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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)

## **REVISION OF 2017 AND 2018 ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the circular of the Company dated 10 October 2015 in respect of, among other things, the continuing connected transactions under the CCT Agreements.

On 25 August 2015, the Company entered into the CCT Agreements, namely the Material Procurement Agreement, the Sale of Goods Agreement and the Composite Services Agreement, with YTO. The CCT Agreements and the respective Existing Annual Caps were approved by the then Independent Shareholders at the extraordinary general meeting of the Company on 29 October 2015.

Due to operational needs, the Board expects that the Existing Annual Caps of the CCT Agreements will not be sufficient for the expected transaction amounts for the continuing connected transactions contemplated under the CCT Agreements for the years ending 31 December 2017 and 2018. The Board therefore proposes to revise the Existing Annual Caps of the CCT Agreements to the Proposed Revised Annual Caps.

YTO beneficially owns approximately 41.24% equity interest in the Company and is the immediate controlling shareholder of the Company, and therefore is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and Independent Shareholders' approval requirements in respect of the respective Proposed Revised Annual Caps under the CCT Agreements. As the applicable percentage ratios under each of the CCT Agreements are more than 5%, the transactions contemplated under each of the CCT Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Proposed Revised Annual Caps under each of the CCT Agreements at the General Meeting.

The Company will convene the General Meeting for the purpose of, among other things, seeking the Independent Shareholders' approval for the Proposed Revised Annual Caps under each of the CCT Agreements. YTO and its associates will abstain from voting on the proposed resolutions in respect of the Proposed Revised Annual Caps at the General Meeting. At the General Meeting, votes will be taken by poll.

The Independent Board Committee will be established to give recommendations to the Independent Shareholders in respect of the Proposed Revised Annual Caps under each of the CCT Agreements. Veda Capital has been appointed as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Proposed Revised Annual Caps under each of the CCT Agreements, (ii) a letter of recommendation from the Independent Board Committee, (iii) a letter of advice from Veda Capital, and (iv) a notice of the General Meeting, is expected to be despatched to the Shareholders on or before 21 March 2017.

## **INTRODUCTION**

Reference is made to the circular of the Company dated 10 October 2015 in respect of, among other things, the continuing connected transactions under the CCT Agreements.

On 25 August 2015, the Company entered into the CCT Agreements, namely the Material Procurement Agreement, the Sale of Goods Agreement and the Composite Services Agreement, with YTO. The CCT Agreements and the respective Existing Annual Caps were approved by the then Independent Shareholders at the extraordinary general meeting of the Company on 29 October 2015.

Due to operational needs, the Board expects that the Existing Annual Caps of the CCT Agreements will not be sufficient for the expected transaction amounts for the continuing connected transactions contemplated under the CCT Agreements for the years ending 31 December 2017 and 2018. The Board therefore proposes to revise the Existing Annual Caps of the CCT Agreements to the Proposed Revised Annual Caps.

## THE CCT AGREEMENTS

Set out below is a brief summary of the principal terms of each of the CCT Agreements and their corresponding Existing Annual Caps and Proposed Revised Annual Caps:

### 1. The Material Procurement Agreement

<b>Date</b>	:	25 August 2015
<b>Parties</b>	:	(1) YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach, as supplier and/or supplying agent; and  (2) The Company, on behalf of the Group, as purchaser and/or purchasing agent.
<b>Goods to be provided</b>	:	Products required for the production of the Group, including but not limited to raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and lubricating oil), other industrial equipment (including machine tools), components (including clamping apparatus and moulds) and spare parts (including oil injection pumps).
<b>Term</b>	:	From 1 January 2016 to 31 December 2018.
<b>Payment terms</b>	:	Shall be principally settled within three months from the date of confirmation of receiving the goods by the purchaser. Subject to negotiations between the parties, prepayments by the purchaser of no more than six months from the estimated date of delivery of the goods are acceptable.

