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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 or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

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

(Stock Code: 0038)

**CONTINUING CONNECTED TRANSACTIONS  
AND DISCLOSEABLE TRANSACTIONS;  
INCREASE THE CAP AMOUNTS OF 2021 RELATED TRANSACTIONS  
BETWEEN THE COMPANY AND ZF AXLE COMPANY  
AND  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

**Independent Financial Adviser to the Independent Board  
Committee and the Independent Shareholders**



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

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Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 1 to 58 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 59 to 60 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 61 to 82 of this circular.

The notices for convening the EGM and the Class Meetings to be held at 2:00 p.m. on 2 November 2021, Tuesday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC together with the relevant proxy forms and reply slips had been issued to Shareholders separately.

The forms of proxy for use at the EGM and the Class Meeting for Holders of H Shares were despatched and also published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and of the Company ([www.irasia.com/listco/hk/firsttractor](http://www.irasia.com/listco/hk/firsttractor)) on 16 September 2021. Whether or not you are able to attend the EGM and the Class Meeting for Holders of H Shares, you are requested to complete and return the relevant proxy forms in accordance with the instructions printed thereon. The relevant proxy forms shall be lodged with the Company's H Share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (for holders of A Shares) at the registered address 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 and the Class Meeting for Holders of H Shares or any adjourned meeting (as the case may be). Completion and deposit of the proxy forms will not preclude you from attending and voting in person at the EGM and/or the Class Meeting for Holders of H Shares or any adjourned meeting (as the case may be) should you so wish.

\* For identification purposes only

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## DEFINITIONS

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

“2019–2021 CCT Agreements”	collectively, (i) the material procurement agreement dated 29 August 2018 entered into between YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach and the Company, on behalf of the Group; (ii) the sale of goods agreement dated 29 August 2018 entered into between the Company, on behalf of the Group and YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach; (iii) the loan service agreement, bills discounting service agreement, bills acceptance service agreement and deposit service agreement, all dated 29 August 2018, entered into between YTO Finance and YTO, on behalf of YTO Extended Group (excluding Tractors Research Group); (iv) the interbank business services agreement dated 29 August 2018 entered into between YTO Finance and Sinomach Finance; (v) the composite services agreement dated 29 August 2018 entered into between YTO, on behalf of YTO, its controlled Companies and their associates and the Company, on behalf of the Group; (vi) the energy procurement agreement dated 29 August 2018 entered into between YTO (YTO Extended Group) and the Company, on behalf of the Group; (vii) the properties lease agreement dated 29 August 2018 entered into between YTO, on behalf of YTO, its controlled companies and other associates as lessor and the Company, on behalf of the Group as lessee; and (viii) the land lease agreement dated 29 August 2018 entered into between YTO, on behalf of YTO, its controlled companies and other associates as lessor and the Company, on behalf of the Group as lessee;
“A Share(s)”	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and subscribed for and traded in RMB;
“Annual Cap(s)”	the maximum aggregate annual value(s) or outstanding amounts for each of the transactions contemplated under each of the 2019–2021 CCT Agreements and the New Agreements;
“Articles” or “Articles of Association”	the articles of association of the Company;
“associate(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;

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## DEFINITIONS

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“Bills Acceptance Service Agreement”	the agreement dated 25 August 2021 entered into between YTO Finance and YTO on behalf of YTO Extended Group for the provision of the bills acceptance services by YTO Finance to YTO Extended Group;
“Bills Discounting Service Agreement”	the agreement dated 25 August 2021 entered into between YTO Finance and YTO on behalf of YTO Extended Group for the provision of the bills discounting services by YTO Finance to YTO Extended Group;
“Board”	the board of Directors;
“CBIRC”	China Banking Insurance Regulatory Commission;
“Class Meeting for Holders of A Shares”	the 2021 first class meeting for holders of A Shares of the Company to be held at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, at 2:00 p.m. (or immediately after the EGM to be convened and held on the same date and at the same place) on 2 November 2021, Tuesday or immediately after the conclusion or adjournment of the EGM;
“Class Meeting for Holders of H Shares”	the 2021 first class meeting for holders of H Shares of the Company to be held at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC at 2:00 p.m. (or immediately after the EGM and the Class Meeting for Holders of A Shares to be convened and held on the same date and at the same place) on 2 November 2021, Tuesday or immediately after the conclusion or adjournment of the EGM and the Class Meeting for Holders of A Shares;
“Class Meetings”	collectively, the Class Meeting of the Holders of the A Shares and the Class Meeting of the Holders of the H Shares;
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares and A Shares of which are listed on the main board of the Stock Exchange and the Shanghai Stock Exchange respectively;

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## DEFINITIONS

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“Composite Services Agreement”	the agreement dated 25 August 2021 entered into between YTO, on behalf of YTO, its controlled companies and their associates, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to provide transportation and transportation ancillary services, and production-related processing contracting services to the Group;
“connected person(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“connected subsidiary(ies)”	(i) non wholly-owned subsidiary(ies) of the Company that YTO and/or its controlling companies or entities, individually or together, can exercise 10% or more of the voting rights at general meeting of such subsidiary(ies) (such 10% excludes any indirect interest in the subsidiary(ies) which is/are held by YTO and/or its controlling companies or entities through the Company) and (ii) any subsidiary of a non wholly-owned subsidiary referred to in (i) above;
“controlling shareholder”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“Deposit Service Agreement”	the agreement dated 25 August 2021 entered into between YTO Finance and YTO, on behalf of YTO Extended Group, for the provision of the depository services by YTO Finance to YTO Extended Group;
“Director(s)”	the director(s) of the Company;
“EGM”	the 2021 second extraordinary general meeting of the Company to be convened and held at 2:00 p.m. on 2 November 2021, Tuesday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, to consider, among other things, and, if thought fit, approve each of the New Agreements and their respective proposed Annual Cap amounts;
“Energy Procurement Agreement”	the agreement dated 25 August 2021 entered into between YTO as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO agreed to supply various kind of energy to the Group;
“Exempt CCT Agreements”	collectively, the Sale of Goods Agreement, the Bills Discounting Service Agreement, the Bills Acceptance Service Agreement, the Composite Services Agreement and the Energy Procurement Agreement;

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## DEFINITIONS

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“Exempt CCT Transactions”	collectively, the transactions contemplated under each of the Exempt CCT Agreements;
“Fully-exempt CCT Agreement”	the Deposit Service Agreement;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors for purpose of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Caps thereunder;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out 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 Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Caps thereunder;
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s);
“Interbank Business Services Agreement”	the agreement dated 25 August 2021 entered into between YTO Finance and Sinomach Finance pursuant to which both parties agreed to provide interbank business services to each other;
“Land Lease Agreement”	the agreement dated 25 August 2021 entered into between YTO, on behalf of YTO, its controlled companies or other associates, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which YTO, its controlled companies or other associates agreed to lease land use rights with a gross land area of approximately 338,000 sq.m. to the Group, and to grant give the Company pre-emptive rights to lease additional land use rights with a gross land area of no more than 65,000 sq.m.;

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## DEFINITIONS

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“Latest Practicable Date”	6 October 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Licence and Technology Agreement”	the licence and technology agreement dated 18 July 2014 entered into between the Company and ZF China (as licensors) and AZ Axle Company (as licensee) relating to the licence and technology ownership between the parties including the supplemental agreement(s), if any, relating thereto;
“Loan Service Agreement”	the agreement dated 25 August 2021 entered into between YTO Finance and YTO on behalf of YTO Extended Group for the provision of the loan services by YTO Finance to YTO Extended Group;
“Material Procurement Agreement”	the agreement dated 25 August 2021 entered into between YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach agreed to supply certain materials to the Group;
“New Agreements”	collectively, the Non-exempt CCT Agreements, the Exempt CCT Agreements, the Other Agreements and the Fully-exempt CCT Agreement;
“Notice of Class Meeting for Holders of H Shares”	the notice for convening the Class Meeting for Holders of H Shares dated 16 September 2021, which has been issued to the Shareholders separately and a copy of which can be downloaded from the Company’s website ( <a href="http://www.irasia.com/listco/hk/firsttractor">www.irasia.com/listco/hk/firsttractor</a> ) and the website of the Stock Exchange ( <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> );
“Notice of EGM”	the notice for convening the EGM dated 16 September 2021, which has been issued to the Shareholders separately and a copy of which can be downloaded from the Company’s website ( <a href="http://www.irasia.com/listco/hk/firsttractor">www.irasia.com/listco/hk/firsttractor</a> ) and the website of the Stock Exchange ( <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> )
“Non-exempt CCT Agreements”	collectively, the Material Procurement Agreement, the Loan Service Agreement and the Interbank Business Services Agreement;
“Non-exempt CCT Transactions”	collectively, the transactions contemplated under each of the Non-exempt CCT Agreements;
“Other Agreements”	collectively, the Properties Lease Agreement and the Land Lease Agreement;

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## DEFINITIONS

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“PBOC”	the People’s Bank of China;
“percentage ratios”	has the same meaning as ascribed to it under the Hong Kong Listing Rules, as applicable to a transaction;
“PRC”	The People’s Republic of China which, for the purpose of this circular only, excludes the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“PRC Accounting Standards for Business Enterprises No. 21 – Leases”	the PRC Accounting Standards for Business Enterprises No. 21 - Leases, effective on 1 January 2019;
“Procurement Framework Agreement”	the procurement framework agreement dated 18 July 2014 entered into between the Company and AZ Axle Company relating to the purchase of the gears, drive shafts and other components for the production of drive axles by AF Axle Company from the Company including the supplemental agreement(s), if any, relating thereto;
“Properties Lease Agreement”	the agreement dated 25 August 2021 entered into between YTO, on behalf of YTO, its controlled companies or entities and their associates, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which YTO, its controlled companies or entities and their associates agreed to lease to the Group premises with a gross floor area of approximately 87,000 sq.m. and give the Company pre-emptive rights of leasing additional premises with a gross floor area of no more than 8,500 sq.m.;
“RMB”	Renminbi, the lawful currency of the PRC;
“Rules of Procedure for Board Meetings”	the Rules of Procedure for Board Meetings of the Company;
“Rules of Procedure for General Meetings”	the Rules of Procedure for General Meetings of the Company;
“Sale of Goods Agreement”	the agreement dated 25 August 2021 entered into between the Company, on behalf of the Group, as supplier and/or supplying agent and YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach, as purchaser and/or purchasing agent pursuant to which the Group agreed to supply certain materials to YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach;



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## DEFINITIONS

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“Sales Framework Agreement”	the sales framework agreement dated 18 July 2014 entered into between the Company, AZ Axle Company and ZF Hangzhou relating to the sale of products (including drive axle products) manufactured by it to the Company and ZF Hangzhou including the supplemental agreement(s), if any, relating thereto;
“SFO”	the Securities Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shanghai Listing Rules”	Shanghai Stock Exchange Share Listing Rules;
“Shareholder(s)”	shareholder(s) of the Company;
“SHIBOR”	Shanghai Interbank Offered Rate;
“Sinomach”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC and a controlling shareholder of YTO having 87.90% shareholding interest in YTO;
“Sinomach Finance”	Sinomach Finance Co., Ltd.* (國機財務有限責任公司), a company approved to be established in the PRC by the China Banking Regulatory Commission as a non-bank financial institution in September 2003, and a non-wholly-owned subsidiary of Sinomach;
“sq.m.”	square metre;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 48.81% equity interest in the Company;
“YTO Extended Group”	(i) YTO Group; (ii) associates of YTO Group; and (iii) connected subsidiary(ies);
“YTO Finance”	China First Tractor Group Finance Company Limited* (中國一拖集團財務有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of the Company owned as to 99.4% by the Company;

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## DEFINITIONS

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“YTO Group”	YTO and its subsidiaries;
“ZF China”	ZF (China) Investment Co., Ltd.;
“ZF Axle Company”	ZF YTO (Luoyang) Axle Co., Ltd.;
“ZF Hangzhou”	ZF Drivotech (Hangzhou) Co., Ltd.; and
“%”	per cent.

\* For identification purposes only

*Certain figures set out in this circular are subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.*

*Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.*

*The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purposes only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.*

*The English text of this circular shall prevail over the Chinese text in the event of inconsistency.*

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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. Li Xiaoyu (*Chairman*)

Mr. Liu Jiguo

Mr. Li Hepeng

Mr. Xie Donggang

Mr. Zhou Honghai

Ms. Yang Minli\*\*

Ms. Wang Yuru\*\*

Mr. Edmund Sit\*\*

*Registered and principal office:*

No.154 Jianshe Road

Luoyang, Henan Province

The People's Republic of China

\*\* *Independent non-executive Director*

12 October 2021

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS  
AND DISCLOSEABLE TRANSACTIONS ;  
INCREASE THE CAP AMOUNTS OF 2021 RELATED TRANSACTIONS  
BETWEEN THE COMPANY AND ZF AXLE COMPANY  
AND  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

**I. INTRODUCTION**

***The Continuing Connected Transactions and the Discloseable Transactions***

The 2019–2021 CCT Agreements will expire on 31 December 2021. In order to ensure the normal running of the production and operation of the Group, on 25 August 2021, the Company entered into the New Agreements, all for a term of three years commencing from 1 January 2022 to 31 December 2024 (both days inclusive).

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## LETTER FROM THE BOARD

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Under the Hong Kong Listing Rules, only the Non-exempt CCT Transactions and the relevant Annual Caps under each of the Non-exempt CCT Agreements shall require Independent Shareholders' approval. However, as the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the relevant provisions of the Shanghai Listing Rules, the transactions contemplated under each of the New Agreements (except for the Deposit Service Agreement) are subject to the Independent Shareholders' approval at the EGM.

So far as the Deposit Service Agreement is concerned, the Company has performed the procedures for the waiver from the approval and disclosure requirements for related party transactions and the Independent Shareholders' approval requirement on the Deposit Service Agreement and the transactions thereunder according to relevant provisions of the Guidelines for the Implementation of Related Party Transactions of Listed Companies 《上市公司關聯交易實施指引》 and the Guidelines for the Listed Companies' Postponement and Exemption of Information Disclosure 《上市公司信息披露暫緩與豁免業務指引》 of the Shanghai Stock Exchange. Meanwhile, since the estimated transaction cap amount under the Deposit Service Agreement exceeds 50% of the audited net assets of the Company for the previous year, the resolution on the Deposit Service Agreement and the transactions thereunder is subject to the approval by Shareholders at the EGM; YTO and its associates are not required to abstain from voting on the resolution in respect of the Deposit Service Agreement and the transactions thereunder at the EGM.

To comply with the requirements of the Hong Kong Listing Rules, the Independent Board Committee will advise the Independent Shareholders in connection with the Non-exempt CCT Agreements and the Non-exempt CCT Transactions including the relevant Annual Caps thereunder. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Non-exempt CCT Transactions including the relevant Annual Caps contemplated under each of the Non-exempt CCT Agreements, and whether the Non-exempt CCT Transactions are in the interests of the Company and its Shareholders as a whole. Under the Hong Kong Listing Rules, Gram Capital is only required to opine on each of the Non-exempt CCT Agreements and the Non-exempt CCT Transactions including the relevant Annual Caps thereunder. Gram Capital will not provide opinion on the Exempt CCT Agreements, the Other Agreements and the Fully-exempt CCT Agreement and the transactions and relevant Annual Caps thereunder. Notwithstanding such arrangement, the Company still includes details of the Exempt CCT Agreements, the Other Agreements and the Fully-exempt CCT Agreement in this circular so that Shareholders can have a full picture of the background regarding the resolutions to be proposed at the EGM and therefore can make an informed decision in the voting of the relevant proposed resolutions at the EGM. The relevant proposed resolutions regarding the New Agreements to be proposed at the EGM (i.e. resolutions Nos.1.00 to 1.11 (inclusive) set out in the Notice of the EGM) are not inter-conditional upon each other.

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## LETTER FROM THE BOARD

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***Related Transactions on Increase of the Annual Caps for each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement under Shanghai Listing Rules***

As disclosed in the announcements (by way of overseas regulatory announcement) of the Company dated 18 July 2014, 8 February 2021 and 15 September 2021, the Company entered into, among others, the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement with ZF Axle Company.

The deputy general manager of the Company is the chairman of ZF Axle Company, ZF Axle Company is a related legal person of the Company under Rule 10.1.3 III of the Shanghai Listing Rules. Accordingly, the transactions contemplated under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement constitute related transactions under the Shanghai Listing Rules but do not constitute connected transactions under the Hong Kong Listing Rules.

Due to actual business needs, the Company intends to increase the annual cap amounts under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement.

As the total amount of related transactions (including the estimated amount of the related transactions under the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement in 2021 after adjustments) between the Company and ZF Axle Company for 12 consecutive months exceeds 5% of the latest audited net assets of the Company, the relevant Resolutions on the Increase of Caps of the Related Transactions between the Company and ZF Axle Company in 2021 are subject to the consideration at the EGM.

The relevant Resolutions on the Increase of Caps of the Related Transactions between the Company and ZF Axle Company in 2021 to be proposed at the EGM are set out in resolutions Nos.2.01 to 2.03 (inclusive) in the Notice of the EGM.

***Proposed Amendments of the Articles of Association, Rules of Procedures for General Meetings and the Rules of Procedure for Board Meetings***

According to the Securities Law of the PRC and the Official Reply of the State Council on the Adjustment of the Provisions Applicable to the Notice Period of Convening General Meetings of Shareholders and Other Matters Applicable to the Companies Listed Abroad (Guo Han [2019] No.97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019]97號)), and in combination with the actual situation of the Company, the Board proposes to amend the Articles of Association, the Rules of Procedure for General Meetings and the Rules of Procedure for Board Meetings.

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## LETTER FROM THE BOARD

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The relevant resolutions on the proposed amendments to the Articles of Association, Rules of Procedures for General Meetings and the Rules of Procedure for Board Meetings to be proposed at the EGM are set out in resolutions Nos.3 to 5 (inclusive) in the Notice of the EGM, and the relevant resolutions on the proposed amendments to the Articles of Association and Rules of Procedures for General Meetings to be proposed at the Class Meeting for Holders of H Shares are set out resolutions Nos.1 to 2 (inclusive) in the Notice of the Class Meeting for Holders of H Shares.

