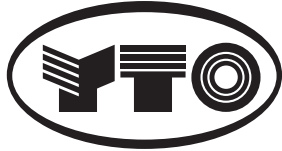


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第一拖拉机股份有限公司*
FIRST TRACTOR COMPANY LIMITED

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

(Stock Code: 0038)

First Tractor Company Limited
Reply to the Letter of Enquiry from the Shanghai Stock Exchange in
relation to Post-Vetting of the 2018 Annual Report

The board of directors (the “**Board**”) of First Tractor Company Limited* (the “**Company**”) and all members of the Board warrant that there are no false representations, misleading statements or material omissions in this announcement, and are severally and jointly responsible for the truthfulness, accuracy and completeness of the content herein.

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The information in this announcement supplements the information in the 2018 Annual Report of the Company which was published on the website of The Stock Exchange of Hong Kong Limited on 25 April 2019.

On 19 April 2019, First Tractor Company Limited (hereafter referred to as “**First Tractor**” or the “**Company**”) received the Letter of Enquiry in relation to Post-Vetting of the 2018 Annual Report of First Tractor Company Limited (Shang Zheng Gong Han [2019] No. 0461) (hereafter referred to as the “**Enquiry Letter**”) from the Shanghai Stock Exchange, which required the Company to further disclose relevant matters. Upon the receipt of the Enquiry Letter, the Company dealt with the questions one by one and the relevant replies are as follows:

I. DECLINE IN RESULTS OF MAIN PRODUCTS

- 1. According to the annual report, the Company’s main products are agricultural machinery and power machinery products including tractors, diesel engines and key components. During the reporting period, the gross profit margin of the Company’s products dropped significantly. In particular, the gross profit margin of agricultural machinery business was 6.84%, representing a year-on-year decrease of 7.66%, and the gross profit margin of power machinery business was 6.97%, representing a year-on-year decrease of 6.07%. Regionally, the gross profit margin of domestic business was 6.74%, representing a year-on-year decrease of 9.61%, and the gross profit margin of overseas business was 17.00%, representing a year-on-year increase of 0.23%. Please further disclose: (1) the reasons for the substantial decrease in the gross profit margin of agricultural machinery and power machinery; and (2) the reasons for the increase instead of decrease in gross profit margin of overseas business based on the conditions of comparable companies in the same industry, changes in the average price and main costs of products, core competitiveness, technological level, supply and demand in overseas markets, etc.; (3) the specific arrangements for the subsequent improvement of operating results based on the actual operating conditions of the Company.**

Reply from the Company:

(1) The reasons for the substantial decrease in the gross profit margin of agricultural machinery and power machinery;

In 2018, the gross profit margin of agricultural machinery business of the Company represented a year-on-year decrease of 7.66 percentage points, mainly due to: first, in spite of the Company's intensified efforts in product promotion in response to the weak market demand, the sales volume of large and medium-sized tractors of the Company still declined significantly as affected by the continuously sluggish agricultural machinery industry, resulting in a decline in the profitability of leading products in 2018; second, as the raw materials market remained at a high level in 2018, the prices of raw iron, steel scrap and steel plate purchased by the Company as raw materials saw a substantial year-on-year increase; in addition, the price of spare parts outsourced by the Company also increased as a result of the price hike in raw materials, which gave rise to higher unit product cost of the Company; third, in 2018, the Company saw a decrease in sales of large and medium-sized tractors, leading to an increase in the shared indirect costs of a single product. As a result of the combined effect of the foregoing, the gross profit margin of the Company's agricultural machinery products decreased.

The gross profit margin of power machinery business represented a year-on-year decrease of 6.07 percentage points, mainly due to: first, as affected by the downturn of the agricultural machinery industry in 2018, and given that the Company's products are mainly matching agricultural machinery of diesel engine product and tractor, the accumulated sales volume of diesel engine products decreased by 22.2% year-on-year, which led to an increase in the shared indirect costs of a single product, and the gross profit margin of power machinery products also decreased; second, the higher prices of raw materials also contributed to the reduction in gross profit margin of products.

(2) The reasons for the increase instead of decrease in gross profit margin of overseas business;

The gross profit margin of overseas business was 17.00%, representing a year-on-year increase of 0.23 percentage point, mainly due to that, during the reporting period, high-power tractor products as a share of the total export of the Company increased year-on-year and the gross profit margin of overseas business increased slightly year on year due to the impact of the structure of export products.

(3) The specific arrangements for the subsequent improvement of operating results based on the actual operating conditions of the Company;

To cope with the sluggish market performance in an energetic manner, increase product sales by all means, and continue to strengthen and optimize the businesses of tractors and power machinery. In terms of tractor business, the Company will, in adherence to the market-oriented principle, respond to the changes in market demands and further scour for market resources in such segmented markets such as in the mountainous areas, hills and orchards with emphasized efforts; continue to improve product quality to provide products with high cost performance in a great effort to increase market share, and relieve the headaches in demands of users by virtue of the promoting effects of financial business including financial leasing on product sales. In terms of power machinery business, the Company will, in addition to achieving satisfactory results in providing supporting parts for agricultural mainframes in the market to stabilize and enlarge the market share, exert energetic efforts to branch out to other supporting markets in the sectors of ship building, construction machinery, etc., replenish the downstream customer composition and in turn take pains to increase product sales. As for international business expansion, the Company will make systemic schemes for international operations and concentrates efforts on major markets alongside the “Belt and Road” Initiative. While proactively acquiring orders for bulk projects, the Company will spare no effort to implement the establishment of overseas marketing channels with in-depth and meticulous efforts to strive for breakthroughs in the South American, east European and other key markets.

Continue to optimize product portfolio to improve the profitability of principal products. In order to meet the growing demands of users for large, intelligent, energy-efficient and environmentally friendly agricultural machinery products, the Company will continue to improve product quality, steadily promote the marketing of power-shift products and the research and development of variable transmission tractors, and accelerate the commercialized progress of diesel-fueled products in line with National IV and V emission standards. In addition, the Company will also earnestly study and keep abreast of the changes and trends on policy for agricultural machinery subsidies so as to make flexible adjustments to the product portfolio.

The Company will strengthen cost management, and reduce purchase cost through cost reduction strategy, concentrated purchase and other measures, tighten management and control over the production process, improve production efficiency and act out comprehensive cost control through product design optimization, process consummation and other means.

To reinforce management to reduce operating cost. In 2019, the Company will intensify overall budget management with specific targets and responsibilities, exert strict control over various fees and charges especially non-productive expenditures, and adopt multiple measures to enhance the management of accounts receivables and inventory with the view to reducing occupation of funds and capital risk to level up the overall operating benefits of the Company.

To proceed with the disposal of inefficient and ineffective assets as well as assets irrelevant to the principal businesses. In 2019, the Company will increase its efforts on treatment of loss-making enterprise and disposition of inefficient and ineffective assets at a higher speed and revitalize the existing resources so as to block the loss-making sources in operations effectively, and reduce loss-making operations' erosion of profits of the Company. Moreover, the Company will strive to extend business chain and explore and develop an integrated solution with its own characteristics by centering on smart agriculture. By focusing on farming services, the Company will devote to develop precision agriculture in a bid to improve the service capability of the whole industry chain of agriculture.

2. According to the annual report, the operating revenue of the Company for each quarter of 2018 amounted to RMB2,223 million, RMB1,187 million, RMB1,324 million and RMB707 million, respectively, and the net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss for each quarter amounted to RMB47 million, RMB-278 million, RMB-286 million and RMB-872 million, respectively, indicating that the loss was in an increasing trend. The net cash flows from operating activities of the Company for each quarter amounted to RMB-627 million, RMB144 million, RMB94 million and RMB4 million, respectively. Please further disclose: (1) the reasons for the large losses in 2018, especially in the fourth quarter; and (2) the reasons for the mismatch between the net profit and cash flow from operating activities for each quarter based on the gross profit margin of main products in each quarter and the conditions of comparable companies in the same industry; (3) explain whether the Company's results have obvious seasonal characteristics based on the Company's operations; (4) the provision for impairment of assets by quarters and whether there is any improper surplus management including provision for impairment in a centralized way at the end of the year and the reasonableness thereof.

Reply from the Company:

- (1) **The reasons for the large losses in 2018, especially in the fourth quarter;**

First, only 6,200 large and medium-sized tractors were sold in the fourth quarter of 2018, representing a year-on-year decrease of 28.1% and accounting for 16.4% of the sales for the whole year. The sales revenue in the quarter was only RMB707 million, representing less than 50% of the average for the first three quarters. The revenue and gross profit margin in each quarter of 2018 are as follows:

Item	Q1	Q2	Q3	Q4	Total
Operating revenue (RMB0'000)	232,258	118,684	132,427	70,731	554,100
Gross profit margin (%)	14.59	3.12	3.70	2.52	7.99
Proportion of revenue (%)	41.92	21.42	23.90	12.76	100.00

The Company intensified promotion in the fourth quarter, which resulted in the decrease in the gross profit margin. The decline in the revenue and the gross profit margin resulted in the significant drop in the profitability of its main product in the fourth quarter compared with the previous three quarters.

Second, the selling expenses of the Company were RMB462 million in 2018 and RMB204 million for the fourth quarter.

Unit: RMB0'000

Item	Amount for the fourth quarter	Amount for the last fourth quarter	Year-on- year changes	Change
Transportation expenses	2,318	4,085	-1,768	-43.27%
Sales service fees	13,249	2,239	11,010	491.80%
Employee compensation	2,071	2,248	-177	-7.89%
Advertising fees	93	167	-74	-44.34%
Packing expenses	299	-75	373	-500.91%
Exhibition expenses	292	376	-84	-22.37%
Depreciation expenses	28	17	11	63.26%
Insurance expenses	32	301	-269	-89.32%
Others	2,041	2,534	-493	-19.45%
Total	20,422	11,893	8,529	71.71%

The selling expenses for the fourth quarter of 2018 amounted to RMB204 million, representing a year-on-year increase of RMB85 million, mainly due to the following reasons: ① the transportation expenses decreased by RMB17.68 million year-on-year, mainly attributable to the decrease in the sales volume of the Company's major products, which brought down the transportation expenses of corresponding products; ② the sales service fees increased by RMB110.10 million year-on-year, mainly as a result of a year-on-year increase of RMB75.02 million in the warranty fee for 3 after sale services in the fourth quarter due to product upgrading and other factors and in line with the product performance in the market, as

well as reclassification of the warranty fee for 3 after sale services of RMB21.6 million, which was charged to the costs in the first half of the year, to the sales service fees by the Company; ③ the packing expenses increased by RMB3.73 million, mainly due to the enhancement of packing standards for export products and an increase in the external finished products business of certain subsidiaries of the Company, resulting in an increase in the corresponding packing expenses.

