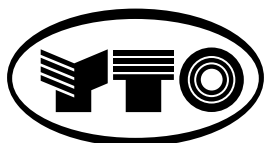

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant 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 supplemental form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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



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

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

(Stock Code: 0038)

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

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders of First Tractor Company Limited**



A letter from the Board is set out on pages 1 to 10 of this circular. A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular. A letter from Goldin Financial Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 25 of this circular.

A supplemental notice of the extraordinary general meeting (the “EGM”) of First Tractor Company Limited (the “Company”) to be held at 2:30 p.m. on 31 October 2014 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC is set out on pages 30 to 31 of this circular.

A supplemental 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 supplemental form of proxy in accordance with the instructions printed thereon. The supplemental 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, or 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 supplemental form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

16 October 2014

* For identification purposes only

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DEFINITIONS

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

“associate(s)”	has the same meaning as ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Company”	First Tractor Company Limited*(第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H Shares and A Shares of which are listed on the main board of the Stock Exchange (stock code: 0038) and the Shanghai Stock Exchange (stock code: 601038) respectively
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Directors”	the directors of the Company, including the independent non-executive directors
“EGM”	the extraordinary general meeting of the Company to be held at 2:30 p.m. on 31 October 2014 (Friday) for the purposes of, among other things, seeking the Independent Shareholders’ approval for the Revised Annual Caps
“Existing Annual Caps”	the annual caps for the continuing connected transaction under the Sale of Goods Agreement for the years ended 31 December 2013 and ending 31 December 2014 and 31 December 2015 as approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 20 December 2012, which were RMB120,000,000, RMB135,000,000 and RMB150,000,000, respectively
“Goldin Financial” or “Independent Financial Adviser”	Goldin Financial Limited, a licensed corporation under the SFO licensed to carry on type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Sale of Goods Agreement and the proposed Revised Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

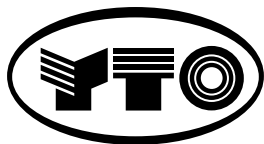
DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s)
“Latest Practicable Date”	13 October 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information containing herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	has the same meaning as ascribed to this term under the Listing Rules, as applicable to a transaction
“PRC”	The People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Revised Annual Caps”	the annual caps for the continuing connected transaction under the Sale of Goods Agreement for the years ending 31 December 2014 and 31 December 2015 as adjusted by the Board on 24 September 2014 subject to the approval of the Independent Shareholders at the EGM, which are RMB275,000,000 and RMB475,000,000 respectively
“RMB”	Renminbi, the lawful currency of the PRC
“Sale of Goods Agreement”	the sale of goods agreement dated 29 October 2012 entered into between the Company, on behalf of the Group, as supplier and/or supplying agent, and YTO, on behalf of YTO Group and the subsidiaries of Sinomach, as purchaser and/or purchasing agent, pursuant to which the Group agreed to supply and YTO Group and the subsidiaries of Sinomach agreed to purchase raw materials, spare parts, components, equipment and other necessary essentials
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of RMB1.00 each of the Company
“Shareholder(s)”	the shareholder(s) of the Company

DEFINITIONS

“Sinomach”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC and the ultimate controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning as ascribed to this term under the Listing Rules
“substantial shareholders”	has the same meaning as ascribed to this term under the Listing Rules
“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding 443,910,000 A Shares of the Company (representing approximately 44.57% of the total issued share capital of the Company)
“YTO Group”	YTO and its controlled companies/entities (the “ Relevant Parties ”) and/or the non-wholly owned subsidiaries of the Company in which the Relevant Parties have 10% or more voting rights
“%”	per cent

* For identification purposes only



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

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

(Stock Code: 0038)

Board of Directors:

Mr. Zhao Yanshui (*Chairman*)

Mr. Wang Erlong (*Vice Chairman*)

Mr. Yan Linjiao

Mr. Wu Zongyan

Mr. Wang Kejun

Mr. Guo Zhiqiang

Mr. Liu Jiguo

Mr. Wu Yong

Mr. Hong Xianguo**

Mr. Xing Min**

Mr. Wu Tak Lung **

Mr. Yu Zengbiao**

Registered and principal office:

No. 154 Jianshe Road

Luoyang, Henan Province

The PRC

** *Independent non-executive Director*

16 October 2014

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the announcements of the Company dated 29 October 2012 and 24 September 2014 respectively, and the circular of the Company dated 28 November 2012.

* *For identification purposes only*

LETTER FROM THE BOARD

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

On 24 September 2014, the Company announced that the Existing Annual Caps for the Sale of Goods Agreement for the years ending 31 December 2014 and 31 December 2015 will be insufficient to satisfy the Group's current need and proposed to revise the Existing Annual Caps to RMB275,000,000 and RMB475,000,000 for the years ending 31 December 2014 and 31 December 2015, respectively.

The purpose of this circular is to provide you with (i) details of the Revised Annual Caps, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale of Goods Agreement and the Revised Annual Caps, and (iv) a supplemental notice to convene the EGM at which ordinary resolution(s) will be proposed, among other things, for the Independent Shareholders to consider and, if thought fit, approve the Revised Annual Caps.