### ***Purpose of this Circular***

The purpose of this circular is to provide you with information regarding (i) further details of each of the New Agreements and the transactions contemplated thereunder (including the Annual Caps), the related transactions on the increase of annual caps for each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement under Shanghai Listing Rules and the proposed amendments to the Articles of Association, the Rules of Procedure for General Meetings and the Rules of Procedure for Board Meetings; (ii) the letter from the Independent Board Committee to the Independent Shareholders in respect of the Non-exempt CCT Agreements; and (iii) the letter of advice from Gram Capital to the Independent Board Committee in respect of the Non-exempt CCT Agreements.

## **II. CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS**

### **(i) NON-EXEMPT CCT TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS**

#### ***(A) Material Procurement Agreement***

**Date** : 25 August 2021

**Parties** : 

- YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach, as supplier and/or supplying agent; and
- The Company, on behalf of the Group, as purchaser and/or purchasing agent.

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## LETTER FROM THE BOARD

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**Goods to be provided** : Goods required for the production and operation of the Group, including but not limited to raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and lubricating oil), other industrial equipment (including machine tools), components (including clamping apparatus and moulds) and spare parts (including oil injection pumps).

**Term** : From 1 January 2022 to 31 December 2024.

**Payment terms** : Shall be principally settled within three months from the date of confirmation of receiving the goods by the purchaser. Subject to negotiations between the parties, prepayments by the purchaser of no more than six months from the estimated date of delivery of the goods are acceptable.

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

*Pricing Standards of the Transactions contemplated under the Material Procurement Agreement*

Under the Material Procurement Agreement, the price of the goods to be provided will be determined based on the following:

- (1) the market price of an independent third party obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between YTO Group, associates of YTO, Sinomach, the subsidiaries or associates of Sinomach and an independent third party; or

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## LETTER FROM THE BOARD

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- (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).

YTO undertakes that the applicable price of the goods offered to the Group shall not be less favourable than that offered to independent third party customers of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach for the same or similar goods.

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

- (1) procurement department, in relation to the price determination based on the market price of an independent third party (i.e. pricing standard No.(1)), shall make reference to one to two price quotations of the same or similar goods through relevant industry website or market enquiry. Such quotations shall be obtained by the procurement department;
- (2) finance department, in relation to price determination based on the transaction price between the suppliers and an independent third party (i.e. pricing standard No.(2)), shall make reference to one to two signed agreement(s) entered into between the suppliers and an independent third party in relation to the procurement of the same or similar goods. The finance department shall obtain the cost analysis of goods (including cost breakdown and gross profit margin) from the suppliers to ensure that the transaction price under the Material Procurement Agreement is fair and reasonable and not higher than the price of the same or similar goods offered by the suppliers to an independent third party; and
- (3) finance department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard No. (3)), shall obtain cost analysis of goods from the suppliers and finalise the price in accordance with the cost analysis and the percentage mark-up. The finance department shall also perform quarterly updating and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.



## LETTER FROM THE BOARD

### *Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Material Procurement Agreement*

The following table sets out the historical transaction amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the Annual Cap amounts for the years ended 31 December 2019, 2020 and 2021, and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Material Procurement Agreement:

	Historical transaction amounts			Annual Caps amounts		
	For the year ended		For the six months ended	For the year ended		
	31 December	31 December	30 June	31 December	31 December	31 December
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Material Procurement Agreement	425,150	617,100	345,820	860,000	950,000	1,040,000

	Proposed Annual Cap amounts		
	For the year ending 31 December		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Material Procurement Agreement	710,000	710,000	750,000

### *Basis for the Proposed Annual Cap Amounts under the Material Procurement Agreement*

The proposed Annual Cap amounts for the years of 2022, 2023 and 2024 for the Material Procurement Agreement are determined with reference to the following factors:

- (1) the historical transaction amounts; and
- (2) adhering to the sales strategy of providing complete solutions to customers, the Company will increase the number of harvesting machinery and agricultural machinery purchased from YTO to meet the growing needs of the customers for full-process and full-scale mechanisation in operation from 2022 to 2024.

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## LETTER FROM THE BOARD

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Although the proposed Annual Caps for the three years ending 31 December 2024 decreased from the existing annual cap amounts, the assessment of the proposed Annual Caps by the Company is based on the strategy to increase the number of machinery to be purchased from YTO to meet the growing needs of the customers. The assessment is based on the following:

- (i) The expected increase in corn planting areas and the demand for full-scale mechanization, there will be an increase in demand for harvesting and agricultural machinery. The increase will drive up the demand for harvesting and agricultural machinery, in response to which the Company will increase the number of harvesting machinery and agricultural machinery to be purchased from YTO to meet the growing needs of customers for full-process and full-scale mechanisation in operation from 2021 to 2024. As the price of raw materials such as steel and iron will continue to fluctuate, it is therefore determined that the annual cap for the year ending 2022 is to be around 10% higher than the actual transaction amount for the year ending 2021.
- (ii) China's National IV emission standards for non-road diesel engines will be implemented in December 2022, which may have an impact on the sales of agricultural machinery products in 2023. Therefore, it is estimated that the sales amount for 2023 will remain the same as in 2022.
- (iii) Given the impact of the trend of sustainable development in the relevant industry, the fluctuation in price of raw materials and the possible increase in price caused by inflation, it is expected that the annual caps for 2024 may further increase by 6% from 2023.

***(B) Loan Service Agreement***

**Date** : 25 August 2021

**Parties** : 

- YTO Finance, a subsidiary of the Company; and
- YTO, on behalf of YTO Extended Group.

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## LETTER FROM THE BOARD

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<b>Financial services to be provided</b>	:	Provision of loan services by YTO Finance to the YTO Extended Group.
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Payment terms</b>	:	Shall be specified on each separate loan contract to be agreed by the parties.
<b>Security</b>	:	YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure YTO Extended Group's liabilities arising from the performance of the Loan Service Agreement.
<b>Undertaking</b>	:	YTO undertakes that the deposit maintained by YTO Group with YTO Finance should be greater than the loan balance of YTO Group at all times. If YTO Group breaches such undertaking, YTO Finance has the right to restrict payment to any third parties by YTO Group from its deposit maintained with YTO Finance, or request YTO Group to increase its deposit balance with YTO Finance.
<b>Rights to demand for early repayment</b>	:	YTO Finance shall first satisfy the funding needs of the Group. Depending on the condition of shortfall of funding of the Group, YTO Finance has the right to issue a termination or terms amendment notice to YTO Extended Group, requesting for termination or amendments to the terms of the loans granted to YTO Extended Group so as to collect the money to support the production operation of the Group.

### *Pricing Standards of the Transactions contemplated under the Loan Service Agreement*

The service fees to be charged by YTO Finance for any loan services will be determined based on the following:

- (1) the rate prescribed by CBIRC or PBOC (including the benchmark interest rate prescribed by the PBOC from time to time and published on PBOC's website for the same type and same period of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing));

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## LETTER FROM THE BOARD

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- (2) if the above rate is not applicable (e.g. in the event that the rate prescribed by CBIRC or PBOC cannot compensate for the lending risk of YTO Finance after its evaluation on the creditability of the borrowers and the market condition), the rate charged in the same industry in the PRC for the same type and same period of loans by enquiries in the market; or
- (3) if none of the above is applicable, one determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees offered to YTO Extended Group by YTO Finance shall not be more favourable than those offered to independent third party customers of YTO Finance for the same services.

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

- 1. finance department, in relation to price determination based on the rate prescribed by CBIRC or PBOC (i.e. pricing standard No. (1)), shall check the rate published on the PBOC's website for the same type and equivalent period of loans;
- 2. finance department, in relation to price determination based on market rate (i.e. pricing standard No. (2)), shall obtain and make reference to one to two rate(s) of the same or similar loans quoted through relevant industry website or market enquiry; and
- 3. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard No. (3)), shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with the purchaser or with a third party. YTO Finance shall also perform quarterly update and review on the rate.

## LETTER FROM THE BOARD

### *Historical Figures and the Proposed Maximum Outstanding Amounts for the Transactions under the Loan Service Agreement*

The following table sets out the historical maximum outstanding amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the maximum outstanding amounts for the years ended 31 December 2019, 2020 and 2021, and the proposed maximum outstanding amounts for the three years ending 31 December 2022, 2023 and 2024 under the Loan Service Agreement:

	Historical maximum outstanding amounts			Maximum outstanding amounts		
	For the year ended		For the six	For the year ended		
	31 December		months ended	31 December		
	2019	2020	30 June 2021	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loan Service Agreement	1,132,150	953,240	892,150	1,150,000	1,300,000	1,450,000

<b>Proposed Maximum Outstanding Amounts</b>			
<b>For the year ending 31 December</b>			
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loan Service Agreement	1,000,000	1,100,000	1,200,000

The relevant Maximum Outstanding Amounts for the historical transactions and the existing Annual Caps set out above included only the principal amounts, but excluded the interests in relation thereto. The Proposed Maximum Outstanding Amounts for the three years ending 31 December 2024 include both principal and the interests amounts.

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## LETTER FROM THE BOARD

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*Basis for the Proposed Maximum Outstanding Amounts under the Loan Service Agreement*

The proposed maximum outstanding amounts for the loan services provided under the Loan Service Agreement are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions;
- (2) YTO Finance's capital management strategy: YTO Finance's average financial resources as at the end of each month in the first half of 2021 amounted to RMB4,730 million; the average balance of loans and discounts as at the end of each month amounted to RMB2,210 million, representing approximately 47% of the average financial resources, the average financial resources for the next three years are expected to be approximately RMB4,800 million, RMB5,000 million and RMB5,200 million, respectively, and the total amount of loans and discounts for the next three years are expected to be RMB2,256 million, RMB2,350 million and RMB2,444 million, respectively; and
- (3) YTO's business development plan and needs for loan business: according to YTO's 14th Five-Year Plan business development plan and capital needs, it is estimated that from 2022 to 2024, loans and discounts from related parties will account for 48%, 53% and 58% of YTO Finance's total loans and discounts, with an average ratio of 53%. From 2022 to 2024, the total loans and bill discounts of YTO in YTO Finance are estimated to be RMB1.1 billion, RMB1.25 billion and RMB1.4 billion. According to the historical data on loans and bill discounts from related parties of YTO Finance, the loans and bills discounts accounted for 90% and 10%, respectively, of the total loans and bill discounts. Therefore, the balance of loans of YTO maintained at YTO Finance at any time point during the period from 2022 to 2024 will not exceed RMB1 billion, RMB1.1 billion and RMB1.2 billion.

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## LETTER FROM THE BOARD

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*(C) Interbank Business Services Agreement*

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• YTO Finance, a subsidiary of the Company; and</li><li>• Sinomach Finance, a subsidiary of Sinomach.</li></ul>
<b>Financial services to be provided</b>	:	Mutual provision of financing services between YTO Finance and Sinomach Finance including interbank deposit, lending, credit assets transfer (i.e. sales or purchases of undue credit assets, such as loan contracts, by transferring its ownership).
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Payment terms</b>	:	Shall be specified on each separate contract to be agreed by the parties.
<b>Security</b>	:	YTO Finance may request Sinomach Finance to provide pledge of assets or other guarantees to secure the liabilities of Sinomach Finance arising from its performance under the Interbank Business Services Agreement.

*Pricing Standards of the Transactions contemplated under the Interbank Business Services Agreement*

The service fees charged by YTO Finance and Sinomach Finance to each other for different financing services will be determined based on the following:

- (1) based on the SHIBOR announced by Shanghai Interbank Offered Market in the same type and same period of transaction for interbank lending and interbank bond transactions rate for bond transactions conducted between financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks);
- (2) if the above rate is not applicable, with reference to the price for deposits of the same or similar type and period of funds announced by other financial institution for interbank deposit (including state-owned commercial banks, joint-equity banks and urban commercial banks);

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## LETTER FROM THE BOARD

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- (3) if the above rates are not applicable, with reference to the market price for capital financing in respect of target matter announced by other financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks) in the case of capital financing where financial assets are subject to sale and purchase or pledge; or
- (4) if none of the above is applicable, after arm's length negotiation between the counterparties after considering their financial positions and terms, size and quality of the financial assets.

Sinomach Finance undertakes that the applicable price of the capital inflow service offered to YTO Finance, being the party with capital inflow from the other party, by Sinomach Finance shall not be less favourable than those offered to independent third party customers of Sinomach Finance for the same or similar services. On the other hand, YTO Finance undertakes that the applicable price of the capital outflow service offered by YTO Finance to Sinomach Finance, being the party with capital inflow from the other party, shall not be more favourable than those offered to independent third party customers of YTO Finance for the same or similar services.

When adopting the above pricing standards for interbank services, the Company's:

- 1. finance department, in relation to price determination based on SHIBOR (i.e. pricing standard No.(1)), shall check the rate announced by Shanghai Interbank Offered Market for the same type and same period of services;
- 2. finance department, in relation to price determination based on market rate (i.e. pricing standards Nos.(2) and (3)), shall check one to two deposit rate(s) of the same or similar type and period of funds announced by other financial institution for interbank deposit or market price for capital financing in respect of target matter announced by other financial institutions in the case of capital financing where financial assets are subject to sale and purchase or pledge;
- 3. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard No.(4)) while YTO Finance is a service provider, shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with Sinomach Finance or with a third party. YTO Finance shall also perform quarterly update and review on the rate; or



## LETTER FROM THE BOARD

4. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard No.(4)) while YTO Finance is a service recipient, shall obtain one to two signed agreement(s) entered into between Sinomach Finance and an independent third party quarterly. Sinomach Finance would formulate a unified rate by considering the fair rate offered to the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of Sinomach Finance with YTO Finance or with a third party. YTO Finance shall perform quarterly review on the rate to ensure that the transaction rate under the Interbank Business Services Agreement is fair and reasonable and not higher than the rate of the comparable service offered by the Sinomach Finance to independent third party.

### *Proposed Maximum Outstanding Amounts for the Transactions under the Interbank Business Services Agreement*

The following table sets out the historical maximum outstanding amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the maximum outstanding amounts for the years ended 31 December 2019, 2020 and 2021, and the proposed maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Interbank Business Services Agreement:

	Historical maximum outstanding amounts			Maximum outstanding amounts		
	For the year ended		For the six	For the year ended		
	31 December		months ended	31 December		
	2019	2020	30 June 2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interbank Business Services Agreement	200,000	600,000	600,000	1,000,000	1,000,000	1,000,000

Proposed Maximum Outstanding Amounts			
For the year ending 31 December			
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Interbank Business Services Agreement	800,000	800,000	800,000

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## LETTER FROM THE BOARD

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The relevant Maximum Outstanding Amounts for the historical transaction and the existing Annual Caps set out above included the loan principal and receivable/payable, but excluded interests in relation thereto. The Proposed Maximum Outstanding Amounts for the three years ending 31 December 2024 shall include loan principal, interest amounts and receivable/payable.

*Basis for the Proposed Maximum Outstanding Amounts under the Interbank Business Services Agreement*

The proposed Annual Cap amounts for the services provided under the Interbank Business Services Agreement are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions;
- (2) relevant regulatory requirements for interbank business: In accordance with the Measures for Management of Interbank Borrowings 《同業拆借管理辦法》, the interbank borrowing cap and lending cap of the finance company of enterprise group shall not be more than 100% of the entity's paid-in capital. The registered capital of YTO Finance is RMB500 million, the interbank borrowing cap and lending cap of the business is RMB400 million, which meets the Measures for Management of Interbank Borrowings 《同業拆借管理辦法》 regarding the maximum lending limit, and the maximum borrowing limit of finance company within enterprise in that each of the lending limit and the borrowing limit shall not exceed the registered capital of YTO Finance; and
- (3) YTO Finance's actual business needs: In order to prevent and control risks, YTO Finance has been reducing the scale of its financial investment business year by year. At the same time, in order to improve the utilisation efficiency of periodic redundant funds and increase the revenue, YTO Finance invest the periodic redundant funds into the interbank businesses with relatively higher revenue and lower risk after taking into account the capital requirements of the Company's production and operation.

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## LETTER FROM THE BOARD

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(ii) **EXEMPT CCT TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT**

*(D) Sale of Goods Agreement*

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• The Company, on behalf of the Group, as supplier and/or supplying agent; and</li><li>• YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach, as purchaser and/or purchasing agent.</li></ul>
<b>Goods to be provided</b>	:	Products required for the production and normal operation of the purchaser, including but not limited to raw materials, spare parts (including casting parts), components (including semi-finished parts and finished parts) and equipment (including diesel engines and tractors).
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Payment terms</b>	:	Shall be principally settled within three months after the date of delivery of goods by the supplier. Subject to negotiations between the parties, prepayments by the purchaser of no more than six months from the estimated date of delivery of the goods are acceptable.

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

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## LETTER FROM THE BOARD

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### *Pricing Standards of the Transactions Contemplated under the Sale of Goods Agreement*

Under the Sale of Goods Agreement, the applicable price of the goods to be provided will be determined based on the following:

- (1) the market price of an independent third party obtained through enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Group in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party; or
- (3) if none of the above price is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).

In any event, the applicable price of the goods offered to YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach by the Group shall not be more favourable than that offered to independent third party customers of the Group.

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

- (1) sales department, in relation to the price determination based on the market price of an independent third party (i.e. pricing standard No.(1)), shall obtain the market price from at least two independent third parties via emails, faxes or phones or through market enquiries;
- (2) finance department, in relation to price determination based on the transaction price between the Group and an independent third party (i.e. pricing standard No. (2)), shall formulate unified sales prices (the “**Unified Sales Prices**”) of general generic products of the Company according to the Company's cost and gross profit margin, which will be adopted uniformly in transactions of the Company with the purchaser or with an independent third party. The finance department shall also perform quarterly update and review on the Unified Sales Prices; and

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## LETTER FROM THE BOARD

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

### *Historical Figures and the Proposed Annual Cap for the Transactions under the Sale of Goods Agreement*

The following table sets out the historical transaction amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the Annual Cap amounts for the years ended 31 December 2019, 2020 and 2021, and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Sale of Goods Agreement:

	Historical transaction amounts			Annual Cap amounts		
	For the year ended		For the six	For the year ended		
	31 December		months ended	31 December		
	2019	2020	2021	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of Goods Agreement	228,440	312,200	120,060	345,000	370,000	395,000

Proposed Annual Cap amounts			
For the year ending 31 December			
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sale of Goods Agreement	245,000	245,000	260,000

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## LETTER FROM THE BOARD

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### *Basis for the Proposed Annual Cap Amounts under the Sale of Goods Agreement*

The proposed Annual Cap amounts for the years of 2022, 2023 and 2024 for the Sale of Goods Agreement are based on:

- (1) the historical transaction amounts; and
- (2) according to YTO's business development plans, the Company will strive to increase the sales volume of harvesting machinery products and agricultural machinery products in the next three years, and will provide YTO with a stable supply of diesel engines and related parts and components required for harvesting machinery products and agricultural machinery products.

