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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 ADJUSTMENT TO THE ANNUAL CAP AMOUNTS OF THE ENERGY PROCUREMENT AGREEMENT

BACKGROUND

Affected by rising coal prices and other factors, the prices such as natural gas and steam have risen to varying degrees. Meanwhile, in accordance with the spirit of the Notice of National Development and Reform Commission on Further Deepening the Marketization Reform of On-grid Price of Coal-fired Power Generation (Fa Gai Jia Ge [2021] No. 1439) (《國家發展改革委關於進一步深化燃煤發電上網電價市場化改革的通知》(發改價格[2021]1439 號)), Henan Province has made adjustment to the price of electricity. The costs of energy products that the Company procures have increased correspondingly. Therefore, the cap amounts of the continuing connected transactions for the year 2022 to 2024 contemplated under the Energy Procurement Agreement shall be increased.

LISTING RULES IMPLICATIONS

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

As the applicable percentage ratios for the revised annual cap transaction amounts for 2022 to 2024 under the Energy Procurement Agreement are more than 0.1% but less than 5%, the provision of services under the Energy Procurement 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.

SHANGHAI LISTING RULES IMPLICATIONS

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the relevant provisions of the Shanghai Listing Rules, the transactions contemplated under the Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024) are subject to the Independent Shareholders' approval at the EGM.

EGM

The Company proposes to convene the EGM in April 2022 and submit the relevant resolution to seek approval from the Independent Shareholders/Shareholders for (among others) the Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024).

A circular containing (among others) the details of the Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024) is expected to be despatched by the Company to the Shareholders as soon as practicable.

BACKGROUND

Reference is made to the announcement and the circular on the continuing connected transactions of the Company dated 25 August 2021 and 12 October 2021, respectively, in relation to, among other things, the Energy Procurement Agreement. The Energy Procurement Agreement and the transactions (including the annual caps) contemplated thereunder were approved by the Shareholders at an extraordinary general meeting held on 2 November 2021.

Affected by rising coal prices and other factors, the prices such as natural gas and steam have risen to varying degrees. Meanwhile, in accordance with the spirit of the Notice of National Development and Reform Commission on Further Deepening the Marketization Reform of On-grid Price of Coal-fired Power Generation (Fa Gai Jia Ge [2021] No. 1439) (《國家發展改革委關於進一步深化燃煤發電上網電價市場化改革的通知》(發改價格[2021]1439 號)), Henan Province has made adjustment to the price of electricity. The costs of energy products that the Company procures have increased correspondingly. Therefore, the cap amounts of the continuing connected transactions for the year 2022 to 2024 contemplated under the Energy Procurement Agreement shall be increased.

ENERGY PROCUREMENT AGREEMENT

Details of the principal terms of the Energy Procurement Agreement and the proposed revised annual cap amounts are set out below:

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

Pricing Standards of the Transaction contemplated under the Energy Procurement Agreement

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

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

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

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

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

Reasons for Adjustment to the Annual Cap Amounts

Affected by rising coal prices and other factors, the prices such as natural gas and steam have risen to varying degrees. Meanwhile, in accordance with the spirit of the Notice of National Development and Reform Commission on Further Deepening the Marketization Reform of On-grid Price of Coal-fired Power Generation (Fa Gai Jia Ge [2021] No. 1439) (《國家發展改革委關於進一步深化燃煤發電上網電價市場化改革的通知》(發改價格[2021]1439 號)), Henan Province has made adjustment to the price of electricity. The prices of energy products that the Company procures have increased correspondingly. Therefore, the cap amounts of the continuing connected transactions for the year 2022 to 2024 contemplated under the Energy Procurement Agreement shall be increased.

