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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

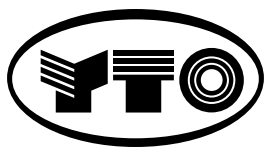
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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

**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.

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

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

(Stock Code: 0038)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
— PROPOSED ACQUISITION OF 51% EQUITY INTEREST IN  
LUOYANG TRACTORS RESEARCH COMPANY LIMITED;  
AND**

**(2) PROPOSED ADOPTION OF THE DECISION MAKING PRINCIPLES**

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of  
First Tractor Company Limited in respect of the Connected Transaction**



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A letter from the Board is set out on pages 1 to 12 of this circular.

A letter from the Independent Board Committee is set out on page 13 of this circular.

A letter from China Merchants Securities (HK) Co., Ltd., the independent financial adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders regarding the Acquisition is set out on pages 14 to 23 of this circular.

A notice for convening the extraordinary general meeting (the “EGM”) of First Tractor Company Limited (the “Company”) to be held at 9:00 a.m., on Monday, 20 September 2010 at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC is set out on pages 52 to 54 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 printed 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 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.

24 August 2010

\* For identification purposes only

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Target Interest by the Company from YTO pursuant to the Sale and Purchase Agreement
“Announcement”	the announcement issued by the Company dated 3 August 2010 regarding, among others, the Acquisition and the proposed adoption of the Decision Making Principles
“Appraisal Date NAV”	the audited consolidated net asset value of the Target Company as at 31 July 2010
“Appraisal Report”	the asset appraisal report of the Target Company as of the valuation reference date of 31 July 2010 issued by the Independent Valuer, an extract of which is set out in Appendix III to this circular
“A Shares”	the ordinary shares of the Company of RMB1.00 each proposed to be allotted, issued and listed on the Shanghai Stock Exchange
“associates”	has the meaning as defined under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	Monday to Friday, excluding public holidays in the PRC
“China Machinery”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC, the ultimate controlling Shareholder of the Company and the controlling shareholder of YTO
“China Merchants Securities”	China Merchants Securities (HK) Co., Ltd., the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, being a corporation licensed by the Securities and Futures Commission to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

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## DEFINITIONS

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“Company”	First Tractor Company Limited*(第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H Shares of which are listed on the Stock Exchange (Stock Code: 0038)
“Completion”	completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement
“Completion Date NAV”	the audited consolidated net asset value of the Target Company as at the nearest month end date to Completion
“connected person(s)”	has the meaning as defined under the Listing Rules
“controlling shareholder”	has the meaning as defined under the Listing Rules
“Decision Making Principles”	the decision making principles on connected transactions and the decision making principles on investments and operation
“Directors”	the directors of the Company, including the independent non-executive directors
“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, 20 September 2010 at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, for the Independent Shareholders or the Shareholders (as the case may be) to consider and, if thought fit, approve, among other things, the Acquisition and the proposed adoption of the Decision Making Principles
“Formal Appraised NAV”	approximately RMB290.54 million (equivalent to approximately HK\$331.22 million), being the appraised net asset value of the Target Company as at 31 July 2010 as disclosed in the Appraisal Report

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange
“I & C Technology Consulting”	Luoyang I & C Technology Consulting Company Limited (洛陽意中技術諮詢有限公司), a sino-foreign equity joint venture incorporated with limited liability in the PRC and an associated company of the Target Company, in which the Target Company owns 30% of its equity interest as at the Latest Practicable Date
“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, Mr. Hong Xianguo and Mr. Zhang Qiusheng
“Independent Shareholders”	Shareholders other than YTO and its associates
“Independent Valuer”	Beijing China Enterprise Appraisals Company, Inc.* (北京中企華資產評估有限責任公司), a professional valuer in the PRC. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, Beijing China Enterprise Appraisals Company, Inc.* (北京中企華資產評估有限責任公司) and its ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company
“Issue of A Shares”	the proposed issue of not more than 150,000,000 A Shares to qualified public investors (except those prohibited by the PRC laws and regulations and other regulatory requirements to which the Company is subject), details of which were disclosed in the announcement of the Company dated 28 June 2010 and the circular of the Company dated 20 July 2010

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## DEFINITIONS

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“Latest Practicable Date”	20 August 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
“percentage ratio(s)”	has the meaning as defined under the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong and the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	a sale and purchase agreement dated 3 August 2010 entered into between the Company and YTO pursuant to which the Company has conditionally agreed to purchase, and the YTO has conditionally agreed to sell, the Target Interest
“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Shareholder(s)”	registered holder(s) of the Shares
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Luoyang Tractors Research Company Limited* (洛陽拖拉機研究有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of YTO before Completion
“Target Interest”	51% equity interest in the Target Company
“Tuoqi Engineering”	Luoyang Tuoqi Engineering Company Limited* (洛陽拖汽工程有限公司), a limited liability company incorporated in the PRC and an associated company of the Target Company, in which the Target Company owns 30% of its equity interest as at the Latest Practicable Date

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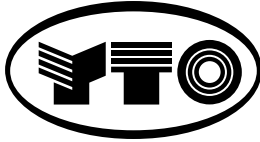
## DEFINITIONS

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“Xinyan Mechanical Engineering”	Luoyang Xinyan Material Mechanical Engineering Company Limited* (洛陽鑫研機械材料工程有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date
“Xiyuan Motor Power Test”	Luoyang Xiyuan Motor Power Test Company Limited* (洛陽西苑車輛動力檢驗所有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date
“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling Shareholder, holding approximately 52.48% equity interest in the Company as at the Latest Practicable Date
“YTO Group”	YTO and its subsidiaries
“%”	per cent.

*For the purpose of this circular, the exchange rate of RMB1.00 = HK\$1.14 has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts have been, could have been or may be exchanged, as this or any other rates.*

\* For identification purposes 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\*\*  
Mr. Zhang Qiusheng\*\*

\*\* *Independent non-executive Director*

*Registered and principal office:*

No. 154 Jianshe Road  
Luoyang, Henan Province  
The PRC

24 August 2010

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
— PROPOSED ACQUISITION OF 51% EQUITY INTEREST IN  
LUOYANG TRACTORS RESEARCH COMPANY LIMITED;  
AND**

**(2) PROPOSED ADOPTION OF THE DECISION MAKING PRINCIPLES**

**INTRODUCTION**

**The Acquisition**

On 3 August 2010, the Board announced that the Company and YTO entered into the Sale and Purchase Agreement on 3 August 2010 pursuant to which the Company has conditionally agreed to purchase, and YTO has conditionally agreed to sell, the Target Interest, i.e. 51% equity interest in the Target Company, at an initial cash consideration of approximately RMB150.17 million (equivalent to approximately HK\$171.19 million) (subject to any adjustments that may have to be made with reference to, among others, the Formal Appraised NAV to be disclosed in the Appraisal Report (when the Appraisal Report has not yet been issued by the Independent Valuer as at the date of the Announcement), which is subject to the final approval by the relevant governmental authorities or its authorized institutions).

\* *For identification purposes only*



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## LETTER FROM THE BOARD

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YTO is the controlling Shareholder and thus, YTO and its associates are regarded as connected persons of the Company. Accordingly, the Acquisition contemplated under the Sale and Purchase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios of the Acquisition are more than 5% but less than 25%, however, the consideration of the Acquisition is more than HK\$10,000,000, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, the Acquisition also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

In view of the interests of YTO in the Sale and Purchase Agreement, YTO and its associates (which in aggregate hold 443,910,000 Shares, representing approximately 52.48% of the equity interest in the Company as at the Latest Practicable Date) will abstain from voting at the EGM on the resolution(s) in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

### **Proposed Adoption of the Decision Making Principles**

Reference is made to the announcement of the Company dated 28 June 2010 and the circular of the Company dated 20 July 2010 in relation to, among other things, the proposed Issue of A Shares of the Company. For the purpose of the Issue of A Shares, the Company is prepared to adopt the Decision Making Principles on connected transactions and on investments and operation. For resolutions relating to the proposed adoption of the Decision Making Principles, no Shareholders are required to abstain from voting at the EGM.

### **General**

The purpose of this circular is (i) to provide you with information relating to the Acquisition and the proposed adoption of the Decision Making Principles; (ii) to set out the letter of advice from the Independent Board Committee to the Independent Shareholders regarding the Acquisition; (iii) to set out the letter of advice from China Merchants Securities to the Independent Board Committee and the Independent Shareholders regarding the Acquisition; (iv) to set out an extract of the Appraisal Report prepared by the Independent Valuer; and (v) to provide you with a notice of the EGM to be convened for the Independent Shareholders to approve the Acquisition and for the Shareholders to approve the proposed adoption of the Decision Making Principles.

### **(1) THE ACQUISITION**

Set out below is a summary of the principal terms of the Sale and Purchase Agreement:-

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

##### ***Date***

3 August 2010

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## LETTER FROM THE BOARD

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### *Parties*

Purchaser: The Company

Vendor: YTO, being the controlling Shareholder

### *Asset to be acquired*

The Target Interest, being 51% equity interest in the Target Company

### *Consideration*

Approximately RMB148.18 million (equivalent to approximately HK\$168.93 million), being 51% of the Formal Appraised NAV as disclosed in the Appraisal Report issued by the Independent Valuer. The Appraisal Report (including the Formal Appraised NAV) shall be subject to the final approval by the relevant governmental authorities or its authorized institutions.

Subject to the final approval by the relevant government authorities or its authorized institutions of the Appraisal Report, if the difference between 51% of the Formal Appraised NAV and the initial consideration of the Target Interest of RMB150.17 million (equivalently to approximately HK\$171.19 million) as disclosed in the Announcement (when the Appraisal Report has not yet been issued by the Independent Valuer) exceeds  $\pm 3\%$ , the Sale and Purchase Agreement shall lapse.

The consideration of the Target Interest is to be settled by the Company by way of cash within 30 Business Days after fulfillment of all the conditions precedent of the Sale and Purchase Agreement as set out below. The Company intends to satisfy the cash consideration by its internal resources.