Although the proposed Annual Caps for the three years ending 31 December 2024 decreased from the existing annual cap amounts, the Company will strive to increase the sales volume in the next three years, having taken into consideration the following:

- (i) the Company's sale of the related products, spare parts and components to YTO is expected to increase, which is consistent with the overall planning of YTO to raise the sale of harvesting and agricultural machinery in the coming three years; and
- (ii) the fluctuation in the price of raw materials and the possible increase in price caused by inflation; as such, the proposed Annual Caps for the three years ending 31 December 2024 are intended to reflect the expected increase in material costs.

### ***(E) Bills Discounting Service Agreement***

**Date** : 25 August 2021

**Parties** : 

- YTO Finance, a subsidiary of the Company; and
- YTO, on behalf of YTO Extended Group.

**Financial services to be provided** : Provision of bills discounting services by YTO Finance to the YTO Extended Group.

**Term** : From 1 January 2022 to 31 December 2024.

**Payment terms** : Shall be specified on each separate contract to be agreed by the parties.

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## LETTER FROM THE BOARD

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### *Pricing Standards of the Transactions contemplated under the Bills Discounting Service Agreement*

The service fees charged by YTO Finance for any bills discounting services will be determined based on the following:

- (1) the rate in relation to the same type and same period of bills discounting services prescribed by CBIRC or PBOC;
- (2) if the above rate is not applicable, the rate charged in the same industry in the PRC for the same type and same period of bills discounting services by enquiries in the market; or
- (3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group, mainly with reference to the fair rates for comparable transactions to be offered by third parties in the industry, its financial condition and the terms and scale of the transactions.

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

1. finance department, in relation to price determination based on rate prescribed by CBIRC or PBOC (i.e. pricing standard no.(1)), shall check the rate published on the PBOC's website for the same or similar type and period of services;
2. finance department, in relation to price determination based on market rate (i.e. pricing standard no.(2)), shall obtain and make reference to one to two rate(s) of the same or similar services quoted through relevant industry website or market enquiry; and
3. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no.(3)), shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same or similar industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with the purchaser or with a third party. YTO Finance shall also perform quarterly update and review on the rate.

YTO Finance undertakes that the applicable service fees charged to YTO Extended Group by YTO Finance shall not be more favourable than those charged to independent third party customers of YTO Finance for the same or similar services.

## LETTER FROM THE BOARD

### *Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Bills Discounting Service Agreement*

The following table sets out the historical transaction amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the Annual Cap amounts for each of the three years ended 31 December 2019, 2020 and 2021, and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Bills Discounting Service Agreement:

	Historical transaction amounts			Annual Cap amounts		
	For the year ended		For the six months ended	For the year ended		
	31 December	31 December	30 June	31 December	31 December	31 December
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bills Discounting Service Agreement	137,350	8,400	90,790	250,000	300,000	350,000

	Proposed Annual Cap amounts		
	For the year ending 31 December		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Bills Discounting Service Agreement	100,000	120,000	150,000

### *Basis for the Proposed Annual Cap Amounts under the Bills Discounting Service Agreement*

The proposed Annual Cap amounts for the bills discounting services provided under the Bills Discounting Service Agreement are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions;
- (2) YTO Finance's capital management strategy: YTO Finance's average financial resources as at the end of each month in the first half of 2021 amounted to RMB4,730 million; the average balance of loans and discounts as at the end of each month amounted to RMB2,210 million, representing approximately 47%



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## LETTER FROM THE BOARD

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of the average financial resources, the average financial resources for the next three years are expected to be approximately RMB4,800 million, RMB5,000 million and RMB5,200 million, respectively, and the total amount of loans and discounts for the next three years are expected to be RMB2,256 million, RMB2,350 million and RMB2,444 million, respectively; and

- (3) YTO's business development plan and needs for funds: according to YTO's 14th Five-Year Plan business development plan and capital needs, it is estimated that from 2022 to 2024, loans and discounts from related parties will account for 48%, 53% and 58%, respectively, of YTO Finance's total loans and discounts, with an average ratio of 53%. From 2022 to 2024, the total loans and bill discounts of YTO in YTO Finance are estimated to be RMB1.1 billion, RMB1.25 billion and RMB1.4 billion, respectively. According to the historical data of the loan and bill discounting business of YTO Finance's related parties, the loan and bill discounting accounted for 90% and 10% of the total loan and bill, respectively. Therefore, the balances of the bill discounting of YTO in YTO Finance are not exceed RMB0.1 billion, RMB0.12 billion and RMB0.15 billion, respectively, at any time from 2022 to 2024.

***(F) Bills Acceptance Service Agreement***

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• YTO Finance, a subsidiary of the Company as supplier; and</li><li>• YTO, on behalf of YTO Extended Group as purchaser.</li></ul>
<b>Financial services to be provided</b>	:	Provision of bills acceptance services by YTO Finance to the YTO Extended Group.
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Payment terms</b>	:	Shall be specified on each separate contract to be agreed by the parties.
<b>Security</b>	:	YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure the liabilities of YTO Extended Group arising from its performance under the Bills Acceptance Service Agreement.

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## LETTER FROM THE BOARD

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### *Pricing Standards of the Transactions contemplated under the Bills Acceptance Service Agreement*

The service fees charged by YTO Finance for any bills acceptance services will be determined based on the following:

- (1) the rate in relation to the same type and same period of bills acceptance services prescribed by CBIRC or PBOC;
- (2) if the above rate is not applicable, the rate charged in the same industry in the PRC for the same or similar type and period of bills acceptance services by enquiries in the market; or
- (3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group, and the principal factor that should be taken into consideration will be the fair price for the same or similar services to be offered by third parties in the same industry.

YTO Finance undertakes that the applicable service fees charged to YTO Extended Group by YTO Finance shall not be more favourable than those charged to independent third party customers of YTO Finance for the same or similar services.

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

1. finance department, in relation to price determination based on rate prescribed by CBIRC or PBOC (i.e. pricing standard no.(1)), shall check the rate published on the PBOC's website for the same type and same period of services;
2. finance department, in relation to price determination based on market rate (i.e. pricing standard no.(2)), shall obtain and make reference to one to two rate(s) of the same or similar services quoted through relevant industry website or market enquiry; and
3. finance department, in relation to price determination after arm's length negotiation (i.e. pricing standard no.(3)), shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with the purchaser or with a third party. YTO Finance shall also perform quarterly update and review on the rate.

## LETTER FROM THE BOARD

### *Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Bills Acceptance Service Agreement*

The following table sets out the historical maximum outstanding amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the maximum outstanding Annual Cap amounts, and the proposed maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Bills Acceptance Service Agreement:

	Historical maximum outstanding amounts			Maximum outstanding Annual Cap amounts		
	For the six					
	For the year ended		months ended	For the year ended		
	31 December		30 June	31 December		
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bills Acceptance Service Agreement	158,460	142,290	208,620	336,000	376,000	420,000

Proposed Maximum Outstanding Annual Cap Amounts			
For the year ending 31 December			
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Bills Acceptance Service Agreement	210,000	220,000	230,000

### *Basis for the Proposed Annual Cap Amounts under the Bills Acceptance Service Agreement*

The proposed Annual Cap amounts for the services provided under the Bills Acceptance Service Agreement are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions;
- (2) YTO Finance's capital management strategy: based on YTO Finance's historical and estimated owner's equity, owner's equity of YTO Finance is approximately RMB860 million at the end of June 2021 and is expected to reach RMB900 million, RMB930 million and RMB950 million from 2022 to 2024, respectively. Accordingly, based on the relevant regulatory requirements for finance companies, it is expected that YTO Finance can commence acceptance business in the next three years with the scale between RMB1.4 billion and RMB1.5 billion; and

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## LETTER FROM THE BOARD

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- (3) YTO's bill acceptance business needs: with reference to the historical data of bill acceptance business of YTO Finance's related parties (the maximum balance accounted for approximately 15% of the scale of YTO Finance's acceptance business), and in combination with the possible increase in the use of bills for YTO's business development, the balance of bill acceptance at any time from 2022 to 2024 will not exceed RMB210 million, RMB220 million and RMB230 million, respectively.

**(G) Composite Services Agreement**

**Date** : 25 August 2021

**Parties** : 

- YTO, on behalf of YTO, its controlled companies and their associates, as supplier and/or supplying agent; and
- The Company, on behalf of the Group, as purchaser and/or purchasing agent.

**Services to be provided** : Transportation and transportation ancillary services, and production-related processing contracting services.

**Term** : From 1 January 2022 to 31 December 2024.

**Payment terms** : Transportation services: shall be principally settled within three months after confirmation by the Company (on behalf of the Group) from the date of delivering or receiving the goods.

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

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

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

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## LETTER FROM THE BOARD

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### *Pricing Standards of the Transactions contemplated under the Composite Services Agreement*

Under the Composite Services Agreement, the price of the services to be provided thereunder will be determined based on the following:

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

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

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

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

## LETTER FROM THE BOARD

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

### *Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Composite Services Agreement*

The following table sets out the historical transaction amounts of the transportation and transportation ancillary services for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the Annual Cap amounts for the years ended 31 December 2019, 2020 and 2021, and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Composite Services Agreement:

	Historical transaction amounts			Annual Cap amounts		
	For the year ended		For the six months ended	For the year ended		
	31 December		30 June	31 December		
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Composite Services Agreement	132,620	183,410	117,010	185,000	200,000	220,000

Proposed Annual Cap amounts			
For the year ending 31 December			
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Composite Services Agreement	190,000	190,000	200,000

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## LETTER FROM THE BOARD

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### *Basis for the Proposed Annual Cap Amounts under the Composite Services Agreement*

The basis for determining the proposed Annual Cap amounts for the services to be provided under the Composite Services Agreement is as follows:

- (1) with reference to actual amount of historical transactions;
- (2) the Company will make use of the existing logistics and transportation infrastructure advantages and regional location advantages of YTO to provide logistics and transportation services for the Company; and entrust YTO to use its metal heat treatment capacity to carry out part of the parts processing contracting business in accordance with the actual production and operation needs; and
- (3) the determination of the comprehensive service fee mainly takes into account factors such as actual business demand, fuel prices and fluctuations in labour costs.

### ***(H) Energy Procurement Agreement***

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• YTO as supplier and/or supplying agent; and</li><li>• The Company, on behalf of the Group, as purchaser and/or purchasing agent.</li></ul>
<b>Energy to be provided</b>	:	Energy to be used in the production of the Group, including but not limited to electricity, natural gas, oxygen, water, compressed air, steam and nitrogen.
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Payment terms</b>	:	Shall be settled monthly and fully paid by the end of the following month. Subject to negotiation between the parties, prepayments by purchaser of no more than six months are acceptable.

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## LETTER FROM THE BOARD

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### *Pricing Standards of the Transaction contemplated under the Energy Procurement Agreement*

Under the Energy Procurement Agreement, the price of the energies to be provided will be determined based on:

1. the market price;
2. if the above is not applicable, the transaction price between YTO and an independent third party; or
3. if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 16% (i.e.  $\text{price} = \text{cost} \times (1 + \text{percentage mark-up})$ ).

YTO undertakes that the applicable price of the energy offered to the Group shall not be less favourable than that offered to independent third party customers of YTO for the same energy.

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

1. procurement department, in relation to price determination based on market price of independent third party (i.e. pricing standard No. (1)), shall make reference to one to two price(s) of the same or similar goods or services quoted through market enquiry. Such quotations shall be obtained by procurement department;
2. finance department in relation to price determination based on transaction price between the suppliers and an independent third party (i.e. pricing standard No.(2)), shall make reference to one to two signed agreement(s) entered between the suppliers and an independent third party in relation to the procurement of the same or similar goods. The finance department shall obtain the cost analysis of goods (including cost breakdown and gross profit margin) from the suppliers to ensure that the transaction price under the Energy Procurement Agreement is fair and reasonable and not higher than the price of the same or similar goods offered by the supplier to independent third party; and



## LETTER FROM THE BOARD

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

### *Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Energy Procurement Agreement*

The following table sets out the historical transaction amounts for the years ended 31 December 2019 and 2020 and for the six months ended 30 June 2021, the Annual Cap amounts for the years ended 31 December 2019, 2020 and 2021, and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Energy Procurement Agreement:

	Historical transaction amounts			Annual Cap amounts		
	For the year ended		For the six months ended	For the year ended		
	31 December		30 June	31 December		
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Energy Procurement Agreement	133,680	174,690	80,770	205,000	220,000	235,000

Proposed Annual Cap amounts			
For the year ending 31 December			
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Energy Procurement Agreement	190,000	190,000	200,000

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## LETTER FROM THE BOARD

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### *Basis for the Proposed Annual Cap Amounts under the Energy Procurement Agreement*

The proposed Annual Cap amounts for the energies to be provided under the Energy Procurement Agreement are determined with reference to:

- (1) with reference to actual amount of historical transactions; and
- (2) the combined effect regarding the significant improvement in environmental protection and energy saving and emission reduction of production enterprises, which may slow down the growth rate of energy consumption in the future, and the possible increase in the energy price in the next three years. Accordingly, the proposed Annual Caps have reflected a slight increase in the amount of energy purchase transactions.

### **(iii) OTHER AGREEMENTS**

#### ***(I) Properties Lease Agreement***

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• YTO, on behalf of YTO, its controlled companies and other associates, as lessor; and</li><li>• The Company, on behalf of the Group, as lessee.</li></ul>
<b>Properties to be leased</b>	:	The properties located in No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with an aggregate gross floor area of approximately 87,000 sq.m., inclusive of the electricity and water facilities and industrial rooms and the properties under the preemptive rights as mentioned below.
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.

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## LETTER FROM THE BOARD

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**Pre-emptive rights** : The Group has the pre-emptive rights to lease from YTO, its controlled companies and their associates, including but not limited to, additional properties with gross floor area of no more than 8,500 sq.m. at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC, in accordance with the terms and conditions of the Properties Lease Agreement.

**Payment terms** : The Group shall pay the annual rent in cash by the end of each financial year which is from 1 January to 31 December.

### *Pricing Standards of the Transaction under the Properties Lease Agreement*

Under the Properties Lease Agreement, the annual rent will be determined based on the following:

- (1) the historical transaction prices of lands within similar proximity between the lessor and independent third parties. Such transaction prices, according to the information available to the Company, were based on arm's length negotiation between the parties; or
- (2) if the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar properties in neighborhood.

YTO undertakes that the rent offered to the Group by YTO, its controlled companies or entities and their associates shall not be less favourable than that offered to independent third party customers of YTO, its controlled companies or entities and their associates for the same property.

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

1. finance department, in relation to price determination based on transaction price between the lessor and an independent third party (i.e. pricing standard No. (1)), shall obtain one to two agreement(s) of the lessor to its independent third parties, to ensure that the price of the same properties offered by the lessor to the Company shall not be higher than that offered to independent third parties; and

## LETTER FROM THE BOARD

2. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard No. (2)), shall formulate the rental after considering one or two fair rate(s) offered by the third parties on similar properties in similar locations and areas.

### *Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Properties Lease Agreement*

The following table sets out the historical transaction amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the Annual Cap amounts for each of the three years ended 31 December 2019, 2020 and 2021 and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Properties Lease Agreement:

	Historical transaction amounts			Annual Cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ended 31 December		
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Properties Lease Agreement	9,260	9,320	3,300	9,500	9,500	9,500

	Proposed Annual Cap amounts		
	For the year ending 31 December		
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Properties Lease Agreement	8,000	8,000	8,000

### *Basis for the Proposed Annual Cap Amounts under the Properties Lease Agreement*

The Annual Cap amounts for the Properties Lease Agreement are based on:

- (1) the Company's actual requirements of the estimated leasehold area of approximately 95,500 sq.m. from 2022 to 2024 (after taking into account that an increase of approximately 8,500 sq.m. may be required for business development); and
- (2) the rental prices of properties are mainly based on the market prices of the regions surrounding YTO and/or the rental fees charged by YTO to an independent third party for the leasing of properties.

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## LETTER FROM THE BOARD

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Pursuant to the PRC Accounting Standards for Business Enterprises No. 21 - Leases, the lease of properties by the Company as lessee under the Properties Lease Agreement will be recognised as right-of-use assets. The aggregate value for the right-of-use asset recognised under the Properties Lease Agreement is estimated to be RMB25 million, which is calculated by discounting the estimated total rental of the future years by a discount rate of 3.85% which is equivalent to the Company's incremental borrowing rate.

**(J) Land Lease Agreement**

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• YTO, on behalf of YTO, its controlled companies and other associates, as lessor; and</li><li>• The Company, on behalf of the Group, as lessee.</li></ul>
<b>Land use rights to be leased</b>	:	The land use rights of the land located at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with a gross land area of approximately 338,000 sq.m. and the land use rights under the pre-emptive rights as mentioned below.
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Pre-emptive rights</b>	:	The Group has the pre-emptive rights to lease additional land use rights of the land with a gross land area of no more than 65,000 sq.m. located at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC from YTO, its controlled companies or other associates in accordance with the terms and conditions of the Land Lease Agreement.
<b>Payment terms</b>	:	The Group shall pay the annual rent in cash for the year by the end of each year.

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## LETTER FROM THE BOARD

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### *Pricing Standards of the Transactions under the Land Lease Agreement*

Under the Land Lease Agreement, the annual rent will be:

- (1) the transaction price between the lessor and an independent third party; or
- (2) if the above price is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar land use rights.

YTO undertakes that the rent offered to the Group by YTO, its controlled companies or other associates shall not be less favourable than that offered to independent third party lessees of YTO, its controlled companies or other associates.

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

1. finance department, in relation to price determination based on transaction price between the lessor and an independent third party (i.e. pricing standard no.(1)), shall obtain one to two agreement(s) of the lessor to its independent third parties, to ensure that the price of the same land offered by the lessor to the Company shall not be higher than that offered to independent third parties; and
2. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no.(2)), shall formulate the rental after considering one or two fair rate(s) offered by the third party(ies) on similar land in nearby locations and areas.

