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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)

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF TARGET ASSETS;**
- (2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE IN SINOMACH FINANCE; AND**
- (3) DISCLOSEABLE TRANSACTION IN RELATION TO THE DEPOSIT TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS**

**Financial Adviser to the Company**



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



## **RESTRUCTURING FRAMEWORK AGREEMENT**

The Board wishes to announce that on 29 March 2022 (after trading hours), Sinomach, Sinomach Finance, the Company and YTO Finance entered into the Restructuring Framework Agreement in relation to the Restructuring Transactions. The Restructuring Transactions comprised of the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions.

Pursuant to the Restructuring Framework Agreement, the relevant parties on the same date also entered into separate agreements, namely the Disposal Agreement, the Investment Agreement and the Financial Services Framework Agreement to effect the Restructuring Transactions.

## **THE DISPOSAL**

On 29 March 2022 (after trading hours), YTO Finance, a non wholly-owned subsidiary of the Company, entered into the Disposal Agreement with Sinomach Finance pursuant to which YTO Finance has conditionally agreed to dispose of and Sinomach Finance has conditionally agreed to purchase the Target Assets for a consideration not exceeding RMB1.80 billion, subject to the final valuation to be conducted on the Business Cessation Date.

## **THE CAPITAL INCREASE**

On 29 March 2022 (after trading hours), the Company and Sinomach Finance entered into the Investment Agreement in relation to the Capital Increase. Pursuant to the Investment Agreement, the Company has conditionally agreed to make a capital increase in cash to Sinomach Finance of RMB558,168,900.

As at the date of this announcement, the Company did not hold any interests in Sinomach Finance. Upon completion of the Capital Increase, the Company will hold approximately 14.29% equity interests in Sinomach Finance.

## **THE LIQUIDATION**

YTO Finance is a non wholly-owned subsidiary of the Company and is a non-banking financial institution approved and regulated by the CBIRC. Subject to the approval of the CBIRC, the Liquidation represents the final step in the series of the Restructuring Transactions. The Liquidation is undertaken to fully comply with Rule 14 Measures (as defined herein) and entails the distribution of all its equity to its shareholders based on the shareholding held.

## **FINANCIAL SERVICES FRAMEWORK AGREEMENT**

On 29 March 2022 (after trading hours), the Company and Sinomach Finance entered into the Financial Services Framework Agreement in respect of the provision of financial services by Sinomach Finance to the Group for a period up to 31 December 2024.

## **HONG KONG LISTING RULES IMPLICATIONS**

As at the date of this announcement, YTO beneficially owns approximately 48.81% of the issued share capital of the Company and is the controlling shareholder of the Company. As Sinomach holds approximately 87.90% equity interests in YTO, Sinomach is the controlling shareholder of YTO. Therefore Sinomach, being the ultimate controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules. Sinomach Finance is an associate of Sinomach and therefore a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules.

As Sinomach and Sinomach Finance are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules, the Disposal and the Capital Increase constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the Financial Services Framework Agreement constitutes continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Disposal are more than 5% but less than 25%, the Disposal also constitutes a discloseable transaction of the Company. Accordingly the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapters 14 and 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Capital Increase are more than 25% but less than 100%, the Capital Increase also constitutes a major transaction of the Company. Accordingly the Capital Increase is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapters 14 and 14A of the Hong Kong Listing Rules.

In respect of the Liquidation, as one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) for YTO Finance for the year ended 31 December 2021 are 5% or more, Rule 13.25(1)(c) applies to YTO Finance according to Rule 13.25(2) of the Hong Kong Listing Rules in terms of making the appropriate announcement(s).

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Non-exempt Continuing Connected Transactions, on an annual basis, are more than 5% but less than 25%, the Non-exempt Continuing Connected Transactions (including the relevant annual caps) constitute continuing connected transactions, and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules. The Non-exempt Continuing Connected Transactions also constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules and are subject the reporting and announcement requirements thereunder.

The continuing connected transactions in respect of the provision of loans under the Financial Services Framework Agreement are exempted from the reporting, announcement, annual review and Independent Shareholders' approval requirement as the provisions of such loans constitute financial assistance received by the Group from a connected person, which is conducted on normal commercial terms or better and is not secured by the assets of the Group pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the provision of other financial services under the Financial Services Framework Agreement, on an annual basis, are more than 0.1% but less than 5%, the provision of other financial services under the Financial Services Framework Agreement (including the relevant annual caps) constitute continuing connected transactions, and are subject to the reporting, annual review and announcement requirements, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

## **SHANGHAI LISTING RULES IMPLICATIONS**

As the A Shares 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 Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM.

In respect of the Continuing Connected Transactions, since the maximum annual caps for the deposit services and the provision of other financial services, on an aggregate basis, are more than 5% of the latest audited net asset value of the Company, therefore the deposit services and the provision of other financial services contemplated under the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM. The provision of loans under the Financial Services Framework Agreement are however exempted from reporting and Independent Shareholders' approval requirements.

## **GENERAL**

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps). Gram Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

YTO is an associate of Sinomach and save for YTO holding 548,485,853 A Shares, representing approximately 48.81% of the total issued share capital of the Company, to the best knowledge of the Directors, no other Shareholders has any material interest in the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions. YTO and its associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement. Save for the foregoing, to the best knowledge of the Directors, no other Shareholder will be required to abstain from voting on the resolutions in respect of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement at the EGM.

The circular containing, amongst other things, (i) further information on the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions (including the relevant annual caps); (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Gram Capital to both the Independent Board Committee and the Independent Shareholders; (iv) summaries of the valuation reports on the Target Assets and Sinomach Finance from the Independent Valuer, will be despatched to the Shareholders on or before 25 May 2022 as additional time is required to prepare the information for inclusion in the circular.

**As the Restructuring Transactions are subject to, inter-alia the approval of the Independent Shareholders at the EGM and other conditions set out under the respective agreements, the Restructuring Transactions may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

## **BACKGROUND**

The Company and YTO Finance intend to undertake the restructuring of the relevant personnel, assets and businesses of YTO Finance and Sinomach Finance through a series of transaction arrangements including, among others, (i) the disposal of Target Assets by YTO Finance to Sinomach Finance; (ii) the capital increase in Sinomach Finance by the Company; (iii) the voluntary liquidation of YTO Finance; and (iv) the provision of financial services by Sinomach Finance to the Group. According to Rule 14 of the “Measures of China Banking and Insurance Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Non-banking Financial Institutions (CBIRC Order [2020] No.6)”\* (中國銀保監會非銀行金融機構行政許可事項實施辦法 (銀保監會令2020年第6號)) (“**Rule 14 Measures**”) published by the CBIRC, a corporate group can only have one finance company within the same corporate group to provide financial services to companies within the same group. The Sinomach Group currently has two (2) finance companies under its group, namely (i) Sinomach Finance, which is a 79.32%-owned subsidiary of Sinomach; and (ii) YTO Finance which is a 99.40%-owned subsidiary of the Company. Sinomach is the ultimate controlling shareholder of the Company since it is a controlling shareholder of YTO, which in turn is the controlling shareholder of the Company. There is currently a clear delineation of financial services provided by YTO Finance and Sinomach Finance respectively, where YTO Finance shall only provide financial services to YTO and its member companies and Sinomach Finance shall only provide financial services to Sinomach and its member companies (excluding the member companies under YTO).

