETTER FROM CHINA MERCHANTS SECURITIES

V. Internal control and risk control of First Tractor Finance

We have been given to understand that First Tractor Finance has established stringent internal control measures to ensure effective risk management and compliance with the relevant laws and regulations. The following is a simplified organisational chart of First Tractor Finance:

Corporate Structure of First Tractor Finance



Set out below are the major roles of certain key committees and departments in maintaining the internal control environment and the risk management function of First Tractor Finance:

Department	Roles in internal control and risk management function
Supervisory Committee	To ensure First Tractor Finance's compliance with the relevant rules and regulations, and to monitor its financial conditions
Risk and Management Committee/ Auditing Department	To monitor and to recommend risk control policies of First Tractor Finance
Assets-Liabilities Management Committee	Responsible for the balance sheet risk management of First Tractor Finance

LETTER FROM CHINA MERCHANTS SECURITIES

Loan Approval Committee	To determine facility amounts to be granted and other financial services to be provided and assess quality of First Tractor Finance's portfolio of assets
Investment Audit Committee	To monitor and review investment policies and guidelines and risk levels
Internal Control Committee	To monitor the effectiveness of the internal control system of First Tractor Finance

As advised by the Company, First Tractor Finance has in place internal rules and policies specifically for management and control of operational risk and credit risks. It has established its own credit policies and credit approval procedures for loan applications which are designed in accordance with the relevant PBOC and CBRC regulations. It has also adopted various risk management techniques to manage and monitor credit risks. As advised by the Company, all directors of First Tractor Finance have extensive experience in the industry where the Group operates and/or financial management.

As stated above, the risks involved in the provision of financial services to YTO Group under the Financial Services Agreements are covered by measures including: -

- (a) YTO has irrevocably granted to First Tractor Finance a right to offset all liabilities arising from the performance of the Loan Agreement and/or Bills Acceptance Agreement by YTO Group from the relevant deposit accounts of that member entity under YTO Group on default; and First Tractor Finance can request YTO Group to provide pledge of assets or other guarantees to secure YTO Group's liabilities arising from the performance of the Loan Agreement and /or the Bills Acceptance Agreement;
- (b) In addition to the above, pursuant to the Loan Agreement, First Tractor Finance shall first satisfy the funding needs of the Group. Depending on the shortfall of funding of the Group, First Tractor Finance has the right to issue a termination or terms amendments notice to YTO Group, requesting for termination or amendments to the terms of the loans granted to YTO Group so as to collect the money to support the production operation of the Group; and
- (c) First Tractor Finance has its own set of internal control measures to monitor the risk exposure in relation to the provision of financial services, including procedures for credit check of the genuineness of the bill and the background of the transaction underlying the bill before provision of such services to YTO Group in respect of the bill discounting services.

LETTER FROM CHINA MERCHANTS SECURITIES

We consider that the above risk management measures to be adopted by the Company are appropriate and provide sufficient assurance that the amount to be involved for providing services under the Financial Services Agreements will be safeguarded.

VI. Basis of the Caps

The following table summarises the Historical Cap amounts for each of the three years ended 31 December 2009 and their relevant historical maximum outstanding amounts for each of the Old Financial Services under the Old Financial Services Agreements for each of the three years ended 31 December 2009:

Year	2007			2008			2009		
	Historical	Maximum		Historical	Maximum		Historical	Maximum	
	Cap	Outstanding	Year End	Cap	Outstanding	Year End	Cap	Outstanding	Year End
	Amounts	Amounts	Balance	Amounts	Amounts	Balance	Amounts	Amounts	Balance
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Old Financial									
Services Agreements									
— Loan	611,000	315,630	277,300	752,000	432,820	432,320	846,000	422,820	392,430
— Bills discounting	455,000	196,370	54,800	560,000	190,860	122,880	630,000	214,600	150,020
— Bills acceptance	30,000	0	0	38,000	0	0	42,000	0	0

The following table summarises the proposed Cap amounts for each of the Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement for each of the three years ending 31 December 2012 :

Year	2010	2011	2012
	RMB'000	RMB'000	RMB'000
Loan Agreement	450,000	510,000	590,000
Bills Discounting Agreement	300,000	350,000	400,000
Bills Acceptance Agreement	250,000	300,000	350,000

As stated in the Letter from the Board, the proposed Cap amounts for the Non-exempt CCT Transactions provided under the Financial Services Agreements, are determined after considering (i) financial resources of First Tractor Finance; (ii) credit policy of First Tractor Finance; (iii) future growth and development of the Group and YTO Group; and (iv) past financial transactions which YTO Group has undertaken.

