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

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

(Stock Code: 0038)

CONTINUING CONNECTED TRANSACTIONS
(1) COMMON RESOURCE SERVICES AGREEMENT
(2) PROPERTIES LEASE AGREEMENT AND
LAND LEASE AGREEMENT
(3) TECHNOLOGICAL AND CALIBRATION AND
TESTING SERVICES AGREEMENT
(4) PRODUCT INSPECTION AND TESTING AS WELL AS
RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

(1) Common Resource Services Agreement

On 16 December 2019, YTO, on behalf of YTO Group, as the supplier and/or the supplying agent, and the Company, on behalf of the Group, as the purchaser and/or the purchasing agent, entered into the Common Resource Services Agreement, pursuant to which YTO Group agreed to provide the Common Resource Services to the Group.

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Common Resource Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

(2) Properties Lease Agreement and Land Lease Agreement

On 16 December 2019, the Company, on behalf of the Group, as the lessor, and YTO, on behalf of YTO Group, as the lessee, entered into the Properties Lease Agreement, pursuant to which the Group agreed to lease the Properties to YTO Group. On the same day, the Company, on behalf of the Group, as the lessor, and YTO, on behalf of YTO Group, as the lessee, entered into the Land Lease Agreement, pursuant to which the Group agreed to lease the Land to YTO Group.

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Properties Lease Agreement and the Land Lease Agreement constitute continuing connected transactions of the Company under the Listing Rules.

(3) Technological and Calibration and Testing Services Agreement

On 16 December 2019, YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, entered into the Technological and Calibration and Testing Services Agreement, pursuant to which the Group has agreed to provide the Technological Services and Calibration Services to YTO Group.

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Technological and Calibration and Testing Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

(4) Product Inspection and Testing as well as Research and Development Services Agreement

On 16 December 2019, Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, entered into the Product Inspection and Testing as well as Research and Development Services Agreement, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Research and Development Services to the Group.

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. As at the date of this announcement, Xiyuan Company is an indirect wholly-owned subsidiary of the Company and will become a direct wholly-owned subsidiary of YTO upon completion of relevant formalities for the change in industry and commercial registration before 1 January 2020. As such, Xiyuan Company will become a connected person of the Company before the outset of the term of the Product Inspection and Testing as well as Research and Development Services Agreement, and the transactions contemplated under the Product Inspection and Testing as well as Research and Development Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

(1) COMMON RESOURCE SERVICES AGREEMENT

INTRODUCTION

On 16 December 2019, YTO, on behalf of YTO Group, as the supplier and/or the supplying agent, and the Company, on behalf of the Group, as the purchaser and/or the purchasing agent, entered into the Common Resource Services Agreement, pursuant to which YTO Group agreed to provide the Common Resource Services to the Group.

THE COMMON RESOURCE SERVICES AGREEMENT

Details of the principal terms of the Common Resource Services Agreement and its proposed Annual Cap amount are set out below:

Date

16 December 2019

Parties

- (a) YTO, on behalf of YTO Group, as the supplier and/or the supplying agent; and
- (b) The Company, on behalf of the Group, as the purchaser and/or the purchasing agent.

Services to be provided

Pursuant to the Common Resource Services Agreement, YTO Group agreed to provide the Common Resource Services to the Group, including:

- (1) Greening services: provision of greening services within the land area of the Group, including the planting, cultivation and daily maintenance of a variety of plants;
- (2) Road maintenance services: provision of maintenance and care services to the road traffic;
- (3) Cleaning services: responsible for maintaining the cleanliness and sanitation of plants and other buildings in the production area of the Group; and
- (4) Logistic support services: provision of conference venues and reception services for the Group, and provision of collective apartments for employees and related services.

Term

From 1 January 2020 to 31 December 2020.

Payment Terms

Pursuant to the Common Resource Services Agreement, fees incurred during each quarter shall be paid by the Group in cash by the end of that quarter.

Pricing Standard for the Transactions under the Common Resource Services Agreement

Pursuant to the Common Resource Services Agreement, the price of the services shall be determined according to the following criteria, which are set out in order of importance, starting from the most important:

- (1) the transaction prices of the transactions for the same or similar services between YTO Group and independent third parties; and
- (2) if the above is not applicable, costs plus a percentage mark-up, which is not more than 10% (i.e. price = costs x (1 + percentage mark-up)).

(whereas the 10% mark-up was determined based on (i) the profit margin of the transactions for the same or similar services between YTO Group and independent third parties; and (ii) the profit margin of the historical transactions of the parties to the Common Resource Services Agreement.)