Upon Completion, if there is any difference between the Completion Date NAV and the Appraisal Date NAV, the consideration of the Target Interest shall be adjusted as follows:-

Adjusted consideration = Approximately RMB148.18 million (being 51% of the Formal Appraised NAV, subject to the final approval by the relevant governmental authorities or its authorized institutions) + (51% of the Completion Date NAV — 51% of the Appraisal Date NAV)

The Completion Date NAV shall be ready within 30 days upon Completion and both parties have to agree on the difference between the Completion Date NAV and the Appraisal Date NAV and settle such difference by way of cash within 15 days upon completion of the final audit results of the Completion Date NAV.

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## LETTER FROM THE BOARD

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### *Conditions precedent*

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

- (i) the Sale and Purchase Agreement having been duly executed by the legal representative or authorized representative of each of the Company and YTO, and having been sealed with the seals of each of the Company and YTO;
- (ii) the Company obtaining the requisite approval by the Independent Shareholders of the Sale and Purchase Agreement at the EGM in accordance with the Listing Rules;
- (iii) YTO obtaining the approval by its shareholders of the Sale and Purchase Agreement at a general meeting; and
- (iv) the Acquisition being approved by China Machinery.

### *Completion*

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

- (i) the Sale and Purchase Agreement having been duly signed and becoming effective upon fulfillment of all the conditions precedent of the Sale and Purchase Agreement as set out above;
- (ii) the Target Company obtaining its shareholders' approvals on the Sale and Purchase Agreement and the Acquisition;
- (iii) the articles of association of the Target Company having been amended legally and appropriately to reflect the Acquisition;
- (iv) the consideration of the Target Interest, being the amount representing 51% of the Formal Appraised NAV, having been settled in full by the Company; and
- (v) the registration procedures relating to the Acquisition with Administration for Industry and Commerce (工商行政管理局) of the PRC having been completed.

Completion shall take place upon fulfillment of all the above.

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## LETTER FROM THE BOARD

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### **BASIS OF CONSIDERATION**

The consideration of the Target Interest was determined after arm's length negotiations between the Company and YTO with reference to, among others, the Formal Appraised NAV as disclosed in the Appraisal Report prepared by the Independent Valuer using the cost based approach (also known as "asset based valuation approach"). The Directors (including the independent non-executive Directors) consider that the consideration of the Target Interest is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

An extract of the Appraisal Report, which contains, among other things, key information such as a description of the valuation undertaken by the Independent Valuer, the valuation methodology and key assumptions adopted by the Independent Valuer, as well as a summary of the valuation results and professional qualifications of the Independent Valuer, is set out in Appendix III to this circular.

### **REASONS AND BENEFITS FOR THE ACQUISITION**

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

YTO Group wholly owns a national grade technology centre and the Target Company, both of which have strong capability on the research and development of tractor products. YTO Group has been providing the research and development of tractor products services to the Group since the listing of the H Shares on the Stock Exchange in June 1997 pursuant to a technology services agreement entered into between the Company and YTO dated 6 June 1997 (the "**Technology Services Agreement**"). Pursuant to the Technology Services Agreement, YTO has agreed to, among other things, (i) maintain adequate manpower, equipments, facilities and technological know-how to serve the Company for the purposes of maintaining its capability to provide research and development services; and (ii) give priority to the Company's research and development projects over other projects, except for those assigned by the PRC Government.

YTO Group intends to restructure its research and development resources to enhance its operational efficiency and management. On 30 July 2010, YTO Group completed a capital injection to the Target Company (the "**Capital Injection**") whereby YTO Group increased the capital of the Target Company by approximately RMB183.58 million through the injection of cash of RMB40 million and certain major assets of its national grade technology centre including land use rights and buildings with an aggregate appraised value of approximately RMB143.58 million as at 31 May 2010. The asset appraisal is conducted by an independent professional valuer in the PRC, using the asset based valuation approach. Subsequent to the completion of the Capital Injection, it is expected that the research and development capability of the Target Company will be greatly enhanced.

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## LETTER FROM THE BOARD

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Since the Target Company possesses the technologies and research and development resources required by the Group, with a view to perfecting the Group's production chain and enhancing the competitiveness of the Group, the Group proposes to purchase the Target Interest so as to strengthen the research and development capability of the Group.

Apart from the provision of research and development services to the Group, the Target Company has also undertaken various national grade research and development projects and obtained research subsidies from the PRC government. The holding of 49% equity interest in the Target Company by YTO, a state-owned enterprise, will facilitate the Target Company to obtain continuous government funding support for its research and development projects. Based on the above and after arm's length negotiations between the Company and YTO, it is considered appropriate for YTO to retain 49% equity interest in the Target Company upon completion of the Acquisition.

The Directors are of the view that the Acquisition can strengthen the research and development capability of the Company, fasten the development of new products and enhance the competitiveness of the Company. It represents a valuable opportunity for the Group to develop its research and development of tractor products which will strengthen the Group's capability for research and development in the tractor related business.

The terms of the Sale and Purchase Agreement have been determined after arm's length negotiations between the Company and YTO. The Directors (including the independent non-executive Directors) consider that the Sale and Purchase Agreement was entered into in the ordinary course of business of the Company and on normal commercial terms and that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon completion of the Acquisition, YTO will no longer hold the entire equity interest in the Target Company, the Technology Services Agreement will be terminated or amended and the Company will make disclosure on the same, as and when appropriate, in accordance with the Listing Rules.

### **INFORMATION OF THE TARGET COMPANY, ITS SUBSIDIARIES AND ASSOCIATED COMPANIES**

As at the Latest Practicable Date, YTO owns the entire issued equity interest in the Target Company. The Target Company has two wholly-owned subsidiaries, namely Xiyuan Motor Power Test and Xinyan Mechanical Engineering, and two associated companies, namely Tuoqi Engineering and I & C Technology Consulting.

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## LETTER FROM THE BOARD

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### *Target Company*

The Target Company is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB185 million. Its principal activities include the examination and testing of tractors, vehicles, construction machineries, internal combustion engines, agricultural machineries, agricultural transporters and their parts; research and development of equipments, technology development, transfer, consultancy services and sales; and computer technology development services.

The Target Company has development capabilities for crawler tractors, wheeled tractors, harvesting machineries, diesel engines, bulldozers, excavators, loaders, scrapers, forklifts, self-propelled power stations, vehicle-related products and tractor testing equipments, among which its research and development technologies for tractors, off-road diesel vehicles, small engineering machineries and tractor testing equipments are leading in the PRC while its technology for harvesting machineries is advanced in the PRC. It is capable of undertaking the technological development, promotion and application of electrical appliances and instruments as well as new materials and new processes.

The Target Company has been recognized as a high and new technology enterprise (高新技術企業) by the relevant PRC governmental authorities in December 2008, effective for three years. The Target Company is a supporting institution of Tractor Industry Branch of China Agricultural Machinery Industry Association (中國農業機械工業協會拖拉機分會), National Tractor Standardization Technical Committee (全國拖拉機標準化技術委員會) and National Tractor Quality Supervision and Inspection Centre (國家拖拉機質量監督檢驗中心) and an affiliated unit to Tractor Committee of Chinese Society for Agricultural Machinery (中國農業機械學會拖拉機學會).

The Target Company owns a laboratory certified by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會), a vehicle emission pollution testing institution designated by Ministry of Environmental Protection of the PRC (國家環境保護總局), and an official tractor testing station of the Organisation for Economic Co-operation and Development in the PRC.

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## LETTER FROM THE BOARD

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### ***Xiyuan Motor Power Test***

Xiyuan Motor Power Test is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB1 million and is a wholly-owned subsidiary of the Target Company. Xiyuan Motor Power Test has been recognized as a high and new technology enterprise (高新技術企業) by the relevant PRC governmental authorities in December 2008, effective for three years and is a laboratory certified by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會). Its principal activities include the examination and testing of tractors, three-wheel vehicles, low-speed trucks, vehicles (including special purpose vehicles), construction machineries, internal combustion engines, agricultural equipments, motor bikes, agricultural machineries, deformed machineries and their parts; safety inspection of mechanical vehicles; development, manufacture and sales of agricultural machineries and equipments, testing equipments, instruments, new materials and its products; provision of sales agency services for imported instruments and equipments; technology development, transfer and consultancy services; and quality examination of machinery products.

### ***Xinyan Mechanical Engineering***

Xinyan Mechanical Engineering is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB1 million and is a wholly-owned subsidiary of the Target Company. Its principal activities include research and development, manufacture, sales, technology transfer and consultancy services of agricultural machineries and transportation machineries and their parts, medium frequency induction systems and non-standard systems, new and high technology materials and related technology; and sales of metal materials (excluding precious metals), non-metal materials and its products.

### ***Tuoqi Engineering***

Tuoqi Engineering is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB4 million. It is an associated company of the Target Company, in which the Target Company owns 30% of its registered capital. Its principal activities include technology development, transfer, consultancy services, manufacture and sales of tractors, construction machineries, vehicles, agricultural machineries and their parts.

### ***I & C Technology Consulting***

I & C Technology Consulting is a sino-foreign equity joint venture incorporated with limited liability in the PRC with a registered capital of RMB1 million. It is an associated company of the Target Company, in which the Target Company owns 30% of its registered capital. Its principal activities include technology development, transfer and consultancy services for electrical machineries and related products; and consultancy services for business, quality and safety management systems according to the relevant international/national standards.

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## LETTER FROM THE BOARD

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### Financial information of the Target Company

Set out below is the basic financial information of the Target Company, which has been prepared based on the generally accepted accounting principles in the PRC:

Book value of the consolidated net asset as at 31 July 2010 (unaudited)	approximately RMB277.57 million
Consolidated net profits before taxation and extraordinary items for the year ended 31 December 2008 (audited)	approximately RMB13.76 million
Consolidated net profits after taxation and extraordinary items for the year ended 31 December 2008 (audited)	approximately RMB13.02 million
Consolidated net profits before taxation and extraordinary items for the year ended 31 December 2009 (audited)	approximately RMB9.05 million
Consolidated net profits after taxation and extraordinary items for the year ended 31 December 2009 (audited)	approximately RMB7.97 million
Original investment cost injected by YTO	approximately RMB238.58 million

Upon Completion, the Target Company will become a non wholly-owned subsidiary of the Company, in which the Company and YTO will own 51% and 49% of its equity interest respectively, and the accounts of the Target Company will be consolidated to that of the Group.

