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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

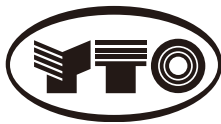
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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **First Tractor Company Limited**, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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

**Independent Financial Adviser to the Independent Board  
Committee and the Independent Shareholders of First Tractor Company Limited**



**Gram Capital Limited**  
**嘉林資本有限公司**

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A letter from the Board is set out on pages 1 to 12 of this circular.

A revised notice for convening the extraordinary general meeting (the “**EGM**”) of First Tractor Company Limited\* (the “**Company**”) to be held at 2:30 p.m. on 3 March 2017 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the People’s Republic of China (the “**PRC**”), is set out on pages 32 to 34 of this circular.

A revised form of proxy for use at the EGM was despatched and also published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) on 15 February 2017. Whether or not you are able to attend the meeting in person, you are requested to complete and return the revised form of proxy in accordance with the instructions printed thereon. The revised proxy form shall be lodged with the Company’s branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, as soon as possible and in any event not less than 24 hours before the time scheduled for holding the EGM (or any adjourned meeting thereof). Completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

15 February 2017

\* For identification purpose only

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## DEFINITIONS

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

“Board”	the board of Directors of the Company;
“China Automotive”	China Automotive Engineering Corporation* (中國汽車工業工程有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Sinomach;
“China United”	China United Engineering Corporation* (中國聯合工程公司), an enterprise incorporated in the PRC, which is wholly-owned by Sinomach;
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, 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”	has the same meaning as ascribed to it under the Listing Rules;
“Construction Project”	a construction project of modern agricultural equipment of digitalized smart driving cab of the Company;
“controlling shareholder”	has the same meaning as ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company, including the independent non-executive director(s);
“EGM”	the extraordinary general meeting of the Company (as originally scheduled to be held on 21 February 2017) now postponed to be held on 3 March 2017 for the purposes of, among other things, seeking the Independent Shareholders’ approval for the proposed Second General Contracting Agreement and the transaction contemplated thereunder;
“Fist General Contracting”	the general contracting for the Construction Project proposed to be contracted by China Automotive and SCIVIC as the general contractors, details of which were set out in the indicative announcement of the Company dated 15 December 2016;

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## DEFINITIONS

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“First General Contracting Agreement”	a general contracting agreement to be entered into between the Company, China Automotive and SCIVIC, pursuant to which China Automotive and SCIVIC shall agree to act as the general contractors for the Construction Project;
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Second General Contracting Agreement and the transaction contemplated thereunder;
“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;
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors;
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s);
“Latest Practicable Date”	9 February 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange;
“Painting Line Project”	a painting line project of modern agricultural equipment of digitalized smart driving cab of the Company;
“percentage ratios”	has the same meaning as ascribed to it under the Listing Rules, as applicable to a transaction;
“PRC”	The People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of the PRC;
“SCIVIC”	SCIVIC Engineering Corporation Co., Ltd.* (機械工業第四設計研究院有限公司), a company incorporated in the PRC and a subsidiary of Sinomach;
“Second General Contracting Agreement”	a general contracting agreement to be entered into between the Company and either China Automotive or China United, pursuant to which either China Automotive or China United shall agree to act as the general contractor for the Painting Line Project;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“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), the controlling shareholder of YTO and the ultimate controlling shareholder of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the same meaning as ascribed to it under the Listing Rules;
“Supervisor(s)”	the supervisor(s) of the Company;
“Weixin Tender Company”	Henan Weixin Tender Management and Consultation Co., Ltd.* (河南省偉信招標管理諮詢有限公司);
“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 410,690,578 A Shares of the Company; and
“%”	per cent.

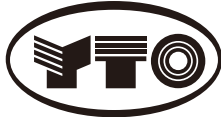
*For the purpose of this circular, the following exchange rate is used:  
RMB1.00 = HK\$1.13.*

\* For identification purpose only

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## LETTER FROM THE BOARD

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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)

*Board of Directors:*

Mr. Zhao Yanshui (*Chairman*)

Mr. Wang Erlong (*Vice Chairman*)

Mr. Wu Yong

Mr. Li Hepeng

Mr. Xie Donggang

Mr. Li Kai

Mr. Yin Dongfang

Ms. Yang Minli\*\*

Mr. Xing Min\*\*

Mr. Wu Tak Lung\*\*

Mr. Yu Zengbiao\*\*

*Registered and principal office:*

No. 154 Jianshe Road

Luoyang, Henan Province

The PRC

\*\* *Independent non-executive Director*

15 February 2017

*To the Shareholders*

Dear Sir or Madam,

### CONNECTED TRANSACTION

#### I. INTRODUCTION

References are made to the announcements of the Company dated 15 December 2016 and 4 January 2017, respectively. The purpose of this circular is to provide you with further information relating to the proposed Second General Contracting Agreement and the transaction contemplated thereunder, to enable you to make an informed decision on whether to vote for or against or abstain from voting on the proposed resolutions at the EGM.

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## LETTER FROM THE BOARD

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### II. CONNECTED TRANSACTION

In order to newly construct a digitalized smart driving cab factory (the “**Factory Construction**”), the Company has commenced to conduct the Construction Project and the Painting Line Project, and has entrusted Weixin Tender Company, an independent third party, to conduct open tenders for these two projects.

Driving cab is an important part of a tractor and is crucial to the performance of a tractor. However, the production conditions and capabilities of the existing plants of the Company are unable to meet the market demand for high quality driving cabs. In order to satisfy the market requirements, the Company intends to construct the digitalized smart driving cab factory in Luoyang, Henan Province, the PRC, for the purpose of producing driving cabs with advanced performance for hi-powered and mid-powered tractors.

For the Factory Construction, it involves (i) the Construction Project which mainly concerns construction of the driving cab factory and its supporting area, and (ii) the Painting Line Project which mainly concerns construction of the painting line inside the driving cab factory.

#### **The Construction Project**

For the Construction Project, the Company has already entrusted Weixin Tender Company to conduct an open tender and has already issued the letters of acceptance to China Automotive and SCIVIC. The bidding price for the said open tender was RMB175,626,400. However, as at the Latest Practicable Date, the Company has not yet entered into the proposed First General Contracting Agreement with China Automotive and SCIVIC. Nevertheless, it is expected that the proposed First General Contracting Agreement will include the following principal terms:

#### ***Expected parties***

- (1) The Company;
- (2) China Automotive and SCIVIC, as the general contractors

#### ***Completion deadline***

The conditions for the completion and acceptance of the Construction Project shall be fulfilled before June 2018.

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## LETTER FROM THE BOARD

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### *Scope of contracting*

Pursuant to the proposed First General Contracting Agreement, the general contractor(s) of the Construction Project shall be responsible for construction of a digitalized smart driving cab factory and its supporting area, including engineering investigation, technological design, installation and debugging of non-standard and standard processing equipment (excluding painting line equipment), architectural engineering construction, training and warranty, etc..

