THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in **FIRST TRACTOR COMPANY LIMITED**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

第一拖拉机股份有限公司

FIRST TRACTOR COMPANY LIMITED*

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

(Stock Code: 0038)

CONTINUING CONNECTED TRANSACTIONS

Financial Adviser to the Company

TC CAPITAL
天財資本

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

Gram Capital Limited
嘉林資本有限公司

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 1 to 44 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 45 to 46 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 47 to 89 of this circular.

A notice convening the EGM to be held at 3:00 p.m. on 29 October 2018, Monday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC is set out on pages 94 to 99 of this circular.

A form of proxy for use at the EGM was despatched and also published on the website of the Stock Exchange (http://www.hkexnews.hk) on 12 September 2018. Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the Company's H Share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, as soon as possible and in any event not less than 24 hours before the time scheduled for holding the EGM or any adjourned meeting (as the case may be). Completion and deposit of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

12 October 2018

* *For identification purposes only*

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

"A Share(s)"	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and subscribed for and traded in RMB;
"Annual Cap(s)"	the maximum aggregate annual value(s) or outstanding amounts for each of the transactions contemplated under the Old Agreements and the New Agreements;
"associate(s)"	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
"Bills Acceptance Service Agreement"	the agreement dated 29 August 2018 entered into between YTO Finance and YTO on behalf of YTO Extended Group for the provision of the bills acceptance services by YTO Finance to YTO Extended Group;
"Bills Discounting Service Agreement"	the agreement dated 29 August 2018 entered into between YTO Finance and YTO on behalf of YTO Extended Group for the provision of the bills discounting services by YTO Finance to YTO Extended Group;
"Board"	the board of Directors;
"CBIRC"	China Banking Insurance Regulatory Commission;
"Company"	First Tractor Company Limited* (第一拖拉機股份有限公司), a joint stock company with limited liability incorporated in the PRC, the H shares and A Shares of which are listed on the main board of the Stock Exchange and the Shanghai Stock Exchange respectively;
"Composite Services Agreement"	the agreement dated 29 August 2018 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 Group agreed to provide transportation and transportation ancillary services to the Group;
"connected person(s)"	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;

"controlling shareholder"	has the same meaning as ascribed to this term under the Hong Kong Listing Rules;
"Deposit Service Agreement"	the agreement dated 29 August 2018 entered into between YTO Finance and YTO, on behalf of YTO Extended Group, for the provision of the depository services by YTO Finance to YTO Extended Group;
"Director(s)"	the director(s) of the Company;
"EGM"	the extraordinary general meeting of the Company to be convened and held at 3:00 p.m. on 29 October 2018, Monday, at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, for the Independent Shareholders to consider, among other things, and, if thought fit, approve each of the Non-exempt CCT Agreements and the Other CCT Agreements and their respective proposed Annual Cap amounts;
"Energy Procurement Agreement"	the agreement dated 29 August 2018 entered into between YTO as supplier and/or supplying agent and the Company, on behalf of the Group, as purchaser and/or purchasing agent pursuant to which YTO agreed to supply various kind of energy to the Group;
"Fully-exempt CCT Agreement"	the Deposit Service Agreement;
"Group"	the Company and its subsidiaries;
"H Share(s)"	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange;
"Hong Kong"	Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
"Independent Board Committee"	an independent committee of the Board comprising the independent non-executive Directors;

"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Transactions and their respective Annual Cap amounts;
"Independent Shareholder(s)"	Shareholder(s) other than YTO and its associate(s);
"Intellectual Property"	any forms of intellectual property derived or created from the technology services or labour or intellectual results under the Technology Services Agreement, including but not limited to any patents, copyrights, trademarks, trade secrets, and other technical knowhow;
"Interbank Business Services Agreement"	the agreement dated 29 August 2018 entered into between YTO Finance and Sinomach Finance pursuant to which both parties agreed to provide financial supporting services to each other;
"Land Lease Agreement"	the agreement dated 29 August 2018 entered into between YTO, on behalf of YTO, its controlled companies or other associates, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which YTO, its controlled companies or other associates agreed to lease land use rights with a gross land area of approximately 415,000 sq.m. to the Group, as well as give the Company pre-emptive rights to lease additional land use rights with a gross land area of no more than 16,000 sq.m.;
"Latest Practicable Date"	8 October 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Loan Service Agreement"	the agreement dated 29 August 2018 entered into between YTO Finance and YTO on behalf of YTO Extended Group for the provision of the loan services by YTO Finance to YTO Extended Group;
"Material Procurement Agreement"	the agreement dated 29 August 2018 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;

"New Agreements"	Non-exempt CCT Agreements, Other CCT Agreements and the Fully-exempt CCT Agreement;
"Non-exempt CCT Agreements"	the Material Procurement Agreement, the Sale of Goods Agreement, the Loan Service Agreement, the Bills Discounting Service Agreement, the Bills Acceptance Service Agreement, the Interbank Business Services Agreement, the Technology Services Agreement, the Composite Services Agreement and the Energy Procurement Agreement;
"Non-exempt CCT Transactions"	the transactions contemplated under the Non-exempt CCT Agreements;
"Old Agreements"	(i) the material procurement agreement dated 25 August 2015 entered into between YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach and the Company, on behalf of the Group; (ii) the sale of goods agreement dated 25 August 2015 entered into between the Company, on behalf of the Group and YTO, on behalf of YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach; (iii) the loan service agreement, bills discounting service agreement, bills acceptance service agreement and deposit service agreement, all dated 25 August 2015, entered into between YTO Finance and YTO, on behalf of YTO Extended Group (excluding Tractors Research Group); (iv) the interbank business services agreement dated 25 August 2015 entered into between YTO Finance and Sinomach Finance; (v) the technology services agreement dated 25 August 2015 entered into between Tractors Research Company, on behalf of Tractors Research Group, and the Company, on behalf of the Group; (vi) the composite services agreement dated 25 August 2015 entered into between YTO, on behalf of YTO, its controlled Companies and their associates and the Company, on behalf of the Group; (vii) the energy procurement agreement dated 25 August 2015 entered into between YTO (YTO Extended Group) and the Company, on behalf of the Group; (viii) the properties lease agreement dated 25 August 2015 entered into between YTO, on behalf of YTO, its controlled companies and other associates as lessor and the Company, on behalf of the Group as lessee; and (ix) the land lease agreement dated 25 August 2015 entered into between YTO, on behalf of YTO, its controlled companies and other associates as lessor and the Company, on behalf of the Group as lessee;
"Other CCT Agreements"	the Properties Lease Agreement and the Land Lease Agreement;

"PBOC"	the People's Bank of China;
"percentage ratios"	has the same meaning as ascribed to it under the Hong Kong Listing Rules, as applicable to a transaction;
"PRC"	The People's Republic of China which, for the purpose of this circular only, does not include the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan Province;
"Properties Lease Agreement"	the agreement dated 29 August 2018 entered into between YTO, on behalf of YTO, its controlled companies or entities and their associates, as lessor and the Company, on behalf of the Group, as lessee, pursuant to which YTO, its controlled companies or entities and their associates agreed to lease to the Group premises with a gross floor area of approximately 117,000 sq.m. and give the Company pre-emptive rights of leasing additional premises with a gross floor area of no more than 6,500 sq.m.;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale of Goods Agreement"	the agreement dated 29 August 2018 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;
"SFO"	the Securities Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time;
"Shanghai Listing Rules"	Shanghai Stock Exchange Share Listing Rules;
"Shareholder(s)"	shareholder(s) of the Company;
"SHIBOR"	Shanghai Interbank Offered Rate;
"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 having 87.90% shareholding interest in YTO;

"Sinomach Finance"	Sinomach Finance Co., Ltd.* (國機財務有限責任公司), a company approved to be established in the PRC by the China Banking Regulatory Commission as a non-bank financial institution in September 2003, and a non-wholly-owned subsidiary of Sinomach;
"sq.m."	square metre;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Technology Services Agreement"	the agreement dated 29 August 2018 entered into between Tractors Research Company, on behalf of Tractors Research Group, and the Company, on behalf of the Group (excluding Tractor Research Group), pursuant to which Tractors Research Group has agreed to provide certain technology services to the Group (excluding Tractor Research Group);
"Tractors Research Company"	Luoyang Tractors Research Company Limited*(洛陽拖拉機研究所有限公司), a limited liability company incorporated in the PRC, a non-wholly-owned subsidiary of the Company and an associate of YTO;
"Tractors Research Group"	Tractors Research Company and its two wholly-owned subsidiaries, namely Luoyang Xiyuan Motor Power Inspection Institution Company Limited* (洛陽西苑車輛動力檢驗所有限公司) and Luoyang Tuoqi Engineering Motor Technology Company Limited* (洛陽拖汽工程車輛科技有限公司), being the service providers who provide technology services under the Technology Services Agreement to the Group (excluding Tractor Research Group);
Whole-set Business	The business for which YTO Group, in accordance with the operating principles of providing the customers with the most valuable whole-set solutions in respect of agricultural equipment, procures such products as harvest machinery and other agricultural machinery by taking advantage of the Company' own channels with a view to provide customers with machinery unit sales and whole-set solutions for agricultural machinery products to meet the needs of the customers for full-process mechanisation in operation;
"YTO"	YTO Group Corporation* (中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 41.66% equity interest in the Company;

"YTO Extended Group"	(i) YTO; (ii) its controlling companies or entities; (iii) non-wholly-owned subsidiaries of the Company that companies or entities in (i) and (ii) above held 10% or more voting rights respectively or collectively; and (iv) associates of YTO;
"YTO Finance"	China First Tractor Group Finance Company Limited* (中國一拖集團財務有限責任公司) , a company incorporated in the PRC with limited liability and a subsidiary of the Company owned as to 99.4% by the Company;
"YTO Group"	YTO and its subsidiary; and
"%"	per cent.

* *For identification purposes only*

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

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

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purposes only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

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)

Board of Directors:
Mr Zhao Yanshui *(Chairman)*
Mr. Wu Yong *(Vice Chairman)*
Mr. Li Hepeng
Mr. Xie Donggang
Mr. Li Kai
Mr. Yin Dongfang
Ms. Yang Minli**
Mr. Xing Min**
Mr. Wu Tak Lung**
Mr. Yu Zengbiao**

** *Independent non-executive Director*

Registered and principal office:
No.154 Jianshe Road
Luoyang, Henan Province
The People's Republic of China

12 October 2018

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 29 August 2018 in respect of the New Agreements.

As stated in the announcements of the Company dated 25 August 2015, 15 September 2015, 28 February 2017, 20 March 2017 and 20 April 2017, and the circulars of the Company dated 10 October 2015 and 22 May 2017, in respect of, among other things, the existing continuing connected transactions under the Old Agreements and their respective annual cap amounts, the Old Agreements will expire on 31 December 2018. The Board wishes to ensure the continuation of the on-going transactions of goods and services under the Old Agreements. Accordingly, on 29 August 2018, the Company entered into the New Agreements for a term of three years commencing from 1 January 2019. Save for (i) the change in the effective period and Annual Cap amounts of each of the New Agreements; (ii) the change in scope of services to be provided under the Composite Services Agreement and the Energy Procurement Agreement; and (iii) the change in aggregate gross floor area to be leased by the Company and over which the Company has pre-emptive rights under the Properties Lease Agreement and Land Lease Agreement, the terms and conditions of each of the New Agreements are similar to those in the respective Old Agreements.

The purpose of this circular is to provide you with information regarding (i) further details of each of the New Agreements and the transactions contemplated thereunder (including the Annual Caps); (ii) the letter from the Independent Board Committee to the Independent Shareholders in respect of the Non-exempt CCT Agreements; (iii) the letter of advice from Gram Capital to the Independent Board Committee in respect of the Non-exempt CCT Agreements; and (iv) the notice of the EGM.

NON-EXEMPT CCT TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

(A) Material Procurement Agreement

Date	:	29 August 2018
Parties	:	• 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.
Goods to be provided	:	Goods required for the production and operation 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).
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	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.

These payment terms were usually adopted by the Company in its transactions with independent third parties or YTO. Such terms are on normal commercial terms and not less favourable than those offered to the Company by independent third parties.

Pricing Standards of the Transactions contemplated under the Material Procurement Agreement

Under the Material Procurement Agreement, the price of the goods to be provided will be determined based on the following:

(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% mark-up is determined based on (i) the average gross profit margin of listed companies engaged in manufacturing of special purpose equipment (this industry classification is according to the "Guidelines for the Industry Classification of Listed Companies* (上市公司行業分類指引)" (Revised in 2017) and the industry classification results of listed companies issued by the China Securities Regulatory Commission, and the Company is within this classification) for the three years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) the gross profit margin of the historical transactions of procurement of the same or similar products by the Group from YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach.

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.

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

(1) procurement department, in relation to the price determination based on the market price of an independent third party (i.e. pricing standard no.(1)), shall make reference to one to two price quotations of the same or similar goods through relevant industry website or market enquiry. Such quotations shall be obtained by procurement department;

(2) finance department, in relation to price determination based on the transaction price between the suppliers and an independent third party (i.e. pricing standard no.(2)), shall make reference to one to two signed agreement(s) entered between the suppliers and an independent third party in relation to the procurement of the same or similar goods. The finance department shall obtain the cost analysis of goods (including cost breakdown and gross profit margin) from the suppliers to ensure that the transaction price under the Material Procurement Agreement is fair and reasonable and not higher than the price of the same or similar goods offered by the suppliers to independent third party; and

(3) finance department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard no. (3)), shall obtain cost analysis of goods from the suppliers and finalise the price in accordance with the cost analysis and the percentage mark-up. The finance department shall also perform quarterly update and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Material Procurement Agreement

In respect of the material procurement agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Material Procurement Agreement:

	Historical transaction amounts			**Proposed Annual Caps amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Material Procurement Agreement	498,770	724,520	381,620	860,000	950,000	1,040,000

Basis for the Proposed Annual Cap Amounts under the Material Procurement Agreement

The proposed Annual Cap amounts for the years of 2019, 2020 and 2021 for the Material Procurement Agreement are based on:

(1) the historical transaction amounts and the estimated transaction amount in 2018 (approximately RMB763 million) ;

(2) Development trend of the tractor industry. With the end of the adjustment period of the industry, the tractor industry will maintain its existing market share from the original incremental market, and under the relatively stable volume in the market in the later period, the sales volume of the industry will be mainly subject to demand for replacement and the annual volume of tractors to be replaced will be relatively steady, as a result, the Company's tractor business will remain stable;

(3) Growth of Whole-set Business. In June 2018, the National Bureau of Statistics of China published the "producer price indices for agricultural products" for the major grain crops of China including wheat, corn and rice which were 104.4, 97.1 and 100.5, respectively, representing an increase of 10.3, 10.3 and 8.3 basis points as compared with 2017. The rise of producer prices of agricultural products will drive the demand for harvest machinery to rise. In 2017 and the first half of 2018, the sales of harvest machinery and agricultural machinery of the Whole-set Business showed a rising trend, demonstrating the growth potentials of the business. It is expected that the Whole-set Business will continue to grow during 2019 to 2012.

(B) Sale of Goods Agreement

Date	:	29 August 2018
Parties	:	• 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.
Goods to be provided	:	Products to be used in the production and in the ordinary course of business of the purchasers, including but not limited to raw materials, spare parts (including casting parts), components (including semi-finished parts and finished parts) and equipment (including diesel engines and tractors).

