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 or 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 together with the accompanying proxy form to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

(1) CONTINUING CONNECTED TRANSACTIONS;
(2) RE-ELECTION OF DIRECTORS AND SUPERVISORS;
(3) DIRECTORS' AND SUPERVISORS' REMUNERATIONS; AND
(4) DIRECTORS LIABILITY INSURANCE

Financial Adviser to the Company

TC Capital
天財資本

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

寶橋 BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

All capitalised terms used in this circular shall have the same meanings as set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 48 of this circular and a letter from the Independent Board Committee (as defined herein) to the Independent Shareholders (as defined herein) is set out on pages 49 to 50 of this circular. A letter of advice from Bridge Partners to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 75 of this circular.

A notice of the EGM to be held at 9:00 a.m. on Thursday, 20 December 2012 at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China was despatched on 29 October 2012.

A form of proxy for use at the EGM was despatched and published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) on 29 October 2012. Whether or not you are able to attend the EGM, you are requested to complete the despatched proxy form in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours before the time fixed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

* *For identification purposes only*

28 November 2012

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

"Annual Cap(s)"	the maximum aggregate annual values/outstanding amounts for each of the transactions contemplated under the Old Agreements and New Agreements;
"A Share(s)"	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange, and subscribed for and traded in RMB;
"associate(s)"	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
"Bills Acceptance Service Agreement"	the agreement dated 29 October 2012 entered into between First Tractor Finance and YTO for the provision of the bills acceptance services by First Tractor Finance to YTO Group;
"Bills Discounting Service Agreement"	the agreement dated 29 October 2012 entered into between First Tractor Finance and YTO for the provision of the bills discounting services by First Tractor Finance to YTO Group;
"Board"	the board of Directors of the Company;
"Bridge Partners"	Bridge Partners Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, its advice in respect of the Non-exempt CCT Transactions to the Independent Board Committee and the Independent Shareholders is set out in this circular;
"CBRC"	China Banking Regulatory Commission*（中國銀行業監督管理委員會）;
"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 and the Shanghai Stock Exchange respectively;

"Composite Services Agreement"	the agreement dated 29 October 2012 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 Hong Kong Listing Rules;
"controlling shareholder(s)"	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
"Deposit Service Agreement"	the agreement dated 29 October 2012 entered into between First Tractor Finance and YTO, on behalf of YTO Group, for the provision of the depository services by First Tractor Finance to YTO Group;
"Director(s)"	the director(s) of the Company including the independent non-executive directors;
"EGM"	an extraordinary general meeting of the Company to be convened on 20 December 2012 for the purposes of considering and approving, among other things, each of the New Agreements and their respective proposed Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount), the re-election of the proposed Directors and Supervisors, the Directors' and Supervisors' remunerations, and the purchase of Directors liability insurance;
"Energy Procurement Agreement"	the agreement dated 29 October 2012 entered into between YTO as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent, pursuant to which YTO agreed to supply various kinds of energies to the 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 owned as to 88.60% by the Company;
"Group"	the Company and its subsidiaries;

"Hong Kong"	Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
"H Share(s)"	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange;
"Independent Board Committee"	an independent committee of the Board comprising the independent non-executive Directors;
"Independent Shareholder(s)"	Shareholder(s) other than YTO and its associate(s);
"Intellectual Property"	any forms of intellectual property derived from the technology services provided under the Technology Services Agreement, including but not limited to any patents, copyrights, trademarks, trade secrets, and other technical know how;
"Land Lease Agreement"	the agreement dated 29 October 2012 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 agreed to lease land use rights with a gross land area of approximately 192,632 sq.m. to the Company, as well as additional land use rights with a gross land area of no more than 280,000 sq.m. to the Group;
"Latest Practicable Date"	23 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Loan Service Agreement"	the agreement dated 29 October 2012 entered into between First Tractor Finance and YTO for the provision of the loan services by First Tractor Finance to YTO Group;
"Material Procurement Agreement"	the agreement dated 29 October 2012 entered into between YTO, on behalf of YTO Group and the subsidiaries of Sinomach, 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 and the subsidiaries of Sinomach agreed to supply certain materials to the Group;

"New Agreements"	Non-exempt CCT Agreements, Other CCT Agreements and the Deposit Service Agreement;
"Non-exempt CCT Agreements"	Composite Services Agreement, Energy Procurement Agreement, Material Procurement Agreement, Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement;
"Non-exempt CCT Transactions"	the transactions contemplated under the Non-exempt CCT Agreements;
"Old Agreements"	(i) the composite services agreement, energy procurement agreement and material procurement agreement, all dated 21 October 2009 entered into between YTO, on behalf of YTO Group and the subsidiaries of Sinomach, as supplier and supplying agent, and the Company, on behalf of the Group, as purchaser; (ii) the loan service agreement, bills discounting service agreement, bills acceptance service agreement and deposit service agreement, all dated 28 June 2010 entered into between First Tractor Finance and YTO, on behalf of YTO Group; (iii) the sale of goods agreement dated 21 October 2009 entered into between the Company, on behalf of the Group, as supplier and supplying agent and YTO, on behalf of YTO Group and the subsidiaries of Sinomach, as purchaser and purchasing agent; (iv) the technology services agreement dated 21 December 2010 entered into between Tractors Research Company, on behalf of Tractors Research Group, and the Company, on behalf of the Group; (v) properties lease 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; and (vi) the land lease 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;
"Other CCT Agreements"	Sale of Goods Agreement, Technology Services Agreement, Properties Lease Agreement and Land Lease Agreement;
"PBOC"	the People's Bank of China;
"percentage ratio(s)"	has the same meaning as ascribed to it under the Hong Kong Listing Rules, as application to a transaction;

"PRC" or "China"	The People's Republic of China which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan;
"Properties Lease Agreement"	the agreement dated 29 October 2012 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 the factory premises with an aggregate gross floor area of approximately 56,127 sq.m. and provide the Group the pre-emptive rights of leasing additional premises with a gross floor area of no more than 80,000 sq.m.;
"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 certain materials to YTO Group and the subsidiaries of Sinomach;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended, supplemented or otherwise from time to time;
"Shanghai Listing Rules"	Rules Governing the Listing of Stocks on Shanghai Stock Exchange;
"Shareholder(s)"	the shareholder(s) of the Company;
"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 a controlling shareholder of YTO having 82.02% equity interest in YTO;
"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;
"Supervisors"	the supervisors of the Company;

"Supervisory Committee"	the supervisory committee of the Company;
"Technology Services Agreement"	the technology services agreement dated 29 October 2012 entered into between Tractors Research Company, on behalf of Tractors Research Group, and the Company, on behalf of the Group (excluding Tractors Research Group), pursuant to which Tractors Research Group has agreed to provide certain technology services to the Group;
"Tractors Research Company"	Luoyang Tractors Research Company Limited* (洛陽拖拉機研究所有限公司), a limited liability company incorporated in the PRC and a non-wholly owned subsidiary of the Company;
"Tractors Research Group"	Tractors Research Company, Luoyang Xinyan Material Mechanical Engineering Company Limited* (洛陽鑫研機械材料工程有限公司), Luoyang Xiyuan Motor Power Test Company Limited* (洛陽西苑車輛動力檢驗所有限公司) and Luoyang Tuoqi Engineering Company Limited* (洛陽拖汽工程車輛科技有限公司), being the service providers who provide technology services under the Technology Services Agreement to the Group;
"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 approximately 44.574% equity interest in the Company as at the Latest Practicable Date;
"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 has 10% or more voting rights; and
"%"	per cent.

* *for identification purposes only*

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

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)

Executive Directors:
Mr Zhao Yanshui *(Chairman)*
Ms Dong Jianhong
Mr Qu Dawei
Mr Liu Jiguo

Non-executive Directors:
Mr Su Weike
Mr Yan Linjiao
Mr Liu Yongle

Independent non-executive Directors:
Mr Luo Xiwen
Mr Chan Sau Shan, Gary
Mr Hong Xianguo
Mr Zhang Qiusheng

Registered and principal office:
154 Jianshe Road
Luoyang, Henan Province
The PRC

28 November 2012

To the Shareholders

Dear Sir or Madam,

(1) CONTINUING CONNECTED TRANSACTIONS;
(2) RE-ELECTION OF DIRECTORS AND SUPERVISORS;
(3) DIRECTORS' AND SUPERVISORS' REMUNERATIONS; AND
(4) DIRECTORS LIABILITY INSURANCE

INTRODUCTION

The Board refers to (a) the announcement of the Company dated 29 October 2012 in relation to the entering into of the New Agreements, the transactions contemplated thereunder and the respective Annual Cap amounts; and (b) the announcement of the Company dated 29 October 2012 in relation to (i) the re-election of Directors and Supervisors, (ii) the Directors' and Supervisors' remunerations and (iii) the purchase of Directors liability insurance. References are also made to the announcements of the Company dated 21 October 2009, 28 June 2010 and 21 December 2010, and the circulars of the Company dated 6 November 2009 and 20 July 2010, in respect of the existing continuing connected transactions under the Old Agreements.

* *For identification purposes only*

CONTINUING CONNECTED TRANSACTIONS

The Old Agreements will expire on 31 December 2012. The Board wishes to ensure the continuation of the on-going transactions of goods and services to or from the YTO Group and/or the subsidiaries of Sinomach, as well as the continued leasing of lands and properties to facilitate the Group's operational needs. YTO Group also intends to continue the existing financial services provided by First Tractor Finance. In addition, the Group also intends to continue to receive certain technology and testing services provided by Tractors Research Group.

Accordingly, on 29 October 2012, the Company and/or its subsidiaries (on behalf of the Group) entered into the New Agreements with YTO (on behalf of YTO Group and/or the subsidiaries of Sinomach) for a term of three years commencing from 1 January 2013, in respect of the transactions of certain materials, components and services, the continuations of the financial, the technology and testing services, and lands and properties leasing between the Group and YTO Group, as well as the continuation of purchasing and sales of certain materials and components between the Group and the subsidiaries of Sinomach.

The entering into of the New Agreements is to renew the Old Agreements and their respective Annual Cap amounts for the three years ending 31 December 2015 (except for the Deposit Service Agreement, which has no such Annual Cap amount), and to reflect the terms of the on-going connected transactions. Save for the effective period and the Annual Cap amounts of each of the New Agreements, the terms and conditions of each of the New Agreements are similar to those in the respective Old Agreements. Details of the New Agreements and the corresponding Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount) are set out in this circular. The Directors consider that the entering into of the New Agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the New Agreements are fair and reasonable and in the interests of the Shareholders and the Group as a whole.

RE-ELECTION OF DIRECTORS AND SUPERVISORS

The terms of office of the current Fifth Board and Fifth Supervisory Committee should have expired on 30 June 2012. However, in order to facilitate the issue of A Shares of the Company, the Company has decided to defer the re-election of Directors and Supervisors until the completion of issue of A Shares. In light of the successful completion of the A Shares issue in August 2012, the Company proposes to re-elect its Directors and Supervisors to the Sixth Board and Sixth Supervisory Committee respectively.

DIRECTORS' AND SUPERVISORS' REMUNERATIONS

The re-election of Directors and Supervisors is expected to be completed upon obtaining the related approval at the EGM. The remuneration committee under the Board has made recommendations in respect of the remuneration for the extended services of Directors of the Fifth Board and Supervisors of the Fifth Supervisory Committee, and the remuneration for the Directors of the Sixth Board and Supervisors of the Sixth Supervisory Committee.

DIRECTORS LIABILITY INSURANCE

In order to fulfill the new requirements of the Hong Kong Listing Rules, provide incentive for the Directors, Supervisors and senior management officers to work hard and fulfill their respective duties, avoid the litigation risk arising from the performance of the duties of Directors, Supervisors and senior management officers, and protect the Company against liability risk, the Company proposes to purchase Directors liability insurance for its Directors, Supervisors and senior management officers.

The purpose of this circular is to, among other things, (i) provide you with information relating to each of the New Agreements, (ii) set out the advice from the Independent Board Committee to the Independent Shareholders in respect of the Non-exempt CCT Agreements, (iii) set out the letter of advice from Bridge Partners to the Independent Board Committee in respect of the Non-exempt CCT Agreements and (iv) provide you with information relating to the re-election of Directors and Supervisors, the Directors' and Supervisors' remunerations and the Directors liability insurance. The notice of the EGM at which ordinary resolutions will be proposed to approve, among other things, (a) the New Agreements, the transactions contemplated thereunder, respective Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount), and the related authorizations, (b) the re-election of Directors and Supervisor, (c) the Directors' and Supervisors' remunerations and (d) the purchase of Directors' liabilities insurances, was despatched on 29 October 2012.

(1) CONTINUING CONNECTED TRANSACTIONS

LISTING RULES IMPLICATION

Connected Persons

As at the Latest Practicable Date, YTO beneficially owns approximately 44.574% of the issued share capital of the Company and is the controlling shareholder of the Company. As Sinomach holds 82.02% of the equity interest in YTO, Sinomach is the controlling shareholder of YTO. Therefore, Sinomach and its subsidiaries are deemed as connected persons of the Company according to the Hong Kong Listing Rules.

Tractors Research Company is not only a non wholly-owned subsidiary of the Company, which is owned as to 51% by the Company and 49% by YTO, but also an associate of YTO. Thus, YTO and its associates should be regarded as connected persons of the Company under the Hong Kong Listing Rules.

First Tractor Finance is a non wholly-owned subsidiary of the Company, which is owned as to approximately 88.60% by the Company and approximately 0.6% by YTO.

Accordingly, the transactions contemplated under the New Agreements entered into between the Company and YTO, First Tractor Finance and YTO, and the Company and Tractors Research Company, respectively, constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

YTO and its associates are required under the Hong Kong Listing Rules to abstain from voting on the resolutions to be proposed to approve the New Agreements and their respective Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount) at the EGM to be convened.

Hong Kong Listing Rules Implications

(1) Non-exempt CCT Agreements

As the applicable percentage ratios under each of the Non-exempt CCT Agreements, on an annual basis, are more than 5%, the transactions contemplated under the Non-exempt CCT Agreements are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. In addition, the Company is required to comply with the annual review requirements under Rules 14A.37 to 14A.41 of the Hong Kong Listing Rules in respect of each of the Non-exempt CCT Transactions.

(2) Other CCT Agreements

As the applicable percentage ratios under each of the Other CCT Agreements, on an annual basis, are more than 0.1% but less than 5%, the transactions contemplated under the Other CCT Agreements are subject to the reporting, annual review and announcement requirements only, but exempt from independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) Deposit Service Agreement

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

The Directors are of the view that the New Agreements have been entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and that the terms of each of the New Agreements, together with the respective Annual Cap amounts for 2013, 2014 and 2015 (except for the Deposit Service Agreement, which has no such Annual Cap amount), are fair and reasonable and in the interests of the Company and its Shareholders as whole.

Shanghai Listing Rules Implications

As the A Shares of the Company are listed on the Shanghai Stock Exchange on 8 August 2012, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the Shanghai Listing Rules, YTO, Sinomach and their respective subsidiaries are deemed as related natural persons/parties. According to Rule 10.2.11 of the Shanghai Listing Rules, related party transactions conducted by a listed company shall be aggregated when (1) all the transactions are conducted with the same related party; or (2) all the transactions are conducted with different related parties but with related subject matters, for twelve consecutive months.

Accordingly, the Non-exempt CCT Agreements, the Other CCT Agreements and the Deposit Service Agreement should be aggregated pursuant to the aforesaid rule and are all subject to the Independent Shareholders' approvals under the Shanghai Listing Rules.

Conclusion

The Non-exempt CCT Agreements, the Other CCT Agreements and the Deposit Service Agreement are all subject to the compliance with the Hong Kong Listing Rules and the Shanghai Listing Rules, including but not limited to the compliance with the independent shareholders' approvals requirements. Therefore, the New Agreements will only proceed after obtaining all the necessary approvals required under the Hong Kong Listing Rules and the Shanghai Listing Rules.

INDEPENDENT BOARD COMMITTEE

According to the Hong Kong Listing Rules, an Independent Board Committee has been established to consider and advise the Independent Shareholders in respect of the transactions contemplated under the Non-exempt CCT Agreements. Bridge Partners has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Non-exempt CCT Agreements, the transactions contemplated thereunder and the respective Annual Cap amounts are 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.

Details of each of the New Agreements are set out below:

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

(A) Material Procurement Agreement

Date : 29 October 2012

Parties :

- YTO, on behalf of YTO Group and the subsidiaries of Sinomach, as supplier and/or supplying agent; and
- The Company, on behalf of the Group, as purchaser and/or purchasing agent.