SUMMARY OF THE SALE OF GOODS AGREEMENT

Principal Terms of the Sale of Goods Agreement

The principal terms of the Sale of Goods Agreement were disclosed in the announcement of the Company dated 29 October 2012 and the circular of the Company dated 28 November 2012 and are set out below:

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

LETTER FROM THE BOARD

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

Pricing Standards of the Transactions under the Sale of Goods Agreement

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

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

For the purposes of the Sale of Goods Agreement:

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

LETTER FROM THE BOARD

So far as the Company is aware, there is/was no State price or government-guided price, which is applicable to the goods to be supplied or provided under the Sale of Goods Agreement. In addition, so far as the Company is aware, there is/was no same or comparable type of products provided to independent third parties by suppliers other than the Company in the same area and thus the market price is/was not available. The Company has monitored the pricing policy published by the relevant government authorities and the comparable market price, if any, from time to time and has regularly reviewed the applicability of the pricing standards under the Sale of Goods Agreement every half year.

In light of the above, only pricing standard Nos. (4) and (5) above were used for transactions under the Sale of Goods Agreement in the past. For pricing standard No. (4), the transaction prices between the Company and the independent third parties will be determined after arm's length negotiation between them, taking into account the costs of relevant goods to be sold plus a gross profit margin mark up, which is not more than 30%. The Company will review the latest transaction prices between the Company and independent third parties before entering into transactions with YTO under the Sale of Goods Agreement.

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

Measures of Internal Control

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

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

LETTER FROM THE BOARD

- the internal audit department of the Company will conduct periodical monitoring and evaluation, on whether the procedures of connected transactions are conformed with the internal control requirements of the Company.

The Directors are of the view that the above internal control measures can ensure that the transactions under the Sale of Goods Agreement have been and will be conducted on normal commercial terms and not prejudicial to the interest of the Company and the Shareholders.

REASONS AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION

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

THE EXISTING ANNUAL CAPS

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

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

LETTER FROM THE BOARD

THE REVISED ANNUAL CAPS AND REASONS FOR REVISION

Taking into account (i) a project contracting agreement proposed to be entered into between YTO (as contractor) and a foreign government (as contractee) which will involve supply and provision of agricultural tractors, spare parts and relevant after-sales services (the “**Foreign Contract**”), and it is expected that YTO will procure the subject goods under the Foreign Contract from the Group (the “**Foreign Contract Procurement**”); (ii) YTO (Luoyang) Zhongcheng Machinery Company Limited* (一拖(洛陽)中成機械有限公司) (“**YTO Zhongcheng Machinery**”), being a subsidiary of YTO, is expected to continue the procurement of raw materials and spare parts from the Group, following the completion of the sale of 73% equity interest in YTO Zhongcheng Machinery by the Company to YTO in July 2014 (details of which were set out in the announcement of the Company dated 5 May 2014) (the “**Zhongcheng Procurement**”); and (iii) a proposed cooperation between YTO and an automotive manufacturer in relation to the production of cargo trucks, and it is expected that YTO will procure part of the raw materials and spare parts from the Group (the “**Automotive Procurement**”), the Directors believe that the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015 will be insufficient to satisfy the Group’s current need. Therefore, on 24 September 2014, the Board proposed to revise the amounts of the Existing Annual Caps to RMB275,000,000 and RMB475,000,000 for the years ending 31 December 2014 and 31 December 2015, respectively.

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

The Historical Transaction Amounts under the Sale of Goods Agreement and the Utilization Rates of the Existing Annual Caps:

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

The historical transaction amounts under the Sale of Goods Agreement for the year ended 31 December 2013 and eight months ended 31 August 2014 were RMB119,516,000 and RMB105,580,000 respectively, representing approximately 99.60% and 78.21% of the Existing Annual Caps for the year ended 31 December 2013 and the year ending 31 December 2014 respectively.

As at the Latest Practicable Date, the Existing Annual Caps for the year ended 31 December 2013 and the year ending 31 December 2014 have not been exceeded.

LETTER FROM THE BOARD

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

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

The Revised Annual Caps for the Sale of Goods Agreement for the years ending 31 December 2014 and 31 December 2015 are RMB275,000,000 and RMB475,000,000 respectively, which represent an increase of RMB140,000,000 (approximately 103.70%) and RMB325,000,000 (approximately 216.67%) from the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015, respectively. The Revised Annual Caps were determined based on the amounts of the Existing Annual Caps and the estimated increment (the “**Increment**”) in transaction volume under the Sale of Goods Agreement, which is attributable to (i) the expected Foreign Contract Procurement; (ii) the expected Zhongcheng Procurement after considering the historical sales revenue of YTO Zhongcheng Machinery; and (iii) the expected Automotive Procurement.

For the Foreign Contract Procurement, it is expected to account for the largest factor for the Increment, representing approximately 61% and 40% of the Increment respectively for each of the years ending 31 December 2014 and 31 December 2015. The Foreign Contract is expected to be entered into in October 2014, and the transactions contemplated thereunder are expected to be performed in 2014 and 2015. It is expected that YTO will procure all the subject goods under the Foreign Contract from the Group in 2014 and 2015 and at prices which will be approximate to that to be stipulated under the Foreign Contract and therefore the amount under the Foreign Contract will be approximate to the procurement amounts from the Group. The Increment attributable to the Foreign Contract Procurement for the year ending 31 December 2014 is determined based on the expected contract value to be executed in 2014 in accordance with the proposed terms of the Foreign Contract, while the expected Increment for the year ending 31 December 2015 is assigned as about 85% of the contract value of the Foreign Contract, having taken into account any possible delay of the execution of the Foreign Contract which is subject to the negotiation between YTO and the foreign government and is beyond the control of the Company, which may affect the procurement schedule with the Company and hence the possible deferral of the performance of the transactions under the Foreign Contract from 2014 to 2015. The amount of duplication in the Revised Annual Cap for the year ending 31 December 2015 due to the assignment of 85% of the full contract value of the Foreign Contract accounts for 20% of the Increment for the year ending 31 December 2015, approximately 13.68% of the Revised Annual Cap for the year ending 31 December 2015.