The main purpose of the Restructuring Transactions is, firstly, to fully comply with the relevant PRC regulations that require only one finance company within the same corporate group; secondly, after the integration of the two finance companies, Sinomach Finance will undertake and operate the business of YTO Finance and serve as an integrated financial services platform of the Sinomach Group, which will further enhance its capital base and ability in serving other members of the Group; and thirdly, the Company will be able to maintain and enhance its economic benefits by the Capital Increase. The Company can also leverage on the comprehensive and quality services, in-depth industry expertise and substantial financial resources of Sinomach Finance to provide good financial support, including the continued provision of high-quality financial service and products to the Group's customers, which is conducive to sustaining the operations and development of the Group.

## **1. RESTRUCTURING FRAMEWORK AGREEMENT**

The Board wishes to announce that on 29 March 2022 (after trading hours), Sinomach, Sinomach Finance, the Company and YTO Finance entered into the Restructuring Framework Agreement, pursuant to which the parties agreed to implement the restructuring and integration, which is subject to the approval of the Independent Shareholders at the EGM and relevant regulatory authorities, as follows:

- (1) In order to ensure a smooth transition of YTO Finance's existing business to Sinomach Finance in providing continuous and seamless services to the clients of the Group, YTO Finance proposed to dispose the Target Assets to Sinomach Finance;
- (2) the Company intends to undertake the Capital Increase via cash for the purpose of maintaining and enhancing its economic benefits and leveraging on Sinomach Finance's substantial financial resources to provide high-quality financial services to the Group;
- (3) Sinomach Finance intends to, in accordance with the requirements the Group, provide financial services which are approved by the CBIRC, to the Group; and
- (4) YTO Finance intends to cease its operation by voluntary liquidation via dissolution and deregistration. Thereafter Sinomach Finance intends set up a branch office in the Henan Province.

Pursuant to the Restructuring Framework Agreement, the relevant parties also on the same date entered into separate agreements, namely the Disposal Agreement, the Investment Agreement and the Financial Services Framework Agreement to effect the Restructuring Transactions.

The material terms stated in the Restructuring Framework Agreement in respect of the Restructuring Transactions are identical to the material terms stated in the Disposal Agreement, the Investment Agreement and the Financial Services Framework Agreement, respectively.

## **2. THE DISPOSAL**

### **Background**

Against the background of the reorganisation and integration of YTO Finance and Sinomach Finance, in order to ensure the smooth transition of YTO Finance's existing business to Sinomach Finance while maintaining the daily business development of the Group, on 29 March 2022 (after trading hours), YTO Finance entered into the Disposal Agreement with Sinomach Finance.

### **The Disposal Agreement**

Material terms of the Disposal Agreement are set out below:

Date : 29 March 2022

Vendor : YTO Finance

Purchaser : Sinomach Finance

### **Assets to be disposed of**

Pursuant to the Disposal Agreement, YTO Finance has conditionally agreed to dispose of and Sinomach Finance has conditionally agreed to purchase the Target Assets as at the Business Cessation Date.

The Target Assets comprised of loans and advances to customers, non-current assets due within one (1) year and long term receivables held by YTO Finance with maturity date(s) after 30 September 2022, fixed assets and intangible assets that are directly attributable or related to the continuation of the business of YTO Finance, the value of which would have been appraised.

## Consideration

### *Basis of Consideration*

The final consideration will be determined based on the valuation of the Target Assets on the Business Cessation Date (i.e. 30 June 2022) to be conducted by the Independent Valuer, and after the valuation report has been filed with the relevant state-owned regulatory authorities (the “**Final Valuation**”). The Board expects the Final Consideration (as defined herein) will not exceed RMB1.8 billion.

As at 31 December 2021, the appraised value of the Target Assets based on the valuation report of the Independent Valuer was RMB1,047,263,700 (the “**Initial Valuation**”) and the book value of the Target Assets was RMB1,025,844,400, respectively. The Initial Valuation was based on assets approach with reference to the book value of the Target Assets as at 31 December 2021. The date of 31 December 2021 has been agreed by both parties as the valuation date to conduct the Initial Valuation of the Target Assets, which can be used as a benchmark reference for the consideration for the Disposal.

During the restructuring process, YTO Finance will continue its operations until the Business Cessation Date. Accordingly it is expected that there will be changes to the value of the Target Assets. Therefore both parties agreed that the Business Cessation Date (i.e. 30 June 2022) will be the valuation date for the Final Valuation, in which the value stated in the valuation report that would have been filed with the relevant state-owned regulatory authorities (the “**Final Valuation Report**”) will be taken as the final consideration for the Disposal (the “**Final Consideration**”). The assets type of the Target Assets and the valuation methodologies used in the Final Valuation will be similar to that adopted in the Initial Valuation. The work for the Final Valuation will commence two (2) Business Days after the Business Cessation Date.

Set out below is the summary of the Initial Valuation as at 31 December 2021:

	<b>As at 31 December 2021</b>	
	<b>Book value</b> <i>RMB'000</i>	<b>Appraised value</b> <i>RMB'000</i>
<b>Target Assets</b>		
Loans and advances to customers	859,143.1	881,731.7
Long term receivables	161,347.7	161,384.4
Fixed assets	1,918.3	2,085.6
Intangible assets	3,248.2	1,874.9
Other assets	187.0	187.0
	<u>1,025,844.4</u>	<u>1,047,263.7</u>

*Note: The figures are subject to rounding error and do not cast arithmetically.*

In the event YTO Finance receives any principal repayment on the Target Assets between the Business Cessation Date and the Disposal Completion Date, such principal repayment amount will be deducted from the Final Consideration payable by Sinomach Finance to YTO Finance. However, any interests payments and handling fees relating to the Target Assets that is received by YTO Finance between the Business Cessation Date and the Disposal Completion Date belongs to YTO Finance and such amount will not be deducted from the Final Consideration payable.

#### *Payment of the consideration*

Within five (5) Business Days upon completion of filing of the Final Valuation Report, YTO Finance will commence the transfer of the Target Assets to Sinomach Finance. Within two (2) Business Days upon the transfer of the Target Assets relating to credit assets of the members companies of the Group, Sinomach Finance will pay 90% of the Final Consideration in cash. The balance of the Final Consideration will be payable by Sinomach Finance in cash within two (2) Business Days upon the transfer of the Target Assets other than the credit assets of the members companies of the Group.

