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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) RESEARCH AND DEVELOPMENT  
SERVICES AGREEMENT**

**(4) PRODUCT INSPECTION AND TESTING AS WELL AS  
TECHNOLOGICAL SERVICES AGREEMENT**

**(1) COMMON RESOURCE SERVICES AGREEMENT**

On 22 December 2020, 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 22 December 2020, 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) RESEARCH AND DEVELOPMENT SERVICES AGREEMENT**

On 22 December 2020, YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, entered into the Research and Development Services Agreement, pursuant to which the Group agreed to provide the product research and development, technological 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 Research and Development Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

## **(4) PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT**

On 22 December 2020, 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 Technological Services Agreement, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological 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. Xiyuan Company is a direct wholly-owned subsidiary of YTO. As such, Xiyuan Company is a connected person of the Company, and the transactions contemplated under the Product Inspection and Testing as well as Technological Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

## **LISTING RULES IMPLICATIONS**

As the applicable percentage ratios for the each of the Common Resource Services Agreement, the Properties Lease Agreement and the Land Lease Agreement, the Research and Development Services Agreement and the Product Inspection and Testing as well as Technological Services Agreement are more than 0.1% but less than 5%, the provision of services under each of the Common Resource Services Agreement, the Properties Lease Agreement and the Land Lease Agreement, the Research and Development Services Agreement and the Product Inspection and Testing as well as Technological 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.

## **(1) COMMON RESOURCE SERVICES AGREEMENT**

### **INTRODUCTION**

On 22 December 2020, 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**

22 December 2020

## **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 other property management services for the Group, and provision of collective apartments for employees and related services.

## **Term**

From 1 January 2021 to 31 December 2021.

## **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 two years ended 31 December 2019 and the eleven months ended 30 November 2020, and the proposed Annual Cap amount for the year ending 31 December 2021 under the Common Resource Services Agreement:

Historical service fee for the year ended 31 December 2018 (audited) <i>RMB '000 (approximately)</i>	Historical service fee for the year ended 31 December 2019 (audited) <i>RMB '000 (approximately)</i>	Historical service fee for the year ended 30 November 2020 (unaudited) <i>RMB '000 (approximately)</i>	Proposed Annual Cap amount for the year ending 31 December 2021 <i>RMB '000</i>
13,000	3,600	3,400	8,000

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

The proposed Annual Cap amount for the year ending 31 December 2021 for the Common Resource Services Agreement was determined with reference to the historical service fees for the two years ended 31 December 2019 and the eleven months ended 30 November 2020, and on the basis of the specific items of the Common Resource Services and the Company's reasonable expected demand for the Common Resource Services. As the areas of factory greening and road maintenance to be provided by YTO to the Company will increase and at the same time the greening environment of the factory areas of the Company will further be improved, the Company's demand for the Common Resource Service by YTO will correspondingly be increased in 2021.

## **(2) PROPERTIES LEASE AGREEMENT AND LAND LEASE AGREEMENT**

### **INTRODUCTION**

On 22 December 2020, 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**

22 December 2020

#### **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 2021 to 31 December 2021.

#### **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 approximately 42,756.72 square metres, including the marketing building(s), pilot trial production base(s) and the customer service building(s) located at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, inclusive of the water and electric facilities, industrial equipment 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 of leasing similar properties in similar locations between the Group and independent third parties; 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 parties 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 use method (2), where there are no available or applicable prices under method (1). Under method (2), the Company will select and appoint an intermediary with appraisal qualification to conduct evaluation on the properties to be leased at a transaction price no less than the evaluation value or through enquiries, obtain no less than two quotes of market rental for similar properties for comparison.

