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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 TRANSACTIONS
ADJUSTMENT TO THE ANNUAL CAP AMOUNT OF THE
PRODUCT INSPECTION AND TESTING AS WELL AS
TECHNOLOGICAL SERVICES AGREEMENT**

Reference is made to the announcement on continuing connected transactions of the Company dated 22 December 2020 in relation to, among other things, the Product Inspection and Testing as well as Technological Services Agreement.

Based on the actual business needs of the Company, the Board expects that the existing annual cap will not be sufficient to meet the expected transaction amount under the Product Inspection and Testing as well as Technological Services Agreement. Therefore, it is proposed to increase the transaction cap amount of the connected transaction in 2021.

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest in the Company and is the immediate controlling shareholder of the Company. Xiyuan Company is a direct wholly-owned subsidiary of YTO. As such, Xiyuan Company is a connected person of the Company, and the transactions contemplated under the Product Inspection and Testing as well as Technological Services Agreement (including the adjusted 2021 annual cap amount) constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the adjusted 2021 annual cap transaction amount under the Product Inspection and Testing as well as Technological Services Agreement are more than 0.1% but less than 5%, the provision of services under the Product Inspection and Testing as well as Technological Services Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

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PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

Details of the principal terms of the Product Inspection and Testing as well as Technological Services Agreement and its proposed annual cap amount are set out below:

Date

22 December 2020

Parties

- (a) Xiyuan Company, as the supplier; and
- (b) The Company, on behalf of the Group, as the purchaser.

Services to be provided

According to the Product Inspection and Testing as well as Technological Services Agreement, Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological Services to the Group, including:

- (1) products-related technological testing services: technical judgement made to the specific targets using instrument and equipment, environmental facilities and based on other technological conditions in accordance with relevant standard or technical norms;
- (2) patent services, standardized technological support services: the provision of third-party patent services, experimental verification of standardized technological indicators, standardized information services, guidance on standardized research process, standard publicity implementation and other services; and
- (3) the provision of research and manufacturing services on non-standard equipment such as inspection and testing equipment based on the demands of the Company.

Term

From 1 January 2021 to 31 December 2021.

Payment Terms

Pursuant to the Product Inspection and Testing as well as Technological Services Agreement, the Company shall pay the service fee incurred to Xiyuan Company for entrusting to provide the Product Inspection and Testing as well as Technological Services, the detailed service fee of which and others shall be paid as specified in each separate contract to be agreed by the parties.

Pricing Standard for the Transactions under the Product Inspection and Testing as well as Technological Services Agreement

Under the Product Inspection and Testing as well as Technological Services Agreement, the fee of the Product Inspection and Testing as well as Technological Services shall be determined in the following order:

- (1) the price of non-connected transactions for the same services between Xiyuan Company and third parties who are independent of its related person(s);
- (2) the price which consists of the reasonable cost of services provided by Xiyuan 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 the contents, work period and intellectual property in respect of inspection and testing as well as research and development projects, etc.), and Xiyuan 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 the Product Inspection and Testing as well as Technological Services by Xiyuan Company to the Group under the Product Inspection and Testing as well as Technological Services Agreement shall not be higher than the price charged for the provision of the same services to the independent third-party customers of Xiyuan Company.

Adjustment to the Annual Cap Amount for 2021 under the Product Inspection and Testing as well as Technological Services Agreement

Unit: RMB0'000

Content of the transaction	Originally estimated cap amount	Actual transaction amount from January to August	Transaction amount to be increased	Cap amount upon increase
Provision of product inspection and testing as well as research and development services by related person(s) to the Company	2,600	1,260	600	3,200

The adjustment only increases the annual cap amount of the connected transactions under the Product Inspection and Testing as well as Technological Services Agreement, and the agreed terms of the agreement between the parties in respect of their daily connected transactions remain unchanged.

Reasons for Adjustment to the Annual Cap Amount in 2021

Due to the promulgation of the National IV diesel engine switching policy, the introduction of K-value parameters into the subsidy standard, the accelerated development and promotion of new products of the Company and other factors, the demand for inspection and testing services of the Company has increased than expected.

MEASURES OF INTERNAL CONTROL

To ensure the the Group's conformity with the pricing policies of the Product Inspection and Testing as well as Technological Services Agreement from time to time, the Group adopts a series of internal control policies on its daily operation. Such internal control measures are conducted and supervised by the business department, finance department, office of the Board , the Directors (including the independent non-executive Directors) and audit department of the Company:

- (1) the Company having completed the approval of the Product Inspection and Testing as well as Technological Services Agreement in accordance with the internal control system for decision-making and management of connected transactions;

- (2) the independent Directors of the Company having conscientiously performed their duties, and having issued consent opinions on related party transactions;
- (3) the relevant business department, the office of the Board and the finance department of the Company have reviewed the reasonableness and fairness of the terms of the Product Inspection and Testing as well as Technological Services Agreement (in particular, the pricing terms);
- (4) the Company having clearly stated the principle for determining the prices for connected transactions in the management system for connected transactions. When a business unit enters into specific agreements in accordance with the Product Inspection and Testing as well as Technological Services Agreement, the price must be determined in accordance with the pricing standards as agreed in the Product Inspection and Testing as well as Technological Services Agreement; and
- (5) the internal audit department of the Company and the external auditing firms shall conduct regular supervision and evaluation on whether the connected transactions of the Company comply with internal control requirements of the Company.