## **Effectiveness of the Disposal Agreement**

The Disposal Agreement is established after being signed and affixed with the company chop by the parties, and will become effective upon the following conditions having been met:

- (i) the passing of the relevant resolutions by the shareholders of Sinomach Finance approving the Disposal;
- (ii) the passing of the relevant resolutions by the shareholders of YTO Finance approving the Disposal;
- (iii) the approval of Sinomach on the Disposal; and
- (iv) the passing of the relevant resolutions by the Independent Shareholders approving the Disposal, the Capital Increase and the Liquidation.

## **Completion of the Disposal**

The completion of the Disposal will take place after the confirmation letter has been signed by both parties for the transfer of the Target Assets and full payment of the Final Consideration has been made by Sinomach Finance. In any event, the completion date of the Disposal shall not be later than 30 September 2022.

## **Use of proceeds**

The Group intends to use the proceeds from the Disposal to (i) settle the liabilities of YTO Finance in terms of deposits due to the member companies of the Group; and (ii) facilitate the distribution of the Liquidation.

### **3. THE CAPITAL INCREASE**

#### **Background**

Against the background of the reorganisation and integration of YTO Finance and Sinomach Finance, the Company proposed to make a capital increase of RMB558,168,900 in Sinomach Finance in cash. Upon completion of the Capital Increase, the Company will hold approximately 14.29% equity interests in Sinomach Finance. The Capital Increase is intended to obtain certain investments returns, compensate the impact of the Liquidation on the Group's performance, as well as leverage on the substantial financial resources of Sinomach Finance to provide high-quality financial services to the Group.

On 29 March 2022 (after trading hours), the Company and Sinomach Finance entered into the Investment Agreement.

#### **The Investment Agreement**

Material terms of the Investment Agreement are set out below:

Date: 29 March 2022

Parties: (1) the Company  
(2) Sinomach Finance

Capital Increase: Pursuant to the Investment Agreement, the Company has conditionally agreed to make a capital increase in cash to Sinomach Finance of RMB558,168,900 to subscribe for additional registered capital of RMB250,000,000 in Sinomach Finance, representing approximately 14.29% of the enlarged share capital of Sinomach Finance after the Capital Increase.

RMB250,000,000 will be credited as registered capital and RMB308,168,900 will be credited as contributed surplus in Sinomach Finance.

In the event there are further changes to the Sinomach Valuation (as defined below) after the valuation report has been filed with the relevant state-owned regulatory authorities, the final contribution amount for the Capital Increase to be payable by the Company shall be adjusted accordingly, on condition that the Company's shareholding in Sinomach Finance remains unchanged at approximately 14.29% upon completion of the Capital Increase.

### **Contribution amount**

The contribution amount for the Capital Increase shall be payable by the Company to Sinomach Finance within five (5) Business Days of the Investment Agreement becoming effective and shall be settled fully in cash.

Following completion of the Capital Increase, the registered capital of Sinomach Finance will increase from RMB1,500,000,000 to RMB1,750,000,000.

The Capital Increase to be made by the Company will be financed by the distribution received from the Liquidation. The capital contributions are intended to be applied towards meeting Sinomach Finance's daily operational needs.

As at the date of this announcement, the Company did not hold any interests in Sinomach Finance. Upon completion of the Capital Increase, the Company will hold approximately 14.29% equity interests in Sinomach Finance.

### **Basis of contribution amount**

The contribution amount is determined based on the valuation of entire shareholders' equity of Sinomach Finance as at 31 December 2021 appraised by the Independent Valuer ("**Sinomach Valuation**"), subject to the filing of the valuation report with the relevant state-owned regulatory authorities.

### *Valuation methodologies*

The Independent Valuer used both market approach and income approach to conduct the valuation, and the valuation results from the market approach was used as the valuation conclusion. The net asset value of Sinomach Finance was RMB3,283,346,400 as at 31 December 2021.

As at 31 December 2021, being the valuation date, the appraised value of the Sinomach Valuation using market approach was RMB3,349,013,300, representing an appreciation of approximately 2.00% or RMB65,666,900. The appraised value using income approach was RMB3,316,368,200, representing an appreciation of approximately 1.01% or RMB33,021,800. The difference between the two (2) appraised values was RMB32,645,100 or approximately 0.97%.

### **Effectiveness of the Investment Agreement**

The Investment Agreement is established after being signed and affixed with the company chop by the parties, and will become effective upon the following conditions having been met:

- (i) the approval by Sinomach on the Capital Increase;
- (ii) the passing of the relevant resolutions by the Independent Shareholders approving the Capital Increase, the Disposal and the Liquidation;
- (iii) the passing of the relevant resolutions by the shareholders of Sinomach Finance approving the Capital Increase and agreeing to waive their pre-emptive rights; and
- (iv) the approval having been obtained from the Beijing Bureau of Banking and Insurance Regulatory Commission\* (北京銀保監局) in relation to the Capital Increase.

### **Completion of the Capital Increase**

The completion for the Capital Increase will take place upon:

- (i) Sinomach Finance completes the procedures for changes and filing with the Administration of Industry and Commerce for the Capital Increase within 20 Business Days after the Company pays the contribution amount; and
- (ii) Sinomach Finance provides the signed and stamped business license and register of shareholders of Sinomach Finance within 7 Business Days after the documents have been issued.

Upon completion of the Capital Increase, the Company is entitled to nominate one (1) director to the board of Sinomach Finance.

## Background information of Sinomach Finance

Sinomach Finance is a limited liability company established in the PRC on 25 January 1989. Sinomach Finance is a non-banking financial institution established in 2003 approved by China Banking Regulatory Commission through restructuring the former China CAMC Trust Investment Co., Ltd.\* (中工信托投资有限公司) by Sinomach. As at the date of this announcement, Sinomach Finance is a 79.32%-owned subsidiary of Sinomach and the remaining interests are held by member companies within the Sinomach Group.

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

Set out below is the financial information of Sinomach Finance as extracted from its audited financial statements prepared in accordance with accounting principles generally accepted in the PRC for the financial years ended 31 December 2020 and 2021:

	<b>For the financial year ended</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>RMB</i>	<i>RMB</i>
Revenue	950,264,845	872,497,557
Profit before tax	395,284,389	400,589,607
Profit after tax	296,807,802	306,198,059

According to the audited financial information of Sinomach Finance as at 31 December 2021, the net assets of Sinomach Finance amounted to RMB3,283,346,400.