In any event, the rent payable by YTO Group to the Group under the Properties Lease Agreement will be no less favourable 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 two years ended 31 December 2019 and the eleven months ended 30 November 2020, and the proposed Annual Cap amount for the year ending 31 December 2021 for the lease of the properties under the Properties Lease Agreement:

Historical annual rent for the year ended 31 December 2018 (audited) <i>RMB'000 (approximately)</i>	Historical annual rent for the year ended 31 December 2019 (audited) <i>RMB'000 (approximately)</i>	Historical annual rent for the year ended 30 November 2020 (unaudited) <i>RMB'000 (approximately)</i>	Proposed Annual Cap amount for the year ending 31 December 2021 <i>RMB'000</i>
4,700	2,380	4,530	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 2021 under the Properties Lease Agreement was determined with reference to the actual transaction amount of the lease of the Properties for the two years ended 31 December 2019 and the eleven months ended 30 November 2020, and on the basis of the estimated area of the properties to be leased to YTO Group in 2021 and the historical charging standard of the Group.

## **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**

22 December 2020

### **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 2021 to 31 December 2021.

### **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 approximately 23,961.32 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 parties 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 use method (2), where there are no available or applicable prices under method (1). Under method (2), the Company will select and appoint an intermediary with appraisal qualification to conduct evaluation on the land/land use rights to be leased, and the transaction price shall be no less than the evaluation value; or through enquiries, obtain no less than two quotes of market rental for similar land/land use rights for comparison.

In any event, the rent payable by YTO Group to the Group under the Land Lease Agreement will be no less favourable 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 two years ended 31 December 2019 and the eleven months ended 30 November 2020, and the proposed Annual Cap amount for the year ending 31 December 2021 for the lease of the Land under the Land Lease Agreement:

Historical annual rent for the year ended 31 December 2018 (audited) <i>RMB'000 (approximately)</i>	Historical annual rent for the year ended 31 December 2019 (audited) <i>RMB'000 (approximately)</i>	Historical annual rent for the year ended 30 November 2020 (unaudited) <i>RMB'000 (approximately)</i>	Proposed Annual Cap amount for the year ending 31 December 2021 <i>RMB'000</i>
2,900	1,640	1,160	750

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

The proposed Annual Cap amount for the year ending 31 December 2021 under the Land Lease Agreement was determined with reference to the actual transaction amount of the lease of the land for the two years ended 31 December 2019 and the eleven months ended 30 November 2020, and on the basis of the estimated lease area of land to be leased to YTO Group in 2021 and the historical charging standard of the Group.

## (3) RESEARCH AND DEVELOPMENT SERVICES AGREEMENT

### INTRODUCTION

On 22 December 2020, YTO, on behalf of YTO Group, as the purchaser, and the Company, on behalf of the Group, as the supplier, entered into the Research and Development Services Agreement, pursuant to which the Group agreed to provide the Research and Development Services to YTO Group.

## **RESEARCH AND DEVELOPMENT SERVICES AGREEMENT**

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

### **Date**

22 December 2020

### **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 Research and Development Services Agreement, the Group agreed to provide the Research and Development Services to YTO Group, including:

- (1) Product research and development: the research and development of harvesters and agricultural machinery products and the relevant production technologies;
- (2) Technological services: technological renovation and product quality improvement services in relation to the products of YTO Group;
- (3) Material testing services: metallic materials, inorganic materials, chemical materials and physical flaw detection;
- (4) 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
- (5) Calibration instrument testing services: services including verification, calibration, testing, maintenance and modification for the calibration instruments of YTO Group.

## **Term**

From 1 January 2021 to 31 December 2021.

## **Payment Terms**

The payment terms shall be specified in each separate contract to be agreed by the parties in accordance with the Research and Development Services Agreement.