YTO Group undertakes that the applicable price for the provision of the Common Resource Services to the Group under the Common Resource Services Agreement shall not be higher than the price charged for the provision of the same services to independent third party customers of YTO Group.

Historical Figures and the Proposed Annual Cap Amount for the Transactions under the Common Resource Services Agreement

The following table sets out the historical service fees of the Common Resource Services of the Company for the three years ended 31 December 2019, and the proposed Annual Cap amount for the year ending 31 December 2020 under the Common Resource Services Agreement:

| Historical service fee for the year ended 31 December 2017 (audited) RMB '000 (approximately) | Historical service fee for the year ended 31 December 2018 (audited) RMB '000 (approximately) | Estimated historical service fee for the year ended 31 December 2019 (unaudited) RMB '000 (approximately) | Proposed Annual Cap amount for the year ending 31 December 2020 RMB '000 |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| 12,330 | 13,000 | 3,600 | 6,000 |

Basis for the Proposed Annual Cap Amount under the Common Resource Services Agreement

The proposed Annual Cap amount for the year ending 31 December 2020 for the Common Resource Services Agreement was determined with reference to the following factors:

- (1) the historical service fees for the three years ended 31 December 2019; and
- (2) it is expected the scope and the contents of the services to be provided by YTO to the Company under the Common Resource Services Agreement will increase compared to 2019.

(2) PROPERTIES LEASE AGREEMENT AND LAND LEASE AGREEMENT

INTRODUCTION

On 16 December 2019, the Company, on behalf of the Group, as the lessor, and YTO, on behalf of YTO Group, as the lessee, entered into the Properties Lease Agreement, pursuant to which the Group agreed to lease the Properties to YTO Group. On the same day, the Company, on behalf of the Group, as the lessor, and YTO, on behalf of YTO Group, as the lessee, entered into the Land Lease Agreement, pursuant to which the Group agreed to lease the Land to YTO Group.

THE PROPERTIES LEASE AGREEMENT

Details of the principal terms of the Properties Lease Agreement and its proposed Annual Cap amount are set out below:

Date

16 December 2019

Parties

- a) The Company, on behalf of the Group, as the lessor; and
- b) YTO, on behalf of YTO Group, as the lessee.

Term of the Agreement

The term of the Properties Lease Agreement is from 1 January 2020 to 31 December 2020.

Properties to be Leased

Pursuant to the Properties Lease Agreement, the Group agreed to lease to YTO Group the properties and appurtenances owned by the Group of a total gross area of 65,200 square metres, including the steelmaking workshop, the sheet metal welding workshop, the oil pump environmental protection complex building, the customer service building and shop fronts in Qingnian Jiayuan Community located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, inclusive of the electric and water facilities and rooms for industrial use inside thereof.

Payment Terms

Pursuant to the Properties Lease Agreement, the quarterly rent shall be paid by YTO Group in cash before the end of each quarter.

Pricing Standard for the Transactions under the Properties Lease Agreement

Pursuant to the Properties Lease Agreement, the rent of the Properties payable by YTO Group shall be determined according to the following criteria, which are set out in order of importance, starting from the most important:

- (1) the transaction prices between the Group and independent third parties for leases of similar properties in similar locations (if any); and
- (2) in the event that the above prices are not available or not applicable, the rental payable shall be determined after negotiations by the Group and YTO Group conducted on an arm's length basis, after taking into consideration the market rental for similar properties.

Under most circumstances, the Company will use method (1). The Company will make reference to the unit rent prices (the “**Comparison Unit Rent Prices**”) in lease agreements entered into recently by the Group with independent third parties for similar properties in similar locations. The Company will then ensure that the unit rent prices payable to the Group by YTO Group under the Properties Lease Agreement are not lower than that of the Comparison Unit Rent Prices.

The Company will only use method (2), where there are no available or applicable prices under method (1). Under method (2), the Company will obtain a minimum of five rental figures for similar properties for comparison from consultations with professionals in reputable local real estate agencies and from local major real estate rental websites, including but not limited to “58 同城(58.com)” and “趕集網”, in the PRC. The Company will then determine the market rental rate at the relevant time based on the abovementioned five or more rental figures, after taking into account the following factors relating to the relevant properties:

- a) Geographical location;

- b) Period for which the relevant property has been in use; and
- c) Facilities available for use.

In any event, the applicable rent payable by YTO Group to the Group under the Properties Lease Agreement will be no less favourable to the Group than the rent payable by independent third parties to the Group for leases of similar properties in similar locations.

