

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 company incorporated in The People's Republic of China with limited liability)

(Stock Code: 0038)

**CONTINUING CONNECTED TRANSACTIONS
ADJUSTMENT TO THE ANNUAL CAP AMOUNTS FOR 2023
OF THE PRODUCT INSPECTION AND TESTING AS WELL AS
TECHNOLOGICAL SERVICES AGREEMENT AND
COMPOSITE SERVICES AGREEMENT**

Based on market changes and operation needs of the Group, it is expected that the existing annual cap amounts for the year ending 31 December 2023 under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement will be insufficient to cope with the business needs. Accordingly, the Company intends to increase the annual cap amounts for the year ending 31 December 2023 under and the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement to RMB32 million and RMB250 million, respectively.

As at the date of this announcement, YTO beneficially owned approximately 48.81% of the issued share capital of the Company and is the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Composite Services Agreement entered into between the Company and YTO constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

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 constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the adjusted annual cap amount for 2023 under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement are more than 0.1% but are all less than 5%, the adjustment to the annual cap amount for 2023 under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite 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 Hong Kong Listing Rules.

I. BACKGROUND

Reference is made to the announcement dated 20 December 2022 in relation to, among other things, the Product Inspection and Testing as well as Technological Services Agreement, and the announcement and circular of the Company dated 25 August 2021 and 12 October 2021, respectively, in relation to, among other things, the Composite Services Agreement.

Based on market changes and operation needs of the Group, it is expected that the existing annual cap amounts for the year ending 31 December 2023 under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement will be insufficient to cope with the business needs. Accordingly, the Company intends to increase the annual cap amounts for the year ending 31 December 2023 under and the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement to RMB32 million and RMB250 million, respectively.

II. PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

Details of the major terms of the Product Inspection and Testing as well as Technological Services Agreement and its proposed revised annual cap amount are as follows:

Date : 20 December 2022

Parties :

- Xiyuan Company, as supplier; and
- the Company, on behalf of the Group, as 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) 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 Group.

- Term** : From 1 January 2023 to 31 December 2023.
- Payment terms** : Pursuant to the Product Inspection and Testing as well as Technological Services Agreement, the Group shall pay the service fee incurred to Xiyuan Company for entrusting it to provide the abovementioned services, the detailed service fee of which shall be agreed in a separate engagement agreement to be entered into by the parties.

Pricing Standards of the Transactions contemplated 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 of similar business between Xiyuan Company and independent third parties;
- (2) the price which consists of the reasonable cost of services provided by Xiyuan Company plus gross profit of comparable non-connected transactions; or
- (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.

Historical Transaction Amounts, the Existing Annual Cap Amounts and the Proposed Annual Cap Amount for 2023 for the Transactions under the Product Inspection and Testing as well as Technological Services Agreement

The following table sets out the historical transaction amounts for the years ended 31 December 2021 and 2022, and for the eight months ended 31 August 2023, and the existing annual cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 and the proposed annual cap amount for 2023 under the Product Inspection and Testing as well as Technological Services Agreement:

	Historical transaction amounts		
	For the year ended		For the eight
	31 December		months ended
	2021	2022	31 August
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Product Inspection and Testing as well as Technological Services Agreement	<u>26,760</u>	<u>31,920</u>	<u>14,690</u>

Pursuant to the Product Inspection and Testing as well as Technological Services Agreement, the annual cap for the services of the Product Inspection and Testing as well as Technological Services to be provided by Xiyuan Company to the Group for the year ending 31 December 2023 was set at RMB22 million. The Company proposes to revise the annual cap amount for 2023 under the Product Inspection and Testing as well as Technological Services Agreement to RMB32 million.

Reasons of and Basis for the Adjustment to the Annual Cap Amount for 2023 under the Product Inspection and Testing as well as Technological Services Agreement

The Company expects the service fees will be increased by approximately RMB10 million due to the Company's new non-standard equipment research and development projects in load trucks, drive train test benches, brake inspection and testing test benches, and also the National IV tractor improvement tests, and the subsidy testing services from National IV certification.

III. COMPOSITE SERVICES AGREEMENT

Details of the major terms of the Composite Services Agreement and its proposed revised annual cap amount are as follows:

- Date** : 25 August 2021
- Parties** :
 - YTO, on behalf of YTO, its controlled companies and their associates, as supplier and/or supplying agent; and
 - the Company, on behalf of the Group, as purchaser and/or purchasing agent.
- Services to be provided** : Transportation and transportation ancillary services, and production-related processing contracting services.
- Term** : From 1 January 2022 to 31 December 2024.
- Payment terms** : Transportation services: shall be principally settled within three months after confirmation by the Company (on behalf of the Group) from the date of delivering or receiving the goods.

Transportation ancillary services: shall be billed monthly and paid by the end of the following month.