### ***Pricing Standards of the Transactions under the Material Procurement Agreement***

Under the Material Procurement Agreement, the price of the goods to be provided will be:

- (1) the market price of an independent third party obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between YTO Group, associates of YTO, Sinomach or the subsidiaries of Sinomach and an independent third party; and
- (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)), whereas the 30% markup is determined based on (i) the average sales margin of listed companies engaged in special purpose equipment (the industry classification is according to the China Securities Regulatory Commission) for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015; (ii) the sales margin of the same or similar products of YTO Group; and (iii) the margin of the historical transactions with the parties to the Material Procurement Agreement.

YTO undertakes that the applicable price of the goods offered to the Group shall not be less favourable than that offered to independent third party customers of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach for the same goods.

***Historical Figures, the Existing Annual Caps and the Proposed Revised Annual Caps for the Transactions under the Material Procurement Agreement***

The Company has entered into (i) a material procurement agreement dated 29 October 2012 (details of which were set out in the Company’s circular dated 28 November 2012) (the “**2012 Material Procurement Agreement**”) and (ii) the Material Procurement Agreement for material procurement in the past. In respect of the 2012 Material Procurement Agreement, the following table sets out the historical transaction amounts for the years ended 31 December 2014 and 2015. The table also sets out the historical transaction amount and the existing Annual Cap for the year ended 31 December 2016, and the existing Annual Caps and the proposed revised Annual Caps for the years ending 31 December 2017 and 2018 under the Material Procurement Agreement:

(Unit: RMB0’000)

	Historical transaction amounts for the year ended 31 December			Existing Annual Caps for the year ended/ending 31 December			Proposed revised Annual Caps for the year ending 31 December	
	2014	2015	2016	2016	2017	2018	2017	2018
	(Approximately)	(Approximately)	(Approximately)					
Material Procurement Agreement	37,616	56,848	49,877	50,000	50,000	50,000	149,800	164,800

The historical transaction amount for the year ended 31 December 2016 under the Material Procurement Agreement was approximately RMB498,770,000, representing approximately 99.75% of the existing Annual Cap for the year ended 31 December 2016 under the Material Procurement Agreement.

As at the date of this announcement, the existing Annual Caps for the years ended 31 December 2016 and ending 31 December 2017 under the Material Procurement Agreement have not been exceeded.

The Material Procurement Agreement Proposed Revised Annual Caps for the years ending 31 December 2017 and 2018 are RMB1,498,000,000 and RMB1,648,000,000 respectively, which represents an increase of RMB998,000,000 (199.6%) and RMB1,148,000,000 (229.6%) from the Material Procurement Agreement Existing Annual Caps for the years ending 31 December 2017 and 2018 respectively.

## ***Basis for Revision of the Annual Caps under the Material Procurement Agreement***

Taking into account the following factors, the Board expects that the Material Procurement Agreement Existing Annual Caps will not be sufficient, and proposes to revise to the Material Procurement Agreement Proposed Revised Annual Caps:

- (1) the abovementioned approximately 99.75% utilisation rate of the existing Annual Cap for the year ended 31 December 2016 under the Material Procurement Agreement; and
- (2) the Material Procurement Agreement Proposed Revised Annual Caps were determined based on the amounts of the Material Procurement Agreement Existing Annual Caps and the estimated increment (the “**Material Procurement Agreement Annual Caps Increment**”) in transaction amounts contemplated under the Material Procurement Agreement for the years ending 31 December 2017 and 2018, which is attributable to the facts that:
  - (a) In August 2016, YTO increased its shareholding in Luoyang Zhongshou Machinery Equipment Company Limited\* (洛陽中收機械裝備有限公司) (“**Luoyang Zhongshou**”) to hold a majority of interest, which has become subsidiary of YTO after such increase in capital. Luoyang Zhongshou is principally engaged in research and development, production and sales of wheat, corn and other harvesting machinery products. YTO also has the capability for production of certain agricultural machineries.