Third, the Company and its subsidiaries strengthened personnel reduction and reposition based on market conditions in the fourth quarter of 2018, accounting for 80% for that of the whole year.

Fourth, based on the requirements of accounting standards, the Company conducted impairment test on relevant assets in the end of 2018 and made corresponding impairment provisions for assets with signs of impairment, which affected the current profit or loss by RMB-177 million.

(2) The reasons for the mismatch between the net profit and cash flow from operating activities for each quarter;

The net cash flow from operating activities of the Company included the effect of the equipment manufacturing business and the financial business of YTO Finance. The net cash flow from operating activities in the financial business of the Company in each quarter of 2018 was RMB-393 million, RMB149 million, RMB-174 million and RMB199 million, respectively, and such big differences were attributed to the imbalance among deposits and loans, deposits from other banks and loans from banks. After excluding the effects on the financial business, the net cash flow from operating activities in the equipment manufacturing business of the Company in four quarters was RMB-234 million, RMB-5 million, RMB268 million and RMB-195 million, respectively.

The mismatch between the cash flow from operating activities and the net profit for each quarter is mainly due to the strong seasonal features of sales of the Company's products. In particular, the active market for tractors usually starts from February and March in anticipation of the spring ploughing in each April and May. As the first quarter is the peak season for production and sales, huge procurement amount was paid by the Company. Meanwhile, in order to relieve the fund pressure on distributors, the Company would grant certain credit sales to certain distributors with good credit standing in concentrated sales periods. As a result, despite the positive net profit in the first quarter, it recorded huge net cash outflows from operating activities. The net cash flow from operating activities turned basically flat or into inflows with the collection of preliminary accounts receivables in the second and third quarters. In the fourth quarter when it was in the slack season, the Company, considering the reasons above, made provision for termination benefits and assets with signs of impairment and recorded huge losses, which affected only the profit or loss but not the net cash flow from operating activities. Meanwhile, due to the collection of preliminary accounts receivables and the appropriation of agricultural machinery purchase subsidies, the net cash outflow from operating activities was below the losses in the net profit.

(3) Explain whether the Company's results have obvious seasonal characteristics based on the Company's operations;

The revenue and the net profit attributable to shareholders of the parent company of the Company in each quarter of 2015–2018 are as follows:

Unit: RMB0'000

Item	Operating revenue				Net profit attributable to shareholders of the parent company			
	2018	2017	2016	2015	2018	2017	2016	2015
Q1	232,258	266,167	301,574	298,732	4,795	6,403	9,249	9,071
Q2	118,684	154,165	202,552	256,647	-19,293	-3,177	6,586	5,793
Q3	132,427	183,263	228,884	256,116	-25,199	4,114	9,348	6,487
Q4	70,731	118,336	135,740	118,489	-90,314	-1,689	-2,846	-7,819
For the year	554,100	721,931	868,750	929,984	-130,011	5,651	22,337	13,532

Based on the above table, the tractor industry where the Company operates has obvious seasonal characteristics. The peak season of tractors of the Company commences in around February and March each year and will last for approximately two to three months; in the second half of the year, July and August are concentrated sales periods with the start of farming operations in the winter wheat regions. Accordingly, the revenue and profit of the Company in the first quarter are the highest, followed by the third quarter. The revenue and profit in the fourth quarter is the lowest in the whole year when it is in the slack season of agricultural production and product sales.

At present, there are no totally comparable listed companies principally engaged in agricultural machinery equipment manufacturing business in the A share market in respect of products, scale, etc.

(4) The provision for impairment of assets by quarters and whether there is any improper surplus management including provision for impairment in a centralized way at the end of the year and the reasonableness thereof.

The asset impairment loss and credit impairment loss of the Company in 2018 totaled RMB232 million with RMB55 million in the first three quarters and RMB177 million in the fourth quarter. The provisions for asset impairment made in each quarter were as follows:

Unit: RMB0'000

Item	Q1 Amount incurred	Q2 Amount incurred	Q3 Amount incurred	Q4 Amount incurred
I. Losses on bad debts	1,068	1,147	-866	1,215
II. Impairment loss on inventories	317	766	2,852	8,431
III. Impairment loss on other non-current assets due in one year				3,748
IV. Impairment loss on fixed assets				2,103
V. Impairment loss on construction in progress		32		930
VI. Impairment loss on intangible assets				111
VII. Impairment loss on other assets		443	-256	1,143
Total	1,385	2,388	1,730	17,681

1. *Losses on bad debts*

During the reporting period, losses on bad debts were mainly the expected credit loss on accounts receivables. According to the Company's policies on the impairment of accounts receivables and based on the group of customers and the aging, the provision for bad debts was made in an appropriate proportion. The reversal of the losses on bad debts of the Company in the third quarter was mainly due to that: most accounts receivables were recovered in the third quarter with RMB268 million of cash flow from equipment manufacturing business activities (please refer to the reply to Item (2) of this question). The losses on bad debts in other quarters were relatively balanced.

2. *Impairment loss on inventories*

The impairment loss on inventories provided in the fourth quarter represented certain increases as compared with that of the first three quarter and the same period of the previous year, which was mainly due to that in response to the shrinking market demand, the Company accordingly adopted various promotion measures. As the Company's expected net realizable value of inventories in the fourth quarter was lower than the previous three quarters and the same period of the previous year, the Company made corresponding provisions for impairment loss on inventories of RMB84.31 million.

3. *Impairment loss on other non-current assets due in one year*

Since the issuer of Guoyu Logistics bonds held by the Company has no executable property presently, the Company made provision of RMB37.48 million for relevant asset impairment losses according to loss expectation (Please refer to the reply to Question 8.(1)).

4. *Impairment loss on fixed assets of construction in progress*

According to the trend of the agricultural machinery market, due to the adjustments to certain subsidiaries and businesses, the Company conducted impairment test on relevant fixed assets and construction in progress, and make impairment provisions for the fixed assets and construction in progress with signs of impairment based on the test results.

5. Other asset losses

Other asset losses were the impairment losses fully provided for the value-added tax of RMB12.41 million of Yituo (Luoyang) Harvester Machinery Co., Ltd. (hereafter referred to as the “Harvester Company”), a wholly-owned subsidiary of the Company, retained at the end of the reporting period. The Harvester Company no longer meets the conditions for refund of the retained value-added tax in accordance with the requirements under the document of Cai Shui [2018] No. 70, and the company is actually under production and operation suspension and no sales taxes can be deducted. In substance, the retained taxes have turned into losses. As a result, it provided full amount of impairment losses for the retained tax of RMB12.41 million.

In conclusion, the Company was not involved in improper surplus management including centralized provision of impairment at the end of the year or other circumstances.

3. According to the annual report, in order to promote the sales of agricultural machinery products, the Company adopted buyer's credit, finance lease and other credit sales models. In certain credit sales models, China YTO Group Finance Company Limited (hereafter referred to as the "YTO Finance"), a subsidiary of the Company, provided financial services to customers. As at the end of the reporting period, the Company provided guarantee in an amount of RMB205 million for the purchase of the Group's agricultural machinery products, including a guarantee of RMB118 million for Dongfanghong Commercial Credit Business Customer and a guarantee of RMB86.97 million for buyer's credit and Finance Leasing Business Customers. Please: (1) illustrate the specific business model of buyer's credit sales based on main terms of sales contracts, including but not limited to down payment ratio, repayment period, guarantee method, financing arrangements provided to counterparties, and source of loan funds; (2) explain whether the revenue recognition policy under the buyer's credit sales model in which YTO Finance provides financing for customers is reasonable; (3) set out the proportion of the Company's income from buyer's credit, the proportion of the income from buyer's credit arising from the financing provided by YTO Finance, main products subject to credit sales, main sellers, the proportion of accounts receivable and the collection of payments; (4) explain whether there was any circumstance during the reporting period under which the Company assumed joint and several liability for guarantee as a result of overdue receivables caused by the abovementioned sales model and, if any, whether the relevant estimated provision for liabilities was adequate.

Reply from the Company:

- (1) Illustrate the specific business model of buyer’s credit sales based on main terms of sales contracts, including but not limited to down payment ratio, repayment period, guarantee method, financing arrangements provided to counterparties, and source of loan funds;**

Buyer’s credit refers to the provision of finance service by China YTO Group Finance Company Limited (hereafter referred to as “**YTO Finance**”), a controlled subsidiary of the Company, to the customers which procure products of the Company. The specific business model is that YTO Finance, upon assessing the credit status conducted according to customers’ application, enters into a loan agreement with the customers, and YTO Finance then provides loans to the customers for purchase of agricultural machinery upon down payment made by the customers, and transferred the loans to the customer’s account with YTO Finance. The loans will be paid to Luoyang Changxing Agricultural Machinery Company Limited (hereafter referred to as “**Changxing Company**”), a wholly-owned subsidiary of the Company engaging in tractor sales, which in turn will deliver the products to the customers. Revenue is recognized when the ownerships are transferred to the customers, whose down payment for purchase of agricultural machinery shall be no less than 30% and the loans are repayable within 3 to 36 months, while the loans taken out by the customer from YTO Finance are guaranteed by Changxing Company and counter-guaranteed by a sales agent of the Company or other parties in favour of Changxing Company.

In 2018, the buyer’s credit granted by YTO Finance amounted to RMB68.84 million, the balance of which as at the end of the year was RMB67.58 million.

- (2) Explain whether the revenue recognition policy under the buyer’s credit sales model in which YTO Finance provides financing for customers is reasonable;**

Pursuant to the sales contracts and the business agreements entered into by the parties in the buyer’s credit sales model, the control over products has been transferred to customers upon delivery, and customers can control the use of the products and obtain all economic benefits from the use of such products accordingly, which is in compliance with the revenue recognition conditions as required in the Accounting Standards for Business Enterprises 14 – Revenue, as such, the revenue recognition policy thereunder is reasonable.

- (3) Set out the proportion of the Company's income from buyer's credit, the proportion of the income from buyer's credit arising from the financing provided by YTO Finance, main products subject to credit sales, main sellers, the proportion of accounts receivable and the collection of payments; Explain whether there was any circumstance during the reporting period under which the Company assumed joint and several liability for guarantee as a result of overdue receivables caused by the abovementioned sales model and, if any, whether the relevant estimated provision for liabilities was adequate.**

During the reporting period, the Company sold a total of 959 units of high and medium-power tractors using the buyer's credit and recorded a sales revenue of RMB139 million therefrom, representing 2.51% of the Company's sales revenue during the reporting period.

