
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

**ADJUSTMENT TO THE ANNUAL CAP AMOUNT FOR 2022
UNDER EACH OF
THE MATERIAL PROCUREMENT AGREEMENT AND
THE COMPOSITE SERVICES AGREEMENT;
CHANGE OF AUDITOR;
ELECTION OF DIRECTOR;
AND
NOTICE OF EGM**

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



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 5 to 27 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 28 to 29 of this circular. A letter of advice from Octal Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 41 of this circular.

A notice convening the EGM of the Company to be held at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC at 2:15 p.m. on Monday, 28 November, 2022 is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM or any adjournment thereof (as the case may be) is enclosed with this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The form of proxy shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, as soon as possible and in any event not less than 24 hours before the time scheduled for holding the EGM or any adjourned meeting (as the case may be). Completion and deposit of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

8 November 2022

* For identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	28
Letter from Octal Capital	30
Appendix I – General Information	42
Notice of the EGM	EGM-1

DEFINITIONS

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

“A Share(s)”	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and subscribed for and traded in RMB
“associate(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules
“Board”	the board of Directors
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares and A Shares of which are listed on the main board of the Stock Exchange and the Shanghai Stock Exchange respectively
“Composite Services Agreement”	the agreement dated 25 August 2021 entered into between YTO, on behalf of YTO, its controlled companies and their associates, as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO Group agreed to provide transportation and transportation ancillary services, and production-related processing contracting services to the Group
“connected person(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules
“controlling shareholder”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules
“Da Hua”	Da Hua Certified Public Accountants (Special General Partnership)
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EGM”	the 2022 fourth extraordinary general meeting of the Company to be convened and held at 2:15 p.m. on 28 November 2022, Monday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, to consider, among other things, and, if thought fit, approve the proposals regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement; the change of auditor and the election of director
“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 proposal regarding the revision of the annual cap for 2022 under the Material Procurement Agreement
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s)
“Latest Practicable Date”	1 November 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“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 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
“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
“RMB”	Renminbi, the lawful currency of the PRC
“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
“ShineWing”	ShineWing Certified Public Accountants (Special General Partnership)
“Sinomach”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC and a controlling shareholder of YTO having 88.22% equity interest in YTO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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

LETTER FROM THE BOARD



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. Liu Jiguo (*Chairman*)

Mr. Zhang Zhiyu

Mr. Fang Xianfa

Mr. Edmund Si**

Mr. Wang Shumao**

Mr. Xu Liyou**

Registered and principal office:

No.154 Jianshe Road

Luoyang, Henan Province

The People's Republic of China

** *Independent non-executive Director*

8 November 2022

To the Shareholders

Dear Sir or Madam,

**ADJUSTMENT TO THE ANNUAL CAP AMOUNT FOR 2022
UNDER EACH OF
THE MATERIAL PROCUREMENT AGREEMENT AND
THE COMPOSITE SERVICES AGREEMENT;
CHANGE OF AUDITOR;
ELECTION OF DIRECTOR;
AND
NOTICE OF EGM**

I. INTRODUCTION

Background

Reference is made to the announcement of the Company dated 29 September 2022 in respect of the Adjustment to the Annual Cap Amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement, and the announcements dated 27 October 2022 in respect of the Change of Auditor and the Election of Director.

LETTER FROM THE BOARD

Adjustment to the Annual Cap Amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement

Under the Hong Kong Listing Rules, as the applicable percentage ratios regarding the adjusted annual cap amount for 2022 under the Material Procurement Agreement are more than 5%, the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement is subject to the reporting, announcement and the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Under the Hong Kong Listing Rules, as the applicable percentage ratios regarding the adjusted the annual cap amount for 2022 under the Composite Services Agreement are all less than 5%, the adjustment to the annual cap amount for 2022 under the Composite Services Agreement is subject to the reporting and announcement requirement but is exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

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 resolutions regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement are both subject to the Independent Shareholders' approval at the EGM. Accordingly, the resolutions regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement will be tabled for approval by Independent Shareholders 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 adjustment to the annual cap amount for 2022 under the Material Procurement Agreement. Octal 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 adjustment to the annual cap amount for 2022 under the Material Procurement Agreement, and whether the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement are in the interests of the Company and its Shareholders as a whole. Under the Hong Kong Listing Rules, Octal Capital is only required to opine on the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement. Octal Capital will not provide opinion on the adjustment to the annual cap amount for 2022 under the Composite Services Agreement.

LETTER FROM THE BOARD

Notwithstanding such arrangement, the Company still includes details of the resolutions regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services 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 resolutions regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement (i.e. resolution Nos. 1.01 and 1.02 set out in the Notice of EGM) are not inter-conditional upon each other.

Purpose of this Circular

The purpose of this circular is to provide you with information regarding (i) further details of the resolutions regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement, the change of auditor and election of Director; (ii) the letter from the Independent Board Committee to the Independent Shareholders in respect of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement; and (iii) the letter of advice from Octal Capital to the Independent Board Committee in respect of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement.

II. ADJUSTMENT TO THE ANNUAL CAP AMOUNT OF 2022

Reference is made to the announcement and the circular of the Company dated 25 August 2021 and 12 October 2021, respectively, in relation to, among other things, the Material Procurement Agreement and the Composite Services Agreement. The Material Procurement Agreement and the Composite Services Agreement and the transactions (including the respective annual caps for 2022 to 2024) contemplated thereunder were approved by the then Independent Shareholders at the 2021 second extraordinary general meeting held on 2 November 2021.

As the sales volume of the medium and large tractor products of the Company increased by approximately 18.31% in the first half of 2022 and the Company's material procurement and transportation services from YTO also increased significantly, the Company intends to increase the annual cap amounts for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement.

LETTER FROM THE BOARD

(I) Proposal regarding the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement

Details of the major terms of the Material Procurement Agreement and its proposed revised annual cap amounts are as follows:

Date	:	25 August 2021
Parties	:	<ul style="list-style-type: none">• 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.
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 favorable than those offered to the Company by independent third parties.

LETTER FROM THE BOARD

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
- (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 favorable 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

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 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.