Goods to be provided/ rendered : Raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and oil), other industrial equipment, supporting parts (including semi-finished and finished products), spare parts and other necessities.

Term : From 1 January 2013 to 31 December 2015.

Payment terms : Shall be principally cleared and settled within three months from the date of confirmation of receiving the goods by the purchaser. Subject to negotiations between the parties, prepayments of no more than six months from the estimated delivery of the goods are acceptable.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Material Procurement Agreement

In respect of the old material procurement agreement dated 21 October 2009, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Material Procurement Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ended 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Material Procured by the Company	1,263,734	1,262,965	893,353	1,300,000	1,600,000	1,900,000	1,350,000	1,450,000	1,550,000

Pricing Standards of the Transactions contemplated under the Material Procurement Agreement

Under the Material Procurement Agreement, the price of the goods to be supplied or provided will be:

(1) the State Price;

(2) if there is no State Price, the governmental guidance price;

(3) if there is no State Price nor governmental guidance price, the market price determined by an independent third party;

(4) if there is no State Price, governmental guidance price nor market price determined by an independent third party, the transaction price between YTO and an independent third party; and

(5) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%.

The market price determined by an independent third party is the price of the same or comparable type of good as offered by the independent third parties in the PRC market and in the normal course of business.

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

When implementing the old material procurement agreement dated 21 October 2009, there were no relevant PRC government documents in relation to the price for the Company to follow. The Company has adopted the "cost plus a percentage mark-up" pricing standard, where the percentage mark-up was not more than 30%, when purchasing all the raw materials, industrial equipment, supporting parts, spare parts and other necessities under the old material procurement agreement. After implementation of the new Material Procurement Agreement, the Company will determine the prices based on the order of the pricing standards as mentioned above and adopt one of them.

Basis for the Annual Cap Amounts under the Material Procurement Agreement

The proposed Annual Cap amounts for the years of 2013, 2014 and 2015 for the Material Procurement Agreement have been determined on the basis that such amounts will be approximately 10% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. The 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 proposed Annual Cap amounts, being set at approximately 10% of the estimated consolidated turnover of the Group, are based on:

(1) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB1,263.73 million; and 2011: approximately RMB1,262.96 million), which on average amounted to approximately 11.6% of the consolidated turnover of the Group; and

(2) the Group will gradually reduce the procurement for materials from YTO Group after the planned relevant spare parts business integration between the Company and YTO Group.

(B) Composite Services Agreement

Date : 29 October 2012

Parties :
- 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.

Services to be provided/ rendered	:	Certain production, welfare and management services, including but not limited to storage services, transportation services, fire prevention services, security services, human resources training, legal affairs and consultancy services, ability testing services, landscaping and road services in the factory areas, cleaning services, information networking services, re-employment services, administrative services for retired employees such as social insurance services, advertising and promotion services in relation to enterprise culture and image, reception services such as provision of conference venue, reception services, etc.
Term	:	From 1 January 2013 to 31 December 2015.
Payment terms	:	Storage services: shall be cleared quarterly and paid in the following month; Transportation services: shall be principally cleared and settled within three months after confirmation by the Company (on behalf of the Group) from the date of delivering/receiving the goods; and Management services except for the storage and transportation services: shall be cleared in the first month of each quarter for the cost of the previous quarter, and cleared and paid before the end of each financial year in accordance with the actual usage.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Composite Services Agreement

In respect of the old composite services agreement dated 21 October 2009, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Composite Services Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ended 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Composite Services Agreement	96,382	107,125	69,921	100,000	120,000	140,000	226,000	254,000	290,000

Pricing Standards of the Transactions contemplated under the Composite Services Agreement

Under the Composite Services Agreement, the price of the services to be provided thereunder will be:

(1) the State Price;

(2) if there is no State Price, the governmental guidance price;

(3) if there is no State Price nor governmental guidance price, the market price determined by an independent third party;

(4) if there is no State Price, governmental guidance price nor market price determined by an independent third party, the transaction price between YTO and an independent third party; and

(5) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%.

The market price determined by an independent third party is the price of the same or comparable type of service as offered by the independent third parties in the PRC market and in the normal course of business.

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

When implementing the old composite services agreement dated 21 October 2009, there were no relevant PRC government documents in relation to the price for the Company to follow. The Company has adopted the "cost plus a percentage mark-up" pricing standard, where the percentage mark-up was not more than 30%, when purchasing the production, welfare and management services, except for the transportation services. The transportation services were based on at the market price. After implementation of the new Composite Services Agreement, the Company will determine the prices based on the order of the pricing standards as mentioned above and adopt one of them.

Basis for the Annual Cap Amounts under the Composite Services Agreement

The proposed Annual Cap amounts for the years of 2013, 2014 and 2015 for the Composite Services Agreement have been determined on the basis that such amounts will be approximately 1.6% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. 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 proposed Annual Cap amounts, being set at approximately 1.6% of the estimated consolidated turnover of the Group, are based on:

(1) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB96.38 million; and 2011: approximately RMB107.12 million), which on average amounted to approximately 0.94% of the consolidated turnover of the Group; and

(2) the extra increment of 0.66%, which was attributed from the net effect of:

(I) the transportation services: the basis for the determination of the proposed Annual Cap amounts of the transportation services is approximately 1% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015, and such level is based on:

(a) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB59.47 million; and 2011: approximately RMB65.60 million), which on average amounted to approximately 0.58% of the consolidated turnover of the Group; and

(b) the approximately 0.42% increment mainly due to the consideration of the expected increment of annual average turnover of the Group between 2013 and 2015, the merger of businesses and the expected increment of fuel prices and salaries between 2013 and 2015; and

(II) the other services except for the transportation services: the basis for the determination of the proposed Annual Cap amounts of the other services is approximately 0.6% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015, and such level is based on:

(a) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB36.91 million; and 2011: approximately RMB41.52 million), which on average amounted to approximately 0.36% of the consolidated turnover of the Group; and

(b) the increment of 0.24% based on:

(i) the expected annual growth rate not exceeding 15% for the salaries of the management services staffs of YTO between 2013 and 2015; and

(ii) the expected increment of services fees for security services, fire prevention services, landscaping and road services and cleaning service in the factory areas, due to the future growth and development of the Group, such as acquisition and leasing of land, development of the industrial park and business restructuring.

(C) Energy Procurement Agreement

Date : 29 October 2012

Parties	:	● YTO as supplier and/or supplying agent; and ● The Company, on behalf of the Group, as purchaser and/or purchasing agent.
Energy to be provided/ rendered	:	Electricity, gas, oxygen, water, heat, compressed air, acetylene, steam, etc..
Term	:	From 1 January 2013 to 31 December 2015.
Payment terms	:	Shall be cleared and paid monthly or latest in the following month; however, in order to ensure the stability of supply, subject to negotiations between the parties, prepayments of no more than six months are acceptable.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Energy Procurement Agreement

In respect of the old energy procurement agreement dated 21 October 2009, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011 and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Energy Procurement Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ended 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Energy Procurement Agreement	110,653	112,997	61,806	200,000	240,000	300,000	250,000	290,000	330,000

Pricing Standards of the Transactions contemplated under the Energy Procurement Agreement

Under the Energy Procurement Agreement, the price of the energies to be supplied or provided will be:

(1) the State Price;

(2) if there is no State Price, the governmental guidance price;

(3) if there is no State Price nor governmental guidance price, the market price determined by an independent third party;

(4) if there is no State Price, governmental guidance price nor market price determined by an independent third party, the transaction price between YTO and an independent third party; and

(5) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%.

The market price determined by an independent third party is the price of the same or comparable type of energy as offered by the independent third parties in the PRC market and in the normal course of business.

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

When implementing the old energy procurement agreement dated 21 October 2009, there were no relevant PRC government documents in relation to the price for the Company to follow. The Company has adopted the "cost plus a percentage mark-up" pricing standard, where the percentage mark-up was not more than 30%, when purchasing all the energies under the old energy procurement agreement. After implementation of the new Energy Procurement Agreement, the Company will determine the prices based on the order of the pricing standards as mentioned above and adopt one of them.

Basis for the Annual Cap Amounts under the Energy Procurement Agreement

The proposed Annual Cap amounts for the years of 2013, 2014 and 2015 for the Energy Procurement Agreement have been determined on the basis that such amounts will not exceed 1.81% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. 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 proposed Annual Cap amount, being set at approximately 1.81% of the estimated consolidated turnover of the Group, are based on:

(1) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB110.65 million; and 2011: approximately RMB112.99 million), which on average amounted to approximately 1% of the consolidated turnover of the Group; and

(2) the increment of 0.81%, which was contributed from the net effect of:

    (I) the projected increment of the energy prices between 2013 and 2015; and

    (II) the expected increasing demand for the energy, due to the future growth and development of the Group, such as the development of the industrial park and the business restructuring.

(D) Loan Service Agreement

Date	:	29 October 2012
Parties	:	● First Tractor Finance, a subsidiary of the Company; and ● YTO, on behalf of YTO Group.
Financial services to be provided	:	Provision of loan services by First Tractor Finance to the YTO Group.
Term	:	From 1 January 2013 to 31 December 2015.
Payment terms	:	The payment terms will be specified on each separate loan contract to be agreed by the parties.
Security	:	First Tractor Finance may request YTO Group to provide pledge of assets or other guarantees to secure YTO Group's liabilities arising from the performance of the Loan Service Agreement. YTO undertakes that the deposit maintained by YTO with First Tractor Finance should be greater than the loan balance at all time according to the Deposit Service Agreement, and irrevocably grants to First Tractor Finance a right to offset all liabilities arising from the performance of the Loan Service Agreement by YTO Group from the relevant deposit accounts of that member entity under YTO Group. Such undertaking effectively provides First Tractor Finance a full protection under the Loan Services Agreement.
Rights to demand for early repayment	:	First Tractor Finance shall first satisfy the funding needs of the Group. Depending on the shortfall of funding of the Group, First Tractor Finance has the right to issue a termination or terms amendments notice to YTO Group, requesting for termination or amendments to the terms of the loans granted to YTO Group so as to collect the money to support the production operation of the Group.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Loan Service Agreement

In respect of the old loan service agreement dated 28 June 2010, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2015:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan Service Agreement	440,200	507,020	524,120	450,000	510,000	590,000	640,000	690,000	740,000

Pricing Standards of the Transactions contemplated under the Loan Service Agreement

The service fees to be charged by First Tractor Finance to YTO Group for any loan services will be:

(1) the rate prescribed by CBRC or PBOC;

(2) if the above rate is not applicable, the rate charged by the industry in the PRC for comparable transactions; and

(3) if none of the above is applicable, the service fees will be determined under the arm's length negotiations between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market.

In any event, the applicable service fees offered to YTO Group shall not be more favourable than those offered to independent third party customers of First Tractor Finance for the same services.

When implementing the old loan service agreement dated 28 June 2010, First Tractor Finance determined the service fees based on the order of the pricing standards above and such fees were set out in each loan service contract.

Basis for the Annual Cap Amounts under the Loan Service Agreement

The proposed Annual Cap amounts for the loan services provided under the Loan Service Agreement are determined with reference to the following factors:

(1) the historical figures of the average and maximum daily outstanding balance of loans (including the accrued interest and service fees) granted by First Tractor Finance to YTO Group between January 2010 and August 2012;

(2) First Tractor Finance's historical and future financial resources; and

(3) the percentage of increase in the total asset value of First Tractor Finance for each of the relevant year. The estimated asset of First Tractor Finance is approximately RMB2,800 million, RMB3,000 million and RMB3,200 million respectively for each of the three financial years ending 31 December 2015, taking into account the historical growth trend of its business as well as its future business prospects. The estimated percentages for the transaction amounts under the Loan Service Agreement over the total asset value of First Tractor Finance for each of the three years ending 31 December 2015 are as follows:

	For the year ending 31 December		
	2013	**2014**	**2015**
	%	%	%
Loan Service Agreement	22.9	23.0	23.1

(E) Bills Discounting Service Agreement

Date : 29 October 2012

Parties :
- First Tractor Finance, a subsidiary of the Company; and
- YTO, on behalf of YTO Group.

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

Term : From 1 January 2013 to 31 December 2015.

Payment terms : The payment terms for the bills discounting services will be specified on each separate contract to be agreed by the parties.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Bills Discounting Service Agreement

In respect of the old bills discounting service agreement dated 28 June 2010, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2015:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills Discounting Service Agreement	297,000	330,000	211,720	300,000	350,000	400,000	430,000	460,000	490,000

Pricing Standards of the Transactions contemplated under the Bills Discounting Service Agreement

The services fees charged by First Tractor Finance to YTO Group for any bills discounting services will be:

(1) the rate prescribed by CBRC or PBOC;

(2) if the above rate is not applicable, the rate charged by the industry in the PRC for comparable transactions; and

(3) if none of the above is applicable, the services fees will be determined under the arm's length negotiations between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market.

In any event, the applicable service fees offered to YTO Group shall not be more favourable than those offered to independent third party customers of First Tractor Finance for the same services.

When implementing the old bills discounting service agreement dated 28 June 2010, First Tractor Finance determined the service fees based on the order of the pricing standards above and such fees were set out in each bills discounting service contract.

Basis for the Annual Cap Amounts under the Bills Discounting Service Agreement

The proposed Annual Cap amounts for the bills discounting provided under the Bills Discounting Service Agreement are determined with reference to the following factors:

(1) the historical figures of the average and maximum daily outstanding balance of bills discounting accepted by First Tractor Finance from the YTO Group between January 2010 and August 2012;

(2) First Tractor Finance's historical and future financial resources; and

(3) the percentage of increase in the total asset value of First Tractor Finance for each of the relevant year. The estimated asset value of First Tractor Finance is approximately RMB2,800 million, RMB3,000 million and RMB3,200 million respectively for each of the three financial years ending 31 December 2015, taking into account the historical growth trend of its business as well as its future business prospects. The estimated percentages for the transaction amounts under the Bills Discounting Service Agreement over the total asset value of First Tractor Finance for each of the three years ending 31 December 2015 are as following:

	For the year ending 31 December		
	2013	**2014**	**2015**
	%	%	%
Bills Discounting Service Agreement	15.4	15.3	15.3

(F) Bills Acceptance Service Agreement

Date	:	29 October 2012
Parties	:	● First Tractor Finance, a subsidiary of the Company; and ● YTO, on behalf of YTO Group.
Financial services to be provided	:	Provision of bills acceptance services by First Tractor Finance to the YTO Group, whereby First Tractor Finance guarantees the payment of bills issued by YTO Group. In return, YTO Group shall pay the services fees.
Term	:	From 1 January 2013 to 31 December 2015.
Payment terms	:	The payment terms for the service fees will specified on each separate contract to be agreed by the parties.
Security	:	First Tractor Finance may request YTO Group to provide pledge of assets or other guarantees to secure the liabilities arising from the performance of YTO Group under the Bills Acceptance Service Agreement.

YTO Group undertakes that the deposit maintained by YTO Group with First Tractor Finance should be greater than the loan balance at all time according to the Deposit Service Agreement, and irrevocably grants to First Tractor Finance a right to offset all liabilities arising from the performance of the Bills Acceptance Service Agreement by YTO Group from the relevant deposit accounts of YTO Group. Such undertaking effectively provides First Tractor Finance a full protection under the Bills Acceptance Service Agreement.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Bills Acceptance Service Agreement

In respect of the old bills acceptance service agreement dated 28 June 2010, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2015:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills Acceptance Service Agreement	39,260	283,908	305,210	250,000	300,000	350,000	380,000	400,000	420,000

Pricing Standards of the Transactions contemplated under the Bills Acceptance Service Agreement

The services fees charged by First Tractor Finance to YTO Group for any bills acceptance services will be:

(1) the rate prescribed by CBRC or PBOC;

(2) if the above rate is not applicable, the rate charged in the industry in the PRC for comparable transactions; and

(3) if none of the above is applicable, then the services fees will be determined under the arm's length negotiations between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market.

In any event, the applicable service fees offered to YTO Group shall not be more favourable than those offered to independent third party customers of First Tractor Finance for the same services.

When implementing the old bills acceptance agreement dated 28 June 2010, First Tractor Finance determined the service fees based on the order of the pricing standards above and such fees were set out in each bills acceptance service contract.

Basis for the Annual Cap Amounts under the Bills Acceptance Service Agreement

The proposed Annual Cap amounts for the services provided under the Bills Acceptance Service Agreement are determined with reference to the following factors:

(1) the historical figures of the average and maximum daily outstanding balance of bills acceptance accepted by First Tractor Finance from YTO Group between January 2010 and August 2012; and

(2) First Tractor Finance's historical and future financial resources.