Under the buyer's credit sales model, YTO Finance provides loans to customers, such loans will then be paid to Changxing Company. Upon obtaining the ownership of products, Changxing Company collects the payment for goods in full and does not incur any accounts receivable. Meanwhile, the loan from YTO Finance increases and Changxing Company assumes corresponding guarantee liability for the loan.

During the reporting period, the principal and interest were repaid according to agreement for the buyer's credit business on a regular basis without any overdue loan.

4. **According to the annual report, the Company's selling expenses during the reporting period amounted to RMB461 million, representing an increase of 5.93% over the same period last year. The closing balances of other non-current liabilities arising from discount and allowance and warranty fee for 3 after sale services included were RMB101 million and RMB82.27 million, respectively, representing a large difference as compared with the same period last year. Please further disclose: (1) the reasons for and reasonableness of the inconsistency between the changes in the main business income and the changes in the selling expenses based on the sales model, the number of sales personnel and other specific conditions; (2) analysis on the reasons for the changes in other non-current liabilities based on the Company's specific sales policies including discount and allowance and warranty for 3 after sale services included, and the specific basis for relevant accounting treatment and the compliance thereof.**

Reply from the Company:

- (1) The reasons for and reasonableness of the inconsistency between the changes in the main business income and the changes in the selling expenses based on the sales model, the number of sales personnel and other specific conditions;**

The decrease in income from the Company's main business and the increase in its selling expenses during the reporting period was mainly due to: first, the increase in promotion expenses and service fees as more efforts were exerted to facilitate production promotion and enhance service standard for pushing up sales volume in response to the sluggish market performance in the agricultural machinery market; second, a year-on-year increase in the warranty fee for 3 after sale services as a result of product upgrading and other factors and in line with the product performance in the market during the reporting period; third, a year-on-year increase in the packing expenses resulted from the enhancement of packing standards for export products and an increase in the external finished products business of certain subsidiaries of the Company.

(2) Analysis on the reasons for the changes in other non-current liabilities based on the Company's specific sales policies including discount and allowance and warranty for 3 after sale services included, and the specific basis for relevant accounting treatment and the compliance thereof.

As at the end of the reporting period, the other current liabilities of the Company amounted to RMB196.14 million, representing an increase of RMB98.30 million as compared with the beginning of the period. In particular, the sales discount and allowance amounted to RMB101.99 million, representing an increase of RMB43.39 million as compared with the beginning of the period. Such movements were mainly because the Company increased sales discount and allowance in order to stimulate distributors to promote sales of products. During the reporting period, the Company offset the subsequent loans of distributors with the discount and allowance which were recorded as liabilities and actually not settled during the year on an accrual basis.

As at the end of the reporting period, the warranty fee for 3 after sale services included in "other current liabilities" of the Company amounted to RMB82.27 million, representing an increase of RMB53.84 million as compared with the beginning of the period. The products for which the Company provides 3 after sale services include tractors, diesel engines and various self-made spare parts. The provision for the warranty fee for 3 after sale services included is based on the proportion of the warranty fee for 3 after sale services included actually incurred in the past in the revenue. As affected by the product upgrading and other factors and in line with the product performance in the market, a year-on-year increase in the provision for the warranty fee for 3 after sale services was made by the Company on an accrual basis as at the end of the reporting period, resulting in an increase in the balance of "other current liabilities" as at the end of the reporting period.

II. TERMINATION BENEFITS AND IMPAIRMENT OF ASSETS

5. **During the reporting period, the provision for termination benefits arising from streamlining and personnel reposition had great impact on the profit for the reporting period. In particular, the termination benefits included in administrative expenses amounted to RMB248 million and the termination benefits payable within over one year amounted to RMB119 million. Please further disclose: (1) whether the Company has a formal labor relationship termination plan and whether the abovementioned termination of agreement can be unilaterally withdrawn based on the decision-making procedure and specific arrangements for the personnel reposition; (2) the reasonableness of the vesting period of the termination benefits based on the decision-making time for the personnel reposition arrangement, payment arrangement, number and composition of employees involved in personnel reposition, etc. and the effects of the follow-up personnel resettlement plan on the Company's profit.**

Reply from the Company:

- (1) Whether the Company has a formal labor relationship termination plan and whether the abovementioned termination of agreement can be unilaterally withdrawn;**

At the beginning of 2018, the Company issued the Special Work Plan on Improvement of Human Resources Management to guide the Company and its subsidiaries in respect of optimization of human resources structure based on the actual conditions and control of total number of staff. The subsidiaries of the Company carried out relevant work according to their actual conditions. During the reporting period, staff repositioning was conducted by way of termination of labor contract and policy-based repositioning. The employees with whom the Company terminated the labor contract through negotiation were compensated in a lump sum, and the Company terminated the labor contract with them; for the employees subject to policy-based repositioning, upon their application, the Company entered into relevant agreements on dismissal and rest with them after confirming their satisfaction of the dismissal and rest conditions through review and the Company will make contributions to social security for and pay living expenses to them according to the agreements till their retirement. Such agreements cannot be terminated unilaterally.

(2) The reasonableness of the vesting period of the termination benefits based on the decision-making time for the personnel reposition arrangement, payment arrangement, number and composition of employees involved in personnel reposition, etc. and the effects of the follow-up personnel resettlement plan on the Company's profit.

At the beginning of 2018, the Company and its subsidiaries gradually implemented human resource structure adjustment and personnel reduction and repositioning according to their business conditions. As the decrease in sales in the market in the second half of the year exceeded expectations, the subsidiaries increased efforts on personnel reduction and repositioning in the fourth quarter. During the reporting period, the Company reduced or repositioned a total of 2,254 employees. For employees subject to policy-based repositioning, the Company has signed an agreement that cannot be unilaterally withdrawn with them and will make contributions to social security for and pay living expenses to them till they reach the mandatory age for retirement. According to relevant provisions of the Accounting Standards for Business Enterprises No. 9 –Employee Compensation, the Company shall make provision for the termination benefits in a one-off manner for the abovementioned expenses and include the same in the profit or loss for the current period. In particular, the termination benefits to be paid in over one year shall be included in the profit or loss for the current period and employee benefits payable (termination benefits) based on the amount discounted at the interest rate of national debts of the relevant term in the interbank bond market.

At present, the Company has no finalized follow-up staff repositioning plan. However, it is possible that repositioning will be carried out for staff of certain subsidiaries depending on the Company's future business development needs.

6. During the reporting period, the Company made provision for impairment of inventories in an amount of RMB124 million, including provision for impairment of raw materials, work in progress and finished goods of RMB79.97 million, RMB10.71 million and RMB35.03 million, respectively, while the Company made provision for impairment of inventories in an amount of RMB37.61 million in the same period last year. Please: (1) analyze the reasonableness of the large amount of provision for assets impairment loss on raw materials based on the price movements, inventory categories and proportion of major raw materials; (2) analyze whether the provision for impairment of inventories was sufficient in the last year based on the basis and method of provision for impairment of inventories.

Reply from the Company:

- (1) Analyze the reasonableness of the large amount of provision for assets impairment loss on raw materials based on the price movements, inventory categories and proportion of major raw materials;

The “raw materials” under the “inventories” of the Company mainly include various raw materials, major materials and components and other semi-finished products of the Company.

The table below sets out the “raw materials” under inventories of the Company by major compositions as at the end of the reporting period:

	<i>RMB0'000</i>
Item	Original value as at the end of the reporting period
Steel	4,456
Pig iron	267
Steel scrap	810
Parts	42,115
Others	12,766
Total	60,414

Note: in the raw materials, the auxiliary materials other than steel, pig iron, steel scrap and parts, rubber, tyres, fuels, etc. are presented under the item of “others”.

During the reporting period, the Company made provisions for impairment loss on inventories of RMB79.97 million for raw materials, which were mainly the impairment loss of components of tractors. During the reporting period, as the sales volume of relevant products failed to reach the estimated level, representing a substantial year-on-year decrease, the Company made downward adjustment to relevant prices. Based on the accounting standards, the Company expected the net realizable value of the inventories of such tractors to be relatively low at the end of the period, which would result in the relatively low net realizable value of the inventories of corresponding components at the end of the period. Therefore, the Company made inventory impairment provision for the difference between the carrying amounts and the expected net realizable value of inventories.

(2) Analyze whether the provision for impairment of inventories was sufficient in the last year based on the basis and method of provision for impairment of inventories.

According to the requirements of accounting standards for business enterprises and the Company's accounting policies, the Company measured the inventories at the lower of the cost and the net realizable value on the balance sheet date and made provisions for impairment of inventories accordingly.

At the end of the reporting period, the original value of inventories of the Company was RMB1,645 million, representing an increase of 30.70% from the beginning of the period, which was mainly attributed to the increases in the stock products and main units and products under production as compared with the beginning of the period. In addition, the Company expects that the market sluggishness will not reverse in short term. The Company's expected net realizable value of inventories in the fourth quarter is lower than the previous quarters and the same period of the previous year. As a result, the Company has given an objective view of the value of its inventories in the financial statement for the year 2017.

- 7. During the reporting period, the Company refined the bad debts provisioning policy for accounts receivable. The proportion of provision for bad debts made for accounts receivable from domestic customers with the aging of 1–3 months, 4–6 months, 7–12 months, 1–2 years and over 2 years was 1%, 2%, 15%, 50% and 100%, respectively; the proportion of provision for bad debts made for accounts receivable from international business with the aging of within 1 year, 1–3 years, 3–4 years, 4–5 years and over 5 years was 5%, 10%, 30%, 60% and 100%, respectively. Previously, the proportion of provision for bad debts made by the Company for accounts receivable with the aging of within 1 year was 1%-15%. Please: (1) analyze the basis for and reasonableness of the adjustments to the provision for bad debts based on the credit and product types of major customers, and explain the reasons for the large difference in the proportion of provision for bad debts made for accounts receivable from domestic and overseas businesses; (2) conduct a sensitivity analysis on the impact of adjustments to the provision for bad debts on profit based on the ageing structure of accounts receivable.**

Reply from the Company:

- (1) Analyze the basis for and reasonableness of the adjustments to the provision for bad debts based on the credit and product types of major customers, and explain the reasons for the large difference in the proportion of provision for bad debts made for accounts receivable from domestic and overseas businesses;**

In accordance with the revised “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” and the “Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation” issued by the Ministry of Finance of the People’s Republic of China in 2017 and based on the actual conditions in the operation and management of the Company, the Company defined relevant contents of the “impairment of certain financial instruments” under the accounting policies of the Company during the reporting period to ensure that the accounting policies of the Company can give a more objective reflection of the financial conditions and operating results of the Company. The defining of accounting policies is mainly related to the proportion of provision for the expected credit losses of accounts receivable formed by domestic and international businesses based on ageing credit risk characteristics.