Historical Transaction Amounts, the Existing Annual Cap Amounts and the Proposed Annual Cap Amount for 2022 for the Transactions under the Material Procurement Agreement

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

	Historical transaction amounts		
	For the year ended		For the six
	31 December		months ended
	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Material Procurement Agreement	<u>617,100</u>	<u>852,820</u>	<u>404,540</u>
	For the year ending 31 December		
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Existing annual cap amounts	710,000	710,000	750,000
		Remains	Remains
Proposed revised annual cap amount for 2022	<u>850,000</u>	unchanged at <u>710,000</u>	unchanged at <u>750,000</u>

LETTER FROM THE BOARD

Basis for the Adjustment to the Annual Cap Amount for 2022 under the Material Procurement Agreement

According to the Technical Requirements for Pollutant Emission Control of Diesel Engines “柴油移動機械污染物排放控制技術要求” published by the Ministry of Ecology and Environment of the PRC 中國生態環境部 (Release Draft), the National IV Non-road Emission Standards for Diesel Engines will be implemented from 1 December 2022. Coupled with the switch from the National IV Emission Standard for Diesel Engine to the National IV standard and the impact of “three agriculture” policy, the procurement, use and maintenance costs of tractors and diesel engine products of the National IV standard are expected to increase, which drives the users to move forward the purchasing demand for tractor and diesel engine products prior to the National IV standard, i.e. users who planned to purchase tractor and diesel engine products have advanced their purchase before the National IV switchover, and hence it mainly contributed the significant increase in the Company’s product sales in the first half of 2022.

As the sales volume of the medium and large tractor products of the Company increased by approximately 18.31% in the first half of 2022, the Company’s material procurement from YTO Group also increased significantly. YTO Group is one of the major suppliers of the Group which provide component products to the Group for production of tractor and diesel engine products and benefited from the increase in the purchasing demand for tractor and diesel engine products prior to the National IV standard, the Group expects that the material procurement amounts from YTO Group will continue to increase in the second half of 2022. The Company therefore intends to increase the annual cap amount for 2022 under the Material Procurement Agreement.

The Company has no current intention to adjust the existing annual cap amounts for 2023 and 2024 under the Material Procurement Agreement as the Directors believe that the advanced purchasing demand for tractor and diesel engine products prior to National VI standard in 2022 is temporary. The Company will assess the impact of the switch to the National IV Emission Standard for Diesel Engines to be implemented on 1 December 2022 and the relevant material procurement amounts of the Company to ascertain whether a revision of the annual cap amounts for 2023 and 2024 under the Material Procurement Agreement will be required.

(II) Proposal regarding the adjustment to the annual cap amount for 2022 under the composite services agreement

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

Date : 25 August 2021

LETTER FROM THE BOARD

Parties	:	<ul style="list-style-type: none">• 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	:	<p>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.</p> <p>Transportation ancillary services: shall be billed monthly and paid by the end of the following month.</p> <p>Production-related processing contracting services: shall be settled within 60 days after completion of the processing contracting services.</p> <p>These payment terms were usually adopted by YTO in its transactions with independent third parties or the Company. Such terms are on normal commercial terms and not less favorable than those offered to independent third parties by YTO.</p>

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);

LETTER FROM THE BOARD

- (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 favorable 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
- (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.

LETTER FROM THE BOARD

Historical Transaction Amount, the Existing Annual Cap Amounts and the Proposed Revised Annual Cap Amount for 2022 for the Transactions under the Composite Services Agreement

The following table sets out the historical transaction amounts for the years ended 31 December 2020 and 2021, and for the six months ended 30 June 2022, and the existing annual cap amounts and the proposed revised annual cap amounts for each of the three years ended 31 December 2022, 2023 and 2024 and the proposed revised annual cap amount for 2022 under the Composite Services Agreement:

	Historical transaction amounts		
	For the year ended	For the six	
	31 December	months ended	
	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Composite Services Agreement	<u>183,410</u>	<u>217,620</u>	<u>130,290</u>
	For the year ending 31 December		
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Existing annual cap amount	190,000	190,000	200,000
Proposed revised annual cap amount for 2022	<u>270,000</u>	Remains unchanged at <u>190,000</u>	Remains unchanged at <u>200,000</u>

Basis for the Adjustment to Annual Cap Amount for 2022 under the Composite Services Agreement

As the sales volume of the medium and large tractor products of the Company increased by approximately 18.31% in the first half of 2022, the Company's procurement of transportation services from YTO also increased significantly. It is expected that the transportation service business and freight charges through YTO in the second half of 2022 will continue to increase, the Company therefore intends to increase the annual cap amount for 2022 under the Composite Services Agreement.

LETTER FROM THE BOARD

As there are no factors that indicate there will be an increase the relevant transaction amounts in 2023 and 2024, the Company has no current intention to adjust the existing annual cap amounts for 2023 and 2024 under the Composite Services Agreement. However, the Company will continue to closely review and monitor the relevant composite services amounts of the Company to ascertain whether a revision of the annual cap amounts for 2023 and 2024 under the Composite Services Agreement will be required.

(III) Reasons for adjustment to the annual cap amounts

Affected by various factors such as the country's high emphasis on the work of the "Three Agriculture" policy, rural areas and farmers and the switching of the "National IV" emission standards for non-road mobile machinery, the sales volume of the medium and large tractor products by backbone enterprises in the agricultural machinery industry in the first half of 2022 increased by 4.79% year-on-year, and the sales volume of the medium and large tractor products of the Company increased by approximately 18.31% in the first half of 2022 and the Company's material procurement and transportation services from YTO also increased significantly. Affected by the advance of user purchase demand brought about by the implementation of the "National IV" switch at the end of this year and other factors, it is expected that the agricultural machinery market will maintain a certain growth in the second half of 2022, the Company intends to increase the cap amounts for 2022 under the Material Procurement Agreement and the Composite Services Agreement.

As there are no factors that indicate there will be an increase the relevant transaction amounts in 2023 and 2024, the Company has no current intention to adjust the existing annual cap amounts for 2023 and 2024 under the Material Procurement Agreement and the Composite Services Agreement.

(IV) Measure of internal control

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

- (1) The Company has formulated measures for decision on and daily administration of connected transactions, which clearly require all business units to comply with the pricing principles and other terms in continuing connected transaction agreements when entering into contracts in accordance with daily connected transaction framework agreement.

LETTER FROM THE BOARD

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

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

(V) Impact of the adjustment on the company

The increase in the annual cap amounts for 2022 of continuing connected transaction under the Material Procurement Agreement and the Composite Services Agreement, respectively, is in compliance with the production and operation needs of the Company, ensuring the Company's daily compliance operations and will not have material adverse impact on the Company's financial position or results of operations nor it will affect the Company's independence.

(VI) Information of the group and YTO

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

As at the date of this announcement, YTO is a direct controlling shareholder of the Company, holding approximately 548,485,853 A Shares of the Company, representing approximately 48.81% of the total issued Shares of the Company.

LETTER FROM THE BOARD

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

Sinomach is the controlling shareholder of YTO, having 88.22% shareholding interest in YTO. The remaining 11.78% 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). Sinomach is beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

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.