During the term of the lease, YTO Group shall be responsible for the repair, maintenance and care of the Properties and the relevant expenses.

Historical Figures and the Proposed Annual Cap Amount for the Transactions under the Properties Lease Agreement

The following table sets out the historical annual rent for the lease of the Properties for the three years ended 31 December 2019, and the proposed Annual Cap amount for the year ending 31 December 2020 for the lease of the Properties under the Properties Lease Agreement:

| Historical annual rent for the year ended 31 December 2017 (audited) <i>RMB'000 (approximately)</i> | Historical annual rent for the year ended 31 December 2018 (audited) <i>RMB'000 (approximately)</i> | Estimated historical annual rent for the year ended 31 December 2019 (unaudited) <i>RMB'000 (approximately)</i> | Proposed Annual Cap amount for the year ending 31 December 2020 <i>RMB'000</i> |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| 2,110 | 4,700 | 4,270 | 6,000 |

Basis for the Proposed Annual Cap Amount under the Properties Lease Agreement

The proposed Annual Cap amount for the year ending 31 December 2020 under the Properties Lease Agreement was determined with reference to the following factors:

- (1) the historical annual rent for the lease of the Properties for the three years ended 31 December 2019; and
- (2) the increase in the leased area of Properties by YTO to cope with its business demands.

THE LAND LEASE AGREEMENT

Details of the principal terms of the Land Lease Agreement and its proposed Annual Cap amount are set out below:

Date

16 December 2019

Parties

- a) The Company, on behalf of the Group, as the lessor; and
- b) YTO, on behalf of YTO Group, as the lessee.

Term of the Agreement

The term of the Land Lease Agreement is from 1 January 2020 to 31 December 2020.

Land and Land Use Rights to be Leased

Pursuant to the Land Lease Agreement, the Group agreed to lease to YTO Group the land and land use rights owned by the Group of a total gross area of 92,700 square metres, including but not limited to the land and land use rights located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC.

Payment Terms

Pursuant to the Land Lease Agreement, the quarterly rent shall be paid by YTO Group in cash before the end of each quarter.

Pricing Standard for the Transactions under the Land Lease Agreement

Pursuant to the Land Lease Agreement, the rent of the Land payable by YTO Group shall be determined according to the following criteria, which are set out in order of importance, starting from the most important:

- (1) the transaction prices between the Group and an independent third party for the leases of similar land and land use rights in similar locations (if any); and
- (2) in the event that the above prices are not available or not applicable, the rental payable shall be determined after negotiations by the Group and YTO Group conducted on an arm's length basis, after taking into consideration the market rental for similar land and land use rights.

Under most circumstances, the Company will use method (1). The Company will make reference to the unit rent prices (the “**Comparison Unit Rent Prices**”) in lease agreements entered into recently by the Group with independent third parties for similar land/land use rights in similar locations. The Company will then ensure that the unit rent prices payable to the Group by YTO Group under the Land Lease Agreement are not lower than that of the Comparison Unit Rent Prices.

The Company will only use method (2), where there are no available or applicable prices under method (1). Under method (2), the Company will obtain a minimum of five rental figures for similar land/land use rights for comparison from consultations with professionals in reputable local real estate agencies and from local major real estate rental websites, including but not limited to “58 同城 (58.com)” and “趕集網”, in the PRC. The Company will then determine the market rental rate at the relevant time based on the abovementioned five or more rental figures, after taking into account the following factors relating to the relevant land/land use rights:

- a) Geographical location; and
- b) Facilities available for use.

In any event, the applicable rent payable by YTO Group to the Group under the Land Lease Agreement will be no less favourable to the Group than the rent payable by independent third parties to the Group for similar land and land use rights in similar locations.

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

The following table sets out the historical annual rent for the lease of the land and land use rights for the three years ended 31 December 2019, and the proposed Annual Cap amount for the year ending 31 December 2020 for the lease of the Land under the Land Lease Agreement:

| Historical annual rent for the year ended 31 December 2017 (audited) <i>RMB'000 (approximately)</i> | Historical annual rent for the year ended 31 December 2018 (audited) <i>RMB'000 (approximately)</i> | Estimated historical annual rent for the year ended 31 December 2019 (unaudited) <i>RMB'000 (approximately)</i> | Proposed Annual Cap amount for the year ending 31 December 2020 <i>RMB'000</i> |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| 1,410 | 2,900 | 1,680 | 2,900 |

Basis for the Proposed Annual Cap Amount under the Land Lease Agreement

The proposed Annual Cap amount for the year ending 31 December 2020 under the Land Lease Agreement was determined with reference to the historical annual rent for the three years ended 31 December 2019.