The Directors are of the view that the above internal control measures can ensure that the transactions under the Product Inspection and Testing as well as Technological Services Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders.

IMPACT OF THE ADJUSTMENT ON THE COMPANY

The Company and YTO utilize geographical convenience and leverage their respective resource advantages to carry out business related to daily operations with each other, which is conducive to reducing operating costs and ensuring the normal operation of each other's production and operation. Product-related inspection and testing services provided by Xiyuan Company, as a state-authorized independent testing organization and a certified public service platform, to the Group meet the needs of the Company in product manufacturing and marketing.

The adjustment to the 2021 annual cap amount transaction of the Product Inspection and Testing as well as Technological Services Agreement is necessary for the normal production and operation of the Company and measured at normal commercial terms, and the transaction is in general commercial interest and will not have adverse impact on the Company's financial position or results of operations nor it will affect the Company's independence.

INFORMATION OF THE GROUP, YTO, YTO GROUP AND XIYUAN COMPANY

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 a direct controlling shareholder of the Company, holding approximately 548,485,853 A Shares of the Company, representing approximately 48.81% of the total issued Shares of the Company. China National Machinery Industry Corporation* (中國機械工業集團有限公司) owns 87.90% interests of YTO, and Luoyang State-Owned Assets Operation Company Limited owns the remaining 12.10% interests of YTO.

YTO Group is principally engaged in the production and sales of tractors and other agricultural machineries, automobiles, engineering machineries, diesel engines, generators, forklifts, bicycles, fuel injection pumps and spare parts of the above products; manufacturing of coal mining machineries, 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.

Sinomach is the controlling shareholder of YTO, having 87.90% shareholding interest in YTO. Sinomach is ultimately controlled by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

As at the date of this announcement, Xiyuan Company is a direct wholly-owned subsidiary of YTO, the controlling shareholder of the Company. Xiyuan Company, in the capacity of a state-authorized inspection and testing organization and a certified public service platform, is principally engaged in: the testing and inspection of tractors, three-wheeled vehicles, low-speed trucks, automobiles (including special-purpose vehicles), electric vehicles, construction machineries, internal combustion engines, agricultural machineries, motorcycles, agricultural machineries, transformation machineries and its components; conducting security check on motor vehicles; development, production and sale of agricultural machinery equipment and test equipment, instruments, new materials and related products; licensed sale of imported equipment and instruments; technical development, consultation, transfer and related services; judicial authentication in the quality of machinery products; land inspection; measurement and calibration of the instrument and equipment.

LISTING RULES IMPLICATIONS

As at the date of this announcement, YTO beneficially owns approximately 48.81% equity interest of the Company and is the immediate controlling shareholder of the Company. Xiyuan Company is a direct wholly-owned subsidiary of YTO. As such, Xiyuan Company is a connected person of the Company, and the transactions contemplated under the Product Inspection and Testing as well as Technological Services Agreement (including the adjusted 2021 annual cap amount) constitute continuing connected transactions of the Company under the Listing Rules.

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The Resolution on Newly Adding the Caps of Related Party Transactions for Inspection and Testing as Well as Research and Development Services of Xiyuan Company for the Year 2021 was considered and approved at the thirty-first meeting of the eighth session of the Board of the Company held on 15 September 2021. Li Xiaoyu, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors of the Company, have abstained from voting at the Board meeting, as they are connected to YTO and/or Xiyuan Company and are regarded as being unqualified to make any independent recommendation to the Board.

The terms of the Product Inspection and Testing as well as Technological Services Agreement (including the adjusted 2021 annual cap amount) 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 Product Inspection and Testing as well as Technological Services Agreement (including the adjusted 2021 annual cap amount) 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 as a whole.

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;
“Director(s)”	the director(s) 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;
“Product Inspection and Testing as well as Technological Services”	the products-related technological inspection and testing services and patent services, standardized technological support services and research and development services on non-standard equipment such as inspection and testing equipment under the Product Inspection and Testing as well as Technological Services Agreement;

“Product Inspection and Testing as well as Technological Services Agreement”	the agreement dated 22 December 2020 entered into between Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, pursuant to which Xiyuan Company agreed to provide to the Group, and the Group agreed to purchase from Xiyuan Company, the Product Inspection and Testing as well as Research and Development Services;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	the shareholder(s) of the Company;
“Share(s)”	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 a controlling shareholder of YTO having 87.90% shareholding interest in YTO;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Xiyuan Company”	Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* (洛陽西苑車輛與動力檢驗所有限公司), a company established in the PRC with limited liability, which is a direct wholly-owned subsidiary of YTO;

“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 48.81% equity interest in the Company;

“YTO Group” YTO and its subsidiaries (other than the Group); and

“%” per cent.

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

Luoyang, the PRC
15 September 2021

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

* *For identification purposes only*