### INFORMATION OF YTO GROUP AND CHINA MACHINERY

YTO is the controlling Shareholder, holding approximately 52.48% of the equity interest in the Company as at the Latest Practicable Date. YTO Group is principally engaged in the production of transportation machineries, casting parts, vehicles products, spare parts and components, etc.

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.



### (2) PROPOSED ADOPTION OF THE DECISION MAKING PRINCIPLES

Reference is made to the announcement of the Company dated 28 June 2010 and the circular of the Company dated 20 July 2010 in relation to, among other things, the proposed Issue of A Shares of the Company.

For the purpose of the Issue of A Shares, the Company proposes to adopt the Decision Making Principles pursuant to the requirements of the applicable PRC laws and regulations and the relevant rules of the Shanghai Stock Exchange. Details of (i) the decision making principles on connected transactions and (ii) the decision making principles on investments and operation are set out in Appendices I and II to this circular respectively.

The proposed adoption of the Decision Making Principles is subject to Shareholders' approval at the EGM. The Decision Making Principles shall come into effect at the same time as the proposed amendments to the articles of association of the Company (which were approved by the Shareholders at the extraordinary general meeting of the Company held on 16 August 2010) coming into effect and upon completion of the Issue of A Shares.

### THE LISTING RULES IMPLICATIONS

#### *The Acquisition*

YTO is the controlling Shareholder and thus, YTO and its associates are regarded as connected persons of the Company. Accordingly, the Acquisition contemplated under the Sale and Purchase Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios of the Acquisition are more than 5% but less than 25%, however, the consideration of the Acquisition is more than HK\$10,000,000, the Acquisition is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further, the Acquisition also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

In view of the interests of YTO in the Sale and Purchase Agreement, YTO and its associates (which in aggregate hold 443,910,000 Shares, representing approximately 52.48% of the equity interest in the Company as at the Latest Practicable Date) will abstain from voting at the EGM on the resolution(s) in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. No Directors have any interest in the Sale and Purchase Agreement and thus no Directors are required to abstain from voting on the Board resolution(s) for approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### *Proposed adoption of the Decision Making Principles*

For resolutions relating to the proposed adoption of the Decision Making Principles, no Shareholders are required to abstain from voting.

### **EGM**

The EGM will be held at 9:00 a.m. on Monday, 20 September 2010 at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC for the Independent Shareholders to approve the Acquisition and for the Shareholders to approve the proposed adoption of the Decision Making Principles.

The notice of the EGM is set out on pages 52 to 54 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 printed 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 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.

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## LETTER FROM THE BOARD

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### RECOMMENDATIONS

The Company has appointed China Merchants Securities as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. 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 14 to 23 of this circular.

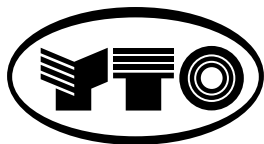
The Independent Board Committee comprising all the independent non-executive Directors (namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, Mr. Hong Xianguo and Mr. Zhang Qiusheng) has been established to give advice to the Independent Shareholders in respect of the Acquisition. The letter from the Independent Board Committee, which contains its advice to the Independent Shareholders in respect of the Acquisition, is set out on page 13 of this circular.

The Directors (including the independent non-executive Directors) consider that the Acquisition and the proposed adoption of the Decision Making Principles are in the interests of the Company and the Shareholders as a whole, and with respect to the Acquisition, the terms and conditions of the Sale and Purchase Agreement are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. Accordingly, the Board recommends the Independent Shareholders or the Shareholders (as the case may be) to vote in favour of the relevant ordinary resolutions to be proposed at the EGM as set out in the notice of the EGM.

### ADDITIONAL INFORMATION

Your attention is also drawn to the extract of the Appraisal Report and the general information set out in Appendices III and IV to this circular respectively.

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)

24 August 2010

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**  
**— PROPOSED ACQUISITION OF 51% EQUITY INTEREST IN**  
**LUOYANG TRACTORS RESEARCH COMPANY LIMITED**

We have been appointed as members of the Independent Board Committee to give our advice on the Sale and Purchase Agreement and the Acquisition, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 24 August 2010 (the “**Circular**”), of which this letter forms a part. Terms used herein 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 the Sale and Purchase Agreement and the Acquisition. The letter from China Merchants Securities is set out on pages 14 to 23 of the Circular.

Having considered the terms and conditions of the Sale and Purchase Agreement, 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 the Sale and Purchase Agreement and the Acquisition are in the interests of the Company and the Shareholders as a whole, and the terms and conditions of the Sale and Purchase Agreement are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the Sale and Purchase Agreement and the Acquisition.

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*

**Mr. Zhang Qiusheng**

*Independent non-executive*

*Director*

\* *For identification purposes only*

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## LETTER FROM CHINA MERCHANTS SECURITIES

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*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 Acquisition.*



48th Floor  
One Exchange Square  
Central  
Hong Kong

24 August 2010

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

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION — PROPOSED ACQUISITION OF 51% EQUITY INTEREST IN LUOYANG TRACTORS RESEARCH COMPANY LIMITED**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Details of the Acquisition are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 24 August 2010 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

The Company and YTO entered into the Sale and Purchase Agreement on 3 August 2010, pursuant to which the Company has conditionally agreed to purchase, and YTO has conditionally agreed to sell, the Target Interest, i.e. 51% equity interest in the Target Company, at an initial cash consideration of approximately RMB150.17 million (equivalent to approximately HK\$171.19 million) (subject to any adjustments that may have to be made with reference to, among others, the Formal Appraised NAV to be disclosed in the Appraisal Report (when the Appraisal Report had not yet been issued by the Independent Valuer as at the date of the Announcement), which is subject to the final approval by the relevant governmental authorities or its authorized institutions). The Company intends to satisfy the cash consideration by using its internal resources. 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. Thus, YTO and its associates are regarded as connected persons of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The relevant percentage ratios of the Acquisition are more than 5% but less than 25%, however, the consideration of the Acquisition is more than HK\$10,000,000. Therefore, the Acquisition

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## LETTER FROM CHINA MERCHANTS SECURITIES

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is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. YTO and its associates will abstain from voting on the resolution(s) in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, Mr. Hong Xianguo and Mr. Zhang Qiusheng, has been formed to provide recommendation to the Independent Shareholders in respect of the Sale and Purchase Agreement.

### **BASIS OF OUR OPINION**

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 nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, its Directors and its management.

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## LETTER FROM CHINA MERCHANTS SECURITIES

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Acquisition, we have considered the following principal factors and reasons:

#### I. BACKGROUND AND REASONS FOR THE ACQUISITION

##### *The Group*

The Group is principally engaged in the production and sale of agricultural machineries and construction machineries. 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. YTO is principally engaged in the production of transportation machineries, casting parts, vehicles products, spare parts and components, etc.

The following is a summary of financial information of the Group for each of the two years ended 31 December 2009 as extracted from the Company's 2009 annual report:

	For the year ended 31 December	
	2009	2008
	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Audited)
<b>The Group</b>		
Revenue	<b>8,971,261</b>	7,933,721
Profit for the year after taxation	<b>273,945</b>	80,879
Cash and cash equivalents	<b>915,181</b>	758,535
Net asset value	<b>3,005,594</b>	2,742,437

During 2009, the Group recorded revenue of approximately RMB8,971,261,000, representing a year-on-year increase of approximately 13.1%, mainly from the agricultural machinery business and the engine machinery business. Of the total revenue, agricultural machinery business accounted for approximately 75.9%, representing a year-on-year increase of approximately 5.7 percentage points; and engine machinery business accounted for approximately 13.4%, representing a year-on-year increase of approximately 3.6 percentage points.

The Group's profit for the year after tax increased from approximately RMB80,879,000 in 2008 to approximately RMB273,945,000 in 2009, representing a year-on-year increase of approximately 238.7%. The improvement in the Group's profit for the year after tax was mainly driven by the improvement of the Group's gross profit. The Group's gross profit increased by approximately RMB443,060,000 from approximately RMB825,129,000 in 2008 to approximately RMB1,268,189,000 in 2009, representing a year-on-year increase of approximately 53.7%. The gross profit margin was approximately 14.1%, increased by approximately 3.7 percentage points as compared with that in previous year. The increase in the gross profit margin was mainly attributable to the outcomes of the measures on adjustment in product mix, cost improvement, as well as the increase in the sales volume of products, and the reduction of raw material price from 2008.

The net asset value of the Group increased from approximately RMB2,742,437,000 in 2008 to approximately RMB3,005,594,000 in 2009, the increase was mainly contributed by the profit for the year after tax of approximately RMB273,945,000.

### ***Target Company***

The Target Company is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB185 million. Its principal activities include the examination and testing of tractors, vehicles, construction machineries, internal combustion engines, agricultural machineries, agricultural transporters and their parts; research and development of equipments, technology development, transfer, consultancy services and sales; and computer technology development services. The Target Company has development capability for crawler tractors, wheeled tractors, harvesting machineries, diesel engines, bulldozers, excavators, loaders, scrapers, forklifts, self-propelled power stations, vehicle-related product and tractor testing equipments, among which its research and development technologies for tractors, off-road diesel vehicles, small engineering machineries and tractor testing equipments are leading in the PRC while its technology for harvesting machineries is advanced in the PRC. It is capable of undertaking the technological development, promotion and application of electrical appliances and instruments as well as new materials and new processes.