(3) TECHNOLOGICAL AND CALIBRATION AND TESTING SERVICES AGREEMENT

INTRODUCTION

On 16 December 2019, YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, entered into the Technological and Calibration and Testing Services Agreement, pursuant to which the Group agreed to provide the Technological Services and Calibration Services to YTO Group.

THE TECHNOLOGICAL AND CALIBRATION AND TESTING SERVICES AGREEMENT

Details of the principal terms of the Technological and Calibration and Testing Services Agreement and its proposed Annual Cap amount are set out below:

Date

16 December 2019

Parties

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

Services to be provided

Pursuant to the Technological and Calibration and Testing Services Agreement, the Group agreed to provide the Technological Services and Calibration Services to YTO Group, including:

- (1) Technological services: technological renovation and product quality improvement services in relation to the products of YTO Group;
- (2) Material testing services: metallic materials, inorganic materials, chemical materials and physical flaw detection;

- (3) Calibration services: calibration services provided for material weighing, product testing, technical training, procurement of calibration instrument, assessment of standard instrument, system management, and preparation and revision of calibration standards; and
- (4) Calibration instrument testing services: services including verification, calibration, testing, maintenance and modification for the calibration instruments of YTO Group.

Term

From 1 January 2020 to 31 December 2020.

Payment Terms

Shall be specified in each separate contract to be agreed by the parties in accordance with the Technological and Calibration and Testing Service Agreement.

Pricing Standard for the Transactions under the Technological and Calibration and Testing Services Agreement

Under the Technological and Calibration and Testing Services Agreement, the fee of the Technological Services and Calibration Services shall be determined in the following order:

- (1) the price of non-connected transactions for the same services between the Group and third parties who are independent of its connected person(s);

- (2) the price which consists of the reasonable cost of services provided by the Group plus gross profit of non-connected transactions in the same category (including but not limited to those which are the same as or similar to the contents, work period and intellectual property in respect of research and development or calibration and testing projects, etc.), and the Company will take at least two comparable non-connected transactions as its reference; and
- (3) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

In any event, the applicable price for the provision of the Technological Services and Calibration Services by the Group to YTO Group under the Technological and Calibration and Testing Services Agreement shall be no more favourable than the price charged for the provision of the same services to the independent third party customers of the Group.

Historical Figures and the Proposed Annual Cap Amount for the Transactions under the Technological and Calibration and Testing Services Agreement

The following table sets out the historical service fees of the Technological Services and Calibration Services of the Company for the three years ended 31 December 2019, and the proposed Annual Cap amount for the year ending 31 December 2020 under the Technological and Calibration and Testing Services Agreement:

| Historical service fee for the year ended 31 December 2017 (audited) <i>RMB '000 (approximately)</i> | Historical service fee for the year ended 31 December 2018 (audited) <i>RMB '000 (approximately)</i> | Estimated historical service fee for the year ended 31 December 2019 (unaudited) <i>RMB '000 (approximately)</i> | Proposed Annual Cap amount for the year ending 31 December 2020 <i>RMB '000</i> |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| 3,310 | 1,830 | 18,430 | 20,000 |

Basis for the Proposed Annual Cap Amount under the Technological and Calibration and Testing Services Agreement

The proposed Annual Cap amount for the year ending 31 December 2020 for the Technological and Calibration and Testing Services Agreement was determined with reference to the following factors:

- (1) the historical service fees for the three years ended 31 December 2019; and
- (2) it is expected that YTO will continue to increase its technological research and development investment in the development and research of new products including harvester and agricultural machineries and the improvement of quality and reliability of products and technologies.

(4) PRODUCT INSPECTION AND TESTING AS WELL AS RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

INTRODUCTION

On 16 December 2019, Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, entered into the Product Inspection and Testing as well as Research and Development Services Agreement, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Research and Development Services to the Group.

PRODUCT INSPECTION AND TESTING AS WELL AS RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

Details of the principal terms of the Product Inspection and Testing as well as Research and Development Services Agreement and its proposed Annual Cap amount are set out below:

Date

16 December 2019

Parties

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

Services to be provided

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

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

- (3) the provision of research and development services on non-standard equipment such as inspection and testing equipment based on the demands of the Company.

Term

From 1 January 2020 to 31 December 2020.