### *Consideration*

The consideration under the proposed First General Contracting Agreement will be the bidding price jointly offered by China Automotive and SCIVIC at the open tender, which is RMB175,626,400 (equivalent to approximately HK\$198,458,000), including RMB49,816,400 for processing equipment, RMB114,000,000 for construction and installation work and RMB11,810,000 for survey, design and EPC general contracting.

### *General*

It is expected that detailed terms in relation to the First General Contracting of the Construction Project will be finalized in the proposed First General Contracting Agreement between the parties by the end of February 2017. Then, as a procedural requirement, the final version of the proposed First General Contracting Agreement will be submitted to the Committee of Housing and Urban-Rural Development of Luoyang (洛陽市住房和城鄉建設委員會) for approval before its execution. The Company will enter into the proposed First General Contracting Agreement with China Automotive and SCIVIC upon obtaining such approval. It is not certain whether the proposed First General Contracting Agreement will be entered into before the date of the EGM, however, the Company will make further announcement in this regard as and when appropriate in accordance with the Listing Rules.

Since the expected applicable percentage ratios will be more than 0.1% but less than 5%, the transaction contemplated under the proposed First General Contracting Agreement will be subject to the reporting and announcement requirements only but will be exempt from the Independent Shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.



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## LETTER FROM THE BOARD

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### **The Painting Line Project**

Being part of the Factory Construction, the Company has also entrusted Weixin Tender Company to conduct an open tender in relation to the general contracting of the Painting Line Project. After completion of the evaluation procedures, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for this open tender, respectively. However, should either China Automotive or China United eventually be selected as the successful bidder, the transaction to be entered into between the Company and the successful bidder will become a connected transaction of the Company, which will be subject to the Independent Shareholders' approval. In the circumstances, before issuing letter of acceptance to either China Automotive or China United and entering into the proposed Second General Contracting Agreement, the Company proposes to seek the Independent Shareholders' approval at the EGM for the proposed Second General Contracting Agreement and the transaction contemplated thereunder.

Set out below is a summary of the principal terms of the proposed Second General Contracting Agreement:

### **Second General Contracting Agreement**

#### *Expected parties*

- (1) The Company; and
- (2) Either China Automotive or China United, as the general contractor

#### *Completion deadline*

The conditions for the completion and acceptance of the Painting Line Project shall be fulfilled before 15 February 2018.

#### *Scope of contracting*

Pursuant to the proposed Second General Contracting Agreement, either China Automotive or China United will act as the general contractor for the Painting Line Project. The general contractor will, in accordance with the Company's requests, be responsible for the design, manufacturing, installation, testing, completion and acceptance, delivery and quality warranty of the Painting Line Project.

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## LETTER FROM THE BOARD

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### *Consideration*

The consideration under the proposed Second General Contracting Agreement will be the bidding price offered by the successful bidder at the open tender for the Painting Line Project, which will be not more than the Company's estimated budget of RMB75,000,000 (equivalent to approximately HK\$84,750,000) (the "**Estimated Budget**").

When determining the Estimated Budget, the Company has taken into account the estimated costs for several components and process in the Painting Line Project, such as processing equipment, robot painting supply system, mechanical transportation system, electronic control system, waste gas treatment and other accessory equipment, etc. To have better understanding on the market price of similar projects, the Company has made enquires with four independent third parties, two of which are industry-leading manufacturing companies in the PRC and the other two are overseas painting companies, regarding the costs for design and construction of a painting line project. After making such enquiries and evaluating on the technological requirements, the Company considered it fair and reasonable to estimate the costs for the whole Painting Line Project to be not more than RMB75,000,000.

The consideration under the proposed Second General Contracting Agreement shall be settled by the Company out of its internal resources and in the form of commercial acceptance bill(s) in the following manner:

- (i) 20% of the consideration, being prepayment, shall be paid upon signing of the Second General Contracting Agreement;
- (ii) 10% of the consideration shall be paid after the entire set of design documents has been provided by the general contractor and such proposal has been agreed on;
- (iii) 20% of the consideration shall be paid after the major equipment and materials have arrived at the factory;
- (iv) 10% of the consideration shall be paid after completion of installation of equipment and trial run;
- (v) 15% of the consideration shall be paid after completion of linkage testing and after commencement of trial production;
- (vi) 15% of the consideration shall be paid after completion and acceptance of the Painting Line Project, and upon signing of the completion and acceptance report between the parties; and

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## LETTER FROM THE BOARD

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- (vii) 10% of the consideration, being amount of quality warranty, shall be paid within 12 months from acceptance of the Painting Line Project.

### *Other terms of the proposed Second General Contracting Agreement*

According to the terms and conditions of the proposed Second General Contracting Agreement, the general contractor may sub-contract the construction work of the Painting Line Project to other parties upon obtaining consent from the Company. All sub-contracting projects shall not affect the obligations and duties of the general contractor under the proposed Second General Contracting Agreement. The general contractor shall be responsible for supervising and managing the process, quality and progress of the construction work conducted by the sub-contractors, and fully responsible for the sub-contractors' responsibilities under the proposed Second General Contracting Agreement. The general contractor shall also be responsible for organizing all the materials held by the sub-contractors at the completion of the Painting Line Project.

The Company would like to draw the Shareholders' attention that a number of technical terms and details, including details of construction timeline and work, specific model, numbers and brands of equipment to be installed in the painting line, and administration procedures in conducting the project, etc., are still outstanding in the proposed Second General Contracting Agreement, which can only be negotiated and finalized between the parties after final determination of identity of the successful bidder. Despite the existence of such outstanding technical terms and details, the Company considers that there is sufficient safeguard for the Independent Shareholders to make an informed decision since all the related major terms of the transaction contemplated under the proposed Second General Contracting Agreement, including but not limited to, the deadline for completion of the Painting Line Project, and the design and construction requirements (as further explained below), had been fixed and disclosed in the tender documents and the proposed Second General Contracting Agreement.

### **Open Tender and Tender Documents**

In order to strictly uphold its internal management in relation to investment projects of fixed assets, the Company adopted the Management Measures of Bidding and Tendering in Relation to Investment Projects of Fixed Assets (《固定資產投資項目設備招投標管理細則》) in 2014, pursuant to which investment of the Company in projects of fixed assets with an amount of more than RMB50,000 shall be made by way of tender. Accordingly, the Company entrusted Weixin Tender Company to conduct an open tender in relation to the general contracting of the Painting Line Project.