As stated in the Letter from the Board, YTO Group wholly owns a national grade technology centre and the Target Company, both of which have strong capability on the research and development of tractor products. YTO Group has been providing the research and development of tractor products services to the Group since the listing of the H Shares on the Stock Exchange in June 1997 pursuant to the Technology Services Agreement. Under the Technology Services Agreement, YTO has agreed to, among other things, (i) maintain adequate manpower, equipments, facilities and technological know-how to serve the Company for the purposes of maintaining its capability to provide research and development services; and (ii) give priority to the Company's research and development projects over other projects, except for those assigned by the PRC Government. Apart from the provision of research and development services to the Group, the Target Company has also undertaken various national grade



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## LETTER FROM CHINA MERCHANTS SECURITIES

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research and development projects and obtained research subsidies from the PRC government. The holding of 49% equity interest in the Target Company by YTO will facilitate the Target Company to obtain continuous government funding support for its research and development projects.

The Target Company has two wholly-owned subsidiaries, namely Xiyuan Motor Power Test and Xinyan Mechanical Engineering, and two associated companies, namely Tuoqi Engineering and I & C Technology Consulting, collectively the “**Target Group**”.

### ***Xiyuan Motor Power Test***

Xiyuan Motor Power Test is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB1 million and is a wholly-owned subsidiary of the Target Company. Xiyuan Motor Power Test has been recognized as a high and new technology enterprise (高新技術企業) by the relevant PRC governmental authorities in December 2008, effective for three years, and is a laboratory certified by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會). Its principal activities include the examination and testing of tractors, three-wheel vehicles, low-speed trucks, vehicles (including special purpose vehicles), construction machineries, internal combustion engines, agricultural equipments, motor bikes, agricultural machineries, deformed machineries and their parts; safety inspection of mechanical vehicles; development, manufacture and sales of agricultural machineries and equipments, testing equipments, instruments, new materials and its products; provision of sales agency services for imported instruments and equipments; technology development, transfer and consultancy services; and quality examination of machinery products.

### ***Xinyan Mechanical Engineering***

Xinyan Mechanical Engineering is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB1 million and is a wholly-owned subsidiary of the Target Company. Its principal activities include research and development, manufacture, sales, technology transfer and consultancy services of agricultural machineries and transportation machineries and their parts, medium frequency induction systems and non-standard systems, new and high technology materials and related technology; and sales of metal materials (excluding precious metals), non-metal materials and its products.

### ***Tuoqi Engineering***

Tuoqi Engineering is a domestic company incorporated with limited liability in the PRC with a registered capital of RMB4 million. It is an associated company of the Target Company, in which the Target Company owns 30% of its registered capital. Its principal activities include technology development, transfer, consultancy services, manufacture and sales of tractors, construction machineries, vehicles, agricultural machineries and their parts.

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## LETTER FROM CHINA MERCHANTS SECURITIES

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### *I & C Technology Consulting*

I & C Technology Consulting is a sino-foreign equity joint venture incorporated with limited liability in the PRC with a registered capital of RMB1 million. It is an associated company of the Target Company, in which the Target Company owns 30% of its registered capital. Its principal activities include technology development, transfer and consultancy services for electrical machineries and related products; and consultancy services for business, quality and safety management systems according to relevant international/national standards.

### Financial Information of the Target Group

The following is a summary of financial information of the Target Group for each of the two years ended 31 December 2009:

	<b>For the year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Audited)</b>	<b>(Audited)</b>
<b>The Target Group</b>		
Revenue	<b>111,737</b>	88,814
Profit for the year after taxation	<b>7,967</b>	13,024
Net asset value	<b>86,299</b>	89,332

As advised by the Company, the decrease in Target Group's profit for the year 2009 was mainly attributable to the decrease in government subsidy from approximately RMB5 million in year 2008 to approximately RMB1.6 million in year 2009.

On 30 July 2010, YTO Group completed the Capital Injection whereby YTO Group increased the capital of the Target Company by approximately RMB183.58 million through the injection of cash of RMB40 million and certain major assets of its national grade technology centre including land use rights and two buildings with an aggregate appraised value of approximately RMB143.58 million as at 31 May 2010. The asset appraisal is conducted by an independent professional valuer in the PRC, using the asset based valuation approach.

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## LETTER FROM CHINA MERCHANTS SECURITIES

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We note from the Company's 2009 annual report that it is one of the Group's strategies to expedite the upgrades of its major products and technologies, establish an innovative system of core technologies, actively press ahead with key research and development projects as well as the technology renovation projects, strive for a leading position in terms of industry technology, and create long-term competitive edges for the Company. For the year ended 31 December 2009, the Group paid approximately RMB48 million (2008: RMB51 million) to YTO as research and development expenses.

Having considered the research and development expenses to be paid by the Group, we consider that the Acquisition will allow the Company to save research and development expenses and can strengthen the Group's research and development capability, fasten the development of new products and enhance the competitiveness of the Company. We concur with the Director's view that the Acquisition represents a valuable opportunity for the Group to develop its research and development of tractor products which will strengthen the Group's capability for research and development in the tractor related business.

## II. BASIS OF CONSIDERATION

Approximately RMB148.18 million (equivalent to approximately HK\$168.93 million), being 51% of the Formal Appraised NAV as disclosed in the Appraisal Report issued by the Independent Valuer. The Appraisal Report (including the Formal Appraised NAV) shall be subject to the final approval by the relevant governmental authorities or its authorized institutions.

Subject to the final approval by the relevant governmental authorities or its authorized institutions of the Appraisal Report, if the difference between 51% of the Formal Appraised NAV and the initial consideration of the Target Interest of approximately RMB150.17 million (equivalently to approximately HK\$171.19 million) as disclosed in the Announcement (when the Appraisal Report has not yet been issued by the Independent Valuer) exceeds  $\pm 3\%$ , the Sale and Purchase Agreement shall lapse.

Upon Completion, if there is any difference between the Completion Date NAV and the Appraisal Date NAV, the consideration of the Target Interest shall be adjusted as follows:

Adjusted consideration	=	Approximately RMB148.18 million (equivalent to approximately HK\$168.93 million) (being 51% of the Formal Appraised NAV, subject to the final approval by the relevant governmental authorities or its authorized institutions) + (51% of the Completion Date NAV – 51% of the Appraisal Date NAV)
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## LETTER FROM CHINA MERCHANTS SECURITIES

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The Completion Date NAV shall be ready within 30 days upon Completion and both parties have to agree on the difference between the Completion Date NAV and the Appraisal Date NAV and settle such difference by way of cash within 15 days upon completion of the final audit results of the Completion Date NAV.

The consideration of the Target Interest was determined by the Company and YTO after arm's length negotiations with reference to the Formal Appraised NAV was conducted by the Independent Valuer, on the basis of the asset based valuation approach. We understand that the asset based approach is used in accordance with the legal regulations and requirements of the PRC and based on the value of a business which can be determined by adding the value of all types of assets and subtracting the liabilities, leaving a net asset valuation. We have reviewed the valuation methodology and assumptions as set out in the relevant valuation report and are not aware of any reasons to doubt the fairness and appropriateness of the valuation methodology adopted and the assumptions used by the Independent Valuer for the appraisal of the Target Interest.

As noted from the Letter from the Board, the difference between 51% of the Formal Appraised NAV (approximately RMB148.18 million (equivalent to approximately HK\$168.93 million)) and the initial consideration of the Target Interest of approximately RMB150.17 million (equivalently to approximately HK\$171.19 million) as disclosed in the Announcement is approximately RMB2 million, representing approximately 1.3% discount on the initial consideration of the Target Interest as disclosed in the Announcement. Given the total consideration of the Target Interest is based upon the valuation as prepared by an independent professional valuer, we are of the view that the consideration of approximately RMB148.18 million (or approximately HK\$168.93 million) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### III. OTHER TERMS OF THE ACQUISITION

As stated in the Letter from the Board, the Sale and Purchase Agreement shall take effect upon fulfillment of the following conditions precedent:

- (i) the Sale and Purchase Agreement having been duly executed by the legal representative or authorized representative of each of the Company and YTO, and having been sealed with the seals of each of the Company and YTO;
- (ii) the Company obtaining the requisite approval by the Independent Shareholders of the Sale and Purchase Agreement at the EGM in accordance with the Listing Rules;
- (iii) YTO obtaining the approval by its shareholders of the Sale and Purchase Agreement at general meeting; and
- (iv) the Acquisition being approved by China Machinery.

The consideration of the Target Interest shall be settled by the Company in cash within 30 Business Days after fulfillment of all the conditions precedent as set out above. We agree with the Directors that other terms of the Sale and Purchase Agreement are on normal commercial terms and fair and reasonable, and the entering into of the Sale and Purchase Agreement is in line with the overall business strategy of the Group and in the interests of the Company and the Shareholders as a whole.

#### **IV. FINANCIAL EFFECT ON THE GROUP**

##### **Earnings**

Upon completion of the Acquisition, the Company will hold 51% equity interest in the Target Company, which will become a non-wholly owned subsidiary of the Company, the assets, liabilities and financial results of the Target Group will be consolidated into the Group. As set out in the Letter from the Board, the net profit after tax of the Target Group amounted to approximately RMB13.02 million and RMB7.97 million for the two years ended 31 December 2008 and 2009 respectively. We consider that the effect of the Acquisition on the Group's earning will depend on the profitability of Target Group following completion of the Acquisition.

##### **Net asset value**

As at 31 July 2010, the unaudited net asset value of the Target Group was approximately RMB277.57 million and the consideration of the Target Interest is RMB148.18 million (subject to adjustment). As advised by the Company, (i) the consideration of the Target Interest was determined with reference to the Formal Appraised NAV as disclosed in the Appraisal Report which was determined by adding the value of all types of the assets and subtracting the liabilities of the Target Interest as at 31 July 2010, leaving a net asset valuation; and (ii) the consideration of the Target Interest will be subject to the adjustment for the difference between the audited net asset value of the Target Interest as at the end of the month preceding to the Completion and its audited net asset value as at 31 July 2010), it is expected that no material positive or negative goodwill will arise on the Acquisition, which represents the excess of the consideration of the Target Interest over the Group's 51% equity interests in the fair value of Target Group's identifiable assets acquired, and liabilities and contingent liabilities assumed upon completion of the Acquisition. On that basis, the Acquisition is not expected to have a material impact on the net worth of the Group.