In order to implement the operational idea of the Company of providing customers with the most valuable agricultural equipment whole-set solutions, the Company intends to purchase harvesting machinery products and agricultural machinery products from YTO and utilise advantages of the Company for the purpose of providing customers with unit sales and whole-sets solutions for agricultural machinery products to meet the needs of the customers for full-process mechanisation in operation. The Company expects to purchase products including harvesting machinery and agricultural machinery from YTO for the aggregate estimated transaction amounts of approximately RMB742,000,000 for the year ending 31 December 2017, accounting for approximately 74.35% of the Material Procurement Agreement Annual Caps Increment for the year ending 31 December 2017.

- (b) In 2016, the Company completed the transformation of tractor and diesel engine machinery to national III emission standard. It is expected that the purchase volume of the Company and its subsidiary, YTO (Luoyang) Diesel Engine Company Limited\* (一拖 (洛陽) 柴油機有限公司) (“**YTO Diesel Engine Company**”), for (i) the exhaust gas recirculation valve (the “**EGR valve**”) manufactured by Luoyang Tractor Research Company Limited\* (洛陽拖拉機研究所有限公司) (a subsidiary of the Company, and also an associate of YTO due to the fact that YTO holds 49% of its equity interest) (“**Tractor Research Company**”); and (ii) the electronic control pump manufactured by YTO (Luoyang) Fuel Injection Pump Company Limited\* (一拖 (洛陽) 燃油噴射有限公司) (“**YTO Fuel Injection Pump Company**”) (a subsidiary of the Company, and also an associate of YTO due to the fact that YTO holds 10.57% of its equity interest), will increase significantly. The Company expects that the aggregate estimated newly increased transaction amounts for products including the EGR valve, electronic control pump and camshaft, to be purchased by the Company and YTO Diesel Engine Company from Tractor Research Company and YTO Fuel Injection Pump Company will be approximately RMB256,000,000, accounting for approximately 25.65% of the Material Procurement Agreement Annual Caps Increment for the year ending 31 December 2017.
- (c) According to the expected needs in the market of harvesting machinery in 2018 and the plan of the Company, it is expected that the Material Procurement Agreement Proposed Revised Annual Cap for the year ending 31 December 2018 will approximately be 10% higher than that for the year ending 31 December 2017.

## 2. The Sale of Goods Agreement

**Date** : 25 August 2015

**Parties** : (1) The Company, on behalf of the Group, as supplier and/or supplying agent; and

(2) YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach, as purchaser and/or purchasing agent.

- Goods to be provided** : Products to be used in the production and in the ordinary course of business of the purchaser, including but not limited to raw materials (including steel), spare parts (including casting parts), components (including semi-finished parts and finished parts) and equipment (including diesel engines and tractors).
- Term** : From 1 January 2016 to 31 December 2018.
- Payment terms** : Shall be principally settled within three months after the date of delivery of goods by the supplier. Subject to negotiations between the parties, prepayments by the purchaser of no more than six months from the estimated date of delivery of the goods are acceptable.
- Undertaking** : Provided that the Group manufactures such goods, the Group undertakes to give priority to YTO Group associates of YTO, Sinomach and the subsidiaries of Sinomach for supply of such goods over other third parties' under the same condition.

#### ***Pricing Standards of the Transactions under the Sale of Goods Agreement***

Under the Sale of Goods Agreement, the applicable price of the goods to be supplied or provided will be:

- (1) the market price of an independent third party obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Group in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party; and
- (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)), whereas the 30% mark-up is determined based on (i) the average sales margin of listed companies engaged in special purpose equipment (the industry classification is according to the China Securities Regulatory Commission) for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015; (ii) the sales margin of the same or similar products of the Company; and (iii) the margin of the historical transactions with the parties to the Sale of Goods Agreement.



In any event, the applicable price of the goods offered to YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach by the Group shall not be more favourable than that offered to independent third party customers of the Group.

