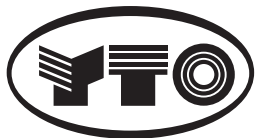


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第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED*

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

(Stock Code: 0038)

CONTINUING CONNECTED TRANSACTION REVISION OF ANNUAL CAP

On 21 December 2018, based on the business needs of the Company and the requirements of the listing rules of the jurisdictions where its Shares are listed, with the approval of the General Manager's Office Meeting of the Company, the Company and YTO entered into the Technological Service Agreement. Under the Technological Service Agreement, the Company shall provide technological research and development and testing services (hereinafter referred to as the "**Technological Services**") to YTO Group, and the existing annual cap under the Technical Service Agreement for the year ending 31 December 2019 is RMB1,600,000 (approximately HK\$1,752,704) (hereinafter referred to as the "**Existing Annual Cap**").

With the increasing investment in development of new agricultural machinery products by YTO, including the harvesting machinery and machinery equipment, the demand for technological process research and development in manufacturing new products has increased. The Board estimates that the Existing Annual Cap will not be sufficient to meet the expected transaction amount under the Technological Service Agreement. Therefore, on 29 August 2019, the Board has resolved that the Existing Annual Cap be revised to RMB18,000,000 (approximately HK\$19,717,920) (hereinafter referred to as the "**Revised Annual Cap**").

YTO is the immediate controlling shareholder of the Company. As the Company and YTO are the parties to the Technological Service Agreement, the transactions contemplated under the Technological Service Agreement (hereinafter referred to as the "**Technological Service Transactions**") constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Based on the Existing Annual Cap, as the applicable percentage ratios are less than 0.1%, the Technological Service Transactions are fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Based on the Revised Annual Cap, as the applicable percentage ratios exceed 0.1% but are less than 5%, the Technological Service Transactions are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

On 21 December 2018, based on the business needs of the Company and the requirements of the listing rules of the jurisdictions where its Shares are listed, with the approval of the General Manager's Office Meeting of the Company, the Company and YTO entered into the Technological Service Agreement. Under the Technological Service Agreement, the Company shall provide technological research and development and testing services (hereinafter referred to as the "**Technological Services**") to YTO Group, and the Existing Annual Cap under the Technical Service Agreement for the year ending 31 December 2019 is RMB1,600,000 (approximately HK\$1,752,704) (hereinafter referred to as the "**Existing Annual Cap**").

With the increasing investment in research and development of new agricultural machinery products by YTO, including the harvesting machinery and machinery equipment, the demand for technological process research and development in manufacturing new products has increased. The Board estimates that the Existing Annual Cap will not be sufficient to meet the expected transaction amount under the Technological Service Agreement. Therefore, on 29 August 2019, the Board has resolved that the Existing Annual Cap be revised to RMB18,000,000 (approximately HK\$19,717,920) (hereinafter referred to as the "**Revised Annual Cap**").

The principal terms of the Technological Service Agreement are as follows:

Date

21 December 2018

Parties

- 1) The Company
- 2) YTO

YTO is the immediate controlling shareholder of the Company.

Technological Service Transactions

Under the Technological Service Agreement, the Company shall provide technological research and development and testing services to YTO Group.

Term

From 1 January 2019 to 31 December 2019.

Payment method

The actual expenses incurred during the month shall be settled in cash in the following month.

Pricing Basis for the Technological Service Transactions

Under the Technological Service Agreement, the technological service fee shall be determined in the following order:

1. the price of non-connected transactions for the same services between the Company and third parties who are independent of its connected person(s);
2. the price which is constituted by the reasonable cost of services provided by the Company plus gross profit of non-connected transactions in the same category (including but not limited to those which are the same as or similar to research and development or testing items, work duration, ownership of intellectual property rights, etc.), and the Company will take at least two comparable non-connected transactions as its reference; and
3. in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

In any event, the applicable price for the provision of Technological Services by the Group to YTO Group under the Technological Service Agreement shall be no more favourable than the price offered to the independent third party customers of the Group.