Term	:	From 1 January 2019 to 31 December 2021.
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. These payment terms were usually adopted by the Company in its transactions with independent third parties or YTO. Such terms are on normal commercial terms and not more favourable than those offered by the Company to independent third parties.

Pricing Standards of the Transactions Contemplated under the Sale of Goods Agreement

Under the Sale of Goods Agreement, the applicable price of the goods to be provided will be determined based on the following:

(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 gross profit margin of listed companies engaged in manufacturing of special purpose equipment (this industry classification is according to the "Guidelines for the Industry Classification of Listed Companies* (上市公司行業分類指引)" (Revised in 2017) and the industry classification results of listed companies issued by the China Securities Regulatory Commission, and the Company is within this classification) for the three years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) the gross profit margin of the historical transactions of sales of the same or similar products by the Group to YTO Group, associates of YTO, Sinomach and the subsidiaries of Sinomach.

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.

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

(1) sales department, in relation to the price determination based on the market price of an independent third party (i.e. pricing standard no.(1)), shall make reference to one to two price quotation(s) of the same or similar goods through relevant industry website or market enquiry. Such quotations shall be obtained by sales department;

(2) finance department, in relation to price determination based on the transaction price between the Group and an independent third party (i.e. pricing standard no. (2)), shall formulate unified sales prices (the "**Unified Sales Prices**") of general generic products of the Company according to the Company's cost and gross profit margin, which will be adopted uniformly in transactions of the Company with the purchaser or with an independent third party. The finance department shall also perform quarterly update and review on the Unified Sales Prices; and

(3) finance department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard no. (3)), shall formulate cost analysis of goods and finalise the price in accordance with the cost analysis and the percentage mark-up. The finance department shall also perform quarterly update and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Sale of Goods Agreement

In respect of the sale of goods agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Sale of Goods Agreement:

	Historical transaction amounts			**Proposed Annual Cap amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Sale of Goods Agreement	343,550	362,840	131,740	345,000	370,000	395,000

Basis for the Proposed Annual Cap Amounts under the Sale of Goods Agreement

The proposed Annual Cap amounts for the years of 2019, 2020 and 2021 for the Sale of Goods Agreement are based on:

(1) the historical transaction amounts and the estimated transaction amount in 2018 (approximately RMB320 million);

(2) It is expected that YTO will make more purchases of raw materials and spare parts through the procurement platform of the Company. The Company's sales of diesel engine products and other components and spare parts to YTO will maintain a certain growth rate in the coming three years.

(C) Loan Service Agreement

Date	:	29 August 2018
Parties	:	• YTO Finance, a subsidiary of the Company; and • YTO, on behalf of YTO Extended Group.
Financial services to be provided	:	Provision of loan services by YTO Finance to the YTO Extended Group.
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	Shall be specified on each separate loan contract to be agreed by the parties.
Security	:	YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure YTO Extended Group's liabilities arising from the performance of the Loan Service Agreement.
Undertaking	:	YTO undertakes that the deposit maintained by YTO Extended Group with YTO Finance should be greater than the loan balance at all time. If YTO Extended Group breaches such undertaking, YTO Finance has the right to restrict payment to any third parties by YTO Extended Group from its deposit maintained with YTO Finance, or request YTO Extended Group to increase its deposit balance with YTO Finance.

Rights to demand for early repayment	:	YTO Finance shall first satisfy the funding needs of the Group. Depending on the condition of shortfall of funding of the Group, YTO Finance has the right to issue a termination or terms amendment notice to YTO Extended Group, requesting for termination or amendments to the terms of the loans granted to YTO Extended Group so as to collect the money to support the production operation of the Group.

Pricing Standards of the Transactions contemplated under the Loan Service Agreement

The service fees to be charged by YTO Finance for any loan services will be determined based on the following:

(1) the rate prescribed by CBIRC or PBOC (including the benchmark interest rate prescribed by the PBOC from time to time and published on PBOC's website for the same type and same period of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing));

(2) if the above rate is not applicable (e.g. in the event that the rate prescribed by CBIRC or PBOC cannot compensate the lending risk of YTO Finance after its evaluation on the creditability of the borrowers and the market condition), the rate charged in the same industry in the PRC for the same type and same period of loans by enquiries in the market; and

(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees offered to YTO Extended Group by YTO Finance shall not be more favourable than those offered to independent third party customers of YTO Finance for the same services.

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

1. finance department, in relation to price determination based on the rate prescribed by CBIRC or PBOC (i.e. pricing standard no. (1)), shall check the rate published on the PBOC's website for the same type and same period of loans;

2. finance department, in relation to price determination based on market rate (i.e. pricing standard no. (2)), shall obtain and make reference to one to two rate(s) of the same or similar loans quoted through relevant industry website or market enquiry; and

3. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no. (3)), shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with the purchaser or with a third party. YTO Finance shall also perform quarterly update and review on the rate.

Historical Figures and the Proposed Annual Cap Amounts for the Transaction under the Loan Service Agreement

In respect of the loan service agreement dated 25 August 2015, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Loan Service Agreement:

	Historical maximum outstanding amounts			Proposed maximum outstanding Annual Cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loan Service Agreement	644,400	849,400	896,400	1,150,000	1,300,000	1,450,000

Basis for the Proposed Annual Cap Amounts under the Loan Service Agreement

The proposed Annual Cap amounts for the loan services provided under the Loan Service Agreement are determined with reference to the following factors:

(1) the historical maximum outstanding amounts;

(2) YTO Finance's historical average financial resources at the end of each month (2016: approximately RMB4.8 billion; 2017: approximately RMB4.8 billion; 31 January 2018 to 30 June 2018: approximately RMB4.9 billion) and expected average financial resources at the end of each month (2018: approximately RMB4.9 billion; 2019: approximately RMB5.8 billion; 2020: approximately RMB6.0 billion; and 2021: approximately RMB6.2 billion);

(3) YTO guarantees that the amount of deposit with the YTO Finance at any time will be no less than the size of loan. According to the data in recent years, the actual annual loan amount on average is approximately 50% of the deposit amount. YTO Finance will make full use of relevant financial resources to increase capital gains; and

(4) The proportion of loans issued by domestic financial institutions to their total assets has been on the rise. The "proportion of loans to total assets" of 26 major listed banks in mainland China as at the end of 2016, the end of 2017, and the first quarter of 2018 were approximately 43.67%, 45.34%, and 46.27%, respectively, and the proportion of the total loans to total assets of relevant financial institutions as published on the website of China Banking Association is on the rise. The estimated amount of the Loan Service Agreement for 2019–2021 will account for 19.83%, 21.67% and 23.39% of the total average assets of YTO Finance for each corresponding year, respectively, which is in line with the development trends of the industry.

(D) Bills Discounting Service Agreement

Date	:	29 August 2018
Parties	:	• YTO Finance, a subsidiary of the Company as supplier; and • YTO, on behalf of YTO Extended Group as purchaser.
Financial services to be provided	:	Provision of bills discounting services by YTO Finance to the YTO Extended Group, whereby YTO Finance will pay the face value of undue bills presented by YTO Extended Group net of the discount interests.
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	Shall be specified on each separate contract to be agreed by the parties.

Pricing Standards of the Transactions contemplated under the Bills Discounting Service Agreement

The service fees charged by YTO Finance for any bills discounting services will be determined based on the following:

(1) the rate in relation to the same type and same period of bills discounting services prescribed by CBIRC or PBOC;

(2) if the above rate is not applicable (as the rate prescribed by CBIRC or PBOC currently it is a bills rediscounting rate), the rate charged in the same industry in the PRC for the same type and same period of bills discounting services by enquiries in the market; and

(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group.

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

1. finance department, in relation to price determination based on rate prescribed by CBIRC or PBOC (i.e. pricing standard no.(1)), shall check the rate published on the PBOC's website for the same type and same period of services;

2. finance department, in relation to price determination based on market rate (i.e. pricing standard no.(2)), shall obtain and make reference to one to two rate(s) of the same or similar services quoted through relevant industry website or market enquiry; and

3. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no.(3)), shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with the purchaser or with a third party. YTO Finance shall also perform quarterly update and review on the rate.

YTO Finance undertakes that the applicable service fees charged to YTO Extended Group by YTO Finance shall not be more favourable than those charged to independent third party customers of YTO Finance for the same services.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Bills Discounting Service Agreement

In respect of the bills discounting service agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Bills Discounting Service Agreement:

	Historical transaction amounts			**Proposed Annual Cap amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills Discounting Service Agreement	324,540	127,870	139,290	250,000	300,000	350,000

Basis for the Proposed Annual Cap Amounts under the Bills Discounting Service Agreement

The proposed Annual Cap amounts for the bills discounting services provided under the Bills Discounting Service Agreement are determined with reference to the following factors:

(1) the historical transaction amounts;

(2) YTO Finance's historical average financial resources at the end of each month (2016: approximately RMB4.8 billion; 2017: approximately RMB4.8 billion; January 2018 to June 2018: approximately RMB4.9 billion) and expected average financial resources at the end of each month (2018: approximately RMB4.9 billion; 2019: approximately RMB5.8 billion; 2020: approximately RMB6.0 billion; and 2021: approximately RMB6.2 billion); and

(3) Since the People's Bank of China has strict regulations on loan interest rates and the discount rate is based on market demand, borrowers will focus on financing with lower interest rates. In 2017, the one-year loan benchmark interest rate announced by the People's Bank of China was 4.35%, while the discount rate for bill financing amount of more than RMB1 million of the same term in the market was in the range of 5.4%-5.6%. Therefore, the YTO Extended Group was more inclined to use loan service financing during the period. However, the market discount rate for bill financing amount of more than RMB1 million in September 2018 decrease to a range of 3.8% to 4.0% due to the expansionary monetary policy published by the Chinese government in 2018, while the one-year loan benchmark interest rate announced by the People's Bank of China remain unchanged. Since the current market discount is lower than the loan interest rate stipulated by the People's Bank of China, the Company expects that the demand of bill discounting service under the Bills Discounting Service Agreement will increase as the use of bill discounting is more attractive for the YTO Extended Group as a borrower.

(E) Bills Acceptance Service Agreement

Date	:	29 August 2018
Parties	:	• YTO Finance, a subsidiary of the Company as supplier; and • YTO, on behalf of YTO Extended Group as purchaser.
Financial services to be provided	:	Provision of bills acceptance services by YTO Finance to the YTO Extended Group, whereby YTO Finance guarantees the payment of bills issued by YTO Extended Group. In return, YTO Extended Group shall pay the service fees.
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	Shall be specified on each separate contract to be agreed by the parties.

Security : YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure the liabilities of YTO Extended Group arising from its performance under the Bills Acceptance Service Agreement.

Pricing Standards of the Transactions contemplated under the Bills Acceptance Service Agreement

The service fees charged by YTO Finance for any bills acceptance services will be determined based on the following:

(1) the rate in relation to the same type and same period of bills acceptance services prescribed by CBIRC or PBOC;

(2) if the above rate is not applicable, the rate charged in the same industry in the PRC for the same type and same period of bills acceptance services by enquiries in the market; and

(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees charged to YTO Extended Group by YTO Finance shall not be more favourable than those charged to independent third party customers of YTO Finance for the same services.

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

1. finance department, in relation to price determination based on rate prescribed by CBIRC or PBOC (i.e. pricing standard no.(1)), shall check the rate published on the PBOC's website for the same type and same period of services;

2. finance department, in relation to price determination based on market rate (i.e. pricing standard no.(2)), shall obtain and make reference to one to two rate(s) of the same or similar services quoted through relevant industry website or market enquiry; and

3. finance department, in relation to price determination after arm's length negotiation (i.e. pricing standard no.(3)), shall formulate a unified rate by considering the fair rate offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with the purchaser or with a third party. YTO Finance shall also perform quarterly update and review on the rate.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Bills Acceptance Service Agreement

In respect of the bills acceptance service agreement dated 25 August 2015, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Bills Acceptance Service Agreement:

	Historical maximum outstanding amounts			Proposed maximum outstanding Annual Cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bills Acceptance Service Agreement	214,550	266,180	160,750	336,000	376,000	420,000

Basis for the Proposed Annual Cap Amounts under the Bills Acceptance Service Agreement

The proposed Annual Cap amounts for the services provided under the Bills Acceptance Service Agreement are determined with reference to the following factors:

(1) the historical figures of the average and maximum outstanding amounts of bills acceptance provided by YTO Finance to YTO Extended Group between January 2016 and June 2018; and

(2) YTO Finance's historical average financial resources at the end of each month (2016: approximately RMB4.8 billion; 2017: approximately RMB4.8 billion; January to June 2018: approximately RMB4.9 billion) and expected average financial resources at the end of each month (2019: approximately RMB5.8 billion; 2020: approximately RMB6.0 billion; and 2021: approximately RMB6.2 billion); Considering that the financial resources of YTO Finance can meet the future demand of the business, the annual transaction cap is estimated to increase by approximately 12% per annum.

(F) Interbank Business Services Agreement

Date	:	29 August 2018
Parties	:	• YTO Finance, a subsidiary of the Company; and • Sinomach Finance, a subsidiary of Sinomach.
Financial services to be provided	:	Mutual provision of financing services between YTO Finance and Sinomach Finance including interbank deposit, lending, credit assets transfer (i.e. Sales or purchases of undue credit assets, such as loan contracts, by transferring its ownership) and interbank trading of bonds.
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	Shall be specified on each separate contract to be agreed by the parties whereas the party with capital inflow from another party shall pay the service fees.
Security	:	YTO Finance may request Sinomach Finance to provide pledge of assets or other guarantees to secure the liabilities of Sinomach Finance arising from its performance under the Interbank Business Services Agreement.

Pricing Standards of the Transactions contemplated under the Interbank Business Services Agreement

The service fees charged by YTO Finance and Sinomach Finance to each other for different financing services will be determined based on the following:

(1) based on the SHIBOR announced by Shanghai Interbank Offered Market in the same type and same period of transaction for interbank lending and interbank bond transactions rate for bond transactions conducted between financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks);

(2) if the above rate is not applicable, with reference to the price for deposits of the same type and same period of funds announced by other financial institution for interbank deposit (including state-owned commercial banks, joint-equity banks and urban commercial banks);

(3) if the above rates are not applicable, with reference to the market price for capital financing in respect of target matter announced by other financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks) in the case of capital financing where financial assets are subject to sale and purchase or pledge; and

(4) if none of the above is applicable, after arm's length negotiation between the counterparties after considering their financial positions and terms, size and quality of the financial assets.

Sinomach Finance undertakes that the applicable price of the capital inflow service offered to YTO Finance, being the party with capital inflow from the other party, by Sinomach Finance shall not be less favourable than those offered to independent third party customers of Sinomach Finance for the same services. On the other hand, YTO Finance undertakes that the applicable price of the capital outflow service offered from YTO Finance to Sinomach Finance, being the party with capital inflow from the other party, shall not be more favourable than those offered to independent third party customers of YTO Finance for the same services.