***Historical Figures, the Existing Annual Caps and the Proposed Revised Annual Caps for the Transactions under the Sale of Goods Agreement***

The Company has entered into (i) a sale of goods agreement dated 29 October 2012 (details of which were set out in the Company’s circular dated 28 November 2012) (the “**2012 Sale of Goods Agreement**”) and (ii) the Sale of Goods Agreement for goods sold in the past. In respect of the 2012 Sale of Goods Agreement, the following table sets out the historical transaction amounts for the years ended 31 December 2014 and 2015. The table also sets out the historical transaction amount and the existing Annual Cap for the year ended 31 December 2016, and the existing Annual Caps and the proposed revised Annual Caps for the years ending 31 December 2017 and 2018 under the Sale of Goods Agreement:

(Unit: RMB0’000)

	Historical transaction amounts for			Existing Annual Caps for			Proposed revised	
	the year ended 31 December			the year ended/ending 31 December			Annual Caps for	
	2014	2015	2016	2016	2017	2018	the year ending	31 December
	(Approximately)	(Approximately)	(Approximately)				2017	2018
Sale of Goods								
Agreement	11,345	22,420	34,355	35,000	20,000	21,000	46,000	48,800

The historical transaction amount for the year ended 31 December 2016 under the Sale of Goods Agreement was approximately RMB343,550,000, representing approximately 98.16% of the existing Annual Cap for the year ended 31 December 2016 under the Sale of Goods Agreement.

As at the date of this announcement, the existing Annual Caps for the years ended 31 December 2016 and ending 31 December 2017 under the Sale of Goods Agreement have not been exceeded.

The Sale of Goods Agreement Proposed Revised Annual Caps for the years ending 31 December 2017 and 2018 are RMB460,000,000 and RMB488,000,000 respectively, which represents an increase of RMB260,000,000 (130%) and RMB278,000,000 (approximately 132.38%) from the Sale of Goods Agreement Existing Annual Caps for the years ending 31 December 2017 and 2018 respectively.

### ***Basis for Revision of the Annual Caps under the Sale of Goods Agreement***

Taking into account the following factors, the Board expects that the Sale of Goods Agreement Existing Annual Caps will not be sufficient, and proposes to revise to the Sale of Goods Agreement Proposed Revised Annual Caps:

- (1) the abovementioned approximately 98.16% utilisation rate of the existing Annual Cap for the year ended 31 December 2016 under the Sale of Goods Agreement; and
- (2) the Sale of Goods Agreement Proposed Revised Annual Caps were determined based on the amounts of the Sale of Goods Agreement Existing Annual Caps and the estimated increment (the “**Sale of Goods Agreement Annual Caps Increment**”) in transaction amounts contemplated under the Sale of Goods Agreement for the years ending 31 December 2017 and 2018, which is attributable to the facts that:
  - (a) According to the production needs of YTO in harvesting machinery products and in order to utilise the Company’s core manufacturing capabilities, the Company and its subsidiary, YTO Diesel Engine Company, sold and will sell products including diesel engines and spare parts to YTO and its subsidiary, Luoyang Zhongshou. The Company expects that the estimated newly increased transaction amounts will be approximately RMB260,000,000, accounting for 100% of the Sale of Goods Agreement Annual Caps Increment for the year ending 31 December 2017.
  - (b) According to the business plan for harvesting machinery products of Luoyang Zhongshou in 2018, it is expected that the transaction amount for the connected transactions of the sale of goods from the Company to Luoyang Zhongshou in 2018 will increase by approximately 6% from 2017.

### **3. The Composite Services Agreement**

**Date** : 25 August 2015

**Parties** : (1) YTO, on behalf of YTO, its controlled companies and their associates, as supplier and/or supplying agent; and

(2) The Company, on behalf of the Group, as purchaser and/or purchasing agent.

- Services to be provided** : Storage services and transportation services.
- Term** : From 1 January 2016 to 31 December 2018.
- Payment terms** : Storage services: shall be billed quarterly and paid in the following month.
- Transportation services: shall be principally settled within three months after confirmation by the Company (on behalf of the Group) from the date of delivering or receiving the goods.