### *Historical Figures and the Proposed Annual Cap for the Transactions under the Land Lease Agreement*

The following table sets out the historical transaction amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the Annual Cap amounts for each of the years ended 31 December 2019, 2020 and 2021 and the proposed Annual Cap amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Land Lease Agreement:

## LETTER FROM THE BOARD

	Historical transaction amounts			Annual Cap amounts		
	For the year ended		For the six months ended	For the year ended		
	31 December		30 June	31 December		
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Land Lease Agreement	8,890	9,740	5,730	13,500	13,500	13,500

Proposed Annual Cap amounts			
For the year ending 31 December			
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Land Lease Agreement	14,000	14,000	14,000

### *Basis for the Proposed Annual Cap Amounts under the Land Lease Agreement*

The Proposed Annual Cap amounts for the Land Lease Agreement are based on:

- (1) the Company's actual requirements of the estimated leasehold site area of 403,000 sq.m. from 2022 to 2024, (after taking into account that an increase of approximately 65,000 sq.m. may be required for business development) and;
- (2) the land lease prices are mainly based on the market prices of the regions surrounding YTO and/or the rental fees charged by YTO to an independent third party for the leasing of site.

Pursuant to the PRC Accounting Standards for Business Enterprises No. 21 - Leases, the lease of land by the Company as lessee under the Land Lease Agreement will be recognised as right-of-use assets. The aggregate value of the right-of-use assets recognised under the Land Lease Agreement is estimated to be RMB42 million, which is calculated by discounting the estimated total rental of the future years by a discount rate of 3.85% which is equivalent to the Company's incremental borrowing rate.

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## LETTER FROM THE BOARD

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### (iv) FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### *(K) Deposit Service Agreement*

<b>Date</b>	:	25 August 2021
<b>Parties</b>	:	<ul style="list-style-type: none"><li>• YTO Finance, a subsidiary of the Company; and</li><li>• YTO, on behalf of YTO Extended Group.</li></ul>
<b>Financial services to be provided</b>	:	Provision of depository services by YTO Finance to YTO Extended Group.
<b>Term</b>	:	From 1 January 2022 to 31 December 2024.
<b>Payment terms</b>	:	Shall be specified on each contract to be agreed by the parties.
<b>Undertaking</b>	:	<p>YTO undertakes:</p> <ul style="list-style-type: none"><li>(1) to procure YTO Extended Group to give priority in depositing their fund with YTO Finance on the same terms and conditions as those to be offered by other parties; and</li><li>(2) that the deposit maintained by YTO Extended Group with YTO Finance should be greater than the loan balance at all time. If YTO Extended Group breaches such undertaking, YTO Finance has the right to restrict payment to any third parties by YTO Extended Group from its deposit maintained with YTO Finance, or request YTO Extended Group to increase its deposit balance with YTO Finance.</li></ul>
<b>Right to offset</b>	:	YTO irrevocably grants, and procures YTO Extended Group to irrevocably grant, to YTO Finance a right to offset all liabilities arising from the performance of the Loan Service Agreement and/or the Bills Acceptance Service Agreement by YTO Extended Group from the relevant deposit accounts of that defaulting member entity under YTO Extended Group.



## LETTER FROM THE BOARD

### *Pricing Standards of the Transactions contemplated under the Deposit Service Agreement*

Under the Deposit Service Agreement, the interest rates for all amount deposited by YTO Extended Group will be subject to the requirements of the CBIRC or PBOC.

When adopting the above pricing standards, the Company's finance department shall check the rate published on the PBOC's website and CBIRC's website for the same type and same period of deposit.

### *Historical Figures and the Proposed Maximum Outstanding Amounts for the Transactions under the Deposit Service Agreement*

The following table sets out the historical maximum outstanding amounts for the years ended 31 December 2019 and 2020, and for the six months ended 30 June 2021, the maximum outstanding amounts for each of the years ended 31 December 2019, 2020 and 2021 and the proposed maximum outstanding amounts for each of the three years ending 31 December 2022, 2023 and 2024 under the Deposit Service Agreement:

	Historical maximum outstanding amounts			Maximum outstanding amounts		
	For the year ended		For the six	For the year ended		
	31 December		months ended	31 December		
	2019	2020	2021	2019	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deposit Service Agreement	1,576,740	1,817,830	1,638,470	2,300,000	2,800,000	2,800,000

Proposed maximum outstanding amounts			
For the year ending 31 December			
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Deposit Service Agreement	2,300,000	2,300,000	2,300,000

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## LETTER FROM THE BOARD

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### *Basis for the Proposed Maximum Outstanding Amounts under the Deposit Service Agreement*

The proposed maximum outstanding amounts for the deposit services provided under the Deposit Service Agreement are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions; and
- (2) taking into account YTO's future business development plan and capital position.

#### **(v) CONDITIONS PRECEDENT**

Save for the Deposit Service Agreement, all the New Agreements shall be subject to the Independent Shareholders' approval at the EGM. The Deposit Service Agreement shall come into force upon being approved by Shareholders at the EGM.

#### **(vi) MEASURE OF INTERNAL CONTROL**

To ensure the Group's conformity with the pricing policies of the New Agreements from time to time, the Group adopts a series of internal control policies on its daily operation. Such internal control policies are conducted and supervised by the finance department, office of the Board, the independent non-executive Directors and audit and legal department of the Company and the relevant committee of YTO Finance:

- (1) The Board, the audit committee of the Board and the independent non-executive Directors have approved the New Agreements and the Deposit Service Agreement according to the connected transaction decision policy;
- (2) The Company's management policies for connected transactions clearly stated the principle for determining the prices for connected transactions. When each unit of business enters into contracts in accordance with the framework agreements of the continuing connected transactions, the price must be determined in accordance with the pricing standards as agreed in the continuing connected transaction agreements;
- (3) The Material Procurement Agreement is negotiated between the relevant business departments of the Company and the suppliers for assessing production capacities or service abilities of the suppliers. The finance department would review and compare the price and terms of the Material Procurement Agreement among two to three suppliers, subject to the type of the products to be procured under the Material Procurement Agreement to make sure the prices and terms offered by YTO

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## LETTER FROM THE BOARD

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Group are fair and reasonable that they are no less favourable than those offered by the independent suppliers. For those products to be procured under the Material Procurement Agreement and without independent suppliers, the finance department of the Company would request YTO Group to provide the cost breakdown and analysis and the finance department will evaluate reasonableness of the price charged. The agreement for procurement can only be executed upon the review by business department, financial department, legal department and technical department (if needed) of the Company and subject to the review and approval by the competent heads of the Company.

- (4) The Composite Services Agreement (including transportation, transportation ancillary services and processing contracting services), the Energy Procurement Agreement, the Properties Lease Agreement and the Land Lease Agreement are negotiated between the relevant business departments of the Company and the counterparties for assessing production capacities or service abilities of the counterparties and the quality of the products or the services (if applicable), etc. The finance department would review and compare the price and terms of the agreement among two to three counterparties to make sure the prices and terms offered by YTO Group are fair and reasonable that they are no less favourable than those offered by the independent third parties. If there is no market price, the finance department of the Company would request YTO Group to provide the cost breakdown and analysis and the finance department will evaluate reasonableness of the price charged. The Composite Services Agreement, the Energy Procurement Agreement, the Properties Lease Agreement and the Land Lease Agreement can only be executed upon the review by business department, financial department, legal department and technical department (if needed) of the Company and subject to the review and approval by the competent heads of the Company.
- (5) The Sale of Goods Agreement is negotiated between relevant business departments of the Company and the purchaser for assessing the production capacities of the Company and the credibility of the purchaser, etc. The finance department would review and analyse the cost breakdown of the products to be provided under the Sale of Goods Agreement and compare the price to be charged with the aforesaid price list, to make sure the prices and terms offered to YTO Group are fair and reasonable that they are no more favourable than those offered to independent purchasers. The agreement can only be executed upon the review by business department, financial department, legal department and technical department (if needed) of the Company and subject to the review and approval by the competent heads of the Company.

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## LETTER FROM THE BOARD

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- (6) Loan related services are provided prudently on the basis of unified credit extension to member units at the beginning of the year. Loan services: After a borrower submits loan application, the credit business department of YTO Finance shall collect the customer's information in a timely manner and conduct a loan investigation to proposes a preliminary evaluation and put forward the same for deliberation of the loan review committee to make sure the interest rate and terms of the loans under the Loan Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties. If such loan business is without objections and meet the terms of loan, it shall be submitted to manager and vice president of the credit department, manager and vice president of the risk control department, general manager, and chairman (according to the corresponding authorization quota) for approval.

Bills discounting services: When applying for bills discounting business, the applicant shall submit such paper commercial bill that has not expired and is completed as required (for electronic commercial bills, the applicant shall apply through the corresponding online system); after verification, YTO Finance shall submit them to manager of the business department, manager of the risk control department, the heads of YTO Finance for approval to make sure the interest rate and terms of the bills discounting services under the Bills Discounting Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties.

Bills acceptance services: When applying for bills acceptance services to YTO Finance, the applicant shall complete an acceptance confirmation letter. After depositing the full margin into the account in YTO Finance according to credit requirements, such application will be approved subject to the signing of the Company's management to make sure the rate and terms of the bills acceptance services under the Bills Acceptance Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties.

- (7) Interbank business Services: According to the Company's fund management plan and needs, inter- bank business traders of YTO Finance shall make inquiries with commercial banks or other financial institutions in the financial interbank market, and submit such Deliberation Opinion Form to YTO Finance's Assets and Liabilities Management Committee. After consideration and approval, contractual elements are to be agreed with the counterparty and shall be submitted to manager and vice president of the business department, manager and vice president of the risk control department, the risk control department leader, and general manager for approval to make sure the interest rate and terms of the financial services under the Interbank Business Services Agreement are fair and reasonable and on normal commercial terms; and

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## LETTER FROM THE BOARD

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- (8) All client for deposit service should first open an account by submitting an opening form. The opening form is then approved by the officer, department manager, the risk control department, vice president and general manager of YTO Finance to assess the qualification of the client. The client can make deposit after the account is opened successfully. The interest rates for the deposit services provided by YTO Finance to its clients (including connect persons and other member units) are determined by the assets and liabilities management committee of YTO Finance in accordance with the requirements of PBOC. The officer, department manager, the risk control department, vice president and general manager of YTO Finance shall make sure the interest rate and terms of the deposits under the Deposit Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties.
- (9) The finance department of the Company shall gather all the supporting information (such as prescribed rate published by related authorities, market rate in the industry or other comparable transaction records) and generate a comparison report for each of the financial service entered under the Loan Service Agreement, Bill Discounting Service Agreement, Bills Acceptance Service Agreement, Interbank Business Service Agreement or Deposit Service Agreement. Such comparison report shall be submitted to the manager of the risk control department and general manager of YTO Finance for verification and approval to ensure all the financial services are in compliance with the price standards set out in the relevant financial service agreement and ensure the financial services are conducted in normal commercial terms.

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

**(vii) REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE NEW AGREEMENTS**

The Group and YTO Extended Group have been carrying out transactions with each other to facilitate their productions and operations since 1997. In view of the long-established relationship between the Group and YTO Extended Group, the geographical convenience between the Group and YTO Extended Group provides a reliable supply of raw material and provision of services, which are favourable to (i) the Company's effective control over the product performance and quality and (ii) the after-sales services as it offers fast, convenient and timely communication and coordination between the transaction parties. The entering into of the New Agreements can effectively lower the operation risk of both the Group and

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## LETTER FROM THE BOARD

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YTO Extended Group, and is favourable to the Company's daily operation and management of production. The entering into of the New Agreements is to renew the transaction arrangement under the 2019–2022 CCT Agreements. Furthermore, in considering the reasons and benefits for entering into the financial services agreements (including the Loan Service Agreement, Bills Discounting Service Agreement, Bills Acceptance Service Agreement, Deposit Service Agreement and the Interbank Business Services Agreement) between YTO Finance and YTO, the Directors have also considered the following key factors:

- (1) There are continuing connected transactions related to production between YTO and the Company, hence daily settlement services are needed; YTO Finance is the key platform for business settlement between the Company and YTO; the timely settlement provided by YTO Finance has accelerated the Company's cash flow and increased the liquidity of the Company's assets.
- (2) Due to an increase in financial resources of YTO Finance and the seasonal characteristics in the production and sales of agricultural machinery products, YTO Finance could effectively enhance the utilisation efficiency of the Company's funds by providing financial services to YTO when it has excess capital reserves in phases, thus bringing benefits to the Company. If a liquidity stress occurs, short term liquidity problems can be resolved through interbank business in order to ensure the funds required for the production operation of the Company. Meanwhile, entering into the Interbank Business Services Agreement is to further expand the choices in selecting counterparties of YTO Finance and to improve its bargaining power.
- (3) The financing services provided by YTO Finance to the YTO will be in strict compliance with the loan credit rating requirements and loan approval procedures according to a credit rating policy approved by the internal control committee. As YTO Finance fully understands the credibility and financial position of YTO, the risk of the overall transactions is relatively low.

Accordingly, the Directors (including the independent non-executive Directors) are of the view that (i) the continuing connected transactions contemplated under the New Agreements will be carried out in the ordinary and usual course of business of the Group and in the interest of the Company and its Shareholders as a whole; (ii) the terms of the New Agreements are on normal commercial terms or on terms not less favorable than those of similar transactions with independent third parties and are fair and reasonable; and (iii) the proposed Annual Cap amounts of the transactions contemplated under the New Agreements for the three years ending 31 December 2022, 2023 and 2024 are fair and reasonable.

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## LETTER FROM THE BOARD

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### **(viii) INFORMATION OF THE GROUP, YTO, YTO GROUP, SINOMACH, SINOMACH FINANCE AND YTO FINANCE**

The Group is principally engaged in the production and sales of agricultural machineries and power machineries. The principal products include large or medium sized tractors, diesel engines and other accessories.

YTO is the immediate controlling Shareholder of the Company, holding 548,485,853 A Shares of the Company, and is principally engaged in the production of specific transporting machineries, vehicles products and components, etc. Sinomach is the controlling shareholder of YTO, having 87.90% shareholding interest in YTO. The remaining 12.1% shareholding interest in YTO is held by Luoyang Guozi State-Owned Assets Management Co., Ltd.\* (洛陽市國資國有資產經營有限公司), which in turn is indirectly wholly owned by Luoyang State-owned Assets Supervision and Administration Commission (洛陽市人民政府國有資產監督管理委員會).

YTO Group is principally engaged in the production of transporting machineries, vehicles products, industrial equipments and components.

Sinomach is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy machineries and engineering projects domestically and internationally, sales of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business. The ultimate beneficial owner of Sinomach is the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

Sinomach Finance is principally engaged in the provision of financial services including deposits taking, provision of loans, underwriting of corporate bonds, as well as finance leasing, financial and financing consultation, credit certification and related consultation and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loan, handling bills acceptance and discounting, and other financial services that may be approved by the CBIRC, to members of the Sinomach group.

YTO Finance, a subsidiary of the Company, is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of YTO Group. It has a registered capital of RMB500 million.

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## LETTER FROM THE BOARD

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### (ix) LISTING RULES IMPLICATIONS

#### *Connected Persons*

As at the Latest Practicable Date, YTO beneficially owned approximately 48.81% of the issued share capital of the Company and is the controlling shareholder of the Company. As Sinomach holds approximately 87.9% of the shareholding interest in YTO, Sinomach is a controlling shareholder of YTO. Therefore, Sinomach and its subsidiaries are deemed as connected persons of the Company according to the Hong Kong Listing Rules.

YTO Finance is a non-wholly-owned subsidiary of the Company, which is owned as to approximately 99.4% by the Company, including its controlled subsidiaries, and approximately 0.6% by YTO.

Accordingly, the transactions contemplated under the New Agreements entered into between the Company and YTO, YTO Finance and YTO, YTO Finance and Sinomach Finance constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

#### *Hong Kong Listing Rules Implications*

##### *(1) Non-exempt CCT Agreements*

As the applicable percentage ratios in respect of the transaction amount under each of the Non-exempt CCT Agreements, on an annual basis, are more than 5%, the Non-exempt CCT Transactions are subject to the reporting, annual review and announcement requirements and the requirement to obtain approval from the Independent Shareholders under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios in respect of the transaction amount under each of the Loan Service Agreement and the Interbank Business Services Agreement and the respective transactions thereunder, on an annual basis, are more than 5% but less than 25%, the Loan Service Agreement and the Interbank Business Services Agreement and the respective transactions thereunder constitute discloseable transactions of the Company and shall be subject to the reporting and announcement requirements, but exempt from the Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.



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## LETTER FROM THE BOARD

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(2) *Exempt CCT Agreements*

As the applicable percentage ratios in respect of the transaction amount under each of the Exempt CCT Agreements, on an annual basis, are more than 0.1% but less than 5%, the transactions contemplated under the Exempt CCT Agreements are subject to the reporting, annual review and announcement requirements, but exempt from Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) *Other Agreements*

As the applicable percentage ratios in respect of the value of the right-of-use assets recognized under each of the Properties Lease Agreement and the Land Lease Agreement is less than 5%, the transaction contemplated under each of the Properties Lease Agreement and the Land Lease Agreement does not constitute a notifiable transaction under Chapter 14 of the Hong Kong Listing Rules. However, as the applicable percentage ratios in respect of the value of the right-of-use assets recognized under each of the Properties Lease Agreement and the Land Lease Agreement is more than 0.1% but less than 5%, the transaction contemplated under each of the Properties Lease Agreement and the Land Lease Agreement constitute a connected transaction under Chapter 14A of the Hong Kong Listing Rules, subject to the reporting and announcement requirements, but exempt from Independent Shareholders' approval requirements.

(4) *Fully-exempt CCT Agreement*

The deposit services to be provided under the Deposit Service Agreement constitute financial assistance provided by YTO Group, for the benefit of YTO Finance on normal commercial terms where no security over the assets of the Group is granted in respect of such financial assistance. The transactions contemplated under the Deposit Service Agreement are exempted from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules. Disclosure regarding on the Deposit Service Agreement is made voluntarily by the Company in compliance with the relevant requirements of the Shanghai Listing Rules.

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## LETTER FROM THE BOARD

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### *Shanghai Listing Rules Implications*

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the relevant provisions of the Shanghai Listing Rules, the transactions contemplated under each of the New Agreements (except for the Deposit Service Agreement) are subject to the Independent Shareholders' approval at the EGM.