When adopting the pricing standards for Interbank services, the Company's:

1. finance department, in relation to price determination based on SHIBOR (i.e. pricing standard no.(1)), shall check the rate announced by Shanghai Interbank Offered Market in the same type and same period of transactions;

2. finance department, in relation to price determination based on market rate (i.e. pricing standards no.(2) and (3)), shall check one to two deposit rate(s) of the same type and same period of funds announced by other financial institution for interbank deposit or market price for capital financing in respect of target matter announced by other financial institutions in the case of capital financing where financial assets are subject to sale and purchase or pledge;

3. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no.(4)) while YTO Finance is a service provider, shall formulate a unified fee by considering the fair fee offered by the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of YTO Finance with Sinomach Finance or with a third party. YTO Finance shall also perform quarterly update and review on the fee; and

4. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no.(4)) while YTO Finance is a service recipient, shall obtain one to two signed agreement(s) entered between Sinomach Finance and an independent third party quarterly. Sinomach Finance would formulate a unified fee by considering the fair fee offered to the third party on comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors, which will be adopted uniformly in transactions of Sinomach Finance with YTO Finance or with a third party. YTO Finance shall perform quarterly review on the fee to ensure that the transaction rate under the Interbank Business Services Agreement is fair and reasonable and not higher than the rate of the comparable service offered by the Sinomach Finance to independent third party.

Proposed Annual Cap Amounts for the Transactions under the Interbank Business Services Agreement

In respect of the interbank service agreement dated 25 August 2015, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed maximum outstanding Annual Cap amounts under the Interbank Business Services Agreement for each of the three years ending 31 December 2019, 2020 and 2021 under the Interbank Business Services Agreement:

	Historical maximum outstanding amounts			**Proposed maximum outstanding Annual Cap amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interbank Business Services Agreement	600,000	700,000	700,000	1,000,000	1,000,000	1,000,000

The Company confirms that beside the interbank deposit and lending, no other historical transactions have been conducted under the Interbank Business Services Agreement.

Basis for the Proposed Annual Cap Amounts under the Interbank Business Services Agreement

The proposed Annual Cap amounts for the services provided under the Interbank Business Services Agreement are determined with reference to the following factors:

(1) The historical figures of the maximum outstanding amount of interbank business services conducted in 2016, 2017 and the six months ended 30 June 2018;

(2) The financial resources of YTO Finance can meet the demand of the business and regulatory requirements. The use of funds for interbank business mainly involves interbank lending, bond repurchase, repurchase type transfer discount purchase of bills, etc. The income from this part of business funds shall be higher than that from the daily interbank current deposits. When the available funds are more than the daily reserve funds, YTO Finance will invest the excess funds in higher-yielding interbank businesses; and

(3) YTO Finance has a registered capital of RMB500 million. In accordance with the Measures for Management of Interbank Borrowings* (《同業拆借管理辦法》), the interbank borrowing cap and lending cap of the finance company of enterprise group shall not be more than 100% of the entity's paid-in capital. Therefore, the maximum transaction amount under the business regulation requirement is RMB1 billion, i.e. interbank lending of RMB500 million and interbank borrowing of RMB500 million.

(G) Technology Services Agreement

Date : 29 August 2018

Parties :

- Tractors Research Company, on behalf of Tractors Research Group, as supplier and/or supplying agent; and
- The Company, on behalf of the Group (excluding Tractors Research Group), as purchaser and/or purchasing agent.

Services to be provided : Technology research and development, technology consultation and other technology services and other special services (including inspection services) in connection with the tractors and diesel engines related products.

The parties further agree that the Group may engage other technology research and development centers for the services to be provided under the Technology Services Agreement.

Term : From 1 January 2019 to 31 December 2021.

Payment terms : Shall be specified on each separate contract to be agreed by the parties.

Undertaking : Tractors Research Company undertakes:

(1) to procure Tractors Research Group not to provide the same or similar services under the Technology Services Agreement to other corporate legal persons or institutions which operate business in competition with the Group; and

(2) save and except for the state's research or development project(s) of the PRC government, to procure Tractors Research Group to give priority to the Group's research and development projects over other third parties' projects.

Intellectual Property derived : Unless otherwise agreed by the parties, all the Intellectual Property derived from the technology services provided under the Technology Services Agreement as well as the application rights of and the rights to use such Intellectual Property shall belong to the Group. With the written consent obtained from the Group, Tractors Research Group is entitled to use such Intellectual Property at nil consideration but shall not by any means transfer the rights to use such Intellectual Property to any third parties.

Where it is agreed between the parties that any Intellectual Property derived from the technology services provided under the Technology Services Agreement belongs to Tractors Research Group, the Group shall be entitled to use such Intellectual Property at nil consideration during and after the term of the Technology Services Agreement.

Pricing Standards of the Transactions under the Technology Services Agreement

Under the Technology Services Agreement, the service fees will be determined based on the following:

(1) the transaction price between Tractor Research Group and an independent third party (for technology consultation and other technology services and other special services (including inspection services) in connection with the tractors and diesel engines related products); and

(2) if the above is not applicable, determined after arm's length negotiation between the parties based on costs plus a percentage mark-up (tax inclusive), which is not more than 18% (i.e. price = cost x (1 + percentage mark-up)), after considering the depreciation of research and development equipment, research and development staff costs, testing expenses and other costs incurred in research and development. The 18% mark-up is determined based on (i) the average gross profit margin of listed companies engaged in technology services (this industry classification is according to the "Guidelines for the Industry Classification of Listed Companies* (上市公司行業分類指引)" (Revised in 2017) and the industry classification results of listed companies issued by the China Securities Regulatory Commission) for the three years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) the gross profit margin of the historical transactions of procurement of the same or similar services by the Group from Tractor Research Group.

Tractors Research Company undertakes that the service fees offered to the Group by Tractor Research Group shall not be less favourable than those offered to other independent third parties of Tractor Research Group for the same services.

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

1. finance department, in relation to price determination based on transaction price between Tractor Research Group and an independent third party (i.e. pricing standard no.(1)), shall obtain and make reference to one to two agreement(s) of Tractor Research Group providing the same services to its independent third parties, Meanwhile, the finance department shall request Tractor Research Group to provide cost analysis of services (including cost breakdown and gross profit margin) to ensure that the prices are fair and reasonable and not higher than the price of the same service offered by the Tractor Research Group to independent third party; and

2. finance department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard no.(2)), shall obtain cost analysis of services provided by Tractor Research Group and finalise the final price in accordance with the cost analysis and the percentage mark-up. The finance department shall also perform quarterly update and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Technology Services Agreement

In respect of the technology services agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Technology Services Agreement:

	Historical transaction amounts			**Proposed Annual Cap amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Technology Services Agreement	100,260	109,880	43,970	116,000	125,000	135,000

Basis for the Proposed Annual Cap Amounts under the Technology Services Agreement

The proposed Annual Cap amounts for the services to be provided under the Technology Services Agreement are based on:

(1) the historical transaction amounts (approximately RMB100.26 million, approximately RMB109.88 million and approximately RMB43.97 million in 2016, 2017 and the six months ended 30 June 2018 respectively) and the estimated transaction amount in 2018; and

(2) The Company will accelerate the research and development of engines meeting National IV and National V emission standards; meanwhile, the Company will adopt the "innovation driving" strategy to accommodate the domestic development trend of large and intelligent agricultural machinery and will implement "development of whole series tractors equipped with National IV engine", "development of infinitely variable speed tractors", and other projects. In this regard, the Company will keep an increase of 5%–10% in investment in research and development on a yearly basis to promote technological upgrade and satisfaction of environmental protection requirements for products.

(H) Composite Services Agreement

Date	:	29 August 2018
Parties	:	• 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.
Services to be provided	:	Transportation and transportation ancillary services.
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	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. Transportation ancillary services: shall be billed quarterly and paid in the following month.

These payment terms were usually adopted by YTO in its transactions with independent third parties or the Company. Such terms are on normal commercial terms and not less favourable than those offered to independent third parties by YTO.

Pricing Standards of the Transactions contemplated under the Composite Services Agreement

Under the Composite Services Agreement, the price of the services to be provided thereunder will be determined based on the following:

(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 10% (i.e. price = cost x (1 + percentage mark-up)), whereas the 10% mark-up is determined based on (i) the average gross profit margin of listed companies engaged in stevedoring and handling services and other transportation services (the industry classification is according to the "Guidelines for the Industry Classification of Listed Companies* (上市公司行業分類指引)" (Revised in 2017) and the industry classification results of listed companies issued by the China Securities Regulatory Commission) for the three years ended 31 December 2017 and the six months ended 30 June 2018; and (ii) the gross profit margin of the historical transactions of provision of the same or similar service to the Group by YTO, its controlled companies and their associates.

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.

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

(1) procurement department, in relation to the price determination based on the market price of an independent third party (i.e. pricing standard no.(1)), shall make reference to one to two price quotations of the same or similar services through relevant industry website or market enquiry. Such quotations shall be obtained by procurement department;

(2) finance department, in relation to price determination based on the transaction price between the suppliers and an independent third party (i.e. pricing standard no.(2)), shall make reference to one to two signed agreement(s) entered between the suppliers and an independent third party in relation to the procurement of the same or similar services. The finance department shall obtain the cost analysis of services (including cost breakdown and gross profit margin) from the suppliers to ensure that the transaction price under the Composite Services Agreement is fair and reasonable and not higher than the price of the same or similar service offered by the suppliers to independent third party; and

(3) finance department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard no. (3)), shall obtain cost analysis of services from the suppliers and finalise the price in accordance with the cost analysis and the percentage mark-up. The finance department shall also perform quarterly update and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Composite Services Agreement

In respect of provision of the transportation and transportation ancillary services under the composite services agreement dated 25 August 2015, the following table sets out the historical transaction amounts of the transportation and transportation ancillary services for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Composite Services Agreement:

	Historical transaction amounts			**Proposed Annual Cap amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Composite Services Agreement	147,170	158,920	75,490	185,000	200,000	220,000

Basis for the Proposed Annual Cap Amounts under the Composite Services Agreement

The basis for determining the proposed Annual Cap amounts for the services to be provided under the Composite Services Agreement is as follows:

(1) the historical transaction amount in 2016, 2017 and the six months ended 30 June 2018; and

(2) Given that the Company's Whole-set Business is expected to maintain growth in 2019–2021, and in light of the optimisation of tractor sales structure, increase in the proportion of sales volume of hi-powered tractors, and the growth of sales volume of the casting and forging business, the transportation volume will increase.

Domestic fuel prices and labor costs have been on an upward trend. The increase of transportation costs will lead to increase in the transportation fee to be paid by the Company.

(I) Energy Procurement Agreement

Date : 29 August 2018

Parties :

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

Energy to be provided : Energy to be used in the production of the Group, including but not limited to electricity, natural gas, oxygen, water, compressed air, acetylene, steam and nitrogen.

Term : From 1 January 2019 to 31 December 2021.

Payment terms : Shall be billed and paid monthly or latest in the following month. Subject to negotiation between the parties, prepayments by purchaser of no more than six months are acceptable.

Pricing Standards of the Transaction contemplated under the Energy Procurement Agreement

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

(1) the governmental guidance price (any pricing guidelines or recommended price set by the PRC government or any regulatory authorities);

(2) if there is no governmental guidance price, the market price or the transaction price between the Group and an independent third party;

(3) if none of the above is applicable, the transaction price between YTO and an independent third party; or

(4) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 16% (i.e. price = cost x (1 + percentage mark-up)), whereas the 16% mark-up is determined based on (i) the average gross profit margin of listed companies engaged in electricity, heat, gas and water production (the industry classification is according to the "Guidelines for the Industry Classification of Listed Companies* (上市公司行業分類指引)" (Revised in 2017) and the industry classification results of listed companies issued by the China Securities Regulatory Commission) for the years ended 31 December 2016 and 2017 and the six months ended 30 June 2018; and (ii) the gross profit margin of the historical transactions with the parties to the Energy Procurement Agreement.

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

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

1. finance department, in relation to price determination based on the governmental guidance price (i.e. pricing standard no.(1)), shall check the rate or price published on the relevant government authority;

2. procurement department, in relation to price determination based on market price of independent third party (i.e. pricing standard no. (2)), shall make reference to one to two price(s) of the same or similar goods or services quoted through relevant industry website or market enquiry. Such quotations shall be obtained by procurement department;

3. finance department in relation to price determination based on transaction price between the suppliers and an independent third party (i.e. pricing standard no.(3)), shall make reference to one to two signed agreement(s) entered between the suppliers and an independent third party in relation to the procurement of the same or similar goods. The finance department shall obtain the cost analysis of goods (including cost breakdown and gross profit margin) from the suppliers to ensure that the transaction price under the Energy Procurement Agreement is fair and reasonable and not higher than the price of the same or similar goods offered by the supplier to independent third party; and

4. finance department, in relation to price determination based on costs plus a percentage mark-up (i.e. pricing standard no. (4)), shall obtain cost analysis of services from the suppliers and finalise the price in accordance with the cost analysis and the percentage mark-up. The finance department shall also perform quarterly update and review on the average gross profit margin of listed companies engaged in the related industry and the gross profit margin of the historical transactions.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Energy Procurement Agreement

In respect of the energy procurement agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017 and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Energy Procurement Agreement:

	Historical transaction amounts			**Proposed Annual Cap amounts**		
	For the year ended 31 December		**For the six months ended 30 June**	**For the year ending 31 December**		
	2016	**2017**	**2018**	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Energy Procurement Agreement	169,930	154,480	93,920	205,000	220,000	235,000

Basis for the Proposed Annual Cap Amounts under the Energy Procurement Agreement

The proposed Annual Cap amounts for the energies to be provided under the Energy Procurement Agreement are determined with reference to:

(1) The historical transaction amounts of the energy procurement fee;

(2) In light of the tightening environmental regulation, the Company implemented environmental production upgrading and green technology transformation for the casting business, bringing its production lines in compliance with the environmental protection requirements. Thanks to these efforts, the casting business has been showing a growth trend since the second half of 2017. The Company expects that the growth will continue in 2019–2021 but at a slower pace;

(3) As the natural gas price has continued to rise, the related transaction amount will also increase.

OTHER CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS

(J) Properties Lease Agreement

Date	:	29 August 2018
Parties	:	• YTO, on behalf of YTO, its controlled companies and other associates, as lessor; and • The Company, on behalf of the Group, as lessee.
Properties to be leased	:	The properties located in No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with an aggregate gross floor area of approximately 117,000 sq.m., inclusive of the electric and water facilities and industrial rooms and the properties under the preemptive rights as mentioned below.
Term	:	From 1 January 2019 to 31 December 2021.

Pre-emptive rights	:	The Group has the pre-emptive rights to lease from YTO, its controlled companies or entities and their associates, including but not limited to, additional properties with gross floor area of no more than 6,500 sq.m. at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC, in accordance with the terms and conditions of the Properties Lease Agreement.
Payment terms	:	The Group shall pay the annual rent in cash by the end of each financial year which is from 1 January to 31 December.

Pricing Standards of the Transaction under the Properties Lease Agreement

Under the Properties Lease Agreement, the annual rent will be determined based on the following:

(1) the transaction price between the lessor and an independent third party; and

(2) if the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar properties.

YTO undertakes that the rent offered to the Group by YTO, its controlled companies or entities and their associates shall not be less favourable than that offered to independent third party customers of YTO, its controlled companies or entities and their associates for the same property.

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

1. finance department, in relation to price determination based on transaction price between the lessor and an independent third party (i.e. pricing standard no. (1)), shall obtain one to two agreement(s) of the lessor to its independent third parties, to ensure that the price of the same properties offered by the lessor to the Company shall not be higher than that offered to independent third parties; and

2. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no. (2)), shall formulate the rental after considering one or two fair rate(s) offered by the third parties on similar properties in similar locations and areas.

