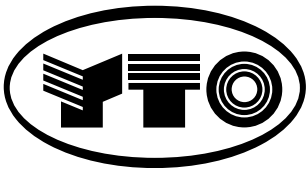


Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance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



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

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

(Stock Code: 0038)

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

On 21 December 2010, the Company, YTO and Tractors Research Company (as the case may be) entered into the Assets Transfer Agreement, FT Technology Services Agreement and YTO Technology Services Agreement. Pursuant to the Assets Transfer Agreement, YTO has agreed to sell and Tractors Research Company has agreed to purchase the Target Assets at a consideration of RMB45,723,052 (equivalent to approximately HK\$53,038,740) (tax included) while pursuant to the FT Technology Services Agreement and YTO Technology Services Agreement, Tractors Research Group has agreed to provide certain technology services to the Group and YTO Group respectively.

YTO beneficially owns approximately 52.48% of the issued share capital of the Company and is the controlling Shareholder of the Company. Tractors Research Company is a non-wholly owned subsidiary of the Company, which is owned as to 51% by the Company and 49% by YTO. YTO and Tractors Research Company are therefore regarded as connected persons of the Company under the Listing Rules. Accordingly, the transaction contemplated under the Assets Transfer Agreement constitutes a connected transaction of the Company whereas the transactions contemplated under the FT Technology Services Agreement and YTO Technology Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the relevant percentage ratios for the Assets Transfer Agreement and for each of the FT Technology Services Agreement and YTO Technology Services Agreement on an annual basis are less than 5%, each of the above three agreements is subject to the reporting and announcement requirements only but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.32 or Rule 14A.34 of the Listing Rules.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

The Board is pleased to announce that on 21 December 2010, the Company, YTO and Tractors Research Company (as the case may be) entered into the Assets Transfer Agreement, FT Technology Services Agreement and YTO Technology Services Agreement. Pursuant to the Assets Transfer Agreement, YTO has agreed to sell and Tractors Research Company has agreed to purchase the Target Assets at a consideration of RMB45,723,052 (equivalent to approximately HK\$53,038,740) (tax included) while pursuant to the FT Technology Services Agreement and YTO Technology Services Agreement, Tractors Research Group has agreed to provide certain technology services to the Group and YTO Group respectively.

A summary of the principal terms of the Assets Transfer Agreement, FT Technology Services Agreement and YTO Technology Services Agreement is set out below:

(A) Assets Transfer Agreement

Date

21 December 2010

Parties

- (a) YTO, the controlling Shareholder of the Company and hence a connected person of the Company, as seller; and
- (b) Tractors Research Company, a non-wholly owned subsidiary of the Company, as purchaser.

Assets to be acquired

Pursuant to the Assets Transfer Agreement, YTO has agreed to sell and Tractors Research Company has agreed to purchase the Target Assets, including but not limited to certain civil works such as laboratories for engines and machineries, etc. and relevant accessorial facilities, as well as equipment installation project(s) for laboratories for engines, etc., which are constructions in progress necessary for the research and development activities of Tractors Research Company.

Consideration

The consideration of the Target Assets is RMB45,723,052 (equivalent to approximately HK\$53,038,740) (tax included).

The consideration of the Target Assets was determined by YTO and Tractors Research Company after arm's length negotiations with reference to the book value of the Target Assets being RMB44,265,489.92 and the appraised value of the Target Assets being RMB45,255,357.74 as at 31 July 2010, which represents a value-added ratio of 2.24% as compared to the book value thereof. The appraisal was conducted by Beijing China Enterprise Appraisals Company, Inc.* (北京中企華資產評估有限責任公司), an independent professional valuer in the PRC, by way of cost based approach (also known as "asset based valuation approach"). The Directors (including the independent non-executive Directors) consider that the consideration of the Target Assets under the Assets Transfer Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Payment terms

The consideration of the Target Assets shall be settled by Tractors Research Company in cash within 60 days after the signing date of the Assets Transfer Agreement.

Delivery of the Target Assets

YTO shall deliver the Target Assets to Tractors Research Company within 3 working days after the signing date of the Assets Transfer Agreement.

Financial information of the Target Assets

Set out below is the basic financial information of the Target Assets:

	Target Assets
Book value as at 31 July 2010	RMB44,265,489.92
Appraised value as at 31 July 2010	RMB45,255,357.74

(B) FT Technology Services Agreement

Date

21 December 2010

Parties

- (a) Tractors Research Company, on behalf of Tractors Research Group. Tractors Research Company is a non-wholly owned subsidiary of the Company (51% of which is owned by the Company whereas 49% of which is owned by YTO, the controlling Shareholder of the Company). Tractors Research Company is therefore a connected person of the Company; and
- (b) the Company, on behalf of the Group (excluding Tractors Research Group).