MEASURE OF INTERNAL CONTROL

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

- (I) The Company has formulated measures for decision on and daily administration of connected transactions, which clearly require all business units to comply with the pricing principles and other terms in continuing connected transaction agreements when entering into contracts in accordance with daily connected transaction framework agreement.
- (II) The Office of the Board, the Finance Department and the Legal Affairs Department of the Company shall be responsible for performing examination on whether the principal terms of the agreements and the pricing principles for the continuing connected transactions have been determined on ordinary commercial terms, whether they are fair and reasonable and are in accordance with relevant laws and regulations.
- (III) The Office of the Board and the Finance Department of the Company shall run regular statistics on and review of the ratio of actual amount of the connected transaction agreements to the approved cap therefor and the estimation for the whole year, and timely remind all the business units pay attention to the utilization limit of the cap for the transactions, and fulfill corresponding examination and approval procedures in accordance with requirements to ensure the connected transactions are performed in a compliant manner if the increase in transaction cap amount is really needed due to the reason of actual business.

- (IV) The internal audit department of the Company shall perform regular supervision assessment of the internal control for the operation of the connected transactions of the Company.
- (V) The auditor of the Company shall perform annual review on the pricing and annual cap amount for the continuing connected transactions according to the requirements.

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

IMPACT OF THE ADJUSTMENT ON THE COMPANY

The increase in the annual cap amounts of the continuing connected transactions under the Energy Procurement Agreement is in line with the production and operation needs of the Company and the market oriented principles for transactions, which can ensure the daily compliant operation of the Company, and will not have a significant adverse impact on the Company, nor will it affect the independence of the Company.

INFORMATION OF THE GROUP AND YTO

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

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

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

under license); import and export (according to qualification certificate); contracting overseas mechanical and electrical engineering and domestic and international bidding project; export of equipment and materials required for the above-mentioned overseas projects; dispatch of labour required for the implementation of the above-mentioned projects.

LISTING RULES IMPLICATIONS

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As the applicable percentage ratios for the revised annual cap amounts for 2022 to 2024 under the Energy Procurement Agreement are more than 0.1% but less than 5%, the provision of services under the Energy Procurement 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 Resolution on Increasing the Cap Amounts for 2022 to 2024 under the Energy Procurement Agreement between the Company and YTO was considered and approved at the thirty-fifth meeting of the eighth session of the Board of the Company held on 3 March 2022. Li Xiaoyu, Liu Jiguo, Li Hepeng, Xie Donggang and Zhou Honghai, all being Directors of the Company, have abstained from voting at the Board meeting, as they are connected to YTO and are regarded as being unqualified to make any independent recommendation to the Board.

The terms of the Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024) 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 Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024) are on normal commercial terms and in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

SHANGHAI LISTING RULES IMPLICATIONS

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the relevant provisions of the Shanghai Listing Rules, the transactions contemplated under the Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024) are subject to the Independent Shareholders' approval at the EGM.

EGM

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A circular containing (among others) the details of the Energy Procurement Agreement (including the proposed revised annual cap amounts for 2022 to 2024) is expected to be despatched by the Company to the Shareholders as soon as practicable.

DEFINITIONS

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

“A Share(s)”	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and subscribed for and traded in RMB;
“Annual Cap(s)”	the maximum aggregate annual value(s) for the transactions contemplated under the Energy Procurement Agreement;
“associate(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“Board”	the board of Directors;
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares and A Shares of which are listed on the main board of the Stock Exchange and the Shanghai Stock Exchange respectively;

“connected person(s)”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“controlling shareholder”	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held in April 2022 to consider, among other things, and, if thought fit, approve the Energy Procurement Agreement and the proposed revised Annual Cap amounts;
“Energy Procurement Agreement”	the agreement dated 25 August 2021 entered into between YTO as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO agreed to supply various kind of energy to the Group;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s);
“percentage ratios”	has the same meaning as ascribed to it under the Hong Kong Listing Rules, as applicable to a transaction;
“PRC”	The People’s Republic of China which, for the purpose of this announcement only, excludes the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;

“Shanghai Listing Rules”	Shanghai Stock Exchange Share Listing Rules;
“Shareholder(s)”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 48.81% equity interest in the Company;
“YTO Group”	YTO and its subsidiaries; and
“%”	per cent.

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

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

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

Luoyang, the PRC
3 March 2022

As at the date of this announcement, the Board comprises Mr. Li Xiaoyu (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*