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS

(G) Sale of Goods Agreement

Date : 29 October 2012

Parties :
- The Company, on behalf of the Group, as supplier and/or supplying agent; and
- 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.

Term : From 1 January 2013 to 31 December 2015.

Payment terms : The payment shall be settled within three months after the delivery of goods by the supplier in principal. Subject to negotiations between the parties, prepayment of no more than six 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.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Sale of Goods Agreement

In respect of the sale of goods agreement dated 21 October 2009, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Sale of Goods Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of Goods Agreement	569,806	342,632	132,827	1,200,000	1,440,000	1,800,000	120,000	135,000	150,000

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;

(3) if there is no State Price nor a governmental guidance price, the market price determined by an independent third party;

(4) if there is no State Price, governmental guidance price nor market price determined by an independent third party, the transaction price between the Company and the independent third party; and

(5) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%.

The market price determined by an independent third party is the price of the same or comparable type of good as offered by the independent third parties in the PRC market and in the normal course of business.

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

When implementing the old sale of goods agreement dated 21 October 2009, there were no relevant PRC government documents in relation to the price for the Company to follow. The Company has adopted the "cost plus a percentage mark-up" pricing standard, where the percentage mark-up was not more than 30%, when purchasing all the raw materials, spare parts, components, equipment and other necessary essentials under the old sale of goods agreement. After implementation of the new Sale of Goods Agreement, the Company will determine the prices based on the order of the pricing standards as mentioned above and adopt one of them.

Basis for the Annual Cap Amounts under the Sale of Goods Agreement

The proposed Annual Cap amounts for the years of 2013, 2014 and 2015 for the Sale of Goods Agreement have been determined on the basis that such amounts will be approximately 0.8% of the estimated consolidated turnover of the Group for each of the year ending 31 December 2015. The 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 proposed Annual Cap amounts, being set at approximately 0.8% of the estimated consolidated turnover of the Group, are based on:

(1) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB569.8 million; and 2011: approximately RMB342.63 million), which on average amounted to approximately 4.2% of the consolidated turnover of the Group; and

(2) the acquisition of 100% equity interest in YTO International Economic and Trading Company Limited (the "**YTO International**") by the Company on 18 May 2011. Since YTO International has become a wholly-owned subsidiary of the Company, and thus any sale through YTO International by the Company would not constitute connected transactions and therefore the amounts of the connected transactions between the Company and YTO have decreased.

(H) Properties Lease Agreement

Date	:	29 October 2012
Parties	:	● YTO, on behalf of YTO Group, as lessor; and ● The Company, on behalf of the Group, as lessee.
Properties to be leased	:	The Company will lease the factory premises located in the eastern district of 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with an aggregate gross floor area of approximately 56,127 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 machineries and power machineries, casting parts, spare parts and components, etc.

Term	:	3 years commencing from 1 January 2013 to 31 December 2015.
Pre-emptive rights	:	Apart from the gross floor area to be leased by the Group as mentioned above, the Group has the pre-emptive rights to lease from YTO Group, including but not limited to, additional premises with gross floor area of no more than 80,000 sq.m. at 154 Jianshe Road, Luoyang City, Henan Province, the PRC, in accordance with the terms and conditions of the Properties Lease Agreement.
Payment terms	:	The Group shall pay the rent for the year by the end of each financial year in cash.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Properties Lease Agreement

In respect of the properties lease agreement dated 21 October 2009, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Properties Lease Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Properties Lease Agreement	4,079	4,457	1,077	6,000	7,000	8,000	10,000	12,000	14,400

Pricing Standards of the Transactions under the Properties Lease Agreement

The annual rent will be:

(1) the governmental guidance price;

(2) if there is no governmental guidance price, the prices offered by the lessor to independent third parties; and

(3) if none of the above is applicable, the annual rent determined based on the negotiations between both parties.

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

When implementing the old properties lease agreement dated 21 October 2009, the annual rent was determined based on the sum of the annual depreciation expenses and the management fee which was not more than 5% of the net book value of the relevant premises (collectively, the "**Rent 1**"), and the relevant tax rate (the tax rate was 5.5% on Rent 1, subject to the change of the tax rate imposed by the government of the PRC from time to time).

Basis for the Annual Cap Amounts under the Properties Lease Agreement

The proposed Annual Cap amounts for the Properties Lease Agreement are based on:

(1) the aggregate rental gross floor area of approximately 56,127 sq.m. and the additional buffer for the possibility of leasing additional gross floor area of no more than 80,000 sq.m. from YTO Group to the Company, depending on the Group's business expansion and operational needs;

(2) the market price with reference to the rental price offered to the independent third parties by the YTO; and

(3) the expected rental increases of the properties to be leased.

(I) Land Lease Agreement

Date	:	29 October 2012
Parties	:	• YTO, on behalf of YTO Group, as lessor; and • The Company, on behalf of the Group, as lessee.
Land to be leased	:	Land use rights on the land located at 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with an aggregate gross land area of approximately 192,632 sq.m.
Term	:	3 years commencing from 1 January 2013 to 31 December 2015.
Pre-emptive rights	:	Apart from the gross land area to be leased by the Group as mentioned above, the Group has the pre-emptive rights to lease from YTO Group, including but not limited to, additional land use rights with a gross land area of no more than 280,000 sq.m. located at 154 Jianshe Road, Luoyang City, Henan Province, the PRC from YTO Group in accordance with the terms and conditions of the Land Lease Agreement.
Payment terms	:	The Group shall pay the rent for the year by the end of each financial year in cash.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Land Lease Agreement

In respect of the land lease agreement dated 21 October 2009, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Land Lease Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap Amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Land Lease Agreement	16,790	12,351	3,710	22,000	24,000	26,000	13,500	16,500	19,500

Pricing Standards of the Transaction under the Land Lease Agreement

The annual rent will be:

(1) the governmental guidance price;

(2) if there is no governmental guidance price, the prices offered by the lessor to the independent third parties; and

(3) if none of the above is applicable, the annual rent determined based on the negotiations between both parties.

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

When implementing the old land lease agreement dated 21 October 2009, the annual rent was determined based on the sum of annual amortization and the management fee which was not more than 5% of the annual amortization (collectively, the "**Rent II**"), and the relevant tax rate (the tax rate was 5.5% of the Rent II, subject to the change of the tax rate imposed by the government of the PRC from time to time).

Basis for the Annual Cap Amounts under the Land Lease Agreement

The proposed Annual Cap amounts for the Land Lease Agreement are based on:

(1) the aggregate rental gross land area of approximately 192,632 sq.m. and the additional buffer for the possibility of leasing additional land use rights with gross land area of no more than 280,000 sq.m. from YTO Group to the Company, depending on the Group's business expansion and operational needs;

(2) the market price with reference to the rental price offered to the independent third parties by YTO; and

(3) the expected rental increases of the land to be leased.

(J) Technology Services Agreement

Date	:	29 October 2012
Parties	:	● Tractors Research Company, on behalf of Tractors Research Group. Tractors Research Company is not only a non wholly-owned subsidiary of the Company, but also an associate of YTO; and ● The Company, on behalf of the Group (excluding Tractors Research Group).
Services to be provided	:	Tractors Research Group shall provide the Group with services including technology research and development, technology consultation, other technology services and other special services in connection with the tractors and diesel engines related products. The parties further agree that the Group may engage other technology research and development centers for the services to be provided under the Technology Services Agreement.
Term	:	From 1 January 2013 to 31 December 2015.
Payment terms	:	The payment terms for the service fees will be specified on each separate contract to be agreed by the parties.
Undertaking	:	Pursuant to the Technology Services Agreement, Tractors Research Company undertakes that: (1) Tractors Research Company shall and shall procure Tractors Research Group not to provide the same or similar services under the Technology Services Agreement to other corporate legal persons or institutions which operate business in competition with the Group; and (2) save and except for the state's research or development project(s) undertaken, Tractors Research Company shall and shall procure Tractors Research Group to give priority to the Group's research and development projects over other third parties' projects.

Intellectual Property derived : Unless otherwise agreed by the parties, all the Intellectual Property derived from the technology services provided under the Technology Services Agreement as well as the application rights of and the rights to use such Intellectual Property shall belong to the Group. Tractors Research Group is entitled to use such Intellectual Property at nil consideration but shall not by any means transfer the rights to use such Intellectual Property to any third parties.

Where it is agreed between the parties that any Intellectual Property derived from the technology services provided under the Technology Services Agreement belongs to Tractors Research Group, the Group shall be entitled to use such Intellectual Property at nil consideration during and after the term of the Technology Services Agreement.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Technology Services Agreement

In respect of the technology services agreement dated 21 December 2010, the following table sets out the historical transaction amounts for the years ended 31 December 2010 and 2011, and for the eight months ended 31 August 2012. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2013, 2014 and 2015 under the Technology Services Agreement:

	Historical transaction amounts			Annual Cap amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the eight months ended 31 August	For the year ended 31 December		For the year ending 31 December	For the year ending 31 December		
	2010	2011	2012	2010	2011	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Technology Services Agreement	20,734	115,256	66,174	77,950	150,000	180,000	100,000	110,000	120,000

Pricing Standards of the Transaction under the Technology Services Agreement

Under the Technology Services Agreement, the service fees will be:

(1) the governmental guidance price;

(2) if there is no governmental guidance price, the prices offered by Tractors Research Group to independent third parties; and

(3) if none of the above is applicable, the price determined based on the negotiations between both parties.

In any event, the service fees offered to the Group by Tractors Research Group shall not be less favourable than those offered to other independent third parties of Tractors Research Group for the same services.

When implementing the old technology services agreement dated 21 December 2010, the service fees offered by Tractors Research Group were at the cost plus a percentage mark-up, which was not more than 30%.

Basis for the Annual Cap Amounts under the Technology Services Agreement

The proposed Annual Cap amounts for the years of 2013, 2014 and 2015 for the Technology Services Agreement have been determined on the basis that such amounts will be approximately 0.7% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. The 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 proposed Annual Cap amounts, being set at approximately 0.7% of the estimated consolidated turnover of the Group, are based on:

(1) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB137.54 million; and 2011: approximately RMB115.25 million), which on average amounted to approximately 1.1% of the consolidated turnover of the Group; and

(2) the "Twelfth-Five" investment plan of the YTO to be put in research and development in connection with the tractors, diesel engines and other products as proposed.

CONTINUING CONNECTED TRANSACTION EXEMPT FROM THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

(K) Deposit Service Agreement

Date	:	29 October 2012
Parties	:	● First Tractor Finance, a subsidiary of the Company; and ● YTO, on behalf of YTO Group.
Financial services to be provided	:	Provision of depository services by First Tractor Finance to YTO Group.
Term	:	From 1 January 2013 to 31 December 2015.
Undertaking from YTO	:	YTO undertakes that under the same terms and conditions as offered by other parties, YTO will procure YTO Group, to prioritize in depositing their fund with First Tractor Finance.

YTO undertakes that the deposit maintained by YTO with First Tractor Finance should be greater than the loan balance at all time. If YTO breaches such undertaking, First Tractor Finance has the right to restrict payment to any third parties by YTO from its deposit maintained with First Tractor Finance, or request YTO to increase its deposit balance with First Tractor Finance.

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

Pricing Standards of the Transactions contemplated under the Deposit Service Agreement

The interest rates for all amount deposited by YTO Group to First Tractor Finance will be:

(1) the relevant interest rates set by CBRC or PBOC from time to time;

(2) if the above rates are not applicable, the relevant interest rates set by the same industry in the PRC for comparable transactions; and

(3) if none of the above is applicable, the interest rates determined under the arm's length negotiations between First Tractor Finance and YTO, which will be determined with reference to comparable transactions in the market.

In any event, the depositary interest rates offered to YTO Group shall not be more favourable than those offered to independent third party customers of First Tractor Finance for the same services.

When implementing the old deposit service agreement, First Tractor Finance determined the interest rates for all amount offered based on the order of the pricing standards above and such rates were set out in each deposit service contract.

CONDITION PRECEDENT

All the New Agreements shall take effect upon obtaining the Shareholders' approval at the EGM.

INFORMATION OF THE GROUP, YTO GROUP, SINOMACH, FIRST TRACTOR FINANCE AND TRACTORS RESEARCH COMPANY

The Group is principally engaged in the production and sales of agricultural machineries and power machineries. 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 Group is principally engaged in the production of transporting machineries, casting parts, 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.

First Tractor Finance, a subsidiary of the Company, is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of YTO Group. It has a registered capital of RMB500 million.

Tractors Research Company is a company incorporated with limited liability in the PRC. Its principal activities include research and development as well as examination and testing of products such as tractors, engines, construction machineries and agricultural transporters; research and development of equipment as well as technology development, transfer, consultancy services and sales.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE NEW AGREEMENTS

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 reliability of the materials supply and services provisions, including the technology-related services provided by Tractors Research Company, in terms of operational integration and the geographical convenience among the Group and YTO Group, and the Company's operations would be adversely affected if the cross-supply of materials and services are terminated.

Furthermore, in considering the reasons and benefits for entering into the Loan Service Agreement, Bills Discounting Service Agreement, Bills Acceptance Service Agreement and Deposit Service Agreement, the Directors have also considered the following key factors:

(a) as the relevant Chinese laws and regulations prohibit the loans among the enterprises, the establishment of First Tractor Finance can more effectively allocate funds within YTO Group and the Group. Accordingly, First Tractor Finance has been providing the Group and YTO Group various kinds of financial services, including but not limited to, loan services, bills discounting services, bills acceptance services and deposit services;

(b) the operation of First Tractor Finance is one of the four key business segments of the Group, and the centralization of the management and controlling the funds of YTO Group by First Tractor Finance has the following advantages: (i) generate profits that would be earned by First Tractor Finance instead of other commercial banks by providing loan services and deposits services to YTO Group by First Tractor Finance; and (ii) generate services fees that would be earned by First Tractor Finance instead of other commercial banks by providing financial services to YTO Group by First Tractor Finance. For the three years ended 31 December 2011, such services contribute to the Group's consolidated profit before tax of RMB33,400,000, RMB37,100,000 and RMB53,800,000 respectively and represent 9.1%, 5.8% and 10.0% of the Group's consolidated profit in the corresponding fiscal years, respectively;

(c) if the majority of the capital of YTO Group is managed and controlled by First Tractor Finance, it (i) can enlarge the assets size of First Tractor Finance to serve the Group and its associates; and (ii) will enable the Group to implement a more effective cash management system and utilize the financial resources of the Group;

(d) the provision of financial services to the member entities under the Group and YTO Group enables the Group to earn the interest rate differential between the applicable fee of the relevant financial services and the deposit interest paid to YTO Group. The financial operation is the most profitable business segment of the Group in terms of profit margin;

(e) the continuation of the Loan Service Agreement, Bills Discounting Service Agreement, Bills Acceptance Service Agreement and Deposit Service Agreement is critical for First Tractor Finance to achieve economies of scale and the Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement provide First Tractor Finance with an efficient channel; and

(f) the average deposit amounts placed in First Tractor Finance by the YTO Group were approximately RMB545 million at the end of each month between January 2010 and June 2012. The Directors believe that such deposits by the YTO Group into First Tractor Finance will enhance First Tractor Finance's ability to increase its capital and expand its scale, and therefore enhance the Group's financial standing.

Accordingly, the Directors are of the view that (i) the continuing connected transactions contemplated under the New Agreements will be carried out in the ordinary and usual course of business and in the interests of the Company and its Shareholders as a whole; (ii) the terms of the New Agreements are on normal commercial terms or on terms not less favorable than those of similar transactions with independent third parties and are fair and reasonable to the Company and its Shareholders; and (iii) the proposed Annual Cap amounts of the transactions contemplated under the New Agreements for the three years ending 31 December 2013, 2014 and 2015 are fair and reasonable so far as the Shareholders are concerned.

(2) RE-ELECTION OF DIRECTORS AND SUPERVISORS

The terms of office of the current Fifth Board and Fifth Supervisory Committee should have expired on 30 June 2012. However, in order to facilitate the issue of A Shares of the Company, the Company has decided to defer the re-election of Directors and Supervisors until the completion of issue of A Shares. In light of the successful completion of the A Shares issue in August 2012, the Company proposes to re-elect its Directors and Supervisors to the Sixth Board and Sixth Supervisory Committee respectively. According to the relevant requirements under the PRC Company Law, the current Directors and Supervisors should hold their respective office until the formation of the Sixth Board and Sixth Supervisory Committee.