***Pricing Standards of the Transactions under the Composite Services Agreement***

Under the Composite Services Agreement, the price of the services to be provided thereunder will be:

- (1) the market price of an independent third party obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar services provided to independent third parties by suppliers other than YTO, its controlled companies and their associates in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between YTO, its controlled companies and their associates and an independent third party; and
- (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)), whereas the 30% mark-up is determined based on (i) the average sales margin of listed companies engaged in storage and transportation services (the industry classification is according to the China Securities Regulatory Commission) for the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015; (ii) the sales margin of the same or similar services of YTO Group; and (iii) the margin of the historical transactions with the parties to the Composite Services Agreement.

YTO undertakes that the applicable price of the services offered to the Group shall not be less favourable than that offered to independent third party customers of YTO, its controlled companies and their associates for the same services.

***Historical Figures, the Existing Annual Caps and the Proposed Revised Annual Caps for the Transactions under the Composite Services Agreement***

The Company has entered into (i) a composite services agreement dated 29 October 2012 (details of which were set out in the Company’s circular dated 28 November 2012) (the “**2012 Composite Services Agreement**”) and (ii) the Composite Services Agreement in respect of provision of composite services in the past. In respect of the 2012 Composite Services Agreement, the following table sets out the historical transaction amounts for the years ended 31 December 2014 and 2015. The table also sets out the historical transaction amount and the existing Annual Cap for the year ended 31 December 2016, and the existing Annual Caps and the proposed revised Annual Caps for the years ending 31 December 2017 and 2018 under the Composite Services Agreement:

*(Unit: RMB0’000)*

	Historical transaction amounts for the year ended 31 December			Existing Annual Caps for the year ended/ending 31 December			Proposed revised Annual Caps for the year ending 31 December	
	2014	2015	2016	2016	2017	2018	2017	2018
	(Approximately)	(Approximately)	(Approximately)					
Composite Services Agreement	22,888	22,429	14,717	14,720	15,720	16,720	21,500	22,500

The historical transaction amount for the year ended 31 December 2016 under the Composite Services Agreement was approximately RMB147,170,000, representing approximately 99.98% of the existing Annual Cap for the year ended 31 December 2016 under the Composite Services Agreement.

As at the date of this announcement, the existing Annual Caps for the years ended 31 December 2016 and ending 31 December 2017 under the Composite Services Agreement have not been exceeded.

The Composite Services Agreement Proposed Revised Annual Caps for the years ending 31 December 2017 and 2018 are RMB215,000,000 and RMB225,000,000 respectively, which represents an increase of RMB57,800,000 (approximately 36.77%) and RMB57,800,000 (approximately 34.57%) from the Composite Services Agreement Existing Annual Caps for the years ending 31 December 2017 and 2018 respectively.

### ***Basis for Revision of the Annual Caps under the Composite Services Agreement***

Taking into account the following factors, the Board expects that the Composite Services Agreement Existing Annual Caps will not be sufficient, and proposes to revise to the Composite Services Agreement Proposed Revised Annual Caps:

- (1) the abovementioned approximately 99.98% utilisation rate of the existing Annual Cap for the year ended 31 December 2016 under the Composite Services Agreement; and
- (2) the Composite Services Agreement Proposed Revised Annual Caps were determined based on the amounts of the Composite Services Agreement Existing Annual Caps and the estimated increment in transaction amounts contemplated under the Composite Services Agreement for the years ending 31 December 2017 and 2018, which is attributable to the facts that:
  - (a) The Company expects that the Composite Services Agreement Proposed Revised Annual Cap for the year ending 31 December 2017 will increase by 46% from the existing Annual Cap for the year ended 31 December 2016 under the Composite Services Agreement for the reasons that:
    - a. Products of the Company are mainly transported on highway. Under the Composite Services Agreement, YTO shall provide transportation services for the Company's products. In September 2016, the "Administrative Rules on Highway Driving of Overloading Vehicle (超限運輸車輛行駛公路管理規定)" was implemented in the PRC, leading to an increase in the transportation cost for transporting the Company's products.
    - b. In order to make use of the advantages of YTO in logistics and transportation, sales of harvesting machinery products by the Company will be transported by YTO in the year of 2017. It is expected that the transportation cost of the Company for the year ending 31 December 2017 will increase.
  - (b) The Company expects that the sales volume of harvesting machinery for 2018 will increase. As such, the Composite Services Agreement Proposed Revised Annual Cap for the year ending 31 December 2018 is expected to increase by approximately 5% from the Composite Services Agreement Proposed Revised Annual Cap for the year ending 31 December 2017.