(VII) Implications under the Hong Kong Listing Rules and the Shanghai Listing Rules

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

As the applicable percentage ratios for the adjusted annual cap amount for 2022 under the Composite Services Agreement are more than 0.1% but less than 5%, the adjustment to the annual cap amount for 2022 under the Composite Services Agreement is subject to the reporting and announcement requirements but is exempt from the Independent Shareholders' approval requirement pursuant to Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

As the applicable percentage ratios for the adjusted annual cap amount for 2022 under the Material Procurement Agreement are more than 5%, the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement is 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 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 proposed adjustment to the annual cap amounts for 2022 under the Material Procurement Agreement and the Composite Services Agreement, respectively, are subject to the Independent Shareholders' approval. Accordingly, the Company proposes to submit the resolutions regarding the adjustment to the annual cap amounts for 2022 under the Material Procurement and the Composite Services Agreement, respectively, for approval by Independent Shareholders at the general meeting.

(VIII) Board confirmation

The Resolution on Increasing the Cap Amounts of Material Procurement Agreement and Composite Services Agreement for 2022 between the Company and YTO Group Corporation was considered and approved at the fifth meeting of the ninth session of the Board of the Company held on 29 September 2022. Liu Jiguo, Zhang Zhiyu, Fang Xianfa and Ma Zhihui, all being current Directors of the Company, have abstained from voting at the Board meeting, as they are connected to YTO and are regarded as being unqualified to make any independent recommendation to the Board.

III. CHANGE OF AUDITOR

As Da Hua has provided audit services to the Company for five consecutive years, according to the "Measures for the Administration of the Final Account Reports of Central Enterprises" (《中央企業財務決算報告管理辦法》)(SASAC Order No. 5) and the "Notice on Strengthening the Auditing of Final Accounts of Central Enterprises" (《關於加強中央企業財務決算審計工作的通知》) (Guozi Department Evaluation [2005] No. 43) and other relevant documents, in order to better ensure the independence, objectivity and fairness of the audit work, the Company intends to change the accounting firm. The Company has fully communicated with the previous and subsequent accounting firms regarding the change of auditors, and all parties have been clearly informed of the change and have expressed no disagreement.

LETTER FROM THE BOARD

(I) Basic information on the accounting firm to be engaged

(i) Information about the institution

1. Basic information

Institution Name: ShineWing Certified Public Accountants (Special General Partnership)

Date of Establishment: 2 March 2012

Organizational form: Special General Partnership

Registered office: 8/F, Block A, Fu Hua Mansion, No. 8 Chao Yang Men Bei Da Jie, Dongcheng District, Beijing

Lead Partner: Mr. Tan Xiaoqing* (譚小青)

Number of partners as of 31 December 2021: 236

Number of certified public accountants as of 31 December 2021: 1,455 (of which more than 630 certified public accountants have signed audit reports on securities services business.)

ShineWing is the tenth largest accounting firm in the industry, covering major industries such as manufacturing, information transmission, software and information technology services, electricity, heat, gas and water production and supply, transportation, warehousing and postal services, and wholesale and retail.

Total business revenue for year 2021: RMB3,674 million

Revenue from audit business for year 2021: RMB2,690 million

Revenue from securities business for year 2021: RMB854 million

Number of audit clients of listed companies for year 2021: 358

Total audit fee for the annual report of listed companies for year 2021: RMB452 million

Number of audit clients of listed companies in the same industry of the Company: 222

LETTER FROM THE BOARD

ShineWing confirms that it is recognized by the Ministry of Finance of the People's Republic of China (the "PRC") and the China Securities Regulatory Commission (CSRC) and is qualified to provide audit services to Mainland-incorporated issuers listed in Hong Kong with the PRC Registered Accountants Audit Standards.

2. *Investor protection capability*

ShineWing has purchased occupational insurance that complies with the relevant regulations and covers civil liability for the provision of auditing services, with an accumulative limit of RMB700 million for the occupational insurance taken out in 2021.

In the past three years in practice, there is no civil liability for related civil litigation.

3. *Integrity record*

In the past three years ended 30 June 2022, ShineWing has received 0 criminal penalties, 1 administrative penalty, 12 supervisory and management measures, 0 self-regulatory measures and 0 disciplinary actions for its practice. 32 practitioners have received 4 administrative penalties, 25 supervisory and management measures, 4 self-regulatory measures and 0 disciplinary actions for their practice in the past three years.

(ii) **Project information**

1. *Basic information*

Proposed Signing Project Partner: Mr. Ma Chuanjun* (馬傳軍). He started to work in ShineWing in 1997 and obtained the qualification of Certified Public Accountant in China in 2001. He started to engaged in the audit of listed companies in 2007, and signed and reviewed more than 5 listed companies in the past three years.

Proposed Independent Review Partner: Mr. Ye Shaoxun* (葉韶勳). He obtained the qualification of Certified Public Accountant in China in 1999, started to work in ShineWing in 2000 and engaged in the audit of listed companies in 2001, and signed and reviewed more than 5 listed companies in the past three years.

Proposed Signing Certified Public Accountant: Ms. Ma Jing* (馬靜). She started to work in ShineWing in 2017 and engaged in the audit of listed companies in 2017. She obtained the qualification of Certified Public Accountant in China in 2020, and signed one listed company in the past three years.

LETTER FROM THE BOARD

2. *Integrity record*

In the past three years, no project partner, signing certified public accountant, or project quality control reviewer has been subject to criminal penalties, and administrative penalties or supervisory measures imposed by the SFC and its agencies or industry authorities, or self-regulatory measures or disciplinary actions imposed by securities exchanges, industry associations, or other self-regulatory organizations.

3. *Independence*

There is no violation of the independence requirements of the Code of Ethics for Certified Public Accountants in China by ShineWing and the project partners, signing certified public accountants, project quality control reviewers and other practitioners.

(iii) Audit fee

The Company intends to appoint ShineWing as the auditor of the Company for financial and internal control for the year 2022, and the relevant audit fees are authorized to be determined by the Board of Directors based on its service quality and relevant market prices. It is expected that the overall fees will not change significantly compared with 2021.

(II) Explanation on the proposed change of accounting firm

(i) Information about the accounting firm formerly engaged and auditor's opinion of last year

The Company's former accounting firm, Da Hua has provided audit services to the Company for five consecutive years. In 2021, Da Hua issued a standard unqualified audit opinion to the Company. There does not exist any circumstances where the Company terminated the services of the former accounting firm after having engaged it to carry out part of the audit.

(ii) Reasons for the proposed change of accounting firm

As Da Hua has provided audit services to the Company for five consecutive years, according to the "Measures for the Administration of the Final Account Reports of Central Enterprises" (《中央企業財務決算報告管理辦法》)(SASAC Order No. 5) and the "Notice on Strengthening the Auditing of Final Accounts of Central Enterprises" (《關於加強中央企業財務決算審計工作的通知》) (Guozi Department Evaluation [2005] No. 43) and other relevant documents, in order to better ensure the independence, objectivity and fairness of the audit work, the Company intends to change the accounting firm.