The Company would like to propose the re-election of the Directors and Supervisors to the Sixth Board and Sixth Supervisory Committee respectively, with a term of office from the date of the EGM (i.e. 20 December 2012) to 19 December 2015.

NOMINATION OF DIRECTORS

The Board has nominated the following persons to be the Directors of the Sixth Board:

Directors:

1. Mr. Zhao Yanshui;
2. Mr. Su Weike;
3. Mr. Yan Linjiao;
4. Mr. Guo Zhiqiang;
5. Ms. Dong Jianhong;
6. Mr. Qu Dawei;
7. Mr. Liu Jiguo; and
8. Mr. Wu Yong

Independent Non-executive Directors:

1. Mr. Hong Xianguo;
2. Mr. Zhang Qiusheng;
3. Mr. Xing Min; and
4. Mr. Wu Tak Lung

Details of the above proposed Directors are set out below:

Mr. Zhao Yanshui, aged 49, a senior engineer with professorship. He is currently the chairman, general manager, and executive Director of the Company, the chairman of the strategy and investment committee under the Board, the member of the nomination committee under the Board, and the chairman of YTO. Mr. Zhao joined YTO in 1983, and had served as the deputy factory manager of first assembly factory, deputy chief engineer, deputy general manager, general manager and vice chairman of YTO as well as the standing deputy general manager, Director and chairman of the Company. He is also the director of Brilliance China Machinery Holdings Limited. Mr. Zhao studied at Technical Institute of

Jiangsu and Jiangsu University, and was awarded a bachelor degree, a master degree and a doctorate degree in engineering respectively. In 1994 and 2001, he studied at Hokkaido University and Kyoto University respectively as a visiting scholar. Mr. Zhao has extensive experience in the fields of corporate management, strategic planning, product development and design, and technology management.

Mr. Su Weike, aged 50, a senior engineer with professorship. He is currently the vice chairman and non-executive Director of the Company, member of the strategy and investment committee under the Board, assistant to general manager of China National Machinery Industry Corporation and the party secretary and vice chairman of YTO. Mr. Su had been the assistant to general manager, deputy general manager and general manager of China National Construction & Agricultural Machinery Import & Export Corporation. Mr. Su studied at Dalian University of Technology majoring in watercraft internal combustion engine and France Advanced Business School, and was awarded a bachelor degree and a master degree in engineering and an EMBA respectively. Mr. Su has extensive experience in the fields of corporate management and international trading.

Mr. Yan Linjiao, aged 57, a senior engineer with professorship. He is currently the non-executive Director, member of the audit committee and the strategy and investment committee under the Board, and the general manager and director of YTO. Mr. Yan joined YTO in 1982, and had been the assistant chief engineer and deputy general manager of YTO (Luoyang) Diesel Engine Co., Ltd., the assistant chief engineer, deputy general manager, executive deputy general manager and director of YTO as well as the Director and general manager of the Company. He is also the director of Brilliance China Machinery Holdings Limited and the chairman of Luoyang First Motor Company Limited. Mr. Yan studied at Luoyang Institute of Technology and Xi'an Jiaotong University, and was awarded a bachelor degree and a master degree in engineering respectively. He is familiar with design and manufacture of machinery, and has substantial experience in the fields of corporate management, production and operation.

Mr. Guo Zhiqiang, aged 56, a senior engineer with professorship. He is currently the deputy general manager of YTO and director of the technical center of YTO. Mr. Guo joined YTO in 1982, and had been the deputy head of production division, assistant to general manager of YTO, factory manager of first assembly factory of the Company, assistant to the general manager and deputy general manager of the Company. He is also the chairmen of Luoyang Tractors Research Institute Company Limited, YTO France SAS and YTO (Shenyang) Tractors Company Limited. Mr. Guo graduated from Luoyang Institute of Engineering and Jiangsu University, and was awarded a bachelor degree and a master degree in engineering respectively. He is familiar with design and manufacture of machinery, and has extensive experience in the fields of research and development of products and technologies as well as enterprise production management.

Ms. Dong Jianhong, aged 46, a senior economist. She is currently the executive Director of the Company, member of the remuneration committee under the Board and deputy head (in communication) of the finance department of China National Machinery Industry Corporation. Ms. Dong joined YTO in 1989, and had served as the head of the finance department of YTO, the deputy chief accountant and chief accountant of YTO as well as the deputy head and head of the finance department, chief accountant and financial controller of the Company. She is also the chairman of China YTO Group Finance Company Limited, director of YTO (Luoyang) Diesel Engine Company Limited and supervisor of YTO (Shenyang) Tractors Company Limited. Ms. Dong studied at Zhengzhou University and Xi'an University of Technology, and was awarded a bachelor degree in science and a master degree in engineering respectively. Ms. Dong is familiar with financial management of mega enterprises and is well experienced in the fields of accounting, financial management and capital operation.

Mr. Qu Dawei, aged 47, a senior engineer. He is currently the executive Director of the Company and deputy general manager of YTO. Mr. Qu joined YTO in 1988, and had served as the manager of equipment and technology branch, general manager and chairman of YTO (Luoyang) Creative Equipment Technology Company Limited, deputy general manager and general manager of spare parts division of YTO as well as the factory manager of the gear wheel factory, executive deputy general manager and general manager of the Company. Mr. Qu studied at Jiaozuo Mining Institute and Huazhong University of Science and Technology, and was awarded a bachelor degree and a master degree in engineering respectively. Mr. Qu is familiar with the research and development of the technological equipment, and has extensive experience in the fields of business investment management and production management.

Mr. Liu Jiguo, aged 48, a senior engineer. He is currently the executive Director of the Company, the member of the strategy and investment committee under the Board and the deputy general manager of YTO. Mr. Liu joined YTO in 1987. He had served as the deputy factory manager and factory manager of the gear wheel factory, the factory manager of heat treatment factory and first assembly factory, the deputy general manager, executive deputy general manager and general manager of agricultural equipment division of the Company, the head of production operation department and assistant to general manager of YTO, and the deputy general manager of the Company. He is also the director of YTO Heilongjiang Agricultural Machinery Company Limited and the chairman of China-Africa Machinery Corporation. Mr. Liu studied at the Northeast Heavy Machinery Institute and Jiangsu University, and was awarded a bachelor degree and master degree in engineering respectively. Mr. Liu is familiar with machinery and equipment manufacturing technique and marketing, and has extensive experience in the fields of corporate management, production operation and financial operation.

Mr. Wu Yong, aged 47, a senior economist. He is currently the secretary to the party committee and secretary to the disciplinary committee of the Company, the deputy general manager, the assistant to the secretary to the party committee and head of the party work department of YTO. Mr. Wu joined YTO in 1987, and had served as the company secretary to the board and deputy director of the management consultancy general office of YTO, the secretary to party committee and disciplinary committee, deputy factory manager and factory manager of the stamping factory, the general manager of YTO (Luoyang) Flag Auto-Body Company Limited, head of the party work department and vice chairman of the labour union of YTO. Mr. Wu studied at University of Henan and Henan Institute of Finance and Economics and has extensive experience in the fields of corporate management, human resources management and enterprise cultural establishment.

Mr. Hong Xianguo, aged 49, a senior engineer. He is currently the independent non-executive Director of the Company and member of the nomination committee and remuneration committee under the Board, the executive vice chairman and secretary-general of China Association of Agricultural Machinery Manufacturers, the vice chairman of China Agricultural Mechanization Association, the vice chairman of Technical Committee on Standardization of Agricultural Machinery of China, the consultant of Technical Committee on Standardization of Tractors of China, and the member of the leading group for safety production under the Ministry of Industry and Information Technology. Mr. Hong graduated from Luoyang Institute of Technology with a bachelor degree in design and manufacture of agricultural machinery. Mr. Hong is familiar with the development of domestic and overseas agricultural machinery industry. He had participated in numerous international exchanges of the agricultural machinery industry, and had chaired or participated in the researches and reports in relation to a number of PRC agricultural machinery industry policies.

Mr. Zhang Qiusheng, aged 44, a PRC certified public accountant and registered tax adviser. He is currently the independent non-executive Director, the member of the strategy and investment committee and audit committee under the Board. Mr. Zhang is also the professor of the School of Economics and Management of Beijing Jiaotong University, director of China Mergers and Acquisitions Research Centre, and the independent director of Shandong Kingenta Ecological Engineering Company Limited, Tong Oil Tools Company Limited and Beijing Dinghan Technology Company Limited. Mr. Zhang studied at Beijing Jiaotong University from 1983 to 1992, and was awarded a bachelor degree and a master degree in accounting and a doctorate degree in industrial economics, and stayed for one year in the University of Colorado at Boulder in US as a senior visiting scholar in 1996. Mr. Zhang was appointed as an expert on accounting standards at the committee of accounting standards of Ministry of Finance, and was the member of the Accounting Society of China and the leading person on the teenage high school subject of Beijing. He provides the government and enterprises with professional services in the areas of financial accounting and merger and reorganization.

Mr. Xing Min, aged 58, a senior engineer with professorship. He is currently the deputy president and secretary-general of China Internal Combustion Engine Industry Association, as well as the independent director of Jiangsu Yunyi Electric Company Limited, Wuxi Weifu High-technology Company Limited and Jinan Qingqi Motorcycle Company Limited. Mr. Xing graduated from the Northeastern University of Technology with a bachelor degree in machinery manufacturing. He is familiar with internal combustion engine, machine tool, heavy machinery and agricultural machinery industry.

Mr. Wu Tak Lung, aged 47, is currently the managing director of CAF International Investment Management Company Limited and the fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Chartered Secretaries and the Taxation Institute of Hong Kong. Mr. Wu is also the member of Hong Kong Securities and Investment Institute and Hong Kong Institute of Certified Public Accountants as well as the chairman of The Association of Chartered Certified Accountants. He is concurrently serving as an independent non-executive director of Aupu Group Holding Company Limited, a company listed on the Stock Exchange, and Valuetronics Holdings Limited, a company listed on the main board of the Singapore Exchange. Mr. Wu studied at Hong Kong Baptist University, University of Manchester and University of Wales, and was awarded a bachelor degree and a master degree in business administration. Mr. Wu has been working at various securities and investment companies and is familiar with finance and investment management business.

Save as disclosed above, each of the above proposed Directors does not hold any position in the Company or any other members of the Company, nor did he/she hold any directorship in any other listed companies in the last three years.

Length of service and emolument

If each of the above proposed Directors is appointed as a Director of the Company, he/she will enter into a service agreement with the Company for a term of office from the date of the EGM (i.e. 20 December 2012) to 19 December 2015 and he/she will receive a remuneration in accordance with a remuneration proposal (please see below for details), which will be determined with reference to his/her duties and responsibilities with the Company and will be subject to the Shareholders' approval at the EGM.

Relationships

Save as disclosed above, each of the above proposed Directors has no relationship with any Directors, Supervisors or senior management of the Company or with any substantial Shareholders or controlling Shareholders of the Company.

Interests in Shares

So far as the Directors are aware as at the Latest Practicable Date, the proposed independent non-executive Director, Mr. Wu Tak Lung, beneficially owns 10,000 shares in the Company, representing 0.001% of the total issued shares of the Company. Except for this, each of the above proposed Directors does not have any interest in the shares of the Company (within the meaning of Part XV of the SFO).

Matters that need to be brought to the attention of the Shareholders

In relation to the appointment of each of the above proposed Directors, there is no information which is discloseable nor is/was he/she involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholders.

NOMINATION OF SUPERVISORS

The Supervisory Committee of the Company has nominated the following persons to be the Supervisors (non staff representative Supervisors) of the Sixth Supervisory Committee:

1. Mr. Li Pingan;
2. Mr. Xu Shidong;
3. Mr. Wang Yong; and
4. Mr. Huang Ping

Details of the above proposed Supervisors are set out below:

Mr. Li Pingan, aged 48, a senior economist. He is currently serving at YTO as the chief legal advisor, deputy secretary to the disciplinary committee and head of the legal affairs department. Mr. Li joined YTO in 1987, and had served as the assistant to the director of the legal affairs division, assistant to the director of the general office, and director of the legal affairs center. Mr. Li graduated from the department of law of Zhengzhou University and possesses a lawyer qualification.

Mr. Xu Shidong, aged 38, a senior accountant. He is currently the head of the assets and finance department of YTO. Mr. Xu joined YTO in 1997, and had served as the secretary to the general office of YTO, the section chief of the cost section of the finance department and accountant in chief of the Company, the assistant to the head of the finance department and deputy head of the finance department of YTO. Mr. Xu graduated from Zhongnan University of Finance and Economics and holds the qualifications of certified public accountant.

Mr. Wang Yong, aged 44, holds a master degree in economic law and a doctorate degree in civil and commercial law. He is currently the director of the research institute and the professor of the School of Civil, Commercial and Economic Laws of China University of Political Science and Law. Mr. Wang has taught in China University of Political Science and Law since 1999, and visited as a visiting scholar at the Law Center of Georgetown University (US), the School of Law of Columbia University and University of Oxford, England between 2003 and 2005. Mr. Wang also serves as a lawyer at Beijing Longan Law Firm, and an independent director of Baotou Shenrun High-Tech Materials Company Limited and Zhejiang Firstar Panel Technology Company Limited. Mr. Wang has long been engaging in research and legal practice of civil law, company law and securities law, and has extensive experience in the areas of civil law, company law, securities law and corporate governance.

Mr. Huang Ping, aged 44, a certified public accountant. He is currently the deputy director of Luoyang Zhonghua Certified Public Accountants Company Limited. Mr. Huang had served as the head of the finance department of Luoyang Yutong Automobile Company Limited. He has been working at Luoyang Zhonghua Certified Public Accountants Company Limited since 1997, and is now an independent non-executive director of Luoyang Glass Company Limited. Mr. Huang graduated from Luoyang Institute of Science and Technology in 1989, majoring in financial accounting, and is a certified accountant with qualifications in securities dealing. Mr. Huang has extensive experience in the fields of financial audit, corporate reform, debt-to-equity swap, investment and financing, mergers and acquisitions as well as bankruptcy and liquidation.

Save as disclosed above, each of the above Supervisors does not hold any position in the Company or any other members of the Company, nor did he hold any directorship in any other listed companies in the last three years.

Length of service and emolument

If each of the above proposed Supervisors is appointed as a Supervisor of the Company, he will enter into a service agreement with the Company for a term of office from the date of the EGM (i.e. 20 December 2012) to 19 December 2015 and he will receive a remuneration in accordance with a remuneration proposal (please see below for details), which will be determined with reference to his duties and responsibilities with the Company, and will be subject to the Shareholders' approval at the EGM.

Relationships

Save as disclosed above, each of the above proposed Supervisors has no relationship with any Directors, Supervisors or senior management of the Company or with any substantial Shareholders or controlling Shareholders of the Company.

Interests in Shares

So far as the Directors are aware as at the Latest Practicable Date, each of the above proposed Supervisors does not have any interest in the shares of the Company (within the meaning of Part XV of the SFO).

Matters that need to be brought to the attention of the Shareholders

In relation to the appointment of each of the above proposed Supervisors, there is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there is no matter which needs to be brought to the attention of the Shareholders.

The appointment of the above proposed Directors and Supervisors is subject to the approval by the Shareholders by adopting cumulative voting at the EGM. Ordinary resolutions in relation to the above proposed appointment of Mr. Zhao Yanshui, Mr. Su Weike, Mr. Yan Linjiao, Mr. Guo Zhiqiang, Ms. Dong Jianhong, Mr. Qu Dawei, Mr. Liu Jiguo and Mr. Wu Yong as Directors; Mr. Hong Xianguo, Mr. Zhang Qiusheng, Mr. Xing Min and Mr. Wu Tak Lung as independent non-executive Directors; and Mr. Li Pingan, Mr. Xu Shidong, Mr. Wang Yong and Mr. Huang Ping as non staff representative Supervisors will be proposed to be approved by the Shareholders at the EGM.

(3) DIRECTORS' AND SUPERVISORS' REMUNERATIONS

The re-election of Directors and Supervisors is expected to be completed upon obtaining the related approval at the EGM. The remuneration committee under the Board has made recommendations in respect of the remuneration for the extended services of Directors of the Fifth Board and Supervisors of the Fifth Supervisory Committee, and the remuneration for the Directors of the Sixth Board and Supervisors of the Sixth Supervisory Committee.