## Shareholding structure of Sinomach Finance

Shareholders	Immediately before the Capital Increase		Immediately upon completion of the Capital Increase	
	Capital contribution (RMB'000)	Shareholding percentage (approximate) (%)	Capital contribution (RMB'000)	Shareholding percentage (approximate) (%)
Sinomach	306,000	20.40	306,000	17.49
The Company	–	–	250,000	14.29
<i>Subsidiaries and associate companies of Sinomach (other than the Company):</i>				
China Machinery Engineering Corporation* (中國機械設備工程股份有限公司)	234,440	15.63	234,440	13.40
China Automobile Trading Company Limited* (中國進口汽車貿易有限公司)	147,200	9.82	147,200	8.41
China National Machinery Industry Construction Group Inc.* (中國機械工業建設集團有限公司)	109,040	7.27	109,040	6.23
China National Electric Engineering Corporation* (中國電力工程有限公司)	95,410	6.36	95,410	5.45
SUMEC Group Corporation* (江蘇蘇美達集團有限公司)	81,780	5.44	81,780	4.67
Xi'an Heavy Machinery Research Institute Co., Ltd.* (西安重型機械研究所有限公司)	81,780	5.44	81,780	4.67
China Auto CAIEC Ltd.* (中國汽車工業進出口有限公司)	68,150	4.54	68,150	3.89
China IPPR International Engineering Co., Ltd* (中國中元國際工程有限公司)	54,520	3.63	54,520	3.11
China United Engineering Corporation Limited* (中國聯合工程有限公司)	54,520	3.63	54,520	3.11
Guangzhou Mechanical Engineering Research Institute Co., Ltd.* (廣州機械科學研究院有限公司)	35,440	2.36	35,440	2.03
SIPPR Engineering Group Co., Ltd* (機械工業第六設計研究院有限公司)	32,720	2.18	32,720	1.87
China National Heavy Machinery Corporation* (中國重型機械有限公司)	27,260	1.82	27,260	1.56
China National Machinery Industry International Co., Ltd.* (中國機械工業國際合作有限公司)	27,260	1.82	27,260	1.56
China Foma (Group) Co. Ltd.* (中國福馬機械集團有限公司)	27,260	1.82	27,260	1.56

Shareholders	Immediately before the Capital Increase		Immediately upon completion of the Capital Increase	
	Capital contribution (RMB'000)	Shareholding percentage (approximate) (%)	Capital contribution (RMB'000)	Shareholding percentage (approximate) (%)
Scivic Engineering Corporation* (機械工業第四設計研究院有限公司)	16,360	1.09	16,360	0.93
China National Cable Engineering Corporation* (中國電纜工程有限公司)	13,630	0.91	13,630	0.78
Hefei General Machinery Research Institute Co., Ltd.* (合肥通用機械研究院有限公司)	13,630	0.91	13,630	0.78
China National Electric Apparatus Research Institute Co., Ltd.* (中國電器科學研究院股份有限公司)	13,630	0.91	13,630	0.78
Chengdu Tool Research Institute Co., Ltd.* (成都工具研究所有限公司)	13,630	0.91	13,630	0.78
Tianjin Research Institute of Electric Science Co., Ltd.* (天津電氣科學研究院有限公司)	10,900	0.73	10,900	0.62
Lanzhou Petroleum Machinery Research Institute Co., Ltd.* (蘭州石油機械研究所有限公司)	10,900	0.73	10,900	0.62
Shenyang Academy of Instrumentation Science Co., Ltd.* (瀋陽儀錶科學研究院有限公司)	8,180	0.55	8,180	0.47
Luoyang Bearing Research Institute Co., Ltd.* (洛陽軸承研究所有限公司)	8,180	0.55	8,180	0.47
Zhengzhou Research Institute For Abrasives and Grinding Co., Ltd.* (鄭州磨料磨具磨削研究所有限 公司)	8,180	0.55	8,180	0.47
<b>Total</b>	<b>1,500,000</b>	<b>100.00</b>	<b>1,750,000</b>	<b>100.00</b>

*Notes:*

1. Assuming there is no further change to the share capital of Sinomach Finance (other than the Capital Increase) from the date of this announcement up to the completion of the Capital Increase.
2. The percentages are subject to rounding error, if any.

## 4. THE LIQUIDATION

### Background

YTO Finance is a non-banking financial institution established in 1992 with the approval of the PBOC. Sinomach Finance is a non-banking financial institution established in 2003 approved by China Banking Regulatory Commission through restructuring the former China CAMC Trust Investment Co., Ltd.\* (中工信托投资有限公司) by Sinomach. Following the restructuring of Sinomach, with the merger of YTO (including YTO Finance) into the Sinomach Group in 2008, this has resulted in Sinomach controlling two (2) finance companies under the Sinomach Group.

In order to comply with the relevant PRC regulations that require only one finance company within the same corporate group, YTO Finance will cease its operations by voluntary liquidation, subject to obtaining the Independent Shareholders' approval on the Liquidation, the Disposal and the Capital Increase at the EGM.

Subject to the approval of the CBIRC, the Liquidation represents the final step in the series of the Restructuring Transactions. The Liquidation is undertaken to fully comply with Rule 14 Measures and entails the distribution of all its equity to its shareholders based on the shareholding held.

### Background information of YTO Finance

YTO Finance, a 99.40%-owned subsidiary owned subsidiary of the Company, is a non-banking financial institution approved and regulated by the CBIRC. The remaining 0.60% equity interest is held by YTO. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of the YTO Group. It has a registered capital of RMB500 million.

Shareholding structure of YTO Finance is set out below:

Shareholders of YTO Finance	Capital Contribution (RMB)	Shareholding percentage (Approximate) (%)
The Company	473,000,000	94.6
YTO (Luoyang) Diesel Engine Co., Ltd.* (Note) (一拖 (洛陽) 柴油機有限公司)	21,000,000	4.2
YTO International Economic and Trade Co., Ltd.* (Note) (一拖國際經濟貿易有限公司)	3,000,000	0.6
YTO	3,000,000	0.6
<b>Total</b>	<b>500,000,000</b>	<b>100.0</b>

*Note: YTO (Luoyang) Diesel Engine Co., Ltd.\* is a non wholly-owned subsidiary of the Company, while YTO International Economic and Trade Co., Ltd.\* is a wholly-owned subsidiary of the Company.*

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

Set out below is the financial information of YTO Finance as extracted from its audited financial statements prepared in accordance with accounting principles generally accepted in the PRC for the financial years ended 31 December 2020 and 2021:

	For the financial year ended 31 December	
	2020 RMB	2021 RMB
Revenue	57,392,205	73,384,310
Profit before tax	47,888,699	61,702,531
Profit after tax	29,981,061	42,448,609

According to the audited financial information of YTO Finance as at 31 December 2021, the net assets of YTO Finance amounted to RMB874,171,068.