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

In respect of the properties lease agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Properties Lease Agreement:

	Historical transaction amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
	2016	2017	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Properties Lease Agreement	7,800	9,330	3,860	9,500	9,500	9,500

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

The Annual Cap amounts for the Properties Lease Agreement are based on:

(1) The amount incurred in 2018 and the gross floor area of approximately 117,000 square meters currently leased by the Company from YTO, the companies or entities controlled by it and their associates; and

(2) In light of the Company's possible future business expansion, YTO will offer priority to the Company and its subsidiaries for lease of approximately 6,500 square meters. The Company will determine whether to increase the lease area based on the business development needs and the area available for lease provided by YTO.

(K) Land Lease Agreement

Date : 29 August 2018

Parties :

- YTO, on behalf of YTO, its controlled companies and other associates, as lessor; and
- The Company, on behalf of the Group, as lessee.

Land use rights to be leased	:	The land use rights of the land located at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC, with an aggregate gross land area of approximately 415,000 sq.m. and the land use rights under the pre-emptive rights as mentioned below.
Term	:	From 1 January 2019 to 31 December 2021.
Pre-emptive rights	:	The Group has the pre-emptive rights to lease from YTO, its controlled companies or other associates additional land use rights with a gross land area of no more than 16,000 sq.m. located at No. 154 Jianshe Road, Luoyang City, Henan Province, the PRC from YTO, its controlled companies or other associates in accordance with the terms and conditions of the Land Lease Agreement.
Payment terms		The Group shall pay the annual rent in cash for the year by the end of each year.

Pricing Standards of the Transactions under the Land Lease Agreement

Under the Land Lease Agreement, the annual rent will be determined based on the following:

(1) the transaction price between the lessor and an independent third party; and

(2) if the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar land use rights.

YTO undertakes that the rent offered to the Group by YTO, its controlled companies or other associates shall not be less favourable than that offered to independent third party lessee of YTO, its controlled companies or other associates.

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

1. finance department, in relation to price determination based on transaction price between the lessor and an independent third party (i.e. pricing standard no.(1)), shall obtain one to two agreement(s) of the lessor to its independent third parties, to ensure that the price of the same land offered by the lessor to the Company shall not be higher than that offered to independent third parties; and

2. finance department, in relation to price determined after arm's length negotiation (i.e. pricing standard no.(2)), shall formulate the rental after considering one or two fair rate(s) offered by the third party(ies) on similar land in similar locations and areas.

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

In respect of the land lease agreement dated 25 August 2015, the following table sets out the historical transaction amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Land Lease Agreement:

	Historical transaction amounts			Proposed Annual Cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
	2016	2017	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Land Lease Agreement	12,630	12,670	5,870	13,500	13,500	13,500

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

The Proposed Annual Cap amounts for the Land Lease Agreement are based on:

(1) The amount incurred in 2018 and the gross floor area of approximately 415,000 square meters currently leased by the Company from YTO, the companies or entities controlled by it and their associates; and

(2) In light of the Company's possible future business expansion, YTO will offer priority to the Company and its subsidiaries for lease of approximately 16,000 square meters. The Company will determine whether to increase the lease area based on the business development needs and the area available for lease provided by YTO.

FULLY EXEMPTED CONTINUING CONNECTED TRANSACTION

(L) Deposit Service Agreement

Date	:	29 August 2018
Parties	:	• YTO Finance, a subsidiary of the Company; and • YTO, on behalf of YTO Extended Group.
Financial services to be provided	:	Provision of depository services by YTO Finance to YTO Extended Group.
Term	:	From 1 January 2019 to 31 December 2021.
Payment terms	:	Shall be specified on each contract to be agreed by the parties.
Undertaking	:	YTO undertakes: (1) to procure YTO Extended Group to give priority in depositing their fund with YTO Finance; and (2) that the deposit maintained by YTO Extended Group with YTO Finance should be greater than the loan balance at all time. If YTO Extended Group breaches such undertaking, YTO Finance has the right to restrict payment to any third parties by YTO Extended Group from its deposit maintained with YTO Finance, or request YTO Extended Group to increase its deposit balance with YTO Finance.
Right to offset	:	YTO irrevocably grants, and procures YTO Extended Group to irrevocably grant, to YTO Finance a right to offset all liabilities arising from the performance of the Loan Service Agreement and/or the Bills Acceptance Service Agreement by YTO Extended Group from the relevant deposit accounts of that defaulting member entity under YTO Extended Group.

Pricing Standards of the Transactions contemplated under the Deposit Service Agreement

Under the Deposit Service Agreement, the interest rates for all amount deposited by YTO Extended Group will be subject to the requirements of the CBIRC or PBOC.

When adopting the above pricing standards, the Company's finance department shall check the rate published on the PBOC's website and CBIRC's website for the same type and same period of deposit.

Historical Figures and the Proposed Annual Cap Amounts for the Transactions under the Deposit Service Agreement

In respect of the deposit service agreement dated 25 August 2015 entered into between YTO Finance and YTO Extended Group, the following table sets out the historical maximum outstanding amounts for the years ended 31 December 2016 and 2017, and for the six months ended 30 June 2018. The table also sets out the proposed maximum outstanding Annual Cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Deposit Service Agreement:

	Historical maximum outstanding amounts			Proposed maximum outstanding Annual Cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ending 31 December		
	2016	2017	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deposit Service Agreement	1,251,060	1,441,630	1,106,610	2,300,000	2,800,000	2,800,000

Basis for the Proposed Annual Cap Amounts under the Deposit Service Agreement

The proposed Annual Cap amounts for the deposit services provided under the Deposit Service Agreement are determined with reference to the following factors:

(1) the historical maximum outstanding amounts; and

(2) YTO is preparing for the issuance of financing products. The issuance, upon successful realisation, is expected to increase the amount of deposits with YTO Finance.

CONDITION PRECEDENT

Except for the Deposit Service Agreement, all the New Agreements shall be subject to the Independent Shareholders' approval at the EGM.

MEASURE OF INTERNAL CONTROL

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

(1) the Board, the audit committee of the Board and the independent non-executive Directors have approved the New Agreements and the Deposit Service Agreement 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 continuing connected transaction 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 the composite services (including transportation and transportation ancillary services), energy procurement and technology services and the leasing agreement for properties and land use rights 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 production capacities or service abilities of the counterparties and the quality of the products or the services (if applicable), 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;

(5) 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;

(6) Loan related services are provided prudently on the basis of unified credit extension to member units at the beginning of the year. Loan services: After a borrower submits loan application, the credit business department of YTO Finance shall collect the customer's information in a timely manner and conduct a loan investigation to proposes a preliminary evaluation on the type, amount, duration and interest rate of the loan, and put forward the same for deliberation of the loan review committee to make sure the interest rate and terms of the loans under the Loan Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties. If such loan business is without objections and meet the terms of loan, it shall be registered on a loan business approval form and be submitted to manager and vice president of the credit department, manager and vice president of the risk control department, general manager, and chairman (according to the corresponding authorization quota) for approval.

Bills discounting services: When applying for bills discounting business, the applicant shall submit such paper commercial bill that has not expired and is completed as required (for electronic commercial bills, the applicant shall apply through the corresponding online system); after verification, YTO Finance shall calculate the discounting interests and amount payable, and then fill in an approval form, make the discounting contract and voucher, and ultimately submit them to manager of the business department, manager of the risk control department, vice president of the business department and general manager for approval to make sure the interest rate and terms of the bills discounting services under the Bills Discounting Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties.

Bills acceptance services: When applying for bills acceptance services to YTO Finance, the applicant shall complete an acceptance confirmation letter. After depositing the full margin into the account in YTO Finance according to credit requirements, such application will be approved subject to the signing of the Company's management to make sure the interest rate and terms of the bills acceptance services under the Bills Acceptance Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties.

(7) Interbank business Services: According to the company's fund management plan and needs, inter-bank business traders of YTO Finance shall make inquiries about the trading methods, direction, amount, term, interest rate and other trading elements with commercial banks or other financial institutions in the financial interbank market, collect and collate relevant data and fill out the Deliberation Opinion Form of the Assets and Liabilities Management Committee, and ultimately submit such Deliberation Opinion Form to YTO Finance's Assets and Liabilities Management Committee. After consideration and approval, contractual elements such as the transaction method, direction, amount, term, interest rate, payment and default liability are to be agreed with the counterparty, pursuant to which, a completed Financial Inter-bank Business Approval Form, together with the customer's information and business information, shall be submitted to manager and vice president of the business department, manager and vice president of the risk control department, the risk control department leader, and general manager for approval to make sure the interest rate and terms of the financial services under the Interbank Business Services Agreement are fair and reasonable and on normal commercial terms; and

(8) all client for deposit service should first open an account by submitting an opening form. The opening form is then approved by the officer, department manager, the risk control department, vice president and general manager of YTO Finance to assess the qualification of the client. The client can make deposit after the account is opened successfully. The interest rates for the deposit services provided by YTO Finance to its clients (including connect persons and other member units) are determined by the internal control committee of YTO Finance in accordance with the requirements of PBOC. The officer, department manager, the risk control department, vice president and general manager of YTO Finance shall make sure the interest rate and terms of the deposits under the Deposit Service Agreement are fair and reasonable and on normal commercial terms or no more favourable than those offered to the third parties.

(9) The finance department of the Company shall gather all the supporting information (such as prescribed rate published by related authorities, market rate in the industry or other comparable transaction records) and generate a comparison report for each of the financial service entered under the Loan Service Agreement, Bill Discounting Service Agreement, Bills Acceptance Service Agreement, Interbank Business Service Agreement or Deposit Service Agreement. Such comparison report shall be submitted to the manager of the risk control department and general manager of YTO Finance for verification and approval to ensure all the financial services are in compliance with the price standards set out in the relevant financial service agreement and ensure the financial services are conducted in normal commercial terms.

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

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE NEW AGREEMENTS

The Group and YTO Extended 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 Extended Group, the geographical convenience between the Group and YTO Extended 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 New Agreements can effectively lower the operation risk of both the Group and YTO Extended Group, and is favourable to the Company's daily operation and management of production. The entering into of the New Agreements is to renew the Old Agreements. Furthermore, in considering the reasons and benefits for entering into the financial services agreements (including the Loan Service Agreement, Bills Discounting Service Agreement, Bills Acceptance Service Agreement, Deposit Service Agreement and the Interbank Business Services Agreement) between YTO Finance and YTO, the Directors have also considered the following key factors:

(1) there are continuing connected transactions related to production between YTO Extended Group and the Group, including the mutual supply of certain materials and provision of various services, hence settlement services are needed when payment is due. YTO Finance is the key platform for business settlement between the Group and YTO Extended Group. The settlement services offered by YTO Finance provide timely settlement in internal capital, and hence foster the settlement efficiency, accelerate the Company's cash flow, and increase the liquidity of the Company. Comparing with external financial institutions, the settlement services offered by YTO Finance under the financial services agreements can save time of settlement of at least one day. Thus there is a significant advantage of YTO Finance in business efficiency over other commercial banks;

(2) due to the long-term business relationship between YTO Extended Group and YTO Finance, there are lower risks in transactions with strict compliance with the loan credit rating requirements according to a credit rating policy approved by the internal control committee (the credit rating is determined based on the customer's solvency, profitability, compliance and future prospects and other indicators with reference to the international industry practice) and loan approval procedures (a pre-lending investigation report with information including client's credit rating status, credit limit and conditions of usage prepared by the officer from credit department will be approved by manager of the credit department and the loan review committee) in all transactions as YTO Finance fully understands the credibility and financial position of YTO Extended Group; and

(3) due to an increase in financial resources of YTO Finance and the seasonal characteristics in sales of agricultural machinery products, YTO Finance will have excess capital reserves in certain period. And in recent year, YTO Extended Group has a sound operation and good progresses in its business development including industrial equipment, tobacco machineries, special vehicle manufacturing, etc. Providing financial services to YTO Extended Group could effectively increase the Company's capital efficiency, enhance liquidity and will benefit the Group.

The Group's production and sales of agricultural machinery products has significant seasonal characteristics, which imposes pressure to the liquidity of YTO Finance in certain period. In order to ensure sufficient funds required for the production operation of the Group, YTO Finance is currently using interbank deposit under the Interbank Business Services Agreement to secure the short term liquidity and treasury needs to meet its working capital requirement. Meanwhile, in the case of excess reserves, interbank business services can improve capital efficiency and profitability of YTO Finance. The main purpose of entering into the Interbank Business Services Agreement is to further expand the choices in selecting counterparties of YTO Finance and to improve its bargaining power.

Accordingly, the Directors (including the independent non-executive Directors) are of the view that (i) the continuing connected transactions contemplated under the New Agreements will be carried out in the ordinary and usual course of business of the Group and in the interest of the Company and its Shareholders as a whole; (ii) the terms of the New Agreements are on normal commercial terms or on terms not less favorable than those of similar transactions with independent third parties and are fair and reasonable; and (iii) the proposed Annual Cap amounts of the transactions contemplated under the New Agreements for the three years ending 31 December 2019, 2020 and 2021 are fair and reasonable.

INFORMATION OF THE GROUP, YTO, YTO GROUP, SINOMACH, SINOMACH FINANCE, YTO FINANCE AND TRACTORS RESEARCH COMPANY

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

YTO is the immediate controlling Shareholder of the Company, holding 410,690,578 A Shares of the Company, and is principally engaged in the production of specific transporting machineries, vehicles products and components, etc.

YTO Group is principally engaged in the production of transporting machineries, vehicles products, industrial equipments and components.

Sinomach is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy 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.

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 loan, handling bills acceptance and discounting, and other financial services that may be approved by the CBIRC, to members of the Sinomach group.

YTO Finance, a subsidiary of the Company, is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of YTO Group. It has a registered capital of RMB500 million.

Tractors Research Company is a company incorporated with limited liability in the PRC. Its principal activities include research and development as well as examination and testing of products such as tractors, engines, construction machineries and agricultural transporters; research and development of equipment as well as technology development, transfer, consultancy services and sales.

LISTING RULES IMPLICATIONS

Connected Persons

As at the Latest Practicable Date, YTO beneficially owned approximately 41.66% of the issued share capital of the Company and is the controlling shareholder of the Company. As Sinomach holds approximately 87.9% of the shareholding interest in YTO, Sinomach is a controlling shareholder of YTO. Therefore, Sinomach and its subsidiaries are deemed as connected persons of the Company according to the Hong Kong Listing Rules.

Tractors Research Company, which is owned as to 51% by the Company and 49% by YTO, is not only a non-wholly-owned subsidiary of the Company, but also an associate of YTO. Thus, Tractors Research Company is a connected person of the Company under the Hong Kong Listing Rules.

YTO Finance is a non-wholly-owned subsidiary of the Company, which is owned as to approximately 99.4% by the Company, including its controlled subsidiaries, and approximately 0.6% by YTO.

Accordingly, the transactions contemplated under the New Agreements entered into between the Company and YTO, YTO Finance and YTO, YTO Finance and Sinomach Finance, and the Company and Tractors Research Company, constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

Hong Kong Listing Rules Implications

(1) Non-exempt CCT Agreements

As the applicable percentage ratios under each of the Non-exempt CCT Agreements, on an annual basis, are more than 5%, the Non-exempt CCT Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. In addition, the Company is required to comply with the annual review requirements under the Hong Kong Listing Rules in respect of each of the Non-exempt CCT Transactions.