LETTER FROM THE BOARD

(iii) Communication between the listed company and its former and subsequent accounting firms

The Company has communicated with Da Hua in advance regarding the change of accounting firm and Da Hua has confirmed that there is no disagreement or matters that need to be brought to the attention of the Shareholders in relation to the change of accounting firm. The former and subsequent accounting firms will do the relevant communication and coordination work in accordance with PRC Auditing Standard for Certified Public Accountants No. 1153 – Communication between Former Certified Public Accountants and Subsequent Certified Public Accountants and other relevant requirements.

(III) Procedures to be performed for the change of accounting firm

(i) Opinions of the Audit Committee

At the meeting of the Ninth Session of the Board of Directors of the Company held on 25 October 2022, the Company has reviewed the professional competence, investor protection capability, independence and integrity of ShineWing and considered that ShineWing has the experience and capability to provide audit work for listed companies. The Company unanimously agreed to appoint ShineWing as the financial and internal control auditor of the Company for the year 2022, and submit the proposal to the Board of Directors for consideration. The Board of Directors and the Audit Committee of the Company confirmed that there is no disagreement between the Company and Da Hua regarding the proposed change of accounting firm.

(ii) Prior Approval and Independent Opinions of Independent Directors

1. Prior approval opinion

After verification, ShineWing complies with relevant regulations in terms of qualifications such as audit qualifications for securities and futures-related businesses, and has the experience, capability and independence to provide audit services for listed companies, and is able to meet the work requirements of the Company's relevant business. It was agreed to submit the proposal to the Board of Directors of the Company for consideration.

LETTER FROM THE BOARD

2. *Independent opinion*

ShineWing has rich experience and professional service capabilities in providing audit services for listed companies for many years, and is able to meet the requirements of corporate financial audit and internal control audit work. The decision-making procedures for the change of the Company's financial auditor and internal control auditor for the year 2022 are in compliance with the relevant provisions of laws, regulations and the Articles of Association of the Company, and are not detrimental to the interests of the Company and all Shareholders, and we agree to the appointment of ShineWing as the Company's financial auditor and internal control auditor for the year 2022.

(iii) Consideration by the Board of Directors

At the Sixth Meeting of the Ninth Session of the Board of Directors of the Company held on 27 October 2022, the "Resolution on the Change of the Financial and Internal Control Auditor of the Company for the year 2022" was considered and approved. It was agreed to propose to the general meeting of the Company to appoint ShineWing as the financial and internal control auditor of the Company for the year 2022 for a period commencing from the date of approval at the general meeting of the Company to the date of the annual general meeting of the Company for the year 2022, and authorizing the Board of Directors to determine the audit fees in accordance with the negotiation between the two parties.

(iv) The change of auditor is subject to the consideration of the general meeting of the Company and shall take effect from the date of approval by the general meeting of the Company.

The above proposal on change of auditor shall be submitted to the EGM as an ordinary resolution for consideration and approval by the Shareholders.

IV. ELECTION OF DIRECTOR

The Ninth Session of the Board of Directors of the Company held the sixth meeting on 27 October 2022 to consider and approve (among others) the Resolution regarding the Nomination of Candidate for Non-executive Director of the Ninth Session of the Board of Directors of the Company. It was agreed to nominate Mr. Zhang Bin as a candidate for the non-executive director of the Ninth Session of the Board of Directors of the Company for a term commencing from the date of consideration and approval at the general meeting of the Company to the expiry of the term of the Ninth Session of the Board of Directors.

LETTER FROM THE BOARD

Biography of Mr. Zhang Bin

Mr. Zhang Bin (“**Mr. Zhang**”), aged 40, holds a master’s degree. He is currently the secretary and chairman of the general party branch of 洛陽市國資國有資產經營有限公司 (Luoyang State-owned Assets Operation Company Limited*), and a director of YTO. Mr. Zhang successively served as the vice chairman of the labor union and office director of Zhenping Mining Co., Ltd. under Henan Luoyang Mining Group; chairman of the trade union and office director of Songxian Mining Co., Ltd. under Luoyang Nonferrous Group; deputy director of business administration department of Luoyang Nonferrous Mining Group Co., Ltd.; deputy general manager of Luoyang State-Owned Assets Operation Company Limited; the deputy secretary of the Party Committee and the general manager of Luoyang Guorun Enterprise Service Co., Ltd. and he served as a supervisor of YTO and the Company. Mr. Zhang studied business administration at Zhengzhou University and a postgraduate program on social security (human resource management) at Sichuan University. Mr. Zhang has extensive experience in corporate operation and management, and human resource management.

Term of Service and Remuneration

If Mr. Zhang is appointed as a director of the Company, he will enter into a service contract with the Company for a term commencing from the date of approval by the shareholders at the EGM to the expiry of the term of the Ninth Session of the Board of Directors. As a non-executive director of the Company, Mr. Zhang will not receive remuneration from the Company in accordance with the Remuneration Policy for Directors of the Ninth Session of the Board of Directors of the Company.

Relationships

Save as disclosed above, Mr. Zhang does not have any relationship with any director, supervisor or senior management of the Company or any substantial or controlling shareholder of the Company.

Interest in Shares

Mr. Zhang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Matters to be Brought to the Attention of Shareholders

There is no information relating to the appointment of Mr. Zhang as a director or any matter that needs to be disclosed pursuant to any of the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Hong Kong Listing Rules and there is no matter that needs to be brought to the attention of the shareholders.

LETTER FROM THE BOARD

The above proposal on election of Director shall be submitted to the EGM as an ordinary resolution for consideration and approval by the Shareholders.

V. RECOMMENDATIONS

The Directors consider that the adjustment to the annual cap amounts under each of the Material Procurement Agreement and the Composite Services Agreement are on normal commercial terms (on arm's length basis or on terms no less favourable to the Group than terms available from independent third parties) and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

According to the Hong Kong Listing Rules, an Independent Board Committee has been established to consider and advise the Independent Shareholders in connection with the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement. Octal 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 of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement 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 adjustment to the annual cap amount for 2022 under the Material Procurement Agreement, and taken into account the advice of Octal Capital, is of the opinion that the adjustment to the annual caps amount for 2022 was: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms (on arm's length basis or on terms no less favourable to the Group than terms available from independent third parties); and (iii) on terms that are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolution in connection with the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement to be proposed at the EGM as set out in the notice of the EGM.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions Nos. 1.01 to 1.02 (inclusive) set out in the Notice of EGM with respect to the proposals regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement to be proposed at the EGM. The Board consider that the resolution regarding the change of auditor and the election of Director are in the interest of the Company and the Shareholders as a whole. Accordingly, the Board recommend that all Shareholders vote in favour of the resolutions as set out in the notice of EGM.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 28 to 29 of this circular which contains its recommendation to the Independent Shareholders in relation to the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement. Your attention is also drawn to the letter of advice from Octal Capital which is set out on pages 30 to 41 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement. You are advised to read the said letters from the Independent Board Committee and Octal Capital before deciding how to vote at the EGM.

