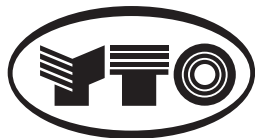


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第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED*

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

(Stock Code: 0038)

**CONNECTED TRANSACTION
UNDERTAKING OF R&D PROJECT BY
A MAJORITY-OWNED SUBSIDIARY**

On 17 September 2018, the Company convened a Board meeting where the Board considered and approved the entering into of a commissioned R&D agreement between Luoyang Tractors Research Company, a majority-owned subsidiary of the Company, and Linhai Jinyangyuan Company, to undertake the R&D project as commissioned by Linhai Jinyangyuan Company for the development of a power machinery product. On 18 September 2018, the abovementioned commissioned R&D agreement was entered into between Luoyang Tractors Research Company, a majority-owned subsidiary of the Company, and Linhai Jinyangyuan Company.

Linhai Jinyangyuan Company is an indirectly-owned company of Sinomach, the ultimate controlling shareholder of the Company, which holds 30%, 15% and 5% (50% in aggregate) equity interests in Linhai Jinyangyuan Company through Jiangsu Linhai Power Machinery Group Co., Ltd. (江蘇林海動力機械集團有限公司), YTO Group Corporation* (中國一拖集團有限公司) and China Foma (Group) Co., Ltd. (中國福馬機械集團有限公司), all being subsidiaries of Sinomach, respectively, and is therefore a connected person of the Company. Accordingly, the undertaking of the R&D project by Luoyang Tractors Research Company commissioned by Linhai Jinyangyuan Company under the commissioned R&D agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios are more than 0.1% but less than 5%, the undertaking of the R&D project by Luoyang Tractors Research Company as commissioned by Linhai Jinyangyuan Company under the commissioned R&D agreement is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

On 17 September 2018, the Company convened a Board meeting where the Board considered and approved the entering into of a commissioned R&D agreement between Luoyang Tractors Research Company, a majority-owned subsidiary of the Company, and Linhai Jinyangyuan Company, to undertake the R&D project as commissioned by Linhai Jinyangyuan Company for the development of a power machinery product. On 18 September 2018, the abovementioned commissioned R&D agreement was entered into between Luoyang Tractors Research Company, a majority-owned subsidiary of the Company, and Linhai Jinyangyuan Company.

The principal terms of the commissioned R&D agreement entered into by Luoyang Tractors Research Company and Linhai Jinyangyuan Company on 18 September 2018 are as follows:

PARTIES

- (a) Luoyang Tractors Research Company, as the commissioned party; and
- (b) Linhai Jinyangyuan Company, as the commissioning party.

TERM OF THE COMMISSIONED R&D AGREEMENT

From 18 September 2018 to 30 October 2020.

TRANSACTION UNDER THE COMMISSIONED R&D AGREEMENT AND ITS SCHEDULE

The research and development of a power machinery product.

Assuming that the commencement conditions for the project are met prior to 18 September 2018, Luoyang Tractors Research Company shall complete all certification and testing and improvement on the product, and project acceptance procedures by the end of October 2020.

CONSIDERATION OF THE COMMISSIONED R&D AGREEMENT AND PAYMENT TERMS THEREOF

The total consideration amounts to RMB26.5 million (equivalent to approximately HK\$32.9 million), including RMB20 million (equivalent to approximately HK\$24.8 million) for R&D expenses and RMB6.5 million (equivalent to approximately HK\$8.1 million) for costs of trial production of prototypes.

R&D expenses shall be settled based on the progress of the R&D work. Specifically, 20% of the total R&D expenses shall be paid upon entering into the commissioned R&D agreement and passing the risk assessment; 50% of the total R&D expenses shall be paid within one week after the delivery and inspection and acceptance of the completed drawings; and the remaining 20% of the total R&D expenses shall be paid

within one week after the completion of trial production of prototypes and project acceptance. The trial production costs of prototypes shall be apportioned and payable after mass production of the project product.

Payment method for the R&D expenses and trial production costs of prototypes: 100% by cash transfer

PRICING BASIS OF THE COMMISSIONED R&D AGREEMENT

The consideration for the commissioned R&D agreement was determined based on the costs of R&D and trial production plus a percentage mark-up, which is expected to be not higher than 15%.

REASONS FOR AND BENEFITS OF UNDERTAKING THE COMMISSIONED R&D PROJECT

The research and development of the power machinery products are in the ordinary and usual course of business of Luoyang Tractors Research Company and the undertaking of the R&D project commissioned by Linhai Jinyangyuan Company is conducive to the expansion of the scope of business of Luoyang Tractors Research Company.