(2) Other CCT Agreements

As the applicable percentage ratios under each of the Other CCT Agreements, on an annual basis, are more than 0.1% but less than 5%, the transactions contemplated under the Other CCT Agreements are subject to the reporting, annual review and announcement requirements and exempt from Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

(3) Fully-exempt CCT Agreement

The deposit services to be provided under the Deposit Service Agreement constitute financial assistance provided by YTO Group, for the benefit of YTO Finance on normal commercial terms where no security over the assets of the Group is granted in respect of such financial assistance. The transactions contemplated under the Deposit Service Agreement are exempted from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules. Announcement on the Deposit Service Agreement is made voluntarily by the Company.

Shanghai Listing Rules Implications

As the A Shares of the Company are listed on the Shanghai Stock Exchange, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the Shanghai Listing Rules, the Annual Cap amounts of all the New Agreements should be aggregated and are subject to the Independent Shareholders' approval at the EGM.

The Company has performed the corresponding procedures for the waiver from the Independent Shareholders' approval requirement on the Deposit Service Agreement according to relevant provisions of the Guidelines for the Implementation of Related Party Transactions of Listed Companies (《上市公司關聯交易實施指引》) and the Guidelines for the Listed Companies' Postponement and Exemption of Information Disclosure (《上市公司信息披露暫緩與豁免業務指引》) of the Shanghai Stock Exchange, and the Shanghai Stock Exchange has granted the abovementioned waiver.

RECOMMENDATIONS

The Director consider that the terms of the New Agreements, the transactions contemplated thereunder and their respective Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions nos. 1 to 12 with respect to the Non-exempt CCT Agreements and the Other CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps to be proposed at the EGM.

According to the Hong Kong Listing Rules, an Independent Board Committee has been established to consider and advise the Independent Shareholders in respect of the Non-exempt CCT Agreements. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Non-exempt CCT Agreements and the Non-exempt CCT Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, having considered the terms of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Caps, and taken into account the advice of Gram Capital, is of the opinion that the Non-exempt CCT Agreements are entered in the ordinary and usual course of business of the Company, the terms of the Non-exempt CCT Agreements are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and the Annual Caps are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM as set out in the notice of the EGM.

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 45 to 46 of this circular which contains its recommendation to the Independent Shareholders in relation to the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Caps. Your attention is also drawn to the letter of advice from Gram Capital which is set out on pages 47 to 89 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Caps. You are advised to read the said letters from the Independent Board Committee and Gram Capital before deciding how to vote at the EGM.

EGM

A notice convening the EGM to be held at 3:00 p.m. on 29 October 2018, Monday at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC was despatched on 12 September 2018. The EGM will be held for the Shareholders to consider, among other things, and, if thought fit, approve the Non-exempt CCT Agreements and the Other CCT Agreements, the transactions contemplated thereunder and their respective Annual Caps amounts (ordinary resolutions nos. 1 to 12), re-election of Directors and supervisors of the Company (the "Supervisors") (ordinary resolutions nos. 13 to 27) and Directors' and Supervisors' remunerations (ordinary resolution no. 28). Voting on the aforesaid resolutions will be taken by poll in accordance with the requirements of the Hong Kong Listing Rules. Details of the re-election of Directors and Supervisors, and Directors' and Supervisors' remunerations are set out in the circular of the Company dated 12 October 2018.

The notice of the EGM is set out on pages 94 to 99 of this circular.

Mr. Zhao Yanshui, Mr. Wang Erlong, Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Yin Dongfang, being the then Directors, who have connected relationships with YTO, have abstained from voting on the relevant board resolutions approving the matters above.

In view of the interests of YTO and its associates in the transactions contemplated under each of the New Agreements, YTO and its associates, which in aggregate held 410,690,578 A Shares, representing approximately 41.66% of the equity interest in the Company as at Latest Practicable Date, will abstain from voting on the resolutions in relation to each of the Non-exempt CCT Agreements and the Other CCT Agreements, the transactions contemplated thereunder and their respective proposed Annual Caps at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, other than YTO and its associates, no shareholder has a material interest in the Non-exempt CCT Agreements and the Other CCT Agreements, and the transactions contemplated thereunder and will be required to abstain from voting at the EGM on the resolutions in respect of the same.

A form of proxy for use at the EGM was despatched and also published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.irasia.com/listco/hk/firsttractor) on 12 September 2018. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon. The form of proxy shall be lodged with the Company's branch share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC as soon as possible and in any event not less than 24 hours before the time scheduled for holding of the EGM (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting if you so desire.

Pursuant to the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. An announcement of the poll results of the EGM will be published by the Company in accordance with the requirements under the Listing Rules.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the appendix to this circular and the notice of the EGM.

Yours faithfully,
On behalf of the Board
First Tractor Company Limited*
Zhao Yanshui
Chairman

* *For identification purposes only*

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts.

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)

12 October 2018

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (the "**Circular**") dated 12 October 2018 issued by First Tractor Company Limited* (the "**Company**") to the Shareholders, of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to consider the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts, and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts are fair and reasonable, on normal commercial terms, 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. Gram Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in respect of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts.

We wish to draw your attention to (i) the "Letter from the Board"; (ii) the "Letter from Gram Capital" to the Independent Board Committee and the Independent Shareholders which contains its advice in respect of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective Annual Cap amounts; and (iii) the additional information as set out in the appendix to the Circular.

Having considered the terms and conditions of each of the Non-exempt CCT Agreements, the Non-exempt CCT Transactions and their respective proposed Annual Cap amounts, and having taken into account the opinion of Gram Capital and, in particular, the factors, reasons and recommendations as set out in the "Letter from Gram Capital" on pages 47 to 89 of the Circular, we are of the opinion that the Non-exempt CCT Agreements are entered in the ordinary and usual course of business of the Company, the terms of the Non-exempt CCT Agreements are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and the Annual Caps are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions concerning the same to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee

Ms. Yang Minli **Mr. Xing Min** **Mr. Wu Tak Lung** **Mr. Yu Zengbiao**
Independent non-executive Directors

* *For identification purposes only*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Transactions for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

12 October 2018

To: The independent board committee and the independent shareholder of First Tractor Company Limited

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Transactions, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 12 October 2018 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 29 August 2018, the Company (on behalf of the Group) and/or its subsidiary, YTO Finance entered into the New Agreements (including the Non-exempt CCT Agreements and the Other CCT Agreements) with YTO and/or YTO (on behalf of YTO Group and/or Sinomach and/or the subsidiaries of Sinomach and/or associates of YTO and/or YTO Extended Group) and/or its controlled subsidiary, Tractors Research Company (on behalf of Tractors Research Group) and/or Sinomach Finance (the "**Other Parties**") for a term of three years commencing from 1 January 2019, in respect of the transactions of certain materials, the provision of certain production-related services, energy procurement, research and development and consultation on technology and technology services, financial services and interbank business services, and the leasing of lands and properties.

With reference to the Board Letter, the Non-exempt CCT Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Ms. Yang Minli, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Non-exempt CCT Transactions (including the proposed annual caps thereunder) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt CCT Transactions are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Non-exempt CCT Transactions (including the proposed annual caps thereunder) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Non-exempt CCT Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, YTO Group, YTO Extended Group, Sinomach, Sinomach Finance, YTO Finance and Tractors Research Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt CCT Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt CCT Transactions, we have taken into consideration the following principal factors and reasons:

Information on the Group

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

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2017 and the six months ended 30 June 2018 as extracted from the annual report of the Company for the two years ended 31 December 2017 (the "**2017 Annual Report**") and the Company's interim report for the six months ended 30 June 2018 (the "**2018 Interim Report**") respectively:

	For the six months ended 30 June 2018 *(unaudited)* *RMB'000*	**For the year ended 31 December 2017** *(audited)* *RMB'000*	**For the year ended 31 December 2016** *(audited)* *RMB'000*	**Change from 2016 to 2017** *%*
Total operating revenue	3,581,390	7,357,944	8,871,153	(17.06)
Operating profit/(loss)	(121,211)	8,521	233,557	(96.35)
Net profit/(loss)	(114,752)	37,711	225,885	(83.31)

As illustrated in the above table, the Group's revenue from operations amounted to approximately RMB7.36 billion for the year ended 31 December 2017 ("**FY2017**"), representing a decrease of approximately 17.06% as compared to that for the year ended 31 December 2016 ("**FY2016**"). In FY2017, the Group also recorded substantial decreases in operating profit and net profit as compared to FY2016. With reference to the 2017 Annual Report, the decrease in revenue was mainly due to a substantial decline in the sales volume of its leading products. In addition, the prices of raw materials such as steel and natural rubber rose significantly, leading to an increase in product costs and decrease in profitability.

With reference to the 2017 Annual Report, the Company will seize the opportunities from upgrading industry demand and convert its recent investments in enhancement of technology and improvement of manufacturing capacity to competitive advantages in the market. The Company will accelerate its structural adjustment to meet the increasing domestic demand by providing cost-effective products and increase its international market share through expansion in key countries and regions alongside the "Belt and Road Initiative". Besides, the Company will adhere to the policy of transformation and upgrading to overcome homogeneous competition. Accordingly, the Company will increase investments in the research and development of intelligent control system, including automatic drive control of agricultural machineries, intelligent control, operation monitoring technology and precision operation devices, to develop high-end agricultural machinery equipment and speed up the research and development and industrialization of intelligent systems.

Information on YTO Group, Sinomach, Sinomach Finance, YTO Finance and Tractors Research Company (the "Connected Parties")

With reference to the Board Letter, YTO is the immediate controlling Shareholder of the Company and YTO Group is principally engaged in the production of specific transporting machineries, vehicles products and components, etc.

Sinomach is a controlling shareholder of YTO and is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy 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.

Sinomach Finance is a non-wholly-owned subsidiary of Sinomach and 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 loan, handling bills acceptance and discounting, and other financial services that may be approved by CBIRC, to members of the Sinomach group.

YTO Finance, a subsidiary of the Company, is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of YTO Group. It has a registered capital of RMB500 million.

Tractors Research Company is a non-wholly-owned subsidiary of the Company and an associate of YTO. Its principal activities include research and development as well as examination and testing of products such as tractors, engines, construction machineries and agricultural transporters; research and development of equipment as well as technology development, transfer, consultancy services and sales.

Reasons for and benefit of the continuing connected transactions contemplated under the New Agreements

With reference to the Board Letter, the Group and YTO Extended 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 Extended Group, the geographical convenience between the Group and YTO Extended 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 New Agreements can effectively lower the operation risk of both the Group and YTO Extended Group, and is favourable to the Company's daily operation and management of production.

The entering into of the New Agreements is to renew the Old Agreements. Furthermore, in considering the reasons and benefits for entering into the financial services agreements (including the Loan Service Agreement, Bills Discounting Service Agreement, Bills Acceptance Service Agreement, Deposit Service Agreement and the Interbank Business Services Agreement) between YTO Finance and YTO, the Directors have also considered the following key factors:

(1) there are continuing connected transactions related to production between YTO Extended Group and the Group, including the mutual supply of certain materials and provision of various services, hence settlement services are needed when payment is due. YTO Finance is the key platform for business settlement between the Group and YTO Extended Group. The settlement services offered by YTO Finance provide timely settlement in internal capital, and hence foster the settlement efficiency, accelerate the Company's cash flow, and increase the liquidity of the Company. Comparing with external financial institutions, the settlement services offered by YTO Finance under the financial services agreements can save time of settlement of at least one day. Thus there is a significant advantage of YTO Finance in business efficiency over other commercial bank;

(2) due to the long-term business relationship between YTO Extended Group and YTO Finance, there are lower risks in transactions with strict compliance with the loan credit rating requirements according to a credit rating policy approved by the internal control committee and loan approval procedures in all transactions as YTO Finance fully understands the credibility and financial position of YTO Extended Group;

(3) due to an increase in financial resources of YTO Finance and the seasonal characteristics in sales of agricultural machinery products, YTO Finance will have excess capital reserves in certain period. In addition, in recent year, YTO Extended Group has a sound operation and good progresses in its business development including industrial equipment, tobacco machineries, special vehicle manufacturing, etc. Providing financial services to YTO Extended Group could effectively increase the Company's capital efficiency, enhance liquidity and will benefit the Group; and

(4) the Group's production and sales of agricultural machinery products has significant seasonal characteristics, which imposes pressure to the liquidity of YTO Finance in certain period. In order to ensure sufficient funds required for the production operation of the Group, YTO Finance is currently using interbank deposit under the Interbank Business Services Agreement to secure the short-term liquidity and treasury needs to meet its working capital requirement. Meanwhile, in the case of excess reserves, interbank business services can improve capital efficiency and profitability of YTO Finance. The main purpose of entering into the Interbank Business Service Agreement is to further expand the choices in selecting counterparties of YTO Finance and to improve its bargaining power.

As advised by the Directors, there is difference between production peak seasons and sales/payment peak seasons. Given that the Group requires more fund during the production peak seasons, the Group may have liquidity pressure during the production peak seasons. During the payment peak seasons, the Group may have excess reserves. The interbank business services include interbank deposit and lending, which can deal with the Group's short-term liquidity problem and improve the return of the Group's excess reserves.

Based on YTO's website (www.ytocorp.com), YTO has evolved into a leading agricultural and construction machinery manufacturer in the PRC since 1955 and serves clients around the world. YTO has various product lines consist of special vehicles, agricultural machineries, construction machineries, diesel engine & OEM Parts, etc.. YTO are committed to consistently providing customers with high quality products in accordance with both Chinese and international standards. Luoyang YTO Logistics Co., Limited, a subsidiary of YTO Group provided multiple channels of logistics services including automobiles and railway, warehouses for distribution and equipment for lifting services.

Having considered the above reasons and benefits of the continuing connected transactions and the background of YTO, we are of the view that entering into the Non-exempt CCT Agreements are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Measures of internal control

With reference to the Board Letter, the Group adopts a series of internal control policies (the "**Internal Control Policies**") on its daily operation to ensure the Group's conformity with the pricing policies of the New Agreements from time to time. The Internal Control Policies are conducted and supervised by the finance department, office of the Board, the independent non-executive Directors and audit department of the Company and the relevant committee of YTO Finance. Details of the Internal Control Policies are set out under the section headed "MEASURE OF INTERNAL CONTROL" of the Board Letter.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. The Directors are of the view that the above internal control measures can ensure that the transactions under the New Agreements will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders.

A. The Material Procurement Agreement

1. Principal terms

Date

29 August 2018

Parties

(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, purchaser and/or purchasing agent.

Goods to be provided

Goods required for the production and operation of the Group (including but not limited to raw materials (including steel, pig iron, waste steel, coke, nonferrous metals and oil), other industrial equipment (including machine tools), components (including clamping apparatus and moulds) and spare parts (including oil injection pumps).

Term

From 1 January 2019 to 31 December 2021

Payment terms

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.

2. Pricing Policy

Under the Material Procurement Agreement, the price of the goods to be provided will be determined based on the following:

(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)).

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.

We reviewed the previous individual executed contracts/agreements entered into between (a) the Group and members of the Connected Parties; and (b) the Group and independent third parties (in particular, the pricing and cost breakdown (if applicable)). We noted that the reviewed individual contracts/agreements entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policies (1) and (3) above and nothing has come to our attention that causes us to believe that such individual contracts/agreements did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

With reference to the 2017 Annual Report and as confirmed by the Directors, the independent non-executive Directors have reviewed, among other things, the continuing connected transactions for the year ended 31 December 2017 and in their opinion, the continuing connected transactions were entered into by the Company: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole (the "**INED Confirmation**").