The sales to big customers represent a large proportion in the international business of the Company with a general long payback period and is partially guaranteed with government credit or insured with export credit insurance. The risk characteristics are obviously different from domestic customers.

Based on the abovementioned risk characteristics, the Company determined the proportion of provision for bad debts made for accounts receivable from overseas businesses.

- (2) Conduct a sensitivity analysis on the impact of adjustments to the provision for bad debts on profit based on the ageing structure of accounts receivable.**

As at the end of the reporting period, based on the current proportion of provision for bad debts, the balance of the provision for bad debts on accounts receivable arising from international businesses of the Company was RMB21.59 million. Calculated at the proportion of provision for bad debts before the defining of accounting policies, the balance of the provision for bad debts on accounts receivable arising from international businesses as at the end of the reporting period was RMB21.50 million, which represents no significant difference with that of the period before the defining of accounting policies. As a result, the adjustment to the proportion of bad debts has no significant effects on the profit of the Company and is of no sensitivity.

- 8. According to the annual report, China YTO Group Finance Company Limited, a wholly-owned subsidiary of the Company, purchased “Guoyu Logistics CP001” and “Guoyu Logistics CP002”, being short-term financing bills, in January 2016. In 2018, as Guoyu Logistics Industry Group had no executable property, the Company made full provision for impairment in an amount of RMB93,703,200. Please further disclose: (1) the reasonableness of the period over which provision for impairment was made based on the timing of the impairment (default) signs of the abovementioned short-term financing bonds and reasons and basis for previous provisions for impairment; the annual audit accountant please express opinions; (2) whether there is any potential connected relationship or other interest arrangements between Wuhan Guoyu Logistics Industry Group and the controlling shareholder and its related parties; (3) the scale of corporate bond investment during the reporting period, whether decision-making procedures have been implemented for purchase of such products and whether there are effective internal control system and risk control measures in place.**

Reply from the Company:

- (1) Please disclose the reasonableness of the period over which provision for impairment was made based on the timing of the impairment (default) signs of the abovementioned short-term financing bonds and reasons and basis for previous provisions for impairment; the annual audit accountant please express opinions;**

YTO Finance purchased short-term financing bills 15 Guoyu Logistics CP001 and 15 Guoyu Logistics CP002 with the maturity dates of 6 August 2016 (which would be postponed to 8 August 2016 if it falls on a holiday) and 28 October 2016 from Wuhan Guoyu Logistics Industry Group Co., Ltd. (“**Guoyu Logistics**”) in January 2016 through open market price consultation in the interbank bond market. As the two phases of Guoyu Logistics bonds failed to be paid upon maturity, both of them constitute substantial default.

Subsequent to the default, with the support of the Hubei Office of the CBIRC, the creditor committee of Guoyu Logistics was established in December 2016. It communicated on the current credit and loan conditions of Guoyu Logistics and discussed on risk prevention measures, developed plans on the protection of creditors’ rights and a platform for adopting unanimous actions. Meanwhile, based on the asset five-level regulatory requirements and classification standards of the CBIRC, YTO Finance classified the bills of Guoyu Logistics, which were overdue for over 90 days, into doubtful assets. Based on the policy of YTO Finance on provision for impairment of doubtful assets and the valuation of the two tranches of bills of Guoyu Logistics as published on the website of Chinabond as at the end of 2016, the Company made provisions for impairment losses of RMB56,222,300 at 60% of the balance of the carrying value of investments at the end of 2016.

While communicating with Guoyu Logistics, the lead underwriters and the local government, YTO Finance sued Guoyu Logistics for bond default through the Higher People's Court of Hubei Province according to laws. Under the coordination of the Higher People's Court of Hubei Province, YTO Finance and Guoyu Logistics entered into the Mediation Agreement on 24 October 2017, providing that Guoyu Logistics shall repay the principle and interest of the bonds and relevant fees in two installments. On the same day, the Higher People's Court of Hubei Province issued the Paper of Civil Mediation ((2017) E Min Chu No. 18) according to the Mediation Agreement, pursuant to which both parties agreed that if Guoyu Logistics breaches the agreements made by both parties, YTO Finance shall have the right to declare the early termination of the agreement and shall apply for enforcement to the court with jurisdiction.

As Guoyu Logistics failed to make repayment as agreed in the Paper of Civil Mediation, YTO Finance applied for enforcement to the court on 17 January 2018. On 19 November 2018, the Intermediate People's Court of Wuhan City issue the second Enforcement Verdict ((2018) E 01 Zhi No. 156) and terminated the enforcement as no executable property was found. In accordance with the termination verdict and taking into account the situation of Guoyu Logistics, at the end of 2018, the bonds of Guoyu Logistics were recognized as loss-related claims by YTO Finance based on the asset five-level regulatory requirements and classification standards of the CBRC and it made full provision for the impairment of the investment balance (approximately RMB37.48 million).

(2) Whether there is any potential connected relationship or other interest arrangements between Wuhan Guoyu Logistics Industry Group and the controlling shareholder and its related parties;

There is no potential connected relationship or other interest arrangements between Guoyu Logistics and the controlling shareholder of the Company and its related parties.

(3) The scale of corporate bond investment during the reporting period, whether decision-making procedures have been implemented for purchase of such products and whether there are effective internal control system and risk control measures in place.

During the reporting period, the Company had no new bond investments and the balance of its bond investments was RMB115 million. In accordance with the Basic Regulations on Internal Control of Enterprises, the Application Guidelines for Internal Control of Enterprises and other relevant regulations, the Company has established internal control and risk control systems and procedures that are in line with the development needs of YTO Finance.

YTO Finance is required to formulate its annual investment plan every year, which includes the total amount of investments for the relevant year, the cap for a single investment, the risk exposure of relevant investment varieties, entry thresholds of investment targets, risk prevention measures, asset allocation ratio, etc. Such plan must be submitted to YTO Finance and the board of directors of First Tractor for approval before implementation. The 2018 annual investment plan of YTO Finance was approved at the 18th meeting of the 7th session of the board of directors of the Company on 29 March 2018.

After the annual investment plan is approved, when carrying out a bond investment, the interbank department of YTO Finance will select the variety of bonds to be invested in according to capital liquidity matching requirements, and prepares an analysis report to submit to the investment review committee for approval. After the investment is approved by the investment review committee, it will be subject to approval of the risk management department and relevant leaders of YTO Finance respectively according to the specific business process. As the bond investment is of medium and high level risks, the investment shall be subject to approval of the chairman of the board of directors after being approved by the general manager of YTO Finance.

Specific risk control measures: setting up investment target standards with risks under control to avoid involvement in restrictive industries or industries with excessive capacity and to control the proportion of investment in one single bonds based on the distributed principle; separating foreground bargaining and background accounting to prevent operating risks; enhancing oversight on the investment process, keeping an eye on the movements of investment projects and having coping proposals on major risks in place; stopping losses in a timely manner where investment risk occurs by cashing out promptly or resorting to legal proceedings so as to safeguard the interests of the Company and reduce losses.

- 9. During the reporting period, the Company made provision for impairment of the advances to suppliers in an amount of RMB6,456,800, including the provision for impairment of the advances to suppliers aged less than 1 year in an amount of RMB4,613,400. Please explain the reasons for the provision for impairment based on the payees and the signs of impairment of the advances to suppliers.**

Reply from the Company:

As at the end of the reporting period, the book balance of the advances to suppliers of the Company amounted to RMB114 million and provision for impairment of the advances to suppliers amounted to RMB6,456,800. In particular, the book balance of the advances to suppliers aged less than one year amounted to RMB106 million and provision for impairment of such advances to suppliers was RMB4,613,400. The main reason for such impairment was that YTO International Economy and Trade Company Limited suffered hacking attack when carrying out an overseas import business and incurred losses in advances to suppliers, full provision for bad debt was made in respect of such amount.

III. FINANCIAL INFORMATION AND INFORMATION DISCLOSURE

- 10. According to segment information, during the reporting period, agricultural machinery, power machinery and financial services segments recorded net profit of RMB-1,123 million, RMB-297 million and RMB37 million, respectively. Only the financial services segment is profitable and the segment mainly consists of YTO Finance. During the reporting period, YTO Finance realized interest income and interest expense of RMB138 million and RMB12 million, respectively, and the balance of lendings to non-financial institutions amounted to RMB200 million. Please further disclose: (1) the source and details of the deposits absorbed by YTO Finance; (2) whether the objects and types of loan services provided by YTO Finance are related to the sales of machinery products including tractors; (3) whether the deposit rate for the recent two years was too low based on the size of deposit of the parent company and related parties with YTO Finance and the interest income of the parent company; (4) the name and type of institutions, term and interest rate in relation to the lendings to non-financial institutions by YTO Finance during the reporting period and whether there is connected relationship with the controlling shareholder; (5) the balance sheets, income statements and cash flow statements of YTO Finance for the past two years.**

Reply from the Company:

(1) The source and details of the deposits absorbed by YTO Finance

The source of deposits absorbed by YTO Finance mainly includes the deposits from the Company and its subsidiaries, the controlling shareholder of the Company and its subsidiaries, and the business-related security deposits from few external customers, the particulars of which are as follows:

Unit: RMB0'000

Type of Customer	31 December 2018	31 December 2017	Remark
The Company and its subsidiaries	232,631.28	329,929.63	Eliminated by the Company on consolidated basis
YTO and companies where it has more than 20% shareholding (excluding the Company and its controlled subsidiaries)	103,714.15	73,599.04	
External customers	4,338.34	4,420.51	Security for product financial business
Total	340,683.77	407,949.18	

(2) Whether the objects and types of loan services provided by YTO Finance are related to the sales of machinery products including tractors;

YTO Finance provides loan services for the Company and its controlled subsidiaries, YTO and companies in which YTO holds more than 20% equity interest (excluding the Company and its controlled subsidiaries) (“internal units”), and external customers of buyer’s credit business and finance lease business (“external customers”).