Production-related processing contracting services: shall be settled within 60 days after completion of the processing contracting services.

These payment terms were usually adopted by YTO in its transactions with independent third parties or the Company. Such terms are on normal commercial terms and not less favorable than those offered to independent third parties by YTO.

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 determined based on the following:

- (1) the market price of an independent third party obtained through enquiries in the market (i.e. the price of the same or similar services provided to independent third parties by suppliers other than YTO, its controlled companies and their associates in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between YTO, its controlled companies and their associates and an independent third party; or
- (3) if none of the above is applicable, costs plus a percentage mark-up (tax inclusive), which is not more than 10% (i.e. price = cost x (1 + percentage mark-up)).

YTO undertakes that the applicable price of the services offered to the Group shall not be higher than that offered to independent third party customers of YTO, its controlled companies and their associates for the same services.

When adopting the above pricing standards, the Company's:

- (1) Procurement Department, in relation to the price determination based on the market price of an independent third party (i.e. pricing standard No.(1)), shall make reference to one to two price quotations of the same or similar services through market enquiry. Such quotations shall be obtained by Procurement Department;
- (2) Finance Department, in relation to price determination based on the transaction price between the suppliers and an independent third party (i.e. pricing standard no.(2)), shall make reference to one to two signed agreement(s) entered between the suppliers and an independent third party in relation to the procurement of the same or similar services, to ensure that the transaction price under the Composite Services Agreement is fair and reasonable and not higher than the price of the same or similar service offered by the suppliers to independent third party; and

- (3) Finance Department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard No. (3)), shall obtain cost analysis of services from the suppliers and finalise the price in accordance with the cost analysis and the percentage mark-up. The Finance Department shall also perform quarterly update and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.

Historical Transaction Amount, the Existing Annual Cap Amounts and the Proposed Revised Annual Cap Amount for 2023 for the Transactions under the Composite Services Agreement

The following table sets out the historical transaction amounts for the years ended 31 December 2021 and 2022, and for the eight months ended 31 August 2023, and the existing annual cap amounts for each of the three years ended 31 December 2022, 2023 and 2024 and the proposed revised annual cap amount for 2023 under the Composite Services Agreement:

	Historical transaction amounts		
	For the year ended 31 December		For the eight months ended 31 August
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Composite Services Agreement	<u>217,620</u>	<u>244,140</u>	<u>161,270</u>
	For the year ended 31 December	For the year ending 31 December	
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Existing annual cap amount	190,000	190,000	200,000
Proposed revised annual cap amount for 2023	270,000	250,000	Remains unchanged at
	<u>(Note 1)</u>	<u>(Note 2)</u>	<u>200,000</u>

Note 1: The cap amount for the year ended 31 December 2021 of RMB190 million was revised to RMB270 million. Please refer to the announcement and circular published by the Company on 29 September 2022 and 8 November 2022.

Note 2: The original cap amount for the year ending 31 December 2021 was RMB190 million.

Reasons of and Basis for the Adjustment to Annual Cap Amount for 2023 under the Composite Services Agreement

The estimated transaction cap amount before adjustment was determined by taking into consideration that the tractor industry would begin to implement the National IV emission standard upgrade in December 2022, users' purchase and maintenance costs would increase, which might lead to a significant decline in product sales, and therefore the Company's demand for transportation services for 2022 and 2023 was expected to decrease as compared to previous years such as 2021. It is expected that the fees for the Composite Services would decrease accordingly.

Benefited from the Company's advance layout of new product research and development and sufficient market verification, sales of the Company's National IV tractor products were better than the market expected. At the same time, in the first half of 2023, the Company's exports of large and medium-sized tractor products increased by approximately 70%. The long-distance transportation to import and export ports has increased and the export sales of Dongfanhong's National IV diesel engine products increased by approximately 19%, and the transportation business also increased. In addition, in the first half of 2023, the Company's large-wheel trailer product sales accounted for a year-on-year increase of 4.2 percentage points. Changes in product structure have also led to an increase in freight costs.

As there are no factors that indicate there will be an increase the relevant transaction amounts in 2024, the Company has no current intention to adjust the existing annual cap amounts for 2024 under the Composite Services Agreement. However, the Company will continue to closely review and monitor the relevant composite services amounts of the Company to ascertain whether a revision of the annual cap amounts for 2024 under the Composite Services Agreement will be required.