## **Pricing Standard for the Transactions under the Research and Development Services Agreement**

Under the Research and Development Services Agreement, the fee of the Research and Development 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 Research and Development Services by the Group to YTO Group under the Research and Development 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 Research and Development Services Agreement

The following table sets out the historical service fees of the Research and Development Services of the Company for the two years ended 31 December 2019 and the eleven months ended 30 November 2020, and the proposed Annual Cap amount for the year ending 31 December 2021 under the Research and Development Services Agreement:

Historical service fee for the year ended 31 December 2018 (audited) <i>RMB '000 (approximately)</i>	Historical service fee for the year ended 31 December 2019 (audited) <i>RMB '000 (approximately)</i>	Historical service fee for the year ended 30 November 2020 (unaudited) <i>RMB '000 (approximately)</i>	Proposed Annual Cap amount for the year ending 31 December 2021 <i>RMB '000</i>
1,830	18,000	1,700	10,000

### Basis for the Proposed Annual Cap Amount under the Research and Development Services Agreement

The proposed Annual Cap amount for the year 31 December 2021 under the Research and Development Services Agreement was determined with reference to historical service fees of the Research and Development Services Agreement for the two years ended 31 December 2019 and the eleven months ended 30 November 2020. The historical service fee for the year ended 30 November 2020 decreased from that in 2019 was caused by the adjustment to the research and development plan by YTO in 2020. It is expected that more investment will be made into the research and development of harvesters and agricultural machinery products and the improvement of product process quality and reliability by YTO in 2021.

#### (4) PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT

##### INTRODUCTION

On 22 December 2020, 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 Technological Services Agreement, pursuant to which Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological Services to the Group.

## **PRODUCT INSPECTION AND TESTING AS WELL AS TECHNOLOGICAL SERVICES AGREEMENT**

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

### **Date**

22 December 2020

### **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 Technological Services Agreement, Xiyuan Company agreed to provide the Product Inspection and Testing as well as Technological Services to the Group, including:

- (1) products-related technological testing services: technical judgement made to the specific targets using instrument and equipment, environmental facilities and based on other technological conditions in accordance with relevant standard or technical norms;
- (2) 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 manufacturing services on non-standard equipment such as inspection and testing equipment based on the demands of the Company.

## **Term**

From 1 January 2021 to 31 December 2021.

## **Payment Terms**

Pursuant to the Product Inspection and Testing as well as Technological Services Agreement, the Company shall pay the service fee incurred to Xiyuan Company for entrusting to provide the Product Inspection and Testing as well as Technological Services, the detailed service fee of which and others shall be paid as specified in each separate contract to be agreed by the parties.

## **Pricing Standard for the Transactions under the Product Inspection and Testing as well as Technological Services Agreement**

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

- (1) the price of non-connected transactions 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 Technological Services by Xiyuan Company to the Group under the Product Inspection and Testing as well as Technological 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 Technological Services Agreement**

The following table sets out the historical service fees of the Product Inspection and Testing as well as Technological Services provided by Xiyuan Company to the Group for the two years ended 31 December 2019 and the eleven months ended 30 November 2020, and the proposed Annual Cap amount for the year ending 31 December 2021 under the Inspection and Testing as well as Technological Services Agreement:

<b>Historical service fee for the year ended 31 December 2018 (audited) <i>RMB '000 (approximately)</i></b>	<b>Historical service fee for the year ended 31 December 2019 (audited) <i>RMB '000 (approximately)</i></b>	<b>Historical service fee for the year ended 30 November 2020 (unaudited) <i>RMB '000 (approximately)</i></b>	<b>Proposed Annual Cap amount for the year ending 31 December 2021 <i>RMB '000</i></b>
13,570	16,000	21,150	26,000

## **Basis for the Proposed Annual Cap Amount under the Product Inspection and Testing as well as Technological Services Agreement**

The proposed Annual Cap amount for the year ending 31 December 2021 for the Product Inspection and Testing as well as Technological Services Agreement was determined with reference to the historical service fees for the two years ended 31 December 2019 and the eleven months ended 30 November 2020.