VI. THE EGM

The EGM will be held at 2:15 p.m. on 28 November 2022 (Monday) at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC.

The notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. The form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The proxy form should be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, as soon as possible and in any event not less than 24 hours before the time scheduled for holding the EGM (or any adjourned meetings thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment if you so desire.

In view of the interests of YTO and its associates in the transactions contemplated under each of the 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 regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement 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 proposals regarding the adjustment to the annual cap amount for 2022 under each of the Material Procurement Agreement and the Composite Services Agreement and other resolutions set out in the notice of EGM and will be required to abstain from voting at the EGM on the resolutions in respect of the same.

LETTER FROM THE BOARD

VII. ADDITIONAL INFORMATION

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

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

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 Revision of the Annual Cap for 2022 under the Material Procurement Agreement.



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)

8 November 2022

To the Independent Shareholders

Dear Sir or Madam,

ADJUSTMENT TO THE ANNUAL CAP AMOUNT FOR 2022 UNDER THE MATERIAL PROCUREMENT AGREEMENT

We refer to the circular (the “**Circular**”) dated 8 November 2022 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 adjustment to the annual cap amount for 2022 under the Material Procurement Agreement, and to advise the Independent Shareholders as to whether, in our opinion, the terms of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement 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. Octal Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in respect of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement.

We wish to draw your attention to (i) the “Letter from the Board”; (ii) the “Letter from Octal Capital” to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement; and (iii) the additional information as set out in the appendices to the Circular.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement, and having taken into account the opinion of Octal Capital and, in particular, the factors, reasons and recommendations as set out in the “Letter from Octal Capital” on pages 30 to 41 of the Circular, we are of the opinion that the adjustment to the annual cap amount for 2022 was: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms (on arm’s length basis or on terms no less favourable to the Group than terms available from independent third parties); and (iii) on terms that are fair and reasonable and in the interest of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution regarding the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Edmund Sit Mr. Wang Shumao Mr. Xu Liyou

Independent non-executive Directors

LETTER FROM OCTAL CAPITAL

Set out below is the text of a letter received from Octal Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Adjustment to the Annual Cap Amount for 2022 under the Material Procurement Agreement for the purpose of inclusion in this circular.



801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

8 November 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS ADJUSTMENT TO THE ANNUAL CAP AMOUNTS FOR 2022 OF THE MATERIAL PROCUREMENT AGREEMENT

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 adjustment of annual cap amounts for 2022 (the “**Existing Annual Cap for 2022**”) under the Material Procurement Agreement, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the Shareholders dated 8 November 2022 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Reference is made to the announcement and the circular of the Company dated 25 August 2021 and 12 October 2021, respectively, in relation to, among other things, the Material Procurement Agreement and the Composite Services Agreement. The Material Procurement Agreement and the Composite Services Agreement and the transactions (including the respective annual caps for 2022 to 2024) contemplated thereunder were approved by the then Independent Shareholders at the 2021 second extraordinary general meeting held on 2 November 2021.

As the sales volume of the medium and large tractor products of the Company increased by approximately 18.31% in the first half of 2022 and the Company’s material procurement and transportation services from YTO also increased significantly, the Company intends to increase the annual cap amounts for 2022 under the Material Procurement Agreement and the Composite Services Agreement.

LETTER FROM OCTAL CAPITAL

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. Accordingly, the transactions contemplated under each of the Material Procurement Agreement and the Composite Services Agreement entered into between the Company and YTO constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios for the adjusted annual cap amount for 2022 under the Material Procurement Agreement are more than 5%, the adjustment to the annual cap amount for 2022 under the Material Procurement Agreement is 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.

An Independent Board Committee comprising all of the independent non-executive Directors namely Mr. Edmund Sit, Mr. Wang Shumao and Mr. Xu Liyou, has been formed to advise the Independent Shareholders in respect of the proposed annual cap for 2022 (the “**Proposed Revised Annual Cap for 2022**”) under the Material Procurement Agreement.

We, Octal Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. We are not connected with the directors, chief executive and substantial shareholders of the Group, YTO or any of their respective subsidiaries or associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders.

During the last two years, other than this appointment concerning continuing connected transaction, we have not entered into any engagement with the Company or any of the Company’s respective subsidiaries or associates. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Group or YTO or any of their respective subsidiaries or associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the management of the Company regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information

LETTER FROM OCTAL CAPITAL

contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the Material Procurement Agreement; (ii) the Circular; (iii) the annual report of the Company for the year ended 31 December 2021; (iv) the interim report of the Company for the six months ended 30 June 2022; and (v) other information as set out in the Circular. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, YTO and their respective controlling shareholder(s) and associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. Background information on the parties

The Company

The Company's principal businesses include R&D, manufacturing and sales of agricultural machinery, power machinery and related spare parts.

The table below summarizes the audited financial information of the Company for the two years ended 31 December 2020 and 2021 (“FY2020” and “FY2021”, respectively) and the unaudited financial information of the Company for the six months ended 30 June 2021 and 2022 (“1H2021” and “1H2022”, respectively), as extracted from the annual report of the Company for FY2021 (the “2021 Annual Report”) and the interim report of the Company for 1H2022 (the “2022 Interim Report”), respectively:

	FY2020 (audited) <i>RMB'000</i>	FY2021 (audited) <i>RMB'000</i>	1H2021 (unaudited) <i>RMB'000</i>	1H2022 (unaudited) <i>RMB'000</i>
Agricultural machinery	6,406,845	8,041,954	4,895,207	5,929,925
Power machinery	1,073,885	1,167,182	679,895	620,802
Finance service	<u>101,747</u>	<u>124,673</u>	<u>56,696</u>	<u>79,604</u>
Total operating revenue	7,582,477	9,333,809	5,631,798	6,630,331
Net profit attributable to shareholders of the Company	280,151	438,209	511,381	581,467

Source: 2021 Annual Report and 2022 Interim Report

LETTER FROM OCTAL CAPITAL

FY2021 compared to FY2020

The operating revenue of the Company increased from approximately RMB7,582 million for FY2020 to approximately RMB9,334 million for FY2021, representing an increase of approximately RMB1,752 million or 23.1%. The increase in revenue was mainly due to the year-on-year increase in sales volume of the Company's major products. According to the 2021 Annual Report, during FY2021, the Company's total sales volume of hi-powered and mid-powered tractors for the year was 69.3 thousand, representing a year-on-year increase of 29.4%, which was 25.7 percentage points more than the overall level of the industry. The net profit attributable to the shareholders of the Company increased from approximately RMB280 million for FY2020 to approximately RMB438 million for FY2021, representing an increase of approximately RMB158 million or 56.4%.

