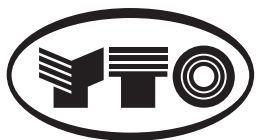


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第一拖拉机股份有限公司
FIRST TRACTOR COMPANY LIMITED*

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

(Stock Code: 0038)

ANNOUNCEMENT ON REFINEMENT OF ACCOUNTING POLICY

All members of the board (the “**Board**”) of directors (the “**Directors**”) of First Tractor Company Limited* (the “**Company**”) hereby warrant that there are no false information, misleading statements or material omissions in this announcement, and accept several and joint responsibilities for the truthfulness, accuracy and completeness of its contents.

I. OVERVIEW OF THE REFINEMENT OF ACCOUNTING POLICY

In accordance with the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” and “Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments” as revised by the Ministry of Finance of the People’s Republic of China in 2007 and with reference to its actual business operations and management, the Company has further refined contents relating to the accounting policy on “impairment of certain financial instruments” so as to ensure that such accounting policy can enable a more objective and fair reflection of the Company’s financial condition and operating results.

On 26 October 2018, the resolution in relation to the Refinement of Accounting Policy of the Company was considered and approved at the 24th meeting of the 7th session of the Board and the 14th meeting of the 7th session of the board of supervisors of the Company, respectively. The refinement of accounting policy does not require shareholders’ consideration and approval at the general meeting of the Company.

II. DETAILS OF THE REFINEMENT OF ACCOUNTING POLICY

- (I) Set out below is the description of the accounting policy on “impairment of certain financial instruments” before refinement:

Accounts receivable

The Company makes provision for bad debts for all receivables based on the expected amount of credit losses during the entire life. The expected credit loss is the weighted average of the credit losses of receivables weighted by the risk of default.

- (1) *Accounts receivable with expected credit losses based on ageing credit risk characteristics*

For receivables with similar credit risk characteristics, the basis is the estimated credit loss rate based on the age combination.

Ageing	Estimated loss rate of receivables (%)
Within 1 year	1.00–15.00
1–2 years	50.00
2–3 years	100.00
Over 3 years	100.00

- (2) *Accounts receivable with bad debt provision based on risk exposure*

For accounts receivable involving mortgages, pledges or guarantees, risks are recognized according to risk exposure, and bad debts are recognized as the balance of the receivables minus the recoverable value of the mortgage, pledge or collateral that is expected to be recovered.

(II) Set out below is the description of the accounting policy on “impairment of certain financial instruments” after refinement:

1. *Accounts receivable*

The Company makes provision for bad debts for all receivables based on the expected amount of credit losses during the entire life. In particular, for accounts receivable due within one year as contractually agreed, provision for impairment shall be made based on the original value of such receivables; and for accounts receivable secured by mortgages, pledges or guarantees, provision for impairment shall be made based on the balance of the original value of such receivables after deducting the recoverable value of the collaterals.

(1) *For accounts receivable arising from domestic operations, provision for impairment shall be made based on expected credit losses that are grouped based on ageing credit risk characteristics:*

Ageing	Estimated loss rate (%)
1–3 months	1
4–6 months	2
7–12 months	15
1–2 years	50
Over 2 years	100

(2) *For accounts receivable arising from international operations, provision for impairment shall be made based on expected credit losses that are grouped based on ageing credit risk characteristics:*

Ageing	Estimated loss rate (%)
Within 1 year	5
1–3 years	10
3–4 years	30
4–5 years	60
Over 5 years	100

(3) *For accounts receivable arising from non-operating low-risk business activities, provision for impairment shall be equal to 1% of the outstanding balance of such receivables.*

2. *Long-term receivables*

Accounts receivables that are with a contractual maturity term of more than one year, collected on deferred basis and deemed to have financing nature are recognized as long-term receivables, and the difference between the contractual promised consideration and the cash sale price of the promised goods is recognized as unrealized financing income and amortized using the effective interest method. Provision for impairment shall be made based on the balance of the original value after deducting the unrealized financing income.

- (1) *For receivables not yet due, provision for impairment shall be equal to 1% of the balance of the contract sum after deducting the unrealized financing income.*
- (2) *For overdue receivables, provision for impairment shall be made based on expected credit losses that are grouped based on ageing credit risk characteristics:*

Ageing	Estimated loss rate (%)
Within 1 year	5
1–3 years	10
3–4 years	30
4–5 years	60
Over 5 years	100

- (3) *Provision for impairment on financial assets is made based on a five-level risk classification, and relevant receivables are classified based on risk exposure into five categories, i.e., normal, attention, secondary, suspicious and loss, with the respective percentage of provision for impairment set out below:*

Risk level	Percentage of impairment provision (%)
Normal	1.5
Attention	3
Secondary	30
Suspicious	60
Loss	100

(III) Impact of the Refinement of Accounting Policy on the Company

The refinement of accounting policy on “impairment of certain financial instruments” is a further improvement of such accounting policy, making it better aligned with the business operations of the Company. No retrospective adjustment is required and the refinement of accounting policy does not affect other accounting policies of the Company.

III. EXPLANATION OF THE BOARD ON THE RATIONALE FOR THE REFINEMENT OF ACCOUNTING POLICY

The refinement of accounting policy on certain financial instruments was made in accordance with the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” and “Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments” newly revised by the Ministry of Finance and with reference to the actual conditions of the Company, which will enable a more objective and proper reflection of the operating and financial condition of the Company. In addition, the decision-making procedures for such refinement of accounting policy are in compliance with the requirements of applicable laws and regulations and the Articles of Association of the Company. Therefore, the Board agrees to the refinement of accounting policy.

IV. OPINIONS OF INDEPENDENT DIRECTORS

For the purpose of enabling its accounting policies to generate a more objective and fair reflection of its financial condition and operating results, the Company further refined its relevant accounting policy in accordance with “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” and “Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments”. Such refinement of accounting policy is in line with the applicable laws and regulations of the PRC and the business condition of the Company, and the relevant procedures are in compliance with the requirements of applicable laws and regulations and the Articles of Association of the Company. Therefore, the independent Directors are in favour of the refinement of accounting policy.

V. OPINIONS OF THE BOARD OF SUPERVISORS

The board of supervisors of the Company is of the view that the refinement of accounting policy is in line with the applicable laws and regulations of the PRC and the actual business condition of the Company. Therefore, it is in favour of the refinement of accounting policy.

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

Luoyang, the PRC
26 October 2018

As at the date of this announcement, 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.

* *For identification purposes only*