Proposed remuneration for the extended service of Directors of the Fifth Board and Supervisors of the Fifth Supervisory Committee

The current remuneration for the Directors of the Fifth Board is RMB60,000 per person per year and the current remuneration for the Supervisors of the Fifth Supervisory Committee is RMB40,000 per person per year. Upon consideration by the Board, the proposed remuneration for the extended service of Directors of the Fifth Board and Supervisors of the Fifth Supervisory Committee for the period from July to December 2012 is as follows:

1. The remuneration for the Directors and staff representative Supervisors, who are also senior management officers of the Company, will be paid based on the relevant remuneration management system of the Company, and will not be further paid by the Company;

2. The remuneration for the independent non-executive Directors will be paid according to their extended service period (half year) and their standard annual remuneration in the amount of RMB30,000 per person. The remuneration for the independent Supervisors (referring to those who are independent from the Shareholders of the Company and do not hold internal positions in the Company) will be paid according to their extended service period (half year) and their standard annual remuneration in the amount of RMB20,000 per person; and

3. Directors and Supervisors, who hold positions in the units of the Shareholders of the Company, will not get remuneration from the Company.

Remuneration for the Directors of the Sixth Board and Supervisors of the Sixth Supervisory Committee

Directors' Remuneration

Upon consideration by the Board, the proposed remuneration for the Directors of the Sixth Board is as follows:

(1) The remuneration for the Directors, who also serve as senior management officers of the Company, will be paid according to their management position (whichever is higher) in the Company and the relevant remuneration management system of the Company. Their social insurances such as pension insurance, unemployment insurance and medical insurance as well as housing accumulation fund will be managed according to the relevant national regulations;

(2) Those Directors who have no management position in the Company will not get remuneration from the Company; and

(3) The remuneration for independent non-executive Directors will adopt allowance system:

i the allowance for independent non-executive Directors is RMB60,000 per person per year and will be paid quarterly;

ii independent non-executive Directors will be paid meeting allowance of RMB2,000 for each time when they attend the Board meeting; and

iii independent non-executive Directors will be paid meeting allowance of RMB1,000 for each time when they attend Board special committee meeting.

Supervisors' Remuneration

Upon consideration by the Board, the proposed remuneration for the Supervisors of the Sixth Supervisory Committee is as follows:

(1) The remuneration for the staff representative Supervisors will be paid according to their management position (whichever is higher) in the Company and the relevant remuneration management system of the Company;

(2) The remuneration for independent Supervisors (referring to those who are independent from the Shareholders of the Company and do not hold internal positions in the Company) will adopt allowance system:

i the allowance for independent Supervisors is RMB50,000 per person per year and will be paid quarterly; and

ii independent Supervisors will be paid meeting allowance of RMB2,000 for each time when they attend the Supervisory Committee meeting;

(3) Supervisors other than independent Supervisors and staff representative Supervisors will not get remuneration from the Company.

Other Regulations

1. The above remunerations are all pre-tax amount. The relevant personal income tax will be deducted and paid by the Company;

2. The Directors' expenses for attending the Board meetings, Board special committee meetings and the general meetings as well as other reasonable expenses incurred during the performance of their duties according to the Articles of Association will be reimbursed by the Company;

3. The Supervisors' expenses for attending the Supervisors' meetings, the general meetings and Board meetings as well as other reasonable expenses incurred during the performance of their duties according to the Articles of Association will be reimbursed by the Company;

4. The remuneration for the Directors and Supervisors, whose service period is less than a year, will be calculated by the actual months they served. The remuneration for the Directors and Supervisors, whose service period is less than a month, will be counted as one month;

5. The above proposed Directors' and Supervisors' remunerations will come into force upon approval by the Shareholders of the Company at the EGM, with a term of three years; and

6. The Board has the interpretation rights on the above proposed Directors' and Supervisors' remunerations.

(4) DIRECTORS LIABILITY INSURANCE

In order to fulfill the new requirements of the Hong Kong Listing Rules, provide incentive for the Directors, Supervisors and senior management officers to work hard and fulfill their respective duties, avoid the litigation risk arising from the performance of the duties of Directors, Supervisors and senior management officers, and protect the Company against liability risk, the Company proposes to purchase Directors liability insurance for its Directors, Supervisors and senior management officers.

The Company proposes to purchase Directors liability insurance underwritten by Huatai Property Insurance Company Limited with an insurance coverage of RMB30,000,000, premium of RMB72,000 and duration of twelve months counting from the commencement date of the insurance, renewable upon maturity.

According to the requirements of the "Rules on Corporate Governance of Listed Companies" issued by China Securities Regulatory Commission, the above proposed purchase of Directors liability insurance is subject to the approval by the Shareholders at the EGM.

RECOMMENDATIONS

The Directors consider that the terms of the New Agreements, the transactions contemplated thereunder and their respective Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Mr. Zhao Yanshui, Mr. Su Weike, Mr. Yan Linjiao, Mr. Liu Yongle, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Liu Jiguo, being the Directors of the Company, who have connected relationships with YTO, have abstained from voting on the relevant board resolutions approving the matters above.

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 49 to 50, and the letter from Bridge Partners which is set out on pages 51 to 75 of this circular. The Independent Board Committee, having taken into account the advice of Bridge Partners, considers that the terms of the Non-exempt CCT Agreements are on normal commercial terms, and the entering into of the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Cap amounts are fair and reasonable so far as the Independent Shareholders are concerned, and in the interest of the

Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions concerning the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Cap amounts, to be proposed at the forthcoming EGM.

The Directors consider that (a) the entering into of the New Agreements, (b) the re-election of Directors and Supervisors, (c) the Directors' and Supervisors' remunerations, and (d) the purchase of Directors' liabilities insurances are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors also recommend that the Shareholders to vote in favour of the relevant resolutions to be proposed at the forthcoming EGM.

EGM

A notice of the EGM to be held at 9:00 a.m. on Thursday, 20 December 2012 at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC was despatched on 29 October 2012. The EGM will be held to consider and, if thought fit, approve (a) the New Agreements, the transactions contemplated thereunder and respective Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount), (b) the authorization to the Directors to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Agreements that may in their discretion consider to be desirable and in the interest of the Company, where "non-material variations" refer to those minor variations in the wordings of the terms or those minor variations in terms other than those major terms such as contractual subject matters, pricing terms, contractual time, etc., (c) the re-election of Directors and Supervisor, (d) the Directors' and Supervisors' remunerations and (e) the purchase of Directors' liabilities insurances. Voting on the aforesaid resolutions will be taken by poll in accordance with the requirements of the Hong Kong Listing Rules.

As YTO and its associates are connected persons of the Company and is regarded as having a material interest in the New Agreements, they will abstain from voting at the EGM in respect of the ordinary resolutions to approve the New Agreements, the transactions contemplated thereunder and the respective Annual Cap amounts (except for the Deposit Service Agreement, which has no such Annual Cap amount). To the best of the Directors' knowledge, information and belief having made all reasonable enquires, other than YTO and its associates, no shareholder has a material interest in the New Agreements and the transactions contemplated thereunder.

A form of proxy for use at the EGM was despatched on 29 October 2012. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding of the EGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

ADDITIONAL INFORMATION

Your attention is drawn to (1) the letter from the Independent Board Committee set out on pages 49 to 50 of this circular, (2) the letter from Bridge Partners containing its advice to the Independent Board Committee and the Independent Shareholders set out on pages 51 to 75 of this circular and (3) the additional information as set out in the Appendix to this circular.

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

Yours faithfully,
By order of the Board
First Tractor Company Limited
Zhao Yanshui
Chairman

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Non-exempt CCT Agreements:

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)

28 November 2012

To the Independent Shareholders

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 28 November 2012 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings as those used in this letter, unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the terms of the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Cap amounts are 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. Bridge Partners has been appointed as the independent financial adviser to advise us and the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out on pages 51 to 75 of the Circular.

We wish to draw your attention to the letter of advice issued by Bridge Partners which are set out on pages 51 to 75 of the Circular.

* *For identification purposes only*

Having considered the terms and conditions of each of the Non-exempt CCT Agreements and their respective proposed Annual Cap amounts, the advice given by Bridge Partners and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Non-exempt CCT Agreements were entered into in the ordinary and usual course of business, on normal commercial terms, and the terms of the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Cap amounts are 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 that the Independent Shareholders vote in favor of the ordinary resolutions concerning the same to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
Mr. Luo Xiwen **Mr. Chan Sau Shan, Gary** **Mr. Hong Xianguo** **Mr. Zhang Qiusheng**
Independent non-executive Directors

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Bridge Partners regarding the continuing connected transactions prepared for the purpose of inclusion in this circular.

寶橋 BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED
Unit 605, 6/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

28 November 2012

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Transactions contemplated under the Material Procurement Agreement, Composite Services Agreement, Energy Procurement Agreement, Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement, their respective proposed Annual Caps for the three years ending 31 December 2013, 2014 and 2015 and the terms thereto. Details of the Non-exempt CCT Agreements are set out in the "Letter from the Board" contained in the circular of the Company dated 28 November 2012 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 29 October 2012, the Company entered into the Material Procurement Agreement, Composite Services Agreement and Energy Procurement Agreement (together known as "**YTO Supplying Agreements**") with YTO for the purposes of provision of certain materials, components and services between the Group and YTO Group, as well as the continuation of purchasing and sales of certain materials and components between the Group and the subsidiaries of Sinomach. Details of the YTO Supplying Agreements will be disclosed in this letter.

On 29 October 2012, First Tractor Finance entered into the Loan Service Agreement, Bills Discounting Service Agreement, Bills Acceptance Service Agreement and Deposit Service Agreement (together known as "**Financial Services Agreements**") with YTO for the provision of loans, bills discounting, bills acceptance and deposit services to YTO Group respectively. Details of the Financial Services Agreements will be disclosed in this letter.

As at the Latest Practicable Date, YTO beneficially owns approximately 44.574% of the issued share capital of the Company and is the controlling shareholder of the Company. Thus, YTO is regarded as a connected person of the Company under the Hong Kong Listing Rules. YTO and its associates should be regarded as connected persons of the Company under the Hong Kong Listing Rules.

First Tractor Finance is a non wholly-owned subsidiary of the Company, which is owned as to approximately 88.6% by the Company and approximately 0.6% by YTO. Accordingly, the transactions contemplated under the Non-exempt CCT Agreements entered into between the Company/ First Tractor Finance and YTO constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. YTO and its associates are required under the Hong Kong Listing Rules to abstain from voting on the resolutions to be proposed to approve each of the Non-exempt CCT Agreements and their respective proposed Annual Cap amounts at the EGM to be convened.

As the applicable percentage ratios under each of the Non-exempt CCT Agreements, on an annual basis, are more than 5%, the transactions contemplated under the Non-exempt CCT Agreements constitute as non-exempt continuing connected transactions of the Company that are subject to independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors of the Company has been established to advise the Independent Shareholders as to whether the Non-exempt CCT Transactions contemplated under the Non-exempt CCT Agreements and their respective proposed Annual Caps for the three years ending 31 December 2013, 2014 and 2015 are on normal commercial terms, fair, reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent Shareholders as a whole. The Independent Board Committee will also advise the Independent Shareholders on how to vote at the EGM. Our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in these regards.

BASIS OF OUR OPINION

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

We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Group or carried out any independent verification of the information supplied, representations made or opinions expressed by the Company, the Directors and the management of the Group, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt CCT Transactions contemplated under the Non-exempt CCT Agreements.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-exempt CCT Transactions contemplated under the Non-exempt CCT Agreements, and, 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. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the Non-exempt CCT Transactions under the Non-exempt CCT Agreements and the respective proposed Annual Caps to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration:

1 Information on the Company, First Tractor Finance, YTO Group and Sinomach

The Company together with its subsidiaries are principally engaged in, inter alia, manufacture and sale of agricultural machinery, power machinery, other machinery, including forklifts and mining trucks and the provision of financial services, including provision of loans, bills discounting, bills acceptance and deposit-taking services mainly in PRC. The immediate holding company is YTO Group Corporation Limited and the ultimate holding company is China National Machinery Industry Corporation (Sinomach), both of which are companies established in the PRC.

First Tractor Finance (a 88.6% – owned subsidiary of the Company) is a licensed financial institution in the PRC under the supervision of CBRC. As stated in the financial institution license issued by CBRC, First Tractor Finance's scope of business comprises, among others, the provision of financial services to the Group and YTO Group. First Tractor Finance is held as to 88.6% by the Company, 6% by Yituo (Luoyang) Construction Machinery Co., Ltd.* (一拖(洛陽)建築機械有限公司), 4.2% by Yituo (Luoyang) Diesel Co., Ltd.* (一拖(洛陽)柴油機有限公司); and 0.6% by each of YTO International Economic and Trading Co., Ltd.* (一拖國際經濟貿易有限公司) and YTO (中國一拖集團有限公司), with a registered capital amounted to RMB500 million.

YTO Group is principally engaged in, inter alia, manufacture and sale of vehicle products and parts and forged parts. Sinomach, a company incorporated in the PRC with limited liability, is the controlling shareholder holding 82.02% shareholding interests in YTO. It 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.

2 Background of and reasons for entering into the Non-Exempt CCT Transactions

The Group and YTO Group have been carrying out transactions with each other to facilitate their productions and operations since 1997. In the light of its operation needs and business developments, on 21 October 2009, the Company (on behalf of the Group) as purchaser, entered into the composite services agreement, energy procurement agreement and material procurement agreement with YTO (on behalf of YTO Group and/or the subsidiaries of Sinomach), as supplier and supplying agent, ("**Existing Supply Agreements**"). Those continuing connected transactions and the relevant historical Annual Caps have already been approved at the extraordinary general meeting of the Company held on 22 December 2009. The Existing Supply Agreements will expire on 31 December 2012.

On 28 June 2010, First Tractor Finance entered into the loan service agreement, bills discounting service agreement, bills acceptance service agreement and deposit agreement ("**Existing Financial Services Agreements**") with YTO. Those continuing connected transactions and the relevant historical Annual Caps had been approved at the extraordinary general meeting of the Company held on 16 August 2010. The Existing Financial Services Agreements will expire on 31 December 2012.

The background of each of the Non-exempt CCT Agreements for the renewal of the Non-exempt CCT Transactions are set out as follows:

(a) The existing material procurement agreement ("Existing Material Procurement Agreement")

The Company and YTO entered into the Existing Material Procurement Agreement on 21 October 2009 in order to regulate the ongoing supply transactions from YTO (on behalf of YTO Group and/or the subsidiaries of Sinomach) as supplier and/or supplying agent and the Company (on behalf of the Group), as purchaser and/or purchasing agent in relation to supply certain materials to the Group. Details of the Existing Material Procurement Agreement are set out in the circular of the Company dated 6 November 2009. The Company and YTO will enter into an extension agreement to the old material procurement agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015.

(b) The existing composite services agreement ("Existing Composite Services Agreement")

The Company and YTO entered into the Existing Composite Services Agreement on 21 October 2009 in order to regulate the ongoing supply transactions from 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 in relation to supply certain welfare and other services to the Group. Details of the Existing Composite Services Agreement are set out in the circular of the Company dated 6 November 2009. The Company and YTO will enter into an extension agreement to the existing composite services agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015.

(c) The existing energy procurement agreement ("Existing Energy Procurement Agreement")

The Company and YTO entered into the Existing Energy Procurement Agreement on 21 October 2009 in order to regulate the ongoing supply transactions from 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 in relation to supply of electricity, gas, oxygen, water, heat, compressed air, acetylene, steam etc. to the Group. Details of the Existing Energy Procurement Agreement are set out in the circular of the Company dated 6 November 2009. The Company and YTO will enter into an extension agreement to the existing energy procurement agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015.

(d) The existing loan service agreement ("Existing Loan Service Agreement")

First Tractor Finance (a subsidiary of the Company) and YTO (on behalf of YTO Group) entered into the Existing Loan Service Agreement on 28 June 2010, pursuant to which First Tractor Finance will provide loans to YTO Group with the interest rates determined with reference to the relevant interest rates set by the PBOC from time to time. First Tractor Finance and YTO (on behalf of the YTO Group) will enter into an extension agreement to the Existing Loan Service Agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015. The basic terms of the Loan Service Agreement are similar to the Existing Loan Service Agreement entered into between the parties on 28 June 2010. Details of the Existing Loan Service Agreement are set out in the circular of the Company dated 20 July 2010.