1H2022 compared to 1H2021

The operating revenue of the Company increased from approximately RMB5,632 million for 1H2021 to approximately RMB6,630 million for 1H2022, representing an increase of approximately RMB998 million or 17.7%. The increase in revenue was mainly due to the year-on-year increase in sales volume of the Company's major products. According to the 2022 Interim Report, during 1H2022, the Company achieved sales of 53.7 thousand large and medium-sized tractors, representing a year-on-year increase of 18.3%. The net profit attributable to the shareholders of the Company increased from approximately RMB511 million for 1H2021 to approximately RMB581 million for 1H2022, representing an increase of approximately RMB70 million or 13.7%.

Prospects of the Company

According to the 2022 Interim Report, since the beginning of 2022, the external environment has remained complex and volatile. Affected by various factors such as the country's high emphasis on the work of three agriculture, rural areas and rural residents, the switching of off-road diesel mobile machinery emission standard namely National IV (“**National IV**”) and the frequent outbreak of COVID-19, the tractor market fluctuated greatly in the first half of the year, and the sales volume of large and medium-sized tractors by core enterprises in the industry was 197.4 thousand units, increased slightly by 4.79% year-on-year. Affected by factors such as the advance of user purchase demand brought by the implementation of National IV standard, by the PRC at the end of this year, the agricultural machinery market is expected to maintain a certain growth in the second half of 2022 (the “**2H2022**”).

In the future, the Company will continue to adhere to the business ideas determined at the beginning of the year, and to seize the switching opportunity of the National IV standard to consolidate market advantages.

LETTER FROM OCTAL CAPITAL

Information of YTO, YTO Group and Sinomach

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

Sinomach is the controlling shareholder of YTO, having 88.22% shareholding interest in YTO. The remaining 11.78% 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). Sinomach is beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

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.

B. Reason for and benefits of the revision of the Existing Annual Cap for 2022

According to the Letter from the Board, the major reasons for the adjustment of the Existing Annual Cap for 2022 are (i) the historical transaction amounts under the Material Procurement Agreement for 1H2022 which has exceeded the expectation of the management of the Group; and (ii) the estimated growth of market demand of the tractor products resulted from the implementation of the National IV standard.

LETTER FROM OCTAL CAPITAL

As discussed in the “A. Background information on the parties” in this letter, during the 1H2022, the Company achieved a total operating revenue of approximately RMB6,630 million, representing a period-on-period increase of approximately 17.7%, whereas the net profit attributable to shareholders of the listed company of approximately RMB581 million, representing a period-on-period increase of approximately 13.7%. In terms of operating figures, the Company achieved sales of approximately 53.7 thousand large and medium-sized tractors and approximately 80 thousand units of diesel engines, representing a period-on-period increase of approximately 18.3% and 6.0% respectively. On the other hand, in light of the increase in customers’ demand on the Group’s tractor products and diesel products for 1H2022, the Group’s material procurement under the Material Procurement Agreement also increased accordingly. The historical transaction amounts under the Material Procurement Agreement for 1H2022 of approximately RMB404.5 million, representing an increase of approximately RMB58.7 million or 17.0% as compared with that of RMB345.8 million for 1H2021. As advised by the management of the Group, the major reasons for the increase in sales volume and production volume of the Group’s tractor and diesel engine products for 1H2022 are the impact of “Three Agriculture” policy issued by the PRC government and the advance of user purchase demand brought by the implementation of the National IV standard. According to an article namely the 14th Five-Year Plan to Promote the Modernization of Agriculture and Rural Areas published by National Development and Reform Commission (「十四五」推進農業農村現代化規劃) in March 2022, the PRC government encourages the use of advanced technology, modern equipment and management concepts in the agriculture industry, in order to improve agricultural production efficiency and overall development of agriculture industry. Such policy is beneficial to the players in the agricultural machineries industry, including the Company.

Apart from the historical transaction amounts for 1H2022, the Group expects a certain growth of the agricultural machinery industry in 2H2022, mainly taking into account the advance of user purchase demand brought by the implementation of the National IV standard by the PRC at the end of 2022. According to the Technical Requirements for Off-road Diesel Mobile Machinery Pollutant Emission Control (Release)(非道路柴油移動機械污染物排放控制技術要求(發佈稿)) issued by the Ministry of Ecology and Environment of the PRC, the off-road diesel engine emission standard of National IV will be implemented from 1 December 2022. The market demand for tractors prior to the National IV standard (the “**Pre-Standard Tractors**”) has increased accordingly. As YTO Group is one of the major suppliers of the Group which provide component products to the Group for production of tractor and diesel engine products, the Group expects that the increase of market demand for the Pre-Standard Tractors will bring up the Group’s demand on the component products from YTO Group under the Material Procurement Agreement in 2H2022.

The Company will assess the impact of the switch to the National IV Emission Standard for Diesel Engines to be implemented on 1 December 2022 and the relevant material procurement amounts of the Company to ascertain whether a revision of the annual cap amounts for 2023 and 2024 under the Material Procurement Agreement will be required.

LETTER FROM OCTAL CAPITAL

In view of the above, we concur with the Directors that there is a need to increase the Existing Annual Cap for 2022 so that the Group will be able to continue to procure component products from YTO Group in order to fulfil the Group's production needs and capture the market demand on its tractor and diesel engine products.

C. Background and principal terms of the Material Procurement Agreement

Reference is made to the announcement and the circular of the Company dated 25 August 2021 and 12 October 2021, respectively, in relation to, among other things, the Material Procurement Agreement and the Composite Services Agreement. The Material Procurement Agreement and the Composite Services Agreement and the transactions (including the respective annual caps for 2022 to 2024) contemplated thereunder were approved by the then Independent Shareholders at the 2021 second extraordinary general meeting held on 2 November 2021.

According to the Technical Requirements for Pollutant Emission Control of Diesel Engines 「柴油移動機械污染物排放控制技術要求」 published by the Ministry of Ecology and Environment of the PRC 中國生態環境部 (Release Draft), the National IV Non-road Emission Standards for Diesel Engines will be implemented from 1 December 2022. Coupled with the switch from the National IV Emission Standard for Diesel Engine to the National IV standard and the impact of “three agriculture” policy, the procurement, use and maintenance costs of tractors and diesel engine products of the National IV standard are expected to increase, which drives the users to move forward the purchasing demand for tractor and diesel engine products prior to the National IV standard, i.e. users who planned to purchase tractor and diesel engine products have advanced their purchase before the National IV switchover, and hence it mainly contributed the significant increase in Company's product sales have increased significantly in the first half of 2022.