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## LETTER FROM CHINA MERCHANTS SECURITIES

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### Working capital

In accordance with the Group's audited financial statements as at 31 December 2009, the Group had a cash and cash equivalent balance of approximately RMB915.18 million. As stated in the Letter from the Board, the consideration of the Target Interest will be settled by the Company in cash by applying the Group's internal resources. As advised by the Company, the amount of the consideration of the Target Interest represents only approximately 16.20% of the Group's cash and cash equivalent balance as at 31 December 2009.

Reference is made to the Company's announcement dated 28 June 2010 whereby the Company entered into a sale and purchase agreement with YTO regarding the disposal of its 100% equity interests in 一拖(洛陽)建工機械有限公司 (YTO (Luoyang) Building & Construction Machinery Company Limited\*) and 一拖(洛陽)工程機械銷售有限公司 (YTO (Luoyang) Construction Machinery Sales Company Limited\*) to YTO for a consideration of RMB259,805,933 (or approximately HK\$296,178,764). Upon completion of the said disposal and taking into account the Group's cash and cash equivalent balances as at 31 December 2009, we consider the Group has sufficient internal resources to fund the Acquisition and the Acquisition is not expected to have a material negative impact on the Group's working capital.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms and conditions of the Acquisition are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the proposed resolution in connection with the Sale and Purchase Agreement at the EGM.

Yours faithfully,  
For and on behalf of  
**China Merchants Securities (HK) Co., Ltd.**  
**Jiang Jun**  
*Executive Director*  
**Investment Banking Department**

*\* For identification purpose only*

The English version of this Appendix is an unofficial translation of its Chinese version. In case of any discrepancy between the two versions, the Chinese version shall prevail.

The contents of the Decision Making Principles on Connected Transactions are set out as follows:

### Chapter 1 General Provisions

Article 1 In order to further regulate the connected transactions of First Tractor Company Limited (hereinafter the “**Company**”), ensure the fairness of the Company’s connected transactions and feasibly protect the interest of investors, these Principles are formulated in accordance with the requirements of the laws, regulations and regulatory documents such as the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (hereinafter the “**Listing Rules**”) and the Articles of Association of First Tractor Company Limited (hereinafter the “**Articles of Association**”) based on the specific circumstances of the Company.

### Chapter 2 Definitions of Connected Persons and Connected Relations

Article 2 The connected persons of the Company include connected legal persons, connected natural persons and potential connected persons (collectively as the “**connected person(s)**”).

Article 3 Connected legal persons of the Company refer to:

- (1) legal persons who have direct or indirect control over the Company;
- (2) legal persons who are directly or indirectly controlled by the legal persons as mentioned in the preceding clause, excluding the Company and its controlling subsidiaries;
- (3) legal persons who are directly or indirectly controlled by the connected natural persons of the Company as specified in Article 4 of these Principles, or are the directors or senior management, excluding the Company and its controlling subsidiaries;
- (4) legal persons holding more than 5% of the shares in the Company;
- (5) other legal persons, as identified by the CSRC, the Shanghai Stock Exchange (hereinafter the “**SSE**”) or the Company based on the principle of substance over form, to whom the Company’s interest may be in their favour due to their special relationships with the Company.

Article 4 The connected natural persons of the Company refer to:

- (1) natural persons directly or indirectly holding more than 5% of the shares in the Company;
- (2) the directors, supervisors and senior management of the Company;
- (3) the directors, supervisors and senior management of the legal persons as specified in clause (1) of Article 3 of these Principles;
- (4) family members (collectively as the “**family members**”) who have close relationship with the persons as specified in clauses (1) and (2) of this Article, including their spouses; parents and parents of their spouses; siblings and their spouses; children aged over 18 and their spouses; siblings of their spouses and parents of their children’s spouses;
- (5) other natural persons, as identified by the CSRC, the SSE or the Company based on the principle of substance over form, to whom the Company’s interest may be in their favour due to their special relationships with the Company.

Article 5 Potential connected persons of the Company refer to: those who fulfill any of the circumstances as specified in Article 3 or Article 4 of these Principles due to any agreements signed or arrangements made with the connected legal persons of the Company, after such agreements become effective or within twelve months from the date when such agreements or arrangements are signed or made, and those who fulfill any of the circumstances as specified in Article 3 or Article 4 of these Principles in previous twelve months, are potential connected persons of the Company.

Article 6 Connected relations mainly refer to the ways or channels which directly or indirectly control or materially affect the decision-making over the finance and operation of the Company, which mainly include the equity relationship, interpersonal relationship, management relationship and/or relationship with commercial interests between the connected persons and the Company.

Article 7 Connected relations shall be practically judged in respect of the specific ways and channels of and the extent to which the Company is controlled or affected by the connected persons.



**Chapter 3 Definition and Basic Principles of Connected Transactions**

Article 8 Connected transactions refer to the transactions between the Company or its controlling subsidiaries and the connected persons, whether with or without consideration, including but not limited to the following matters:

- (1) purchase or sale of assets;
- (2) external investment (including designated financial management and designated loans, etc.);
- (3) provision of financial assistance;
- (4) provision of guarantees;
- (5) lease or rental of assets;
- (6) designated or entrusted management of assets and business;
- (7) donation or receipt of donation of assets;
- (8) restructuring of claims or debts;
- (9) execution of licensing agreements;
- (10) transfer or receipt of transfer of research and development projects;
- (11) purchase of raw materials, fuels or powers;
- (12) sale of products or goods;
- (13) provision or receipt of labour services;
- (14) designated or entrusted sales;
- (15) deposits or loans with the finance companies of the connected persons;
- (16) joint investment with the connected persons;
- (17) other transactions considered as connected transactions under the Listing Rules.

Article 9      Connected transactions of the Company shall be conducted in compliance with the following basic principles:

- (1)      the principle of honesty and credibility;
- (2)      where the connected persons holding a voting right at the general meeting of the Company, except under special circumstances, they must abstain from voting at the general meeting resolving the connected transactions;
- (3)      any director of the Company who has an interest in the connected persons must abstain from voting when the board is voting for the connected transaction;
- (4)      the board shall evaluate if the connected transaction is in the interest of the Company on an objective basis. Where necessary, the board may appoint an independent financial adviser or a professional valuation firm to issue their opinions;
- (5)      written agreements shall be signed in accordance with the requirements under the Listing Rules upon any connected transactions entered into between the Company and any connected persons.

Article 10      The connected transactions shall adhere to the market principle and the principles of justice, fairness and openness. The pricing or charging of the connected transactions shall in principle not deviate from the standards as to the independent third parties in the market. For connected transactions which the reference of pricing is difficult to compare or is limited, the standards of the relevant cost and profit shall be clearly stated in the contracts.

**Chapter 4 Decision Making Procedures of Connected Transactions**

Article 11 When the board considers matters of a connected transaction of the Company, the connected directors shall abstain from voting, nor shall he vote on behalf of other directors. The board meeting may be convened if more than one half of the non-connected directors attend the meeting. Resolutions at the board meeting shall be approved by more than one half or two thirds of the non-connected directors in accordance with the Articles of Association. When there are less than three non-connected directors present at the board meeting, the Company shall submit the connected transaction to the general meeting for consideration.

The connected directors referred to in the preceding paragraph include the following directors or those directors fulfilling any of the following circumstances:

- (1) a party to the transaction;
- (2) a person who is employed by a party to the transaction or by a legal entity with direct or indirect control over the party to the transaction or by a legal entity under direct or indirect control of the party to the transaction;
- (3) a person who has direct or indirect control over a party to the transaction;
- (4) a family member of a party to the transaction or of a person who has direct or indirect control over the party to the transaction;
- (5) a family member of any director, supervisor or senior management of a party to the transaction or of a person who has direct or indirect control over the party to the transaction;
- (6) a person whose independent business judgment may be affected as identified by the CSRC, the SSE or the Company based on other reasons.

Article 12 When the general meeting considers matters of a connected transaction, the following shareholders shall abstain from voting:

- (1) a party to the transaction;
- (2) a person who has direct or indirect control over a party to the transaction;
- (3) a person who is under direct or indirect control of a party to the transaction;
- (4) a person who is under direct or indirect common control of the same legal person or natural person as a party to the transaction;
- (5) a person whose voting right is restricted or affected due to any outstanding share transfer agreement or any other agreement entered into with a party to the transaction or its connected persons;
- (6) a legal person or natural person to whom the Company's interest may be in his favour as identified by the CSRC, the SSE or the Company.

Article 13 If the Company enters into any connected transaction with a transaction amount exceeding RMB300,000 with a connected natural person, such connected transaction shall be disclosed promptly (except provision of guarantees by the Company).

The Company shall not directly or through its subsidiaries provide loans to the directors, supervisors or senior management of the Company.

Article 14 If the Company enters into any connected transaction with a transaction amount exceeding RMB3,000,000 with a connected legal person which represents more than 0.5% of the absolute value of the latest audited net assets of the Company, such connected transaction shall be disclosed promptly (except provision of guarantees by the Company).

Article 15 If the Company enters into any connected transaction with a connected person (except where the Company receives donation of any assets in cash or provides guarantees) with a transaction amount exceeding RMB30 million which represents more than 5% of the absolute value of the latest audited net assets of the Company, such connected transaction shall be disclosed promptly. The Company shall also employ an intermediary institution qualified in carrying out business relating to securities and futures to valuate or audit the target of the transaction and submit such connected transaction to the general meeting for consideration.

The transaction target of a connected transaction relating to the daily operation as described under Rule 10.2.12 of the Listing Rules may be exempted from auditing or valuation.

Article 16 Any guarantee provided by the Company to a connected person shall be put forward to the general meeting for consideration after having considered and approved by the board, regardless of the amount.