The terms of the commissioned R&D agreement have been determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) are of the view that the terms of the commissioned R&D agreement and the undertaking of the commissioned R&D project are entered into in the ordinary and usual course of business of the Group on normal commercial terms, and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

INFORMATION OF THE GROUP, LUOYANG TRACTORS RESEARCH COMPANY AND LINHAI JINYANGYUAN 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 tractor components.

Luoyang Tractors Research Company is owned as to 51% equity interests by the Company and thus is a majority-owned subsidiary of the Company. Luoyang Tractors Research Company is primarily engaged in the test of tractors, automobiles, engineering machinery, internal combustion engine, agricultural machinery, agricultural transport vehicles and other machinery products as well as the components, the research and development of equipment, technology development and transfer, consultancy services and sales; the development of computer technology and services; advertisement operation, houses leasing and printing (excluding the printing of publications and only limited to the operation by qualified branches); as well as import and export businesses (excluding goods or technologies prohibited or restricted by the state to be imported or exported).

Linhai Jinyangyuan Company is an indirectly-owned company of Sinomach, the ultimate controlling shareholder of the Company, which holds 30%, 15% and 5% (50% in aggregate) equity interests in Linhai Jinyangyuan Company through Jiangsu Linhai Power Machinery Group Co., Ltd. (江蘇林海動力機械集團有限公司), YTO Group Corporation* (中國一拖集團有限公司) and China Foma (Group) Co., Ltd. (中國福馬機械集團有限公司), all being subsidiaries of Sinomach, respectively, and therefore is a connected person of the Company. Linhai Jinyangyuan Company is primarily engaged in development, manufacturing and sales of engines, gasoline generators, diesel generators, vessel auxiliary equipment and the parts and components thereof, and technical testing services in relation to such products.

LISTING RULES IMPLICATIONS

As mentioned above, Linhai Jinyangyuan Company is an indirectly-owned company of Sinomach, the ultimate controlling shareholder of the Company, which holds 30%, 15% and 5% (50% in aggregate) equity interests in Linhai Jinyangyuan Company through Jiangsu Linhai Power Machinery Group Co., Ltd. (江蘇林海動力機械集團有限公司), YTO Group Corporation* (中國一拖集團有限公司) and China Foma (Group) Co., Ltd. (中國福馬機械集團有限公司), all being subsidiaries of Sinomach, respectively, and is therefore a connected person of the Company. Accordingly, the undertaking of the R&D project by Luoyang Tractors Research Company commissioned by Linhai Jinyangyuan Company under the commissioned R&D agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios are more than 0.1% but less than 5%, the undertaking of the R&D project by Luoyang Tractors Research Company as commissioned by Linhai Jinyangyuan Company under the commissioned R&D agreement is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The terms of the commissioned R&D Agreement and the undertaking of the commissioned R&D project have been approved by the Board. Zhao Yanshui, Li Hepeng, Xie Donggang, Li Kai and Yin Dongfang, all being Directors, have abstained from voting on the Board resolution to approve the terms of the commissioned R&D Agreement and the undertaking of the commissioned R&D project at the Board meeting, as they are connected to Sinomach and are regarded as being unqualified to make any independent recommendation to the Board.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H Shares and A Shares of which are listed on the main board of the Stock Exchange (Stock Code: 0038) and the Shanghai Stock Exchange (Stock Code: 601038), respectively
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules
“Directors”	the directors of the Company, including the independent non-executive directors
“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
“Linhai Jinyangyuan Company”	Jiangsu Linhai Jinyangyuan Special Power Equipment Co., Ltd. *(江蘇林海金洋源特種動力技術裝備有限公司), a limited liability company incorporated in the PRC and a company indirectly owned as to 50% by the ultimate controlling shareholder of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Luoyang 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 controlled subsidiary owned as to 51% by the Company
“percentage ratio(s)”	has the same meaning as ascribed to this term under the Listing Rules, as applicable to a transaction

“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	registered holder(s) of the Shares
“Shares”	share(s) of RMB1.00 each 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 the ultimate controlling shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

*For the purpose of this announcement, the following exchange rate is used:
RMB1.00 = HK\$1.24*

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

Luoyang, the PRC
18 September 2018

As at the date of this announcement, the Board comprises Mr. Zhao Yanshui (Chairman) and Mr. Wu Yong (vice Chairman) as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Yin Dongfang as non-executive Directors; and Ms. Yang Minli, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao as independent non-executive Directors.

* *For identification purposes only*