IV. MEASURE OF INTERNAL CONTROL

In order to ensure the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement are in compliance with its agreed pricing terms agreed in the agreements and will not exceed the estimated annual cap amounts, the Company has formulated the following internal control measures, and the Finance Department, the Office of the Board and the Audit and Legal Affairs Department of the Company shall be responsible for the implementation and supervision thereof:

- (1) The Company has formulated measures for decision on and daily administration of connected transactions, which clearly require all business units to comply with the pricing principles and other terms in continuing connected transaction agreements when entering into contracts in accordance with daily connected transaction framework agreement.
- (2) The Office of the Board, the Finance Department and the Legal Affairs Department of the Company shall be responsible for performing examination on whether the principal terms of the agreements and the pricing principles for the continuing connected transactions have been determined on ordinary commercial terms, whether they are fair and reasonable and are in accordance with relevant laws and regulations.
- (3) The Office of the Board and the Finance Department of the Company shall run regular statistics on and review of the ratio of actual amount of the connected transaction agreements to the approved cap therefor and the estimation for the whole year, and timely remind all the business units to pay attention to the utilization limit of the cap for the transactions, and fulfill corresponding examination and approval procedures in accordance with requirements to ensure the connected transactions are performed in a compliant manner if the increase in transaction cap amount is really needed due to the reason of actual business.
- (4) The internal audit department of the Company shall perform regular supervision assessment of the internal control for the operations of the connected transactions of the Company.

- (5) The Composite Services Agreement (including transportation, transportation ancillary services and processing contracting services) is negotiated between the relevant business departments of the Company and the counterparties for assessing production capacities or service abilities of the counterparties and the quality of the products or the services (if applicable), etc. The Finance Department would review and compare the price and terms of the agreement among two to three counterparties to make sure the prices and terms offered by YTO Group are fair and reasonable that they are no less favourable than those offered by the independent third parties. If there is no market price, the Finance Department of the Company would request YTO Group to provide the cost breakdown and analysis and the Finance Department will evaluate reasonableness of the price charged. The Composite Services Agreement can only be executed upon the review by business department, Finance Department, Legal Affairs Department and Technical Department (if needed) of the Company and subject to the review and approval by the competent heads of the Company.
- (6) The auditor of the Company shall perform annual review on the pricing and annual cap amount for the continuing connected transactions according to the requirements.

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 and the Composite Services Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders.

V. IMPACT OF THE ADJUSTMENT ON THE COMPANY

The increase in the annual cap amounts for 2023 of continuing connected transaction under the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement, respectively, is in compliance with the production and operation needs of the Company, ensuring the Company's daily compliance operations and will not have material adverse impact on the Company's financial position or results of operations nor will it affect the Company's independence.

VI. INFORMATION OF THE GROUP, YTO 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.

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.

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, lowspeed 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 process 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.

VII. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

As at the date of this announcement, YTO beneficially owned approximately 48.81% of the issued share capital of the Company and is the controlling shareholder of the Company. Accordingly, the transactions contemplated under the Composite Services Agreement entered into between the Company and YTO constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

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 constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the applicable percentage ratios for the adjusted annual cap amount for 2023 under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement are more than 0.1% but are all less than 5%, the adjustment to the annual cap amount for 2023 under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite 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 Hong Kong Listing Rules.

VIII. BOARD'S APPROVAL

The Resolution on Increasing the Cap Amounts of Product Inspection and Testing as well as Technological Services Agreement and Composite Services Agreement for 2023 was considered and approved by the Board held on 28 September 2023. Liu Jiguo, Zhang Zhiyu, Fang Xianfa and Zhang Bin, the Directors of the Company, have abstained from voting at the Board meeting due to the fact that they are also the directors of YTO.

The adjustment to the annual cap amounts under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the adjustment to the annual cap amounts under each of the Product Inspection and Testing as well as Technological Services Agreement and the Composite Services Agreement 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.

IX. DEFINITIONS

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

“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;
“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 and the Shanghai Stock Exchange respectively;
“Composite Services Agreement”	the agreement dated 25 August 2021 entered into between YTO, on behalf of YTO, its controlled companies and their associates, 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 transportation and transportation ancillary services, and production-related processing contracting services to the Group;

“connected person(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“controlling shareholder”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange;
“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);
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s);
“percentage ratios”	has the same meaning as ascribed to it under the Hong Kong Listing Rules, as applicable to a transaction;
“PRC”	The People’s Republic of China;
“Product Inspection and Testing as well as Technological Services”	the corporate 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 20 December 2022 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 the Product Inspection and Testing as well as Research and Development Services on non-standard equipment to the Group;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shanghai Listing Rules”	Shanghai Stock Exchange Share Listing Rules;
“Shareholder(s)”	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 88.22% equity 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; and
“%”	per cent.

Certain figures set out in this announcement are 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 announcement is due to rounding.

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

Luoyang, the PRC
9 October 2023

As at the date of this announcement, the Board comprises Mr. Liu Jiguo (Chairman) as executive Director; Mr. Zhang Zhiyu, Mr. Fang Xianfa and Mr. Zhang Bin as non-executive Directors; and Mr. Edmund Sit, Mr. Wang Shumao and Mr. Xu Liyou as independent non-executive Directors.

* *For identification purposes only*