When the Company provides guarantees to a shareholder holding less than 5% of the shares in the Company, the requirements in the preceding paragraph shall be followed and such shareholder shall abstain from voting at that general meeting.

Article 17 When the Company and the connected person jointly contribute capital to establish a subsidiary, the transaction amount shall be the capital contributed by the Company, which is applicable to the requirements under Article 13, Article 14 or Article 15 of these Principles. When the capital contributed by the Company reaches the standard stipulated under Article 15, and when all the capital contributing parties contribute the capital in cash for their respective shareholdings in the company to be established in accordance with their proportions of the capital contribution, an application for exemption from the requirement of submitting the same to the general meeting for consideration may be filed to the SSE.

**Chapter 5 Information Disclosures of Connected Transactions**

Article 18 The secretary to the board shall be responsible for the information disclosure of the connected transactions of the Company. The Company shall submit the following documents to the SSE at the time of disclosure:

- (1) draft of the announcement;
- (2) the documents as specified under clauses (2) to (5) of Rule 9.12 of the Listing Rules;
- (3) the prior written approval for such connected transaction by the independent directors;
- (4) advice from the independent directors;
- (5) other documents as requested by the SSE.

Article 19 The announcement on the connected transactions as disclosed by the Company shall include the following contents:

- (1) a brief description of the transaction and basic information of the transaction target;
- (2) the prior approval condition and independent advice in respect of the transaction issued by the independent directors;
- (3) the voting results of the board in respect of the transaction (if applicable);
- (4) the description of the connected relationships among the parties to the transaction and the basic information of the connected persons;
- (5) the pricing policy and basis of pricing for the transaction, including relationship among the consideration of the transaction, book value and appraised value of the transaction target, as well as the defined and fair market price, in addition to other specific matters related to the pricing that require to be stated due to the specialty of the transaction target.

In the event of any substantial difference between the consideration of the transaction for the transaction target and its book value, appraised value or market price, the reasons shall be stated. For any unfair transaction, the diverted interest arising from such connected transaction shall also be disclosed;

- (6) major contents of the transaction agreement, including the consideration of the transaction, the method of settlement of the transaction, the nature and extent of the connected persons' interests in the transaction, the conditions precedent, effective date and time limit for performance of that agreement, etc.;
- (7) the purpose of the transaction and its impact on the Company, including the necessity and true intention of such connected transaction as well as the impact on the Company's financial condition and operating results for the current period and the future, etc.;
- (8) the aggregate total amount for all types of connected transactions entered into with such connected persons from the beginning of the year to the date of disclosure;
- (9) other information as required under Rule 9.13 of the Listing Rules;
- (10) other information which facilitates the explanation of the nature of the connected transaction as required by the CSRC or the SSE.

Article 20 Where the Company enters into a connected transaction relating to the “provision of financial assistance” or “designated financial management”, calculation shall be based on the actual amount and shall be aggregated for consecutive twelve months according to the transaction type and the requirements under the Listing Rules. Where the aggregate amount reaches the standards set out in Article 13, Article 14 and Article 15 of these Principles, the provisions of Article 13, Article 14 and Article 15 shall apply.

If the relevant obligations under Article 13, Article 14 and Article 15 set out herein have been performed, the transaction shall not be included in calculating the relevant scope of aggregation.

Article 21 If the Company enters into similar connected transactions in relation to the transaction target for consecutive twelve months, the principle of aggregation and the provisions of Article 13, Article 14 and Article 15 of these Principles shall apply.

If the relevant obligations under Article 13, Article 14 and Article 15 set out herein have been performed, the transaction shall not be included in calculating the relevant scope of aggregation.

Article 22 Where the Company and a connected person enter into a connected transaction relating to the Company's daily operation as specified in clauses (2) to section (7) of Rule 10.1.1 of the Listing Rules (hereinafter the "**Daily Connected Transaction(s)**"), such connected transactions shall be disclosed and the corresponding review procedures shall be undergone in accordance with the following requirements:

- (1) For a Daily Connected Transaction entered into for the first time, the Company shall enter into a written agreement with the connected person and make prompt disclosure. Such transaction shall, with reference to the transaction amount involved in such agreement (where each of the requirements under Article 13, Article 14 and Article 15 of these Principles are applicable), be submitted to the board or the general meeting for consideration. Where no specific transaction amount is provided in the agreement, the transaction shall be submitted to the general meeting for consideration.
- (2) If the agreements of the Daily Connected Transactions, which have been considered and approved by the board or the general meeting and are being executed, do not have any significant changes to their major terms in the course of execution, the Company shall disclose the actual situation in respect of the performance of such agreements in its regular reports and shall state whether the terms of such agreements are complied with. In the event of any substantial changes to the major terms of such agreements during the course of execution or where any of the agreements expires and shall be renewed, the Company shall, with reference to the transaction amount involved in such agreements (where each of the requirements under Article 13, Article 14 and Article 15 of these Principles are applicable), submit the newly amended or renewed agreements on the Daily Connected Transactions to the board or the general meeting for consideration. Where no specific transaction amount is provided in the agreement, the transaction shall be submitted to the general meeting for consideration.



- (3) If the Company has many Daily Connected Transactions each year, while it is necessary to enter into new agreements on the Daily Connected Transactions frequently, thereby making the Company difficult to submit each agreement to the board or the general meeting for consideration in accordance with clause (1) of this Article, the Company may make reasonable estimation of the total amount of such Daily Connected Transactions to be entered into in the year prior to the disclosure of the annual report for the preceding year, and make relevant disclosure and submit the transactions to the board or the general meeting for consideration with reference to such estimated amount (where each of the requirements under Article 13, Article 14 and Article 15 of these Principles are applicable). For Daily Connected Transactions within the range of estimation, the Company shall make disclosure in its regular reports. If the actual amount of such Daily Connected Transactions exceeds the estimated total amount, the Company shall make relevant disclosure and resubmit the transactions to the board or the general meeting for consideration with reference to the exceeding amount (where each of the requirements under Article 13, Article 14 and Article 15 of these Principles are applicable).

Article 23 Agreements on Daily Connected Transactions shall at least contain major terms such as the consideration of the transaction, pricing principle and basis, total transaction volume or its determination methods and the method of payment as well as other terms as required under the Listing Rules.

Where the abovementioned agreement does not specify the actual consideration of the transaction but only indicates that the market price will serve as reference, the Company, while performing the disclosure obligations according to the provisions of Article 22 of these Principles, shall disclose the actual consideration of the transaction, the market price and its determination methods, with reasons for any difference between the two prices and other discloseable matters as required under the Listing Rules.

Article 24 Subject to compliance with the Listing Rules, the consideration and disclosure obligations in respect of the connected transactions in this Chapter may be waived for the following connected transactions entered into between the Company and the connected persons:

- (1) either party subscribes in cash the shares, company bonds or corporate bonds, convertible bonds or other types of derivatives of the other party which are issued to the public;
- (2) either party, as a member of the underwriters, underwrites the shares, company bonds or corporate bonds, convertible bonds or other types of derivatives of the other party which are issued to the public;
- (3) either party collects dividend, bonus or reward in accordance with the resolutions passed at the general meeting of the other party;
- (4) other circumstances as defined by the SSE.

Article 25 Subject to compliance with the Listing Rules, for the connected transactions arising from acts such as public tenders or public auctions participated by either the Company or the connected persons, the Company may apply to the SSE for a waiver of consideration and disclosure in accordance with the ways adopted for connected transactions.

**Chapter 6 Supplementary Provisions**

- Article 26 The provisions of these Principles shall apply to the connected transactions entered into by the controlling subsidiaries of the Company.
- Article 27 Unless the context otherwise requires, the “board” and the “general meeting” referred herein shall refer to the board of directors and the general meeting of the Company respectively.
- Article 28 Unless otherwise specified herein, terms used in these Principles shall have the same meanings as those used in the Articles of Association and be construed according to the definitions and interpretations in the Articles of Association.
- Article 29 The term of “more than” in these Principles is an inclusive term whereas the term of “less than” is an exclusive term.
- Article 30 In case of any discrepancy between these Principles and the Articles of Association, the latter shall prevail.
- Article 31 For amendments to these Principles, a proposal shall be put forward by the board and be submitted to the general meeting for consideration and approval.
- Article 32 In the event that any matters which are not covered by these Principles or contradict the promulgated laws, administrative regulations or regulatory regulations of the place(s) where the shares of the Company are listed (including but not limited to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, other applicable Hong Kong laws, regulations and codes), or where there are more strict provisions in such laws, administrative regulations or regulatory regulations of the place(s) where the shares of the Company are listed, the provisions of such laws, regulations or regulatory regulations of the place(s) where the shares of the Company are listed shall prevail.
- Article 33 These Principles shall be construed by the board.
- Article 34 These Principles shall come into effect upon consideration and approval by the general meeting.

The English version of this Appendix is an unofficial translation of its Chinese version. In case of any discrepancy between the two versions, the Chinese version shall prevail.

The contents of the Decision Making Principles on Investments and Operation are set out as follows:

### **Chapter 1 General Provisions**

Article 1 In order to specify the approval powers of organizations such as the general meeting, the board and business management team of First Tractor Company Limited (hereinafter the “**Company**”) over the decision-making of the investments and operation of the Company, further improve its corporate governance structure, ensure scientific, safe and efficient decision-making of the Company, these Principles are formulated in accordance with the relevant laws and regulations such as the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (collectively the “**Listing Rules**”), and provisions of the Articles of Association of First Tractor Company Limited (hereinafter the “**Articles of Association**”).

Article 2 Decision-making on investments and operation of the Company referred herein include:

- (1) external investments of the Company;
- (2) capital expenditures of the Company;
- (3) disposal of assets by the Company;
- (4) provision of guarantees by the Company;
- (5) financing by the Company, including any fund raising through issue of shares, debentures (including convertible debentures) and other evidences of interests as well as fund raising activities from banks, non-bank financial institutions, other entities or individuals;
- (6) signing, amending or terminating significant contracts in ordinary course of business of the Company;
- (7) decision-making on other substantial investments and operation of the Company.