## 5. FINANCIAL SERVICES FRAMEWORK AGREEMENT

On 29 March 2022, the Company and Sinomach Finance entered into the Financial Services Framework Agreement in respect of the provision of financial services by Sinomach Finance to the Group for a period up to 31 December 2024. Material terms of the Financial Services Framework Agreement are set out below:

- Date : 29 March 2022
- Parties : (1) The Company, on behalf of the Group; and  
(2) Sinomach Finance
- Services to be provided : The Group will from time to time, utilise the financial services available from Sinomach Finance on a non-exclusive basis as it deems necessary. Such services include:
- (a) deposit services, including but not limited to demand deposit, agreement deposit, call deposit and time deposit in both domestic currency and foreign currency;
  - (b) provision of loans, including but not limited to working capital loans, fixed assets loan, buyer's credit, accounts receivable factoring, bill acceptance and discounting, letter of guarantees and letter of credit; and
  - (c) provision of other financial services as approved by the CBIRC, including but not limited to domestic and foreign currency settlement and management services, entrusted loans, entrusted investment, underwriting, financial advisory, credit verification, consulting agency services and other businesses approved by the CBIRC.

Sinomach Finance and the Group shall enter into separate agreements in relation to the provision of the financial services as stated above, which shall be subject to the terms and conditions under the Financial Services Framework Agreement.

Term : The transactions contemplated under the Financial Services Framework Agreement will become effective upon the conditions (as stated under paragraph headed “Effectiveness of the Financial Services Framework Agreement”) being fulfilled.

The Financial Services Framework Agreement will expire on 31 December 2024.

## **Fees and charges**

### ***Deposit services***

The interest rate for the deposit of the member companies of the Group with Sinomach Finance shall be determined with reference to the benchmark interest rate for RMB deposit as published by PBOC provided that such rate shall be no less than the deposit rate for the same kind of deposits offered by other commercial banks in the PRC for the same period and no less than the deposit rate for the same kind of deposits provided to other member companies of Sinomach Group, whichever is higher.

### ***Provision of loans***

The interest rate for the loans to be provided by Sinomach Finance to the member companies of the Group shall be determined with reference to the self-regulated pricing system promulgated by PBOC from time to time and prevailing market rates. Such interest rate shall not exceed the interest rate for the same kind of loans offered by other financial institutions in the PRC for the same period and shall not exceed the interest rate for the same kind of loans provided to other member companies of Sinomach Group, whichever is lower.

### ***Provision of other financial services***

- (a) No service fees will be charged in respect of the settlement services.
- (b) The service fees for other financial services other than the deposit services and credit services shall comply with the fees standard promulgated by the PBOC or the CBIRC (if applicable), and the service fees for such other financial services shall not exceed the fees for the same kind of services offered by other commercial banks in the PRC and shall not exceed the fees for the same kind of services provided to other member companies of Sinomach Group by Sinomach Finance, whichever is lower.

## **Effectiveness of the Financial Services Framework Agreement**

The Financial Services Framework Agreement is established after being signed and affixed with the company chop by the parties, and will become effective upon the following conditions having been met:

- (i) the passing of the relevant resolution(s) by the respective board of directors, shareholders of Sinomach Finance and the Independent Shareholders, respectively approving the Continuing Connected Transactions under the Financial Services Framework Agreement; and
- (ii) the passing of the relevant resolutions by the Independent Shareholders' approving the Disposal, the Capital Increase and the Liquidation at the EGM.

In the event the Continuing Connected Transactions under the Financial Services Framework Agreement are not approved by the shareholders and/or the Independent Shareholders at the EGM, both parties agree that, subject to the compliance with applicable laws and regulations, as well as the Shanghai Listing Rules and Hong Kong Listing Rules respectively, Sinomach Finance can still provide loan services to the Group, including but not limited to working capital loans, fixed assets loans, buyers' credit, accounts receivable factoring, bills acceptance, discounting, provision of guarantee, letter of guarantee and letter of credit etc., in which Sinomach Finance and the Company will enter into a separate agreement accordingly.

## **Undertaking by Sinomach Finance**

Pursuant to the Financial Services Framework Agreement, Sinomach Finance undertakes that it will notify the Company within three (3) Business Days upon the occurrence of any of the following events:

- (1) breach of Article 31, Article 32 or Article 33 of the Measures for the Administration of Finance Companies of Enterprise Groups\* (企業集團財務公司管理辦法) (“**Measures of Finance Companies**”) by Sinomach Finance;
- (2) any one of the financial indicators of Sinomach Finance does not comply with the requirements under Article 34 of the Measures of Finance Companies;

- (3) material events such as a bank run, failure to pay debts when they fall due, large amount of overdue loans or guarantee advances, material failure of computer system, robbery or victim of fraud and serious disciplinary violations or criminal cases by directors and/or senior management of Sinomach Finance;
- (4) major institutional changes, equity transactions or operational risks that may affect the normal operation of Sinomach Finance;
- (5) the proportion of deposit balance of the Company (including its wholly-owned and controlled subsidiaries) in Sinomach Finance accounts for more than 30% of the deposit balance absorbed by Sinomach Finance;
- (6) the liabilities of Sinomach Finance owed by the shareholders of Sinomach Finance are overdue for more than one (1) year;
- (7) there is a serious payment crisis in Sinomach Finance;
- (8) the loss for the year of Sinomach Finance exceeds 30% of its registered capital or the loss for three (3) consecutive years exceeds 10% of its registered capital;
- (9) Sinomach Finance is subject to administrative penalties imposed by regulatory authorities such as the CBIRC due to violation of laws and regulations;
- (10) the rectification order issued by the CBIRC against Sinomach Finance; and
- (11) other matters that may cause potential safety hazards to the funds deposited by the Group.

## Proposed annual caps and basis of determination

	<b>For the period from date of the Financial Services Framework Agreement becoming effective to 31 December 2022 (RMB million)</b>	<b>For the year ending 31 December 2023 (RMB million)</b>	<b>For the year ending 31 December 2024 (RMB million)</b>
Maximum daily balance of deposits (including accrued interest thereon) placed by the Group with Sinomach Finance	2,000	2,000	2,000
Credit facility (including accrued interest thereon) granted by Sinomach Finance to the Group	2,400	2,400	2,400
Maximum fees and charges paid by the Group to Sinomach Finance for the other financial services	10	10	10

There is currently a clear delineation of financial services provided by YTO Finance and Sinomach Finance respectively under Sinomach Group, where YTO Finance shall only provide financial services to: (i) YTO and its subsidiaries; (ii) companies in which YTO and its subsidiaries hold more than 20% equity interests and Sinomach and its other subsidiaries have no interests or hold less than 20% equity interests; and (iii) companies in which YTO and its subsidiaries, separately or collectively hold no more than 20% equity interests but are the largest shareholder. Therefore, there are no historical transactions in relation to the financial services pursuant to the Financial Services Framework Agreement between the Company and Sinomach Finance.

The proposed annual caps for the Financial Services Framework Agreement are determined based on (i) the expected operating cash inflow and expected cash and cash equivalent of the Group; (ii) the expected capital needs and financing requirement of the Group; (iii) the historical transaction amounts between the Group and YTO Finance, and with other commercial banks in the PRC; and (iv) the financial resources of Sinomach Finance and the expected deposit and loan interest rates offered.