The proposed Cap amounts for each of the loan and bills discounting services under the Loan Agreement and the Bills Discounting Agreement respectively are determined with reference to, among others, (i) the expected increase in the total assets of First Tractor Finance; (ii) the funding requirements of the Group to satisfy its business needs, given that First Tractor Finance will provide financing to YTO Group only after satisfying the funding needs of the Group; and (iii) the maximum outstanding amounts of each of the loan services and bills discounting services under the Old Financial Services Agreements for the year ended 31 December 2009.

As at the Latest Practicable Date, First Tractor Finance has secured credit facilities from three PRC commercial banks under which First Tractor Finance will be able to arrange bills issued by YTO Group to be accepted by and drawn on its bankers. The Directors believe such credit facilities significantly improve the credit worthiness and acceptability of bills issued by YTO Group.

First Tractor Finance is also designated by PBOC as the second batch of banking and non banking financial institutions for the implementation of the national wide Electronic Commercial Bills System (“ECBS”) scheduled on 28 June 2010. The Directors believe that with the implementation of the ECBS by First Tractor Finance, the demand for its bills acceptance services will significantly increase. This is because the ECBS will (i) improve authentication of bills; (ii) reduce the costs of delivery and custody of the bills; (iii) enhance the clearing and payment of the accepted bills; and (iv) reduce the operation costs of the bills acceptance services.

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 financial services to the Group and YTO Group. Pursuant to the relevant regulations set by CBRC, 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 proposed Cap amounts, First Tractor Finance sets its capital adequacy ratio at not less than 28.99%, 24.76 % and 23.95% in 2010, 2011 and 2012 respectively which is higher than the 10% threshold set by CBRC. In considering whether the projected capital adequacy ratio of First Tractor Finance is justifiable and in the interests of the Company and the Shareholders, we have taken into account the standard set by CBRC as well as utilization of resources of the Company. In this regard, we consider that the respective projected capital adequacy ratios for the three years ending 2012 are above the 10% threshold set by CBRC, which risk level is acceptable to the Company and the Shareholders. Therefore, the respective capital adequacy ratio is justifiable and in the interests of the Company and the Shareholders. In light of the foregoing, the level of First Tractor Finance’s resources should be regarded as one of the principal factors in determining the proposed Cap amounts for the Non-exempt CCT Agreements.

LETTER FROM CHINA MERCHANTS SECURITIES

Credit policy of First Tractor Finance

The Directors advised that First Tractor Finance has sufficient resources to provide the financial services at the amount over the proposed Cap amounts for the Financial Services Agreements 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 CBRC, First Tractor Finance has implemented certain stringent internal control policies including, among other things, (i) a capital adequacy ratio higher than the 10% threshold set by CBRC and (ii) restrictions in respect of assets and liabilities composition, liquidity, assets and loans quality in accordance with guidelines issued by CBRC. We consider these internal control policies are fair, reasonable and justifiable and serve the purpose of protecting the interests of the Company and the Shareholders as a whole.

Future growth and development of YTO Group

According to management of the Company, 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 reviewed the assumptions underlying the projected growth of the turnover of YTO Group. Assumptions of which were based on the historical growth rate of YTO Group from year 2007 to 2009, we consider that these assumptions have been made with due care and objectivity and are fair and reasonable.

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 rapid growing PRC economy. The improving market condition will enhance the turnover of YTO Group, resulting in the increase in funding and 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.