So far as the Deposit Service Agreement is concerned, the Company has performed the procedures for the waiver from the approval and disclosure requirements for related party transactions and the Independent Shareholders' approval requirement on the Deposit Service Agreement and the transactions thereunder according to relevant provisions of the Guidelines for the Implementation of Related Party Transactions of Listed Companies 《(上市公司關聯交易實施指引)》 and the Guidelines for the Listed Companies' Postponement and Exemption of Information Disclosure 《(上市公司信息披露暫緩與豁免業務指引)》 of the Shanghai Stock Exchange. Meanwhile, since the estimated transaction cap amount under the Deposit Service Agreement exceeds 50% of the audited net assets of the Company for the previous year, the resolution on the Deposit Service Agreement and the transactions thereunder is subject to the Independent Shareholders' approval at the EGM; YTO and its associates are not required to abstain from voting on the resolution in respect of the Deposit Service Agreement and the transactions thereunder at the EGM.

### **III. RELATED TRANSACTIONS ON INCREASE OF THE ANNUAL CAPS FOR EACH OF THE PROCUREMENT FRAMEWORK AGREEMENT, THE SALES FRAMEWORK AGREEMENT AND THE LICENCE AND TECHNOLOGY AGREEMENT UNDER SHANGHAI LISTING RULES**

#### **Background of the Entering into of Related Party Transaction Agreements and Relationship with Related Parties**

In July 2014, the Company and ZF China cooperated in the axle business and made joint investment to establish ZF Axle Company, in which the Company holds 49% equity interest and ZF China holds 51% equity interest. ZF Axle Company is not consolidated into the financial statement of the Company.

ZF China is a wholly foreign-owned limited liability company duly established and legally existing under the laws of the PRC, which is principally engaged in the business of investment, research and development of new products and high technology, and sale of products manufactured by enterprises invested in by it in accordance with the law in the fields where foreign investment is permitted by the state. With all reasonable enquiries made, ZF China and its ultimate shareholders are independent third parties independent of the Company and its connected persons (within the

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## LETTER FROM THE BOARD

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meaning of the Hong Kong Listing Rules). As the deputy general manager of the Company is the chairman of ZF Axle Company, ZF Axle Company is a related legal person of the Company under Rule 10.1.3 III of the Shanghai Listing Rules. The transactions between the Company and ZF Axle Company constitute related transactions under the Shanghai Listing Rules but do not constitute connected transactions under the Hong Kong Listing Rules.

On 18 July 2014, the Company and ZF Axle Company entered into agreements in respect of daily operations, such as technology license, premise leasing, procurement and sales, etc., which were considered and approved at the 14th meeting of the sixth session of the Board of the Company. According to the agreements entered into by both parties, the Procurement Framework Agreement, the Sales Framework Agreement and the License and Technology Agreement shall remain in effect for the duration of ZF Axle Company as a joint venture.

### **Main Content of Relevant Agreements**

#### **(A) Procurement Framework Agreement**

##### *1. Basic information*

Purchaser: ZF Axle Company

Supplier: the Company

ZF Axle Company shall purchase the gears, drive shafts and other components for the production of drive axles from the Company.

##### *2. Purchase price and settlement*

- (1) The purchase price of the components shall be determined by mutual agreement with reference to the prices in the previous years and the prevailing market price, and taking into account factors such as changes in raw material prices.
- (2) ZF Axle Company shall make payment for the purchase of components in full within 50 days after the date of the invoice issued by the Company.

##### *3. Term of the agreement and others*

- (1) Valid within the duration of ZF Axle Company as a joint venture.
- (2) Both parties shall enter into a separate procurement agreement for the procurement business, the content of which shall be consistent with the main content of the framework agreement.

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## LETTER FROM THE BOARD

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***(B) Sales Framework Agreement***

*1. Basic information*

Party A: the Company

Party B: ZF Axle Company

Party C: ZF Hangzhou

ZF Axle Company shall sell products (including drive axle products) manufactured by it to the Company and ZF Hangzhou.

*2. Selling price and settlement*

- (1) The selling price of the drive axle products shall be determined by mutual agreement with reference to the prices in the previous years and the prevailing market price, and taking into account factors such as changes in raw material prices.
- (2) The price of products sold by ZF Axle Company to the Company or any branches and subsidiaries of the Company shall not be higher than the price of similar products sold by ZF Axle Company to ZF Hangzhou.
- (3) The Company shall make payment for the goods in full on the 15th day of the month following the date of the invoice.

*3. Term of the agreement and others*

- (1) Valid within the duration of ZF Axle Company as a joint venture.
- (2) Both parties shall enter into a separate sales agreement for each order of the products, the content of which shall be consistent with the main content of the framework agreement.

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## LETTER FROM THE BOARD

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*(C) License and Technology Agreement*

*1. Basic information*

Licensors: the Company and ZF China

Licensee: ZF Axle Company

The content and scope of the technology license:

- (1) The Company and ZF China agree that ZF Axle Company shall use their respective relevant technologies to manufacture and assemble the existing products as well as the future products;
- (2) The technology ownership of the products improved by ZF Axle Company using licensed technology shall belong to ZF Axle Company.

*2. Pricing and settlement of technology license fee*

- (1) ZF Axle Company shall make a one-off payment for the technology license fee of RMB2.2 million to the Company and ZF China, respectively (Note: the one-off payment for the technology license fee to the Company was completed in 2015); and shall pay a technology license fee of 0.3% of the sales of products manufactured using the licensed technology to the Company and ZF China, respectively ("Technology License Fee based on Sales").
- (2) The one-off technology license fee shall be paid on the date of mass production of the existing products; the Technology License Fee based on Sales for the previous year shall be paid by 31 March in the current year.

*3. Term of the agreement: Valid within the duration of ZF Axle Company as a joint venture.*

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## LETTER FROM THE BOARD

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### Reasons for Related Transactions

1. ZF Axle Company is mainly engaged in the research and development, application engineering, production, assembly and sales of drive axle products for agricultural machinery vehicles. Drive axle is an important component of tractor products, and the Company's demand for drive axle products for the production of tractors can be met through the Sales Framework Agreement.
2. The Company owns the capability to manufacture gears, castings and forgings and other components, and through the Procurement Framework Agreement, it can meet the demand for procurement of components for daily production of drive axle products of ZF Axle Company and provide it with reliable supply of components.
3. The Company and ZF China agree that ZF Axle Company shall use their respective relevant technologies to manufacture and assemble the existing products and the future products, and ZF Axle Company shall make a one-off payment for technology license fee of RMB2.2 million to the Company and ZF China, respectively (Note: the one-off payment for the technology license fee to the Company was completed in 2015); and shall pay a technology license fee of 0.3% of the sales of products manufactured using the licensed technology to the Company and ZF China, respectively.

### Cap Amounts of Related Transactions between the Company and ZF Axle Company in 2021

At the 25th meeting of the eighth session of the Board of the Company held on 8 February 2021, the Resolution(s) on the Cap Amounts of Related Transactions between the Company and ZF Axle Company in 2021 was/were considered and approved.

The estimated cap amounts of the related transactions of the Company in 2021 are mainly determined with reference to the historical transaction amounts in combination with the estimated business needs in 2021.

Category of related party transaction	Estimated cap amount for 2021 (RMB0'000)
Purchase of components from the Company by the related parties	3,500
Sales of axle products to the Company by the related parties	15,000
The Company's permission for the related parties to use its technologies	60

## LETTER FROM THE BOARD

### **Increase of Cap Amounts of Related Transactions between the Company and ZF Axle Company in 2021**

Due to actual business needs, the Company intends to increase the cap amounts of the three related transactions under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement. At the 31st meeting of the eighth session of the Board held on 15 September 2021, the Resolution on the Increase of Caps of Related Transactions between the Company and ZF Axle Company in 2021 was considered and approved. The increases in the estimated amounts and types of the related party transactions under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement in 2021 are as follows:

*Unit: RMB0'000*

<b>Content of transaction</b>	<b>Originally estimated cap amount for 2021</b>	<b>Actual transaction amount from January to August 2021</b>	<b>Transaction amount to be increased</b>	<b>Adjusted cap amount for 2021</b>
Purchase of components from the Company by the related parties	3,500	2,384	1,300	4,800
Sales of components to the Company by the related parties	15,000	13,945	7,000	22,000
The Company's permission for the related parties to use the relevant technologies	60	0	15	75

### **Reasons for the Increase of Caps of Related Transactions**

1. Based on the actual production and operation needs of the Company, the demand for drive axle products from ZF Axle Company is expected to increase. At the same time, the purchase of relevant components from the Company by ZF Axle Company will also increase simultaneously.
2. As a result of the increase in sales volume of products manufactured by ZF Axle Company using the relevant technologies, the technology license fees paid by ZF Axle Company to the Company also increased accordingly.

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## LETTER FROM THE BOARD

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The Directors are of the view that the increase of the cap amounts of the related transactions is in line with the normal operational needs of the Company; the relevant related transactions are necessary for the normal production and operation of the Company and the transactions are in normal commercial interest and will not have adverse impact on the financial position and operating results of the Company and will not affect the independence of the Company.

### **Implications under Shanghai Listing Rules**

As the total amount of related transactions (including the estimated amount of related transactions under the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement in 2021 after adjustments) between the Company and ZF Axle Company for 12 consecutive months exceeds 5% of the latest audited net assets of the Company, the relevant Resolutions on the Increase of Caps of Related Transactions between the Company and ZF Axle Company in 2021 are subject to the consideration at the EGM.

The relevant Resolutions on the Increase of Caps of the Related Transactions between the Company and ZF Axle Company in 2021 are subject to the consideration and approval by the Shareholders at the EGM by way of ordinary resolutions. According to the information currently available to the Company, no shareholders are required to abstain from voting on any of the resolutions regarding the Related Transactions on the Increase of the Annual Caps for each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement at the EGM.

### **IV. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION, THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND THE RULES OF PROCEDURE FOR BOARD MEETINGS**

According to the Securities Law of the PRC and the Official Reply of the State Council on the Adjustment of the Provisions Applicable to the Notice Period of Convening General Meetings of Shareholders and Other Matters Applicable to the Companies Listed Abroad (Guo Han [2019] No.97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019] 97號)), and in combination with the actual situation of the Company, the Board proposes to amend the Articles of Association, the Rules of Procedure for General Meetings and the Rules of Procedure for Board Meetings.

Details of the proposed amendments to Articles of Association, the Rules of Procedure for General Meetings and the Rules of Procedure for Board Meetings are more particularly set out in Appendix I to this circular.



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## LETTER FROM THE BOARD

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The amendments to the Articles of Association, the Rules of Procedure for General Meetings and Rules of Procedures for Board Meetings are subject to the consideration and approval at the EGM, among which the amendments to the Articles of Association and the Rules of Procedure for General Meetings are also subject to the consideration and approval at the Class Meetings. No shareholders are required to abstain from voting on any of the resolutions regarding the proposed amendments to Articles of Association, the Rules of Procedure for General Meetings and the Rules of Procedure for Board Meetings at the EGM and the Class Meetings.

The Company has received a written confirmation from its Hong Kong legal adviser, confirming that the proposed amendments to the Articles of Association comply with the applicable provisions under the Listing Rules. The Company has also received a written confirmation from its PRC legal adviser, confirming that the proposed amendments to the Articles of Association comply with the applicable laws and regulations in the PRC.

### **V. RECOMMENDATIONS**

The Directors consider that (i) the terms of the New Agreements, the transactions contemplated thereunder and their respective Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders/Shareholders to vote in favour of the ordinary resolutions Nos.1.00 to 1.11 (inclusive) set out in the Notice of EGM with respect to the Non-exempt CCT Agreements, the Except CCT Agreements, the Other Agreements and the Fully-exempt CCT Agreement, the transactions contemplated thereunder and their respective Annual Caps to be proposed at the EGM.

The Directors are of the view that the increase of the cap amounts of the related transactions is in line with the normal operational needs of the Company; the relevant related transactions are necessary for the normal production and operation of the Company and the transactions are in normal commercial interest and will not have adverse impact on the financial position and operating results of the Company and will not affect the independence of the Company. The Board recommend that Shareholders vote in favour of the Resolutions on the Increase of Caps of the Related Transactions between the Company and ZF Axle Company in 2021 to be proposed at the EGM (as set out in resolutions Nos.2.01 to 2.03 (inclusive) in the Notice of the EGM).

The Directors consider that the relevant resolutions on the proposed amendments to the Articles of Association, Rules of Procedures for General Meetings and the Rules of Procedure for Board Meetings are in the interest of the Company and its Shareholders as a whole. The Board recommend that Shareholders vote in favour of the Resolutions on the proposed amendments to the Articles of Association, Rules of Procedures for General Meetings and the Rules of Procedure for Board Meetings to be proposed at the EGM (as set out in resolutions Nos.3 to 5 (inclusive) in the Notice of the EGM), and the relevant resolutions on the proposed amendments to the Articles of Association and Rules of Procedures for General Meetings to be proposed at the Class Meeting for Holders of H Shares (as set out resolutions Nos.1 to 2 (inclusive) in the Notice of the Class Meeting for Holders of H Shares).

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## LETTER FROM THE BOARD

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According to the Hong Kong Listing Rules, an Independent Board Committee has been established to consider and advise the Independent Shareholders in respect of the Non-exempt CCT Agreements. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Non-exempt CCT Agreements and the Non-exempt CCT Transactions and the relevant Annual Caps thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, having considered the terms of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Caps thereunder, and taken into account the advice of Gram Capital, is of the opinion that the Non-exempt CCT Agreements are entered in the ordinary and usual course of business of the Company, the terms of the Non-exempt CCT Agreements are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and the Annual Caps are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM as set out in the notice of the EGM.

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 59 to 60 of this circular which contains its recommendation to the Independent Shareholders in relation to the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Caps thereunder. Your attention is also drawn to the letter of advice from Gram Capital which is set out on pages 61 to 82 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Caps thereunder. You are advised to read the said letters from the Independent Board Committee and Gram Capital before deciding how to vote at the EGM.

### **VI. EGM AND THE CLASS MEETING FOR HOLDERS OF H SHARES**

The notices for convening the EGM and the Class Meeting for Holders of H Shares to be held at 2:00 p.m. on 2 November 2021, Tuesday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC were despatched on 16 September 2021. The EGM will be held for the Shareholders to consider, among other things, and, if thought fit, approve the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps amounts (ordinary resolutions Nos.1.00 to 1.11 (inclusive) as set out in the Notice of EGM), the Increase of Caps of the Related Transactions between the Company and ZF Axle Company in 2021 (ordinary resolutions Nos.2.01 to 2.03 (inclusive) in the Notice of the EGM), and the proposed amendments to the Articles of Association, Rules of Procedures for General Meetings and the Rules of Procedure for Board Meetings (special resolution No.3 and ordinary resolutions Nos.4 and 5 (inclusive), respectively, in the Notice of EGM). The Class Meeting for Holders of H Shares will be held for Shareholders to

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## LETTER FROM THE BOARD

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consider, among other things, and if thought fit, approve the proposed amendments to the Articles of Association and the Rules of Procedures for General Meetings (resolutions Nos.1 to 2 (inclusive) in the Notice of the Class Meeting for Holders of H Shares). Voting on the aforesaid resolutions will be taken by poll in accordance with the requirements of the Hong Kong Listing Rules.

Messrs. Li Xiaoyu, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors having connected relationships with YTO, have abstained from voting on the relevant board resolutions approving the New Agreements, the transactions contemplated thereunder and their respective Annual Caps amounts.

In view of the interests of YTO and its associates in the transactions contemplated under each of the New Agreements, YTO and its associates, which in aggregate held 548,485,853 A Shares, representing approximately 48.81% of the equity interest in the Company as at Latest Practicable Date, will abstain from voting on the resolutions in relation to each of the Non-exempt CCT Agreements and other continuing connected transaction agreements (excluding Deposit Service Agreement), the transactions contemplated thereunder and their respective proposed Annual Caps at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, other than YTO and its associates, no shareholder has a material interest in the Non-exempt CCT Agreements and other continuing connected transaction agreements (excluding Deposit Service Agreement), and the transactions contemplated thereunder and will be required to abstain from voting at the EGM on the resolutions in respect of the same.

The forms of proxy for use at the EGM and the Class Meeting for Holders of H Shares were despatched and also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.irasia.com/listco/hk/firsttractor](http://www.irasia.com/listco/hk/firsttractor)) on 16 September 2021. Whether or not you are able to attend the EGM and/or the Class Meeting for Holders of H Shares in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon. The relevant forms of proxy shall be lodged with (for holders of H Shares) the Company's branch share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (for holders of A Shares) 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 of the EGM and the Class Meeting for Holders of H Shares (or any adjourned meeting). Completion and delivery of the forms of proxy will not preclude you from attending and voting in person at the EGM and/or the Class Meeting for Holders of H Shares or any adjourned meeting if you so desire.

Pursuant to the Hong Kong Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. An announcement of the poll results of the EGM and the Class Meetings will be published by the Company in accordance with the requirements under the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the appendices to this circular.

Yours faithfully,  
On behalf of the Board  
**First Tractor Company Limited\***  
**YU Lina**  
*Company Secretary*

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts.*



**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)

12 October 2021

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS**

We refer to the circular (the “**Circular**”) dated 12 October 2021 issued by First Tractor Company Limited\* (the “**Company**”) to the Shareholders, of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Cap amounts thereunder, and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Cap amounts thereunder are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in respect of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Cap amounts thereunder.

We wish to draw your attention to (i) the “Letter from the Board”; (ii) the “Letter from Gram Capital” to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant Annual Cap amounts thereunder; and (iii) the additional information as set out in the appendices to the Circular.

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms and conditions of each of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and the relevant proposed Annual Cap amounts thereunder, and having taken into account the opinion of Gram Capital and, in particular, the factors, reasons and recommendations as set out in the “Letter from Gram Capital” on pages 61 to 82 of the Circular, we are of the opinion that the Non-exempt CCT Agreements are entered in the ordinary and usual course of business of the Company, the terms of the Non-exempt CCT Agreements are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and the Annual Caps are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions concerning the same to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Ms. Yang Minli      Ms. Wang Yuru      Mr. Edmund Sit**  
*Independent non-executive Directors*

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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 Non-exempt CCT Transactions 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

12 October 2021

*To: The independent board committee and the independent shareholders  
of First Tractor Company Limited\**

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS

#### 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 Non-exempt CCT Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 12 October 2021 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 defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the 2019–2021 CCT Agreements will expire on 31 December 2021. On 25 August 2021, the Company entered into the New Agreements (including the Non-exempt CCT Agreements), all for a term of three years commencing from 1 January 2022 to 31 December 2024 (both days inclusive). The Non-exempt CCT Agreements and the Non-exempt CCT Transactions are subject to the reporting, annual review and announcement requirements and the requirement to obtain approval from the Independent Shareholders under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Non-exempt CCT Transactions (including the proposed annual caps thereunder) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt CCT Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the

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## LETTER FROM GRAM CAPITAL

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Non-exempt CCT Transactions (including the proposed annual caps 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.