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## LETTER FROM THE BOARD

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As set out in the tender documents issued by Weixin Tender Company on behalf of the Company, general contracting of the Painting Line Project includes two parts, i.e. design and construction. In respect of design, according to the Clean Production Evaluation Standard for Painting Industry (《塗裝行業清潔生產評價指標體系》), design will involve in different kinds of areas including design of the whole process from installation in the welding workshop, treatment before going through the painting workshop (non-phosphorus film), electrophoresis, sealant, two-component water-based paint and other technology to non-standard equipment, programmable drive plus product chain automatic transfer linked mechanized conveyor system, robot electrostatic spinning cup system, electrical control system (including PMC, AVI and energy management system) and auxiliary equipment (including refrigerating unit, RTO waste gas treatment equipment, water jet scalpel, lifting appliance, tooling, position apparatus and others) for completion in the main assembly workshop. In respect of construction, the service scope of the general contractor includes purchase, manufacturing, examination, transportation, installation and debugging of equipment and materials, training for system operation and acceptance thereof, quality guarantee, production support as well as progress management, quality management, cost management, security management and sub-contractor management during the course of the project.

Concerning the bidding price requirement in the tender documents, the bidding price offered by the bidder shall include the costs for preparation, transportation, insurance, installation, debugging, serving and acceptance (including separate costs for environmental, firefighting acceptance and other matters) of all equipment, materials, spare parts as required in the tender documents, as well as costs for training and high quality after-sale services. The value added tax should also be included in the bidding price.

After Weixin Tender Company, on behalf of the Company, issued the tender documents for the general contracting of the Painting Line Project, four entities have submitted their bidding for the tender respectively, which are China Automotive, China United and two independent third parties. Regarding the tender evaluation process, a bid evaluation panel established by Weixin Tender Company has taken into account a number of factors to evaluate the bidding offer, including but not limited to, the bidding price, technical proposal, the bidder's performance and abilities, after-sale services, quality warranty, etc.. After completion of the evaluation procedures, China Automotive and China United ranked the first and the second respectively according to the grading methods set out in the tender documents, mainly due to their respective offer of bidding price, technical proposals for the Painting Line Project and their extensive experience in similar projects. Therefore, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for the open tender of the Painting Line Project, respectively.

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## LETTER FROM THE BOARD

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According to the Regulation on the Implementation of the Tendering and Bidding Law (《招標投標法實施條例》) of the PRC, the first candidate for an open offer will be determined as the successful bidder, unless such first candidate (i) gives up the bidding; (ii) is not able to perform the contract due to force majeure; (iii) does not submit performance deposit as required by the tender document; or (iv) conducts any unlawful act which has an effect on the bidding result, in which cases, the tenderer could either determine the next candidate as successful bidder or conduct another tender.

Therefore, upon obtaining approval of the Independent Shareholders, it is expected that China Automotive will become the successful bidder of the open tender in relation to the Painting Line Project without the occurrence of the exceptional cases mentioned above. Since (i) according to Article 40 of the Tendering and Bidding Law (《招標投標法》) of the PRC, the tenderer should, based on the evaluation report of the bid evaluation panel and its recommendation, confirm the successful bidder, (ii) for confirming the successful bidder, the Company will issue an unconditional letter of acceptance to the successful bidder, which will create a legally binding effect between the parties to conduct the Painting Line Project, and (iii) on the other hand, the transaction contemplated under the proposed Second General Contracting Agreement is required to obtain the Independent Shareholders' approval in accordance with the Listing Rules before its implementation, therefore, the Company is proposed to obtain the Independent Shareholders' approval before issuing letter of acceptance to the successful bidder.

Since the letter of acceptance is required to be submitted to the Committee of Housing and Urban-Rural Development of Luoyang (洛陽市住房和城鄉建設委員會) for filing and registration before its issuance, it is expected that the Company will issue letter of acceptance to the successful bidder within one month after obtaining the Independent Shareholders' approval at the EGM, and will enter into the Second General Contracting Agreement with the successful bidder to engage it as the general contractor for the Painting Line Project. The Company will make further announcement in this regard as and when appropriate in accordance with the Listing Rules.

### **Reasons for Entering into the Proposed Second General Contracting Agreement**

China Automotive has been awarded by the State 26 Grade A certificates in respect of engineering investigation, design, consultation, manufacturing, supervision and environment assessment, etc.. China Automotive is one of the largest industrial design institutes of large machinery in the PRC and one of the largest engineering companies in the machinery industry in the PRC with most of Grade A certificates. As one of the leading automotive engineering companies in the PRC, China Automotive has constructed more than 20 painting lines for well-known enterprises in the PRC.

China United is one of the earliest large-scale comprehensive design organizations established in the PRC, which is principally engaged in more than 20 industries including machinery industry, various industrial businesses, power industry, construction industry and municipal industry. China United is also one of the earliest enterprises which were awarded the State comprehensive Grade A certificate in respect of engineering design. In the recent five years, China United has constructed more than 15 painting lines in the PRC.

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## LETTER FROM THE BOARD

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Driving cab is an important part of a tractor and is crucial to the performance of a tractor. However, the production conditions and capabilities of the existing plants of the Company are unable to meet the market demand for high quality driving cabs. In order to satisfy the market requirements, the Company intends to construct the digitalized smart driving cab factory in Luoyang, Henan Province, the PRC, for the purpose of producing driving cab with advanced performance for hi-powered and mid-powered tractors. It is the current intention of the Company that upon construction of the digitalized smart driving cab factory, the equipment and components in the abovementioned existing plants will be disassembled and distributed to other projects or plants of the Company to optimise the allocation of resources.

The painting line to be constructed under the Painting Line Project is mainly used for painting the driving cabs for agricultural vehicles. The painting line is proposed to use environment-friendly technology and advanced painting equipment. The implementation of the Painting Line Project will significantly improve the painting technology for driving cabs, the competitiveness of driving cab products of the Company in the market and the capacity for sustainable development, thus giving effective support to the technology upgrading and quality improvement of the main vehicle products of the Company.

For Factory Construction, the Company proposes to implement the Painting Line Project and has entrusted Weixin Tender Company to conduct an open tender. In view of their above experience and qualification as well as their offers in the tender process, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for the open tender of the Painting Line Project, respectively. Since the transaction to be entered into between the Company and the successful bidder will become a connected transaction of the Company, which will be subject to the Independent Shareholders' approval, before issuing letter of acceptance to either China Automotive or China United and entering into the proposed Second General Contracting Agreement, the Company is required to seek the Independent Shareholders' approval at the EGM.

The terms of the proposed Second General Contracting Agreement as mentioned above were determined based on the terms of the open tender and bidding and after arm's length negotiations between the parties thereto. Even though the transaction contemplated under the proposed Second General Contracting Agreement is not in the ordinary and usual course of business of the Group, the Directors consider that such terms of the proposed Second General Contracting Agreement are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Since the general contracting of the Painting Line Project was conducted and the general contractor is to be selected by way of open tender, none of the Directors had any material interest in the proposed Second General Contracting Agreement.

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## LETTER FROM THE BOARD

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### **Information of the Company, China Automotive, China United and Weixin Tender 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, forklift and mining trucks, etc..

China Automotive is a design institute for the large scale machinery industry. Its principal business is planning, design and general engineering contracting of the machinery manufacturing factories, and is specialized in provision of engineering design, project management and general contracting throughout the process of engineering construction.