LETTER FROM THE BOARD

For the Zhongcheng Procurement, it is expected to account for approximately 25% and 20% of the Increment respectively for each of the years ending 31 December 2014 and 31 December 2015. The expected amount of the Zhongcheng Procurement for each of the years ending 31 December 2014 and 31 December 2015 is determined based on the estimations on sales revenue and cost of goods sold of YTO Zhongcheng Machinery and the proposed proportion of procurement from the Group. It is estimated that the Zhongcheng Procurement shall account for about 60% of the annual procurement of YTO Zhongcheng Machinery for each of the years ending 31 December 2014 and 31 December 2015.

For the Automotive Procurement, it is expected to account for approximately 14% and 40% of the Increment respectively for each of the years ending 31 December 2014 and 31 December 2015. The expected amount of the Automotive Procurement for each of the years ending 31 December 2014 and 31 December 2015 is determined based on the estimations on the relevant sales revenue and cost of goods sold of an associated company of YTO, the equity interest of which is owned by YTO and an automotive manufacturer, which shall carry out a proposed cooperation between YTO and the automotive manufacturer (“**YTO Associated Company**”), and the proposed proportion of procurement from the Group. The Automotive Procurement is a new cooperation between YTO and the automotive manufacturer that is expected to commence in the final quarter of 2014. It is estimated that the procurement from the Group under the Automotive Procurement shall account for about 80% of the annual procurement of YTO Associated Company for the year ending 31 December 2014, and such ratio is estimated to fall to about one third for the year ending 31 December 2015.

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

INFORMATION OF THE GROUP AND YTO

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

YTO is the immediate controlling shareholder of the Company, holding 443,910,000 A Shares of the Company (representing approximately 44.57% of the total issued share capital of the Company), and is principally engaged in the production of specific transporting machineries, vehicles products and components, etc.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

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

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

Mr. Zhao Yanshui, Mr. Wang Erlong, Mr. Yan Linjiao, Mr. Wu Zongyan, Mr. Wang Kejun, Mr. Guo Zhiqiang, Mr. Liu Jiguo and Mr. Wu Yong, being the Directors of the Company and having connected relationship with YTO, have abstained from voting on the relevant Board resolution(s) approving the Revised Annual Caps.

EGM

The EGM will be held at 2:30 p.m. on 31 October 2014 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, at which ordinary resolution(s) will be proposed to, among other things, seek the Independent Shareholders' approval for the Revised Annual Caps. YTO and its associates, holding approximately 44.57% of the total issued share capital of the Company, will abstain from voting on the ordinary resolution(s) in respect of the Revised Annual Caps at the EGM. At the EGM, votes will be taken by poll.

The supplemental notice of the EGM is set out on pages 30 to 31 of this circular.

A supplemental 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 supplemental form of proxy in accordance with the instructions printed thereon. The supplemental 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, or 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 supplemental form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors are of the view that the Sale of Goods Agreement and the Revised Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Shareholders and the Company as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) with respect to the Revised Annual Caps to be proposed at the EGM.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the opinion that the Sale of Goods Agreement and the Revised Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Therefore, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) as set out in the supplemental notice of the EGM to approve the Revised Annual Caps.

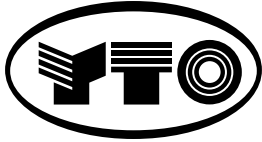
Your attention is drawn to the letter from the Independent Board Committee as set out on pages 11 to 12 of this circular which contains its recommendation to the Independent Shareholders in relation to the Sale of Goods Agreement and the Revised Annual Caps. Your attention is also drawn to the letter of advice from the Independent Financial Adviser as set out on pages 13 to 25 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Sale of Goods Agreement and the Revised Annual Caps. You are advised to read the said letters from the Independent Board Committee and Independent Financial Adviser before deciding how to vote at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the appendix to this circular and the supplemental notice of the EGM.

Yours faithfully,
For and on behalf of
First Tractor Company Limited*
Zhao Yanshui
Chairman

* *For identification purposes only*



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

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

(Stock Code: 0038)

16 October 2014

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular dated 16 October 2014 issued by First Tractor Company Limited* (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Revised Annual Caps, and to advise the Independent Shareholders as to whether, in our opinion, the Sale of Goods Agreement and the Revised Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Goldin Financial has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale of Goods Agreement and the Revised Annual Caps.

We wish to draw your attention to (i) the “Letter from the Board”; (ii) the “Letter from Goldin Financial” to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the Sale of Goods Agreement and the Revised Annual Caps; and (iii) the additional information as set out in the appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the Revised Annual Caps, the Foreign Contract Procurement, the Zhongcheng Procurement and the Automotive Procurement, and having taken into account the opinion of Goldin Financial and, in particular, the factors, reasons and recommendations as set out in the “Letter from Goldin Financial” on pages 13 to 25 of the Circular, we consider that the Sale of Goods Agreement and the Revised Annual Caps are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) which will be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,

For and on behalf of

Independent Board Committee

Mr. Hong Xianguo Mr. Xing Min Mr. Wu Tak Lung Mr. Yu Zengbiao

Independent non-executive Directors

* *For identification purposes only*

LETTER FROM GOLDIN FINANCIAL

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps, which has been prepared for the purpose of inclusion in this circular.