Payment Terms

Actual expenses incurred during the month shall be settled in cash in the following month.

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

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

- (1) the price of non-connected transactions for the same services between Xiyuan Company and third parties who are independent of its connected person(s);
- (2) the price which consists of the reasonable cost of services provided by Xiyuan Company plus gross profit of non-connected transactions in the same category (including but not limited to those which are the same as or similar to the contents, work period and intellectual property in respect of inspection and testing as well as research and development projects, etc.), and Xiyuan Company will take at least two comparable non-connected transactions as its reference; and
- (3) in the event that the above prices are not available or not applicable, the price shall be determined through negotiations by the parties on an arm's length basis.

In any event, the applicable price for the provision of the Product Inspection and Testing as well as Research and Development Services provided by Xiyuan Company to the Group under the Product Inspection and Testing as well as Research and Development Services Agreement shall not be higher than the price charged for the provision of the same services to the independent third party customers of Xiyuan Company.

Historical Figures and the Proposed Annual Cap Amount for the Transactions under the Product Inspection and Testing as well as Research and Development Services Agreement

The following table sets out the historical service fees of the Product Inspection and Testing as well as Research and Development Services provided by Xiyuan Company to the Group for the three years ended 31 December 2019, and the proposed Annual Cap amount for the year ending 31 December 2020 under the Inspection and Testing Services Agreement:

| Historical service fee for the year ended 31 December 2017 (audited) <i>RMB '000 (approximately)</i> | Historical service fee for the year ended 31 December 2018 (audited) <i>RMB '000 (approximately)</i> | Estimated historical service fee for the year ended 31 December 2019 (unaudited) <i>RMB '000 (approximately)</i> | Proposed Annual Cap amount for the year ending 31 December 2020 <i>RMB '000</i> |
|-----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| 10,550 | 13,570 | 16,000 | 26,000 |

Basis for the Proposed Annual Cap Amount under the Product Inspection and Testing as well as Research and Development Services Agreement

The proposed Annual Cap amount for the year ending 31 December 2020 for the Product Inspection and Testing as well as Research and Development Services Agreement was determined with reference to the following factors:

- (1) the historical service fees for the three years ended 31 December 2019; and
- (2) the testing and certification services for related products required for the shifting from the National IV standards of non-road diesel engines of the Company.

MEASURES OF INTERNAL CONTROL

(1) Common Resource Services Agreement

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

- (1) the Company having completed the approval of the the Common Resource Services Agreement in accordance with the internal control system for decision making and management of connected transactions;

- (2) the finance department of the Company, which shall be responsible for the calculation, supervision and management of the implementation of the cap amount for the transactions, having reviewed the reasonableness and fairness of the terms of the Common Resource Services Agreement (in particular, the pricing terms);
- (3) the Company's management policies for connected transactions clearly state the principle for determining the prices for connected transactions. When each unit of business enters into definitive contracts in accordance with the Common Resource Services Agreement, the price must be determined in accordance with the pricing standards as agreed in the Common Resource Services Agreement;
- (4) the internal audit department of the Company shall conduct regular supervision and evaluation on whether the connected transactions of the Company comply with internal control requirements of the Company; and
- (5) the finance department of the Company will request YTO Group to provide the relevant documents including invoices for its transactions with independent third parties, so as to confirm the price for the provision of the same or similar type of service(s) by YTO Group to the Group is not higher than the price charged for the provision of such service(s) by YTO Group to independent third parties. If the above is not applicable, the financial department of the Company will request YTO Group to provide the cost breakdown (including but not limited to purchase invoices, list of labor cost and other related fees) for its transactions with the Group, so as to calculate whether the profit margin is within the agreed range of 10%, and determine the reasonableness of the prices charged by YTO Group.

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

(2) Properties Lease Agreement and Land Lease Agreement

To ensure the Group's conformity with the pricing policies of the Properties Lease Agreement and the Land Lease Agreement from time to time, the Group adopts a series of internal control policies on its daily operation. Such internal control policies are implemented and supervised by the finance department, office of the Board, the Directors (including the independent non-executive Directors) and the audit department of the Company:

- (1) the Company having completed the approval of the Properties Lease Agreement and Land Lease Agreement in accordance with the internal control system for decision making and management of connected transactions;