Services to be provided and Term

Pursuant to the FT Technology Services Agreement, Tractors Research Group has agreed to provide the Group with services including development recommendation and manufacture of new products, product improvement, planning consultation and technology training, etc (collectively, the “**Daily Services**”), technology research and development, technology consultation as well as other technology services in connection with tractors for the period commencing from the signing date of the FT Technology Services Agreement to 31 December 2012. Any research and development expenses incurred from provision of the technology services under the FT Technology Services Agreement shall be borne by the Group.

The parties further agree that the Group may engage other technology research and development centers for the services to be provided under the FT Technology Services Agreement.

Service Fees and Payment Terms

With respect to the Daily Services to be provided under the FT Technology Services Agreement, the Group shall pay a service fee at a rate of 0.2% of the Sales Revenue of the Group for the year, which was determined with reference to the terms of the Old Technology Services Agreement.

The parties will estimate the total amount of the service fee for the Daily Services for the coming whole year, which shall be paid in the following manner:

- (a) one-fourth of the total amount of the estimated service fee for the Daily Services shall be paid in advance by the Group to Tractors Research Group within 10 days of each calendar quarter; and
- (b) final settlement of the service fee for the Daily Services shall be made in the first month of the subsequent year that any surplus shall be refunded while any shortfall shall be made up.

Pursuant to the FT Technology Services Agreement, Tractors Research Group agrees and confirms that the service fees for the Daily Services collected from the Group shall not be higher than those collected from other independent third parties of the Group for the same services.

With respect to other services to be provided under the FT Technology Services Agreement, the service fees shall be determined with reference to:

- (i) the applicable State price;
- (ii) if there is no applicable State price, then the market price; and
- (iii) if there are no applicable prices as mentioned in (i) and (ii) above or the prices as mentioned in (i) or (ii) are not applicable, then costs plus a percentage mark-up (within the range of 10% – 30%).

The service fees mentioned above shall be paid in cash by the Group out of its internal resources.

Undertakings

Pursuant to the FT Technology Services Agreement, Tractors Research Company undertakes that:

- (i) Tractors Research Company shall and shall procure Tractors Research Group not to provide the same or similar services under the FT Technology Services Agreement to other corporate legal persons or institutions which operate business in competition with the Group; and
- (ii) 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 FT 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 FT 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 FT Technology Services Agreement.

(C) YTO Technology Services Agreement

Date

21 December 2010

Parties

- (a) Tractors Research Company, on behalf of Tractors Research Group, a non-wholly owned subsidiary of the Company; and
- (b) YTO, on behalf of YTO Group, the controlling Shareholder of the Company and hence a connected person of the Company.

Services to be provided and Term

Pursuant to the YTO Technology Services Agreement, Tractors Research Group has agreed to provide YTO Group with services including technology research and development, technology consultation as well as other technology services in connection with construction machineries and vehicles for the period commencing from the signing date of the YTO Technology Services Agreement to 31 December 2012. Any research and development expenses incurred from provision of the technology services under the YTO Technology Services Agreement shall be borne by YTO Group.

The parties further agree that YTO Group may engage other technology research and development centers for the services to be provided under the YTO Technology Services Agreement on the same terms and conditions.

Service Fees and Payment Terms

With respect to the services to be provided under the YTO Technology Services Agreement, the service fees shall be determined with reference to:

- (i) the applicable State price;
- (ii) if there is no applicable State price, then the market price; and
- (iii) if there are no applicable prices as mentioned in (i) and (ii) above or the prices as mentioned in (i) or (ii) are not applicable, then costs plus a percentage mark-up (within the range of 10% – 30%).

The service fees mentioned above shall be paid in cash by YTO Group out of its internal resources.

Undertaking

Pursuant to the YTO Technology Services Agreement, save and except for the Group, Tractors Research Company undertakes that it will and will procure Tractors Research Group not to provide the same or similar services under the YTO Technology Services Agreement to other corporate legal persons or institutions which operate business in competition with YTO Group.

Intellectual Property derived

Unless otherwise agreed by the parties, all the Intellectual Property derived from the technology services provided under the YTO Technology Services Agreement as well as the application rights of and the rights to use such Intellectual Property shall belong to YTO 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 YTO Technology Services Agreement belongs to Tractors Research Group, YTO Group shall be entitled to use such Intellectual Property at nil consideration during and after the term of the YTO Technology Services Agreement.