In particular, loans provided to the internal units are mainly used as working capital for production and operation purposes; and loans provided to external customers are mainly used to pay for goods purchased through buyer’s credit and finance leases.

The amount, closing balance and their proportion of the loans provided by YTO Finance during the reporting period are as follows:

Unit: RMB0'000

Type of customer		Closing balance	Proportion	Accumulative loans during the reporting period	Proportion
Internal					
customers	Group members loans	220,095.00	95.95%	336,330.00	97.25%
	Buyer's credit loans	6,758.20	2.95%	6,884.31	1.99%
External	Finance lease loans	2,532.14	1.10%	2,620.54	0.76%
customers	Consumer credit loans	2.38	0.00%	-	-
Total		<u>229,387.72</u>	<u>100.00%</u>	<u>345,834.85</u>	<u>100.00%</u>

- (3) **Whether the deposit rates for the recent two years was too low based on the size of deposits of the parent company and related parties with YTO Finance and the interest income of the parent company;**

Deposits and interest income of YTO and its related parties

Item	2018	2017
Average daily deposits of YTO and its related parties (RMB0'000)	95,834.64	86,756.67
Interest income of YTO and its related parties (RMB0'000)	1,527.69	1,423.68

Deposits and interest income of First Tractor and its subsidiaries

Item	2018	2017
Average daily deposits of First Tractor (RMB0'000)	283,909.64	319,390.19
Interest income of First Tractor (RMB0'000)	6,643.79	7,606.71

YTO Finance complies with the interest rates management regulations of the People's Bank of China in respect of its deposit rates. To serve the Group members and increase the concentration of the Company's capital, YTO Finance offered unified deposits interest rates to internal enterprises which are linked with the amount and term of deposits and subject to increase in certain proportion over the benchmark deposit interest rate for various level of deposits interest rates, and there is no circumstance under which its interest rate was lower than the benchmark deposit interest rate for the same period set by the People's Bank of China.

- (4) **The name and type of institutions, term and interest rate in relation to the lendings to non-financial institutions by YTO Finance during the reporting period and whether there is connected relationship with the controlling shareholder;**

During the reporting period, for the lendings to non-financial institutions by YTO Finance, the counterparty is Orient Group Finance Company Limited (東方集團財務有限責任公司), a finance company of a conglomerate. The term of the lending is 7 days and the annualized interest rate is 5.8%. It has no connected relationship with the controlling shareholder of the Company.

(5) **The audited balance sheets, income statements and cash flow statements of YTO Finance for the past two years.**

Balance Sheet

	<i>Unit: Yuan Currency: RMB</i>	
Item	31 December 2018	31 December 2017
Assets		
Cash and deposits with centre bank	230,786,184.48	281,447,325.05
Monetary Funds		
Settlement reserve		
Deposits with interbank	1,046,812,387.55	2,720,622,260.02
Precious metal		
Lending to banks and other financial institutions	200,000,000.00	
Derivative financial assets		
Accounts receivable	42,247,641.49	14,305,830.83
Contract assets		
Financial assets purchased with agreement for re-sale	150,203,731.40	80,207,776.70
Assets classified as held for sale		
Loans and advances to customers	2,301,099,316.91	1,939,000,019.01
Including: Loans	2,268,555,740.93	1,733,783,559.94
Discount	99,725,004.41	264,171,217.70
Finance lease		
Less: Impairment provision of loans	67,181,428.43	58,954,758.63
Financial investment:		
Held-for-trading financial assets	295,500.00	27,000,000.00
Debt investments	20,879,452.05	58,344,519.48
Other debt investments		
Other investments in equity instruments		
Long-term equity investment		
Investment properties		
Fixed assets	2,844,844.88	3,370,783.46
Construction in progress	379,938.46	379,938.46
Intangible assets	860,553.83	984,057.15
Deferred income tax assets	211,416.09	194,585.00
Other assets	294,357,700.80	206,320,075.41
Total assets	<u>4,290,978,667.94</u>	<u>5,332,177,170.57</u>

Item	31 December 2018	31 December 2017
Liabilities:		
Short-term loans		
Borrowings from central bank		
Deposits from interbank and other financial institutions		
Loans from banks and other financial institutes		300,000,000.00
Held-for-trading financial liabilities		
Derivative financial liabilities		
Sale of repurchased financial assets		
Deposits adsorption	3,406,837,694.35	4,079,491,805.10
Employee salary payable	1,032,716.74	1,030,205.58
Including: Salary payable	690,544.04	778,340.00
Benefits payable		
Including: Employee incentives and welfare funds		
Taxes payables	6,196,293.43	466,184.81
Including: tax payable		
Accounts payable	66,563,920.63	146,464,502.47
Contractual liability		
Liabilities classified as held for sale		
Estimated Liabilities		
Long-term loans		
Bonds payable		
Including: Preference shares		
Perpetual bond		
Deferred tax liabilities		
Other liabilities		
Total liabilities	<u><u>3,480,630,625.15</u></u>	<u><u>4,527,452,697.96</u></u>

Item	31 December 2018	31 December 2017
Owner's equity (or shareholder's equity):		
Paid-in capital (share capital)	500,000,000.00	500,000,000.00
State-owned capital	500,000,000.00	500,000,000.00
Including: Capital from state-owned legal person	500,000,000.00	500,000,000.00
Collectively-owned capital		
Private capital		
Including: Personal capital		
Foreign capital		
Less: Investment returned		
Paid-in capital (share capital), net	500,000,000.00	500,000,000.00
Other equity instruments		
Including: Preference shares		
Perpetual bond		
Capital reserve		
Less: Treasury shares		
Other comprehensive income		
Including: Converted difference in Foreign Currency Statements		
Surplus reserve	68,738,848.99	65,026,491.97
Including: Statutory reserve	68,738,848.99	65,026,491.97
Discretionary reserve		
Reserve fund		
Venture expansion fund		
Profit Return Investments		
General risk reserves		13,459,849.07
Retained earnings	241,609,193.80	226,238,131.57

Item	31 December 2018	31 December 2017
Total amount attributable to owners' equity interests of the parent company	810,348,042.79	804,724,472.61
* Minority shareholders equity interests		
Total owner's equity (or shareholder's equity)	810,348,042.79	804,724,472.61
Total liabilities and owner's equity (or shareholder's equity)	4,290,978,667.94	5,332,177,170.57

INCOME STATEMENT

Item	<i>Unit: Yuan Currency: RMB</i>	
	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
1. Total operating revenue	122,229,313.86	117,581,313.55
Net interest income	99,667,102.09	83,351,868.57
Including: Interest income	181,288,890.55	172,622,037.93
Interest expenses	81,621,788.46	89,270,169.36
Fees and net commission income	3,737,276.89	1,896,802.75
Including: Fees and commission income	4,142,894.76	2,198,081.26
Fees and commission expense	405,617.87	301,278.51
Investment income (Losses listed as "-")	18,829,434.88	32,613,708.25
Including: Income from investments in associates and joint ventures (Losses listed as "-")		
Income from derecognition of financial assets at amortized cost		
Net Open Hedging Income (Losses listed as "-")		
Other income		
Gain arising from the changes in fair value (Losses listed as "-")	-4,500.00	-280,554.14

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
Foreign exchange gain (Losses listed as “-”)		
Other business income		4,905.66
Asset disposal income (Losses listed as “-”)		-5,417.54
2. Total operating expenses	58,331,275.39	13,719,692.43
Tax and surcharges	868,533.36	725,038.19
Business and administrative expenses	10,227,247.52	10,453,141.57
Asset impairment loss		
Loss of credit impairment	47,235,494.51	2,541,512.67
Other operating cost		
3. Operating profit (Losses listed as “-”)	63,898,038.47	103,861,621.12
Add: Non-operating income	0.21	1.00
Including: Government grants		
Gains from debt restructuring		
Less: Non-operating expenses		159.00
Including: Losses from debt restructuring		
4. Total profit (Total losses listed as “-”)	63,898,038.68	103,861,463.12
Less: Income tax expenses	26,774,468.50	23,268,426.19
5. Net profit (Net losses listed as “-”)	37,123,570.18	80,593,036.93
(1) Classification of ownership according to ownership:		
Net profit attributable to owners of the parent company	37,123,570.18	80,593,036.93
Minority interest		
(2) Classification according to the continuity of operation:		
Continuous operating profit or loss	37,123,570.18	80,593,036.93
Termination of profit or loss		

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
6. Net other comprehensive income after tax	–	-4,818,278.05
Net other comprehensive income after tax attributable to owners of the parent company	–	-4,818,278.05
(1) Other comprehensive income that cannot be reclassified to profit and loss	–	–
1. Re-measurement of Benefit Plan Change		
2. Share of other comprehensive income that cannot be reclassified to profit and loss under equity method		
☆ 3. Changes in fair value of investment in other equity instruments		
☆ 4. Fair value change of enterprise's credit risk		
5. Others		
(2) Other comprehensive income that will be reclassified to profit and loss	–	-4,818,278.05
1. Share of other comprehensive income that can be reclassified to profit and loss under equity method		
☆ 2. Changes in fair value of other creditor's rights investment		
3. Gains and losses from changes in fair value of available-for-sale financial assets		-4,818,278.05

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
☆ 4. Amount of financial assets reclassified into other comprehensive incomes		
5. Gains and losses from held-to-maturity investment reclassified as financial assets available-for-sale		
☆ 6. Credit impairment reserve for other creditor's rights investment		
7. Cash flow hedging reserve (effective part of hedging gains and losses from cash flows)		
8. Balance of conversion of foreign currency financial statements		
9. Others		
* Net other comprehensive income after tax attributable to minority interests		
7. Total comprehensive income	37,123,570.18	75,774,758.88
Total comprehensive income attributable to owners of the parent company	37,123,570.18	75,774,758.88
* Total comprehensive income attributable to minority interests	–	–

CASH FLOW STATEMENT

Unit: Yuan Currency: RMB

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
1. Cash Flow from Operating Activities:		
Cash from sale and render service		
△ Net increase of customer's deposit and deposit taking of interbank	-672,654,110.75	-18,765,354.51
△ Net increase borrowings from central bank		
△ Net increase borrowing funds from other financing institution	-500,000,000.00	50,000,000.00
△ Cash from original insurance contract premium		
△ Net cash from reinsurance business		
△ Net increase of insured deposit and investment		
△ Net increase of financial assets disposal measured as fair value and the variation included in current profit and loss		
△ Interest, handling charges and commissions received	187,809,453.96	176,940,636.59
△ Net increase in funds deposit		
△ Net increase of repurchasing business funds		
Refund of tax and levies		
Cash received relating to other business activities	0.21	4,447,973,253.67
Sub-total of cash inflows from operating activities	<u>-984,844,656.58</u>	<u>4,656,148,535.75</u>