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
23/F
Two International Finance Centre
8 Finance Street
Central
Hong Kong

16 October 2014

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

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of annual caps for 2014 and 2015 under the Sale of Goods Agreement, details of which are contained in the announcement of the Company dated 24 September 2014 (the “**Announcement**”) and in the letter from the Board (the “**Letter from the Board**”) of the circular of the Company dated 16 October 2014 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Directors believe that, due to reasons as set out in the Letter from the Board, the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015 will be insufficient to satisfy the Group’s current need. Therefore, on 24 September 2014, the Board proposed to revise the amount of the Existing Annual Caps to RMB275,000,000 and RMB475,000,000 for the years ending 31 December 2014 and 31 December 2015, respectively.

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YTO is the immediate controlling shareholder of the Company, holding 443,910,000 A Shares of the Company (representing approximately 44.57% of the total issued share capital of the Company). Pursuant to the Listing Rules, YTO is a connected person of the Company. The transaction contemplated under the Sale of Goods Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

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

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Hong Xianguo, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Revised Annual Caps.

We, Goldin Financial Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Sale of Goods Agreement and the Revised Annual Caps and to make a recommendation as to, among others, whether the Sale of Goods Agreement and the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and as to voting in respect of the relevant resolution at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the Sale of Goods Agreement, the annual report of the Company for the year ended 31 December 2013 and the interim report of the Company for the six months ended 30 June 2014. We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the Revised Annual Caps, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

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All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Revised Annual Caps to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Revised Annual Caps, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation on the Revised Annual Caps to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background of the Sale of Goods Agreement and reasons for revision of the Existing Annual Caps

The Group is principally engaged in the production and sale of agricultural machineries, power machineries and other machinery parts. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and other accessories of tractors, forklift and mining trucks, etc. The Group possesses a centralised purchasing platform with purchasing scale advantages for the procurement of raw materials and spare parts used in daily production.

YTO Group is principally engaged in the production of specific transporting machineries, vehicles products and components. Sinomach is principally engaged in the business of heavy machineries and engineering projects domestically and internationally, sales of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business. Sinomach is a limited liability company incorporated in the PRC and the ultimate controlling shareholder of the Company.

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Since 1997, the Group and YTO Group have been carrying out transactions with each other to facilitate their productions and operations. On 29 October 2012, YTO (on behalf of the YTO Group and the subsidiaries of Sinomach, as purchaser and/or purchasing agent) and the Company (on behalf of the Group, as supplier and/or supplying agent) entered into, among other agreements, the Sale of Goods Agreement governing the continuing connected transactions in relation to the sale of raw materials, spare parts (including casting parts), components (including semi-finished parts and finished parts), equipment and other necessary essentials by the Group to the YTO Group and the subsidiaries of Sinomach, for the three years ending 31 December 2015. Details of which are contained in the announcement and circular of the Company dated 29 October 2012 and 28 November 2012, respectively.

Taking into account (i) a project contracting agreement proposed to be entered into between YTO (as contractor) and a foreign government (as contractee) which will involve the supply and provision of agricultural tractors, spare parts and relevant after-sales services (the “**Foreign Contract**”) and it is expected that YTO will procure the subject goods under the Foreign Contract from the Group (the “**Foreign Contract Procurement**”); (ii) 一拖(洛陽)中成機械有限公司 (YTO (Luoyang) Zhongcheng Machinery Company Limited*, “**YTO Zhongcheng Machinery**”), being a subsidiary of YTO, expects to continue the procurement of raw materials and spare parts from the Group, following the completion of the sale of 73% equity interest in YTO Zhongcheng Machinery by the Company to YTO in July 2014 (details of which were contained in the announcement of the Company dated 5 May 2014) (the “**Zhongcheng Procurement**”); and (iii) a proposed cooperation between YTO and an automotive manufacturer in relation to the production of cargo trucks, and it is expected that YTO will procure part of the raw materials and spare parts from the Group (the “**Automotive Procurement**”), the Directors believe that the Existing Annual Caps for the years ending 31 December 2014 and 31 December 2015 will be insufficient to satisfy the Group’s current need. Therefore, the Board proposed to revise the amount of the Existing Annual Caps from RMB135,000,000 and RMB150,000,000 to RMB275,000,000 and RMB475,000,000 for the years ending 31 December 2014 and 31 December 2015, respectively.

We noted that the business relationship between the Group and the YTO Group has long been established to facilitate each other's productions and operations since 1997. Apart from the transactions contemplated under the Sale of Goods Agreement, the Group and the YTO Group have also carried out various ongoing transactions of other nature, covering both the operational and financial aspects, details of which are contained in the announcement and circular of the Company dated 29 October 2012 and 28 November 2012, respectively. Based on our understanding from the management of the Company, there exist synergies over the transactions between the Group and the YTO Group, owe to the reliable supply of raw materials and components that can be brought by the geographical convenience among the Group and the YTO Group, and the satisfaction of YTO Group's procurement need for spare parts in its daily production by the component products manufactured by the Group to some extent. Meanwhile, the entering into of the Sale of Goods Agreement can enhance the Company's centralised purchasing scale advantages and play a role in centralising purchasing platform, and is therefore beneficial to the Group's operation.