China United is principally engaged in the business of industrial engineering, energy and environmental engineering, civil architecture, engineering construction, industrial equipment, urban planning and municipal engineering.

Weixin Tender Company is a company incorporated in the PRC with Grade A Construction Tendering Agency Qualification\* (工程招標代理甲級資格) issued by the Ministry of Housing and Urban-Rural Development of the PRC, Grade A Qualification Certificate for Procurement Agency Institute of the Government\* (政府採購代理甲級資格) issued by the Ministry of Finance of the PRC, Grade A Qualification Certificate for Tendering Agency Institute of the Investment Project of the Central Government\* (中央投資項目招標代理甲級資格) issued by National Development and Reform Commission, Grade B Ready Qualification of International Tendering of Mechanical and Electrical Products\* (預乙級機電產品國際招標資格) issued by the Ministry of Commerce of the PRC and Grade A Construction Cost Consultation Qualification\* (工程造價諮詢甲級資質) issued by the Provincial Construction Department. By reason of Weixin Tender Company's qualifications mentioned above and its rich experience in conducting open tenders, the Company has entrusted Weixin Tender Company to conduct open tenders for the general contracting of the Construction Project and the Painting Line Project, respectively, and for other construction projects in recent years.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, Weixin Tender Company and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### **Listing Rules Implications**

As at the date hereof, both of China Automotive and China United are wholly-owned by Sinomach, which is the ultimate controlling shareholder of the Company, therefore they are regarded as connected persons of the Company. Pursuant to Chapter 14A of the Listing Rules, the transaction contemplated under the proposed Second General Contracting Agreement will constitute a connected transaction of the Company.

Pursuant to Rule 14A.81 of the Listing Rules, the transaction contemplated under the proposed Second General Contracting Agreement should be aggregated with the transaction under the First General Contracting. Since the expected applicable percentage ratios (after aggregation) will be more than 5%, the transaction contemplated under the proposed Second General Contracting Agreement is subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

### **III. EGM**

The EGM (as originally scheduled to be held on 21 February 2017) will be postponed to be held at 2:30 p.m. on 3 March 2017, Friday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, at which ordinary resolutions will be proposed to seek the Independent Shareholders' approval for the proposed Second General Contracting Agreement and the transaction contemplated thereunder. In view of the interests of YTO and its associates in the transaction contemplated under the proposed Second General Contracting Agreement, YTO and its associates will abstain from voting on the resolutions in relation to the proposed Second General Contracting Agreement at the EGM. At the EGM, votes will be taken by poll.

The revised notice of the EGM is set out on pages 33 to 35 of this circular.

A revised form of proxy for use at the EGM was despatched and also published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) on 15 February 2017. Whether or not you are able to attend the meeting in person, you are requested to complete and return the revised form of proxy in accordance with the instructions printed thereon. The revised proxy form shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, as soon as possible and in any event not less than 24 hours before the time scheduled for holding the EGM (or any adjourned meeting thereof). Completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.



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## LETTER FROM THE BOARD

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### IV. RECOMMENDATIONS

Even though the transaction contemplated under the proposed Second General Contracting Agreement is not in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors) consider that the terms of the proposed Second General Contracting Agreement as aforesaid are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

### V. RESPONSIBILITY STATEMENT

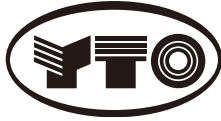
This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein misleading.

Yours faithfully,  
On behalf of the Board  
**First Tractor Company Limited\***  
**Zhao Yanshui**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

15 February 2017

*To the Independent Shareholders*

Dear Sir or Madam,

### CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to give our advice on the proposed Second General Contracting Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board included in the circular to the Shareholders dated 15 February 2017 (the “**Circular**”), of which this letter forms a part. Terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Gram Capital has been appointed as the Independent Financial Adviser to advise us on the proposed Second General Contracting Agreement and the transaction contemplated thereunder. The letter from Gram Capital is set out on pages 14 to 28 of the Circular.

We understand that a number of non-material terms are still outstanding in the proposed Second General Contracting Agreement, which will be further negotiated and finalized between the parties and are therefore yet to be available for our review. We consider such non-material terms would not affect our recommendation to the Independent Shareholders below. Having considered the material terms of the proposed Second General Contracting Agreement as set out in the letter from the Board included in the Circular, the advice given by Gram Capital and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that even though the transaction contemplated under the proposed Second General Contracting Agreement is not in the ordinary and usual course of business of the Group, the material terms of the proposed Second General Contracting Agreement are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM for approving the proposed Second General Contracting Agreement and the transaction contemplated thereunder.

Yours faithfully,

Independent Board Committee

**Ms. Yang Minli**  
*Independent non-  
executive Director*

**Mr. Xing Min**  
*Independent non-  
executive Director*

**Mr. Wu Tak Lung**  
*Independent non-  
executive Director*

**Mr. Yu Zengbiao**  
*Independent non-  
executive Director*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

15 February 2017

*To: The Independent Board Committee and the Independent Shareholders  
of First Tractor Company Limited\**

Dear Sirs,

### CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transaction contemplated under the proposed Second General Contracting Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 15 February 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

With reference to the Company’s indicative announcement dated 15 December 2016 regarding the result of open tender and connected transaction. In order to newly construct a digitalized smart driving cab factory (the “**Factory Construction**”), the Company has already entrusted Weixin Tender Company to conduct an open tender in relation to the Construction Project and has also issued the letters of acceptance to China Automotive and SCIVIC. The bidding price for the said open tender was RMB175,626,400.

Being part of the Factory Construction, the Company has also entrusted Weixin Tender Company to conduct an open tender in relation to the general contracting of the Painting Line Project. After completion of the evaluation procedures, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for this open tender, respectively.

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## LETTER FROM GRAM CAPITAL

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With reference to the Board Letter, should either China Automotive or China United eventually be selected as the successful bidder, the Second General Contracting Agreement to be entered into between the Company and the successful bidder will constitute a connected transaction of the Company (the “**Transaction**”). Accordingly, the Transaction is subject to the reporting, announcement and independent shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Ms. Yang Minli, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of Second General Contracting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Second General Contracting Agreement and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **INDEPENDENCE**

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital’s independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Transaction, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

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## LETTER FROM GRAM CAPITAL

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### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transaction. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, China Automotive, China United, Weixin Tender Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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## LETTER FROM GRAM CAPITAL

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Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transaction, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and Reasons for the Transaction

##### *Information on the Group*

With reference to the Board Letter, 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, forklift and mining trucks, etc..