Article 3 Any investment and operation activities of the Company shall conform to the relevant regulations and the industry policies of the State, cater to the needs of the Company’s development strategy and industry planning, facilitate the Company’s sustainable development, bring expectable investment returns and ultimately enhance the value of the Company.

Article 4     The directors, supervisors and general manager of the Company shall act diligently and responsibly and shall interpret and construe the provisions of these Principles with reference to the generally accepted standards in the industry. Any judgments on matters of the decision-making on the Company's investments and operation shall be made in the interest of the Company and on the principle of asset safety.

### **Chapter 2   Approval Powers and Procedures of Decision Making on Investments**

Article 5     External investments of the Company referred herein involve long-term equity investment and purchase of financial assets (including designated financial management, designated loans, purchase of government debentures, corporate debentures, financial debentures and stocks, etc.). Long-term equity investment refers to the equity investment in and acquisition of other enterprises by the Company through injection of cash, tangible or intangible assets (including land use rights, etc.).

Article 6     Capital expenditures of the Company referred herein involve investments in fixed assets such as infrastructure, technology renovation or property furnishing, acquisition of other fixed assets or intangible assets (including land use rights) as well as injection of capital for establishment of domestic branches and overseas offices.

Article 7     Prior to any decision-making on investments by the Company, the general manager of the Company shall organize and assign relevant departments to institute an investigation study on the basic information relating to the investment project, such as the profitability, prospects and risks involved.

For the investment projects which are subject to consideration and approval by the board or the general meeting, the Company's general manager office shall issue a written report and submit it to the board or general meeting for consideration and approval.

Article 8     The following investments shall be subject to consideration and approval by the general manager office of the Company:

- (1)     financial assets of a single transaction amount not more than RMB30 million with the balance not more than RMB150 million in an accounting year; the general manager office of the Company shall propose investment plans in respect of long-term equity investment and shall submit it to the board or the general meeting for consideration and approval;
- (2)     capital expenditures not more than RMB20 million for a single investment with the accumulated investment amount not more than RMB200 million in an accounting year.

Article 9 The following investments shall be submitted to the board for approval after being discussed and passed by the general manager office of the Company:

- (1) external investments not more than 25% of the audited net assets of the Company for the latest accounting year in a single investment, with the accumulated investment amount for twelve consecutive months not more than 50% of the audited net assets of the Company for the latest accounting year;
- (2) capital expenditures not more than 30% of the audited net assets of the Company for the latest accounting year in a single investment, with the accumulated investment amount for twelve consecutive months not more than 30% of the audited total assets of the Company for the latest accounting year.

Investments exceeding the above investment amounts shall be submitted to the general meeting for consideration and approval after being considered and passed by the board. Where the relevant investments that meet the standards stipulated under this Article but are still subject to consideration and approval by the general meeting under the Listing Rules, such investments shall be submitted to the general meeting for consideration and approval after being passed by the board.

Article 10 The approval powers of the Company in respect of the decision-making on investments are determined mainly based on the investment amount made by the Company in an investment project. However, even if the investment amount of an investment project of the Company is below than the standard that is required to be considered by the board or general meeting as stipulated under the Listing Rules and these Principles, the general manager, chairman or board of the Company shall table the investment project to the board or general meeting for consideration and approval if they consider that such investment project may pose a significant impact on the Company.

### **Chapter 3 Approval Powers and Procedures of Decision Making on Asset Disposals by the Company**

Article 11 Prior to any decision-making on disposal of the Company's assets by the Company, the general manager of the Company shall organize and assign the relevant departments to institute an investigation study on the basic information such as conditions of use of the assets to be disposed.

As for the asset disposal projects subject to the consideration and approval by the board or the general meeting, the Company's general manager office shall issue a written report and submit it to the board or general meeting for consideration and approval.

Article 12 Subject to compliance with the Listing Rules, the approval powers in respect of the asset disposals by the Company are as follows:

- (1) disposals of fixed assets in an individual amount being less than RMB5 million with the aggregate amount (the book value or appraised value of the fixed assets, whichever is higher) in one year being not more than RMB30 million shall be subject to the approval of the general manager of the Company;
- (2) disposals of fixed assets in an individual amount exceeding RMB5 million with the aggregate amount in four consecutive months being not more than 33% of the Company's fixed assets as shown in its latest audited balance sheet shall be subject to the approval of the board;
- (3) disposals of equity interests or intangible assets shall be subject to the approval of the board;
- (4) disposals of fixed assets in four consecutive months in aggregate being more than 33% of the Company's fixed assets as shown in its latest audited balance sheet or disposals of assets (including equity interests, fixed assets, intangible assets but excluding raw materials and products) in one year exceeding 30% of the Company's latest audited total assets shall be subject to the approval of the general meeting.

#### **Chapter 4 Approval Powers and Procedures of Decision Making on Financing**

Article 13 For financing activities of the Company through issue of new shares, debentures and other evidences of equity interests and debts, the general manager of the Company shall give advice and recommendation in respect of the financing project, which shall be submitted to the general meeting for consideration and approval upon consideration and passed by the board.

Matters for the general meeting to consider mainly include the type of securities to be issued, size of issue, amount of proceeds, conditions of guarantees and use of proceeds, etc.

Article 14 Subject to compliance with the relevant laws and the Listing Rules, the Company may borrow from financial institutions or other persons.

- (1) Any borrowings with an amount not more than 25% of the latest audited total assets of the Company shall be subject to the approval of the Company's general manager office;
- (2) Any borrowings with an amount more than 25% but not more than 50% of the latest audited total assets of the Company shall be subject to the consideration and approval of the board;
- (3) Any borrowings with an amount more than 50% of the latest audited total assets of the Company shall be subject to the consideration and approval of the general meeting.

Article 15 Subject to compliance with the relevant laws and regulations, the Listing Rules and the Articles of Association, the Company may provide guarantees for borrowing money by charging or pledging the assets of the Company, which shall be subject to the consideration and approval by the board or the general meeting.

**Chapter 5 Approval Powers and Procedures of Decision Making  
on Provision of Guarantees by the Company**

Article 16 Any decision-making procedures in respect of the provision of guarantees for other institutions and/or individuals by the Company shall be conducted in compliance with the provisions of the Management Principles on External Guarantee of the Company.

**Chapter 6 Approval Powers and Procedures of Decision Making on Signing,  
Amending or Terminating Significant Contracts in Ordinary Course of Business**

Article 17 Significant contracts referred herein shall mean the contracts entered into by the Company with the same counterparty with the single or accumulated amount more than RMB500 million and more than 10% of the latest audited net assets of the Company.

Article 18 Signing, amending or terminating any significant contracts by the Company is subject to the consideration and approval by the board. The general manager of the Company shall organize and assign the relevant departments to discuss and study the contents of the contract, the basic information of the transaction and the counterparty, and shall issue a written report to the board for consideration.



**Chapter 7 Supplementary Provisions**

Article 19 These Principles are as applicable to the material events such as any investments, financing, external guarantees and assets disposals described herein (hereinafter the “**Material Events**”) incurred by the controlled subsidiaries of the Company which comes to the approval powers as set out herein as they are the Material Events incurred by the Company.

For Material Events incurred by the controlled subsidiaries of the Company, the directors dispatched by the Company shall report to the Company before the board of directors of such controlling subsidiaries make any formal resolution and shall execute the Company’s decision.

Article 20 Unless the context otherwise requires, the “director(s)”, “board” and “general meeting” referred herein shall refer to the director(s), the board of directors and the general meeting of the Company respectively.

Article 21 Unless otherwise specified herein, the expressions adopted in these Principles shall have the same meanings as those defined in the Articles of Association and shall be interpreted in accordance with the definitions and explanations set out in the Articles of Association. Should these Principles be inconsistent with the Articles of Association, the Articles of Association shall prevail.

Article 22 In these Principles, “less than” and “more than” are exclusive terms whereas “exceeding” is an inclusive term.

Article 23 In the event that any matters which are not covered in these Principles or contradict the laws, administrative regulations and regulatory regulations of the place(s) where the shares of the Company are listed (including but not limited to the Listing Rules, other applicable Hong Kong laws, rules and codes), or such laws, administrative regulations and regulatory regulations of the place(s) where the shares of the Company are listed provide for more strict provisions, the provisions of such laws, administrative regulations and regulatory regulations of the place(s) where the shares of the Company are listed shall prevail.

Article 24 These Principles shall be subject to the interpretation of the board.

Article 25 These Principles and their amendments shall be effective upon consideration and approval by the general meeting.

## LUOYANG TRACTORS RESEARCH COMPANY LIMITED\*

(洛陽拖拉機研究所有限公司)

## EXTRACT OF APPRAISAL REPORT

Zhongqihua Ping Bao Zi (2010) No. 383

The following contents are extracted from the full text of the assets appraisal report (Zhongqihua Ping Bao Zi (2010) No. 383) prepared by Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) dated 15 August 2010 in respect of the proposed transfer of certain of its equity interest held in Luoyang Tractors Research Company Limited\* (洛陽拖拉機研究所有限公司) from YTO Group Corporation\*(中國一拖集團有限公司) to First Tractor Company Limited\*(第一拖拉機股份有限公司).

YTO Group Corporation\* (中國一拖集團有限公司)(“**YTO**”) intends to transfer certain of its equity interest held in Luoyang Tractors Research Company Limited\* (洛陽拖拉機研究所有限公司) (“**Luoyang Tractors Research**” or the “**appraised entity**”) (i.e. 51% equity interest in Luoyang Tractors Research) to First Tractor Company Limited\*(第一拖拉機股份有限公司). As such, an assets appraisal on the entire assets and relevant liabilities of Luoyang Tractors Research which form part of the above-mentioned transaction has to be conducted to determine the entire equity value of the shareholders of Luoyang Tractors Research and to provide an advisory opinion on value in respect of the above equity transfer act.

Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) was commissioned by YTO to carry out a valuation in relation to the entire assets and relevant liabilities declared by Luoyang Tractors Research in accordance with the requirements as stipulated under the relevant laws, regulations and requirements of assets appraisal standards in the PRC as well as the necessary valuation procedures on the principles of independence, objectivity and impartiality. Market value was appraised in this appraisal and the appraisal results based on the cost based approach (also known as “asset based approach”) were taken as the appraisal conclusions.

In this appraisal, the valuation staff conducted the valuation based on the following assumptions:

- (1) there are no material changes in the existing relevant PRC laws and regulations and basic policies of the industry where the appraised entity belongs to which may affect the operation of the appraised entity, nor are there any material changes in the macro-economic landscape (except for those known to the public) and the political, economic and social environment in the region where the appraised entity is located (except for those known to the public); or any other unforeseeable and force majeure factors that may have a material adverse effect;
- (2) in light of the actual circumstances of the appraised entity on the appraisal reference date, it is assumed that the appraised entity will continue to operate. The appraised assets will continue to be used with reference to the current usage and the proposed way, scale, frequency and circumstance of use, etc.;

- (3) it is assumed that the information is true, i.e. the information provided by YTO (the entrusting party of this appraisal) and the appraised entity is true and legal;
- (4) it is assumed that the proprietor of the appraised entity is responsible and its management is capable of discharging their duties;
- (5) it is assumed that the appraised entity has fully complied with all relevant laws and regulations, unless otherwise stated;
- (6) it is assumed that the accounting policies to be adopted by the appraised entity in the future will be basically consistent with the accounting policies adopted for the preparation of this report in all material respects;
- (7) there are no material changes in the interest rates, exchange rates, taxation benchmark and rates, as well as other political fees, etc.;
- (8) the appraised entity was awarded a certificate of high and new technology enterprise (高新技術企業證書) by the relevant PRC governmental authorities in December 2008, effective for three years. Assuming that the appraised entity can renew its qualification as a high and new technology enterprise (高新技術企業) upon expiry of the above certificate and pursuant to Article 28 of the PRC Enterprise Income Tax Law which states that “the enterprise income tax on the high and new technology enterprises which require the State’s key support shall be levied at the preferential rate of 15%”, it is estimated that the annual income tax rate shall be 15% in the future;
- (9) major assets such as the equipments and premises used in production and operation leased by the appraised entity by way of operating lease, will be able to be leased for continuous use;
- (10) this appraisal is based on the current operation status and profitability of the appraised entity as well as the estimated future production and operation indicators provided by the appraised entity to be met as scheduled and without material changes;
- (11) the cost and expenses control plans of the appraised entity will come into effect as scheduled and are of no material changes.

According to the requirements of assets appraisal, these assumed conditions were considered fulfilled as at the appraisal reference date. In case of any relatively material change in the future economic environment, we shall not be responsible for any different appraisal conclusions led by the changes in the assumed conditions as mentioned above.

The appraisal reference date is 31 July 2010.

In accordance with the requirements of the relevant PRC laws and regulations and assets appraisal standards, the appraisal staff of our company adhered to the principles of independence, objectivity and impartiality and followed the necessary appraisal procedures during conducting on-site survey, market research and consultation on the appraised assets. The appraisal results are as follows:

Total assets were RMB345.322 million; the appraised value was RMB359.6817 million; the appreciation in the appraised value was RMB14.3597 million, representing an appreciation rate of 4.16%.

Total liabilities were RMB78.9105 million; the appraised value was RMB69.1412 million; the depreciation in the appraised value was RMB9.7693 million, representing a depreciation rate of 12.38%.

Net assets were RMB266.4115 million; the appraised value was RMB290.5405 million; the appreciation in the appraised value was RMB24.129 million, representing an appreciation rate of 9.06%. For details, please refer to the following table:

## SUMMARY TABLE OF ASSETS APPRAISAL RESULTS

Unit: RMB0'000

Items		Book Value A	Appraised Value B	Appreciation/ Depreciation C=B-A	Appreciation rate % $D = \frac{C}{A} \times 100\%$
Current assets	1	15,254.56	15,370.45	115.89	0.76
Non-current assets	2	19,277.64	20,597.72	1,320.08	6.85
Held-to-maturity investments	3	100.00	103.00	3.00	3.00
Long-term equity investments	4	487.50	1,899.99	1,412.48	289.74
Real estate for investment	5	—	—	—	—
Fixed assets	6	9,721.19	9,921.17	199.98	2.06
Construction in progress	7	47.50	47.50	0.00	0.00
Oil and gas assets	8	—	—	—	—
Intangible assets	9	8,921.44	8,626.06	-295.38	-3.31
Including: Land use rights	10	8,763.80	8,469.60	-294.20	-3.36
Other non-current assets	11	—	—	—	—
<b>Total assets</b>	12	<u>34,532.20</u>	<u>35,968.17</u>	<u>1,435.97</u>	<u>4.16</u>
Current liabilities	13	6,741.72	6,741.72	0.00	0.00
Non-current liabilities	14	<u>1,149.33</u>	<u>172.40</u>	<u>-976.93</u>	<u>-85.00</u>
<b>Total liabilities</b>	15	<u>7,891.05</u>	<u>6,914.12</u>	<u>-976.93</u>	<u>-12.38</u>
<b>Net assets</b>	16	<u>26,641.15</u>	<u>29,054.05</u>	<u>2,412.90</u>	<u>9.06</u>

The appraisal conclusions shown in this report are only valid for the appraisal objectives stated by YTO in this report. The appraisal results shall have a validity of one year commencing from 31 July 2010. Reappraisal of the assets shall be conducted after one year.

Report users are reminded to pay special attention to the special events and significant events for subsequent periods set out in this report when applying the conclusions of this appraisal.

**PROFESSIONAL QUALIFICATIONS OF BEIJING CHINA ENTERPRISE APPRAISALS COMPANY, INC.\***

Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) is an institution under the direct supervision of the State specialized in assets appraisal incorporated in December 1996. The registration number of its Business License for Enterprise as Legal Persons is 110000005092155.

Our company possesses all the superior expertise in the assets appraisal industry and the Assets Valuation Qualification Certificate issued by the Ministry of Finance of the PRC, as well as the permit to engage in securities business assets appraisal, the qualification for valuation of exploration and mining rights, and the national certified qualification for land valuation, etc., among which:

approval number of Assets Valuation Qualification Certificate: Jing Cai Qi [2006] No. 2553

approval number of the Valuation Qualification Certificate for Securities and Futures Related Business: Cai Qi [2008] No. 350

The valuers participated in this appraisal, who are certified assets valuers as approved by and registered with the Ministry of Finance of the PRC, are as follows:

Name	Certificate No.	Certificate	Date of Registration
		Issuance Date	
Yu Chundong (余春東)	41080028	21 January 2010	25 February 2008
Qu Wei (屈偉)	41080027	28 February 2008	21 January 2008

\* For identification purposes only

**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 executives of the Company**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company has an interest or short position in any shares, underlying shares and debentures of the Company or any associated corporations (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 executives of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

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

None of the Directors 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 executives of the Company, no other person has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or, who is, directly or indirectly, interested in 10 per cent (10%) or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

**Domestic Shares**

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

*Note:* Mr. Liu Dagong, the executive Director, 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 percentage of the total issued H Shares of the Company	Approximate 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 experts who have been named in this circular or have 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
Beijing China Enterprise Appraisals Company, Inc.* (北京中企華資產評估 有限責任公司)	a qualified PRC valuer licensed to undertake assets appraisal business by the Ministry of Finance of the PRC

As at the Latest Practicable Date, none of China Merchants Securities or Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) is 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.

Each of China Merchants Securities and Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and references to its name 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. The extract of the Appraisal Report dated 15 August 2010 has been prepared by Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) for incorporation herein.

None of China Merchants Securities or Beijing China Enterprise Appraisals Company, Inc.\* (北京中企華資產評估有限責任公司) 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 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**

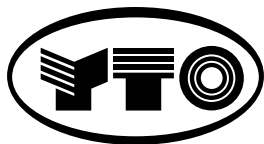
As at the Latest Practicable Date, none of the Directors and supervisors of the Company entered or proposed to enter into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

**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. DOCUMENT FOR INSPECTION**

A copy of the Sale and Purchase Agreement 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.



**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, 20 September 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 announcement of the Company dated 3 August 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. 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, 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 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;

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## NOTICE OF EGM

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3. subject to the approval of the special resolutions (7) and (8) as stated in the notice of the extraordinary general meeting of the Company dated 28 June 2010 at the extraordinary general meeting of the Company to be held on 16 August 2010 and conditional upon the completion of the Issue of A Shares, the adoption of the decision making principles on connected transactions of the Company (details of which are set out in the appendix of the circular to be despatched to the Shareholders of the Company on or before 24 August 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 decision making principles on connected transactions of the Company; and
4. subject to the approval of the special resolutions (7) and (8) as stated in the notice of the extraordinary general meeting of the Company dated 28 June 2010 at the extraordinary general meeting of the Company to be held on 16 August 2010 and conditional upon the completion of the Issue of A Shares, the adoption of the decision making principles on investments and operation of the Company (details of which are set out in the appendix of the circular to be despatched to the Shareholders of the Company on or before 24 August 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 decision making principles on investments and operation of the Company.

By Order of the Board

**FIRST TRACTOR COMPANY LIMITED**

**Liu Dagong**

*Chairman*

Luoyang, the PRC

3 August 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.*

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## NOTICE OF EGM

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*Notes:*

1. The register of members of the Company will be temporarily closed from 21 August 2010 to 19 September 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 20 August 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 20 August 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.
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., 30 August 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:  
No. 154 Jianshe Road, Luoyang, Henan Province, the PRC  
Postal code: 471004  
Telephone: (86379)6496 7038  
Facsimile: (86379)6496 7438  
Email: msc0038@ytogroup.com

\* *For identification purposes only*