As the sales volume of the medium and large tractor products of the Company increased by approximately 18.31% in the first half of 2022 and the Company's material procurement and transportation services from YTO Group also increased significantly. YTO Group is one of the major suppliers of the Group which provide component products to the Group for production of tractor and diesel engine products and benefited from the increase in the purchasing demand for tractor and diesel engine products prior to the National IV standard, the Group expects that that the material procurement amounts from YTO Group will continue to increase in the second half of 2022. The Company therefore intends to increase the annual cap amount for 2022 under the Material Procurement Agreement.

LETTER FROM OCTAL CAPITAL

The Company has no current intention to adjust the existing annual cap amounts for 2023 and 2024 under the Material Procurement Agreement as the Directors believe that the advanced purchasing demand for tractor and diesel engine products prior to National VI standard in 2022 is temporary. The Company will assess the impact of the switch to the National IV Emission Standard for Diesel Engines to be implemented on 1 December 2022 and the relevant material procurement amounts of the Company to ascertain whether a revision of the annual cap amounts for 2023 and 2024 under the Material Procurement Agreement will be required.

Save for the revision of the Existing Annual Cap for 2022 to the Proposed Revised Annual Cap for 2022, all other terms of the Material Procurement Agreement as disclosed in the Circular will remain unchanged.

For the principal terms of the Material Procurement Agreement, please refer to the Letter from the Board. In particular, a set of pricing policies has been set out to ensure the fairness of pricing of products procured from YTO Group. We understand from the Group that the goods mainly procured from YTO Group under the Material Procurement Agreement during 1H2022 were component products and other machinery products, whose price was mainly determined by cost plus margin method. The Group will require suppliers to provide details of the pricing, including material cost, production cost, labour cost and profit margin, for the Group's assessment on the pricing of the component products and other machinery products. In respect of the cost components, the finance department will prepare analysis with reference to the prevailing market price of raw material, amortisation of product plant and equipment and hourly wage of labour. In respect of the profit margin, the Group will mainly make reference to the gross profit margin of the general machinery and component manufacturing companies listed in the PRC (the "**Comparable Manufacturing Companies**") and historical pricing information of component products and other machinery products procured from the suppliers.

For our due diligence process, we obtained and reviewed a list of purchase transactions with YTO Group during 1H2022. Based on the list, we selected 4 types of products (the "**Selected Products**"), including component products and other machinery products which represent the major types of products procured by the Group from YTO Group during 1H2022. We have obtained the relevant transaction documents, including the procurement agreement for the Selected Products entered between the Group and YTO Group and the detailed pricing information for the Selected Products. We understand from the management of the Company that the Group also procured the Selected Products in the past, therefore we have, on a sampling basis, obtained and reviewed 2 sets of purchase orders for each of the Selected Products entered during each of the 3rd and 4th quarters of 2021 and the 1st and 2nd quarters of 2022. As the Selected Products represent the major items of the products procured by the Group from YTO Group and their relevant transactions cover the procurement transactions between the Group and YTO Group in both second half of 2021 and first half of 2022, we consider that the Selected Products and their transaction documents are representative for our due diligence propose.

LETTER FROM OCTAL CAPITAL

Based on our review on the details of pricing and discussion with the Group, we understand that the Group conducted research on prevailing market price of raw material, amortisation of product plant and equipment and hourly wage of labour to ensure that the costs are no less favourable to the Group than that available from independent third parties. For the Group's assessment on the profit margin, we noted from the Group that, since there are no companies specialised in manufacturing in components and/or other machinery products of agricultural machinery listed in the PRC and Hong Kong, the Group has referenced to the gross profit margin of the Comparable Manufacturing Companies. Based on our review on the transaction documents for the Selected Products and the assessment obtained from the Group, we noted that (i) the pricing of the Selected Products was the same in the agreement and purchase orders and therefore the gross profit margin of the Selected Products would be consistent during the second half of 2021 and the first half of 2022; and (ii) the average profit margin charged by YTO Group was below the average gross profit margin of the Comparable Manufacturing Companies. Moreover, for our own due diligence process to assess the reasonableness of the profit margin charged by YTO Group, we have, on a best effort basis, conducted research on the circulars published by companies listed on the Main Board in the website of the Stock Exchange in relation to their continuing connected transactions by adopting the selection criteria, including (i) the comparable companies are principally engaged in manufacturing and industrial business in the PRC where the end-products are machinery related products; (ii) the continuing connected transactions are related to procurement/sale of component products or other machinery products from/to connected parties; (iii) the pricing determination of component products or other machinery products is based on cost plus margin method while the margin was disclosed in their circular; and (iv) the circular published within twelve months immediately preceding and including the date of the Announcement (i.e. 29 September 2022). Based on the above selection criteria, we have identified 2 continuing connected transactions (the "**Comparable CCT**") and noted that the profit margin under their cost plus margin method of those continuing connected transactions ranged from 5% to 20%. Upon the comparison, the average profit margin charged by YTO Group on the products is close to the lower end of the range of the Comparable CCT.

Based on above, taking into account that (i) the costs of the products under the cost plus margin method have been assessed by the Group with reference to their prevailing market price; and (ii) the average profit margin charged by YTO Group on the products under the cost plus margin is below the average gross profit margin of the Comparable Manufacturing Companies and close to the lower end of the range of the Comparable CCT, we concur with the Group that the pricing terms of the products under the Material Procurement Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM OCTAL CAPITAL

D. The Proposed Revised Annual Cap for 2022

	Existing Annual Cap for 2022 (RMB'000)	Proposed Revised Annual Cap for 2022 (RMB'000)
Maximum fees payable by the Group to YTO Group and its associates under the Material Procurement Agreement	710,000	850,000

As discussed in the section headed “B. Reason for and benefits of the revision of the Existing Annual Cap for 2022”, the major reasons for the adjustment of the Existing Annual Cap for 2022 are (i) the historical transaction amounts under the Material Procurement Agreement for 1H2022 which has exceeded the expectation of the management of the Group; and (ii) the estimated growth of market demand of the tractor products and diesel engines resulted from the implementation of the National IV standard.

In assessing the fairness and reasonableness of the Revised Annual Caps, we have discussed with the management of the Group regarding the principal bases and assumptions adopted for determining the Proposed Revised Annual Cap for 2022. We understand that the purchases of products by the Group from YTO Group are mainly driven by the market demand for the Group’s tractor and diesel engine products. As discussed in the section headed “B. Reason for and benefits of the revision of the Existing Annual Cap for 2022”, the Company recorded a period-on-period increase in sales volume of large and medium-sized tractors and diesel engines for 1H2022 of approximately 18.3% and 6.0% respectively. On the other hand, the historical transaction amount under the Material Procurement Agreement between the Group and YTO Group for 1H2022 was approximately RMB404.5 million, representing an increase of approximately 17.0% when compared with that for the six months ended 30 June 2021. Based on above, the growth rate of the sales volume of the Group’s tractor and diesel engine products and the historical transaction amount under the Material Procurement Agreement between the Group and YTO Group are generally consistent with each other. In light of the “Three Agriculture” policy and the implementation of the National IV standard, the Group expected that the market demand of its tractor and diesel engine products will continue to increase in 2H2022 and so does the demand of the relevant component products from YTO Group by the Group.