Set out below are the consolidated financial information of the Group for the six months ended 30 June 2016 and the two years ended 31 December 2015 as extracted from the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”) and the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”):

	<b>For the six months ended 30 June 2016</b>	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2014</b>	<b>Change from 2014 to 2015</b>
	<i>RMB'million</i> (unaudited)	<i>RMB'million</i> (audited)	<i>RMB'million</i> (audited)	%
Total operating revenue	5,158.78	9,655.49	9,026.98	6.96
– <i>Agricultural machinery</i>	4,120.26	7,755.22	7,376.96	5.13
– <i>Power machinery</i>	902.14	1,504.00	1,443.71	4.18
– <i>Other machinery</i>	18.86	40.58	108.40	(62.56)
– <i>Finance</i>	117.52	355.69	97.91	263.28
Net profit for the period/year	165.70	139.05	162.23	(14.29)

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## LETTER FROM GRAM CAPITAL

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As depicted from the table above, total operating revenue of the Group for the year ended 31 December 2015 (“FY2015”) amounted to approximately RMB9,655.49 million, representing an increase of approximately 6.96% as compared to that for the year ended 31 December 2014 (“FY2014”). Revenue derived from agricultural machinery amounted to approximately RMB7,755.22 million, representing (i) an increase of approximately 5.13% as compared to that for FY2014; and (ii) approximately 80.32% of the total operating revenue of the Group for FY2015. Despite the increase in total operating revenue of the Group during FY2015, the Company recorded a decrease of approximately 14.29% in net profit for FY2015 as compared to that for FY2014. As advised by the Directors, such decrease in net profit for FY2015 was mainly due to (i) decrease in non-operating income; and (ii) increase in non-operating expenses and income tax expenses for FY2015 as compared to those for FY2014.

### *Information on China Automotive*

With reference to Board Letter, China Automotive is a design institute for the large-scale machinery industry. Its principal business is planning, design and general engineering contracting of the machinery manufacturing factories, and is specialized in provision of engineering design, project management and general contracting throughout the process of engineering construction.

China Automotive has been awarded by the State twenty-six Grade A certificates in respect of engineering investigation, design, consultation, manufacturing, supervision and environment assessment, etc.. China Automotive is one of the largest industrial design institutes of large machinery in the PRC and one of the largest engineering companies in the machinery industry in the PRC with most of Grade A certificates. As one of the leading automotive engineering companies in the PRC, China Automotive has constructed more than 20 painting lines for well-known enterprises in the PRC.

### *Information on China United*

With reference to Board Letter, China United is principally engaged in the business of industrial engineering, energy and environmental engineering, civil architecture, engineering construction, industrial equipment, urban planning and municipal engineering.

China United is one of the earliest large-scale comprehensive design organizations established in the PRC, which is principally engaged in more than 20 industries including machinery industry, various industrial businesses, power industry, construction industry and municipal industry. China United is also one of the earliest enterprises which were awarded the State comprehensive Grade A certificate in respect of engineering design. In the recent five years, China United has constructed more than 15 painting lines in the PRC.

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## LETTER FROM GRAM CAPITAL

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According to the website of China United, during the past years, China United completed more than 10,000 middle and large size projects, mainly prepared or joined preparation of 80 state, local and industry standards and specifications, and won 26 state scientific-technical progress prizes (including 2 golden medals), more than 100 state engineering technical prizes, and 1,000 province- and ministry-level prizes. China United was awarded with “contract abiding & trustworthy enterprise” in the last successive years, and obtains the enterprise credit assessment with grade of AAA.

### *Information on Weixin Tender Company*

As advised by the Directors, Weixin Tender Company was established on 28 March 2001 in the PRC, and possessed 工程招標代理甲級資格 (Grade A Construction Tendering Agency Qualification\*) issued by Ministry of Housing and Urban-Rural Development of the PRC, 政府採購代理甲級資格 (Grade A Qualification Certificate for Procurement Agency Institute of the Government\*) issued by Ministry of Finance of the PRC, 中央投資項目招標代理甲級資格 (Grade A Qualification Certificate for Tendering Agency Institute of the Investment Project of the Central Government\*) issued by National Development and Reform Commission, 預乙級機電產品國際招標資格 (Grade B Ready Qualification of International Tendering of Mechanical and Electrical Products\*) issued by Ministry of Commerce of the PRC and 工程造價諮詢甲級資質 (Grade A Construction Cost Consultation Qualification\*) issued by the Provincial Construction Department. Since 2001, Weixin Tender Company has completed nearly 5,000 tendering projects involved in various fields, including urban construction, transportation, environment, water conservation, hygiene, telecommunication, metallurgy, machinery and equipment, with accumulative investment amounts of tendering projects over RMB100 billion in total.

### *Reasons for the Transaction*

With reference to the Board Letter, in order to construct the digitalized smart driving cab factory construction (i.e. the Factory Construction), the Company proposes to implement the Painting Line Project, being part of the Factory Construction, and has entrusted Weixin Tender Company to conduct an open tender. In view of their above experience and qualification as well as their offers in the tender process, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for the open tender of the Painting Line Project, respectively.



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## LETTER FROM GRAM CAPITAL

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### *The Factory Construction*

Driving cab is an important part of a tractor and is crucial to the performance of a tractor. In recent years, medium-and-large-sized wheeled tractors enjoyed a rapid development as the result of accelerating progress of agricultural modernization and popularization of agricultural equipment. Nevertheless, due to the change of requirements of market, the production conditions and production capabilities of the existing plants may not meet the requirements of market, in particular, the production capability and product quality of the driving cab. Relevant problems are as follows: (i) the electrophoresis process for the driving cab affects the increasing demands of tractor manufacturers for higher quality of products; (ii) scattered layout of the production sites results in higher logistics costs; (iii) production capacity of the paint line for the driving cab is insufficient. In order to satisfy the market requirements, the Company intends to construct the digitalized smart driving cab factory in Luoyang, Henan Province, the PRC, for the purpose of producing driving cabs with advanced performance for hi-powered and mid-powered tractors.

The painting line to be constructed under the Painting Line Project is mainly used for painting the driving cabs for agricultural vehicles. The painting line is proposed to use environment-friendly technology and advanced painting equipment. The implementation of the Painting Line Project will significantly improve the painting technology for driving cabs, the competitiveness of driving cab products of the Company in the market and the capacity for sustainable development, thus giving effective support to the technology upgrading and quality improvement of the main vehicle products of the Company.

The Company expected that upon the completion of the Factory Construction, the digitalized smart driving cab factory may (i) increase the production capacity of the Company; and (ii) lower transportation cost during production. In light of the aforesaid factors as well as that (i) the digitalized smart driving cab factory may increase production's quality as compared with traditional manual process; (ii) the Company may not heavily rely on human capital for the painting process; (iii) the prospects of the agricultural equipment industry to be positive as mentioned below; and (iv) by construction of the digitalized smart driving cab factory, the Company may satisfy the market requirements, we concur with the Directors that the Factory Construction is important to the Company.

In order to strictly uphold its internal management in relation to investment projects of fixed assets, the Company adopted the Management Measures of Bidding and Tendering in Relation to Investment Projects of Fixed Assets (《固定資產投資項目設備招投標管理細則》) in 2014, pursuant to which investment of the Company in projects of fixed assets with an amount of more than RMB50,000 shall be made by way of tender. Accordingly, the Company entrusted Weixin Tender Company to conduct an open tender in relation to the general contracting of the Painting Line Project.