### **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 is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Non-exempt CCT Transactions. 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 Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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 therein 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, YTO, Sinomach, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt CCT Transactions. 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 Non-exempt CCT Transactions, we have taken into consideration the following principal factors and reasons:

#### Information of the Group

With reference to the Board Letter, the Group is principally engaged in the production and sales of agricultural machineries and power machineries. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and other accessories of tractors.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2020 and the six months ended 30 June 2021 as extracted from the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and the Company’s interim report for the six months ended 30 June 2021 (the “**2021 Interim Report**”) respectively:

	For the six months ended 30 June 2021 ( <i>unaudited</i> ) RMB	For the year ended 31 December 2020 ( <i>audited</i> ) RMB	For the year ended 31 December 2019 ( <i>audited</i> ) RMB	Change from 2019 to 2020 %
Total operating revenue	5,631,797,809.93	7,582,476,787.76	5,830,175,119.64	30.06
Operating profit	525,232,817.93	292,726,445.01	143,696,509.55	103.71
Net profit attributable to shareholders of the parent company	511,381,288.30	280,150,740.30	61,475,427.17	355.71

As illustrated in the above table, the Group’s total operating revenue was approximately RMB7.58 billion for the year ended 31 December 2020 (“**FY2020**”), representing an increase of approximately 30.06% as compared to that for the year ended 31 December 2019 (“**FY2019**”). During FY2020, the Group also recorded substantial increases of approximately 103.71% and 355.71% in operating profit and net profit attributable to shareholders of the parent company respectively as compared to those for FY2019. With reference to the 2020 Annual Report, the increase in revenue was mainly due to the year-on-year increase in sales volume of the Company’s major products. In addition, the increase in operating costs was lower than the increase in operating revenue given the Company’s continuous promotion of procurement cost control and enhancement of management and control of costs. This also led to increase in operating profit and net profit attributable to shareholders of the parent company.

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## LETTER FROM GRAM CAPITAL

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The Group's total operating revenue, operating profit and net profit attributable to shareholders of the parent company during the six months ended 30 June 2021 continued to grow and represented increases of approximately 36.80%, 57.57% and 58.15% as compared to those for the corresponding period in 2020.

With reference to the 2021 Interim Report, in 2021 (being the first year to implement the 14th Five-Year Plan), the Company adheres closely to the strategy of “comprehensively pushing forward rural vitalization and accelerating the modernization of agriculture and rural areas” and seizes opportunities brought by agriculture mechanization and upgrading of machinery and equipment in the industry. In particular, the Company strived to expand its market, promote growth, improve management and enhance revenues, maintaining a good growth momentum and operation performance, despite unchanged complicated and uncertain environment at home and abroad, the increasing raw material prices and new adjustments and changes in the industry. This laid a solid foundation for the Company to get off to a good start in the 14th Five-Year Plan period.

### **Information of YTO, YTO Group, Sinomach, Sinomach Finance (the “Connected Parties”) and YTO Finance**

Set out below is the information on the parties involved in the Non-exempt CCT Transactions as extracted from the Board Letter:

YTO is the immediate controlling Shareholder of the Company and is principally engaged in the production of specific transporting machineries, vehicles products and components, etc. YTO Group is principally engaged in the production of transporting machineries, vehicles products, industrial equipments and components.

Sinomach is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy machineries and engineering projects domestically and internationally, sales of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business. Sinomach is a controlling shareholder of YTO. Therefore, Sinomach and its subsidiaries are deemed as connected persons of the Company according to the Hong Kong Listing Rules.

Sinomach Finance is a non-wholly-owned subsidiary of Sinomach and is principally engaged in the provision of financial services including deposits taking, provision of loans, underwriting of corporate bonds, as well as finance leasing, financial and financing consultation, credit certification and related consultation and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loan, handling bills acceptance and discounting, and other financial services that may be approved by CBIRC, to members of the Sinomach group.

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## LETTER FROM GRAM CAPITAL

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YTO Finance, a subsidiary of the Company, is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of YTO Group. It has a registered capital of RMB500 million.

### **Reasons for and benefits of the continuing connected transactions contemplated under the New Agreements (including the Non-exempt CCT Agreements)**

With reference to the Board Letter, the Group and YTO Extended Group have been carrying out transactions with each other to facilitate their productions and operations since 1997. In view of the long-established relationship between the Group and YTO Extended Group, the geographical convenience between the Group and YTO Extended Group provides a reliable supply of raw material and provision of services, which are favourable to (i) the Company's effective control over the product performance and quality; and (ii) the after-sales services as it offers fast, convenient and timely communication and coordination between the transaction parties. The entering into of the New Agreements (including the Non-exempt CCT Agreements) can effectively lower the operation risk of both the Group and YTO Extended Group, and is favourable to the Company's daily operation and management of production.

The entering into of the New Agreements (including the Non-exempt CCT Agreements) is to renew the transaction arrangement under the 2019–2021 CCT Agreements.

Furthermore, in considering the reasons and benefits for entering into the financial services agreements (including the Loan Service Agreement and the Interbank Business Services Agreement) between YTO Finance and YTO/Sinomach Finance, the Directors have also considered the following key factors:

- (1) There are continuing connected transactions related to production between YTO and the Company, hence daily settlement services are needed; YTO Finance is the key platform for business settlement between the Company and YTO Extended Group; the timely settlement provided by YTO Finance has accelerated the Company's cash flow and increased the liquidity of the Company's assets.
- (2) Due to an increase in financial resources of YTO Finance and the seasonal characteristics in the production and sales of agricultural machinery products, YTO Finance could effectively enhance the utilisation efficiency of the Company's funds by providing financial services to YTO Extended Group when it has excess capital reserves in phases, thus bringing benefits to the Company. If a liquidity stress occurs, short term liquidity problems can be resolved through interbank business in order to ensure the funds required for the production operation of the Company. Meanwhile, entering into the Interbank Business Services Agreement is to further expand the choices in selecting counterparties of YTO Finance and to improve its bargaining power.

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## LETTER FROM GRAM CAPITAL

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- (3) The financing services provided by YTO Finance to the YTO Extended Group will be in strict compliance with the loan credit rating requirements and loan approval procedures according to a credit rating policy approved by the internal control committee. As YTO Finance fully understands the credibility and financial position of YTO Extended Group, the risk of the overall transactions is relatively low.

As advised by the Directors, given that the agricultural production is subject to significant seasonal factor, the Group's production and products are also subject to significant seasonal factor. The Group requires more fund for production cost such as raw material purchase during the production peak seasons. The interbank business services include interbank deposit and lending which can deal with the Group's short-term liquidity problem and improve the return of the Group's excess reserves.

With reference to the Company's overseas regulatory announcement dated 23 April 2020, YTO Group is a large equipment manufacturing group with agricultural machinery as its core product and power generating machines, special purpose vehicles and spare parts as its other diversified products. Since its foundation, YTO Group has been accumulating its core competitive advantages in technology, brand, market, talents etc. and making contribution to the development of agriculture, rural areas and farmers of the PRC.

Having considered the above reasons and benefits of the continuing connected transactions and the background of YTO and Sinomach, we are of the view that entering into the Non-exempt CCT Agreements are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

### **Principal terms of the Non-exempt CCT Transactions**

#### **A. Material Procurement Agreement**

##### ***1. Principal terms***

###### **Date**

25 August 2021

###### **Parties**

- (1) YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach, as supplier and/or supplying agent; and
- (2) The Company, on behalf of the Group, as purchaser and/or purchasing agent.

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## LETTER FROM GRAM CAPITAL

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### **Goods to be provided**

Goods required for the production and operation of the Group, including but not limited to raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and lubricating oil), other industrial equipment (including machine tools), components (including clamping apparatus and moulds) and spare parts (including oil injection pumps).

### **Term**

From 1 January 2022 to 31 December 2024

### **Payment terms**

Shall be principally settled within three months from the date of confirmation of receiving the goods by the purchaser. Subject to negotiations between the parties, prepayments by the purchaser of no more than six months from the estimated date of delivery of the goods are acceptable.

With reference to the Board Letter, these payment terms were usually adopted by the Company in its transactions with independent third parties or YTO. Such terms are on normal commercial terms and not less favourable than those offered to the Company by independent third parties.

## **2. Pricing policy**

Under the Material Procurement Agreement, the price of the goods to be provided will be determined based on the following:

- (1) the market price of an independent third party obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between YTO Group, associates of YTO, Sinomach, the subsidiaries or associates of Sinomach and an independent third party and
- (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).

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## LETTER FROM GRAM CAPITAL

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YTO undertakes that the applicable price of the goods offered to the Group shall not be less favourable than that offered to independent third party customers of YTO Group, associates of YTO, Sinomach and the subsidiaries and associates of Sinomach for the same or similar goods.

We randomly selected from a list of historical material procurement transactions for each of the two years ended 31 December 2020 and the six months ended 30 June 2021 and reviewed three sets of previous individual executed contracts/agreements entered into between (a) the Group and members of the Connected Parties (with relevant internal approval records); and (b) the Group and independent third parties (in particular, the pricing and cost breakdown (if applicable)) (the “**Material Procurement Transactions Review**”). We consider such review covering the historical periods under the previous material procurement agreement dated 29 August 2018 on a random sampling basis to be sufficient from the independent financial adviser’s perspective.

We noted that the reviewed individual contracts/agreements entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policies (1) and (3) above and nothing has come to our attention that causes us to believe that such individual contracts/agreements did not follow the Internal Control Policies.

With reference to the Board Letter, to ensure the Group’s conformity with the pricing policies of the New Agreements (including the Non-exempt CCT Agreements) from time to time, the Group adopts a series of internal control policies (the “**Internal Control Policies**”) on its daily operation. The Internal Control Policies are conducted and supervised by the finance department, office of the Board, the independent non-executive Directors and audit and legal department of the Company and the relevant committee of YTO Finance. Details of the Internal Control Policies are set out under the section headed “MEASURE OF INTERNAL CONTROL” of the Board Letter.

For our due diligence purpose, we obtained a copy of the Internal Control Policies. The Directors are of the view that the above internal control measures can ensure that the transactions under the New Agreements (including the Non-exempt CCT Agreements) will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders.

We consider that the effective implementation of the Internal Control Policies can ensure the transactions under the Material Procurement Agreement (the “**Material Procurement Transactions**”) to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

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## LETTER FROM GRAM CAPITAL

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With reference to the 2020 Annual Report and as confirmed by the Directors, the independent non-executive Directors have reviewed, among other things, the continuing connected transactions (including the Material Procurement Transactions) for the year ended 31 December 2020 and confirmed, the continuing connected transactions were (i) entered into in the ordinary and usual course of business of the Group; (ii) entered into on normal commercial terms; and (iii) conducted on terms of the agreements governing them, which are fair and reasonable and in the interests of the Shareholders as a whole (the “**INED Confirmation**”).

The Company’s auditors were also engaged to report on the Group’s continuing connected transactions (including the Material Procurement Transactions) for the year ended 31 December 2020 pursuant to Chapter 14A of the Hong Kong Listing Rules. The auditors of the Company confirmed to the Board that the continuing connected transactions for the year ended 31 December 2020 (i) had obtained the approval of the Board; (ii) were conducted in accordance with the pricing policy of the Group and the terms of the relevant agreements; and (iii) did not exceed the cap amounts as disclosed in the relevant announcements (and if applicable, as approved by the independent shareholders of the Company) at any time during FY2020 (the “**Auditor Confirmation**”).

Having considered the Material Procurement Transactions Review, the INED Confirmation and the Auditor Confirmation, we have no doubt on the effectiveness of the Internal Control Policies implementation.

In light of the above, we are of the view that the pricing policy of the Material Procurement Agreement is fair and reasonable.

### **3. Proposed annual caps**

Set out below are the details of (i) the historical amounts of Material Procurement Transactions for the two years ended 31 December 2020 and the six months ended 30 June 2021 (together with their respective annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2024 in respect of the Material Procurement Transactions as extracted from the Board Letter:

	For the year ended 31 December 2019 <i>RMB'000</i>	For the year ended 31 December 2020 <i>RMB'000</i>	For the six months ended 30 June 2021 <i>RMB'000</i>
Historical transaction amounts	425,150	617,100	345,820
Annual caps	860,000	950,000	1,040,000 ( <i>Note</i> )

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## LETTER FROM GRAM CAPITAL

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	For the year ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual caps	710,000	710,000	750,000

*Note:* The annual cap is for the year ending 31 December 2021.

With reference to the Board Letter, the proposed annual caps under the Material Procurement Agreement were determined with reference to the following factors: (1) the historical transaction amounts; and (2) adhering to the sales strategy of providing complete solutions to customers, the Company will increase the number of harvesting machinery and agricultural machinery purchased from YTO to meet the growing needs of the customers for full-process and full-scale mechanisation in operation from 2020 to 2024.

We noticed that the utilisation rates of the annual caps for Material Procurement Transactions for the two years ended 31 December 2020 were approximately 49% and 65% respectively. As advised by the Directors, the estimated amounts of Material Procurement Transactions will be approximately RMB648 million for the year ending 31 December 2021 (“**FY2021**”). Such estimated amount was determined based on approximately 5% growth reflecting the Group’s procurement demand for its increasing sales. Accordingly, the estimated annual cap utilization rate will be approximately 62%.

Given the historical and estimated annual cap utilization rates above, we consider that it is reasonable for the Company to set a substantially lower annual cap for the year ending 31 December 2022 (“**FY2022**”) as compared to the annual cap for FY2021.

As advised by the Directors, the Company does not expect substantial growth in the amount of Material Procurement Transactions in FY2022 and the year ending 31 December 2023 (“**FY2023**”) as compared to their respective prior year in view of the fierce competition in the industry. Accordingly, the proposed annual caps for Material Procurement Transactions in FY2022 and FY2023 were set at RMB710 million, which is approximately 10% more than the estimated amount of Material Procurement Transactions for FY2021 (the “**FY2022 Increase**”).

With reference to the Board Letter, the expected increase in corn planting areas and the demand for full-scale mechanisation, there will be an increase in demand for harvesting and agricultural machinery. The increase will drive up the demand for harvesting and agricultural machinery, in response to which the Company will increase the number of harvesting machinery and agricultural machinery to be purchased from YTO to meet the growing needs of customers for full-process and full-scale mechanisation in operation from 2020 to 2024.



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## LETTER FROM GRAM CAPITAL

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As the price of raw materials such as steel and iron will continue to fluctuate, it is therefore determined that the annual cap for FY2022 is to be approximately 10% higher than the estimated amount of Material Procurement Transactions for FY2021.

We consider the FY2022 Increase to be reasonable and the annual cap for FY2022 can cover possible moderate growth for the Material Procurement Transactions in FY2022.

We noticed that the proposed annual cap for the Material Procurement Transactions for the year ending 31 December 2024 (“**FY2024**”) was set at RMB750 million, which is approximately 6% higher than that for FY2023. With reference to the Board Letter and as confirmed by the Directors, such higher proposed annual cap was set for catering further possible growth for the Material Procurement Transactions in FY2024, which may be led by impact of continuous development in agricultural industry, fluctuation in raw materials price and possible increase in price caused by inflation. We consider such moderate increase in proposed annual cap for FY2024 to be reasonable.

In light of the above, we consider that the proposed annual caps under the Material Procurement Agreement are fair and reasonable.

Shareholders should note that as the proposed annual caps under the Material Procurement Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of cost to be incurred under the Material Procurement Transactions. Consequently, we express no opinion as to how closely the actual cost to be incurred under the Material Procurement Transactions will correspond with proposed annual caps under the Material Procurement Agreement.

Having considered the principal terms of the Material Procurement Transactions as set out above, we are of the view that the terms of the Material Procurement Transactions (including the proposed annual caps) are on normal commercial terms and are fair and reasonable.

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## LETTER FROM GRAM CAPITAL

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### **B. Loan Service Agreement**

#### **1. *Principal terms***

##### **Date**

25 August 2021

##### **Parties**

- (1) YTO Finance, a subsidiary of the Company; and
- (2) YTO, on behalf of YTO Extended Group

##### **Financial services to be provided**

Provision of loan services by YTO Finance to the YTO Extended Group

##### **Term**

From 1 January 2022 to 31 December 2024

##### **Payment terms**

Shall be specified on each separate loan contract to be agreed by the parties.

##### **Security**

YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure YTO Extended Group's liabilities arising from the performance of the Loan Service Agreement.

##### **Undertaking**

YTO undertakes that the deposit maintained by YTO Group with YTO Finance should be greater than the loan balance of YTO Group at all times. If YTO Group breaches such undertaking, YTO Finance has the right to restrict payment to any third parties by YTO Group from its deposit maintained with YTO Finance, or request YTO Group to increase its deposit balance with YTO Finance.

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## LETTER FROM GRAM CAPITAL

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### **Rights to demand for early repayment**

YTO Finance shall first satisfy the funding needs of the Group. Depending on the condition of shortfall of funding of the Group, YTO Finance has the right to issue a termination or terms amendment notice to YTO Extended Group, requesting for termination or amendments to the terms of the loans granted to YTO Extended Group so as to collect the money to support the production operation of the Group.

We consider the above undertaking and rights to demand for early repayment can reduce the credit risk and liquidity risk of YTO Finance.

### **2. Pricing policy**

With reference to the Board Letter, the service fees to be charged by YTO Finance for any loan services will be determined based on the following:

- (1) the rate prescribed by CBIRC or PBOC (including the benchmark interest rate prescribed by the PBOC from time to time and published on PBOC's website for the same type and same period of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing));
- (2) if the above rate is not applicable (e.g. in the event that the rate prescribed by CBIRC or PBOC cannot compensate for the lending risk of YTO Finance after its evaluation on the creditability of the borrowers and the market condition), the rate charged in the same industry in the PRC for the same type and same period of loans by enquiries in the market; or
- (3) if none of the above is applicable, one determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees offered to YTO Extended Group by YTO Finance shall not be more favourable than those offered to independent third party customers of YTO Finance for the same services.

We randomly selected from a list of historical loan services for each of the two years ended 31 December 2020 and the six months ended 30 June 2021 and reviewed three sets of previous individual executed loan contracts entered into between the Group and members of the Connected Parties (in particular, the interest rate charged and its basis). We consider such review covering the historical periods under the previous loan service agreement dated 29 August 2018 on a random sampling basis to be sufficient from the independent financial adviser's perspective.