(e) The existing bills discounting service agreement ("Existing Bills Discounting Service Agreement")

First Tractor Finance (a subsidiary of the Company) and YTO (on behalf of YTO Group) entered into the Existing Bills Discounting Service Agreement on 28 June 2010, pursuant to which First Tractor Finance will provide bills discounting services to YTO Group and First Tractor will pay the face value of undue bills presented by YTO Group net of the discount interests. The basic terms of the Bills Discounting Service Agreement are similar to the Existing Bills Discounting Service Agreement entered into between the parties on 28 June 2010. Details of the Existing Bills Discounting Service Agreement are set out in the circular of the Company dated 20 July 2010. First Tractor Finance and YTO (on behalf of the YTO Group) entered into an extension agreement to the Existing Bills Discounting Service Agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015.

(f) The existing bills acceptance service agreement ("Existing Bills Acceptance Service Agreement")

First Tractor Finance (a subsidiary of the Company) and YTO (on behalf of YTO Group) entered into the Existing Bills Acceptance Service Agreement on 28 June 2010, pursuant to which First Tractor Finance will provide bills acceptance services to YTO Group, whereby (i) in respect of the bills issued by YTO Group and accepted by First Tractor Finance and drawn on the First Tractor Finance, First Tractor Finance commits to pay the face value of the bills to the holders on the due date; and (ii) in respect of the bills issued by YTO Group and accepted by a banker entrusted by First Tractor Finance and drawn on such banker, such banker commits to pay the face value of the bills to the holders on the due date. The basic terms of the Bills Acceptance Service Agreement are similar to the Existing Bills Acceptance Service Agreement entered into between the parties on 28 June 2010. Details of the Existing Bills Acceptance Service Agreement are set out in the circular of the Company dated 20 July 2010. First Tractor Finance and YTO (on behalf of the YTO Group) entered into an extension agreement to the Existing Bills Acceptance Service Agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015.

(g) The existing deposit service agreement ("Existing Deposit Service Agreement")

First Tractor Finance (a subsidiary of the Company) and YTO (on behalf of YTO Group) entered into the Existing Deposit Service Agreement on 28 June 2010, pursuant to which First Tractor Finance will provide deposit service to YTO Group with the interest rate determined with reference to the relevant interest rates set by the PBOC from time to time. The basic terms of the Deposit Service Agreement are similar to the Existing Deposit Service Agreement entered into between the parties on 28 June 2010. Details of the Existing Deposit Service Agreement are set out in the circular of the Company dated 20 July 2010. First Tractor Finance and YTO (on behalf of YTO Group) entered into an extension agreement to the Existing Deposit Service Agreement in order to extend the duration for three years from 1 January 2013 to 31 December 2015.

Given the facts that (i) YTO Group and the subsidiaries of Sinomach could provide a reliable supply of materials and services to the Group; (ii) the Group has established long-term relationship with YTO Group and the subsidiaries of Sinomach; (iii) the Group could earn the interest rate spread between the applicable fees of the relevant financial services and the deposit interests paid to YTO Group, we concur with the Directors' view that the renewal of the Non-exempt CCT Transactions are in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

3 Principal terms of the Non-exempt CCT Agreements

(a) The Material Procurement Agreement

Under the Material Procurement Agreement, YTO Group and/or the subsidiaries of Sinomach will provide to the Group raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and oil), other industrial equipment, supporting parts (including semi-finished and finished products), spare parts and other necessities. The price of the goods to be supplied or provided will be (a) the State Price; (b) if there is no State Price, the governmental guidance price; (c) if there is no State Price nor governmental guidance price, the market price determined by an independent third party (such market price determined by an independent third party is the price of the same or comparable type of materials as offered by the independent third parties in the PRC market and in the normal course of business); (d) if there is no State Price, governmental guidance price nor the market price determined by an independent third party, the transaction price between the supplier and an independent third party; and (e) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%. The payment terms shall be principally cleared and settled within three months from the date of confirmation of receiving the goods by the purchaser. The applicable price of the goods to the Group shall not be less favorable than that offered to independent third party customers of YTO Group and/or the subsidiaries of Sinomach for the same goods. The term of the Material Procurement Agreement shall commence from 1 January 2013 and ends on 31 December 2015. At present, the purchase of all raw materials, other industrial equipment, supporting parts and other necessities is at the cost plus a percentage mark-up, which is not more than 30%.

(b) The Composite Services Agreement

Under the Composite Services Agreement, YTO Group will provide to the Group certain production, welfare and management services, including but not limited to storage services, transportation services, fire prevention services, security services in the factory areas, human resources training, legal affairs and consultancy services, ability testing services, landscaping and road services, cleaning services, information networking services, re-employment services, 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, reception services etc. The price of the services to be provided will be (a) the State Price; (b) if there is no State Price, the governmental guidance price; (c) if there is no State Price nor governmental guidance price, the market price determined by an independent third party (such market price determined by an independent third party is the price of the same or comparable type of services as offered by the independent third parties in the PRC market and in the normal course of business); (d) if there is no State Price, governmental guidance price nor the market price determined by an independent third party, the transaction price between the supplier and an independent third party; and (e) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%. The applicable price of the services offered to the Group shall not be less favorable than that offered to independent third party customers of YTO Group for the same services. The term of the Composite Services Agreement shall commence from 1 January 2013 and ends on 31 December 2015. Save for the transportation services, the purchase of above services is at the cost plus a percentage mark-up, which is not more than 30%. As confirmed by the Company, the purchase of transportation is at the market price.

(c) The Energy Procurement Agreement

Under the Energy Procurement Agreement, YTO Group will provide to the Group electricity, gas, oxygen, water, heat, compressed air, acetylene, steam, etc. The price of the energies to be supplied or provided will be (a) the State Price; (b) if there is no State Price, the governmental guidance price; (c) if there is no State Price nor governmental guidance price, the market price determined by an independent third party (such market prices determined by an independent third party is the price of the same or comparable type of energy as offered by the independent third parties in the PRC market and in the normal course of business); (d) if there is no State Price, governmental guidance price nor the market price determined by an independent third party, the transaction price between the supplier and an independent third party; and (e) if none of the above is applicable, costs plus a percentage mark-up, which is not more than 30%. The applicable price of the services offered to the Group shall not be less favorable than that offered to independent third party customers of YTO Group for the same services. The term of the Energy Procurement Agreement shall commence from 1 January 2013 and ends on 31 December 2015. At present, the purchase of all energies is at the cost plus a percentage mark-up, which is not more than 30%.

The Company confirmed to us that there were no relevant PRC government documents in relation to the price for the Company to follow when implementing the Existing Supply Agreements. As a result, the Company has adopted the "cost plus a percentage mark-up" pricing standard, where the percentage mark-up was not more than 30% when procuring the relevant goods and services under the Existing Supply Agreements. The management of the Company confirmed that the Company will, after implementation of each new YTO Supplying Agreements, determine the prices based on the order of the pricing standards as mentioned above and adopt one of them.

(d) The Loan Service Agreement

Under the Loan Service Agreement, First Tractor Finance will provide loan services to the YTO Group with interest rates determined by making reference to the relevant interest rates set by PBOC from time to time. First Tractor Finance may request YTO Group to provide a collateral or other guarantee to undertake its performance under the Loan Service Agreement. First Tractor Finance shall first satisfy the funding needs of the Group. Depending on the shortfall of funding of the Group, First Tractor Finance has the right to issue a termination or terms amendments notice to YTO Group, requesting for termination or amendments to the terms of the loans granted to YTO Group so as to collect the money to support the Group's production operation. The service fees to be charged by First Tractor Finance to YTO Group for any loan services will be (a) the rate prescribed by CBRC or PBOC; (b) if the above rate is not applicable, the rate charged by the industry in the PRC for comparable transactions; and (c) if none of the above is applicable, the service fees will be determined between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market. Depending on the individual actual situations of each separate loan contract, the service fees charged by First Tractor Finance to YTO Group are based on one of the above three pricing standards. The applicable service fees offered to YTO Group shall not be more favorable than offered to independent third party customers of First Tractor Finance for the same services. The term of the Loan Service Agreement shall commence from 1 January 2013 and ends on 31 December 2015. According to the Company, First Tractor Finance also provides loan service to the independent third parties customers.

(e) Bills Discounting Service Agreement

Under the Bills Discounting Service Agreement, First Tractor Finance will provide bills discounting services to the YTO Group, whereby First Tractor Finance will pay the face value of undue bills presented by YTO Group net of the discount interests. The services fees (including discount interests and other charges) charged by First Tractor Finance to YTO Group for any bills discounting services will be (a) the rate prescribed by CBRC or PBOC; (b) if the above rate is not applicable, the rate charged by the industry in the PRC for comparable transactions; and (c) if none of the above is applicable, the service fees will be determined between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market. Depending on the individual actual situations of each separate loan contract, the service fees charged by First Tractor Finance to YTO Group are based on one of the above three pricing standards. Since the applicable service fees to be offered to YTO Group shall based on the rates prescribed by CBRC or PBOC (the PRC governmental authorities) and shall not be more favorable than offered to independent third party customers of First Tractor Finance for the same services, we consider that the basis for charging the services fees are fair. The term of the Bills Discounting Service Agreement shall commence from 1 January 2013 and ends on 31 December 2015. According to the Company, First Tractor Finance also provides bills discounting service to the independent third parties customers.

(f) Bills Acceptance Service Agreement

Under the Bills Acceptance Service Agreement, First Tractor Finance will provide bills acceptance services to the YTO Group, whereby First Tractor Finance guarantees the payment of bills issued by YTO Group. In return, First Tractor Finance shall charge services fees. First Tractor Finance may request YTO Group to provide a collateral or other guarantee to undertake its performance under the Bills Acceptance Service Agreement. The services fees charged by First Tractor Finance to YTO Group for any bills acceptance services will be (a) the rate prescribed by CBRC or PBOC; (b) if the above rate is not applicable, the rate charged by the industry in the PRC for comparable transactions; and (c) if none of the above is applicable, the service fees will be determined between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market. Depending on the individual actual situations of each separate loan contract, the service fees charged by First Tractor Finance to YTO Group are based on one of the above three pricing standards. The applicable service fees offered to YTO Group shall not be more favorable than offered to independent third party customers of First Tractor Finance for the same services. The term of the Bills Acceptance Service Agreement shall commence from 1 January 2013 and ends on 31 December 2015. According to the Company, First Tractor Finance also provides bills acceptance service to the independent third parties customers.

(g) Deposit Service Agreement

Under the Deposit Service Agreement, First Tractor Finance will provide deposit services to the YTO Group, whereby First Tractor Finance will pay deposit interest to YTO Group. The deposit interest to be payable by First Tractor Finance to YTO Group for any deposit services will be (a) the rate prescribed by CBRC or PBOC; (b) if the above rate is not applicable, the rate charged by the industry in the PRC for comparable transactions; and (c) if none of the above is applicable, the deposit interest will be determined between First Tractor Finance and YTO Group, with reference to the comparable transactions in the market. Depending on the individual actual situations of each separate loan contract, the service fees charged by First Tractor Finance to YTO Group are based on one of the above three pricing standards. The applicable deposit interest offered to YTO Group shall not be more favorable than offered to independent third party customers of First Tractor Finance for the same services. The term of the Deposit Service Agreement shall commence from 1 January 2013 and ends on 31 December 2015.

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

In assessing the fairness and reasonableness of the principal terms of the renewal of the Non-exempt CCT Agreements, we have obtained and reviewed (i) certain sampled contracts entered into by the Group under each of the Existing Financial Services Agreements and Existing Supply Agreements for the three years ending 31 December 2012; and (ii) certain comparable contracts entered into between the Group/ YTO Group and independent third parties customers during the same period. After reviewing each of the Existing Financial Services Agreements and the Existing Supply Agreements, we believe that the major terms and the pricing basis (save for the two additional pricing policies, namely, the market price determined by an independent third party and the transaction price between YTO and an independent third party) were, in all material respects, in line with the corresponding terms of the Non-exempt CCT Agreements as the major terms and relevant pricing basis are similar to the Existing Financial Services Agreements and the Existing Supply Agreements. As advised by the Company, the Company will usually compare the market prices determined by an independent third party and adopt the lower price for procurement of raw materials and composite services. The Group will continue to follow the same pricing mechanism during 2013 to 2015.

In view of the above, in particular, (i) the major terms and relevant pricing basis of Non-exempt CCT Agreements are relatively similar to the corresponding Existing Supply Agreements (save for two additional pricing policies as mentioned above) and (ii) the pricing set for the YTO Supplying Agreements will be no less favorable than those offered by YTO Group to the independent third party customers, we consider that the pricing policies under the YTO Supplying Agreements are fair and reasonable.

The independent non-executive Directors also confirmed that all the existing non-exempt CCT Transactions for the two years ended 31 December 2011 have been entered into on normal commercial terms or, where there were not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable than those offered by the independent third parties. We have reviewed the internal control procedures of the Group and credit policy of First Tractor Finance and the annual report of the Company for the year ended 31 December 2011 (the "Annual Report") which sets out the duties and responsibilities of the Company's audit committee. According to the internal control policies, we noted that the Group have adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of First Tractor Finance (in the case of Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement) and the raw materials, composite services and energy procurement (in the case of Material Procurement Agreement, Composite Services Agreement and Energy Procurement Agreement) from the YTO Group regularly. We also noted that the audit committee of the Company reviewed finance, operation, risk management system and regulatory compliance of the Company, particularly the implementation of connected transactions, on a regularly basis. As such, we are of the view that the interests of the Shareholders can be safeguarded and protected even though it may not have sufficient comparable transactions to judge the Non-exempt CCT Transactions are on normal commercial terms.

Having considered, in particular, (i) the pricing basis and the payment term of each of the Non-exempt CCT Agreements as mentioned above, (ii) the pricing set for the Non-exempt CCT Transactions will be no less favorable than those offered by YTO Group to the independent third party customers (in the case of Material Procurement Agreement, Composite Services Agreement and Energy Procurement Agreement) or the applicable service fees offered to YTO Group shall not be more favorable than those offered to independent third party for the same services (in the case of Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement), we concur with the Directors' view that the principal terms of the renewal of the Non-exempt CCT Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4 Historical transactions amounts and proposed Annual Caps

The table below sets out (i) the actual historical amounts of the Non-exempt CCT Transactions for the two years ended 31 December 2011 and the eight months ended 31 August 2012; (ii) the proposed Annual Caps; and (iii) the increment percentage of the proposed Annual Caps:

	Historical transaction amounts			Proposed Annual Caps			Increment percentage of the proposed Annual Caps	
RMB'000	For the year ended 31 December		For the eight months ended 31 August	For the year ending 31 December			For the year ending 31 December	
	2010	2011	2012	2013	2014	2015	2014	2015
Material Procurement Agreement	1,263,734	1,262,965	893,353	1,350,000	1,450,000	1,550,000	7.40%	6.90%
Composite Services Agreement	96,382	107,125	69,921	226,000	254,000	290,000	12.39%	14.17%
Energy Procurement Agreement	110,653	112,997	61,806	250,000	290,000	330,000	16.00%	13.79%
Loan Service Agreement	440,200	507,020	524,120	640,000	690,000	740,000	7.81%	7.25%
Bills Discounting Service Agreement	297,000	330,000	211,720	430,000	460,000	490,000	6.98%	6.52%
Bills Acceptance Service Agreement	39,260	283,908	305,210	380,000	400,000	420,000	5.26%	5.00%

(a) Material Procurement Agreement

As disclosed in the Letter from the Board, the proposed Annual Caps under the Material Procurement Agreement have been determined on the basis that such amounts will be approximately 10% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. We noted that, the proposed Annual Caps, being set at approximately 10% of the estimated consolidated turnover of the Group, is based on (a) the historical transactions for the past two years (2010: approximately RMB1,263.73 million, 2011: approximately RMB1,262.96 million), which on average amounted to approximately 11.6% of the consolidated turnover of the Group; and (b) a drop of 1.6%, which is attributed from the reduction in procurement of goods from YTO Group due to the business integration between the Company and YTO Group.

As disclosed in the Annual Report, the Company completed the acquisition of the 100% equity interests in YTO (Luoyang) Forklift Co., Ltd. ("**YTO Forklift**") during the financial year of 2011. As advised by the Company, the agricultural forklift trucks manufactured by YTO Forklift are similar to the industrial forklift-related products manufactured by YTO (Luoyang) Transporting Machinery Co., Ltd (a subsidiary of the Company). The acquisition of YTO Forklift can on one hand reduce connected transactions of the Company and on the other hand lead to a more reasonable planning on its internal resources and a synergy can be developed between these two companies.