On the other hand, we noted that the supply of goods under the Sale of Goods Agreement is part of the Group's main business operations. The increase in transaction volume under the Sale of Goods Agreement in our view would contribute to the revenue of the Group and therefore be positive for the Group's financial performance.

Having considered the above, in particular the principal businesses of each of the Group and the YTO Group as well as the long term business relationship in facilitating each other's productions and operations since 1997, we are of the view that the transactions contemplated under the Sale of Goods Agreement are in the ordinary and usual course of business of the Group and the proposed revision of the Existing Annual Caps is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Sale of Goods Agreement

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

1. the State price;
2. if there is no State price, the price following the governmental guidance (the **"government-guided price"**);
3. if there is no State price nor government-guided price, the market price determined by independent third parties (the **"market price"**);

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4. if there is no State price, government-guided price nor market price, the transaction price between the Company and independent third parties; and
5. if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%.

For the purposes of the Sale of Goods Agreement:

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

So far as the Company is aware, there is/was no State price or government-guided price, which is applicable to the goods to be supplied or provided under the Sale of Goods Agreement. In addition, so far as the Company is aware, there is/was no same or comparable type of products provided to independent third parties by suppliers other than the Company in the same area and thus the market price is/was not available. The Company has monitored the pricing policy published by the relevant government authorities and the comparable market price, if any, from time to time and has regularly reviewed the applicability of the pricing standards under the Sale of Goods Agreement every half year.

In light of the above, only pricing standard Nos. (4) and (5) above were used for transactions under the Sale of Goods Agreement in the past. For pricing standard No. (4), the transaction prices between the Company and the independent third parties will be determined after arm's length negotiation between them, taking into account the costs of relevant goods to be sold plus a gross profit margin mark up, which is not more than 30%. The Company will review the latest transaction prices between the Company and independent third parties before entering into transactions with YTO under the Sale of Goods Agreement. When conducting transactions with independent third parties, the transaction prices will be determined after arm's length negotiation between the Company and independent third parties.

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

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We have reviewed seven randomly selected sample purchase orders and/or sale contracts (which are related to the sale of goods of attribute and quantity similar to that provided under the Sale of Goods Agreement) (“**Samples**”) for each of (i) the transactions entered into between the Group and YTO Group under the Sale of Goods Agreement; and (ii) the transactions entered into between the Group and independent third parties, where price comparison of such sample products with independent third party customers is available, and noted that the price charged by the Group to the YTO Group is no less favourable to the Group than that charged by the Group to the independent third party customers of the Group. Other than the aforesaid sample products, we were given to understand that the prices of certain products were determined based on the costs plus a percentage mark-up, where no State price, government-guided price, market price nor the transaction price between the Company and independent third parties is applicable. In view of no price comparison of such products with independent third party customers is available, the sample purchase orders and/or sale contracts of such products were not included in our Samples. Despite that the aggregated transaction amounts of the Samples represented only approximately 0.70% and approximately 0.29% of the total historical transaction amounts for the year ended 31 December 2013 and for the eight months ended 31 August 2014 respectively, given that (i) the transactions under the Samples were transacted between 2013 and 2014, i.e. within the term of the Sale of Goods Agreement, which we consider relevant; (ii) the transactions under the Samples cover different types of products governed by the Sale of Goods Agreement where price comparison of such products with independent third party customers is available; and (iii) each of the aggregated transaction amounts using the pricing standard based the transaction price between the Company and independent third parties for the year ended 31 December 2013 and for the eight months ended 31 August 2014 accounted for less than 5% of the total historical transaction amounts for the corresponding periods, we consider the Samples reviewed for the purpose of assessing the pricing term using the transaction price between the Company and independent third parties are fair and representative.

Upon enquiry with the management of the Company, we were given to understand that pricing standard No. (5), i.e. the costs plus a percentage mark-up, is applied in most historical transactions under the Sale of Goods Agreement, which represented over 95% of each of the historical transaction amounts for the year ended 31 December 2013 and for the eight months ended 31 August 2014. Given that the aggregated transaction amount of the Samples which used the transaction price between the Company and independent third parties as the pricing standard is less significant when compared to the aggregated transaction amount of the transactions which used costs plus a percentage mark-up as the pricing standard, we have performed analysis regarding the pricing term using costs plus a percentage mark-up in addition to the abovementioned comparison with independent third party customers.

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In assessing the adoption of not more than 30% for percentage mark-up under the costs plus a percentage mark-up pricing method, we have attempted to perform a comparison of the percentage mark-up of the products with the historical gross profit margin of the Group. However, as advised by the management of the Company, such historical gross profit margin represents the overall gross profit margins of all types of products sold by the Group while the gross profit margin of each product varies according to the raw material cost, labour cost, transportation cost and other direct production cost of such product and hence such comparison is not appropriate. Nevertheless, the Company confirmed that the gross profit margin applied to the products to be sold under the Sale of Goods Agreement will not be lower than that of the same products to be sold to independent third party customers in the future. In addition, despite the price comparison of the products using pricing standard of the costs plus a percentage mark-up with independent third party customers is not available, we have reviewed five randomly selected sample purchase orders and / or sale contracts (which are related to the sale of goods of attribute and quantity similar to that provided under the Sale of Goods Agreement) (“**Costs Plus Samples**”) for each of (i) the transactions entered into between the Group and YTO Group under the Sale of Goods Agreement; and (ii) the transactions entered into between the Group and its subsidiaries, and noted that the price of the same product charged by the Group to the YTO Group is no less favourable to the Group than that charged by the Group to the subsidiaries of the Group and the pricing term charged under the Costs Plus Samples is consistent with the internal pricing term adopted within the Group. Based on (i) it is confirmed that the gross profit margin applied to the products to be sold under the Sale of Goods Agreement will not be lower than the same products to be sold to independent third party customers in the future; (ii) the pricing term charged under the Costs Plus Samples is consistent with the internal pricing term adopted within the Group; (iii) the internal control policies and measures as set out below to ensure the Company’s conformity with the pricing policies from time to time, we are of the view that the pricing term of the costs plus a percentage mark-up under the Sale of Goods Agreement are normal commercial terms and are fair and reasonable.