- (2) the finance department of the Company, which shall be responsible for the calculation, supervision and management of the implementation of the cap amount for the transactions, having reviewed the reasonableness and fairness of the terms of the Properties Lease Agreement and the Land Lease Agreement (in particular, the pricing terms);
- (3) the internal audit department of the Company shall conduct regular supervision and evaluation on whether the connected transactions of the Company have been carried out in accordance with the internal control requirements of the Company;
- (4) the Company's management policies for connected transactions clearly state the principle for determining the prices for connected transactions. Pursuant to the Properties Lease Agreement and the Land Lease Agreement, specific and separate lease agreements shall be entered into for each property lease and land lease by the relevant member company of the Group with the relevant member company of YTO Group, and the price of each such property lease and land lease must be determined in accordance with the pricing standards as agreed in the Properties Lease Agreement and the Land Lease Agreement; and
- (5) before entering into each of such specific and separate lease agreements, the finance department of the Company and the department responsible for the business of property lease and land lease shall review the transaction prices of leases between the Group and independent third parties, and obtain the market prices of leases of comparable properties and land, so as to ensure and confirm that the applicable rent payable by YTO Group to the Group under the Properties Lease Agreement will be no less favourable to the Group than the rent payable by independent third parties to the Group for leases of similar properties in similar locations, and that the applicable rent payable by YTO Group to the Group under the Land Lease Agreement will be no less favourable to the Group than the rent payable by independent third parties to the Group for leases of similar land and land use rights in similar locations.

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

(3) Technological and Calibration and Testing Services Agreement

In order to ensure that the transactions under the Technological and Calibration and Testing Services Agreement meet the pricing terms as agreed in the Technological and Calibration and Testing Services Agreement, the Company has established the following internal control measures, which are implemented and monitored by the finance department, the office of the Board, and the audit and legal department of the Company:

- (1) the Company having established measures on decision-making and daily management of connected transactions. The Board of the Company having approved the Technological and Calibration and Testing Services Agreement in accordance with the decision-making process of connected transaction; the independent directors of the Company having strictly performed the duties of independent directors, and having given their views as required on whether the transactions under the Technological and Calibration and Testing Services Agreement are on normal commercial terms, and whether such transactions are fair and reasonable;
- (2) the office of the Board and the finance department of the Company having reviewed the reasonableness and fairness of the terms of the Technological and Calibration and Testing Services Agreement (in particular, the pricing terms);
- (3) the management system of the Company on connected transactions has clearly defined the price principle in entering into the connected transaction. When the Company enters into a specific transactional agreement under the Technological and Calibration and Testing Services Agreement, the price must comply with the pricing standards of the Technological and Calibration and Testing Services Agreement; and
- (4) the internal audit department of the Company shall conduct regular supervision and evaluation on whether the connected transactions of the Company have been carried out in accordance with the internal control requirements of the Company.

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

(4) Product Inspection and Testing as well as Research and Development Services Agreement

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

- (1) the Company having completed the approval of the Product Inspection and Testing as well as Research and Development Services Agreement in accordance with the internal control system for decision making and management of connected transactions;
- (2) the finance department of the Company, which shall be responsible for the calculation, supervision and management of the implementation of the cap amount for the transactions, having reviewed the reasonableness and fairness of the terms of the Product Inspection and Testing as well as Research and Development Services Agreement (in particular, the pricing terms);
- (3) the Company's management policies for connected transactions clearly state the principle for determining the prices for connected transactions. When each unit of business enters into definitive contracts in accordance with the Product Inspection and Testing as well as Research and Development Services Agreement, the price must be determined in accordance with the pricing standards as agreed in the Product Inspection and Testing as well as Research and Development Services Agreement;
- (4) the internal audit department of the Company shall conduct regular supervision and evaluation on whether the connected transactions of the Company comply with internal control requirements of the Company; and
- (5) the finance department of the Company will request Xiyuan Company to provide the relevant documents including invoices for its transactions with independent third parties, so as to confirm the price for the provision of the same or similar type of service(s) by Xiyuan Company to the Group is not higher than the price charged for the provision of such service(s) by Xiyuan Company to independent third parties. If the above is not applicable, the financial department of the Company will request Xiyuan Company to provide the cost breakdown (including but not limited to purchase invoices, list of labor cost and other related fees) for its transactions with the Group, so as to calculate whether the gross profit margin is within the agreed range, and determine the reasonableness of the prices charged by Xiyuan Company.

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

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION UNDER THE VARIOUS AGREEMENTS

(1) Common Resource Services Agreement

In light of the extensive land area of the Group and the complexity of maintenance and care services to road facilities, so far as the Directors are aware, it is convenient for YTO Group to provide relevant services to the Group, and YTO Group possesses the relevant capability and sufficient capital back-ups to provide the Common Resource Services.

