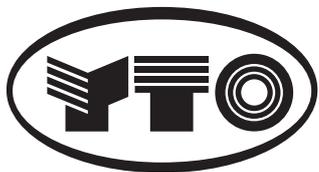


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第一拖拉机股份有限公司 **FIRST TRACTOR COMPANY LIMITED***

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

(Stock Code: 0038)

CONTINUING CONNECTED TRANSACTIONS AND CHANGE OF AUDITORS

CONTINUING CONNECTED TRANSACTIONS

On 21 October 2009, the Group entered into the New Agreements (for a period of three years commencing from 1 January 2010 to 31 December 2012) with YTO with a view to renewing the Old Agreements (which will expire on or about 31 December 2009) so as to ensure the continued leasing of properties as well as the continued provision of goods and services such as material supply, energy supply and financial services, etc. to or from the Group in the light of its operation needs and the continuous corporate and/or business developments of the Group. Save for the effective period of each of the New Agreements and the rights to lease additional premises from the lessor under each of YTO Properties Lease Agreement and First Tractor Properties Lease Agreement, the terms and conditions of each of the New Agreements are similar to those in the respective Old Agreements.

In order to cope with the new business development of the Group, which requires additional land use and due to the change of the land rent pricing policies as stated in the Existing Land Lease Agreement, on 21 October 2009, the Company entered into the New Land Lease Agreement with YTO pursuant to which (i) the Company agreed to lease land use rights with an aggregate land area of approximately 852,067 sq.m. (covered most of the land use rights leased under the Existing Land Lease Agreement) from YTO; (ii) YTO agreed to give the Group pre-emptive rights of leasing additional land use rights with an aggregate land area of no more than 150,000 sq.m.; and (iii) the Existing Land Lease Agreement shall cease to have effect from the effective date of the New Land Lease Agreement.

The entering into of the Composite Services Agreement, Material Supply Agreement, Energy Supply Services Agreement, First Tractor Supply Agreement and Financial Services Agreement (i.e. the Non-exempt CCT Agreements) constitutes non-exempted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The entering into of the YTO Properties Lease Agreement, First Tractor Properties Lease Agreement and New Land Lease Agreement constitutes continuing connected transactions of the Company and is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CHANGE OF AUDITORS

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

EGM

An EGM will be convened for the purpose of seeking Independent Shareholders' approval for each of the Non-exempt CCT Agreements and their respective proposed Cap amounts, and seeking Shareholders' approval for the appointment and resignation of the Company's auditors. YTO and its associates which have interests in the Non-exempt CCT Transactions will abstain from voting in the resolutions in respect of each of the Non-exempt CCT Agreements and their respective Cap amounts at the EGM. At the EGM, votes will be taken by poll.

GENERAL

A circular containing, among others, details of the Non-exempt CCT Transactions, the letter of advice from the Independent Board Committee, the letter of advice from an independent financial adviser, details of the change of the Company's auditors, together with a notice of EGM for approving the Non-exempt CCT Agreements, their respective proposed Caps amounts and the appointment and resignation of the Company's auditors will be dispatched to the Shareholders as soon as possible.

BACKGROUND AND REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

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

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

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

The Group has been leasing certain parcels of land from YTO Group before the listing of the Shares on the Stock Exchange to meet its business needs. The Company entered into the Existing Land Lease Agreement with YTO on 4 June 1997, pursuant to which YTO agreed to lease to the Company land use rights with an aggregate land area of approximately 490,819 sq.m. The Existing Land Lease Agreement will expire on 11 May 2047.

In order to cope with the new business development of the Group which requires additional land use and due to the change of the land rent pricing policies as stated in the Existing Land Lease Agreement, on 21 October 2009, the Company entered into the New Land Lease Agreement with YTO pursuant to which (i) the Company agreed to lease land use rights with an aggregate land area of approximately 852,067 sq.m. (covered most of the land use rights leased under the Existing Land Lease Agreement) from YTO; (ii) YTO agreed to give the Group pre-emptive rights of leasing additional land use rights with an aggregate land area of no more than 150,000 sq.m.; and (iii) the Existing Land Lease Agreement will cease to have effect from the effective date of the New Land Lease Agreement.