## LETTER FROM GRAM CAPITAL

We noted that the previous individual executed loan contracts entered into between the Group and members of the Connected Parties were negotiated and entered into based on the pricing policy (1) above and nothing has come to our attention that causes us to believe that such individual loan contracts entered into between the Group and members of Connected Parties did not follow the Internal Control Policies.

As aforementioned, for our due diligence purpose, we obtained a copy of the Internal Control Policies adopted by the Group to ensure the Group's conformity with the pricing policies of the New Agreements (including the Non-exempt CCT Agreements) from time to time. We consider that the effective implementation of the Internal Control Policies can ensure the loan service under the Loan Service Agreement (the “**Loan Service**”) to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the pricing policy of the Loan Service Agreement is fair and reasonable.

### 3. ***Proposed annual caps***

Set out below are the details of (i) the historical maximum outstanding amounts in respect of the Loan Service for the two years ended 31 December 2020 and the six months ended 30 June 2021 (together with their respective annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2024 in respect of the Loan Service as extracted from the Board Letter:

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2020</b>	<b>For the six months ended 30 June 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Historical maximum outstanding amounts	1,132,150	953,240	892,150
Annual caps	1,150,000	1,300,000	1,450,000 ( <i>Note</i> )
	<b>For the year ending 31 December 2022</b>	<b>For the year ending 31 December 2023</b>	<b>For the year ending 31 December 2024</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Proposed annual caps	1,000,000	1,100,000	1,200,000

*Note:* The annual cap is for the year ending 31 December 2021.

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## LETTER FROM GRAM CAPITAL

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With reference to the Board Letter, the proposed annual caps in respect of the Loan Service are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions;
- (2) YTO Finance's capital management strategy: YTO Finance's average financial resources as at the end of each month in the first half of 2021 amounted to RMB4,730 million; the average balance of loans and discounts as at the end of each month amounted to RMB2,210 million, representing approximately 47% of the average financial resources, the average financial resources for the next three years are expected to be approximately RMB4,800 million, RMB5,000 million and RMB5,200 million, respectively (the "**Expected Financial Resources**"), and the total amount of loans and discounts for the next three years are expected to be RMB2,256 million, RMB2,350 million and RMB2,444 million, respectively; and
- (3) YTO's business development plan and needs for loan business: according to YTO's 14th Five-Year Plan business development plan and capital needs, it is estimated that from 2022 to 2024, loans and discounts from related parties will account for 48%, 53% and 58% of YTO Finance's total loans and bill discounts (the "**Estimated Related Parties Financing Ratio**"), with an average ratio of 53%. From 2022 to 2024, the total loans and bill discounts of YTO in YTO Finance are estimated to be RMB1.1 billion, RMB1.25 billion and RMB1.4 billion. According to the historical data on loans and bill discounts from related parties of YTO Finance, the loans and bills discounts accounted for 90% and 10%, respectively, of the total loans and bill discounts (the "**Loans/Bill Discounts Ratio**"). Therefore, the balance of loans of YTO maintained at YTO Finance at any time point during the period from 2022 to 2024 will not exceed RMB1 billion, RMB1.1 billion and RMB1.2 billion.

We noticed that the utilisation rates of the annual caps for Loan Service for the two years ended 31 December 2020 were approximately 98% and 73% respectively and the historical maximum outstanding amounts in respect of the Loan Service for the six months ended 30 June 2021 only reached approximately 62% of the annual cap for Loan Service for FY2021. Accordingly, we consider that it is reasonable for the Company to set a substantially lower proposed annual cap for FY2022 as compared to the annual cap for FY2021, and incorporate a moderate growth in the proposed annual caps for FY2023 and FY2024 after taking into account the basis of determining the proposed annual caps for Loan Service for the three years ending 31 December 2024 as set out above.

For our due diligence purpose, we obtained the calculation of the proposed annual caps for Loan Service for the three years ending 31 December 2024. We noticed that such calculation is consistent with the basis of determining the proposed annual caps for Loan Service for the three years ending 31 December 2024 as set out above.

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## LETTER FROM GRAM CAPITAL

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Upon our enquiry, the Directors advised us that (i) the Expected Financial Resources was determined based on historical deposit acceptance amount and accumulated capital with moderate growth; and (ii) the Estimated Related Parties Financing Ratio was determined based on historical ratio with moderate growth. The Company also provided us historical data which demonstrated the Loans/Bill Discounts Ratio.

In light of the above, we consider that the proposed annual caps under the Loan Service Agreement are fair and reasonable.

Shareholders should note that as the proposed annual caps under the Loan Service Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of outstanding amounts of the Loan Service. Consequently, we express no opinion as to how closely the actual outstanding amounts of the Loan Service will correspond with proposed annual caps under the Loan Service Agreement.

Having considered the principal terms of the Loan Service as set out above, we are of the view that the terms of the Loan Service (including the proposed annual caps) are on normal commercial terms and are fair and reasonable.

### **C. Interbank Business Services Agreement**

#### **1. Principal terms**

##### **Date**

25 August 2021

##### **Parties**

- (1) YTO Finance, a subsidiary of the Company; and
- (2) Sinomach Finance, a subsidiary of Sinomach

##### **Financial services to be provided**

Mutual provision of financing services between YTO Finance and Sinomach Finance including interbank deposit, lending, credit assets transfer (i.e. sales or purchases of undue credit assets, such as loan contracts, by transferring its ownership).

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## LETTER FROM GRAM CAPITAL

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### **Term**

From 1 January 2022 to 31 December 2024

### **Payment terms**

Shall be specified on each separate contract to be agreed by the parties.

### **Security**

YTO Finance may request Sinomach Finance to provide pledge of assets or other guarantees to secure the liabilities of Sinomach Finance arising from its performance under the Interbank Business Services Agreement.

## **2. Pricing policy**

With reference to the Board Letter, the service fees charged by YTO Finance and Sinomach Finance to each other for different financing services will be determined based on the following:

- (1) the SHIBOR announced by Shanghai Interbank Offered Market in the same type and same period of transaction for interbank lending and interbank bond transactions rate for bond transactions conducted between financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks);
- (2) if the above rate is not applicable, with reference to the price for deposits of the same or similar type and period of funds announced by other financial institution for interbank deposit (including state-owned commercial banks, joint-equity banks and urban commercial banks);
- (3) if the above rates are not applicable, with reference to the market price for capital financing in respect of target matter announced by other financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks) in the case of capital financing where financial assets are subject to sale and purchase or pledge; or
- (4) if none of the above is applicable, after arm's length negotiation between the counterparties after considering their financial positions and terms, size and quality of the financial assets.

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## LETTER FROM GRAM CAPITAL

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Sinomach Finance undertakes that the applicable price of the capital inflow service offered to YTO Finance, being the party with capital inflow from the other party, by Sinomach Finance shall not be less favourable than those offered to independent third party customers of Sinomach Finance for the same or similar services. On the other hand, YTO Finance undertakes that the applicable price of the capital outflow service offered by YTO Finance to Sinomach Finance, being the party with capital inflow from the other party, shall not be more favourable than those offered to independent third party customers of YTO Finance for the same or similar services.

We randomly selected from a list of historical interbank business services for each of the two years ended 31 December 2020 and the six months ended 30 June 2021 and reviewed three previous individual executed contracts entered into between YTO Finance and Sinomach Finance (in particular, the lending and deposit rates and their basis). We consider such review covering the historical periods under the previous interbank business services agreement dated 29 August 2018 on a random sampling basis to be sufficient from the independent financial adviser's perspective.

We noted that the reviewed individual contracts entered into between YTO Finance and Sinomach Finance were negotiated and entered into based on the pricing policy (1) above and nothing has come to our attention that causes us to believe that such individual contracts did not follow the Internal Control Policies.

As aforementioned, for our due diligence purpose, we obtained a copy of the Internal Control Policies adopted by the Group to ensure the Group's conformity with the pricing policies of the New Agreements (including the Non-exempt CCT Agreements) from time to time. We consider that the effective implementation of the Internal Control Policies can ensure the interbank business services under the Interbank Business Services Agreement (the "**Interbank Services**") to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the pricing policy of the Interbank Business Services Agreement is fair and reasonable.



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## LETTER FROM GRAM CAPITAL

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### 3. *Proposed annual caps*

Set out below are the details of (i) the historical maximum outstanding amounts in respect of the Interbank Services for the two years ended 31 December 2020 and the six months ended 30 June 2021 (together with their respective annual caps); and (ii) the proposed annual caps in respect of the Interbank Services for the three years ending 31 December 2024 as extracted from the Board Letter:

	For the year ended 31 December 2019 <i>RMB'000</i>	For the year ended 31 December 2020 <i>RMB'000</i>	For the six months ended 30 June 2021 <i>RMB'000</i>
Historical maximum outstanding amounts	200,000	600,000	600,000
Annual caps	1,000,000	1,000,000	1,000,000 ( <i>Note</i> )

  

	For the year ending 31 December 2022 <i>RMB'000</i>	For the year ending 31 December 2023 <i>RMB'000</i>	For the year ending 31 December 2024 <i>RMB'000</i>
Proposed annual caps	800,000	800,000	800,000

*Note:* The annual cap is for the year ending 31 December 2021.

With reference to the Board Letter, the proposed annual caps in respect of the Interbank Services are determined with reference to the following factors:

- (1) with reference to actual amount of historical transactions;
- (2) relevant regulatory requirements for interbank business: In accordance with the Measures for Management of Interbank Borrowings 《同業拆借管理辦法》(the “**Interbank Borrowings Measures**”), the interbank borrowing cap and lending cap of the finance company of enterprise group shall not be more than 100% of the entity’s paid-in capital. The registered capital of YTO Finance is RMB500 million, the interbank borrowing cap and interbank lending cap of the business is RMB400 million, which meets the regulatory requirements; and

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## LETTER FROM GRAM CAPITAL

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- (3) YTO Finance's actual business needs: In order to prevent and control risks, YTO Finance has been reducing the scale of its financial investment business year by year. At the same time, in order to improve the utilisation efficiency of periodic redundant funds and increase the revenue, YTO Finance invest the periodic redundant funds into the interbank businesses with relatively higher revenue and lower risk after taking into account the capital requirements of the Company's production and operation.

We noticed that the utilisation rates of the annual caps for Interbank Services for the two years ended 31 December 2020 were 20% and 60% respectively and the historical maximum outstanding amounts in respect of the Interbank Services for the six months ended 30 June 2021 only reached approximately 60% of the annual cap for Interbank Services for FY2021. Accordingly, we consider that it is reasonable for the Company to set a substantially lower proposed annual cap for FY2022 as compared to the annual cap for FY2021.

Upon our enquiry, the Directors advised us that:

- (i) The proposed annual caps for FY2023 and FY2024 were set to be the same with that for FY2022 as the Company does not expect substantial increase in demand for the Interbank Services during FY2023 and FY2024.
- (ii) The proposed annual cap for each of FY2022, FY2023 and FY2024 was set at RMB800 million and split into (a) RMB400 million for interbank lending; and (b) RMB400 million for interbank borrowing.

We noticed that this arrangement is consistent with the basis of determining the proposed annual caps for Interbank Services as set out above and meet requirements of the Interbank Borrowings Measures.

- (iii) The proposed annual cap of RMB800 million for each of FY2022, FY2023 and FY2024 was set higher than the historical maximum outstanding amounts in respect of the Interbank Services for the six months ended 30 June 2021 to cover for potential growth of the Interbank Services.

In light of the above, we consider that the proposed annual caps under the Interbank Business Services Agreement are fair and reasonable.

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## LETTER FROM GRAM CAPITAL

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Shareholders should note that as the proposed annual caps under the Interbank Business Services Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of outstanding amounts of the Interbank Services. Consequently, we express no opinion as to how closely the actual outstanding amounts of the Interbank Services will correspond with proposed annual caps under the Interbank Business Services Agreement.

Having considered the principal terms of the Interbank Services as set out above, we are of the view that the terms of the Interbank Services (including the proposed annual caps) are on normal commercial terms and are fair and reasonable.

### **Hong Kong Listing Rules implication**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the Non-exempt CCT Transactions must be restricted by their respective proposed annual caps; (ii) the terms of the Non-exempt CCT Transactions (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Non-exempt CCT Transactions must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Non-exempt CCT Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the proposed annual caps. In the event that the total amounts of the Non-exempt CCT Transactions are anticipated to exceed their respective proposed annual caps, or that there is any proposed material amendment to the terms of the Non-exempt CCT Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt CCT Transactions and thus the interest of the Independent Shareholders would be safeguarded.

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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 the Non-exempt CCT Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Non-exempt CCT Transactions are conducted in the ordinary and usual course of business of the Group and are 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 resolutions to be proposed at the EGM to approve the Non-exempt CCT Agreements and the Non-exempt CCT Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions 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 25 years of experience in investment banking industry.

\* *For identification purpose only*

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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**I.     THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION ARE AS FOLLOWS:**

Original articles	Amended articles
<p><b>Article 8</b> These Articles are prepared mainly pursuant to the Company Law, the “Mandatory Provisions for Articles of Association of the Companies to be Listed Overseas” (Zheng Wei Fa [1994] No. 21) (hereafter as the “Mandatory Provisions”) issued by the State Council Securities Policy Committee and the State Commission for Restructuring the Economic System on 27 August 1994, “Letter Regarding Opinion on Supplementary Amendments to Articles of Association of Companies to be Listed in Hong Kong” (Zheng Jian Hai Han [1995] No. 1) issued by Overseas Listing Division of China Securities Regulatory Commission and the State Commission for Restructuring the Economic System on 3 April 1995 and Guidelines on Articles of Association of Listed Companies (as amended in 2019) issued by China Securities Regulatory Commission on 16 March 2006. The amendments to the Articles of Association in relation to the Mandatory Provisions shall be made in accordance with Article 260.</p>	<p><b>Article 8</b> These Articles are prepared mainly pursuant to the Company Law, the “Mandatory Provisions for Articles of Association of the Companies to be Listed Overseas” (Zheng Wei Fa [1994] No. 21) (hereafter as the “Mandatory Provisions”) issued by the State Council Securities Policy Committee and the State Commission for Restructuring the Economic System on 27 August 1994, “Letter Regarding Opinion on Supplementary Amendments to Articles of Association of Companies to be Listed in Hong Kong” (Zheng Jian Hai Han [1995] No. 1) issued by Overseas Listing Division of China Securities Regulatory Commission and the State Commission for Restructuring the Economic System on 3 April 1995, the Official Reply on the Adjustment of the Provisions Applicable to the Notice Period of Convening General Meetings of Shareholders and Other Matters Applicable to the Companies Listed Abroad issued by the State Council on 22 October 2019 and Guidelines on Articles of Association of Listed Companies (as amended in 2019) issued by China Securities Regulatory Commission on 16 March 2006. The amendments to the Articles of Association in relation to the Mandatory Provisions shall be made in accordance with Article 259.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
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Original articles	Amended articles
<p><b>Article 53</b> No changes resulting from share transfers may be made to the register of members within 30 days prior to a shareholders' general meeting or 5 days prior to the determination date for the Company's distribution of dividends.</p> <p>The provision aforementioned only applies to the shareholders of overseas listed foreign shares listed on the Hong Kong Stock Exchange. Registration of any changes made to the register of the shareholders of A shares is subject to the applicable domestic laws and regulations. The interval between the date of book closure for the shareholders of A shares and the date of the general meeting shall not be more than 7 working days. Once the date of book closure for the general meeting is determined, it shall not be changed.</p>	<p><b>Article 53</b> Where the laws, administrative regulations, departmental rules, regulatory documents, and stock exchanges or regulatory authorities in the jurisdictions where the shares of the Company are listed, have requirements on the book closure period of share transfer registration prior to the convention of general meetings and the record date regarding the Company's decision to distribute dividend, such requirements should be followed.</p>
<p><b>Article 79</b> When the Company is to hold a general meeting, it shall issue a notice by means of a public announcement or other means (if necessary) as prescribed in the Articles of Association 45-60 days prior to the meeting informing all the registered shareholders of the matters to be examined at the general meeting as well as the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting. Where there are domestic regulations or rules of procedures for general meetings governing the book closure date for shareholders of A shares to attend a general meeting and the date for giving a written reply by the shareholders of A shares in respect of attending the meeting, those regulations and rules shall be followed.</p>	<p><b>Article 79</b> When the Company is to hold an annual general meeting, it shall issue a notice by means of a public announcement or other means (if necessary) as prescribed in the Articles of Association twenty (20) working days prior to the annual general meeting informing all the shareholders of the time, the place and the matters to be considered at the meeting. For the extraordinary general meeting, the Company shall, fifteen (15) days or ten (10) working days (whichever is later) prior to the convening of the meeting, issue a notice by means of a public announcement or other means (if necessary) as prescribed in the Articles of Association informing all the shareholders of the time, the place and the matters to be considered at the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting within the prescribed time as specified in the notice of the general meeting.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
<p><b>Article 82</b> The Company shall, based on the written replies which it receives from the shareholders twenty (20) days before the date of the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders intending to attend the meeting is more than half of the total number of the Company’s voting shares, the Company may hold the general meeting. Otherwise, the Company shall within five (5) days inform the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may hold the general meeting.</p>	<p>Deleted</p>
<p><b>Article 87</b></p> <p>...</p> <p>The notice of a general meeting to holders of domestic shares shall be published on one (1) or more national newspapers designated by the securities authority of the State Council or via other means permitted by the securities authority of the State Council from time to time within forty-five (45) days to fifty (50) days before the date of the meeting; after the publication or issue of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant general meeting.</p>	<p><b>Article 86</b></p> <p>...</p> <p>The notice of a general meeting to holders of domestic shares shall be published on the websites of the securities exchanges and one (1) or more national newspapers designated by the securities authority of the State Council or via other means permitted by the securities authority of the State Council from time to time within the period specified in Article 79 of the Articles of Association; after the publication or issue of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant general meeting.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
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THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
<p>The notice of a general meeting to holders of foreign-invested shares shall be published on the Company’s website and/or the website of the stock exchange where the overseas-listed foreign-invested shares are listed within forty-five (45) days to sixty (60) days before the date of the meeting. In case that the laws and regulations and the Listing Rules where shares of the Company are listed are complied with, the holders of foreign-invested shares shall be deemed to have received the notice of the relevant general meeting after the publication of such notice.</p>	<p>The notice of a general meeting to holders of foreign-invested shares shall be published on the Company’s website and/or the website of the stock exchange where the overseas-listed foreign-invested shares are listed within the period specified in Article 79 of the Articles of Association. In case that the laws and regulations and the Listing Rules where shares of the Company are listed are complied with, the holders of foreign-invested shares shall be deemed to have received the notice of the relevant general meeting after the publication of such notice.</p>
<p><b>Article 99</b> The Board, Independent Directors and those shareholders who have met the relevant requirements (to be determined by the standards promulgated by the competent regulatory authorities from time to time) may openly collect their voting rights at the general meeting from the Company’s shareholders. If the collector openly collects the voting rights of the Company’s shareholders, the collector shall comply with the requirements of the relevant regulatory authorities and the stock exchange(s) on which the Company’s shares are listed.</p>	<p><b>Article 98</b> The Board, Independent Directors and those shareholders who have met the relevant requirements (to be determined by the relevant laws and regulations and the standards promulgated by the competent regulatory authorities from time to time) or investor protection institutions established in accordance with laws, administrative regulations or the provisions of the securities regulatory authorities under the State Council may, acting as the solicitors or entrusting securities companies or securities service institutions in the capacity of collector, publicly request the shareholders of the Company to entrust it to attend the general meetings and exercise the rights of shareholders such as the right to propose proposals and the voting rights on their behalf.</p>