As advised by the Company, the Company may reduce the goods procurement from YTO Group after the Company has completed the acquisition and the reorganization of its related components business segment with YTO Group. In estimating the consolidated turnover of the Group, the Company has made reference to the anticipated future growth and development of the Group according to the industry development, the market share and the business strategies of the Group. The Company has also considered other factors, such as the structure of the rural labour force, the agricultural production and the agricultural machinery production in China that are under continuous development; the continuing development of the agriculture machinery industry; the increasing demand of using agricultural machineries which can help to increase the farmers' income; and the Company's competitive advantages in the industry.

In order to understand the agricultural development in China, we have reviewed the China Statistical Yearbook 2011 (the "**Yearbook**") relating to the net income per capita for farmers and the number of tractors used from year 2000 to year 2010. According to the Yearbook, the annual net income per capita for farmers increased by 114% from 2005 to 2010 and amounted to RMB3,255 and RMB6,977 respectively. It shows that China's agricultural industry has been developing and undergoing a transition toward modernization. Due to the fact that the net income per capita for farmers is increasing, more farmers are willing to purchase tractors and agricultural machineries in order to enhance and increase their farming productivity.

According to the Annual Report, the Company had established a strong research and development capabilities and strong YTO brand awareness, especially the 「東方紅」"Dongfanghong" brand to enhance the company's image. According to the 《中華人民共和國農業機械化促進法》 "Law on the Promotion of Agricultural Mechanization", which promulgated a series of important policy documents such as the 《國務院關於促進農業機械化和農機工業又好又快發展的意見》 "Opinion On Promoting Agricultural Mechanization As Well As Rapid And Healthy Development Of Agricultural Machinery Industry", the PRC Government is now promoting the change from the "increase in quantity" to "enhancement in quality" in agricultural mechanization and the agricultural machinery industry will enter into a transitional period of rapid improvement in the future. It is anticipated that certain tractors or agricultural machineries will be upgraded or changed in order to enhance the efficiency and productivity of farming. As a result, the demand of certain materials will also be increased for manufacturing the agricultural machineries.

In view of the gradual recovery of the domestic economy in the PRC, the Directors expect that there will be potential increase in demand for the businesses of the Group. Based on our discussion with the management of the Company, the Group will promote new products such as medium to large size tractors and hi-powered agricultural diesel engine in the market and will continue to promote product sales through strengthening market planning and use of product pricing strategy. The Group will also speed up its export sales and facilitate the development of international markets. It is expected that the demand for materials for manufacturing the medium to large size tractors, hi-powered agricultural diesel engine and forklift will be increased as a result of the increase in demand for the businesses of the Group. Furthermore, as advised by the Directors, the Company will continue to rely on the YTO Group and/or the subsidiaries of Sinomach for the provision of goods due to the fact that (a) the Material Procurement Agreement provides certain special features of those materials that are not readily available from other suppliers at similar or even lower cost and (b) the provision of goods under the Material Procurement Agreement could facilitate a smooth and economic operation of the Group.

Having considered that (i) the proposed Annual Cap amounts under the Material Procurement Agreement are based on the historical transaction amounts in 2010 and 2011; (ii) the estimation of the consolidated turnover of the Group has been made reference to the future growth and development of the Group according to the industry development, the market share and the business strategies of the Group; (iii) the Material Procurement Agreement provides certain special features of those materials that are not readily available from other suppliers at similar or even lower cost and (iv) the provision of goods under the Material Procurement Agreement could facilitate smooth and economic operation of the Group, we concur with the Directors' view that the proposed Annual Caps under the Material Procurement Agreement are fair and reasonable.

(b) Composite Services Agreement

As disclosed in the Letter from the Board, the proposed Annual Caps under the Composite Services Agreement have been determined on the basis that such amounts will be approximately 1.6% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. We noted that, the proposed Annual Caps under the Composite Services Agreement, being set at approximately 1.6% of the estimated consolidated turnover of the Group, is based on: (a) the historical transactions for the past two years (2010: RMB96.38 million, 2011: RMB107.12 million), which on average amounted to approximately 0.94% of the consolidated turnover of the Group; and (b) the increment of 0.66%, which was attributed from the net effect of:

(i) the transportation services:

the basis for the determination of the proposed Annual Cap amounts of the transportation services is approximately 1% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015, and such level is based on:

(a) the historical transaction amounts in 2010 and 2011 (2010: approximately RMB59.47 million; and 2011: approximately RMB65.60 million), which on average amounted to approximately 0.58% of the consolidated turnover of the Group; and

(b) the consideration of the expected increment of annual average turnover of the Group between 2013 and 2015, and the expected increment of fuel prices and salaries between 2013 and 2015; and *(ii) the other services except for the transportation services:*

the basis for the determination of the proposed Annual Cap amounts of the other services is approximately 0.6% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015, and such level is based on:

(a) the historical transactions in 2010 and 2011 (2010: approximately RMB36.91 million; and 2011: approximately RMB41.52 million), which on average amounted to approximately 0.36% of the consolidated turnover of the Group; and

(b) the increment of 0.24% based on (i) the expected annual growth rate of no more than 15% for the salaries of the YTO management services staffs between 2013 and 2015; and (ii) the expected increment of services fees for security services, fire prevention services, landscaping and road services and cleaning service in the factory areas, due to the future growth and development of the Group, such as acquisition of land, development of the industrial park and business integrations.

Details of the services to be provided/rendered by YTO Group to the Group are set out in the Letter from the Board. The Group will continue to promote medium to large size tractors and hi-powered agricultural diesel engine in the market and will continue to promote product sales through strengthening market planning and use of product pricing strategy. The Group will also speed up its export product sales and facilitate the development of international markets. As the Directors anticipate that there will be an increase of sales orders, therefore it is expected that the Group will use more transportation services to deliver the goods to the customers.

As advised by the Company, the Group has developed an industrial park in order to expand the production capacity and enhance better quality of its products. It is expected that security services, fire prevention services, landscaping and road services and cleaning service in the factory areas will be increased accordingly. Thereby, the cost of the above said services will also be increased. In respect of the salaries of the YTO management services staffs, the expected annual growth rate between 2013 and 2015 is not more than 15%. We note that the annual growth rate for the salaries of the management services staffs in year 2012 was approximately 10%. During the discussion with the Company relating to the expected increase for the salaries of the management services staff between 2013 and 2015, we were informed that the YTO has assembled an experienced management team to satisfy the increasing demand of management services as required by the Group. As such, we consider that the expected growth rate for the salaries of the management services staffs is acceptable. In light of the above, we consider that the proposed Annual Caps under the Composite Services Agreement are fair and reasonable.

(c) Energy Procurement Agreement

As disclosed in the Letter from the Board, the proposed Annual Caps under the Energy Procurement Agreement have been determined on the basis that such amounts will be approximately 1.81% of the estimated consolidated turnover of the Group for each of the three years ending 31 December 2015. We noted that, the proposed Annual Caps under the Energy Procurement Agreement, being set at approximately 1.81% of the estimated consolidated turnover of the Group, is based on: (a) the historical transactions for the past two years (2010: RMB110.65 million, 2011: RMB112.99 million), which on average amounted to approximately 1% of the consolidated turnover of the Group; and (b) the increment of 0.81%, which was attributed from the net effect of:

(I) the expected increment of the energy price by YTO;

(II) further expansion to the existing production; and

(III) the Company and YTO Group are also undergoing the reorganization of their related component segments. It is anticipated that there will be changes in the production structure, for example some related components which were procured from other parties in the past will be self-produced by the Company in the future.

The prices of utility, such as electricity, water and energy etc. provided by the PRC government are expected to be increased in the future, which will lead to an increase in YTO Group's production cost of various kind of energy and thus the selling price of the energy offered by YTO Group to the Group. It is also anticipated that energy demand will also be increased due to fact that the Company and YTO Group are undergoing the reorganization of their related components segments and more production lines will be installed in the industrial park.

Having considered the above, we consider that the proposed Annual Caps under the Energy Procurement Agreement are fair and reasonable.

(d) Financial Services Agreements (including Deposit Service Agreement, Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement)

Financial resources of First Tractor Finance

According to its business license, First Tractor Finance's scope of business mainly comprises, among other things, the provision of financial services to the Group and YTO Group. Pursuant to the relevant regulations set by CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the capital adequacy ratio of not less than 10% of the minimum total capital requirement as set out by CBRC. Based on the registered capital of RMB500 million of First Tractor Finance and that First Tractor Finance shall provide the financial services not exceeding the proposed

Annual Caps, First Tractor Finance sets its capital adequacy ratios at not less than 28%, 26% and 24% in 2013, 2014 and 2015 respectively which are all higher than the 10% threshold set by CBRC.

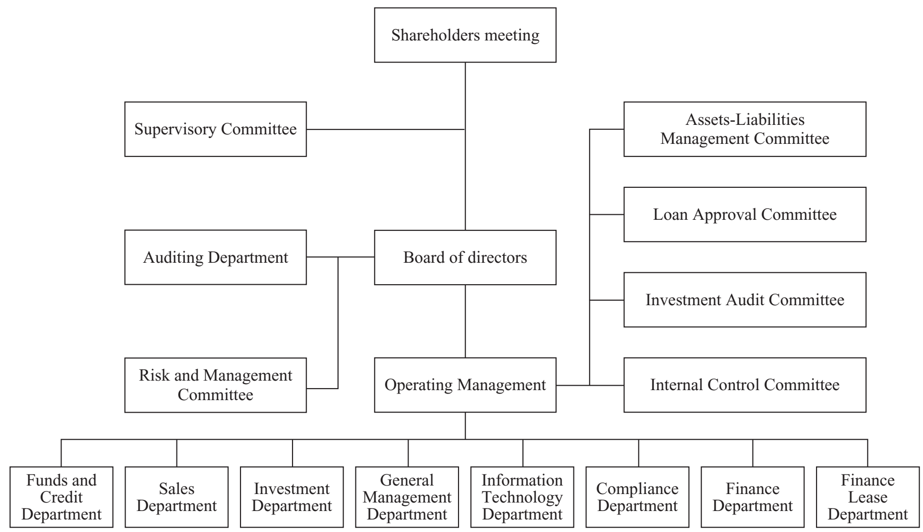
In considering whether the projected capital adequacy ratio of First Tractor Finance is justifiable and in the interests of the Company and the Shareholders, we have taken into account the standard set by CBRC as well as the level of the financial resources of the Company. In this regard, we consider that the respective projected capital adequacy ratios for the three years ending 31 December 2015 are above the 10% threshold set by CBRC, with a risk level that is acceptable to the Company and the Shareholders. According to the Deposit Service Agreement, First Tractor Finance shall provide depository services to YTO Group for a term of three years. YTO also undertakes that the deposit maintained by YTO with First Tractor Finance should be greater than the loan balance at all time. In the event that YTO breaches such undertaking, First Tractor Finance has the right to restrict payment to any third parties by YTO from its deposit maintained with First Tractor Finance, or request YTO to increase its deposit balance with First Tractor Finance. As such, we believe that the above undertaking can reduce the risk of over lending, while First Tractor Finance can monitor the capital adequacy ratio and utilize its financial resources efficiently. Therefore, the respective capital adequacy ratio and the terms set out in the Deposit Service Agreement are justifiable and in the interests of the Company and the Shareholders as a whole. In light of the foregoing, the level of First Tractor Finance's financial resources should be regarded as one of the principal factors in determining the proposed Annual Caps for the Non-exempt CCT Transactions under the Financial Services Agreement.

Internal control of First Tractor Finance

We have been given to understand that First Tractor Finance has established stringent internal control measures to ensure effective risk management and compliance with the relevant laws and regulations. As advised by the Company, First Tractor Finance has established its own credit policies and credit approval procedures for loan applications, bills discounting service and bills acceptance service, which are designed in accordance with the relevant PBOC and CBRC regulations.

The following is a simplified corporate structure of First Tractor Finance:

Corporate Structure of First Tractor Finance



Loan service

When a customer applies for a loan with the Capital Credit Department of First Tractor Finance ("CCD"), their loan officer will review and analyse the borrower's application information, including but not limited to, the credit status of the borrower and the details of the proposed guarantor and will also perform an on-site or off-site investigation to understand the business operation of the borrower. After the comprehensive assessment on the credit risk of the loan application, the loan officer of the CCD will form a recommendation based on the loan type, amount, duration, interest rate and risk control and pass the initial evaluation to the department manager of CCD for approval. In determining whether a collateral or other guarantee is required to undertake the customer's performance under the loan agreement, the officer will consider, on a case-by-case basis, the reason for the borrowing, the credit history of the customer with First Tractor Finance, the customer's financial background and the credit risk exposure for the loan.

The loan application will then be submitted to the loan approval committee for consideration after the department manager of CCD has passed the initial loan evaluation. The committee members of the loan approval committee will assess a loan application, including but not limited to, further checking the creditworthiness of the borrower and the information of the proposed guarantor. If the loan application is approved, the loan officer of CCD will notify the customer of the loan approval and prepare the loan drawdown. The management of the Company confirmed that the approval procedures are applicable to both the loan applications from the YTO Group or from other independent third parties.

The CDD will monitor the loan repayment status and any irregularities of the loans and reports such irregularities to the management of First Tractor Finance. The loan officer will perform site visit to the borrower's premise on a regular basis, including keeping abreast of the customer's production and business operation, financial status, payment record etc. As noted from the Company, post-loan investigation report will be issued every six months for customers with corporate credit rating of BB or above, and at least once every quarter of a year for customers with corporate credit rating of B or below. Prior to the loan overdue and First Tractor Finance receives an extension application for loan repayment, the loan officer will have an initial assessment on the background and reasons for such application. Should the application pass the initial assessment, the initial assessment will be passed to the department manager of CCD for review and later to the loan approval committee for consideration. In the event that the customer did not seek for extension application for loan repayment and First Tractor Finance did not receive loan repayment, such overdue amount will be considered as overdue amount. According to the Company, YTO Group had no prior historical overdue records in First Tractor Finance.

Bills discounting service

To initiate the bills discounting services, the loan discounting officer will check the applicants' undue bills or other supporting documents to ensure that the information is complete, legal and accurate. The officer of CCD will check the information for completeness, then the application will be submitted to the manager of the CCD for approval. If the bills discounting application is approved, the officer will prepare the bills discounting documents and pay the face value of undue bills presented by the customers net of the discounted interests.

As confirmed by the management of the Company, the approval procedures are applicable to the bills discounting application received by the First Tractor Finance from the YTO Group or from other independent third parties.

Bills Acceptance Service

To initiate the bills acceptance business, First Tractor Finance requires applicants to submit trading contracts or other supporting documents to ensure that the information is complete, legal and authenticity. The CCD will check the authenticity of the applicants' trading relationship or the creditor-debtor relationship. The applicant is also required to place an acceptance deposit into the account of First Tractor Finance before the bill is drawn.

Under the internal rules of the First Tractor Finance, the total bills acceptance amount must not exceed the credit amount granted to the applicant. After checking all documents incidental to the bills acceptance application, the officer will obtain approval from the management of CCD. If the bills acceptance application is approved, the officer of CCD will prepare the bills acceptance documents and First Tractor Finance will guarantee the payment of bills issued by the applicant. In the event that the bills are matured and the customers had not deposited the full bill amount, First Tractor Finance will charge the customer for a penalty interest.

As advised by the Company, all management of First Tractor Finance has extensive experience in the industry finance where the Group operates and/or financial management. First Tractor Finance has certain key committees and departments in maintaining the internal control environment and the risk management function, including, the risk management committee, the loan approval committee and the supervisory committee. As noted from the Company, the risk management committee of First Tractor Finance will monitor and to recommend risk control policies of First Tractor Finance while the supervisory committee will ensure First Tractor Finance's compliance with the relevant rules and regulations, and to monitor its financial conditions.

In general, the risks involved in the provision of financial services to YTO Group under the Financial Services Agreements are covered by the measures including: (i) YTO has irrevocably granted to First Tractor Finance a right to offset all liabilities arising from the performance of the Loan Service Agreement and/or Bills Acceptance Service Agreement by YTO Group from the relevant deposit accounts of that member entity under YTO Group on default; and First Tractor Finance can request YTO Group to provide a collateral or other guarantee to undertake its performance under the Loan Service Agreement; (ii) in addition to the above, pursuant to the Loan Service Agreement, First Tractor Finance shall first satisfy the funding needs of the Group. Depending on the funding needs of the Group, First Tractor Finance has the right to issue a termination or terms amendment notice to YTO Group, requesting for termination or amendment to the terms of the loans granted to YTO Group so as to collect the money back to support the production operation of the Group; and (iii) First Tractor Finance has its own set of stringent internal control measures to monitor the risk exposure in relation to the provision of financial services, including procedures for credit check of the genuineness of the bill and the background of the transaction underlying the bill before provision of such services to YTO Group in respect of the bill discounting services.