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

Set out below is a summary of the principal terms of the New Agreements and the New Land Lease Agreement:

PARTICULARS OF YTO SUPPLY AGREEMENTS

Date

21 October 2009

Period

From 1 January 2010 to 31 December 2012

Parties

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

Goods and services to be provided/rendered:

Composite Services Agreement

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

Material Supply Agreement

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

Energy Supply Services Agreement

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

Price

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

- (a) the applicable State Price;
- (b) if there is no applicable State Price, then the market price;

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

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

Payment terms

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

Conditions

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

PARTICULARS OF FIRST TRACTOR SUPPLY AGREEMENT

Date

21 October 2009

Period

From 1 January 2010 to 31 December 2012

Parties

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

Goods to be provided

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

Price

The applicable price is determined with reference to:

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

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

Payment terms

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

Conditions

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

PARTICULARS OF YTO PROPERTIES LEASE AGREEMENT

Date

21 October 2009

Period

From 1 January 2010 to 31 December 2012

Parties

- (1) YTO, on behalf of YTO Group, as lessor; and
- (2) The Company, on behalf of the Group, as lessee.

Particulars of the properties

Certain factory premises located in the eastern district of 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC with an aggregate gross floor area of approximately 66,805 sq.m., inclusive of the electric and water facilities and industrial rooms servicing the relevant premises, for storage and housing facilities which is ancillary or related to the production of agricultural and construction machineries such as industrial bulldozers and wheeled and crawler tractors, etc., casting parts, spare parts and components, etc.

Pre-emptive rights

Apart from the gross floor area to be leased by the Group as mentioned in the sub-section headed “Particulars of the properties” above, the Group has the pre-emptive rights to lease from YTO Group additional premises with gross floor area of no more than 40,000 sq.m. at 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC in accordance with the terms and conditions of the YTO Properties Lease Agreement in all material aspects.

Rent

The annual rent shall be determined with reference to:

- (i) the market price;
- (ii) if there is no applicable market price or the market price is not applicable, then the annual depreciation expenses plus the management fee which is not more than 5% of the net book value of the relevant premises (collectively, the “**Rent I**”) and the relevant tax (currently 5.5% on the Rent I subject to the tax rate imposed by the government of the PRC from time to time).

In any event, the applicable rent offered to the Group by YTO Group shall not be less favourable than the rent offered to independent third party customers of YTO Group for the same property.

Payment terms

The Group shall pay the rent for the year by the end of each rental year in cash.

PARTICULARS OF FIRST TRACTOR PROPERTIES LEASE AGREEMENT

Date

21 October 2009

Period

1 January 2010 to 31 December 2012

Parties

- (1) The Company, on behalf of the Group, as lessor; and
- (2) YTO, on behalf of YTO Group, as lessee.

Particulars of the properties

Certain factory premises located in western district of 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with an aggregate gross floor area of approximately 132,586 sq.m., inclusive of the electric and water facilities and industrial rooms servicing the relevant premises, for storage and housing facilities which is ancillary or related to the production of agricultural and construction machineries such as casting parts, spare parts and components, etc.

Rights

Apart from the gross floor area to be leased by YTO Group as mentioned in the sub-section headed “Particulars of the properties” above, YTO Group has the rights to lease from the Group additional premises with a gross floor area of no more than 30,000 sq.m. at 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC and 72 Zhong Zhou Zhong Road, Luoyang City, Henan Province, the PRC in accordance with the terms and conditions of the First Tractor Properties Lease Agreement in all material aspects.

Rent

The annual rent shall be determined with reference to:

- (i) the market price;
- (ii) if there is no applicable market price or the market price is not applicable, then the annual depreciation expenses plus the management fee which is not more than 5% of the net book value of the relevant premises (collectively, the “**Rent II**”) and the relevant tax (currently 5.5% on the Rent II, subject to the tax rate imposed by the government of the PRC from time to time).

In any event, the applicable rent offered to YTO Group by the Group shall not be more favourable than the rent offered to independent third party customers of the Group for the same property.

Payment terms

YTO Group shall pay the rent for the year by the end of each rental year in cash.