### **Measure of internal control**

The Financial Services Framework Agreement entered into between the Company and Sinomach Finance is on a non-exclusive basis. The Company has the right to decide and choose whether to procure the financial services from Sinomach Finance or other commercial banks based on its operating needs.

In order to ensure the continuing connected transactions are in compliance with the pricing terms agreed in the Financial Services Framework Agreement and will not exceed the annual caps, the Company has formulated the following internal control measures, and the Finance department, the Office of the Board and the Internal Audit department of the Company shall be responsible for the implementation and supervision thereof:

- (i) The Finance department of the Company is responsible for monitoring, collecting and evaluating the specific information of the daily connected transactions under the Financial Services Framework Agreement on a monthly basis, and reviewing whether the major terms and amounts of the specific agreement are in compliance with the Financial Services Framework Agreement;
- (ii) The Finance department of the Company shall be responsible for performing periodic review on the approval procedures, in particular if there is a possibility that the transaction cap amount may be exceeded, the relevant approval process is carried out on a timely manner in accordance with the requirements to ensure the Continuing Connected Transactions are conducted in a compliant manner;
- (iii) The auditors of the Company shall perform annual review on the pricing and annual cap amounts for the Continuing Connected Transactions in accordance with the requirements; and
- (iv) The Internal Audit department of the Company shall perform regular supervision assessment of the internal controls in relation to connected transactions of the Company.

The Board is of the view that the above internal control measures can ensure that the transactions contemplated under the Financial Services Framework Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole.

### **Existing continuing connected transactions related to financial services entered between YTO Finance and YTO**

Reference is made to the announcement of the Company dated 25 August 2021, where (i) YTO Finance has entered into several financial services agreement with YTO in the provision of loan services, bill discounting services, bill acceptance services and deposit services; and (ii) YTO has entered into interbank business services agreement with Sinomach Finance in mutual provision of financing services, including but not limited to interbank deposit and lending. Upon completion of the Restructuring Transactions, it is the intention of YTO Finance to terminate the financial service agreements stated above with the relevant parties. As and when the relevant agreement(s) are executed, appropriate announcement(s) will be made.

### **REASONS FOR AND BENEFITS OF THE RESTRUCTURING TRANSACTIONS**

#### **The Disposal**

In order to comply with Rule 14 Measures of the PRC regulations, the Disposal represents the first step that the Company must take to achieve the objective. The Disposal represents a continuation of the finance company's business of YTO Finance that will be taken over by Sinomach Finance with the acquisition of the Target Assets. This will provide a smooth transition of YTO Finance's existing business and with Sinomach Finance providing continuous and seamless services to the clients of YTO Finance, this will facilitate more business opportunities for Sinomach Finance in the future. Furthermore, the Disposal will expedite the monetary realisation of the Target Assets which in turn will enhance the liquidity position of YTO Finance for distributing its equity to its shareholders for the Liquidation.

Although the Disposal is not conducted in the ordinary and usual course of business of the Group, the Board (excluding the independent non-executive Directors who will express their views after taking into consideration the advice of Gram Capital) is of the view that the terms of the Disposal Agreement are fair and reasonable, the transaction contemplated under the Disposal Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## **The Capital Increase**

YTO Finance, being a non-banking financial institution approved by the CBIRC, provides a full range of financial services within the scope approved by the CBIRC, to give financial support to the buyers of the Group in their credit and financing leasing businesses. Its aim is to promote the development of various businesses in the Group by adhering to the Group's objective in "serving the development of the Group through prevention and control of financial risks" (服務集團發展, 防控金融風險).

The finance business of YTO Finance, being one of the principal businesses of the Group, has long been a major profit contributor to the Group, accounting for over 10% of the Group's operating profit. Upon completion of the Disposal and the eventual Liquidation, YTO Finance will cease to be a subsidiary of the Company and the results of its finance services business will no longer be consolidated into the Company's consolidated financial statements. Furthermore it will no longer be able to provide financial business services to YTO and its subsidiaries, which includes the Group.

Taking into consideration the Group and the YTO Group will require financial services in their business operations, the Board has identified Sinomach Finance as a suitable investment for the Company to achieve the objective. With its strong capital base and comprehensive business operations, Sinomach Finance has long been the major integrated financial services platform of the Sinomach Group, providing financial support to the business development of the members of the Sinomach Group. In addition, the capital base of Sinomach Finance and its ability to serve its members companies will be further enhanced after it takes over the related business and assets of YTO Finance. The Capital Increase will also enhance the economic returns of the Group from its investment. With the financial business services being centralised into Sinomach Finance, the Group will be able to better utilise the financial resources of Sinomach Finance to provide high quality financial services support to the Group, thereby maintain the sustainability and stable development of the Group's business activities.

According to Rule 7 of the “Measures of China Banking and Insurance Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Non-banking Financial Institutions”\* (中國銀保監會非銀行金融機構行政許可事項實施辦法) (“**Rule 7 Measures**”) published by the CBIRC, the parent company of the corporate group shall be the single largest shareholder of its finance company. Therefore the Capital Increase that results in the Company’s shareholding of approximately 14.29% in Sinomach Finance was undertaken in cognizant of the requirements of Rule 7 Measures. Upon completion of the Capital Increase, Sinomach still remains as the single largest shareholder of Sinomach Finance with a shareholding of approximately 17.49%. The Company, nonetheless is entitled to nominate a director into the board of Sinomach Finance which allows the Company to have certain degree of board influence over the operations of Sinomach Finance.

The Capital Increase is in line with the development needs of the Group. Based on preliminary calculation of the Company, the distribution monies from the Liquidation received by the Group is sufficient to cover the contribution amount of the Capital Increase. Therefore it will not have any adverse impact on the financial and operational aspects of the Group, neither will it be prejudicial to the interests of the Company and the Shareholders as a whole.

Accordingly the Capital Increase will enable the Group to leverage on the comprehensive financial business services provided by Sinomach Finance to continue serving its clientele whilst giving the opportunity for the Company to participate in the growth of Sinomach Finance and enjoy the returns of its investment, thereby compensating the impact of the Liquidation on the Group’s performance.

Although the Capital Increase is not conducted in the ordinary and usual course of business of the Group, the Board (excluding the independent non-executive Directors who will express their views after taking into consideration the advice of Gram Capital) is of the view that the terms of the Investment Agreement are fair and reasonable, the transaction contemplated under the Investment Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

## **The Liquidation**

Subject to the approval of the CBIRC, the Liquidation represents the final step in the series of the Restructuring Transactions. The Liquidation is undertaken to fully comply with Rule 14 Measures and entails the distribution of all its equity to its shareholders based on the shareholding held.

The Company will fully comply with the requirements of the Hong Kong Listing Rules and shall keep the Shareholders and investors informed of developments in relation to the Liquidation by way of announcement(s) as and when appropriate.