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

- the Company has adopted and implemented a management system on connected transactions. According to the system, the office of the Board and finance department are responsible for the information gathering on and monitoring of connected transactions, and conducting evaluation on the fairness of the transaction terms and the pricing terms;

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- the independent non-executive Directors of the Company have also reviewed and would continue to review the continuing connected transaction under the Sale of Goods Agreement to ensure such agreement is entered into on normal commercial terms, is fair and reasonable, and is carried out pursuant to the terms of such agreement. The auditors of the Company would also conduct an annual review on the pricing and annual caps of the continuing connected transaction under the Sale of Goods Agreement; and
- the internal audit department of the Company will conduct periodical monitoring and evaluation, on whether the procedures of connected transactions are conformed with the internal control requirement of the Company.

Having considered that (i) the transactions contemplated under the Sale of Goods Agreement have been carried out by the Group in its ordinary and usual course of business; (ii) the terms of the Sale of Goods Agreement are normal commercial terms; and (iii) the measures in place to ensure the Company's conformity with the pricing policies from time to time, we are of the view that the terms of the Sale of Goods Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

3. Annual caps

The table below sets out respectively the historical amounts and Existing Annual Caps and the Revised Annual Caps of the transactions contemplated under the Sale of Goods Agreement:

Historical amounts for the year ended 31 December		Historical amounts for the eight months ended 31 August	Existing Annual Caps for the year ending 31 December		Revised Annual Caps for the year ending 31 December	
2012	2013	2014	2014	2015	2014	2015
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
574.106	119.52	105.58	135.0	150.0	275.0	475.0

The Revised Annual Caps for the year ending 31 December 2014 and 2015 each represents an increase of RMB140 million and RMB325 million respectively (or approximately 103.70% and approximately 216.67% respectively in percentage) over the Existing Annual Caps for the year ending 31 December 2014 and 2015. In assessing the fairness and reasonableness of the Revised Annual Caps, we have discussed with the management of the Company regarding the basis of determining the Revised Annual Caps. We were given to understand that the Revised Annual Caps comprise (i) the amount of the Existing Annual Caps; and (ii) the estimated increment (the “**Increment**”) in transaction volume under the Sale of Goods Agreement due to the new procurement needs of the YTO Group, details of which are set out in the section headed “1. Background of the Sale of Goods Agreement and reasons for revision of the Existing Annual Caps” above.

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With respect to the Existing Annual Caps, we were given to understand that the Existing Annual Caps for the three years ending 31 December 2015 were determined as to approximately 0.8% of the estimated consolidated turnover of the Group for each of the year ending 31 December 2015. Indeed, the actual transaction amount under the Sale of Goods Agreement for the year ended 31 December 2013 amounted to approximately RMB119.52 million which closely matches the Existing Annual Cap of RMB120 million for the year, while the Existing Annual Cap itself represents approximately 1% of the consolidated turnover of the Group for the year ended 31 December 2013, a level close to the Group's previous estimation. On the other hand, the actual transaction amount under the Sale of Goods Agreement for the eight months ended 31 August 2014 was approximately RMB105.58 million, already representing approximately 78.21% of the Existing Annual Cap for the year ending 31 December 2014. As such, we consider that the Existing Annual Caps could reasonably capture the YTO Group's original procurement needs.

With respect to the Increment, it is proposed that the annual caps for the year ending 31 December 2014 and 31 December 2015 are to be increased by RMB140 million and RMB325 million, respectively. As discussed in the section headed "1. Background of the Sale of Goods Agreement and reasons for revision of the Existing Annual Caps" above, such increments are due to the expected (i) Foreign Contract Procurement; (ii) Zhongcheng Procurement; and (iii) Automotive Procurement.

We have reviewed the breakdown of the Increment attributable to each of the three factors as mentioned above provided by the management of the Company. For the factor of Foreign Contract Procurement (including the exchange rate effect), we noted that it is expected to account for the largest factor for the Increment, representing approximately 61% and 40% of the Increment respectively for each of the years ending 31 December 2014 and 31 December 2015. As advised by the management of the Company, the Foreign Contract is expected to be entered into in October 2014, with the transactions under the Foreign Contract are to be executed in 2014 and 2015. It is expected that YTO will procure all subject goods under the Foreign Contract from the Group in 2014 and 2015 and at prices which will be approximate to that to be stipulated under the Foreign Contract and therefore the amount under the Foreign Contract will be approximate to the procurement amounts from the Group. The Increment attributable to the Foreign Contract Procurement for the year ending 31 December 2014 is determined based on the expected contract value to be executed in 2014 in accordance with the proposed terms of the Foreign Contract, while the expected Increment for the year ending 31 December 2015 is assigned as about 85% of the contract value of the Foreign Contract, having taken into account any possible delay of the execution of the Foreign Contract which is subject to the negotiation between YTO and the foreign government and is beyond the control of the Company, which would affect the procurement schedule with the Company and hence possible deferral of the performance of the transactions under the Foreign Contract from 2014 to 2015. The amount of duplication in the Revised Annual Cap for the year ending 31 December 2015 due to the assignment of 85% of the full contract