## MEASURES OF INTERNAL CONTROL

To ensure the Group's conformity with the pricing policies of the CCT Agreements from time to time, the Group adopts a series of internal control policies for its daily operation. Such internal control policies are conducted and supervised by the finance department, the office of the Board and the independent non-executive Directors:

- (1) the Board, the audit committee of the Board and the independent non-executive Directors have approved the CCT Agreements according to the connected transaction decision policy;
- (2) the Company's management policies for connected transactions clearly stated the principle for determining the prices for connected transactions. When each unit of business enters into contracts in accordance with the framework agreements of the continuing connected transactions, the price must be determined in accordance with the pricing standards as agreed in the CCT Agreements;
- (3) the agreement for procurement together with the negotiation memo between the relevant staff of the Company and the suppliers are first delivered to the head of operation department for review and approval. The operation department is responsible for assessing the suppliers' products qualities, production capacities, etc. Upon obtaining the approval of the head of the operation department, the finance department would review and compare the price and terms of the procurement agreement among two to three suppliers, subject to the type of the products to be procured under the Material Procurement Agreement to make sure the prices and terms offered by YTO Group are fair and reasonable that they are no less favourable than those offered by the independent suppliers. For those products to be procured under the Material Procurement Agreement, that there is no independent suppliers, the finance department of the Company would request YTO Group to provide the cost breakdown and analysis and the finance department will evaluate reasonableness of the price charged. The agreement would then be reviewed and approved by the legal department to ensure legality and if necessary, technical department of the Company would review the agreement as well. The agreement can be executed upon obtaining the approvals from all of the above mentioned departments of the Company;

- (4) the agreement for sales together with the negotiation memo between the relevant staff of the Company and the purchaser are first delivered to the head of operation department for review and approval. The operation department is responsible for assessing the production capacities of the Company and the credibility of the purchaser, etc. Upon obtaining the approval of the head of the operation department, the finance department would review and analyse the cost breakdown of the products to be provided under the Sale of Goods Agreement and compare the price to be charged with the aforesaid price list, to make sure the prices and terms offered to YTO Group are fair and reasonable that they are no more favourable than those offered to independent purchasers. The agreement would then be reviewed and approved by the legal department to ensure legality and if necessary, technical department of the Company would review the agreement as well. The agreement can be executed upon obtaining the approvals from all of the above mentioned departments of the Company; and
- (5) the agreement for the composite services (including storage services and transportation services) together with the negotiation memo between the relevant staff of the Company and the counterparties in the transactions are first delivered to the head of operation department for review and approval. The operation department is responsible for assessing transportation abilities or service abilities of the counterparties, etc. Upon obtaining the approval of the head of the operation department, the finance department would review and compare the price and terms of the agreement among two to three counterparties to make sure the prices and terms offered by YTO Group are fair and reasonable that they are no less favourable than those offered by the independent third parties. If there is no market price, the finance department of the Company would request YTO Group to provide the cost breakdown and analysis and the finance department will evaluate reasonableness of the price charged. The agreement would then be reviewed and approved by the legal department to ensure legality. The agreement can be executed upon obtaining the approvals from all of the above mentioned departments of the Company.