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## LETTER FROM GRAM CAPITAL

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### *Industry overview*

With reference to the National Bureau of Statistics of China, the mid-to-large sized agricultural tractors increased from 4,406,471 in 2011 to 6,072,900 in 2015, representing a compound annual growth rate (“CAGR”) of approximately 8.35%. Furthermore, the total output value of agriculture increased from approximately RMB4,198.86 billion in 2011 to approximately RMB5,763.58 billion in 2015, representing a CAGR of approximately 8.24%.

According to the website of The Ministry of Agriculture of the PRC (“MOA”), agriculture, rural community and farmer related issues were the topic of the PRC’s No. 1 Central Document in 2016 (the “**Document**”) which was jointly released by the Central Committee of the Communist Party of China and the State Council on 28 January 2016. The Document called for faster transformation of agricultural models. It marks the 13th consecutive year that the No. 1 Central Document had focused on agricultural issues. The Document also mentioned, among other things, that (i) the PRC will improve the quality and competitiveness of its agricultural products through high-quality farmland and professional farmers catering to the demands of modern agriculture; (ii) the PRC aims to increase farmers’ incomes by pushing integrative development of primary, secondary and tertiary industries in rural regions; and (iii) the PRC plans to increase spending on agriculture to boost rural development.

Furthermore, with reference to the 2015 Annual Report, in 2015, in the context of increasing PRC domestic economy downturn pressure, deep adjustment occurred in the development of the agricultural machinery industry. Because of the PRC agricultural machinery purchase subsidy policy and client demand, the tractors market remained steady with growth in general and significantly changed in structure. General demand obviously tended to hi-powered and high-end products which speeded up level upgrade. Market demand for hi-powered wheeled tractor with 100 horsepower or above increased significantly.

As at the end of 2015, comprehensive mechanization level of plowing, planting and harvesting of crops in the PRC reached 63%. According to the PRC “Opinion on Promoting Mechanization for the Whole Production Process of Main Crops”, by 2020, comprehensive mechanization level of plowing, planting and harvesting of crops in the PRC will reach over 70%, among which comprehensive mechanization level of plowing, planting and harvesting of the three major crops will all reach over 80%. Mechanization in PRC agriculture will realize upgrade from middle level stage to high level stage. The industry still has high development potential.



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## LETTER FROM GRAM CAPITAL

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### *Consideration*

With reference to the Board Letter, when determining the Estimated Budget, the Company has taken into account the estimated costs for several components and process in the Painting Line Project, such as processing equipment, robot painting supply system, mechanical transportation system, electronic control system, waste gas treatment and other accessory equipment, etc. To have better understanding on the market price of similar projects, the Company has made enquiries with four independent third parties (the “**Independent Service Providers**”), two of which are industry-leading manufacturing companies in the PRC and the other two are overseas painting companies, regarding the costs for design and construction of a painting line project. After making such enquiries and evaluating on the technological requirements, the Company considered it fair and reasonable to estimate the costs for the whole Painting Line Project to be not more than RMB75,000,000.

For our due diligence purpose, we discussed with the Directors regarding the Estimated Budget as estimated by the Company and understood the above basis. Furthermore, we obtained and reviewed (i) relevant correspondence between the Company and the aforesaid independent third parties; (ii) all quotations of the Painting Line Project as provided from the Independent Service Providers; and (iii) identities and background of the Independent Service Providers and their respective experience on painting line projects. Based on our work done, we noted that (i) each of the Independent Service Providers (a) has been established over ten years; (b) had over 100 employees; (c) dealt with several painting line projects during past years; and (ii) the Estimated Budget is close to the median and average of the quotations as provided by the Independent Service Providers. In light of the background and numbers of the Independent Service Providers and their quotations, we consider that there are sufficient comparables for the Company to conclude the Estimated Budget and the Estimated Budget is in line with the market price.

To assess the fairness and reasonableness of the Consideration, we obtained and reviewed tender documents (the “**Tender Document(s)**”) as submitted by all the bidder (including China Automotive, China United, and other independent third parties). We noted from the Tender Documents that bidding prices offered by China Automotive and China United (i) are lower than bidding prices offered by other independent third parties; and (ii) are lower than the Estimated Budget.

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## LETTER FROM GRAM CAPITAL

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Furthermore, we understood that a bid evaluation panel (the “**Panel**”) was established by Wenxin Tender Company to evaluate the Tender Documents, among other things, bidding price, technical proposal, the bidder’s performance and abilities, after-sale services, quality warranty, etc. (the “**Selection Criteria**”). For our due diligence purpose, we obtained biographies of members of the Panel and noted that (i) the members are engineers or senior engineers; (ii) most of them are professional in painting projects (塗裝項目); (iii) they have relevant experience in construction/reconstruction in painting projects. Furthermore, we understood that in the event that any member of the Panel (i) is close relatives of the bidder or responsible staff of the bidder; (ii) has any economic interest relationship with the bidder; (iii) was in previous tender, evaluation of tender and other activities relating to the tender, and illegal acts of administrative punishment or criminal punishment; or (iv) has other interest with the bidder, the member should abstain from evaluation of bidding. Furthermore, we noted that the weight of each of Selection Criteria was disclosed in the tender documents and was same to all bidders. The weight of each of Selection Criteria was jointly determined by the Company and Wenxin Tender Company with reference to degree of concerns of the Company on certain factors (e.g. service fee, technical proposal, background, progress plan, after-sale services, quality warranty, etc.) of the proposed construction service provider regarding the Painting Line Project. The weights in respect of bidding price, technical proposal and bidder’s performance and abilities, being parts of the Selection Criteria and the most concerned factors of the Company on the proposed construction service provider regarding the Painting Line Project, constitute majority of the total weights of the Selection Criteria. Having considered the aforesaid factors relating to the Selection Criteria, we consider that the Selection Criteria and its respective weight are fair and reasonable.

According to Tendering and Bidding Law of the PRC, (i) the bid evaluation panel should evaluate tender documents in compliance with the selection criteria and their respective weights as set out in the tender documents; and (ii) members of the bid evaluation panel shall perform their duties objectively and fairly as well as in compliance with their professional code of conduct. Each of the members should take responsibility for their conclusions individually. In addition, we also obtained documents (the “**Score Documents**”) showing scores of each of the Tender Documents as graded by each member of the Panel. According to the Score Documents, all the components of final score ((a) bidding price; (b) technical proposal; (c) background of bidder; (d) after-sale services, quality warrant and training; (e) payment term; (f) ability for implementation and organization of project; (g) preferential treatment; and (h) comprehensive assessment) are the same as the Selection Criteria and their respective weights. We have further assessed components (a), (d) and (e) above (being the only components that we can conduct objective assessment) and noted that (i) the scores for bidding price (the “**Bidding Price Score(s)**”), being one of the Selection Criteria, are in compliance with the grading standard (e.g. the lowest bidding price will be set as base price, Bidding Price Scores for the bidders will be adjusted in accordance with their bidding prices and the base price); (ii) the scores for payment terms, being part of the Selection Criteria, are in compliance with the grading standard (i.e. if the bidder accepts the payment terms as set out in the tender documents (i.e. payment terms as mentioned in the section headed “**Consideration**” of the Board Letter) the

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## LETTER FROM GRAM CAPITAL

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bidder will get the score); and (iii) the scores for after-sale services, quality warranty and training, being parts of the Selection Criteria, are in compliance with the grading standard (i.e. if the bidder provides the aforesaid service/warranty, the bidder will get one score). Having considered the requirements under Tender and Bidding Law of the PRC for bidding evaluation and aforesaid our findings on Score Documents, we consider that the tender process in selecting the successful bidders with reference to all the Selection Criteria was effectively conducted.