HISTORICAL TRANSACTION AMOUNTS FOR THE CONTINUING CONNECTED TRANSACTIONS

The following table summarizes the historical transaction amounts for the technology services provided by Tractors Research Group to the Group and YTO Group for each of the three years ended 31 December 2009 and the eleven months ended 30 November 2010:

	For the year 2007 (RMB'000)	For the year 2008 (RMB'000)	For the year 2009 (RMB'000)	From 1 January 2010 to 30 November 2010 (RMB'000)
Technology services provided by Tractors Research Group to the Group under the Old Technology Services Agreement	31,750	29,560	37,240	61,050
Technology services provided by Tractors Research Group to YTO Group	13,250	6,450	9,600	6,300

RELEVANT CAP AMOUNTS FOR THE FT TECHNOLOGY SERVICES AGREEMENT AND YTO TECHNOLOGY SERVICES AGREEMENT AND THEIR BASIS

The following table summarizes the respective cap amounts for the FT Technology Services Agreement and YTO Technology Services Agreement for each of the three years ending 31 December 2012:

	For the year 2010 (RMB'000)	For the year 2011 (RMB'000)	For the year 2012 (RMB'000)
FT Technology Services Agreement	77,950	150,000	180,000
YTO Technology Services Agreement	6,750	10,000	12,000

The above cap amounts for the FT Technology Services Agreement are determined after considering the following factors:

- (i) the historical transaction amounts of the technology services provided by Tractors Research Group to the Group;
- (ii) the Company will magnify its efforts in technology upgrades in wheeled tractors of medium to large horsepower as well as in research and development of products in connection with new model diesel engines, which shall be mainly implemented by Tractors Research Company; and
- (iii) as the Company anticipates a steady growth in the intensity of its research and development activities in future and in view of Tractors Research Company's leading capabilities in respect of research and development as well as testing, it is expected that Tractors Research Company will take up more research and development projects of the Group.

The above cap amounts for the YTO Technology Services Agreement are determined after considering the following factors:

- (i) the historical transaction amounts of the technology services provided by Tractors Research Group to YTO Group; and
- (ii) the efforts of YTO Group to be put in research and development in connection with construction machineries and vehicles in the coming two years as well as the capabilities of Tractors Research Company for research and development in connection with construction machineries and vehicles.

REASONS FOR ENTERING INTO THE FT TECHNOLOGY SERVICES AGREEMENT, YTO TECHNOLOGY SERVICES AGREEMENT AND ASSETS TRANSFER AGREEMENT

Pursuant to the Sale and Purchase Agreement dated 3 August 2010 entered into between the Company and YTO, the Company has agreed to purchase and YTO has agreed to sell 51% equity interest in Tractors Research Company. Details of the Sale and Purchase Agreement were disclosed by the Company in its announcement dated 3 August 2010 and its circular dated 24 August 2010. As Tractors Research Company, which had provided technology services to the Group under the Old Technology Services Agreement on behalf of YTO, would no longer be a wholly-owned subsidiary of YTO but a non-wholly owned subsidiary of the Company upon completion of the Sale and Purchase Agreement which took place on 14 December 2010, YTO and the Company terminated the Old Technology Services Agreement in accordance with the terms thereunder.

As Tractors Research Company has concrete research and development capabilities for products in connection with tractors, engine machineries, construction machineries and vehicles as well as possesses the technologies and research and development resources required by the Group and YTO Group, the FT Technology Services Agreement and the YTO Technology Services Agreement were entered into, on one hand, to replace the Old Technology Services Agreement while, on the other hand, to ensure continued provision of the innovative research and development technologies as well as other technology services in connection with tractors, construction machineries and vehicle products by Tractors Research Group to the Group and YTO Group.

In order to further strengthen Tractors Research Company's research and development capabilities in terms of engine testing, machinery testing, trial running and processing as well as to strengthen its research and development capabilities for agricultural machineries and engine machineries, Tractors Research Company has agreed to acquire the Target Assets from YTO under the Assets Transfer Agreement, so as to fasten the Company's technology development and product research and development as well as to enhance the Company's product quality in connection with tractors and diesel engines.

The terms of the Assets Transfer Agreement, FT Technology Services Agreement and YTO Technology Services Agreement were determined after arm's length negotiations between the parties. The Directors (including the independent non-executive Directors) consider that the respective terms of the above three agreements are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

INFORMATION OF THE GROUP, YTO GROUP, TRACTORS RESEARCH COMPANY, XINYAN MECHANICAL ENGINEERING AND XIYUAN MOTOR POWER TEST

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

YTO Group is principally engaged in the production of casting parts, vehicle products, spare parts and components, etc.

Tractors Research Company is a domestic 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.

Xinyan Mechanical Engineering is a company incorporated with limited liability in the PRC and is a wholly-owned subsidiary of Tractors Research Company. Its principal activities include research and development, manufacture, sales, technology transfer and consultancy services of agricultural and transportation machineries and their components, induction and non-standard systems, new and high technology materials and related technology.

Xiyuan Motor Power Test is a company incorporated with limited liability in the PRC and is a wholly-owned subsidiary of Tractors Research Company. Its principal activities include the examination and testing as well as safety inspection of tractors, engines, construction machineries, three-wheel vehicles, low-speed trucks, vehicles and their parts.