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value of the Foreign Contract accounts for 20% of the Increment for the year ending 31 December 2015, approximately 13.68% of the Revised Annual Cap for the year ending 31 December 2015 and 50% of the maximum contract value of the Foreign Contract to be carried out for the year ending 31 December 2015, being 85% of the contract value of the Foreign Contract. However, as at the Latest Practicable Date, the Company cannot ascertain the exact timeframe of the execution of the Foreign Contract which is expected to be entered into in October 2014 and the procurement of the subject goods would commence upon the entering into of the Foreign Contract throughout 2014 and 2015. Based on the above, we are of the view that the taking into account the factor of the estimated transaction amount during 2014 under the Foreign Contract in determining the Revised Annual Cap for the year ending 31 December 2014, which represents approximately 56.67% of the full contract value of the Foreign Contract, is acceptable. We consider that such is a prudent setting of the Revised Annual Caps in respect of the Foreign Contract Procurement, having considered the practicality of overseas contract execution, which is in our view justifiable.

For the factor of the Zhongcheng Procurement, we noted that it is expected to account for approximately 25% and 20% of the Increment respectively for each of the year ending 31 December 2014 and 31 December 2015. The expected amount of the Zhongcheng Procurement for each of the year ending 31 December 2014 and 31 December 2015 is determined based on the estimations on sales revenue, cost of goods sold and the proposed proportion of procurement from the Group. It is estimated that the Zhongcheng Procurement shall account for about 60% of the annual procurement of YTO Zhongcheng Machinery for each of the year ending 31 December 2014 and 31 December 2015. Based on the information relating to the historical sales revenue and breakdown of procurements of YTO Zhongcheng Machinery for the two years ended 31 December 2013 and for the six months ended 30 June 2014 provided by the management of the Company, we consider that the estimated sales revenues of YTO Zhongcheng Machinery for the two years ending 31 December 2015 are consistent with its historical sales revenue for the prior years.

For the factor of Automotive Procurement, we noted that it is expected to account for approximately 14% and 40% of the Increment respectively for each of the year ending 31 December 2014 and 31 December 2015. The expected amount of the Automotive Procurement for each of the years ending 31 December 2014 and 31 December 2015 is determined based on the estimations on the relevant sales revenue, cost of goods sold and the proposed proportion of procurement from the Group. We were advised that the Automotive Procurement is a new cooperation between YTO and an automotive manufacturer that is expected to commence in the final quarter of 2014. It is estimated that the procurement from the Group under the Automotive Procurement shall account for about 80% of the annual procurement of an associated company of YTO, the equity interest of which is owned by YTO and the automotive manufacturer, which shall carry out the proposed cooperation between YTO and the automotive manufacturer, for the year ending 31 December 2014, and such ratio is estimated to fall to about one third for the year ending 31 December 2015.

We have also researched on the information from the public domain with respect to the outlook of the machinery market in the PRC. According to the Statistical Communique' of the PRC on the 2013 National Economic and Social Development (the “**Communique**”) released by the National Bureau of Statistics of the PRC (the “**Statistics Bureau**”) for the year 2013, the growth rate for industrial enterprises above designated size for manufacture of general machinery reached 9.2% in 2013, up from that of 8.4% recorded in the prior year. According to the “**十二五**” 農業與農村科技發展規劃” (the Twelfth Five-Year Plan for Agriculture and Agricultural Technology Development Plan) (source: 中華人民共和國農業部 (Ministry of Agriculture of the PRC*), www.moa.gov.cn) issued by the PRC government, one of the primary goals of the agricultural sector during the “Twelfth Five-Year” period (2011 to 2015) is to further enhance the modernisation of the sector, with major target of achieving mechanisation of above 60% for the farming of major crops, in order to strengthen food production in the country. The “**全國** 農業機械化科技發展”**十二五**”規劃” (the Twelfth Five-Year Plan for National Mechanisation of Agriculture) (source: 中華人民共和國農業部農業機械化管理司 (Management Division for Mechanisation of Agriculture of the Ministry of Agriculture of the PRC*), www.njhs.moa.gov.cn) further details the objectives and plans for mechanisation of the agricultural sector, including but not limited to promoting the quantity and quality of agricultural machineries with an aim to increase production capacity and efficiency. The plan also states that the government will support the development of local brands of agricultural machineries and promote the export of agricultural machinery products with international competitiveness. As such, we are positive of the outlook of the PRC machinery market, in particular of agricultural machinery, in terms of local demand and export.

Having considered (i) the Existing Annual Caps could reasonably capture the YTO Group's original procurement needs as reflected by the actual transaction amount under the Sale of Goods Agreement and the Existing Annual Caps; (ii) the expected Increment in transaction volume under the Sale of Goods Agreement due to the new procurement needs of the YTO Group, the analysis of which is set out above; and (iii) the expected steady demand in machinery given the positive outlook of the PRC machinery market, in particular of agricultural machinery, in terms of local demand and export, we are of the view that the Revised Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

However, Shareholders should note that as the Revised Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to 31 December 2015, they do not represent forecasts of revenue to be generated from the operations of the Group. Consequently, we express no opinion as to how closely the actual amounts to be received by the Group will correspond with the Revised Annual Caps.