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
Cash payments for goods purchased and services received		
△ Net increase in loans and payments on behalf	370,167,950.74	196,041,790.89
△ Net increase in deposits with centre bank and interbank	-52,457,657.57	-7,428,087.78
△ Payments of claims for original insurance contracts		
△ Interests, handling charges and commissions paid	105,411,168.26	68,782,129.02
△ Commissions on insurance policies paid		
Cash payments to and on behalf of employees	7,059,069.50	6,757,812.55
Payments of all types of taxes	27,422,217.52	37,750,567.26
Other cash payments relating to operating activities	154,852,880.37	4,173,888,382.32
Sub-total of cash outflows from operating activities	612,455,628.82	4,475,792,594.26
Net cash flows from operating activities	<u>-1,597,300,285.40</u>	<u>180,355,941.49</u>

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
2. Cash flows from investing activities:		
Cash received from disposals and withdraw on investment	948,946,981.61	1,302,110,856.28
Cash received from returns on investments	18,654,979.54	32,977,736.49
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		6,868.80
Net cash received from disposals of subsidiaries and other business units		
Other cash received relating to investing activities		
Sub-total of cash inflows from investing activities	<u>967,601,961.15</u>	<u>1,335,095,461.57</u>
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets	210,892.33	745,152.31
Cash payments to acquire investments	1,010,604,138.79	1,145,739,762.07
△ Net increase in pledged loans		
Net cash payments for acquisitions of subsidiaries and other business units		
Other cash payments relating to investing activities		1,292.89
Sub-total of cash outflows from investing activities	<u>1,010,815,031.12</u>	<u>1,146,486,207.27</u>
Net cash flows from investing activities	<u><u>-43,213,069.97</u></u>	<u><u>188,609,254.30</u></u>

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
3. Cash flows from financing activities:		
Cash received from investors in making investment in the enterprise		
Including: cash received from issuing shares of minority shareholders		
Cash received from borrowings		
△ Cash received from issuance of bonds		
Other cash received relating to financing activities		
Sub-total of cash inflows from financing activities	–	–
Cash repayments of amounts borrowed		
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	31,500,000.00	
Including: subsidiary companies pay cash to minority shareholders for interest expenses and distribution of dividends or profit		
Other cash payments relating to financing activities		
Sub-total of cash outflows from financing activities	31,500,000.00	–
Net cash flows from financing activities	-31,500,000.00	–

Item	1 January 2018– 31 December 2018	1 January 2017– 31 December 2017
4. Effect of foreign exchange rate changes on cash and cash equivalents		
5. Net increase in cash and cash equivalents	-1,672,013,355.37	368,965,195.79
Plus: Cash and cash equivalents at beginning of period	2,722,619,671.68	2,353,654,475.89
6. Cash and cash equivalents at end of period	1,050,606,316.31	2,722,619,671.68

- 11. As at the end of the reporting period, the book balance of the Company's monetary funds was RMB1,550 million, the balance of short-term loans was RMB2,778 million, and the balance of long-term loans was RMB868 million. The Company's gearing ratio rose to 64.57% from 61.43% for the last year. Please further disclose: (1) whether there is potential contractual arrangement or potential restrictive use in relation to the book balance of monetary funds and whether the relevant information disclosure is true, accurate and complete; (2) the reasons for the increase in debts as at the end of the reporting period based on the structure, use and limitation of monetary funds, etc.**

Reply from the Company:

- (1) Whether there is potential contractual arrangement or potential restrictive use in relation to the book balance of monetary funds and whether the relevant information disclosure is true, accurate and complete;**

As at the end of the reporting period, the book balance of the Company's monetary funds was RMB1,550 million, among which the restricted funds was RMB270 million, mainly including the statutory reserve of RMB227 million deposited in the Central Bank by YTO Finance, acceptance bill deposits of RMB33 million and other deposits of RMB10 million. Except for the restricted funds, other funds are available for utilization. There is no potential contractual arrangement or potential restrictive use.

(2) Analysis of the reasons for the increase in debts as at the end of the reporting period based on the structure, use and limitation of monetary funds, etc.

The corporate bonds of RMB1,500 million were repaid by the Company in the first half of 2018, the Company's interest-bearing debts fell by RMB530 million year-on-year at the end of the reporting period, the details of which are as follows:

Unit: RMB0'000

Item	As at the end of 2018	As at the end of 2017	Increase/ decrease
Short-term loans	277,752	203,388	74,364
Long-term loans due in one year	6,000	975	5,025
Bonds payable due in one year	–	149,923	-149,923
Long-term loans	86,847	68,901	17,946
Total	<u>370,599</u>	<u>423,187</u>	<u>-52,588</u>

- 12. According to the Company's disclosure, during the reporting period, the Company's entrusted wealth management with its internal funds amounted to RMB1,150 million. As at the end of the reporting period, wealth management products and structured deposits were RMB544 million and RMB1,232 million, respectively. Please further disclose: (1) the name and type of the trustees, the amount, term and investment direction of the wealth management products, the method to determine return, expected income (if any), the actual income or loss for the reporting period and the actual recovery in relation to the entrusted wealth management during the reporting period; (2) whether relevant decision-making procedures have been fulfilled for such entrustment, and future entrusted wealth management plan.**

Reply from the Company:

- (1) The name and type of the trustees, the amount, term and investment direction of the wealth management products, the method to determine return, expected income (if any), the actual income or loss for the reporting period and the actual recovery in relation to the entrusted wealth management during the reporting period;**

① During the reporting period, the Company purchased wealth management products amounting to RMB1,150 million with its internal funds, the details of which are as follows:

Unit: RMB0'000

No.	Trustee	Type	Amount of the wealth management product	Term (day)	Source of funds	Investment direction	Method to determine return	Expected income	Actual income or loss	Actual recovery
1	Bank of Communications	Short-term principal guaranteed wealth management products	40,000	1	Internal funds	Currency market instruments, fixed income instruments and other products in compliance with the regulatory requirements	By agreement	2	2	40,002
2	Bank of Communications	Short-term principal guaranteed wealth management products	50,000	49	Internal funds	Currency market instruments and fixed income instruments	By agreement	322	322	50,322
3	Bank of Pingdingshan	Short-term principal guaranteed wealth management products	10,000	14	Internal funds	Currency market instruments, bonds assets and other fixed income assets	By agreement	15	-	-
4	Bank of Pingdingshan	Short-term principal guaranteed wealth management products	15,000	14	Internal funds	Currency market instruments, bonds assets and other fixed income assets	By agreement	22	-	-
5	Total		115,000					361	324	90,324

Note: Two short-term wealth management products purchased by the Company from Bank of Pingdingshan have been fully recovered upon maturity in January 2019, achieving income of RMB369,200 as expected.

② ***As at the end of the reporting period, the balance of wealth management products was RMB544 million, mainly consisting of wealth management products purchased by the Company from banks and the assets management schemes products purchased by the YTO Finance from securities companies, the details of which are as follows:***

Unit: RMB0'000

No.	Trustee	Type	Amount of the wealth management product	Term (day)	Source of funds	Investment direction	Method to determine return	Expected income
1	Donghai Securities	Collective assets management scheme	1,000	181	Internal funds	Bonds assets	/	27
2	Donghai Securities	Collective assets management scheme	1,000	181	Internal funds	Bonds assets	/	27
3	Donghai Securities	Collective assets management scheme	1,000	181	Internal funds	Bonds assets	/	27
4	Donghai Securities	Collective assets management scheme	1,000	188	Internal funds	Bonds assets	/	28
5	Donghai Securities	Collective assets management scheme	2,000	181	Internal funds	Bonds assets	/	54
6	Donghai Securities	Collective assets management scheme	2,582	98	Internal funds	Bonds assets	/	35
7	Donghai Securities	Collective assets management scheme	1,000	181	Internal funds	Bonds assets	/	25

No.	Trustee	Type	Amount of the wealth management product	Term (day)	Source of funds	Investment direction	Method to determine return	Expected income
8	Donghai Securities	Collective assets management scheme	1,000	91	Internal funds	Bonds assets	/	13
9	Donghai Securities	Collective assets management scheme	1,000	181	Internal funds	Bonds assets	/	25
10	Donghai Securities	Collective assets management scheme	731	181	Internal funds	Bonds assets	/	18
11	Donghai Securities	Collective assets management scheme	2,300	91	Internal funds	Bonds assets	/	28
12	Donghai Securities	Collective assets management scheme	1,000	181	Internal funds	Bonds assets	/	24
13	Donghai Securities	Collective assets management scheme	2,000	91	Internal funds	Bonds assets	/	23
14	Donghai Securities	Collective assets management scheme	1,823	188	Internal funds	Bonds assets	/	45
15	Donghai Securities	Collective assets management scheme	1,500	91	Internal funds	Bonds assets	/	16
16	Donghai Securities	Collective assets management scheme	3,000	181	Internal funds	Bonds assets	/	67

No.	Trustee	Type	Amount of the wealth management product	Term (day)	Source of funds	Investment direction	Method to determine return	Expected income
17	Donghai Securities	Collective assets management scheme	3,000	91	Internal funds	Bonds assets	/	33
18	Donghai Securities	Collective assets management scheme	2,500	181	Internal funds	Bonds assets	/	56
19	Bank of Pingdingshan	Short-term principal guaranteed wealth management products	10,000	14	Internal funds	Currency market instruments, bonds assets and other fixed income assets	By agreement	15
20	Bank of Pingdingshan	Short-term principal guaranteed wealth management products	15,000	14	Internal funds	Currency market instruments, bonds assets and other fixed income assets	By agreement	22
21	Total		54,436					610

Note: Among the assets management scheme products purchased by YTO Finance from securities companies, principal of RMB184 million has been fully recovered upon maturity, achieving income of RMB3,105,700.

(2) Whether relevant decision-making procedures have been fulfilled for such entrustment, and future entrusted wealth management plan.

The Company's investment in short-term wealth management products was considered and approved at the 18th meeting of the 7th session of the Board of the Company and the 2017 annual general meeting. The amount used for purchase of short-term principal guaranteed wealth management products issued by Bank of Communications and Bank of Pingdingshan did not exceed the authorized total investment cap and cap for one single investment.