PARTICULARS OF FINANCIAL SERVICES AGREEMENT

Date

21 October 2009

Parties

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

Period

From 1 January 2010 to 31 December 2012

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

(a) Loan

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

(b) Bills discounting

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

(c) Finance lease

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

(d) Bills acceptance

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

(e) Guarantee

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

(f) *Designated loan*

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

(g) *Deposit Services*

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

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

Conditions

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

Other financial services to be provided

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

- (h) First Tractor Finance will provide lease financing to the parties which are not connected persons within the meanings of the Listing Rules (the “**Parties**”), pursuant to which First Tractor Finance will purchase the properties from YTO Group chosen by the Parties and lease the properties to the Parties for a one-off lease charge determined with reference to the costs of purchase of such properties, loan interest rate of banks (with the interest rate determined with reference to the relevant interest rates set by the PBOC from time to time), insurance fees of such properties (with reference to the fee charged by the licensed insurance company in the PRC) and handling charges of about 1% to 3% of the lease amount;
- (i) First Tractor Finance will also provide loans to the Parties for certain percentage of total consideration for purchasing YTO Group’s products with interest rate determined with reference to the relevant interest rates set by the PBOC from time to time. Such financing will be reviewed and considered on a case-by-case basis having regard to the credit quality of such customers; and First Tractor Finance will accept deposit (including the time deposit, deposit with savings interest rate and also the transfer of fund within YTO Group) for YTO Group with savings interest rate determined with reference to the relevant interest rates set by the PBOC from time to time, the capital interest rate for the settlement account will be determined with reference to the current interest rates, i.e. the relevant interest rates set by the PBOC from time to time.

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

PARTICULARS OF NEW LAND LEASE AGREEMENT

Date

21 October 2009

Parties

- (1) YTO, on behalf of YTO Group, as lessor; and
- (2) The Company, on behalf of the Group, as lessee.

Period

From 1 January 2010 to 31 December 2012

Particulars of the land use rights

Land use rights on the land located at 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC and 72 Zhong Zhou Zhong Road, Luoyang City, Henan Province, the PRC, with an aggregate gross land area of approximately 852,067 sq.m.

Pre-emptive rights

Apart from the gross land area to be leased by the Group as mentioned in the sub-section headed “Particulars of the land use rights” above, the Group has the pre-emptive rights to lease from YTO Group additional land use rights with a gross land area of no more than 150,000 sq.m. located at 152 and 154 Jianshe Road, Luoyang City, Henan Province, the PRC and 72 Zhong Zhou Zhong Road, Luoyang City, Henan Province, the PRC in accordance with the terms and conditions of the New Land Lease Agreement in all material aspects.

Rent

The annual rent shall be determined with reference to:

- (i) the market price;
- (ii) if there is no applicable market price or the market price is not applicable, then the annual amortization plus the management fee which is not more than 5% of the annual amortization (collectively, the “**Rent III**”) and the relevant tax (currently 5.5% on the Rent III, subject to the tax rate imposed by the government of the PRC from time to time).

In any event, the applicable rent offered to the Group by YTO Group shall not be less favourable than the rent offered to independent third party lessee by YTO Group.

Payment terms

The Group shall pay the rent for the year by the end of each rental year in cash.

HISTORICAL CAPS AND TRANSACTION AMOUNTS

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

	For the year ended		For the year ended		For the	For the eight
	31 December 2007		31 December 2008		year ended	months ended
	Historical	Historical	Historical	Historical	2009	31 August
	Cap	Transaction	Cap	Transaction	Cap	Historical
	Amounts	Amounts	Amounts	Amounts	Amounts	Amounts
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
YTO Supply Agreements						
— Composite Services Agreement	121,000	55,202	154,000	64,362	206,000	52,000
— Material Supply Agreement	963,000	707,260	1,227,000	889,152	1,646,000	780,000
— Energy Supply Services Agreement	321,000	109,356	409,000	124,438	549,000	68,000
First Tractor Supply Agreement	803,000	595,986	1,022,000	827,904	1,372,000	350,000
YTO Properties Lease Agreement	4,000	1,195 (Note)	4,400	5,655 (Note)	4,900	2,020
First Tractor Properties Lease Agreement	12,000	6,157	14,000	5,365	16,000	6,000

Note: The historical transaction amount for year 2008 was approximately RMB5.655 million, of which approximately RMB2.0311 million was rental expense incurred by the Group in year 2007 but was subsequently settled in year 2008. Under the accrual principle, the historical transaction amount was under accrued by approximately RMB2.0311 million in year 2007 and was overstated by the same amount in year 2008, i.e. the historical transaction amounts for each of the years 2007 and 2008 should be approximately RMB3.2261 million and RMB3.6239 million respectively, both of which did not exceed the respective Cap amounts for the relevant years.