Historical Transaction Amounts, Existing Annual Cap and Revised Annual Cap

The historical transaction amount under the Technological Service Agreement for the half year ended 30 June 2019 was RMB1,280,000 (approximately HK\$1,402,163), representing approximately 75% of the Existing Annual Cap under the Technological Service Agreement for the year ending 31 December 2019.

In respect of the previous technological services, the Company has entered into an annual technological service agreement every year. Based on the annual caps under such agreements, the transactions thereunder are fully exempt from the relevant reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The following table sets out the historical transaction amounts for the years ended 31 December 2016, 2017 and 2018 and for the half year ended 30 June 2019, the Existing Annual Cap and the Revised Annual Cap for the year ending 31 December 2019:

(Unit: RMB ten thousand)

	Historical transaction amounts for the years ended 31 December			Historical transaction amounts for the half year ended 30 June	Existing Annual Cap	Cap amount to be increased	Revised Annual Cap
	2016	2017	2018	2019			
Technological Service Agreement	121	260	99	128	160	1,640	1,800

As at the date of this announcement, the Existing Annual Cap under the Technological Service Agreement for the year ending 31 December 2019 has not been exceeded.

The Revised Annual Cap under the Technological Service Agreement for the year ending 31 December 2019 is RMB18,000,000 (approximately HK\$19,717,920), representing an increase of RMB16,400,000 (approximately HK\$17,965,216) or approximately 10.25 times as compared with the Existing Annual Cap under the Technological Service Agreement for the year ending 31 December 2019.

Bases for Determining and Revising the Existing Annual Cap

When entering into the Technological Service Agreement, the Board determined the Existing Annual Cap based on the following factors:

1. The above historical transaction amount for the year ended 31 December 2018; and
2. In 2018, YTO enhanced the development of new products including the harvesting machines and agricultural machinery and tools. At that time, the Company estimated the demand for inspection and testing services would increase by approximately 66% in 2019.

Taking into account the following factors, the Board expects the Existing Annual Cap will not be sufficient, and has agreed to amend it to the Revised Annual Cap:

1. YTO intends to commission the Company to conduct research and development of new wear-resistant metal materials, so as to solve the problems, including short service life and poor wear resistance, of agricultural machinery and tool products such as domestic plowshares and rotary blades; the amount of the service accounts for approximately 44% of the cap amount to be increased.
2. In order to improve the service life of key components in the newly developed crawler combine harvester, YTO intends to commission the Company to conduct research and development of materials for key components, heat treatment technologies and manufacturing technologies of key vulnerable components, so as to extend the service life of key vulnerable components through improving the reliability of product manufacturing process; the amount of the service accounts for approximately 53% of the cap amount to be increased.
3. Since YTO enhanced the development of new products including the harvesting machines and agricultural machinery and tools, the Company estimates the demand for inspection and testing services would increase in the second half of 2019. The amount of the service accounts for approximately 3% of the cap amount to be increased.

MEASURES OF INTERNAL CONTROL

In order to ensure that the Technological Service Transactions meet the pricing terms as agreed in the Technological Service Agreement, the Company has established the following internal control measures, which are implemented and monitored by the finance department, the office of the Board, and the audit and legal department of the Company:

1. The Company has established measures on decision-making and daily management of connected transactions. The Board of the Company has approved the Technological Service Agreement in accordance with the decision-making process of connected transaction; the independent directors of the Company strictly performed the duties of independent directors, and have given their views as required on whether the Technological Service Transactions of the Company are on normal commercial terms, and whether such transactions are fair and reasonable;
2. The office of the Board and the finance department of the Company has reviewed the reasonableness and fairness of the terms of the Technological Service Agreement (in particular, the pricing terms);
3. The management system of the Company on connected transactions has clearly defined the price principle in entering into the connected transaction. When the Company enters into a specific transactional agreement under the Technological Service Agreement, the price must comply with the pricing standards of the Technological Service Agreement; and
4. The internal audit department of the Company shall conduct regular supervision and evaluation on whether the connected transactions of the Company have been carried out in accordance with the internal control requirements of the Company.