## **Continuing Connected Transactions**

Sinomach Finance, being a non-banking financial institution established with the approval of the China Banking Regulatory Commission, possesses various qualifications for providing financial services to member companies of the Sinomach Group, with safe and stable operation and strong performance capability. As the internal settlement platform of the Sinomach Group, the service efficiency of Sinomach Finance is significantly better than that of commercial banks and other financial institutions. Upon completion of the Disposal and the Capital Increase, Sinomach Finance will provide the Group with convenient, comprehensive and high-quality financial services, which is conducive to maintaining the original efficient settlement and capital turnover within the Group, and is beneficial to the business development of the Group.

YTO Finance has a long established relationship with other member companies of the Group and is the key platform for providing financial services within the Group. Following the Business Cessation Date, YTO Finance can no longer provide financial services to the other member companies of the Group and the Group intends to procure the financial services from Sinomach Finance, which is the financial service company under the Sinomach Group that is regulated by the CBIRC. The Company is of the view that the Financial Services Framework Agreement could provide an effective framework to regulate the provision and receipt of financial services between the Group and/or its member companies and Sinomach Finance and ensure a smooth transition for the business operations of the Group.

In considering the reasons and benefits for entering into the Financial Services Framework Agreement between the Company and Sinomach Finance, the Board has also considered the following key factors:

- (i) Sinomach Finance, a non-banking financial institution approved by the CBIRC, is capable of providing comprehensive financial services to member companies of the Sinomach Group and has safe and stable operation with strong performance capability;
- (ii) As an intra-group service provider, Sinomach Finance generally has better and more efficient communication with the Group compared with the other independent commercial banks and financial institutions; and
- (iii) Upon completion of the integration of YTO Finance and Sinomach Finance, the Company can leverage on the comprehensive and quality services, in-depth industry expertise and substantial financial resources of Sinomach Finance to provide good financial support, including the continued provision of high-quality financial service and products to the members companies of the Group, which is conducive to sustaining the operations and development of the Group.

Based on the above factors, the Board (excluding the independent non-executive Directors who will express their views in respect of the Non-exempt Continuing Connected Transactions after taking into consideration the advice of Gram Capital) is of the view that: (i) the continuing connected transactions contemplated under the Financial Services Framework Agreement will be carried out in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Financial Services Framework Agreement are on normal commercial terms or on terms not less favourable than those of similar transactions with independent third parties and are fair and reasonable; and (iii) the proposed annual caps of the transactions contemplated under the Financial Services Framework Agreement are fair and reasonable.

## **INTER-CONDITIONALITY OF THE RESTRUCTURING TRANSACTIONS**

The Disposal, the Capital Increase and the Liquidation are inter-conditional with each other.

The transactions contemplated under the Financial Services Framework Agreement is conditional upon the Disposal, the Capital Increase and the Liquidation being approved at the EGM.

## **FINANCIAL EFFECTS OF THE RESTRUCTURING TRANSACTIONS**

The Restructuring Transactions will not have a significant impact on the overall business development of the Company and are crucial for the implementation of the regulatory policies of the CBIRC. As a non-banking financial institution, Sinomach Finance possesses various qualifications and strong capabilities to provide financial services to the Sinomach Group. The Restructuring Transactions will not affect the financing efficiency and capital management ability of the Company, nor will it affect the sustainability and stability in terms of the operations of the Group. Moreover, as Sinomach Finance has been operating steadily over the years, the Board is of the view that the Capital Increase will bring positive financial impact to the Group which can compensate the impact of the Liquidation whilst safeguarding the interests of the Company and the Shareholders as a whole.

### **The Disposal**

It is estimated that the Group will record a gain of RMB21,419,300 from the Disposal, after taking into account the appraised value and the book value of the Target Assets as at 31 December 2021 of approximately RMB1,047,263,700 and RMB1,025,844,400 respectively.

It should be noted that the actual gain on the Disposal to be recorded by the Group will depend on the Final Consideration and the book value of the Target Assets as at the Business Cessation Date.

## **The Capital Increase**

Upon completion of the Capital Increase, the investment in Sinomach Finance will be classified as “long-term equity investment” and the financial results of Sinomach Finance will be accounted for using equity method in accordance with the relevant requirements of the Accounting Standards for Business Enterprise No. 2 – Long-term Equity Investment in the consolidated financial statements of the Company.

## **The Liquidation**

The Liquidation is an inevitable requirement for the implementation of the regulatory policies of the CBIRC. According to the preliminary assessment of the Company, the Company will not record a loss as a result of the Liquidation.

Upon completion of the Liquidation, YTO Finance will cease to be a subsidiary of the Company and the financial results of YTO Finance will be deconsolidated from the Group. The Board is of the view that the Liquidation will have no material adverse impact on the financial position, overall business operations and business development of the Group.

## **INFORMATION OF THE GROUP, YTO AND SINOMACH**

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 relevant parts and components.

YTO is the immediate controlling shareholder of the Company, holding 548,485,853 A Shares, representing approximately 48.81% of the issued share capital of the Company as at the date of this announcement. It is principally engaged in the production of specific transport machinery, vehicle products and components.

Sinomach is the controlling shareholder of YTO, having 87.90% shareholding interest in YTO. The remaining 12.10% shareholding interest in YTO is held by Luoyang Guozi State-Owned Assets Management Co., Ltd.\* (洛陽市國資國有資產經營有限公司), which in turn is indirectly wholly owned by Luoyang State-owned Assets Supervision and Administration Commission\* (洛陽市人民政府國有資產監督管理委員會).

Sinomach is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy machineries and engineering projects domestically and internationally, sale of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business.

## **HONG KONG LISTING RULES IMPLICATIONS**

### **Connected Persons**

As at the date of this announcement, YTO beneficially owns approximately 48.81% of the issued share capital of the Company and is the controlling shareholder of the Company. As Sinomach holds approximately 87.9% equity interests in YTO, Sinomach is a controlling shareholder of YTO. Therefore, Sinomach, being the ultimate controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules.

Sinomach Finance is a 79.32%-owned subsidiary of Sinomach and the remaining interests are held by member companies within the Sinomach Group. Thus, Sinomach Finance is an associate of Sinomach and therefore a connected person of the Company under Chapter 14A of the Hong Kong Listing Rules.

### **In respect of the Disposal and the Capital Increase**

As Sinomach and Sinomach Finance are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules, the Disposal and the Capital Increase constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Disposal are more than 5% but less than 25%, the Disposal also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. Accordingly the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapters 14 and 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Capital Increase are more than 25% but less than 100%, the Capital Increase also constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. Accordingly the Capital Increase is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapters 14 and 14A of the Hong Kong Listing Rules.

### **In respect of the Liquidation**

In respect of the Liquidation, as one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) for YTO Finance for the year ended 31 December 2021 are 5% or more, Rule 13.25(1)(c) applies to YTO Finance according to Rule 13.25(2) of the Hong Kong Listing Rules in terms of making the appropriate announcement(s).