Past financial transactions which YTO Group has undertaken

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

LETTER FROM CHINA MERCHANTS SECURITIES

Financial Services 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 (including the registered capital of RMB500 million and the deposit from YTO) will be approximately RMB1,500 million, RMB1,900 million and RMB2,000 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. In assessing the reasonableness of such estimation, we have reviewed and discussed with management of the Group the basis and assumptions in setting the estimated total asset value of First Tractor Finance. We understand that the said estimation is set with reference to the deposit from YTO, YTO's business operations and the expected scale of business with YTO. Having considered the above, we are of the view that the said projection is fair and reasonable. 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 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 Agreement	30%	27%	30%	30%
Bills Discounting Agreement	20%	19%	20%	20%
Bills Acceptance Agreement	17%	16%	18%	20%

As noted from the above table, 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.

As a licensed non-bank 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 (taking into account the projected selling units of tractors, road rollers and large excavators etc.) and YTO Group of the respective years. We have reviewed the projection and discussed with management of the Group the basis and assumptions in setting the projected growth rates of the turnover of the Group. We understand that the said estimation is set with reference to the historical selling units of tractors, road rollers and large excavators etc. Having considered the above, we are of the view that the said projection is fair and reasonable. 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 Agreements 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 proposed Cap amounts for the Non-exempt CCT Agreements 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 Non-exempt CCT Agreements for the years of 2010 to 2012 and the significant increase in such proposed Cap amounts as compared to the historical cap amounts for the Non-exempt CCT Agreements for the years of 2006 to 2009. As such, the proposed Cap amounts for the Non-exempt CCT Agreements have been determined on a fair and reasonable basis.

VII. Annual review of the continuing connected transactions

The procedures to be put in place for the annual review of the continuing connected transactions as set out in the Listing Rules are as follows:

- (a) the independent non-executive directors will review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;
- (b) the auditors will review the continuing connected transactions and issue a letter to the board confirming that the continuing connected transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

LETTER FROM CHINA MERCHANTS SECURITIES

(iii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the relevant caps;

the Board must state in the annual report whether the auditors have made such confirmation in relation to the continuing connected transactions; and

(c) the Company will promptly notify the Stock Exchange and publish an announcement if it believes that the independent non-executive directors and/or the auditors will not be able to issue the aforesaid confirmation.

As the services under the Non-exempt CCT Agreements would be restricted by way of the proposed Cap amounts and the conduct of those transactions would be reviewed by the independent non-executive directors and auditors of the Company as mentioned above, we are of the view that there exist appropriate measures to govern the future execution of the financial services and to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that (i) the Non-exempt CCT Agreements 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 proposed Cap amounts have been determined on a fair and reasonable basis; and (iii) it would be fair and reasonable for the Independent Shareholders to approve the Non-exempt CCT 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 Non-exempt CCT Agreements and their respective proposed Cap amounts at the EGM. We also recommend the Independent Shareholders to vote in favour of the respective resolutions relating to the Non-exempt CCT Agreements and their respective proposed Cap amounts at the EGM.

Yours faithfully,
For and on behalf of
China Merchants Securities (HK) Co., Ltd.

Jiang Jun
Executive Director
Investment Banking Department

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters 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 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 and supervisors of the Company 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 2009, the date to which the latest published audited financial statement of the Group was made up.

None of the Directors and supervisors of the Company 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 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 ^(Note)	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, 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	Approximate
			percentage of the total issued H Share of the Company	percentage of the total issued Share capital of the Company
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 has given opinion or advice contained in this circular:

Name	Qualification
China Merchants Securities	a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, China Merchants Securities 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.

China Merchants Securities 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 China Merchants Securities are given as of the date of this circular for incorporation herein.

China Merchants Securities 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 or disposed of by, or leased to, any member of the Group since 31 December 2009, 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 and supervisors of the Company 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.

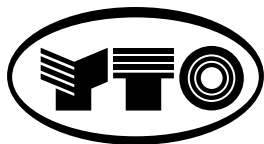
5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, the date to which the latest published audited accounts of the Company were made up.

6. DOCUMENTS FOR INSPECTION

A copy 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:

- (1) Loan Agreement;
- (2) Bills Discounting Agreement; and
- (3) Bills Acceptance Agreement.