RELATIONSHIP BETWEEN PARTIES AND LISTING RULES IMPLICATIONS

YTO beneficially owns approximately 52.48% of the issued share capital of the Company and is the controlling Shareholder of the Company. Upon completion of the Sale and Purchase Agreement which took place on 14 December 2010, Tractors Research Company has become a non-wholly owned subsidiary of the Company, which is owned as to 51% by the Company and 49% by YTO. YTO and Tractors Research Company are therefore regarded as connected persons of the Company under the Listing Rules. Accordingly, the transaction contemplated under the Assets Transfer Agreement constitutes a connected transaction of the Company whereas the transactions contemplated under the FT Technology Services Agreement and YTO Technology Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the relevant percentage ratios for the Assets Transfer Agreement and for each of the FT Technology Services Agreement and YTO Technology Services Agreement on an annual basis are less than 5%, each of the above three agreements is subject to the reporting and announcement requirements only but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.32 or Rule 14A.34 of the Listing Rules.

No Directors have any material interest in the Assets Transfer Agreement, FT Technology Services Agreement and YTO Technology Services Agreement and thus no Directors are required to abstain from voting on the Board resolutions for approving the above three agreements and the respective proposed cap amounts for the FT Technology Services Agreement and YTO Technology Services Agreement for each of the three years ending 31 December 2012.

DEFINITIONS

In this announcement, the following terms have the following meanings:

“Assets Transfer Agreement”	the agreement dated 21 December 2010 entered into between YTO and Tractors Research Company, pursuant to which YTO has agreed to sell and Tractors Research Company has agreed to purchase the Target Assets
“Board”	the board of Directors
“Company”	First Tractor Company Limited*(第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company, including the independent non-executive directors
“FT Technology Services Agreement”	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, pursuant to which Tractors Research Group has agreed to provide certain technology services to the Group
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Intellectual Property”	any forms of intellectual property derived from the technology services provided under the FT Technology Services Agreement or the YTO Technology Services Agreement (as the case may be), including but not limited to any patents, copyrights, trademarks and trade secrets, etc
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Old Technology Services Agreement”	the technology services agreement dated 6 June 1997 entered into between YTO and the Company, pursuant to which YTO has agreed to provide the Group with certain technology services similar to those to be provided under the FT Technology Services Agreement
“percentage ratio(s)”	has the meaning ascribed to this term under the Listing Rules, as applicable to a transaction
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 3 August 2010 entered into between the Company and YTO, pursuant to which the Company has agreed to purchase and YTO has agreed to sell 51% equity interest in Tractors Research Company, details of which were disclosed by the Company in its announcement dated 3 August 2010 and its circular dated 24 August 2010
“Sales Revenue”	the sales revenue (after deduction of all value-added tax paid and other tax payable as well as any discounts)

“Shareholder(s)”	registered holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Assets”	the assets to be sold by YTO to Tractors Research Company under the Assets Transfer Agreement, which are constructions in progress necessary for the research and development activities of Tractors Research Company
“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, Xinyan Mechanical Engineering and Xiyuan Motor Power Test, being the service providers who provide technology services under the FT Technology Services Agreement and YTO Technology Services Agreement (as the case may be) to the Group and YTO Group respectively
Xinyan Mechanical Engineering	Luoyang Xinyan Material Mechanical Engineering Company Limited* (洛陽鑫研機械材料工程有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Tractors Research Company
Xiyuan Motor Power Test	Luoyang Xiyuan Motor Power Test Company Limited* (洛陽西苑車輛動力檢驗所有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Tractors Research Company
“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 52.48% equity interest in the Company

“YTO Group”	YTO and its subsidiaries, excluding the Group
“YTO Technology Services Agreement”	the technology services agreement dated 21 December 2010 entered into between Tractors Research Company, on behalf of Tractors Research Group, and YTO, on behalf of YTO Group, pursuant to which Tractors Research Group has agreed to provide certain technology services to YTO Group

For the purpose of this announcement, the exchange rate of RMB1.00 = HK\$1.16 has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts have been, could have been or may be exchanged, at this or any other rates.

By Order of the Board
FIRST TRACTOR COMPANY LIMITED
YU Lina / LIU Pui Yee
Joint Company Secretaries

Luoyang, the PRC
21 December 2010

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Yanshui, Ms. Dong Jianhong, Mr. Qu Dawei and Mr. Li Xibin, and three non-executive Directors, namely Mr. Yan Linjiao, Mr. Shao Haichen and Mr. Liu Yongle, and four independent non-executive Directors, namely Mr. Chan Sau Shan, Gary, Mr. Luo Xiwen, Mr. Hong Xianguo and Mr. Zhang Qiusheng.

* *For identification purposes only*