## MEASURES OF INTERNAL CONTROL

### (1) Common Resource Services Agreement

To ensure the Common Resource Services Agreement's conformity with the principle of arm's length transaction, the Company has established relevant internal control measures on the decision-making for and implementation of connected transactions. Such relevant internal control measures on connected transactions are conducted and supervised by the business department, finance department, office of the Board and audit and legal department of the Company:

- (1) the Company having established measures on decision-making for and daily management of connected transactions. The Board of the Company having approved the Common Resource Services Agreement in accordance with the decision-making process of connected transactions;
- (2) the independent directors of the Company having conscientiously performed their duties, and having issued consent opinions on related party transactions;
- (3) the relevant business department, the office of the Board and the finance department of the Company having reviewed the reasonableness and fairness of the terms of the Common Resource Services Agreement (in particular, the pricing terms);
- (4) the Company having clearly stated the principle for determining the prices for connected transactions in the management system for connected transactions. When a business unit enters into specific agreements 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; and
- (5) the internal audit department of the Company and the external auditing firms shall conduct regular supervision and evaluation on whether the connected transactions of the Company comply with 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 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 Properties Lease Agreement and the Land Lease Agreement's conformity with the principle of arm's length transaction, the Company has established relevant internal control measures on the decision-making for and implementation of connected transactions. Such relevant internal control measures on connected transactions are conducted and supervised by the business department, finance department, office of the Board and audit and legal department of the Company:

- (1) the Company having established measures on decision-making for and daily management of connected transactions. The Board of the Company having approved the Properties Lease Agreement and the Land Lease Agreement in accordance with the decision-making process of connected transactions;
- (2) the independent directors of the Company having conscientiously performed their duties, and having issued consent opinions on related party transactions;
- (3) the relevant business department, the office of the Board and the finance department of the Company having reviewed the reasonableness and fairness of the terms of the Properties Lease Agreement and the Land Lease Agreement (in particular, the pricing terms);

- (4) the internal audit department of the Company and the external auditing firms 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; and
- (5) the Company having clearly stated the principle for determining the prices for connected transactions in the management system for connected transactions. When a business unit enters into specific agreements in accordance with the Properties Lease Agreement and the Land Lease Agreement, 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.

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) Research and Development Services Agreement**

To ensure the Research and Development Services Agreement's conformity with the principle of arm's length transaction, the Company has established relevant internal control measures on the decision-making for and implementation of connected transactions. Such relevant internal control measures on connected transactions are conducted and supervised by the business department, finance department, office of the Board and audit and legal department of the Company:

- (1) the Company having established measures on decision-making for and daily management of connected transactions. The Board of the Company having approved the Research and Development Services Agreement in accordance with the decision-making process of connected transaction;

- (2) the independent directors of the Company having conscientiously performed their duties, and having issued consent opinions on related party transactions;
- (3) the relevant business department, the office of the Board and the finance department of the Company having reviewed the reasonableness and fairness of the terms of the Research and Development Services Agreement (in particular, the pricing terms);
- (4) the Company having clearly stated the principle for determining the prices for connected transactions in the management system for connected transactions. When the Company enters into a specific transactional agreement under the Research and Development Services Agreement, the price must comply with the pricing standards in the Research and Development Services Agreement; and
- (5) the internal audit department of the Company and the external auditing firms 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 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.

#### **(4) Product Inspection and Testing as well as Technological Services Agreement**

To ensure the Group's conformity with the pricing policies of the Product Inspection and Testing as well as Technological 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 business department, 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 Technological Services Agreement in accordance with the internal control system for decision-making and management of connected transactions;

- (2) the independent directors of the Company having conscientiously performed their duties, and having issued consent opinions on related party transactions;
- (3) the relevant business department, the office of the Board and the finance department of the Company have reviewed the reasonableness and fairness of the terms of the Product Inspection and Testing as well as Technological Services Agreement (in particular, the pricing terms);
- (4) the Company having clearly stated the principle for determining the prices for connected transactions in the management system for connected transactions. When a business unit enters into specific agreements in accordance with the Product Inspection and Testing as well as Technological Services Agreement, the price must be determined in accordance with the pricing standards as agreed in the Product Inspection and Testing as well as Technological Services Agreement; and
- (5) the internal audit department of the Company and the external auditing firms shall conduct regular supervision and evaluation on whether the connected transactions of the Company comply with 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 Product Inspection and Testing as well as Technological 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**

The Company and YTO utilize geographical convenience and leverage their respective resource advantages to carry out business related to daily operations with each other, which is conducive to reducing operating costs and ensuring the normal operation of each other's production and operation. The terms of each agreement on connected transactions are reached by both parties through negotiation and in accordance with the principle of fair transaction, without affecting the independence of the Company and in the interests of the Company and the Shareholders as a whole.