## **In respect of the Continuing Connected Transactions**

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Non-exempt Continuing Connected Transactions, on an annual basis, are more than 5%, the Non-exempt Continuing Connected Transactions (including the relevant annual caps) constitute continuing connected transactions, and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules. The Non-exempt Continuing Connected Transactions also constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules and are subject the reporting and announcement requirements thereunder.

The continuing connected transactions in respect of the provision of loans under the Financial Services Framework Agreement are exempted from the reporting, announcement, annual review and Independent Shareholders' approval requirement as the provisions of such loans constitute financial assistance received by the Group from a connected person, which is conducted on normal commercial terms or better and is not secured by the assets of the Group pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the provision of other financial services under the Financial Services Framework Agreement, on an annual basis, are more than 0.1% but less than 5%, the provision of other financial services under the Financial Services Framework Agreement constitute continuing connected transactions, and are subject to the reporting, annual review and announcement requirements, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

## **SHANGHAI LISTING RULES IMPLICATIONS**

As the A Shares 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, each of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM.

In respect of the Continuing Connected Transactions, since the maximum annual caps for the deposit services and the provision of other financial services, on an aggregate basis, are more than 5% of the latest audited net asset value of the Company, therefore the deposit services and the provision of other financial services contemplated under the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM. The provision of loans under the Financial Services Framework Agreement are however exempted from reporting and Independent Shareholders' approval requirements.

## GENERAL

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps). Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

YTO is an associate of Sinomach and save for YTO holding 548,485,853 A Shares, representing approximately 48.81% of the total issued share capital of the Company, to the best knowledge of the Directors, no other Shareholders has any material interest in the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions. YTO and its associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement. Save for the foregoing, to the best knowledge of the Directors, no other Shareholder will be required to abstain from voting on the resolutions in respect of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement at the EGM.

Mr. Li Xiaoyu, chairman of the Company, is also the chairman of YTO. Mr. Liu Jiguo, an executive Director, is also a director of YTO. Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, who are non-executive Directors, are also connected to YTO. Accordingly, since YTO is an associate of Sinomach, Mr. Li Xiaoyu, Mr. Liu Jiguo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai have all abstained from voting on the Board resolutions approving the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions. Save for the above, none of the other Directors has any material interest in the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions.

The circular containing, amongst other things, (i) further information on the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions (including the relevant annual caps); (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Gram Capital to both the Independent Board Committee and the Independent Shareholders; (iv) summaries of the valuation reports on the Target Assets and Sinomach Finance from the Independent Valuer, will be despatched to the Shareholders on or before 25 May 2022 as additional time is required to prepare the information for inclusion in the circular.

**As the Restructuring Transactions are subject to, inter-alia the approval of the Independent Shareholders at the EGM and other conditions set out under the respective agreements, the Restructuring Transactions may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“A Share(s)”	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and subscribed for and traded in RMB
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of Directors
“Business Cessation Date”	30 June 2022, the date which YTO Finance proposed to cease new businesses, subject to the approval of the Independent Shareholders of the Disposal at the EGM. Part of the existing businesses of YTO Finance will be on-going, according to the remaining assets requirements and the actual work needs, until commencement of the Liquidation process
“Business Day”	a day other than Saturday, Sunday and statutory holidays in the PRC
“Capital Increase”	the capital increase in Sinomach Finance by the Company pursuant to the terms of the Investment Agreement
“CBIRC”	China Banking and Insurance Regulatory Commission* (中國銀行保險監督管理委員會)
“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 Hong Kong Stock Exchange (stock code: 0038) and the Shanghai Stock Exchange (stock code: 601038) respectively
“Continuing Connected Transactions”	collectively, the Exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions

“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the proposed disposal of the Target Assets by YTO Finance to Sinomach Finance pursuant to the terms of the Disposal Agreement
“Disposal Agreement”	the agreement dated 29 March 2022 entered into between YTO Finance and Sinomach Finance relating to the Disposal
“Disposal Completion Date”	the date on which YTO Finance completes the transfer of the Target Assets to Sinomach Finance pursuant to the Disposal Agreement and to sign a confirmation letter with Sinomach Finance, the date of completion of the Disposal is expected to be no later than 30 September 2022
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement
“Exempt Continuing Connected Transactions”	the transactions in relation to the provision of loans and other financial services contemplated under the Financial Services Framework Agreement
“Financial Services Framework Agreement”	the agreement dated 29 March 2022 entered into between the Company and Sinomach Finance for the provision of the deposits, loans and other financial services by Sinomach Finance to the members of the Group

“Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps)
“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 Hong Kong 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 Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Company whose members comprise all independent non-executive Directors to advise the Independent Shareholders on the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps)
“Independent Shareholder(s)”	Shareholders other than YTO and its associates
“Independent Valuer”	China Enterprise Appraisals Consultation Co., Ltd., an independent PRC valuer engaged to conduct a valuation on each of the Target Assets and Sinomach Finance
“Investment Agreement”	the investment agreement dated 29 March 2022 entered into between the Company and Sinomach Finance in relation to the Capital Increase
“Liquidation”	voluntary liquidation of YTO Finance

“Non-exempt Continuing Connected Transactions”	the transactions in relation to the deposit services contemplated under the Financial Services Framework Agreement
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, does not include Hong Kong, Macau Special Administrative Region of PRC and Taiwan
“Restructuring Framework Agreement”	a legally-binding framework agreement dated 29 March 2022 entered into amongst Sinomach, Sinomach Finance, the Company and YTO Finance in relation to the Restructuring Transactions
“Restructuring Transactions”	collectively, the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Listing Rules”	Shanghai Stock Exchange Share Listing Rules
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	A Share(s) and H Share(s), collectively
“Sinomach”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of YTO, holding approximately 87.90% equity interests in YTO
“Sinomach Finance”	Sinomach Finance Co., Ltd.* (國機財務有限責任公司), a limited liability company approved to be established in the PRC by the CBIRC as a non-banking financial institution, and a 79.32%-owned subsidiary of Sinomach

“Sinomach Group”	Sinomach and its subsidiaries, excluding the Group
“Target Assets”	the loans and advances to customers, non-current assets due within one (1) year and long term receivables held by YTO Finance with maturity date(s) after 30 September 2022, fixed assets and intangible assets that are directly attributable or related to the continuation of the business of YTO Finance, the value of which would have been appraised, to be disposed by YTO Finance to Sinomach Finance pursuant to the terms of the Disposal Agreement
“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 interests in the Company
“YTO Finance”	China YTO Group Finance Company Limited* (中國一拖集團財務有限責任公司), a 99.40%-owned subsidiary of the Company
“YTO Group”	YTO and its subsidiaries, excluding the Group
“%”	per cent

\* *In this announcement, the English names of the PRC entities, departments and rules marked in asterisks are direct translations of their respective Chinese names and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

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

Luoyang, PRC  
29 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.*