4. Annual review of the transactions

The Revised Annual Caps will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual report and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the continuing connected transaction is conducted in accordance with their terms and that the Revised Annual Caps not being exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual cap not being exceeded. We are of the view that there are appropriate measures in place, including the series of internal control policies as set out in the section headed "Principal terms of the Sale of Goods Agreement" above, to govern the conduct of the continuing connected transactions under the Sale of Goods Agreement and safeguard the interests of the Independent Shareholders.

RECOMMENDATIONS

Taking into consideration of the above mentioned principal factors and reasons, we consider that the transactions contemplated under the Sale of Goods Agreement are conducted in the Company's ordinary and usual course of business, and that terms of the Sale of Goods Agreement and the Revised Annual Caps are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Revised Annual Caps.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

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 or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors, supervisors and chief executive of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were 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) pursuant to section 352 of the SFO, entered in the register kept by the Company; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies:

Name	The Company/ associated corporation	Capacity	Number of securities held	Approximate percentage in the total issued share capital of the Company (%)
Wu Tak Lung (Director)	The Company	Beneficial owner	10,000 H Shares (Long Position)	0.001

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business, 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 and Rule 14A.70(15) of the Listing Rules.

None of the Directors has any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

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

(b) Substantial Shareholders' and other Shareholders' interests

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

Name	Capacity	Number of Shares interested ¹	Percentage of the relevant class of issued share capital (%)	Percentage of the total issued share capital of the Company (%)	Class of Shares
YTO ²	Beneficial owner	443,910,000(L)	74.74	44.57	A Share
The Capital Group Companies, Inc.	Interest in controlled corporation	36,062,000(L)	8.97	3.62	H Share
UBS AG	Beneficial owner/Security interest/ Interest in controlled corporation	32,578,000(L)	8.10	3.27	H Share
	Beneficial owner/Interest in controlled corporation	5,497,907(S)	1.37	0.55	H Share

Name	Capacity	Number of Shares interested ¹	Percentage of the relevant class of issued share capital (%)	Percentage of the total issued share capital of the Company (%)	Class of Shares
Segantii Capital	Investment manager	20,294,000(L)	5.05	2.04	H Share
Management Limited	Investment manager	246,000(S)	0.06	0.02	H Share

Note 1: (L) - Long position, (S) - Short position, (P) - Lending pool

Note 2: Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 443,910,000 A Shares of the Company.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. EXPERT AND CONSENT

The following is the qualification of the expert whose letter is contained in this circular:

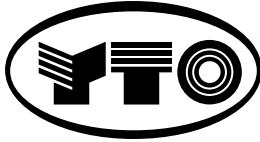
Name	Qualification
Goldin Financial	a licensed corporation under the SFO licensed to carry on type 6 (advising on corporate finance) regulated activity

As at the Latest Practicable Date, Goldin Financial has no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and has no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited consolidated financial statements of the Group were made up.

Goldin Financial has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and the references to its name, in the form and context in which it appears.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the Sales of Goods 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 of this circular.



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

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

(Stock Code: 0038)

**SUPPLEMENTAL NOTICE OF
EXTRAORDINARY GENERAL MEETING**

This notice is supplemental to the notice dated 15 September 2014 (the “**Notice**”) of the extraordinary general meeting (the “**EGM**”) of First Tractor Company Limited (the “**Company**”) to be held at 2:30 p.m. on 31 October 2014 (Friday) at No.154 Jianshe Road, Luoyang, Henan Province, the People’s Republic of China (the “**PRC**”).

Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the announcement of the Company dated 24 September 2014.

According to Article 78 of the articles of association of the Company, shareholders individually or jointly holding more than 3% of the Company’s shares may raise a provisional proposal and submit to the Board in writing 10 days prior to the date of the general meeting. The Board shall issue a supplemental notice of general meeting announcing the contents of the provisional proposals within 2 days upon receipt of the proposals.

On 15 October 2014, the Board received a letter from the controlling shareholder of the Company, YTO Group Corporation, requesting for the inclusion of an ordinary resolution at the EGM. According to Article 78 of the articles of association, the Board agreed to put forward a new ordinary resolution at the EGM for the shareholders’ consideration and approval.

The following ordinary resolution is proposed to the EGM as ordinary resolution number 4:

AS ORDINARY RESOLUTION:

4. To consider and approve the Revised Annual Caps for the Sale of Goods Agreement.

By Order of the Board
FIRST TRACTOR COMPANY LIMITED
YU Lina
Company Secretary

Luoyang, the PRC

16 October 2014

SUPPLEMENTAL NOTICE OF EGM

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

Notes:

1. Please refer to the Notice for details in respect of other resolutions to be proposed at the EGM.
2. The register of members of the Company would be temporarily closed from 1 October 2014 to 30 October 2014 (both days inclusive) during which no transfer of shares of the Company (the “Shares”) would 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 30 September 2014 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 30 September 2014 were entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Shares registrar of the Company, is Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
3. 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.
4. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the supplemental proxy form enclosed). The supplemental proxy form shall be signed by the person appointing the proxy or an attorney authorized by such person in writing. If the supplemental proxy form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the supplemental proxy form and the notarially certified power of attorney or other documents of authorization must be delivered to the Company’s registered address at No.154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company’s H Shares 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.
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 supplemental 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@yotogroup.com

* *For identification purposes only*