Having considered that, in particular, (i) First Tractor Finance has its own set of stringent internal control measures to monitor the risk exposure in relation to the provision of financial services; (ii) First Tractor Finance has certain key committees and departments in maintaining the internal control and the risk management function; (iii) the approval procedures are applicable to the loan applications/bills discounting applications/bills acceptance applications received from both the YTO Group and other independent third parties; (iv) First Tractor Finance shall first satisfy the funding needs of the Group prior to any loan application, we consider that the above risk management measures are acceptable.

Credit policy of First Tractor Finance

In order to further safeguard its financial condition and to better manage its credit risks, we understand that First Tractor Finance has also implemented certain stringent internal control policies including, among other things, (i) a capital adequacy ratio higher than the 10% threshold set by CBRC and (ii) restrictions in respect of assets and liabilities composition, liquidity, assets and loans quality in accordance with guidelines issued by CBRC.

As a licensed non-bank financial institution in the PRC, First Tractor Finance is under the supervision of PBOC and CBRC. First Tractor Finance is required to maintain a deposit reserve with PBOC, and must comply with, among others, the following ratio requirements:

	Requirements on PRC licensed finance companies	**First Tractor Finance As at 31 December**		
		2010	**2011**	**2012 (estimate)**
		%	%	%
Capital adequacy ratio	Not lower than 10%	52.22	28.04	23.18
Inter-bank borrowing balances to total capital	Not higher than 100%	82.44	38.76	43.00
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.66	0.63	0.59

As shown in the above table, First Tractor Finance fulfilled the ratio requirements as at 31 December 2010, 2011 and 2012. As confirmed with the management of the Company, CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company. However, CBRC has not imposed penalties or fines on First Tractor Finance since its incorporation and during the years under review.

All of the financial services to be provided by the Group will be based on the percentage of the total asset value of First Tractor Finance for each relevant year. The estimated total assets of First Tractor Finance (including YTO's deposit and other bank deposits, investments, loans from the Group and YTO Group and bills discounting accounts, etc) will be approximately RMB2,800 million, RMB3,000 million and RMB3,200 million respectively for each of the three years ending 31 December 2015, taking into account the historical growth trend of its business as well as its future business prospects. In assessing the reasonableness of such estimation, we have reviewed and discussed with management of the Group the basis and assumptions in setting the estimated total asset values of First Tractor Finance. We understand that the said estimations are set with reference to the deposits from YTO Group, YTO Group's business operations and the expected scale of business with YTO Group. As discussed with the management of the Company, we noted that the bases of growth in First Tractor Finance's business operation are as follows:

i) Development in bills acceptance service

The Directors are of the view that First Tractor Finance will receive large amounts of acceptance deposits through bills acceptance service, and these deposits can be utilized as financial resources of First Tractor Finance. As advised by the management of the Company, the electronic commercial draft service (a type for electronic financial services) has just been introduced and implemented and it is expected that the deposits from bills acceptance service will help First Tractor Finance to secure a stable financial resources.

By the end of 2011, the total asset of First Tractor Finance has reached RMB2,800 million (equivalent to 2013 estimate). As at 30 June 2012, the total assets of First Tractor Finance has reached RMB2,753 million.

ii) First Tractor Finance's new source of income

First Tractor Finance generated a net income of RMB36.56 million for the first half of 2012, an increase in net income of 30.32% as compared with the first half of 2011. As enquired with the management of the Company, First Tractor Finance will expand its new service line, such as fixed asset loan, merger and acquisition loan and syndicated loan. The Directors believe that these financial services will bring First Tractor Finance additional sources of income.

Having considered the above, we are of the view that the said estimates are fair and reasonable. The percentages for each financial service over the estimated total asset values of First Tractor Finance for the three years ending 31 December 2015 and percentages set under the credit policy of First Tractor Finance for YTO Group are as follows:

	Amounts for each financial service over the estimated total asset values of First Tractor Finance			**The percentages set for YTO Group by First Tractor Finance**
	2013	**2014**	**2015**	
Loan Service Agreement	22.85%	23.00%	23.12%	30%
Bills Discounting Service Agreement	15.35%	15.33%	15.31%	20%
Bills Acceptance Service Agreement	13.57%	13.33%	13.13%	20%

As noted form the above table, all the percentages for the above financial services over the total asset values of First Tractor Finance for each of the three years ending 31 December 2015 are within the percentages set for YTO Group under the credit policy of First Tractor Finance. Although the above percentages set for YTO Group are made reference to the historical amounts for each of the financial services over the estimated total asset values of First Tractor Finance, we consider that the credit policy set out by First Tractor Finance can monitor and reduce the risk of over lending. Based on the table above and as confirmed by the Company, all the percentages for the above financial services over the estimated total asset values of First Tractor Finance were carefully planned in order to ensure that the credit policy as set out by First Tractor Finance will not be breached. As such, we consider that the credit policy of First Tractor Finance is fair and reasonable.

Since First Tractor Finance provides financial services to both the Group and YTO Group, its business development is also related to the operations of both groups. The projected growth rates of the total asset values of First Tractor Finance for the three years ending 31 December 2015 are in line with the projected growth rates of the turnovers of the Group (taking into account the projected sale amounts of tractors, diesel engine and other machinery products etc.) and YTO Group for the respective years. We have reviewed the projection and discussed with management of the Group the bases and assumptions in setting the projected growth rates of the turnover of the Group. We understand that the said estimation is set with reference to the historical sale amounts of tractors, diesel engine and other machinery products etc. Having considered the above, we are of the view that the said projection is fair and reasonable.

In view of the above, we consider the credit policies of First Tractor Finance are fair, reasonable and justifiable and serve the purpose of protecting the interests of the Company and the Shareholders as a whole.

Historical financial transactions that First Tractor Finance has undertaken

The proposed Annual Caps for each of the financial services are determined having regard to the amounts of each of the financial services provided for the past years. We noted that the assumptions underlying the proposed Annual Caps for the Financial Services Agreements are made by the management taking into account the financial resources of First Tractor Finance, the credit policy of First Tractor Finance, the future growth and development of YTO Group and the historical transaction amounts of the financial services. As such, we consider that the proposed Annual Caps for the Non-exempt CCT Agreements for each of three years ending 31 December 2015 are made by the Directors after due care and consideration and objectively and the factors stated above can justify the proposed Annual Caps for the Non-exempt CCT Agreements for the years commencing from 2013 to 2015 and the increase in such proposed Annual Caps as compared to the historical Annual Caps for the Non-exempt CCT Agreements for the years from 2010 to 2012. As such, we agree that the proposed Annual Caps for the Non-exempt CCT Agreements have been determined on a fair and reasonable basis.

5 Annual review of the continuing connected transactions

Under the Hong Kong Listing Rules, the continuing connected transactions of the Company shall be subject to annual review and the details are set out as follows:

a) the independent non-executive directors will review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:

   i. in the ordinary and usual course of business of the Group;

   ii. either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

   iii. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;

b) the auditors will review the continuing connected transactions and issue a letter to the board confirming that the continuing connected transactions:

   i. have received the approval of the Board;

   ii. are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

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

   iv. have not exceeded the relevant proposed Annual Caps; the Board must state in the annual report whether the auditors have made such confirmation in relation to the continuing connected transactions; and

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

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

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Non-exempt CCT Transactions contemplated under the Non-exempt CCT Agreements, their respective proposed Annual Caps for the three years ending 31 December 2015 and the terms thereto are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Independent 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 ordinary resolution(s) to be proposed at the upcoming EGM to approve the Non-exempt CCT Agreements and the respective Non-exempt CCT Transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Bridge Partners Capital Limited
Monica Lin
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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

(i) Interest of the Directors, Supervisors and chief executives of the Company

As at the Latest Practicable Date, none of the Directors, Supervisors, or chief executives of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was required to be 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 any such Directors, Supervisors or chief executive is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Hong Kong Listing Rules.

(ii) Interests of substantial shareholders and other persons

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any person (other than the Directors, Supervisors or chief executives of the Company) who had any interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 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 member of the Group:

A Shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of the total issued share capital of the Company
YTO	Beneficial owner	443,910,000 *(Note)*	44.574%

Note: 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.

H Shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of the total issued H Shares of the Company *(%)*	Approximate percentage of the total issued share capital of the Company *(%)*
Neuberger Berman LLC[(Note)]	Investment manager	39,892,680(L)	9.92(L)	4.01(L)
The Capital Group Companies, Inc.	Investment manager	36,258,000(L)	9.02(L)	3.64(L)
JPMorgan Chase & Co.	Investment manager	28,089,425(L) 107,040(S) 27,862,385(P)	6.99(L) 0.03(S) 6.93(P)	2.82(L) 0.01(S) 2.80(P)
Lazard Asset Management LLC	Investment manager	27,230,000(L)	6.77(L)	2.73(L)

(L) Long position
(S) Short position
(P) Lending pool

Note: Neuberger Berman Group LLC holds the entire share capital of Neuberger Berman Holdings LLC, and Neuberger Berman Holdings LLC holds the entire share capital of Neuberger Berman LLC. Neuberger Berman Group LLC and Neuberger Berman Holdings LLC are both deemed to have the same interest (i.e. 39,892,680 H Shares) in the Company as those owned by Neuberger Berman LLC by virtue of the SFO.

Save as disclosed above, there are no other persons (other than the Directors, Supervisors or chief executive of the Company) who, as at the Latest Practicable Date, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

(iii) Directors', Supervisors' or chief executive's rights to acquire interests or short positions in shares and debentures

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company or their respective spouse or minor children were granted any rights to acquire benefits by means of acquisition of the shares in or debentures of the Company or any other body corporate; nor was the Company, its subsidiaries or holding company or any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors or chief executive of the Company to acquire such rights in the Company or any other body corporate.

3. DISCLOSURE OF OTHER INTERESTS

(i) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

(ii) Interests in assets

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up.

(iii) Interests in competing business

As at the Latest Practicable Date, none of the Directors or Supervisors or any of their respective associates of the Company was interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the Company's business.

4. DIRECTOR'S AND SUPERVISORS SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Group since 31 December 2011, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Bridge Partners	a licensed corporation to carry on Type 1 (dealing insecurities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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

As at the Latest Practicable Date, Bridge Partners did not have any direct or indirect interest in any assets which had since 31 December 2011 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, Bridge Partners was not beneficially interested in the share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Messrs. Li & Partners at 22/F, World-Wide House, Central, Hong Kong during normal business hours on Monday to Friday (other than public holidays) for a period of 14 days from the date of the circular:

(a) the Old Agreements;

(b) the New Agreements;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 49 to 50 of this circular;

(d) the letter of advice from Bridge Partners, the text of which is set out on pages 51 to 75 of this circular;

(e) the written consent referred to in the paragraph headed "Expert and Consent" in this Appendix;

(f) the two announcements of the Company, both dated 29 October 2012; and

(g) 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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the "**EGM**") of First Tractor Company Limited (the "**Company**") will be held at 9:00 a.m. on 20 December 2012 (Thursday) at No.154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**") for the purpose of considering and, if thought fit, passing the following resolutions:

Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the announcements of the Company dated 29 October 2012.

ORDINARY RESOLUTIONS

1. To approve and confirm the Material Procurement Agreement (a copy of which has been produced to the EGM marked "1" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

2. To approve and confirm the Composite Services Agreement (a copy of which has been produced to the EGM marked "2" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

3. To approve and confirm the Energy Procurement Agreement (a copy of which has been produced to the EGM marked "3" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

4. To approve and confirm the Loan Service Agreement (a copy of which has been produced to the EGM marked "4" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

* *For identification purposes only*

5. To approve and confirm the Bills Discounting Service Agreement (a copy of which has been produced to the EGM marked "5" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

6. To approve and confirm the Bills Acceptance Service Agreement (a copy of which has been produced to the EGM marked "6" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

7. To approve and confirm the Sale of Goods Agreement (a copy of which has been produced to the EGM marked "7" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

8. To approve and confirm the Properties Lease Agreement (a copy of which has been produced to the EGM marked "8" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

9. To approve and confirm the Land Lease Agreement (a copy of which has been produced to the EGM marked "9" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

10. To approve and confirm the Technology Services Agreement (a copy of which has been produced to the EGM marked "10" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, its proposed Annual Cap amounts, the transaction contemplated thereunder and the implementation thereof;

11. To approve and confirm the Deposit Service Agreement (a copy of which has been produced to the EGM marked "11" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transaction contemplated thereunder and the implementation thereof;

12. To approve, ratify and confirm any one of the Directors for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorize signing, executing, perfecting and delivering all such documents and deeds, to do or authorize doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Material Procurement Agreement, Composite Services Agreement, Energy Procurement Agreement, Loan Service Agreement, Bills Discounting Service

Agreement, Bills Acceptance Service Agreement, Sale of Goods Agreement, Properties Lease Agreement, Land Lease Agreement, Technology Services Agreement and Deposit Service Agreement (together the "New Agreements") and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Agreements that may in their discretion consider to be desirable and in the interest of the Company and all the Directors' acts as aforesaid;

13. To consider and approve the appointment of Mr. Zhao Yanshui to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

14. To consider and approve the appointment of Mr. Su Weike to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

15. To consider and approve the appointment of Mr. Yan Linjiao to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

16. To consider and approve the appointment of Mr. Guo Zhiqiang to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

17. To consider and approve the appointment of Ms. Dong Jianhong to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

18. To consider and approve the appointment of Mr. Qu Dawei to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

19. To consider and approve the appointment of Mr. Liu Jiguo to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

20. To consider and approve the appointment of Mr. Wu Yong to be the Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

21. To consider and approve the appointment of Mr. Hong Xianguo to be the independent non-executive Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

22. To consider and approve the appointment of Mr. Zhang Qiusheng to be the independent non-executive Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

23. To consider and approve the appointment of Mr. Xing Min to be the independent non-executive Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

24. To consider and approve the appointment of Mr. Wu Tak Lung to be the independent non-executive Director of the Sixth Board for a term of three years from 20 December 2012 to 19 December 2015;

25. To consider and approve the appointment of Mr. Li Pingan to be the Supervisor (non staff representative Supervisor) of the Sixth Supervisory Committee for a term of three years from 20 December 2012 to 19 December 2015;

26. To consider and approve the appointment of Mr. Xu Shidong to be the Supervisor (non staff representative Supervisor) of the Sixth Supervisory Committee for a term of three years from 20 December 2012 to 19 December 2015;

27. To consider and approve the appointment of Mr. Wang Yong to be the Supervisor (non staff representative Supervisor) of the Sixth Supervisory Committee for a term of three years from 20 December 2012 to 19 December 2015;

28. To consider and approve the appointment of Mr. Huang Ping to be the Supervisor (non staff representative Supervisor) of the Sixth Supervisory Committee for a term of three years from 20 December 2012 to 19 December 2015;

29. To consider and approve the remuneration proposals for the Directors of the Sixth Board and Supervisors of the Sixth Supervisory Committee;

30. To consider and approve the remuneration proposals for the extended service of the Directors of the Fifth Board and Supervisors of the Fifth Supervisory Committee; and

31. To consider and approve the purchase of directors' liabilities insurance for the Directors, Supervisors and senior management officers of the Company underwritten by Huatai Property Insurance Company Limited with insurance coverage of RMB30,000,000 and a premium of RMB72,000.

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

Luoyang, the PRC
29 October 2012

As at the date of this notice, Mr. Zhao Yanshui is the Chairman and executive Director of the Company and Mr. Su Weike is the vice Chairman and non-executive Director of the Company. Other members of the Board are, three executive Directors, namely, Ms. Dong

Jianhong, Mr. Qu Dawei and Mr. Liu Jiguo; two non-executive Directors, namely, Mr. Yan Linjiao and Mr. Liu Yongle; and four independent non-executive Directors, namely, Mr. Luo Xiwen, Mr. Chan Sau Shan, Gary, Mr. Hong Xianguo and Mr. Zhang Qiusheng.

Notes:

1. The register of members of the Company will be temporarily closed from 20 November 2012 to 19 December 2012 (both days inclusive) during which no transfer of shares of the Company (the "**Shares**") will be registered in order to determine the list of shareholders of the Company (the "**Shareholders**") for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 19 November 2012 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 19 November 2012 are 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.

2. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorized by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of 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.

4. Shareholders who intend to attend the EGM are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 29 November 2012.

5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the proxy form.

6. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.

7. The Company's registered address:

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

Postal code:	471004
Telephone:	(86379) 6496 7038
Facsimile:	(86379) 6496 7438
Email:	msc0038@ytogroup.com