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 Monday, 16 August 2010 at No.154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the “**PRC**”) for the purpose of passing the following resolutions:

Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the announcements of the Company dated 28 June 2010.

AS ORDINARY RESOLUTIONS:

1. the Sale and Purchase Agreement (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 the transactions contemplated thereunder and the implementation thereof be and are hereby approved and confirmed;
2. the Loan Agreement (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 Bills Discounting Agreement (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 Bills Acceptance Agreement (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;

* *For identification purpose only*

NOTICE OF EGM

5. 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 Sale and Purchase Agreement, Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the Sale and Purchase Agreement, Loan Agreement, Bills Discounting Agreement and Bills Acceptance Agreement 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;
6. the appointment of Mr. Zhang Qiusheng as the independent non-executive Director be and is hereby approved and confirmed;

AS SPECIAL RESOLUTIONS:

7. upon obtaining the approvals from the CSRC and the other relevant regulatory authorities in the PRC, the allotment and issue of A Shares by the Company and each of the following terms and conditions of the Issue of A Shares be approved and confirmed;

(i) Class of new Shares to be issued:

A Shares

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

RMB1.00 each

(iii) Stock exchange for listing:

Shanghai Stock Exchange

(iv) Number of A Shares to be issued:

A maximum of 150,000,000 A Shares

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

NOTICE OF EGM

(v) Target subscribers:

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

(vi) Method of issue:

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

(vii) Basis for determining the issue price:

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

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

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

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

NOTICE OF EGM

(ix) Use of proceeds:

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

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

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

The Board be and is hereby authorized to modify the investment amount of the abovementioned projects and to allocate among such projects the proceeds from the Issue of A Shares by taking into account of the timing, amount and other circumstances of receiving such proceeds and the progress of such projects; the Board be and is hereby further authorized to modify the investment plans for the abovementioned projects according to the instructions of the competent regulatory authorities.

NOTICE OF EGM

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

The Board be authorized with full power to take all necessary actions and/or sign any documents in connection with the Issue of A Shares and to do all related matters in accordance with the relevant requirements of the CSRC, Stock Exchange and Shanghai Stock Exchange, and the Board be authorized to sub-authorize such authorization. The authorization to the Board includes but not limited to:

- (a) to deal with the issue and listing with respect to the Issue of A Shares and other related application procedures and other formalities (including but not limited to the proposed listing of A Shares on the Shanghai Stock Exchange);
- (b) to confirm the appropriate time of issue, manner of issue, target subscribers, and to determine the issue price, par value of A Shares and issue quantity according to the market conditions and in compliance with the relevant regulations;
- (c) to approve the application of the use of the net proceeds from the Issue of A Shares subject to the approval of the CSRC;
- (d) to approve and sign each of the documents and contracts relating to the Issue of A Shares including but not limited to offering circular(s), prospectus, sponsorship agreement, underwriting agreement, listing agreement and various announcements;
- (e) to make appropriate and necessary amendments to the relevant provisions of the Articles of Association and the procedure rules of the Company in connection with the Issue of A Shares;
- (f) to deal with the registration procedures in respect of the change in registered capital and the amendments to the Articles of Association upon completion of the Issue of A Shares; and
- (g) to deal with all procedures relating to the Issue of A Shares according to laws and regulations including all procedures that are required to be followed under the laws, regulations and listing rules of the places of listing of the Domestic Shares and H Shares.

The authorization shall be effective for a period of 12 months commencing from the approval of this resolution at the EGM and Class Meetings.

NOTICE OF EGM

(xi) Valid Period of this Resolution

This resolution shall be effective for a period of 12 months commencing from the approval of this resolution at the EGM and Class Meetings.