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

## **REASONS AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS UNDER THE CCT AGREEMENTS**

The Group and YTO Group have been carrying out transactions with each other to facilitate their productions and operations since 1997. In view of the long-established relationship between the Group and YTO Group, the geographical convenience between the Group and YTO Group provides a reliable supply of raw material and provision of services, which are favourable to (i) the Company's effective control over the product performance and quality; and (ii) the after-sales services as it offers fast, convenient and timely communication and coordination between the transaction parties. The entering into of the CCT Agreements can effectively lower the operation risk of both the Group and YTO Group, and is favourable to the Company's daily operation and management of production. The proposed increase in the Annual Caps of the CCT Agreements would satisfy the daily operational needs of the Company and enhance economies of scale of the Company, which is beneficial to the continuing operation of the Company.

The Directors consider that the terms of the CCT Agreements and the Proposed Revised Annual Caps are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **INFORMATION OF THE GROUP, YTO, YTO GROUP 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 other accessories of tractors, forklift and mining trucks, etc.

As at the date of this announcement, YTO is the immediate controlling shareholder of the Company, holding 410,690,578 A shares of the Company. YTO Group is principally engaged in the production and sales of transporting machineries, vehicle products, industrial equipments and components.

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



## **LISTING RULES IMPLICATIONS**

YTO beneficially owns approximately 41.24% equity interest in the Company and is the immediate controlling shareholder of the Company, and therefore is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the CCT Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company is required to re-comply with the announcement and Independent Shareholders' approval requirements in respect of the respective Proposed Revised Annual Caps under the CCT Agreements. As the applicable percentage ratios under each of the CCT Agreements are more than 5%, the transactions contemplated under each of the CCT Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will seek the Independent Shareholders' approval for the Proposed Revised Annual Caps under each of the CCT Agreements at the General Meeting.

Zhao Yanshui, Wang Erlong, Li Hepeng, Xie Donggang, Li Kai and Yin Dongfang, the Directors of the Company, have abstained from voting to approve the Proposed Revised Annual Caps in the Board meeting due to the fact that they are also directors of YTO and are regarded not independent to make any recommendation to the Board.

The Company will convene the General Meeting for the purpose of, among other things, seeking the Independent Shareholders' approval for the Proposed Revised Annual Caps under each of the CCT Agreements. YTO and its associates will abstain from voting on the proposed resolutions in respect of the Proposed Revised Annual Caps at the General Meeting. At the General Meeting, votes will be taken by poll.

The Independent Board Committee will be established to give recommendations to the Independent Shareholders in respect of the Proposed Revised Annual Caps under each of the CCT Agreements. Veda Capital has been appointed as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) details of the Proposed Revised Annual Caps under each of the CCT Agreements, (ii) a letter of recommendation from the Independent Board Committee, (iii) a letter of advice from Veda Capital, and (iv) a notice of the General Meeting, is expected to be despatched to the Shareholders on or before 21 March 2017.

## DEFINITIONS

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

“Annual Cap(s)”	the maximum aggregate annual value(s) for the continuing connected transactions under the CCT Agreements;
“associate(s)”	has the same meaning as ascribed to this term under the Listing Rules;
“Board”	the board of Directors of the Company;
“CCT Agreements”	the Material Procurement Agreement, the Sale of Goods Agreement and the Composite Services Agreement;
“Company”	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares and A shares of which are listed on the main board of the Stock Exchange (Stock Code: 0038) and the Shanghai Stock Exchange (Stock Code: 601038) respectively;
“Composite Services Agreement”	the agreement dated 25 August 2015 entered into between YTO, on behalf of YTO, its controlled companies and their associates, as supplier and/or supplying agent, and the Company, on behalf of the Group, as purchaser and/or purchasing agent, pursuant to which YTO, its controlled companies and their associates agreed to provide storage services and transportation services to the Group;
“Composite Services Agreement Existing Annual Caps”	the existing Annual Caps for the transactions contemplated under the Composite Services Agreement for the years ending 31 December 2017 and 2018 approved by the then Independent Shareholders at the extraordinary general meeting of the Company on 29 October 2015, which are RMB157,200,000 and RMB167,200,000 respectively;