As mentioned above, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for the open tender of the Painting Line Project, respectively. We understood from the Company that China Automotive and China United ranked No. 1 and No. 2 respectively among all the bidders according to the results of bidding evaluation. Accordingly, we consider that to select China Automotive as the service provider in respect of the Painting Line Project is in the interest of the Company and the Shareholders as a whole.

Based on our understanding from the Directors regarding the tender process for the Painting Line Project and as confirmed by the Directors, the tender process for the Painting Line Project was conducted in compliance with the relevant rules and regulations of the PRC. Furthermore, with reference to (i) Article 28 of Tender and Bidding Law of the PRC, if there are less than three bidders, the tenderee is required to conduct another tender; (ii) Article 37 of Tendering and Bidding Law of the PRC, a bid evaluation panel should be established to evaluate tender documents; and (iii) the Regulation on the Implementation of the Tendering and Bidding Law of the PRC that the number of successful bidders should not be more than three, and also having considered the confirmation by the Directors and our understanding from the Directors regarding the tender process for the Painting Line Project, we do not doubt that the tender process was conducted in compliance with the relevant rules and regulations of the PRC.

In light of that (i) the Painting Line Project was conducted through an open tender process in accordance with the relevant rules and regulations in the PRC (e.g. Tendering and Bidding Law of the PRC, Regulation on the Implementation of the Tendering and Bidding Law of the PRC, etc.), which govern the processes of invitation for tender, bid submission, bid opening, bid evaluation and bid granting implemented by the tenderee and bidder; (ii) as mentioned above, we do not doubt that the tender process was conducted in compliance with the relevant rules and regulations of the PRC; (iii) the consideration will be the bidding price offered by the successful bidder, which will not be more than the Estimated Budget; (iv) the Estimated Budget of the Painting Line Project is in line with the market price; (v) bidding prices offered by China Automotive and China United (a) are lower than bidding prices offered by other independent third parties; and (b) are lower than the Estimated Budget of the Painting Line Project; and (vi) the biographies of members of the Panel, who were responsible for evaluation of the Tender Documents, the consideration is fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM GRAM CAPITAL

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For other details regarding the Second General Contracting Agreement, please refer to the section headed “Second General Contracting Agreement” of the Board Letter.

We noted that a number of technical terms and details, including details of construction timeline and work, specific model, numbers and brands of equipment to be installed in the painting line, and administration procedures in conducting the project, etc., are still outstanding in the proposed Second General Contracting Agreement. For this reason, we discussed with the Directors and understood that such terms can only be negotiated and finalized between the parties after final determination of identity of the successful bidder with reference to the technical proposal as submitted by the successful bidder.

Having considered the above as well as that:

- (i) save for the consideration, which will be the bidding price offered by the successful bidder at the open tender for the Painting Line Project, and technical proposal, other key terms of the Second General Contracting Agreement (i.e. payment terms, default and identify, dispute, requirement of completion date of construction, quality warranty, scope of contracting, etc.), which were set out in appendix to the tender documents, are similar to all bidders;
- (ii) the related major terms of the transaction contemplated under the proposed Second General Contracting Agreement, including but not limited to, the deadline for completion of the Painting Line Project, and the design and construction requirements, had been fixed and disclosed in the tender documents and the proposed Second General Contracting Agreement; and
- (iii) the outstanding technical terms and details will be negotiated and finalized between the parties after final determination of identity of the successful bidder with reference to the technical proposal, the feasibility and effectiveness of which had been assessed by the Panel,

we are of the view that the terms of the Second General Contracting Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Open Tender and Tender Documents**

As mentioned above, in order to strictly uphold its internal management in relation to investment projects of fixed assets, the Company adopted the Management Measures of Bidding and Tendering in Relation to Investment Projects of Fixed Assets (《固定資產投資項目設備招投標管理細則》) in 2014, pursuant to which investment of the Company in projects of fixed assets with an amount of more than RMB50,000 shall be made by way of tender.

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## LETTER FROM GRAM CAPITAL

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The tender documents issued by the Company was published on, among other things, the Company's website and 中國採購與招標網 ([www.chinabidding.com.cn](http://www.chinabidding.com.cn)), being the website for bidding purpose as designated by the PRC government. The terms of tender documents are same to all proposed bidders. Details of the terms of tender documents are set out under the section headed "Open tender and tender documents" of the Board Letter.

After completion of the evaluation procedures, China Automotive and China United were selected as the first candidate of successful bidder and the second candidate of successful bidder for the open tender of the Painting Line Project, respectively.

According to the Regulation on the Implementation of the Tendering and Bidding Law of the PRC, the first candidate for an open offer will be determined as the successful bidder, unless such first candidate (i) gives up the bidding; (ii) is not able to perform the contract due to force majeure; (iii) does not submit performance deposit as required by the tender document; or (iv) conducts any unlawful act which has an effect on the bidding result, in which cases, the tenderee could either determine the next candidate as successful bidder or conduct another tender. Furthermore, we also noted from the Regulation on the Implementation of the Tendering and Bidding Law of the PRC that the number of successful bidders should not be more than three. Therefore, upon obtaining approval of the Independent Shareholders, it is expected that China Automotive will become the successful bidder of the open tender in relation to the Painting Line Project without the occurrence of the exceptional cases mentioned above.

The Company will issue letter of acceptance to the successful bidder within one month after obtaining the Independent Shareholders' approval at the EGM and will enter into the Second General Contracting Agreement with the successful bidder to engage it as the general contractor for the Painting Line Project. The Company will make further announcement in this regard as and when appropriate in accordance with the Listing Rules.

In light of that the successful bidder will be determined according to the sequence of candidates and in accordance with the Regulation on the Implementation of the Tendering and Bidding Law of the PRC, we are of the view that such arrangement is acceptable.