### **(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, which will help increase the returns to the Shareholders, and which is in the 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) Research and Development Services Agreement**

The businesses of the Group cover the provision of Research and Development Services for YTO Group. The Company has a strong research, manufacture and development capabilities in agricultural machinery products, technological transformation and product quality improvement capabilities in casting and forging products, and capabilities and conditions to provide measurement services and measurement instrument testing services. 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 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 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.

### **(4) Product Inspection and Testing as well as Technological 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 Technological 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 Technological 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 a direct controlling shareholder of the Company, holding approximately 410,690,578 A Shares of the Company, representing approximately 41.66% of the total issued Shares of the Company. China SINOMACH Heavy Industry Corporation (ultimately held by China National Machinery Industry Corporation\* (中國機械工業集團有限公司)) owns 87.90% interests of YTO, and Luoyang State-Owned Assets Operation Company Limited owns the remaining 12.10% interests of YTO.

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 a direct wholly-owned subsidiary of YTO, the controlling shareholder of the Company. Xiyuan Company, in the capacity of a state-authorized inspection and testing organization and a certified public service platform, is principally engaged in: the testing and inspection of tractors, three-wheeled vehicles, 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; 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; technical development, consultation, transfer and related services; judicial authentication in the quality of machinery products; land inspection; measurement and calibration of the instrument and equipment.

## **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) 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. Accordingly, YTO is a connected person of the Company and the transactions contemplated under the Research and Development Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Research and Development Services Agreement are more than 0.1% but less than 5%, the provision of services under the 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 Research and Development Services Agreement and the transactions contemplated thereunder 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 Technological 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. Xiyuan Company is a direct wholly-owned subsidiary of YTO. As such, Xiyuan Company is a connected person of the Company, and the transactions contemplated under the Product Inspection and Testing as well as Technological Services Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Product Inspection and Testing as well as Technological Services Agreement are more than 0.1% but less than 5%, the provision of services under the Product Inspection and Testing as well as Technological 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 Technological Services Agreement and the transactions contemplated under the Product Inspection and Testing as well as Technological 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/or 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:

“Annual Cap”	the maximum aggregate annual value payable by the Group for the transactions under each of the Common Resource Services Agreement, the Properties Lease Agreement, the Land Lease Agreement, the Research and Development Services Agreement, the Product Inspection and Testing as well as Technological 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 22 December 2020 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;
“Director(s)”	the director(s) of the Company, including the independent non-executive directors;
“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;
“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 22 December 2020 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;

“Product Inspection and Testing as well as Technological 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 Technological Services Agreement;
“Product Inspection and Testing as well as Technological Services Agreement”	the agreement dated 22 December 2020 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;
“Properties”	the properties and appurtenances owned by the Group to be leased under the Properties Lease Agreement, including but not limited to the marketing building(s), pilot trial production base(s) and the customer service building(s), inclusive of water and electric facilities, industrial equipment and rooms for industrial use inside thereof, 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 22 December 2020 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;
“Research and Development Services”	the product research and development, technological services, material testing services, calibration services and calibration instrument testing services under the Research and Development Services Agreement;
“Research and Development Services Agreement”	the agreement dated 22 December 2020 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 agreed to provide the Technological Services and Calibration Services 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;
“Xiyuan Company”	Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* (洛陽西苑車輛與動力檢驗所有限公司), a company established in the PRC with limited liability, which is a direct wholly-owned subsidiary of YTO;
“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 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  
22 December 2020

*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 Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit as independent non-executive Directors.*

\* *For identification purposes only*