“Composite Services Agreement Proposed Revised Annual Caps”	the proposed revised Annual Caps for the transactions contemplated under the Composite Services Agreement for the years ending 31 December 2017 and 2018 as approved by the Board on 28 February 2017 subject to the approval of the Independent Shareholders at the General Meeting, which are RMB215,000,000 and RMB225,000,000 respectively;
“connected person(s)”	has the same meaning as ascribed to this term under the Listing Rules;
“controlling shareholder”	has the same meaning as ascribed to this term under the Listing Rules;
“Director(s)”	the director(s) of the Company, including the independent non-executive director(s);
“Existing Annual Caps”	the Material Procurement Agreement Existing Annual Caps, the Sale of Goods Agreement Existing Annual Caps and the Composite Services Agreement Existing Annual Caps;
“General Meeting”	the general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Proposed Revised Annual Caps;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors;
“Independent Shareholder(s)”	Shareholder(s) other than YTO and its associate(s);
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“Material Procurement Agreement”	the agreement dated 25 August 2015 entered into between YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach, as supplier and/or supplying agent, and the Company, on behalf of the Group, as purchaser and/or purchasing agent, pursuant to which YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach agreed to supply certain materials to the Group;
“Material Procurement Agreement Existing Annual Caps”	the existing Annual Caps for the transactions contemplated under the Material Procurement Agreement for the years ending 31 December 2017 and 2018 approved by the then Independent Shareholders at the extraordinary general meeting of the Company on 29 October 2015, which are both RMB500,000,000;
“Material Procurement Agreement Proposed Revised Annual Caps”	the proposed revised Annual Caps for the transactions contemplated under the Material Procurement Agreement for the years ending 31 December 2017 and 2018 as approved by the Board on 28 February 2017 subject to the approval of the Independent Shareholders at the General Meeting, which are RMB1,498,000,000 and RMB1,648,000,000 respectively;
“percentage ratios”	has the same meaning as ascribed to this term under the Listing Rules, as applicable to a transaction;
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Proposed Revised Annual Caps”	the Material Procurement Agreement Proposed Revised Annual Caps, the Sale of Goods Agreement Proposed Revised Annual Caps and the Composite Services Agreement Proposed Revised Annual Caps;
“RMB”	Renminbi, the lawful currency of the PRC;

“Sale of Goods Agreement”	the agreement dated 25 August 2015 entered into between the Company, on behalf of the Group, as supplier and/or supplying agent, and YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach, as purchaser and/or purchasing agent, pursuant to which the Group agreed to supply certain materials to YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach;
“Sale of Goods Agreement Existing Annual Caps”	the existing Annual Caps for the transactions contemplated under the Sale of Goods Agreement for the years ending 31 December 2017 and 2018 approved by the then Independent Shareholders at the extraordinary general meeting of the Company on 29 October 2015, which are RMB200,000,000 and RMB210,000,000 respectively;
“Sale of Goods Agreement Proposed Revised Annual Caps”	the proposed revised Annual Caps for the transactions contemplated under the Sale of Goods Agreement for the years ending 31 December 2017 and 2018 as approved by the Board on 28 February 2017 subject to the approval of the Independent Shareholders at the General Meeting, which are RMB460,000,000 and RMB488,000,000 respectively;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
“Shareholder(s)”	shareholder(s) of the Company;
“Sinomach”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a limited liability company incorporated in the PRC and a controlling shareholder of YTO, holding approximately 87.90% equity interest in YTO;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Veda Capital”	Veda Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Revised Annual Caps;
“YTO”	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the immediate controlling shareholder of the Company, holding approximately 41.24% equity interest in the Company;
“YTO Group”	YTO and its subsidiaries; and
“%”	per cent.

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

Luoyang, the PRC  
28 February 2017

*As at the date of this announcement, the Board comprises Mr. Zhao Yanshui (Chairman), Mr. Wang Erlong (vice Chairman) and Mr. Wu Yong as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Yin Dongfang as non-executive Directors; and Ms. Yang Minli, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao as independent non-executive Directors.*

\* *For identification purposes only*