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## LETTER FROM GRAM CAPITAL

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of Second General Contracting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Second General Contracting Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. DISCLOSURE OF INTERESTS****(i) Interests of Directors, Supervisors and chief executive of the Company**

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had any interest or short position in any Shares, underlying Shares and debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, Supervisors or chief executive of the Company was taken or deemed to have under such provisions of the SFO); or (ii) entered into the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

**(ii) Interests of substantial Shareholders and other persons**

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any person (other than the Directors, Supervisors or chief executive of the Company) who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity	Number of Shares held <sup>1</sup>	Number of underlying Shares held under equity derivatives	Total number of Shares interested <sup>1</sup>	Percentage of the relevant issued class of share capital (%)	Percentage of the total issued share capital of the Company (%)	Type of Share
YTO <sup>2</sup>	Beneficial owner	410,690,578 (L)	/	410,690,578 (L)	69.15 (L)	41.24 (L)	A Share

*Note 1:* (L) – Long position

*Note 2:* Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 410,690,578 A Shares of the Company.

Save as disclosed above, there are no other persons (other than the Directors, Supervisors or chief executive of the Company) who, as at Latest Practicable Date, had any interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

**(iii) Directors', Supervisors' or chief executive's rights to acquire interests or short positions in Shares and debentures**

As at Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company or their respective spouse or minor children were granted any rights to acquire benefits by means of acquisition of the Shares in or debentures of the Company or any other body corporate; nor was the Company, its subsidiaries or holding company or any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors or chief executive of the Company to acquire such rights in the Company or any other body corporate.

**3. DISCLOSURE OF OTHER INTERESTS**

**(i) Interests in contract or arrangement**

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

**(ii) Interests in assets**

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Group were made up.

**(iii) Interests in competing business**

As at the Latest Practicable Date, none of the Directors or Supervisors or any of their respective close associates was interested in any business apart from the Company's business which competed or was likely to compete, either directly or indirectly, with the Company's business.

**4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

**6. EXPERTS AND CONSENT**

The following is the qualification of the expert who had given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Gram Capital Limited	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it is included.

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which had since 31 December 2015 (being the date to which the latest published audited financial statement of the Group was made up) been acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The letter given by Gram Capital Limited is given as at the date of this circular for incorporation herein.

## **7. DOCUMENTS FOR INSPECTION**

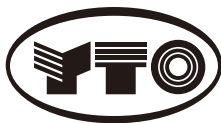
Copies of the following documents will be available for inspection at the office of Messrs. Li & Partners at 22nd Floor, World-Wide House, Central, Hong Kong during normal business hours on any weekday (except public holidays) for a period of 14 days from the date hereof:

- a) the proposed Second General Contracting Agreement;
- b) the letter from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- c) the letter from Gram Capital, the text of which is set out on pages 14 to 28 of this circular;
- d) the written consent referred to in the paragraph headed “Expert and Consent” in this Appendix; and
- e) this circular.

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## REVISED NOTICE OF EGM

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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)

### REVISED NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the notice of the extraordinary general meeting (the “**EGM**”) of First Tractor Company Limited (the “**Company**”) dated 4 January 2017 and the announcements of the Company dated 3 February 2017 and 15 February 2017 in relation to, among other things, the postponement of the EGM.

Notice is hereby given that the EGM will be postponed to be held by the Company at 2:30 p.m. on 3 March 2017, Friday, at No. 154 Jianshe Road, Luoyang, Henan Province, the People’s Republic of China (the “**PRC**”) for the purpose of considering and, if thought fit, passing the following resolutions.

Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 15 February 2017 (the “**Circular**”).

#### ORDINARY RESOLUTIONS

**THAT:**

- “1. the Second General Contracting Agreement (a copy of which has been produced to the EGM marked “1” and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof and the transaction contemplated thereunder, be and are hereby approved and confirmed; and
2. any one of the Directors be hereby authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Second General Contracting Agreement and to waive compliance from or make and

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## REVISED NOTICE OF EGM

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agree such variations of a non-material nature to any of the terms of the Second General Contracting Agreement that may in their discretion consider to be desirable and in the interest of the Company and all the Directors' acts as aforesaid be hereby approved, ratified and confirmed.”

By Order of the Board  
**First Tractor Company Limited\***  
**YU Lina**  
Company Secretary

Luoyang, the PRC  
15 February 2017

*As at the date of this notice, the Board comprises Mr. Zhao Yanshui (Chairman), Mr. Wang Erlong (vice Chairman) and Mr. Wu Yong 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.*

*Notes:*

1. The register of members of the Company will be temporarily closed from 21 January 2017 to 3 March 2017 (both days inclusive) during which no transfer of Shares will be registered in order to determine the list of Shareholders for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 20 January 2017 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 20 January 2017 are entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Share registrar of the Company, is Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
2. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the revised proxy form (the “**Revised Proxy Form**”) enclosed). The Revised Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Revised Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Revised Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company's H Share registrar, Hong Kong Registrars Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof (the “**Closing Time**”).
4. Shareholders who intend to attend the EGM are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 26 January 2017.
5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the Revised Proxy Form.

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## REVISED NOTICE OF EGM

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6. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
7. Shareholders who have lodged the proxy form despatched on 4 January 2017 (the “**Original Proxy Form**”) with the Company prior to the date of this revised notice of EGM of this Company (i.e. 15 February 2017) should note that:
- (i) If no Revised Proxy Form is lodged with the Company’s registered address in the PRC or the Company’s H Share Registrar, Hong Kong Registrars Limited, prior to the Closing Time, the Original Proxy Form will be treated as a valid form of proxy lodged by him or her if correctly completed and signed and returned in accordance with the instructions printed thereon. The proxy appointed by the Shareholder will be entitled to vote at his/her discretion or abstain on any resolution properly proposed to the EGM.
  - (ii) If the Revised Proxy Form is lodged with the Company’s registered address in the PRC or the Company’s H Share Registrar, Hong Kong Registrars Limited, prior to the Closing Time, the Revised Proxy Form will revoke and supersede the relevant Original Proxy Form previously lodged by him or her. The Revised Proxy Form will be treated as a valid form of proxy lodged by such Shareholder if correctly completed and signed and returned in accordance with the instructions printed thereon.
  - (iii) If the duly completed and signed Revised Proxy Form is lodged with the Company’s registered address in the PRC or the Company’s H Share Registrar, Hong Kong Registrars Limited, after the Closing Time, the Revised Proxy Form will be invalid. However, it will revoke the Original Proxy Form previously lodged by such Shareholder, and any vote that may be cast by the purported proxy (whether appointed under the Original Proxy Form or the Revised Proxy Form) will not be counted in any poll which will be taken on any proposed resolution.

Accordingly, Shareholders are advised not to lodge the Revised Proxy Form after the Closing Time. In such case, if any Shareholder wishes to vote at the EGM, he or she will have to attend in person and vote at the relevant meeting himself or herself. Completion and return of the Original Proxy Form and/or the Revised Proxy Form will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof should he or she so wish.

8. The Company’s registered address:  
No. 154 Jianshe Road, Luoyang, Henan Province, the PRC  
Postal code: 471004  
Telephone: (86-379) 6496 7038  
Facsimile: (86-379) 6496 7438  
Email: msc0038@ytogroup.com

\* *For identification purposes only*