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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
<p>Shareholders' voting rights shall be solicited with sufficient disclosure of the concrete voting intention to the owner of the voting rights. Consideration or de facto consideration for soliciting shareholders' voting rights is prohibited. The Company shall not set a minimum shareholding ratio threshold for soliciting the voting rights.</p>	<p>Where the rights of shareholders are solicited in accordance with the provisions of set out above, the solicitors shall disclose the solicitation documents and the Company shall cooperate.</p> <p>Consideration or de facto consideration for soliciting shareholders' voting rights is prohibited.</p> <p>Where the public solicitation of shareholders' rights violates laws, administrative regulations or relevant provisions of the securities regulatory authorities under the State Council, thus causing the listed company or its shareholders to suffer losses, the solicitors shall be liable for compensation according to laws.</p>
<p><b>Article 125</b> When the Company is to hold a class meeting, it shall issue a notice by means of a public announcement or other means as prescribed in the Articles of Association 45 days prior to the date of meeting informing all the registered shareholders of that class of the matters to be examined at the class meeting as well as the date and place of the meeting. Shareholders that intend to attend the class meeting shall, within 20 days prior to the day of the meeting, deliver a written reply to the Company on meeting attendance.</p> <p>...</p>	<p><b>Article 124</b> When the Company is to hold a class meeting, it shall issue a notice by means of a public announcement or other means with reference to the requirements under Article 79 of the Articles of Association in relation to the notice period of the general meeting informing all the registered shareholders of that class of the matters to be examined at the class meeting as well as the date and place of the meeting. Shareholders that intend to attend the class meeting shall, within the time specified in the notice of the meeting, deliver a written reply to the Company on meeting attendance.</p> <p>...</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
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THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
<p><b>Article 136</b> The Board of Directors shall be accountable to the general meeting and shall exercise the following functions and powers:</p> <p>...</p> <p>(9) To decide on the appointment or dismissal of the manager of the Company and on matters concerning his remuneration, and to decide on the appointment or dismissal of the deputy general manager(s) and chief financial officer as proposed by the manager and on matters concerning their remuneration;</p> <p>(16) To manage the information disclosure of the Company;</p> <p>(17) To propose at general meetings for the appointment or change of auditors;</p> <p>(18) To decide to acquire shares of the Company for employee stock ownership plan and share option incentives, to use the shares for conversion into convertible corporate bonds issued by the Company or to maintain corporate value and shareholders' interests as the Company deems necessary;</p> <p>(19) To exercise any other powers conferred by general meetings and the Articles of Association.</p>	<p><b>Article 135</b> The Board of Directors shall be accountable to the general meeting and shall exercise the following functions and powers:</p> <p>...</p> <p>(9) To decide on the appointment or dismissal of the manager of the Company and on matters concerning his remuneration, and to decide on the appointment or dismissal of the deputy general manager(s) and chief financial officer as proposed by the manager and on matters concerning their performance appraisal and remuneration;</p> <p>(16) To manage the employee salary distribution of the Company;</p> <p>(17) To decide on the establishment and improvement of internal control system of the Company, and conduct effective monitoring;</p> <p>(18) To manage the information disclosure of the Company;</p> <p>(19) To propose at general meetings for the appointment or change of auditors;</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
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Original articles	Amended articles
<p>Except for the resolutions of the Board in respect of the matters specified in clauses (6), (7), (11), (12), (14) and (18) of the preceding Article which shall be passed by two-thirds or more of the Directors, the resolutions of the Directors in respect of all other matters may be passed by more than one half of the Directors.</p> <p>...</p>	<p>(20) To decide to acquire shares of the Company for employee stock ownership plan and share option incentives, to use the shares for conversion into convertible corporate bonds issued by the Company or to maintain corporate value and shareholders' interests as the Company deems necessary;</p> <p>(21) To exercise any other powers conferred by the shareholders in general meetings.</p> <p>Except for the resolutions of the Board in respect of the matters specified in clauses (6), (7), (11), (12), (14) and (20) of the preceding Article which shall be passed by two-thirds or more of the Directors, the resolutions of the Directors in respect of all other matters may be passed by more than one half of the Directors.</p> <p>...</p>
<p><b>Article 264</b></p> <p>...</p> <p>(3) The notice given to holders of domestic shares by the Company shall be published with a public announcement in one or more newspapers or periodicals designated by the state's securities regulatory institution. Such notice shall be deemed to have been received by all the holders of domestic shares once such a public announcement has been published.</p>	<p><b>Article 263</b></p> <p>...</p> <p>(3) The notice given to holders of domestic shares by the Company shall be published on the websites of the stock exchanges and with a public announcement in one or more newspapers or periodicals designated by the state's securities regulatory institution. Such notice shall be deemed to have been received by all the holders of domestic shares once such a public announcement has been published.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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**II.    THE PROPOSED AMENDMENTS TO THE RULES OF PROCEDURE FOR GENERAL MEETINGS ARE AS FOLLOWS:**

Original articles	Amended articles
<p><b>Articles 1</b> In order to regulate the behavior of First Tractor Company Limited (hereinafter referred to as the “Company”), protect the lawful exercise of their rights for shareholders, ensure the efficient and standardized operation and scientific decision-making of the general meetings, and improve the corporate governance structure, in accordance with the “Company Law of the People’s Republic of China” (hereinafter referred to as “Company Law”), the “Securities Law of the People’s Republic of China” (hereinafter referred to as “Securities Law”), the “Rules for the General Meetings of the Company” (hereinafter referred to as “Rules for the General Meeting of the Company”) and other relevant laws and regulations, the relevant requirements of Shanghai Securities Exchange and the Hong Kong Stock Exchange, as well as the “Articles of Association of First Tractor Company Limited” (hereinafter referred to as the “Articles of Association”), these rules are formulated.</p>	<p><b>Articles 1</b> In order to regulate the behavior of First Tractor Company Limited (hereinafter referred to as the “Company”), protect the lawful exercise of their rights for shareholders, ensure the efficient and standardized operation and scientific decision-making of the general meetings, and improve the corporate governance structure, in accordance with the “Company Law of the People’s Republic of China” (hereinafter referred to as “Company Law”), the “Securities Law of the People’s Republic of China” (hereinafter referred to as “Securities Law”), the “Rules for the General Meetings of the Company” (hereinafter referred to as “Rules for the General Meeting of the Company”), the Official Reply of the State Council on the Adjustment of the Provisions Applicable to the Notice Period of Convening General Meetings of Shareholders and Other Matters Applicable to the Companies Listed Abroad and other relevant laws and regulations, the relevant requirements of Shanghai Securities Exchange and the Hong Kong Stock Exchange, as well as the “Articles of Association of First Tractor Company Limited” (hereinafter referred to as the “Articles of Association”), these rules are formulated.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
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Original articles	Amended articles
<p><b>Article 18</b> When the Company is to hold a general meeting, it shall issue a notice by means of a public announcement or other means as prescribed in the Articles of Association 45-60 days prior to the meeting informing all the registered shareholders of the matters to be examined at the general meeting as well as the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting. Where there are domestic regulations or rules of procedures for general meetings governing the book closure date for shareholders of A shares to attend a general meeting and the date for giving a written reply by the shareholders of A shares in respect of attending the meeting, those regulations and rules shall be followed.</p> <p>The notice issuance period shall not include notice issuance date and the meeting date. Where the meeting notice under this Article is to be issued abroad to overseas shareholder, the issuance date of such notice is the day when the Company or the share registrar appointed by the Company delivers the meeting notice at the postal authority.</p>	<p><b>Article 18</b> When the Company is to hold a general meeting, it shall issue a notice by means of a public announcement or other means as prescribed in the Articles of Association 20 working days (excluding the date of issuance of notice of the meeting and the date of convening the meeting) prior to the annual general meeting informing each shareholder of the date and place of the meeting, as well as the matters to be examined at the meeting; and it shall issue a notice by means of a public announcement or other means as prescribed in the Articles of Association 15 days or 10 working days (excluding the date of issuance of notice of the meeting and the date of convening the meeting), whichever is longer, prior to the extraordinary general meeting informing each shareholder of the date and place of the meeting, as well as the matters to be examined at the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting within the time specified in the notice of the meeting.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
<p><b>Article 20</b></p> <p>...</p> <p>The notice of the general meeting shall indicate date and place of the meeting and determine shares registration date. The interval between the record date and the date of the meeting shall not be more than 7 working days. Once the record date is confirmed, no change may be made thereto. Such interval is not applicable to the shareholders of H shares.</p>	<p><b>Article 20</b></p> <p>...</p> <p>Provisions provided by the laws, administrative regulations, departmental regulations, regulatory documents and the stock exchange or securities regulatory authorities where the shares of the Company are listed on the period of closure of register of shareholders before the general meeting or the record date for the Company’s distribution of dividends shall prevail.</p>
<p><b>Articles 22</b></p> <p>...</p> <p>For shareholders of A shares, a notice may be issued by means of a public announcement. The aforementioned announcement shall be published in one or more newspapers designated by administrative authorities of securities of the State Council 45–60 days prior to the date of meeting; All shareholders of A shares shall be deemed to have received the notice related to the general meeting upon issuance of the public announcement.</p> <p>...</p>	<p><b>Articles 22</b></p> <p>...</p> <p>For shareholders of A shares, a notice may be issued by means of a public announcement. The aforementioned announcement shall be published on the websites of stock exchanges and in one or more newspapers designated by administrative authorities of securities of the State Council within the period specified in Article 18 of the Rules; All shareholders of A shares shall be deemed to have received the notice related to the general meeting upon issuance of the public announcement.</p> <p>...</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
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Original articles	Amended articles
<p><b>Articles 24</b> The Company shall, based on the written replies which it receives from the shareholders twenty (20) days before the date of the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number is more than half of the total number of the Company's voting shares, the Company may hold the general meeting. Otherwise, the Company shall within five (5) days inform the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may hold the general meeting.</p>	<p>Deleted</p>
<p><b>Articles 33</b> The Board, Independent Directors and those shareholders who have met the relevant requirements (to be determined by the standards promulgated by the competent regulatory authorities from time to time) may collect their voting rights at the general meeting from the Company's shareholders. If the collector openly collects the voting rights of the Company's shareholders, the collector shall comply with the requirements of the relevant regulatory authorities and the stock exchange(s) on which the Company's shares are listed.</p>	<p><b>Articles 32</b> The Board, Independent Directors and those shareholders who have met the relevant requirements (to be determined in accordance with relevant laws and regulations and the standards promulgated by the competent regulatory authorities from time to time) or investor protection institutions established in accordance with laws, administrative regulations or the provisions of the securities regulatory authorities under the State Council may, acting by itself or entrusting securities companies or securities service institutions in the capacity of collector, publicly request the shareholders of the Company to entrust it to attend the general meetings and exercise the rights of shareholders such as the right to propose proposals and the voting rights on their behalf.</p> <p>Where the rights of shareholders are collected in accordance with the provisions set out above, the collectors shall disclose the solicitation documents and the Company shall cooperate.</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
	<p>Consideration or de facto consideration for soliciting shareholders' voting rights is prohibited.</p> <p>Where the public solicitation of shareholders' rights violates laws, administrative regulations or relevant provisions of the securities regulatory authorities under the State Council, thus causing the listed company or its shareholders to suffer losses, the collectors shall be liable for compensation according to laws.</p>
<p><b>Articles 70</b> When the Company is to hold a class meeting, it shall issue a notice by means of a public announcement or other means (if necessary) as prescribed in the Articles of Association 45 days prior to the date of meeting informing all the registered shareholders of that class of the matters to be examined at the class meeting as well as the date and place of the meeting. Shareholders that intend to attend the class meeting shall, within 20 days prior to the day of the meeting, deliver a written reply to the Company on meeting attendance.</p>	<p><b>Articles 69</b> When the Company is to hold a class meeting, it shall, with reference to the requirements under Article 18 of the Rules in relation to the notice period of the general meeting, issue a notice by means of a public announcement or other means as prescribed in the Articles of Association informing all the registered shareholders of that class of the matters to be examined at the class meeting as well as the date and place of the meeting. Shareholders that intend to attend the class meeting shall, within the period specified in the notice, deliver a written reply to the Company on meeting attendance.</p>
<p>The Company shall, based on the written replies which it receives from the shareholders twenty (20) days before the date of the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number is more than half of the total number of the Company's voting shares, the Company may hold a class meeting. Otherwise, the Company shall within five (5) days inform the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may hold a class meeting.</p>	<p>The Company shall, based on the written replies which it receives from the shareholders within the period specified in the notice, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number is more than half of the total number of the Company's voting shares, the Company may hold a class meeting. Otherwise, the Company shall within five (5) days inform the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may hold a class meeting.</p>



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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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**III.    THE PROPOSED AMENDMENTS TO THE RULES OF PROCEDURE FOR BOARD MEETINGS ARE AS FOLLOWS:**

Original articles	Amended articles
<p><b>Articles 12</b>    The Board of Directors shall be accountable to the general meeting and shall exercise the following functions and powers:</p> <p>...</p> <p>(9)    To decide on the appointment or dismissal of the manager of the Company and on matters concerning his remuneration, and to decide on the appointment or dismissal of the deputy general manager(s) and chief financial officer as proposed by the manager and on matters concerning their remuneration;</p> <p>(16)    To manage the information disclosure of the Company;</p> <p>(17)    To propose at general meetings for the appointment or change of auditors;</p> <p>(18)    To decide to acquire shares of the Company for employee stock ownership plan and share option incentives, to use the shares for conversion into convertible corporate bonds issued by the Company or to maintain corporate value and shareholders' interests as the Company deems necessary;</p>	<p><b>Articles 12</b>    The Board of Directors shall be accountable to the general meeting and shall exercise the following functions and powers:</p> <p>...</p> <p>(9)    To decide on the appointment or dismissal of the manager of the Company and on matters concerning his remuneration, and to decide on the appointment or dismissal of the deputy general manager(s) and chief financial officer as proposed by the manager and on matters concerning their performance appraisal and remuneration;</p> <p>(16)    To manage the employee salary distribution of the Company;</p> <p>(17)    To decide on the establishment and improvement of internal control system of the Company, and conduct effective monitoring;</p> <p>(18)    To manage the information disclosure of the Company;</p> <p>(19)    To propose at general meetings for the appointment or change of auditors;</p>

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**APPENDIX I    PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION,  
THE RULES OF PROCEDURE FOR GENERAL MEETINGS AND  
THE RULES OF PROCEDURE FOR BOARD MEETINGS**

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Original articles	Amended articles
<p>(19) To exercise any other powers conferred by general meetings and the Articles of Association.</p> <p>Except for the resolutions of the Board in respect of the matters specified in clauses (6), (7), (11), (12), (14) and (18) of the preceding Article which shall be passed by two-thirds or more of the Directors, the resolutions of the Directors in respect of all other matters may be passed by more than one half of the Directors.</p> <p>...</p>	<p>(20) To decide to acquire shares of the Company for employee stock ownership plan and share option incentives, to use the shares for conversion into convertible corporate bonds issued by the Company or to maintain corporate value and shareholders' interests as the Company deems necessary;</p> <p>(21) To exercise any other powers conferred by general meetings and the Articles of Association.</p> <p>Except for the resolutions of the Board in respect of the matters specified in clauses (6), (7), (11), (12), (14) and (20) of the preceding Article which shall be passed by two-thirds or more of the Directors, the resolutions of the Directors in respect of all other matters may be passed by more than one half of the Directors.</p> <p>...</p>

Other than the adjustments to the numbering of certain articles based on the amendments, other contents in the Articles of Association, Rules of Procedure for General Meetings and Rules of Procedure for Board Meetings shall remain unchanged.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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 the Directors, supervisors and Chief Executive of the Company**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest or short position in any shares, underlying shares and/or 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 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 any such Director, supervisors or chief executive was taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as contained in Appendix 10 to the Hong Kong Listing Rules.

**(ii) Interests of Substantial Shareholders and other Shareholders**

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any person who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were required to be notified to the Company and the Stock Exchange pursuant to section 324 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 interested <sup>1</sup>	Approximate percentage of the relevant class of issued share capital of the Company (%)	Approximate percentage of the total issued share capital of the Company (%)	Class of Shares
YTO	Beneficial owner	548,485,853(L)	74.96	48.81	A Share

*Notes:*

1. (L) – Long position, (S) – Short position
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.

Save as disclosed above, there are no other persons (other than the Directors, supervisors or chief executives 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.

### 3. DISCLOSURE OF OTHER INTERESTS OF THE DIRECTORS

#### (a) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors 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.

#### (b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests 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 2020, being the date to which the latest published audited accounts of the Group were made up.

(c) **Interests in competing business**

As at the Latest Practicable Date, none of the Directors or any of their respective associates of the Company were 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 of the Company had entered, or proposed to enter, into a service contract with any member of the Group (including contracts expiring or determinable by the 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 2020, the date to which the latest published audited accounts of the Group were made up.

**6. EXPERT AND CONSENT**

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

<b>Name</b>	<b>Qualification</b>
Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity 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 they appear.

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which had since 31 December 2020 (being the date which the latest published audited accounts of the Company were made up) 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.

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.

**7. DOCUMENTS ON DISPLAY**

Copies of the following documents are published on the Stock Exchange's website and the Company's own website for a period of 14 days from the date of this circular:

- (a) the New Agreements.

**8. GENERAL**

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.