The terms of the Common Resource Services Agreement were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Common Resource Services Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(2) Properties Lease Agreement and Land Lease Agreement

The Properties and the Land are premises which, for the time being, the Company does not need to utilise. The entering into of the Properties Lease Agreement and the Land Lease Agreement will increase the efficient utilisation rate of the assets of the Company and enable the Group to obtain a steady rental income, which will help increase the returns to the Shareholders, and which is in the best interests of the Company and its Shareholders as a whole.

The terms of the Properties Lease Agreement and the Land Lease Agreement were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Properties Lease Agreement and the Land Lease Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

(3) Technological and Calibration and Testing Services Agreement

The businesses of the Group cover the provision of Technological and Calibration and Testing Services for YTO. Provision of such services by the Company to YTO Group will help the Company to give full play to its technological advantages in respect of process research and development and improve the utilization of relevant resources, which is in the interests of the Company and its Shareholders as a whole.

The terms of the Technological and Calibration and Testing Services Agreement were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Technological and Calibration and Testing Services Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders.

(4) Product Inspection and Testing as well as Research and Development Services Agreement

Product-related inspection and testing services provided by Xiyuan Company, as a state-authorized independent testing organization and a certified public service platform, to the Group meet the needs of the Company in product manufacturing and marketing.

The terms of the Product Inspection and Testing as well as Research and Development Services Agreement were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Product Inspection and Testing as well as Research and Development Services Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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

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

As at the date of this announcement, YTO is the controlling shareholder of the Company, holding approximately 410,690,578 A Shares of the Company. YTO Group is principally engaged in the production and sales of tractors and other agricultural machinery, automobiles, engineering machinery, diesel engines, generators, forklifts, bicycles, fuel injection pumps and spare parts of the above products; manufacturing

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

As at the date of this announcement, Xiyuan Company is an indirect wholly-owned subsidiary of the Company and will become a direct wholly-owned subsidiary of YTO upon completion of relevant formalities for the change in industry and commercial registration before 1 January 2020. Xiyuan Company, in the capacity of a state-authorized inspection and testing organization and a certified public service platform, is principally engaged in: the testing and inspection of tractors, three-wheeled vehicles, low-speed trucks, automobiles (including special-purpose vehicles), electric vehicles, construction machineries, internal combustion engines, agricultural machineries, motorcycles, agricultural machineries, transformation machineries and its components for third parties; conducting security check on motor vehicles; development, production and sale of agricultural machinery equipment and test equipment, instruments, new materials and related products; licensed sale of imported equipment and instruments; and technical development, consultation, transfer and related services.

LISTING RULES IMPLICATIONS

(1) Common Resource Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Common Resource Service Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Common Resource Service Agreement are more than 0.1% but less than 5%, the provision of services under the Common Resource Service Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

The Common Resource Service Agreement and the transactions contemplated under the Common Resource Service Agreement have been approved by the

Board. Li Xiaoyu, Cai Jibo, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors, 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.

(2) Properties Lease Agreement and Land Lease Agreement

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Properties Lease Agreement and the Land Lease Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The transactions contemplated under the Properties Lease Agreement and the Land Lease Agreement are required to be aggregated pursuant to Rule 14A.81 of the Listing Rules. As one of the applicable percentage ratios (after aggregation) is more than 0.1% but less than 5%, the transactions contemplated under the Properties Lease Agreement and the Land Lease Agreement are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Properties Lease Agreement and the Land Lease Agreement and the respective transactions contemplated under each of the Properties Lease Agreement and the Land Lease Agreement have been approved by the Board. Li Xiaoyu, Cai Jibo, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors, 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.

(3) Technological and Calibration and Testing Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Technological and Calibration and Testing Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

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

The Technological and Calibration and Testing Services Agreement and the transactions contemplated under the Technological and Calibration and Testing Services Agreement have been approved by the Board. Li Xiaoyu, Cai Jibo, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors, 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.