The Company's auditors were also engaged to report on the Group's continuing connected transactions in accordance with "Hong Kong Standard on Assurance Engagements 3000" "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the auditors of the Company confirmed to the Board that, among other things, that the continuing connected transactions for the year ended 31 December 2017 (i) had obtained the approval of the Board; (ii) were conducted in accordance with the pricing policy of the Group and the terms of the relevant agreements; and (iii) did not exceed the cap amounts as disclosed in the relevant announcements (and if applicable, as approved by the independent shareholders of the Company) at any time during the year ended 31 December 2017 (the "**Auditor Confirmation**").

In light of the above, we are of the view that the terms of the Material Procurement Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed annual caps

Set out below are the details of (i) the amounts for historical transactions in respect of the Material Procurement Agreement (the "**Material Procurement Transactions**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (together with previous annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2021 in respect of the Material Procurement Transactions as extracted from the Board Letter:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the six months ended 30 June 2018**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amount	498,770	724,520	381,620
Previous annual caps	500,000	1,498,000	1,648,000 *(Note)*

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	860,000	950,000	1,040,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Material Procurement Agreement is set out under the Board Letter.

We note that the original annual caps for the Material Procurement Transactions were RMB500,000,000 for each of the three years ending 31 December 2018. As the Company expected that the original annual caps would not be sufficient for the two years ending 31 December 2018, the Company proposed to revise the original annual caps in February 2017 and relevant resolution was passed in June 2017.

We notice that although there was substantial growth in the amount of Material Procurement Transactions from 2016 to 2017, the utilisation rate of the previous annual cap for the year ended 31 December 2017 was low. Therefore, we consider that it is reasonable for the Company to set a substantially lower annual cap for the year ending 31 December 2019 as compared to the annual cap for the year ending 31 December 2018.

As advised by the Directors, the estimated transaction amount of the Material Procurement Transactions is approximately RMB763 million for the year ending 31 December 2018 (based on the historical amount for the six months ended 30 June 2018). The annual cap for the year ending 31 December 2019 was RMB860 million which is approximately 13% higher than the aforesaid estimated transaction amount of the Material Procurement Transactions. We consider that the annual cap for the year ending 31 December 2019 is reasonably set to cater for possible growth in transaction amount and to provide buffer.

In respect of the annual caps for the two years ending 31 December 2021, a growth rate of around 10% is imputed for each year.

We consider the aforesaid growth rates to be justifiable given the factors below:

(i) With reference to the Board Letter, increase in price indices for the major grain crops may lead to rise in demand for harvest machinery. We noted a growing trend of the price index for grain crops (i.e. First quarter of 2017: 94.3, First Quarter of 2018: 104.7) from the statistics published by the National Bureau of Statistics of China.

(ii) With reference to the 2017 Annual Report and as advised by the Directors, the Company has been developing its Whole-set Business for agricultural equipment and innovative business models to provide customers with valuable whole-set solutions for agricultural equipment. Under the Whole-set Business, the Group procures harvest machinery and agricultural equipment from YTO Group to provide customers with whole-set solutions to meet their needs for full-process mechanisation in operation. During the eight months ended 31 August 2018, the Group's purchase of harvest machinery and agricultural equipment from YTO Group amounted to approximately RMB245 million, representing an increase of approximately 18%.

(iii) On 29 December 2016, the Ministry of Agriculture and Rural Affairs of the PRC issued a notice for《全國農業機械化發展第十三個五年規劃》(The 13th five-year plan (2016–2020) for national agricultural mechanisation development*) (the "**Agricultural Mechanisation Notice**"). The Agricultural Mechanisation Notice set out certain objectives including (i) increase the number of agricultural machinery (one of the indicators is to increase number of "tractors with more than 80 horse power" by 30% by 2020); and (ii) increase the level of agricultural mechanisation.

(iv) The historical amount of Material Procurement Transactions for the year ended 31 December 2017 represented an increase of approximately 49% as compared to the prior year.

In light of the above, we consider that the proposed annual caps under the Material Procurement Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

B. The Sales of Goods Agreement

1. Principal terms

Date

29 August 2018

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 purchasers, including but not limited to raw materials, spare parts (including casting parts), components (including semi-finished parts and finished parts) and equipment (including diesel engines and tractors).

Term

From 1 January 2019 to 31 December 2021

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.

2. *Pricing Policy*

With reference to the Board Letter, Under the Sale of Goods Agreement, the applicable price of the goods to be provided will be determined based on the following:

(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)).

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.

We reviewed the previous individual executed contracts/agreements entered into between (a) the Group and members of the Connected Parties; and (b) the Group and independent third parties (in particular, the pricing and cost breakdown (if applicable)). We noted that the reviewed individual contracts/agreements entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policies (2) and (3) above and nothing has come to our attention that causes us to believe that such individual contracts/agreements did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Sales of Goods Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed annual caps

Set out below are the details of (i) the amounts for historical transactions in respect of the Sales of Goods Agreement (the "**Sales of Goods Transactions**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (together with previous annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2021 in respect of the transaction under the Sale of Goods Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the six months ended 30 June 2018**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amount	343,550	362,840	131,740
Previous annual caps	350,000	460,000	488,000 *(Note)*

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	345,000	370,000	395,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Sales of Goods Agreement is set out under the Board Letter.

We note that the original annual caps for the Sales of Goods Transactions were RMB350,000,000, RMB200,000,000 and RMB210,000,000 respectively for each of the three years ending 31 December 2018. As the Company expected that the original annual caps would not be sufficient for the two years ending 31 December 2018, the Company proposed to revise the original annual caps in February 2017 and relevant resolution was passed in June 2017.

We notice the utilisation rate of the previous annual cap for the year ended 31 December 2017 was approximately 79% and the Sales of Goods Transactions amount for the six months ended 30 June 2018 only represents approximately 27% of the previous annual cap for the year ending 31 December 2018. As such, we consider that it is reasonable to set a lower annual cap for the year ending 31 December 2019.

As advised by the Directors, the Company also estimated the transaction amount for the Sales of Goods Transactions during the three years ending 31 December 2021 based on different types of products. The annual caps for the three years ending 31 December 2021 are set to cater for such estimated transaction amount.

During the two years ended 31 December 2017, the Sales of Goods Transactions amount in the first half of the year represented around 40% of the total amount of the whole year. Based on the above and that the Sales of Goods Transactions amount was approximately RMB131.74 million for the six months ended 30 June 2018, the Company estimated the transaction amount of the Sales of Goods Transactions during the year ending 31 December 2019 to be around RMB320 million. We consider that the annual cap for the year ending 31 December 2019 (approximately 8% higher than the aforesaid estimated amount of the Sales of Goods Transactions) is reasonably set to cater for possible growth in transaction amount and to provide buffer.

In respect of the annual caps for the two years ending 31 December 2021, a growth rate of around 7% is imputed for each year. We do not consider such growth rate to be aggressive.

We also consider the aforesaid growth rates to be justifiable given the factors below:

(i) With reference to the Board Letter, increase in price indices for the major grain crops may lead to rise in demand for harvest machinery. We noted a growing trend of the price index for grain crops (i.e. First quarter of 2017: 94.3, First Quarter of 2018: 104.7) from the statistics published by the National Bureau of Statistics of China.

(ii) The Agricultural Mechanisation Notice set out certain objectives including (i) increase the number of agricultural machinery (one of the indicators is to increase number of "tractors with more than 80 horse power" by 30% by 2020); and (ii) increase the level of agricultural mechanisation.

(iii) The historical amount of Sales of Goods Transactions for the year ended 31 December 2017 represented an increase of approximately 6% as compared to the prior year.

In light of the above, we consider that the proposed annual caps under the Sales of Goods Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

C. The Loan Service Agreement

1. Principal terms

Date

29 August 2018

Parties

(1) YTO Finance, a subsidiary of the Company; and

(2) YTO, on behalf of YTO Extended Group

Financial services to be provided

Provision of loan services by YTO Finance to the YTO Extended Group

Term

From 1 January 2019 to 31 December 2021

Payment terms

Shall be specified on each separate loan contract to be agreed by the parties.

Security

YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure YTO Extended Group's liabilities arising from the performance of the Loan Service Agreement.

Undertaking

YTO undertakes that the deposit maintained by YTO Extended Group with YTO Finance should be greater than the loan balance at all time. If YTO Extended Group breaches such undertaking, YTO Finance has the right to restrict payment to any third parties by YTO Extended Group from its deposit maintained with YTO Finance, or request YTO Extended Group to increase its deposit balance with YTO Finance.

Rights to demand for early repayment

YTO Finance shall first satisfy the funding needs of the Group. Depending on the condition of shortfall of funding of the Group, YTO Finance has the right to issue a termination or terms amendment notice to YTO Extended Group, requesting for termination or amendments to the terms of the loans granted to YTO Extended Group so as to collect the money to support the production operation of the Group.

We consider the above undertaking and rights to demand for early repayment can reduce the credit risk and liquidity risk of YTO Finance.

2. *Pricing Policy*

With reference to the Board Letter, the service fees to be charged by YTO Finance for any loan services will be determined based on the following:

(1) the rate prescribed by CBIRC or PBOC (including the benchmark interest rate prescribed by the PBOC from time to time and published on PBOC's website for the same type and same period of loans (PBOC will also notify all relevant institutions of any updates of such interest rate in writing));

(2) if the above rate is not applicable (e.g. in the event that the rate prescribed by CBIRC or PROC cannot compensate the lending risk of YTO Finance after its evaluation on the creditability of the borrowers and the market condition), the rate charged in the same industry in the PRC for the same type and same period of loans by enquiries in the market; and

(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees offered to YTO Extended Group by YTO Finance shall not be more favourable than those offered to independent third party customers of YTO Finance for the same services.

We reviewed the previous individual executed loan contracts entered into between the Group and members of the Connected Parties (in particular, the interest rate charged and its basis). We noted that the previous individual executed loan contracts entered into between the Group and members of the Connected Parties were negotiated and entered into based on the pricing policy (1) above and nothing has come to our attention that causes us to believe that the such individual loan contracts entered into between the Group and members of Connected Parties did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Loan Service Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed annual caps

Set out below are the details of (i) the amounts for maximum historical outstanding amount in respect of the Loan Service Agreement (the "**Loan Transactions**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (together with previous annual caps); and (ii) the maximum outstanding annual cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Loan Service Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the six months ended 30 June 2018** *RMB'000*
Historical maximum outstanding amount	644,400	849,400	896,400
Previous annual caps	800,000	850,000	900,000 *(Note)*

	For the year ending 31 December 2019 *RMB'000*	For the year ending 31 December 2020 *RMB'000*	For the year ending 31 December 2021 *RMB'000*
Proposed annual caps	1,150,000	1,300,000	1,450,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Loan Service Agreement is set out under the Board Letter.

We notice the utilisation rate of the previous annual cap for the year ended 31 December 2017 was close to 100% but the historical maximum outstanding amount for the six months ended 30 June 2018 almost reached 100% of the previous annual cap for the year ending 31 December 2018. As such, we consider that it is reasonable to set a higher annual cap for the year ending 31 December 2019.

With reference to the Board Letter, the proportion of loans issued by domestic financial institutions to their total assets has been on the rise. The "proportion of loans to total assets" of 26 major listed banks in mainland China as at the end of 2016, the end of 2017, and the first quarter of 2018 were approximately 43.67%, 45.34%, and 46.27%, respectively. As finance companies can provide similar services of banks, the Company considers the figures of banks can be used as an objective reference.

According to the statistics published by China National Association of Finance Companies, the "proportion of loans to total assets" of the finance companies industry as at the end of 2016, the end of 2017, and the first quarter of 2018 were approximately 43.67%, 44.06%, and 51.22%, respectively. This trend is consistent with the aforementioned "proportion of loans to total assets" of 26 major listed banks in mainland China.

As advised by the Directors, the maximum historical outstanding amount for the two years ended 31 December 2017 and the six months ended 30 June 2018 accounted for 13.51%, 17.59% and 18.29% respectively of the total average assets of YTO Finance for each corresponding period. There is room for improvement as compared to the aforesaid "proportion of loans to total assets".

With reference to the Board Letter, the estimated amount of the Loan Service Agreement for 2019 to 2021 (that is also the annual caps amount) will account for 19.83%, 21.67% and 23.39% of the total average assets of YTO Finance for each corresponding year, respectively. Such ratios are significantly lower than the "proportion of loans to total assets" of the 26 major listed banks in mainland China and the finance companies industry as above-mentioned.

As advised by the Directors, given the continuous development of the YTO Group its funding need is expected to increase in future. For example, (a) development of the Whole-set Business will require more production of harvest machinery and agricultural equipment by YTO Group; and (b) 河南省智能農機創新中心(Henan Province Intelligent Agricultural Machinery Innovation Centre*) (the "**Agricultural Machinery Innovation Centre**") was jointly established on 3 February 2018 by (i) YTO Group (as the leader); (ii) 洛陽中科龍網創新科技有限公司 (Luoyang Zhongkelong Network Innovation Technology Limited); (iii) 中聯重機股份有限公司 (Zoomlion Heavy Machinery Co., Ltd.); (iv) 清華大學天津高端裝備研究院洛陽先進製造產業研發基地 (Luoyang Advanced Manufacturing Industry R&D Base of Tsinghua University Tianjin Research Institute for Advanced Equipment*); and (v) 洛陽中科信息產業研究院(中國科學院計算技術研究所洛陽分所 (Luoyang Zhongke Information Industry Research Institute (Chinese Academy of Sciences Institute of Computing Technology Luoyang Branch)*). According to the website of the PRC State Council, the Agricultural Machinery Innovation Centre aims for key technology of major equipment, important materials, core software and components and carries out independent research and technology integration, striving to become a promotion centre of technological progress in the industry and eventually become an international top-tier innovation platform of intelligent agricultural machinery.

In light of the above, we consider that the proposed annual caps under the Loan Service Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

D. The Bills Discounting Service Agreement

1. Principal terms

Date

29 August 2018

Parties

(1) YTO Finance, a subsidiary of the Company; and

(2) YTO, on behalf of YTO Extended Group

Financial services to be provided

Provision of bills discounting services by YTO Finance to the YTO Extended Group, whereby YTO Finance will pay the face value of undue bills presented by YTO Extended Group net of the discount interests.

Term

From 1 January 2019 to 31 December 2021

Payment terms

Shall be specified on each separate contract to be agreed by the parties.

2. Pricing Policy

With reference to the Board Letter, the service fees to be charged by YTO Finance for any bills discounting services will be determined based on the following:

(1) the rate in relation to the same type of bills discounting services prescribed by CBIRC or PBOC;

(2) if the above is not applicable (as the rate prescribed by CBIRC or PBOC currently it is a bills rediscounting rate), the rate charged in the same industry in the PRC for the same type and same period of bills discounting services by enquiries in the market; and

(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees charged to YTO Extended Group by YTO Finance shall not be more favourable than those charged to independent third party customers of YTO Finance for the same services.