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

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

BASIS OF RELEVANT CAP AMOUNTS

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

Year	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Composite Services Agreement	100,000	120,000	140,000
Material Supply Agreement	1,300,000	1,600,000	1,900,000
Energy Supply Services Agreement	200,000	240,000	300,000
First Tractor Supply Agreement	1,200,000	1,440,000	1,800,000
YTO Properties Lease Agreement	6,000	7,000	8,000
First Tractor Properties Lease Agreement	8,000	10,000	12,000
New Land Lease Agreement	22,000	24,000	26,000

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

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

Composite Services Agreement

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

Material Supply Agreement

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

Energy Supply Services Agreement

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

First Tractor Supply Agreement

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

YTO Properties Lease Agreement

The Cap amount for the YTO Properties Lease Agreement is based on (i) a maximum gross floor area of approximately 66,805 sq.m. and the pre-emptive rights to lease an additional gross floor area of approximately 40,000 sq.m. from YTO Group to meet the Group's business expansion and operational needs; (ii) monthly rental of RMB4.34 per sq.m. in 2009; and (iii) annual increment of 20% thereafter.

First Tractor Properties Lease Agreement

The Cap amount for the First Tractor Properties Lease Agreement is based on (i) a maximum gross floor area of approximately 132,586 sq.m. and the rights to lease an additional gross floor area of approximately 30,000 sq.m. from the Group to meet YTO Group's business expansion and operational needs; (ii) monthly rental of RMB3.75 per sq.m. in 2009; and (iii) annual increment of 20% thereafter.

Financial Services Agreement

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

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

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

Designated loan

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

Financial Services other than the designated loan

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

New Land Lease Agreement

The Cap amount for the New Land Lease Agreement is based on (i) a maximum gross land area of approximately 852,067 sq.m. and the pre-emptive rights to lease additional land use rights with gross land area of no more than 150,000 sq.m. from YTO Group; (ii) monthly rent of RMB24.4 per sq.m. in 2009; and (iii) annual increment of 10% thereafter.

RELATIONSHIPS BETWEEN PARTIES AND THE LISTING RULES IMPLICATIONS

YTO beneficially owns approximately 52.48% of the issued share capital of the Company and is the controlling shareholder of the Company. Thus, YTO and its associates are regarded as connected persons of the Company under the Listing Rules. Accordingly, the transactions contemplated under the New Agreements and the New Land Lease Agreement shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Each of the YTO Properties Lease Agreement, First Tractor Properties Lease Agreement and New Land Lease Agreement is entered into on normal commercial terms and in the ordinary and usual course of business. None of their applicable percentage ratios (as defined in the Listing Rules) exceeds 2.5%, as stipulated under Rule 14A.34(1) of the Listing Rules. Therefore, the transactions contemplated under each of the YTO Properties Lease Agreement, First Tractor Properties Lease Agreement and New Land Lease Agreement are exempted from independent shareholders' approval requirements but subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The transactions contemplated under each of the Non-exempt CCT Agreements constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcements and independent shareholders' approval requirements under the Listing Rules.

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

CHANGE OF AUDITORS

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

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

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

EGM

An EGM will be convened at which ordinary resolutions will be proposed to seek Independent Shareholders' approval for each of the Non-exempt CCT Agreements and their respective proposed Cap amounts and to seek Shareholders' approval for the appointment and resignation of the Company's auditors. In view of the interests of YTO and its associates in the transactions contemplated under each of the Non-exempt CCT Agreements, YTO and its associates will abstain from voting on the resolutions in relation to each of the Non-exempt CCT Agreements and their respective proposed Cap amounts at the EGM. At the EGM, votes will be taken by poll.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors (namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen and Mr. Hong Xianguo) will be formed to consider the transactions contemplated under each of the Non-exempt CCT Agreements and their respective proposed Cap amounts and to advise the Independent Shareholders as to whether each of the Non-exempt CCT Agreements and their respective proposed Cap amounts are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Company has appointed CMB International Capital Corporation Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, details of each of the Non-exempt CCT Agreements and their respective proposed Cap amounts, the letter of advice from the Independent Board Committee, the letter of advice from the independent financial adviser, details of the change of the Company's auditors, together with a notice of the EGM for approving each of Non-exempt CCT Agreements, their respective proposed Cap amounts and the appointment and resignation of the Company's auditors will be dispatched to the Shareholders as soon as possible.

DEFINITIONS

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

“associates”	has the same meaning as ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Cap(s)”	the maximum aggregate annual values for each of the Continuing Connected Transactions for each of the three years ending 31 December 2012

“China Machinery”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a wholly State-owned company incorporated in the PRC managed by the State-owned Assets Supervision and Administrative Commission of the PRC, the ultimate controlling shareholder of the Company and the controlling shareholder of YTO
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares of which are listed on the Stock Exchange
“Composite Services Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to provide certain welfare and other services, including but not limited to storage services, transportation services, management services and other services to the Group
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the New Agreements and the New Land Lease Agreement (as the context may require)
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and approving each of the Non-exempt CCT Agreements and their respective proposed Cap amounts, and the resignation and appointment of the Company’s auditors