The assets management schemes products purchased by the YTO Finance from securities companies and the amount used therefor pertained to the investment business under the 2018 annual investment proposal. The 2018 annual investment proposal was considered and approved at the 5th meeting of the 9th session of the Board of YTO Finance and the 18th meeting of the 7th session of the Board of First Tractor. The implementation process of such business is set out under enquiry 8.(3) of this Reply. As the wealth management products purchased fell within the low-risk category, such matter only required the approval of the general manager of YTO Finance.

- 13. During the reporting period, the Company’s finance costs amounted to RMB105 million, representing an increase of 43.66% over the same period last year. Please further disclose: (1) the analysis on the reasonableness of changes in interest costs based on the size and interest rate of the Company’s interest-bearing liabilities; (2) the reasons for the significant changes in exchange gains and losses during the reporting period; (3) the specific content of “others” under the finance expenses.**

Reply from the Company:

- (1) The analysis on the reasonableness of changes in interest costs based on the size and interest rate of the Company’s interest-bearing liabilities;**

During the reporting period, the average monthly interest-bearing liabilities of the Company was RMB3,695 million, representing an increase of RMB161 million as compared with corresponding period of last year. At the same time, due to the tightening money supply and the hiking interest rate of borrowings, the interest rate of a majority of loans increased to the benchmark interest rate from 10% below the benchmark interest rate. As a result, the interest costs increased as compared with corresponding period of last year.

- (2) The reasons for the significant changes in exchange gains and losses during the reporting period;**

The significant changes in exchange gains and losses during the reporting period was mainly due to the relatively large exchange losses generated from the Company’s debts denominated in US dollar due to a significant appreciation of the exchange rate of US dollar against RMB in 2018. However, the Company has entered into lock-up and swap agreements when conducting loan businesses in foreign currency and relevant gains from the locking of the exchange rate was calculated at the fair value and included in “gain from change in fair value”. As a result, the changes in the exchange rate had no significant effects on the overall profit or loss of the Company during the reporting period.

- (3) The specific content of “others” under the finance expenses.**

The “others” under the finance expenses mainly refer to the cash discounts generated from businesses with cash discounts and obtained from the payment of the procurement amount before the payment period as agreed when the Company conducted the procurement.

14. **The Company disclosed that, in November 2018, it proposed to publicly list the 33.33% equity interests and approximately RMB68,388,300 of creditor's rights held by the Company in Changtuo Agricultural Machinery Equipment Group Co., Ltd. (hereafter referred to as Changtuo Company) for transfer. During the reporting period, the Company made provision for impairment in an amount of RMB39.25 million for Changtuo Company. In addition, the Company provided entrusted loans of RMB27 million to Changtuo Company during the reporting period. Please further disclose: (1) the basis and specific calculation method for the provision for impairment made for Changtuo Company; (2) analysis on whether the Company is exposed to recovery risk in respect of its entrusted loans based on the production and operation, gearing ratio and capital of Changtuo Company; (3) the follow-up progress of the transfer of the equity interests in Changtuo Company.**

Reply from the Company:

- (1) The basis and specific calculation method for the provision for impairment made for Changtuo Company;**

The preliminary disclosure of the information on the transfer of the 33.33% equity interests and relevant creditor's rights held by the Company in Changtuo Company has been completed on China Beijing Equity Exchange from 19 November to 14 December 2018. The public listing was conducted on China Beijing Equity Exchange on 28 January 2019 to solicit transferees. Based on the estimated recoverable capital of the equity interests and creditor's rights in Changtuo Company under the transfer, corresponding provision for asset impairment was made for the part where the recoverable amount fell below the carrying value.

- (2) Analysis on whether the Company is exposed to recovery risk in respect of its entrusted loans based on the production and operation, gearing ratio and capital of Changtuo Company;**

Since Changtuo Company has ceased its production and is listed for sale currently, the Company is exposed to certain risks in respect of the recovery of the loans that were entrusted to the former, the Company has made provision for impairment in a full amount of RMB21 million entrusted loans provided to the former during the reporting period. It is expected that there is few possibility of reversing such impairment provision.

The above two provisions for assets impairment are eliminated on consolidated basis and have no impact on the Company's financial statements.

(3) The follow-up progress of the transfer of the equity interests in Changtuo Company.

During the disclosure of information, inquiries and communications from several potential enterprises were received. Up to now, the equity interests of Changtuo Company have yet to be transferred through bidding and is still in the process of soliciting transferees through public auction as no bid has been placed. The Company is actively negotiating with potential buyers on the transfer to facilitate the transfer.

- 15. Since listing in 2012, the Company has continuously recorded net cash outflow from investing activities with an aggregate amount of approximately RMB4,091 million. During the reporting period, the net cash outflow from investing activities amounted to RMB546 million, representing a year-on-year increase of 72.27%. In particular, the cash paid for investment during the reporting period amounted to RMB900 million. Please describe: (1) the reasons for and reasonableness of the large cash outflows from investing activities ever since listing based on the flow direction of capital from investing activities, project progress and cash flow, etc.; (2) the main investment direction of “Cash paid for investments”.**

Reply from the Company:

- (1) The reasons for and reasonableness of the large cash outflows from investing activities ever since listing based on the flow direction of capital from investing activities, project progress and cash flow, etc.;**

The net cash outflow from investing activities since the listing was mainly attributed to the following two reasons: ① the total cash outflow of RMB2,822 million paid for the purchase and construction of fixed assets, intangible asset and other long-term assets, which was applied to improve and upgrade the technologies for tractors and diesel engines and other leading products of the Company and included the application for the new model of new-type intelligent manufacturing of wheeled tractors, further enhancement of the core manufacturing capabilities of the new model of wheeled tractors and the agricultural diesel engine; ② a total investment expenditure of RMB2,512 million, which was mainly the cash paid for purchasing structured deposit and wealth management products. As at the end of the reporting period, the balance of structured deposit and wealth management products was RMB1,776 million.

(2) The main investment direction of “Cash paid for investments”.

During the reporting period, a cash of RMB900 million was paid for investment, which was mainly the net amount of the wealth management products and structured deposit purchased by the Company.

- 16. The annual report discloses that the closing balance of construction in progress was RMB233 million. In the current year, RMB228 million of construction in progress was transferred to fixed assets. During the reporting period, the Company made provision for impairment of the construction in progress in France in an amount of RMB11.30 million. Please further disclose: (1) whether there is delay in transfer of projects in progress of which the progress has reached 100% into fixed assets based on the timing and conditions for transfer of construction in progress into fixed asset in the year; (2) the analysis on the reasons for provision for impairment for this project based on the specific progress and investment in the reporting period of the construction in progress in France; (3) the specific content of “others” under the significant construction in progress.**

Reply from the Company:

- (1) Whether there is delay in transfer of projects in progress of which the progress has reached 100% into fixed assets based on the timing and conditions for transfer of construction in progress into fixed asset in the year;**

When a project in progress reaches the condition ready for its intended use, it shall be transferred to fixed assets according to the actual cost, consideration of the project etc.

According to the requirements of the production process, some of the Company’s projects in progress are divided into several different subprojects, and thus such projects will not reach the condition ready for their intended use until all related subprojects have been completed.

The Company's construction-in-progress projects that have not been transferred to fixed assets though their construction progress having reached 100% as at the end of 2018 and the reasons therefor are set out below:

Projects	Amount at the end of the reporting period (RMB0'000)	Reasons for not being transferred to fixed assets
New model application project of new wheeled tractor intelligent manufacturing	7,772	The construction and installation works in relation to the project have been completed and transferred to fixed assets. However, the production equipment of this project installed is still at the commissioning stage. As such, this project is not yet ready for its intended use and thus has not been transferred to fixed assets.
New giant parts workshop	432	The construction works and the majority of equipment in relation to the project have been completed and transferred to fixed assets. However, certain equipment of the project have not been transferred to fixed assets as they fail to meet the contract requirements.
User Service Training Workshop	410	The construction works in relation to the project are under acceptance; the equipment that has arrived has not been transferred to fixed assets as the commissioning has not been completed therefor.

Projects	Amount at the end of the reporting period (RMB0'000)	Reasons for not being transferred to fixed assets
Agricultural high- power diesel engine project	169	The majority of equipment and works in relation to the project have been completed and transferred to fixed assets. However, a horizontal double-sided duplex drilling and expanding tool (臥式雙面雙工位鑽、擴組合機床) of the cylinder processing line has failed to meet the design processing precision, thus it is not yet ready for its intended use and has not been put into operation, which also affected the commissioning and acceptance of subsequent processing equipment. The Company is negotiating with the supplier regarding the return of the equipment, and thus has not performed the procedures for transfer to fixed assets.

As such, all construction in progress of the Company which reaches the condition ready for its intended use has already been transferred to fixed assets, while certain construction, which has been completed but not yet ready for its intended use, has not been transferred to fixed assets. There is no delay in transfer of construction in progress to fixed assets.

(2) The analysis on the reasons for provision for impairment for this project based on the specific progress and investment in the reporting period of the construction in progress in France;

As at the end of the reporting period, the book balance of the construction in progress of YTO France was RMB19.41 million, with provision of RMB11.31 million made for impairment. In particular, RMB4.84 million of impairment provision was made during the reporting period, mainly due to the fact that, as the Company carried out positioning adjustment to YTO France, YTO France no longer proceed with the production and manufacture of relevant products, construction in progress related to the project showed signs of impairment, and therefore corresponding provision for impairment was made in accordance with the provisions of the Accounting Standards for Business Enterprises.

(3) The specific content of “others” under the significant construction in progress.