(4) Product Inspection and Testing as well as Research and Development Services Agreement

As at the date of this announcement, YTO beneficially owns approximately 41.66% equity interest in the Company and is the immediate controlling shareholder of the Company. As at the date of this announcement, Xiyuan Company is an indirect wholly-owned subsidiary of the Company and will become a direct wholly-owned subsidiary of YTO upon completion of relevant formalities for the change in industry and commercial registration before 1 January 2020. As such, Xiyuan Company will become a connected person of the Company before the outset of the term of the Product Inspection and Testing as well as Research and Development Services Agreement, and the transactions contemplated under the Product Inspection and Testing as well as Research and Development Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

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

The Product Inspection and Testing as well as Research and Development Services Agreement and the transactions contemplated under the Product Inspection and Testing as well as Research and Development Services Agreement have been approved by the Board. Li Xiaoyu, Cai Jibo, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors, have abstained from voting at the Board meeting, as they are connected to YTO and Xiyuan Company and are regarded as being unqualified to make any independent recommendation to the Board.

DEFINITIONS

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

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| “Annual Cap” | the maximum aggregate annual value payable by the Group for the transactions under the Common Resource Services Agreement, the Properties Lease Agreement, the Land Lease Agreement, the Technological and Calibration and Testing Services Agreement, or the Product Inspection and Testing as well as Research and Development Services Agreement (as the case may be); |
| “Board” | the board of Directors; |
| “Common Resource Services” | the greening services, road maintenance services, cleaning services and logistic support services under the Common Resource Services Agreement; |
| “Common Resource Services Agreement” | the agreement dated 16 December 2019 entered into between YTO, on behalf of YTO Group, as the supplier and/or the supplying agent and the Company, on behalf of the Group, as the purchaser and/or the purchasing agent, pursuant to which YTO Group agreed to provide the Common Resource Services to the Group; |
| “Company” | First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H Shares and A Shares of which are listed on the main board of the Stock Exchange (Stock Code: 0038) and the Shanghai Stock Exchange (Stock Code: 601038) respectively; |
| “connected person(s)” | has the same meaning as ascribed to this term under the Listing Rules; |
| “controlling shareholder” | has the same meaning as ascribed to this term under the Listing Rules; |
| “Directors” | the directors of the Company, including the independent non-executive directors; |

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| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC; |
| “Product Inspection and Testing as well as Research and Development Services” | the products-related technological inspection and testing services and patent services, standardized technological support services and research and development services on non-standard equipment such as inspection and testing equipment under the Product Inspection and Testing as well as Research and Development Services Agreement; |
| “Product Inspection and Testing as well as Research and Development Services Agreement” | the agreement dated 16 December 2019 entered into between Xiyuan Company, as the supplier, and the Company, on behalf of the Group, as the purchaser, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Research and Development Services to the Group; |
| “Land” | the land and land use rights owned by the Group to be leased under the Land Lease Agreement, including but not limited to the land and land use rights located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC; |
| “Land Lease Agreement” | the land lease agreement dated 16 December 2019 entered into between the Company, on behalf of the Group, and YTO, on behalf of YTO Group, pursuant to which the Group agreed to lease the Land to YTO Group; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “percentage ratio(s)” | has the same meaning as ascribed to this term under the Listing Rules, as applicable to a transaction; |
| “PRC” | the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan; |

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| “Properties” | the properties and appurtenances owned by the Group to be leased under the Properties Lease Agreement, including but not limited to the steelmaking workshop, the sheet metal welding workshop, the oil pump environmental protection complex building, the customer service building and shop fronts in Qingnian Jiayuan Community located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, inclusive of the electric and water facilities and rooms for industrial use inside thereof; |
| “Properties Lease Agreement” | the properties lease agreement dated 16 December 2019 entered into between the Company, on behalf of the Group, and YTO, on behalf of YTO Group, pursuant to which the Group agreed to lease the Properties to YTO Group; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “Shareholder(s)” | the shareholder(s) of the Company; |
| “Share(s)” | share(s) of RMB1.00 each of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Technological and Calibration and Testing Services Agreement” | the agreement dated 16 December 2019 entered into between YTO, on behalf of YTO Group as the purchaser, and the Company, on behalf of the Group, as the supplier, pursuant to which the Group has agreed to provide the Technological Services and Calibration Services to YTO Group; |
| “Technological Services and Calibration Services” | the technological services, material testing services, calibration services and calibration instrument testing services under the Technological and Calibration and Testing Services Agreement; |
| “Xiyuan Company” | Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* (洛陽西苑車輛與動力檢驗所有限公司), a company established in the PRC with limited liability, which is an indirect wholly-owned subsidiary of the Company as at the date of this announcement and will become a direct wholly-owned subsidiary of YTO upon completion of relevant formalities for the change in industry and commercial registration before 1 January 2020; |

“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 41.66% equity interest in the Company;

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

“%” per cent.

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

Luoyang, the PRC
16 December 2019

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

* *For identification purposes only*