“Energy Supply Services Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to supply various kind of energy to the Group
“Existing Land Lease Agreement”	the agreement dated 4 June 1997 entered into between YTO as lessor and the Company as lessee, pursuant to which YTO agreed to lease land use rights with a gross land area of approximately 490,819 sq.m. to the Company, which will expire on 11 May 2047
“Financial Services”	the financial services provided by First Tractor Finance to YTO Group pursuant to the Financial Services Agreement
“Financial Services Agreement”	the agreement dated 21 October 2009 entered into between First Tractor Finance and YTO, on behalf of YTO Group, pursuant to which First Tractor Finance agreed to provide the Financial Services to YTO Group
“First Tractor Finance”	China First Tractor Group Finance Company Limited* (中國一拖集團財務有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“First Tractor Properties Lease Agreement”	the agreement dated 21 October 2009 entered into between the Company, on behalf of the Group, as lessor and YTO, on behalf of YTO Group, as lessee pursuant to which the Group agreed to lease to YTO Group premises with a gross floor area of approximately 132,586 sq.m. and give YTO Group the rights of leasing additional premises with a gross floor area of no more than 30,000 sq.m.

“First Tractor Supply Agreement”	the material supply agreement dated 21 October 2009 entered into between the Company, on behalf of the Group, as supplier and/or supplying agent and YTO, on behalf of YTO Group, as purchaser and/or purchasing agent pursuant to which the Group agreed to supply certain materials to YTO Group
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, and Mr. Hong Xianguo
“Independent Shareholders”	Shareholders other than YTO and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Material Supply Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to supply certain materials to the Group
“New Agreements”	Composite Services Agreement, Energy Supply Services Agreement, Material Supply Agreement, First Tractor Supply Agreement, YTO Properties Lease Agreement, First Tractor Properties Lease Agreement and Financial Services Agreement (as the context may require)

“New Land Lease Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which (i) YTO agreed to lease land use rights with a gross land area of approximately 852,067 sq.m. (covered most of the land use rights leased under the Existing Land Lease Agreement) to the Company; (ii) YTO agreed to give the Group pre-emptive rights of leasing additional land use rights with a gross land area of no more than 150,000 sq.m.; and (iii) the Existing Land Lease Agreement shall cease to have effect from the effective date of the New Land Lease Agreement
“Non-exempt CCT Agreements”	Composite Services Agreement, Material Supply Agreement, Energy Supply Services Agreement, First Tractor Supply Agreement and Financial Services Agreement
“Non-exempt CCT Transactions”	the transactions contemplated under the Non-exempt CCT Agreements

“Old Agreements”	the (i) composite services agreement, material supply agreement and energy supply services agreement, all dated 13 October 2006 entered into between YTO, on behalf of YTO Group, as supplier and supplying agent and the Company, on behalf of the Group, as purchaser; (ii) material supply agreement dated 13 October 2006 entered into between the Company, on behalf of the Group, as supplier and supplying agent and YTO, on behalf of YTO Group, as purchaser and purchasing agent; (iii) properties lease agreement dated 13 October 2006 entered into between YTO, on behalf of YTO Group as lessor and the Company, on behalf of the Group as lessee; (iv) properties lease agreement dated 13 October 2006 entered into between the Company, on behalf of the Group, as lessor and YTO, on behalf of YTO Group as lessee; and (v) financial services agreement dated 13 October 2006 entered into between First Tractor Finance and YTO, on behalf of YTO Group
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of RMB1.00 each of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq. m.”	square metre
“State Price”	mandatory price of certain goods and services promulgated by the relevant governmental authorities of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“YTO Properties Lease Agreement”	the agreement dated 21 October 2009 entered into between YTO, on behalf of YTO Group, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which YTO Group agreed to lease to the Group premises with a gross floor area of approximately 66,805 sq.m. and give the Group pre-emptive rights of leasing additional premises with a gross floor area of no more than 40,000 sq.m.
“YTO”	中國一拖集團有限公司 (YTO Group Corporation*), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 52.48% equity interest in the Company
“YTO Group”	YTO, its controlling shareholder and their respective controlled companies/entities (the “ Relevant Parties ”) and/or the non-wholly owned subsidiaries of the Company in which the Relevant Parties has 10% or more voting rights
“YTO Supply Agreements”	Composite Services Agreement, Material Supply Agreement and Energy Supply Services Agreement

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

Luoyang, the PRC
21 October 2009

As at the date of this announcement, 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.

* *For identification purpose only*