We reviewed the previous individual executed contracts entered into between the Group and members of the Connected Parties (in particular, the discounting rate and its basis). We noted that the reviewed individual contracts entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policy (2) above and nothing has come to our attention that causes us to believe that the reviewed individual contracts entered into between the Group and members of Connected Parties did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Bills Discounting Service Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. *Proposed annual caps*

Set out below are the details of (i) the amounts for historical transaction amounts in respect of the Bills Discounting Service Agreement (the "**Bills Discounting Transaction**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (with previous annual caps); and (ii) the annual cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Bills Discounting Service Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the six months ended 30 June 2018** *RMB'000*
Historical transaction amounts	324,540	127,870	139,290
Previous annual caps	430,000	460,000	490,000 *(Note)*

	For the year ending 31 December 2019 *RMB'000*	**For the year ending 31 December 2020** *RMB'000*	**For the year ending 31 December 2021** *RMB'000*
Proposed annual caps	250,000	300,000	350,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Bills Discounting Service Agreement is set out under the Board Letter.

We notice the utilisation rate of the previous annual cap for the year ended 31 December 2017 was low and the historical transaction amount of the Bills Discounting Transaction for the six months ended 30 June 2018 only reached approximately 28% of the previous annual cap for the year ending 31 December 2018. Nevertheless, the Company expects the amounts of Bills Discounting Service to be recovered in the second half of 2018 and continue to grow thereafter.

In this regard, we found the《2018年第一季度票據市場運行分析報告》(the "**2018Q1 Bills Market Report**") as published by Shanghai Commercial Paper Exchange Corporation Limited, being a commercial paper exchange established by PBOC and commencing operation from 8 December 2016. According to the 2018Q1 Bills Market Report, the bills discounting amount in the PRC increased by approximately 24% in the first quarter of 2018 (approximately RMB2,121 billion) as compared to the first quarter of 2017 (approximately RMB1,716 billion).

In addition, we were advised by the Directors that a number of YTO Extended Group members' cash balance as at 30 June 2018 was substantially lower than its account payable amount. Accordingly, the Company expects increasing demand for Bills Discounting Service to satisfy the financing need of the YTO Extended Group.

Given the above, we consider that it is reasonable for the Company to set an annual cap for the year ending 31 December 2019 (i) lower than the annual cap for the year ended 31 December 2018 for conservative sake given the low historical utilisation rate; and (ii) higher than the historical maximum amounts for the six months ended 30 June 2018 for catering the expected growth in Bills Discounting Transaction.

We also consider the respective growth rates of approximately 20% and 17% in the annual caps for each of the two years ending 31 December 2021 (which are lower than the increase of approximately 24% in bills discounting amount in the PRC in the first quarter of 2018 as compared to the first quarter of 2017) to be reasonable.

In light of the above, we consider that the proposed annual caps under the Bills Discounting Service Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

E. The Bills Acceptance Service Agreement

1. Principal terms

Date

29 August 2018

Parties

(1) YTO Finance, a subsidiary of the Company; and

(2) YTO, on behalf of YTO Extended Group

Financial services to be provided

Provision of bills acceptance services by YTO Finance to the YTO Extended Group, whereby YTO Finance guarantees the payment of bills issued by YTO Extended Group. In return, YTO Extended Group shall pay the service fees.

Term

From 1 January 2019 to 31 December 2021

Payment terms

Shall be specified on each separate contract to be agreed by the parties.

Security

YTO Finance may request YTO Extended Group to provide pledge of assets or other guarantees to secure the liabilities of YTO Extended Group arising from its performance under the Bills Acceptance Service Agreement.

2. Pricing Policy

With reference to the Board Letter, the service fees to be charged by YTO Finance for any bills acceptance services will be determined based on the following:

(1) the rate in relation to the same type and same period of bills acceptance discounting services prescribed by CBIRC or PBOC;

(2) if the above rate is not applicable, the rate charged in the same industry in the PRC for the same type and same period of bills acceptance services by enquiries in the market; and

(3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO Extended Group.

YTO Finance undertakes that the applicable service fees charged to YTO Extended Group by YTO Finance shall not be more favourable than those charged to independent third party customers of YTO Finance for the same services.

We reviewed the previous individual executed contracts entered into between the Group and members of the Connected Parties (in particular, the rate and its basis). We noted that the reviewed individual contracts entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policy (1) above and nothing has come to our attention that causes us to believe that such individual contracts did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Bills Acceptance Service Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed annual caps

Set out below are the details of (i) the amounts for historical maximum outstanding amounts in respect of the Bills Acceptance Service Agreement (the "**Bills Acceptance Transaction**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (with previous annual caps); and (ii) the maximum outstanding annual cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Bills Acceptance Service Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the six months ended 30 June 2018** *RMB'000*
Historical maximum outstanding amounts	214,550	266,180	160,750
Previous annual caps	250,000	280,000	300,000 *(Note)*

	For the year ending 31 December 2019 *RMB'000*	**For the year ending 31 December 2020** *RMB'000*	**For the year ending 31 December 2021** *RMB'000*
Proposed annual caps	336,000	376,000	420,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Bills Acceptance Service Agreement is set out under the Board Letter.

We notice the utilisation rate of the previous annual cap for the year ended 31 December 2017 was about 95% but the historical maximum outstanding amount of the Bills Acceptance Transaction for the six months ended 30 June 2018 only reached approximately 54% of the previous annual cap for the year ending 31 December 2018. As advised by the Directors, the outstanding amounts of Bills Acceptance Transaction fluctuate during a year. In this regard, we obtained historical figures from the Company note that the outstanding amounts of Bills Acceptance Transaction reached their peak in the fourth quarter during 2016 and the second quarter during 2017.

The Company also expect the outstanding amounts of Bills Acceptance Transaction to be close to RMB300 million in the second half of 2018. As aforementioned, we were also advised by the Directors that a number of YTO Extended Group members' cash balance as at 30 June 2018 was substantially lower than its account payable amount. Accordingly, the Company expects increasing demand for Bills Acceptance Service to satisfy the financing need of the YTO Extended Group. In addition, we note from the 2018Q1 Bills Market Report that the bills acceptance amount in the PRC increased by approximately 39% in the first quarter of 2018 (approximately RMB4,236 billion) as compared to the first quarter of 2017 (approximately RMB3,043 billion). As such, we consider the growth rate of approximately 12% in respect of the annual caps for the three years ending 31 December 2021 (which is lower than the increase of approximately 39% in bills acceptance amount in the PRC in the first quarter of 2018 as compared to the first quarter of 2017) to be reasonable.

In light of the above, we consider that the proposed annual caps under the Bills Acceptance Service Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

F. Interbank Business Services Agreement

1. Principal terms

Date

29 August 2018

Parties

(1) YTO Finance, a subsidiary of the Company; and

(2) Sinomach Finance, a subsidiary of Sinomach

Financial services to be provided

Mutual provision of financing services between YTO Finance and Sinomach Finance including interbank deposit, lending, credit assets transfer (fund borrowing from other financial institutions by transferring ownership of sales and purchase of undue credit assets, such as loan contracts, by transferring its ownership) and trading of bonds.

Term

From 1 January 2019 to 31 December 2021

Payment terms

Shall be specified on each separate contract to be agreed by the parties whereas the party with capital inflow from another party shall pay the service fees.

Security

YTO Finance may request Sinomach Finance to provide pledge of assets or other guarantees to secure the liabilities of Sinomach Finance arising from its performance under the Interbank Business Services Agreement.

2. Pricing Policy

With reference to the Board Letter, the service fees charged by YTO Finance and Sinomach Finance to each other for different financing services will be determined based on the following:

(1) the SHIBOR announced by Shanghai Interbank Offered Market in the same type and same period of transaction for interbank lending and interbank bond transactions rate for bond transactions conducted between financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks;

(2) if the above rate is not applicable, with reference to the price for deposits of the same type and same period of funds announced by other financial institution for interbank deposit (including state-owned commercial banks and urban commercial banks);

(3) if the above rates are not applicable, with reference to the market price for capital financing in respect of target matter announced by other financial institutions (including state-owned commercial banks, joint-equity banks and urban commercial banks) in the case of capital financing where financial assets are subject to sale and purchase or pledge; and

(4) if none of the above is applicable, after arm's length negotiation between the counterparties after considering their financial positions and terms, size and quality of the financial assets.

Sinomach Finance undertakes that the applicable price of the capital inflow service offered to YTO Finance, being the party with capital inflow from the other party, by Sinomach Finance shall not be less favourable than those offered to independent third party customers of Sinomach Finance for the same services. On the other hand, YTO Finance undertakes that the applicable price of the capital outflow service offered from YTO Finance to Sinomach Finance, being the party with capital inflow from the other party, shall not be more favourable than those offered to independent third party customers of YTO Finance for the same services.

We reviewed the previous individual executed contracts entered into between YTO Finance and Sinomach Finance (in particular, the lending and deposit rates and their basis). We noted that the reviewed individual contracts entered into between YTO Finance and Sinomach Finance were not negotiated and entered into based on the pricing policy (1) above and nothing has come to our attention that causes us to believe that such individual contracts did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Interbank Business Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. *Proposed annual caps*

Set out below are the details of (i) the amounts for historical maximum outstanding amounts in respect of the Interbank Business Services Agreement (the "**Interbank Business Transaction**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (with previous annual caps); and (ii) the maximum outstanding annual cap amounts for each of the three years ending 31 December 2019, 2020 and 2021 under the Interbank Business Services Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the six months ended 30 June 2018**
	RMB'000	*RMB'000*	*RMB'000*
Historical maximum outstanding amounts	600,000	700,000	700,000
Previous annual caps	700.000	800,000	900,000 *(Note 1)*

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	1,000,000	1,000,000	1,000,000

Notes:

1. The annual cap is for the year ending 31 December 2018.

2. According to the Board Letter, the Company confirms that beside the interbank deposit and lending, no other historical transactions have been conducted under the Interbank Business Services Agreement.

Detailed basis for the proposed annual caps amounts under the Interbank Business Services Agreement is set out under the Board Letter.

We notice the utilisation rates of the previous annual cap for the two years ended 31 December 2017 were over 85%. Besides, the historical maximum outstanding amounts of the Interbank Business Transaction for the six months ended 30 June 2018 was approximately 78% of the previous annual cap for the year ending 31 December 2018. Accordingly we consider that it is reasonable to set higher annual caps for the three years ending 31 December 2021.

According to the Board Letter, YTO Finance has a registered capital of RMB500 million. In accordance with the Measures for Management of Interbank Borrowings* (《同業拆借管理辦法》), the interbank borrowing cap and lending cap of the finance company of enterprise group shall not be more than 100% of the entity's paid-in capital. Therefore, the maximum transaction amount under the business regulation requirement is RMB1 billion (i.e. interbank lending of RMB500 million and interbank borrowing of RMB500 million).

As aforementioned, the interbank business services include interbank deposit and lending, which can deal with the Group's short-term liquidity problem and improve the return of the Group's excess reserves. For our due diligence purpose, we obtained YTO Finance's 流動性期限缺口統計表 (Periodic liquidity shortage table*) (the "**Periodic Liquidity Shortage Table**") as at December 2016, December 2017 and June 2018. The Periodic Liquidity Shortage Table demonstrates the YTO Finance's liquidity shortage/excess from short to long term (from next day to over one year). From the Periodic Liquidity Shortage Tables obtained, we noted that as at December 2016, December 2017 and June 2018, YTO Finance's liquidity shortage/excess from short to long term ranged from shortage of approximately RMB1,300 million to excess of approximately RMB600 million.

In light of the above, we consider that the proposed annual caps under the Interbank Business Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

G. Technology Services Agreement

1. Principal terms

Date

29 August 2018

Parties

(1) Tractors Research Company, on behalf of Tractors Research Group, as supplier and/or supplying agent; and

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

Services to be provided

Technology research and development, technology consultation and other technology services and other special services (including inspection services) in connection with the tractors and diesel engines related products. The parties further agree that the Group may engage other technology research and development centers for the services to be provided under the Technology Services Agreement.

Term

From 1 January 2019 to 31 December 2021

Payment terms

Shall be specified on each separate contract to be agreed by the parties.

Undertaking

Tractors Research Company undertakes:

(1) to procure Tractors Research Group not to provide the same or similar services under the Technology Services Agreement to other corporate legal persons or institutions which operate business in competition with the Group; and

(2) save and except for the state's research or development project(s) of the PRC government, to procure Tractors Research Group to give priority to the Group's research and development projects over other third parties' projects.

Intellectual Property derived

Unless otherwise agreed by the parties, all the Intellectual Property derived from the technology services provided under the Technology Services Agreement as well as the application rights of and the rights to use such Intellectual Property shall belong to the Group. With the written consent obtained from the Group, Tractors Research Group is entitled to use such Intellectual Property at nil consideration but shall not by any means transfer the rights to use such Intellectual Property to any third parties.

Where it is agreed between the parties that any Intellectual Property derived from the technology services provided under the Technology Services Agreement belongs to Tractors Research Group, the Group shall be entitled to use such Intellectual Property at nil consideration during and after the term of the Technology Services Agreement.

We consider the above arrangements to be justifiable as (i) unless otherwise agreed by the parties, the Group shall own the Intellectual Property; (ii) they are reciprocal arrangements (where the Group owns the Intellectual Property, Tractors Research Group is entitled to use such Intellectual Property at nil consideration; where Tractors Research Group owns the Intellectual Property, the Group is entitled to use the Intellectual Property at nil consideration); and (iii) as advised by the Directors, the Group may agree the Intellectual Property to belong to Tractors Research Group when only Tractors Research Group is qualified to apply for subsidy of the subject research project from the PRC government.

2. Pricing Policy

With reference to the Board Letter, the service fees under the Technology Services Agreement, will be determined based on the following:

(1) the transaction price between Tractor Research Group and an independent third party (for technology consultation and other technology services and other special services (including inspection services) in connection with the tractors and diesel engines related products); and

(2) if the above is not applicable, determined after arm's length negotiation between the parties based on costs plus a percentage mark-up (tax inclusive), which is not more than 18% (i.e. price = cost x (1 + percentage mark-up)), after considering the depreciation of research and development equipment, research and development staff costs, testing expenses and other costs incurred in research and development.

Tractors Research Company undertakes that the service fees offered to the Group by Tractor Research Group shall not be less favourable than those offered to other independent third parties of Tractor Research Group for the same services.

We reviewed the previous individual executed contracts entered into between the Group and members of the Tractors Research Group (in particular, the pricing and cost breakdown). We noted that the reviewed individual contracts entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policy (2) above and nothing has come to our attention that causes us to believe that such individual contracts did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Technology Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. *Proposed annual caps*

Set out below are the details of (i) the amounts for historical transactions in respect of the Technology Services Agreement (the "**Technology Transactions**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (together with previous annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2021 in respect of the transaction under the Technology Services Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the six months ended 30 June 2018**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amount	100,260	109,880	43,970
Previous annual caps	104,500	110,000	115,200 *(Note)*

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	116,000	125,000	135,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Technology Services Agreement is set out under the Board Letter.

We notice the utilisation rates of the previous annual cap for the two years ended 31 December 2017 were close to 100% and the historical amount of the Technology Transactions for the six months ended 30 June 2018 reached approximately 38% of the previous annual cap for the year ending 31 December 2018. As advised by the Directors, the Group has research projects plan each year and such plan is required to be completed during the year. The Technology Transactions amount are recognised by stages when there is progress completed and invoicing according to the progress. Given that there usually more progress completion and invoicing in the second half of a year, the Technology Transactions amount is usually higher in the second half of a year. In this regard, we obtained historical Technology Transactions amount for the two years ended 31 December 2017 from the Company and note the aforesaid seasonal trend. Accordingly, the Directors expect the utilisation rate of the annual caps for the year ending 31 December 2018 to be over 90%. Accordingly, we consider that it is reasonable to set an annual cap for the year ending 31 December 2019 which is slightly higher than the previous annual cap for the year ending 31 December 2018.