The Directors are of the view that the above internal control measures can ensure that the Technological Service Transactions under the Technological Service Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders.

REASONS FOR AND BENEFITS OF TECHNOLOGICAL SERVICE TRANSACTIONS AND ITS EFFECT ON THE COMPANY

The provision of the Technological Services to YTO Group is within the scope of the Group's business operations. The provision of Technological Services to YTO Group by the Company is conducive to giving full play to the Company's advantages in technological research and development and utilization of related resources, and the transaction price is fair, in the interest of the Company and all Shareholders as a whole, and will not have an impact on the independence of the Company's business.

The Technological Service Agreement and the terms of the Technological Service Transactions were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Technological Service Agreement and the terms of the Technological Service Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders, and the Revised Annual Cap under the Technological Service Agreement for the year ending 31 December 2019 is also fair and reasonable.

INFORMATION OF THE GROUP, YTO AND YTO GROUP

The Group is principally engaged in the production and sale 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.

As at the date of this announcement, YTO is the controlling shareholder of the Company, holding approximately 410,690,578 A Shares of the Company. YTO Group is principally engaged in the production and sales of tractors and other agricultural machinery, automobiles, engineering machinery, diesel engines, generators, forklifts, bicycles, fuel injection pumps and spare parts of the above products; manufacturing of coal mining machinery, tank trucks, moulds, machine tools, forging castings, clip aids and non-standard equipment. industrial gas (forbidden as chemical raw materials for non-fuel use, which can be operated by branches only); production and sale of oxygen (compressed), oxygen (liquefied), nitrogen (compressed), nitrogen (liquefied), air (compressed) (the above five items are permitted to be operated by branches only under license); road transportation of general cargo and dangerous goods (item 3 under class II, class III, which are operated under license); import and export (according to qualification certificate); contracting overseas mechanical and electrical engineering and domestic and international bidding project; export of equipment and materials required for the above-mentioned overseas projects; dispatch of labour required for the implementation of the above-mentioned projects.

LISTING RULES IMPLICATIONS

YTO is the immediate controlling shareholder of the Company. As the Company and YTO are the parties to the Technological Service Agreement, the transactions contemplated under the Technological Service Agreement (hereinafter referred to as “**Technological Service Transactions**”) constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Based on the Existing Annual Cap, as the applicable percentage ratios are less than 0.1%, the Technological Service Transactions are fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Based on the Revised Annual Cap, as the applicable percentage ratios exceed 0.1% but are less than 5%, the Technological Service Transactions are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Technological Service Agreement, the terms of the Technological Service Transactions and the Revised Annual Cap have been approved by the Board on 29 August 2019. The following Directors of the Company, namely Li Xiaoyu, Cai Jibo, Li Hepeng, Xie Donggang and Zhou Honghai, have abstained from voting to approve the Technological Service Agreement, the terms of the Technological Service Transactions and the Revised Annual Cap at the Board meeting, due to the fact that they are connected to YTO and are regarded as not being able 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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“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)”	the shareholder(s) of the Company;
“Shares”	share(s) of RMB1.00 each of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Technological Services”	the technological process research and development and testing services under the Technological Service Agreement;
“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 41.66% equity interest in the Company;
“YTO Group”	YTO and its subsidiaries (excluding the Group); and
“%”	per cent.

For the purpose of this announcement, the exchange rate of RMB1.00 to HK\$1.09544 was used.

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

Luoyang, the PRC
29 August 2019

As at the date of this announcement, the Board comprises Mr. Li Xiaoyu (Chairman), Mr. Cai Jibo (vice Chairman) and Mr. Liu Jiguo as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai as non-executive Directors; and Mr. Yu Zengbiao, Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit as independent non-executive Directors.

* *For identification purposes only*