8. subject to the approval of the special resolution (7) above and conditional upon obtaining the approval from the CSRC and the completion of the Issue of A Shares, the proposed amendments to the Articles of Association (details of which are set out in the appendix to the circular to be despatched to the Shareholders of the Company on or before 20 July 2010) be approved and confirmed, and that any Director be and is hereby authorised to modify the wordings of such amendments as appropriate (such amendments will not be required to be approved by the Shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the Issue of A Shares, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the amendments to the Articles of Association of the Company;
9. subject to the approval of the special resolutions (7) and (8) above and conditional upon the completion of the Issue of A Shares, the adoption of the rules of procedures for general meetings of the Company (details of which are set out in the appendix to the circular to be despatched to the Shareholders of the Company on or before 20 July 2010) be approved and confirmed, and that any Director be and is hereby authorised to modify the wordings of such rules as appropriate (such modifications will not be required to be approved by the Shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the Issue of A Shares, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the adoption of the rules of procedures for general meetings of the Company;
10. subject to the approval of the special resolutions (7) and (8) above and conditional upon the completion of the Issue of A Shares, the adoption of the rules of procedures for the Board meetings of the Company (details of which are set out in the appendix to the circular to be despatched to the Shareholders of the Company on or before 20 July 2010) be approved and confirmed, and that any Director be and is hereby authorised to modify the wordings of such rules as appropriate (such modifications will not be required to be approved by the Shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the Issue of A Shares, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the adoption of the rules of procedures for the Board meetings of the Company;

NOTICE OF EGM

11. subject to the approval of the special resolutions (7) and (8) above and conditional upon the completion of the Issue of A Shares, the adoption of the rules of procedures for the supervisory committee of the Company (details of which are set out in the appendix to the circular to be despatched to the Shareholders of the Company on or before 20 July 2010) be approved and confirmed, and that any Director be and is hereby authorised to modify the wordings of such rules as appropriate (such modifications will not be required to be approved by the Shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the Issue of A Shares, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the adoption of the rules of procedures for the supervisory committee of the Company;
12. subject to the approval of the special resolutions (7) and (8) above and conditional upon the completion of the Issue of A Shares, the adoption of the management principles on external guarantee of the Company (details of which are set out in the appendix to the circular to be despatched to the Shareholders of the Company on or before 20 July 2010) be approved and confirmed, and that any Director be and is hereby authorised to modify the wordings of such principles as appropriate (such modifications will not be required to be approved by the Shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the Issue of A Shares, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the adoption of the management principles on external guarantee of the Company;
13. subject to the approval of the special resolutions (7) and (8) above and conditional upon the completion of the Issue of A Shares, the adoption of the management principles on use of proceeds of the Company (details of which are set out in the appendix to the circular to be despatched to the Shareholders of the Company on or before 20 July 2010) be approved and confirmed, and that any Director be and is hereby authorised to modify the wordings of such principles as appropriate (such modifications will not be required to be approved by the Shareholders of the Company) and execute all such documents and/or do all such acts as the Directors may, in their absolute discretion, deem necessary or expedient and in the interest of the Company in order to effect the Issue of A Shares, comply with the changes in the PRC laws and regulations, and satisfy the requirements (if any) of the relevant PRC authorities, and to deal with other related issues arising from the adoption of the management principles on use of proceeds of the Company;

NOTICE OF EGM

14. subject to the approval of the CSRC on the Issue of A Shares and the relevant requirements of the CSRC, Stock Exchange, Shanghai Stock Exchange and other laws and regulations in the PRC, the listing of 443,910,000 Domestic Shares currently held by YTO on the Shanghai Stock Exchange (“**Listing of these Shares**”) be and is hereby approved; and the Board be and is hereby authorized with full power (including power to sub-authorize) to take all necessary actions and/or sign any documents in connection with the Listing of these Shares and to do all related matters in accordance with the relevant requirements of the CSRC, Stock Exchange and Shanghai Stock Exchange and other laws and regulations in the PRC.

By Order of the Board
FIRST TRACTOR COMPANY LIMITED
Liu Dagong
Chairman

Luoyang, the PRC
28 June 2010

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.

Notes:

1. The register of members of the Company will be temporarily closed from 17 July 2010 to 15 August 2010 (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 of the Company should be made on 16 July 2010 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 16 July 2010 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.

NOTICE OF EGM

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., 26 July 2010.
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:
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