In addition to the important improvement of technologies centering on the technological upgrading of its leading products carried out by the Company, each of the secondary operating units shall make technological transformation and renovation of facilities and equipment in relation to the manufacturing and processing of spare parts based on the modification of technologies and processes; moreover, certain infrastructure also require improvements over time and usage; Such technological upgrading projects involve extensive scopes and small amounts, but together they account for a significant proportion of the construction in progress. As these projects are numerous and miscellaneous, they are collectively classified as “others” for information disclosure. As at the end of the reporting period, there were 244 such projects, with book balance totaling RMB60.23 million and net book value totaling RMB48.89 million, including 21 projects over RMB600,000 with a book balance of RMB43.97 million, and 223 scattered projects with a book balance of RMB16.26 million. According to the principle of materiality, we have made the following supplementary disclosures for the projects with a book balance of over RMB600,000 at the end of the reporting period:

Unit: Yuan Currency: RMB

Projects	Opening balance	Increase in the reporting period	Transfer to fixed assets in the reporting period	Other decrease in the reporting period	Closing balance	Impairment	Net book value
Quality improvement project for core components (核心部件質量提升項目)	584,615.38	584,615.38			1,169,230.76		1,169,230.76
2T air hammer project (2T空氣錘項目)	924,240.08	170,000.00			1,094,240.08		1,094,240.08
16t upper anvil project (16t上砧項目)	1,948,717.94	74,978.88			2,023,696.82		2,023,696.82
Renovation project of automatic conveyor of punch press (壓力機自動傳送料裝置改造項目)		941,874.85			941,874.85		941,874.85
Cab factory project (駕駛室工廠項目)	-	8,805,003.74	-	509,245.28	8,295,758.46		8,295,758.46
Renovation project of low pressure workshop at foundry (鑄造廠低壓間改造項目)	108,108.11	541,246.83			649,354.94		649,354.94
New project of automatic grinder for bearing cover curved surface (新增軸瓦蓋曲面自動磨削機項目)	538,783.72	978,162.93	0.00	0.00	1,516,946.65		1,516,946.65
KW line project for improving casting surface cleaning quality (KW線提高鑄件表面清理質量項目)	579,487.20	719,109.84	47,169.81		1,251,427.23		1,251,427.23
Renovation project of the production line of cylinder-cap sand cores (缸蓋砂芯生產線改造)	1,050,000.00	1,200,000.00			2,250,000.00		2,250,000.00
Technical renovation project handed over by the infrastructure office (基建處移交老技改項目)	6,766,634.07				6,766,634.07	6,766,634.07	-
Technical measures project (技措項目)	9,409,263.10	14,238,411.81	15,602,646.47	181,772.14	7,863,256.30	73,119.66	7,790,136.64
New 40-kg cold-box core making machine project (新增40公斤冷芯盒制芯機項目)		1,269,777.97			1,269,777.97		1,269,777.97
Coating line upgrading project (塗裝線升級改造項目)	602,564.10	1,524,799.37	1,376,953.77		750,409.70		750,409.70
16-ton column hammerhead project (16噸立柱錘頭項目)		800,000.00			800,000.00		800,000.00

Projects	Opening balance	Increase in the reporting period	Transfer to	Other decrease	Closing balance	Impairment	Net book value
			fixed assets in the reporting period	in the reporting period			
YTO zero sewage discharge project (一拖污水零排放項目)	639,031.63	1,129,632.24			1,768,663.87		1,768,663.87
Industrial park thermal pipeline project (工業園熱力管道項目)		994,659.44			994,659.44		994,659.44
Power machinery northern and western living room reinforcement project (動力機械北部及西部生活間加固項目)	1,053,430.41	382,280.03			1,435,710.44		1,435,710.44
Information technology project (信息化項目)	1,962,559.24	509,245.28			2,471,804.52		2,471,804.52
Building reinforcement project (房屋加固項目) in 2018		659,142.66			659,142.66		659,142.66

- 17. According to the annual report, during the reporting period, the Company made provisions for impairment of export tax refund receivable from the State Tax Bureau of Jianxi District, Luoyang City, Henan Province and government subsidies receivable from Henan Industry and Information Technology Commission in an amount of RMB247,100 and RMB5 million, respectively. The aging is 1 year and 1–2 years, respectively. Please further disclose: (1) the reasons for the provision for impairment of the above receivables; (2) whether the receivables met the conditions on recognition of the government subsidies in the year in which they were incurred.**

Reply from the Company:

- (1) The reasons for the provision for impairment of the above receivables;**

As at the end of the reporting period, the Company had export tax refund receivable from the State Tax Bureau of Jianxi District, Luoyang City, Henan Province in the amount of RMB18.74 million, which was aged within 1 year; and government subsidies receivable from Henan Industry and Information Technology Commission in the amount of RMB10 million, which was aged 1–2 years. According to the accounting policy of the Company, the measurement of loss provision for other receivables shall be based on the amount of expected credit losses over the entire life period, and the credit risk shall be assessed if it is subject to significant increase on a portfolio basis. Therefore, the Company shall estimate the percentage of expected credit losses for the other receivables above according to the corresponding aging credit risk characteristic of the portfolio and make provision for impairment accordingly.

(2) Whether the receivables met the conditions on recognition of the government subsidies in the year in which they were incurred.

As at the end of the reporting period, the Company's export tax refund receivable from the State Tax Bureau of Jianxi District, Luoyang City, Henan Province represented the tax benefits enjoyed by the Company under the Circular of the Ministry of Finance and the State Administration of Taxation on the Policy of VAT and the Consumption Tax Imposed on Exported Goods and Labor Services (財政部、國家稅務總局關於出口貨物增值稅和消費稅政策的通知) (Cai Shui (2012) No.39), and was not a government subsidy.

In November 2017, upon the maturity of the public notice period of the "Public Notice on the Review Results of the Award and Insurance Premium Subsidies for the First Major Technical Equipment in Henan Province (河南省首台(套)重大技術裝備獎勵和保費補貼資金評審結果公示)" set by Henan Industry and Information Technology Commission, and pursuant to the Accounting Standards for Business Enterprises No. 16-Government Grants, the Company met the relevant conditions for and expected to receive such subsidies, the Company therefore recognized government grants in the year of 2017.

18. According to the annual report, the Company's research and development investment amounted to RMB378 million, representing 6.83% of revenue, up by 1.48% as compared with the same period of last year. In particular, the research and development expenditure on tractors was RMB203 million. Please further disclose: (1) the reasons for the substantial increase in design fee in R&D expenses; (2) whether there is entrusted R&D or cooperative R&D in the Company's specific R&D model, and whether the classification of relevant expenses is reasonable; (3) R&D progress, the amount of investment in specific R&D projects, relevant R&D results, and follow-up R&D plans.

Reply from the Company:

(1) The reasons for the substantial increase in design fee in R&D expenses;

During the reporting period, the design fee in the R&D expenses of the Company reached RMB16.82 million, representing an increase of RMB14.99 million as compared with the same period of last year. The year-on-year increase in the design fee was mainly attributed to the increased investment of the Company in design and R&D of diesel engine products which are in line with the National IV emission standards in order to adapt to the national upgrading into the National IV emission standards for off-road diesel engines as at the end of 2020.

(2) Whether there is entrusted R&D or cooperative R&D in the Company's specific R&D model, and whether the classification of relevant expenses is reasonable;

The Company adopts a two-tier model for research and development to combine the Company's research and development center with subsidiaries and professional factories. The Company insisted on independent research and development while also entrusted certain external research and development institutions with R&D programs based on actual needs. The technical center of the Company is responsible for the strategic development of the Company and the research and development for significant product improvement. When the research products were approved to be mature by the market, the products would be manufactured by subsidiaries and professional factories. On such basis, the subsidiaries and professional factories would improve and perfect the product adaptability according to market needs, in order to fulfill requirements of different market segments.

During the reporting period, the Company made payments in line with the completion status of various stages of R&D projects based on the accrual basis, and classified the R&D fees and included in the current profit or loss. During the reporting period, the Company's R&D investment was RMB378 million in total.

(3) R&D progress, the amount of investment in specific R&D projects, relevant R&D results, and follow-up R&D plans.

During the reporting period, the Company launched a total of 187 R&D programs, including 26 on hi-powered wheeled tractors, 11 on mid- and low-powered wheeled tractors, 8 on power machinery, 25 on technological process as well as the R&D on electronic control and standards, with a total investment of RMB378 million.

During the reporting period, through actively promoting the technology research and development and switch of National IV standard off-road products, the Company completed the overall unit development of 24 series of National IV standard tractors (including 56 models) in 2018, making full preparation for the switch of National IV standard.

In the subsequent R&D activities, the Company continued to follow the “orientation of market, technology and competition” and focused on advancing the development of power-shift and variable transmission tractors and other medium- and high-end technologies, intelligent tractors, light tractors for paddy fields, National IV tractors and other programs and accelerated in the development of National IV engines and the preliminary research on National V engines to ensure its leadership in ancillary off-road industries.

- 19. According to the annual report, during the reporting period, the debit amount of other receivables between the Company and YTO Group Corporation, the controlling shareholder of the Company, was RMB44.46 million. Please further disclose: (1) the business dealings with Luoyang Zhongshou Machinery Equipment; (2) the reasons for the other receivables with the controlling shareholder and whether there is occupation of non-operating funds.**

Reply from the Company:

- (1) The business dealings with Luoyang Zhongshou Machinery Equipment;**

Luoyang Zhongshou Machinery & Equipment Co., Ltd. (hereafter referred to as “**Luoyang Zhongshou**”) is a subsidiary directly controlled by YTO Group Corporation, the controlling shareholder of the Company, and is a related party of the Company. During the reporting period, Luoyang Zhongshou purchased spare parts and accessories from the Company, while the Company purchased from Luoyang Zhongshou main units such as harvester for sales. In addition, the Company has received RMB7,000 of lease fees due from Luoyang Zhongshou during the reporting period.

The business dealings between the Company and Luoyang Zhongshou as at the end of the reporting period have been disclosed in “Section XII Financial Statements XII. Related Parties and Related Parties’ Transaction” in the 2018 Annual Report of the Company.

(2) The reasons for the other receivables with the controlling shareholder and whether there is occupation of non-operating funds.

As at the end of the reporting period, the amount due from China YTO Group Co., Ltd., the controlling shareholder, was RMB1.88 million. The debit amount during the reporting period reached RMB44.46 million, mainly including the following two aspects: first, YTO (Luoyang) Shentong Construction Machinery Company Limited, a subsidiary of the Company, obtained financial support from YTO Group Corporation, the controlling shareholder of the Company, and then made repayment to YTO Group Corporation, which was accounted for through other receivables, resulting in a debit amount and credit amount of RMB31.43 million each under other receivables; second, the debit amount arising from the rental fees, deposits for utilities, etc. receivable by the Company and its subsidiaries from YTO Group Corporation amounted to RMB13.03 million. The above matters are normal business transactions with the controlling shareholder without occupation of non-operating funds.

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

Luoyang, the PRC
16 May 2019

As at the date of this announcement, the Board comprises Mr. Li Xiaoyu (Chairman), Mr. Cai Jibo (vice Chairman), Mr. Wu Yong and Mr. Liu Jiguo as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai as non-executive Directors; and Mr. Yu Zengbiao, Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit as independent non-executive Directors.

* *For identification purposes only*