Moreover, we understand from the Group that the management has referenced the historical transaction amounts under the Material Procurement Agreement in determining the Proposed Revised Annual Cap for 2022. Based on our review on the historical transaction amount under the Material Procurement Agreement of the Group, we noted that the historical transaction amounts for FY2020 and FY2021 were approximately RMB617.1 million and RMB852.8 million respectively, in which their historical transaction amounts for the second half year were

LETTER FROM OCTAL CAPITAL

approximately RMB368.8 million and RMB507.0 million respectively, accounting for approximately 59.6% and 59.4% of the historical transaction amounts for FY2020 and FY2021 respectively. We understand from the Group that the higher transaction amount in second half year was mainly due to the seasonal factor of the agricultural machinery industry and the need of the Group for preserving component products for production in next year. Based on the above pattern of historical transaction amounts to derive the Proposed Revised Annual Cap for 2022 and in consideration of the recent uncertain global economic environment and uncertain market demand for the Group's new tractor and diesel engine products due to the possible increase in cost of purchasing, using and maintenance after switching to the National IV standard, the Group has taken a conservative approach to determine the Proposed Revised Annual Cap for 2022 to be similar to the historical transaction amount for FY2021 at a level of RMB850 million. Therefore, we concur with the management that, based on the historical transaction amount under the Material Procurement Agreement for 1H2022 of RMB404.5 million, the estimated transaction amount under the Material Procurement Agreement for 2H2022 of approximately RMB445.5 million accounting for approximately 52.4% of the Proposed Revised Annual Cap for 2022 is justifiable.

Based on the above, we are of the view that the Proposed Revised Annual Cap for 2022, taking into account the actual historical transaction amount for 1H2022 and the the estimated transaction amount for 2H2022 with reference to above basis, is fair and reasonable.

E. Internal control measures

As disclosed in the Letter from the Board, the Group adopts a series of internal control policies on its daily operation to ensure the Group's conformity with the pricing policies of the Material Procurement Agreement from time to time. 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. For details, please refer to the "(IV) Measure of Internal Control" in the Circular.

In assessing whether the Company has put in place effective internal control procedures for its existing continuing connected transactions, we have obtained and reviewed the following documents: (i) the internal control policies governing the connected transactions of the Company provided by the management of the Company in order to understand the design of the Company's internal control system; (ii) the documentation of estimated price and quantity for determining the Proposed Revised Annual Cap which have been properly reviewed and approved by the Board; (iii) the board minutes in respect of annual meeting for 2020 and 2021 showing the historical connected transactions being reviewed and confirmed by independent non-executive Directors; and (iv) the auditors' report for the year ended 31 December 2020 and 2021 concerning the historical connected transactions. We note that the above documents were prepared in accordance with the internal control policies of the Company and they were in compliance with the relevant requirements under the Listing Rules. Therefore, we are of the view that the Company has put in place effective internal control procedures for continuing connected transactions.

LETTER FROM OCTAL CAPITAL

RECOMMENDATION

In view of the above principal factors and reasons, we are of the view that (i) the procurement under the Material Procurement Agreement are conducted in the ordinary and usual course of business of the Group; (ii) the terms of the Material Procurement Agreement are on normal commercial terms, and together with the Proposed Revised Annual Cap for 2022, are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Proposed Revised Annual Cap for 2022 under the Material Procurement Agreement is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, therefore, recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolution to be put forward at the EGM in relation to the Proposed Revised Annual Cap for 2022 under the Material Procurement Agreement.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung Louis Chan
Managing Director Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

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 (a) 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 (b) was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) 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 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 ¹	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	<u>548,485,853(L)</u>	<u>74.96</u>	<u>48.81</u>	<u>A Share</u>

Notes:

- (L) – Long position, (S) – Short position
- 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 2021, 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.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group, and no Director was interested in any assets which had been acquired or disposed of by or leased to (or are proposed to be acquired or disposed of by or leased to) any member of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Group were made up.

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 2021, 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:

Name	Qualification
Octal Capital	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Octal 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, Octal Capital did not have any direct or indirect interest in any assets which had since 31 December 2021 (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, Octal 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 Composite Services Agreement; and
- (b) the Material Procurement Agreement.

8. GENERAL

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

NOTICE OF THE EGM



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)

NOTICE OF 2022 FOURTH EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2022 fourth extraordinary general meeting (the “EGM”) of First Tractor Company Limited (the “Company”) will be held at 2:15 p.m. on Monday, 28 November 2022 at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the “PRC”) for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTIONS

- 1.00 The resolution regarding the increase in the cap amounts for 2022 under the Material Procurement Agreement and the Composite Services Agreement between the Company and YTO Group Corporation (Note 1);
 - 1.01 Increase the cap amount for 2022 under the Material Procurement Agreement
 - 1.02 Increase the cap amount for 2022 under the Composite Services Agreement
- 2 The resolution regarding the change of the Company's financial auditor and internal control auditor for 2022 (Note 1); and
- 3 The resolution regarding the election of Director of the Company (Note 1).

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

Luoyang, the PRC

8 November 2022

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

* For identification purposes only

NOTICE OF THE EGM

Notes:

1. For details of resolutions, please refer to the circular of the Company dated on 8 November 2022.
2. The register of members of the Company will be temporarily closed from 23 November 2022 to 28 November 2022 (both days inclusive) during which no transfer of shares of the Company will be registered in order to determine the list of shareholders of the Company for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 22 November 2022 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 28 November 2022 are entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Shares registrar of the Company, is Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
3. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his/her behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.
4. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the Proxy Form enclosed). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorized by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorization must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company's H Shares registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.
5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM.
6. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
7. In order to carry out comprehensive prevention and control of the COVID-19 epidemic and ensure participant safety, shareholders and proxies who are intended to participate in the meeting should pay attention to and abide by relevant regulations on declaration of health status and isolation. The Company will strictly abide by relevant requirements of the Luoyang Municipal Government, conduct relevant information registration and pre-meeting temperature registration, etc. Shareholders and proxies who have symptoms such as fever, do not wear masks as required, or fail to comply with relevant requirements for epidemic prevention and control will not be able to enter the venue of the EGM.
8. The Company's registered address:
No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Postal code: 471000
Telephone: (86-379) 6496 7038
Facsimile: (86-379) 6496 7438
Email: msc0038@ytogroup.com

* *For identification purposes only*