In respect of the annual caps for the two years ending 31 December 2021, a growth rate of around 8% is imputed for each year. We do not consider such growth rate to be aggressive.

We also consider the aforesaid growth rates to be justifiable given the factors below:

(i) With reference to the 2018 Interim Report, the Company continue to advance transformation and upgrading and increased efforts in research and development and innovation to steadily facilitate the development of intelligent agricultural machinery and enhance its intellectual manufacturing capacity, thereby boosting the momentum for its future development. Focusing on renovating product and manufacturing technologies, the Company consistently carried forward such key research and development projects as the upgrade of new generation power-shift tractors, the variable transmission tractors, and heavy-duty tractors with 300 horsepower and above.

(ii) The Agricultural Mechanisation Notice set out (i) certain objectives including improvement of agricultural mechanisation technology (improve the performance and quality of high-end agricultural machinery); and (ii) certain tasks including acceleration of agricultural mechanisation technology innovation, such as machinery research and application acceleration of large size tractors, high-efficiency harvesting machinery, composite machinery and multifunctional agricultural machinery.

In light of the above, we consider that the proposed annual caps under the Technology Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

H. Composite Services Agreement

1. Principal terms

Date

29 August 2018

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

Transportation and transportation ancillary services.

Term

From 1 January 2019 to 31 December 2021

Payment terms

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.

Transportation ancillary services: shall be billed quarterly and paid in the following month.

2. Pricing Policy

With reference to the Board Letter, the service fees under the Composite Services Agreement, will be determined based on the following:

(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); and

(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 10% (i.e. price = cost x (1 + percentage mark-up)).

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.

We reviewed the previous individual executed contracts/agreements entered into between (a) the Group and members of the Connected Parties; and (b) the Group and independent third parties (in particular, the pricing and cost breakdown (if applicable)). We noted that the reviewed individual contracts/agreements entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policies (2) and (3) above and nothing has come to our attention that causes us to believe that such individual contracts/agreements did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Composite Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed annual caps

Set out below are the details of (i) the amounts for historical transactions in respect of the Composite Services Agreement (the "**Composite Services Transactions**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (together with previous annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2021 in respect of the transaction under the Composite Services Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016 *RMB'000*	**For the year ended 31 December 2017** *RMB'000*	**For the six months ended 30 June 2018** *RMB'000*
Composite Services Agreement	147,170	158,920	75,490
Previous annual caps	147,200	215,000	225,000 *(Note)*

	For the year ending 31 December 2019 *RMB'000*	**For the year ending 31 December 2020** *RMB'000*	**For the year ending 31 December 2021** *RMB'000*
Proposed annual caps	185,000	200,000	220,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Composite Services Agreement is set out under the Board Letter.

We note that the original annual caps for the Composite Services Transactions were RMB147,200,000, RMB157,200,000 and RMB167,200,000 respectively for each of the three years ending 31 December 2018. As the Company expected that the original annual caps would not be sufficient for the two years ending 31 December 2018, the Company proposed to revise the original annual caps in February 2017 and relevant resolution was passed in June 2017.

We notice the utilisation rate of the previous annual cap for the year ended 31 December 2017 was approximately 74% and the Composite Services Transactions amount for the six months ended 30 June 2018 only represents approximately 34% of the previous annual cap for the year ending 31 December 2018. As such, we consider that it is reasonable to set a lower annual cap for the year ending 31 December 2019.

With reference to the Board Letter, given that the Company's Whole-set Business is expected to maintain growth in the three years ending 31 December 2021, and in light of the optimisation of tractor sales structure, increase in the proportion of sales volume of hi-powered tractors, and the growth of sales volume of the casting and forging business, the transportation volume will increase. Domestic fuel prices and labor costs have been on an upward trend. The increase of transportation costs will lead to increase in the transportation fee to be paid by the Company.

We noted from the 2018 Interim Report that the Group achieved a year-on-year increase of 7.7 times in sales volume of hi-powered wheeled tractors with 160 horsepower and above. Upon our enquiry, the Company also provided us the external sales volume of the Group's casting and forging business for FY2016, FY2017 and the six months ended 30 June 2018 (Casting: Approximately RMB54 million for FY2016, RMB105 million for FY2017, RMB120 million for the six months ended 30 June 2018; Forging: Approximately RMB119 million for FY2016, RMB231 million for FY2017, RMB204 million for the six months ended 30 June 2018), which showed an upward trend. In addition, we noted from the publications of the Price Monitoring Center of National Development and Reform Commission of the PRC that the diesel wholesale price increased from RMB6,371 per tonne in the last week of January 2018 to RMB7,541 per tonne in the last week of August 2018.

Given the above, we consider that it is reasonable for the Company to set an annual cap for the year ending 31 December 2019 (i) lower than the annual cap for the year ended 31 December 2018 for conservative sake given the low historical utilisation rate; and (ii) over 200% of the historical amounts for the six months ended 30 June 2018 for catering the expected growth in Composite Services Transactions.

In respect of the annual caps for the two years ending 31 December 2021, growth rates of around 8% and 10% are imputed for each year respectively. We do not consider such growth rates to be aggressive. We also consider the aforesaid growth rates to be justifiable given the factors mentioned above.

In light of the above, we consider that the proposed annual caps under the Composite Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

I. Energy Procurement Agreement

1. Principal terms

Date

29 August 2018

Parties

(1) YTO as supplier and/or supplying agent; and

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

Energy to be provided

Energy to be used in the production of the Group, including but not limited to electricity, natural gas, oxygen, water, compressed air, acetylene, steam and nitrogen.

Term

From 1 January 2019 to 31 December 2021.

Payment terms

Shall be billed and paid monthly or latest in the following month. Subject to negotiation between the parties, prepayments by purchaser of no more than six months are acceptable.

2. Pricing Policy

With reference to the Board Letter, the price of the energies under the Energy Procurement Agreement, will be determined based on:

(1) the governmental guidance price (any pricing guidelines or recommended price set by the PRC government or any regulatory authorities);

(2) if there is no governmental guidance price, the market price or the transaction price between the Group and an independent third party;

(3) if none of the above is applicable, the transaction price between YTO and an independent third party; and

(4) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 16% (i.e. price = cost x (1 + percentage mark-up)).

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

We reviewed the previous individual executed contracts/agreements entered into between the Group and members of the Connected Parties (in particular, the pricing). We noted that the reviewed individual contracts/agreements entered into between the Group and members of Connected Parties were negotiated and entered into based on the pricing policy (1) above and nothing has come to our attention that causes us to believe that such individual contracts/agreements did not follow the Internal Control Policies.

For our due diligence purpose, we obtained the copy of the Internal Control Policies. We consider that the effective implementation of the Internal Control Policies can ensure the continuing connected transactions to be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders.

In light of the above together with the INED Confirmation and the Auditor Confirmation, we are of the view that the terms of the Energy Procurement Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. Proposed annual caps

Set out below are the details of (i) the amounts for historical transactions in respect of the Energy Procurement Agreement (the "**Energy Procurement Transactions**") for the two years ended 31 December 2017 and the six months ended 30 June 2018 (together with previous annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2021 in respect of the transaction under the Energy Procurement Agreement as extracted from the Board Letter:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the six months ended 30 June 2018**
	RMB'000	*RMB'000*	*RMB'000*
Historical transaction amount	169,930	154,480	93,920
Previous annual caps	185,000	192,000	200,000 *(Note)*

	For the year ending 31 December 2019	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	205,000	220,000	235,000

Note: The annual cap is for the year ending 31 December 2018.

Detailed basis for the proposed annual caps amounts under the Energy Procurement Agreement is set out under the Board Letter.

We notice the utilisation rates of the previous annual cap for the two years ended 31 December 2017 were over 80% and the historical amount of the Energy Procurement Transactions for the six months ended 30 June 2018 reached approximately 47% of the previous annual cap for the year ending 31 December 2018. Accordingly, we consider that it is reasonable to set an annual cap for the year ending 31 December 2019 which is slightly higher than the previous annual cap for the year ending 31 December 2018 while the historical amount of the Energy Procurement Transactions for the six months ended 30 June 2018 is approximately 46% of such annual cap.

In respect of the annual caps for the two years ending 31 December 2021, a growth rate of around 7% is imputed for each year. We do not consider such growth rate to be aggressive. As advised by the Directors, the Group's casting and forging businesses, which had upward trend in sales volume during FY2016, FY2017 and the six months ended 30 June 2018, require more energy supply. As such, we also consider the aforesaid growth rate to be justifiable.

In light of the above, we consider that the proposed annual caps under the Energy Procurement Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Non-exempt CCT Transactions must be restricted by their respective proposed annual caps; (ii) the terms of the Non-exempt CCT Transactions (including their respective proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Non-exempt CCT Transactions must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Non-exempt CCT Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the proposed annual caps. In the event that the total amounts of the Non-exempt CCT Transactions are anticipated to exceed their respective proposed annual caps, or that there is any proposed material amendment to the terms of the Non-exempt CCT Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt CCT Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Non-exempt CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-exempt CCT Transactions are conducted 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. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Non-exempt CCT Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
David Kwan
Director

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of the Directors, supervisors and Chief Executive of the Company

Save as disclosed below, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest or short position in any shares, underlying shares and/or debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisors or chief executive was taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Hong Kong Listing Rules:

Name	**The Company/ associated corporation**	**Capacity**	**Number of securities held**	**Approximate percentage in the total issued share capital of the Company** *(%)*
Wu Tak Lung *(Director)*	The Company	Beneficial owner	10,000 H Shares (Long Position)	0.001

(ii) Interests of Substantial Shareholders and other Shareholders

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any person who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity	Number of Shares interested[1]	Approximate percentage of the relevant class of issued share capital of the Company *(%)*	Approximate percentage of the total issued share capital of the Company *(%)*	Class of Shares
YTO	Beneficial owner	410,690,578(L)	69.15	41.66	A Share

Notes:

1. (L) – Long position, (S) – Short position

2. Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO.

Save as disclosed above, there are no other persons (other than the Directors, supervisors or chief executives of the Company) who, as at Latest Practicable Date, had any interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

3. DISCLOSURE OF OTHER INTERESTS OF THE DIRECTORS

(a) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Group were made up.

(c) Interests in competing business

As at the Latest Practicable Date, none of the Directors or any of their respective associates of the Company were interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the Company's business.

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, the date to which the latest published audited accounts of the Group were made up.

6. EXPERT AND CONSENTS

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which had since 31 December 2017 (being the date which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the office of Messrs. Li & Partners at 22nd Floor, World Wide House, Central, Hong Kong for a period of 14 days from the date of this circular:

(a) the Old Agreements; and

(b) the New Agreements.

8. GENERAL

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the "**EGM**") of First Tractor Company Limited* (the "**Company**") will be held at 3:00 p.m. on 29 October 2018, Monday, at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**"), for the purpose of considering and, if thought fit, passing the following resolutions.

Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the announcements of the Company dated 29 August 2018.

ORDINARY RESOLUTIONS

THAT:

"1. the Material Procurement Agreement (a copy of which has been produced to the EGM marked "1" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

2. the Sale of Goods Agreement (a copy of which has been produced to the EGM marked "2" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

3. the Loan Service Agreement (a copy of which has been produced to the EGM marked "3" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

4. the Bills Discounting Service Agreement (a copy of which has been produced to the EGM marked "4" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

5. the Bills Acceptance Service Agreement (a copy of which has been produced to the EGM marked "5" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

6. the Interbank Business Services Agreement (a copy of which has been produced to the EGM marked "6" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

7. the Technology Services Agreement (a copy of which has been produced to the EGM marked "7" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

8. the Composite Services Agreement (a copy of which has been produced to the EGM marked "8" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

9. the Energy Procurement Agreement (a copy of which has been produced to the EGM marked "9" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

10. the Properties Lease Agreement (a copy of which has been produced to the EGM marked "10" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

11. the Land Lease Agreement (a copy of which has been produced to the EGM marked "11" and signed by the chairman of the EGM for the purpose of identification), the terms and conditions thereof, the transactions contemplated thereunder and the proposed Annual Cap amounts for each of the three financial years ending 31 December 2021, be and are hereby approved, ratified and confirmed;

12. any one of the Directors be hereby authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorise signing, executing, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the Material Procurement Agreement, the Sale of Goods Agreement, the Loan Service Agreement, the Bills Discounting Service Agreement, the Bills Acceptance Service Agreement, the Interbank Business Services Agreement, Technology Services Agreement, the Composite Services Agreement, the Energy Procurement Agreement, the Properties Lease Agreement and the Land Lease Agreement (together the "**New Agreements**") and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the New Agreements that may in their discretion consider to be desirable and in the interest of the Company and all the Directors' acts as aforesaid be hereby approved, ratified and confirmed;

13. the appointment of Mr. Zhao Yanshui to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

14. the appointment of Mr. Wu Yong to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

15. the appointment of Mr. Zhu Weijiang to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

16. the appointment of Mr. Li Hepeng to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

17. the appointment of Mr. Xie Donggang to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

18. the appointment of Mr. Li Kai to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

19. the appointment of Mr. Zhou Honghai to be the Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

20. the appointment of Mr. Yu Zengbiao to be the independent non-executive Director of the Eighth Board for a term of eighteen months from 29 October 2018 to 28 May 2020 be hereby approved;

21. the appointment of Ms. Yang Minli to be the independent non-executive Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

22. the appointment of Ms. Wang Yuru to be the independent non-executive Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

23. the appointment of Mr. Edmund Sit to be the independent non-executive Director of the Eighth Board for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

24. the appointment of Mr. Zhang Jiaxin to be the Supervisor (non-staff representative Supervisor) of the Eighth Supervisory Committee for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

25. the appointment of Mr. Tian Peng to be the Supervisor (non-staff representative Supervisor) of the Eighth Supervisory Committee for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

26. the appointment of Mr. Xu Weilin to be the Supervisor (non-staff representative Supervisor) of the Eighth Supervisory Committee for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved;

27. the appointment of Mr. Zhang Bin to be the Supervisor (non-staff representative Supervisor) of the Eighth Supervisory Committee for a term of three years from 29 October 2018 to 28 October 2021 be hereby approved; and

28. the remuneration proposals for the Directors of the Eighth Board and Supervisors of the Eighth Supervisory Committee be hereby approved."

By Order of the Board
First Tractor Company Limited*
YU Lina
Company Secretary

Luoyang, the PRC
12 September 2018

As at the date of this notice, the Board comprises Mr. Zhao Yanshui (Chairman) and Mr. Wu Yong (vice Chairman) 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.

Notes:

1. The register of members of the Company will be temporarily closed from 29 September 2018 to 28 October 2018 (both days inclusive) during which no transfer of Shares will be registered in order to determine the list of Shareholders for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 28 September 2018 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 28 September 2018 are entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Share registrar of the Company, is Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the proxy form enclosed). The proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the proxy form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company's H Share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.

4. Shareholders who intend to attend the EGM are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 8 October 2018.

5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM.

6. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.

7. The Company's registered address:
No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Postal code: 471004
Telephone: (86–379) 6496 7038
Facsimile: (86–379) 6496 7438
Email: msc0038@ytogroup.com

* *For identification purposes only*