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)

# OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The following sets out the Explanation issued by Da Hua Certified Public Accountants in relation to the Letter of Enquiry for Post-Vetting of the 2018 Annual Report of First Tractor Company Limited published by First Tractor Company Limited on the website of the Shanghai Stock Exchange (www.sse.com.cn).

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*

# First Tractor Company Limited

# Explanation of the Inquiry Letter for the Post-Vetting of the Annual Report of Year 2018

DHHZ[2019]NO.003678

DaHua Certified Public Accountants（Special General Partnership）

# First Tractor Company Limited

# Explanation of the Inquiry Letter for the Post-Vetting of the Annual Report of Year 2018

## Contents

# Explanation on the Inquiry Letter for the Post-Vetting of the Annual Report 2018 of First Tractor Company Limited

DHHZ[2019]NO.003678

May 15, 2019

The Board of Directors

First Tractor Company Limited

Company address: No. 154 Jian she Road, Luoyang, Henan

The People's Republic of China

**To Shanghai Stock Exchange：**

According to the inquiry letter which is [2019] 0461 'Question Letter on Post-Vetting of the Annual Report of First Tractor First Tractor Company Limited of Year 2018', we have carried out relevant verification for answering some question which are requested to answer by the auditor as we DaHua Certified Public Accountant (Special General Partnership) are employed by First Tractor Company Limited as audit institution for year 2018. The answers to the questions are as following:

**Question 2: According to the annual report, the operating revenue of the Company for each quarter of 2018 amounted to RMB 2,223 million, RMB1,187 million, RMB 1,324 million and RMB 707 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 RMB 47 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, RMB 144 million, RMB 94 million and RMB 4 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 auditor:

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

1. 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 RMB 707 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:

| Project | First quarter | Second quarter | Third quarter | Fourth quarter | Total |
|---|---|---|---|---|---|
| Income (RMB 10,000) | 232,258 | 118,684 | 132,427 | 70,731 | 554,100 |
| Rate of gross profit | 14.59% | 3.12% | 3.70% | 2.52% | 7.99% |
| Income ratio | 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

2. The selling expenses of the Company were RMB462 million in 2018 and RMB204 million for the fourth quarter.. Details are shown in the table below:

Unit: RMB 10,000

| Project | Amount for the fourth quarter | Amount for the last fourth quarter | Year-on-year changes | Change ratio |
|---|---|---|---|---|
| Transportation fee | 2,318 | 4,085 | -1,768 | -43.27% |
| Sales service fee | 13,249 | 2,239 | 11,010 | 491.80% |
| Employee remuneration | 2,071 | 2,248 | -177 | -7.89% |
| Advertisement fee | 93 | 167 | -74 | -44.34% |
| Packing charges | 299 | -75 | 373 | -500.91% |
| Exhibition fee | 292 | 376 | -84 | -22.37% |
| Depreciation charge | 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: Firstly, 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. Secondly, 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. Last but not least, 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.

3. Based on change of market conditions, the company and its subsidiaries strengthened personnel reduction and reposition in the fourth quarter. As the large number of employees involved in dismissal benefits, the company launched its plan in 2018, but most of the agreements signed with employees were concentrated in the fourth quarter.

4. Based on the requirements of accounting standards, at the end of 2018, 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:

Units: RMB 10,000

| Project | Operating revenue | | | | Net profits attributable to the shareholders of the parent company | | | |
|---|---|---|---|---|---|---|---|---|
| | Year 2018 | Year 2017 | Year 2016 | Year 2015 | Year 2018 | Year 2017 | Year 2016 | Year 2015 |
| First quarter | 232,258 | 266,167 | 301,574 | 298,732 | 4,795 | 6,403 | 9,249 | 9,071 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Second quarter | 118,684 | 154,165 | 202,552 | 256,647 | -19,293 | -3,177 | 6,586 | 5,793 |
| Third quarter | 132,427 | 183,263 | 228,884 | 256,116 | -25,199 | 4,114 | 9,348 | 6,487 |
| Fourth quarter | 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.**

he 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:

| Item | Amount of first quarter | Amount of second quarter | Amount of third quarter | Amount of fourth quarter |
|---|---|---|---|---|
| 1.Losses on bad debts | 1,068 | 1,147 | -866 | 1,215 |
| 2.Impairment loss on inventories | 317 | 766 | 2,852 | 8,431 |

| | | | | |
|---|---|---|---|---|
| 3. Impairment loss on other non-current assets due in one year | | | | 3,748 |
| 4.Impairment loss on fixed assets | | | | 2,103 |
| 5.Impairment loss on construction in progress | | 32 | | 930 |
| 6.Impairment loss on intangible assets | | | | 111 |
| 7.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 RMB 84.31 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 and 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. Impairment loss on other assets

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.

To sum up, there is no case of improper earnings management, such as centralized provision for impairment at the end of the year.

We believe that there are certain seasonal factors in the company's operating. The reason for the large amount of impairment loss of assets in the fourth quarter is that the expected net realizable value of raw materials and finished products decreases at the end of the period, which leads to the increase of the reserve for inventory depreciation. The impairment loss of other assets arises with the adjustment of the company's strategic plan in the fourth quarter and the progress of litigation matters. There is no case of improper earnings management such as centralized deduction of impairment loss at the end of the year.

Question 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 RMB 205 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 auditor:

**(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 RMB 68.84 million,the balance of which as at the end of the year was RMB 67.58 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

RMB 139 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.

**(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?**

During the reporting period, the buyer's credit business will normally repay the principal and interest in accordance with the agreement and no overdue situations. According to the Measures for the Management of Loan Loss Reserve of the Finance company, the balance of provision for impairment was RMB 2.0275 million.

**We believe that the buyer's credit agreement confirms that the customer can control the use of the commodity and obtain all the economic benefits. Revenue recognition conforms to the accounting standards of the enterprise. At the end of the reporting period, there was no buyer's credit overdue. The company made a provision of RMB 2.0275 million for impairment of credit assets, which was in line with the accounting policy.**

**Question 4: According to the annual report, the Company’s selling expenses during the reporting period amounted to RMB 461 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 RMB 101 million and RMB 82.27 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 auditor:

**(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 that had not yet been settled which were recorded as liabilities 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.

**We believe that in other current liabilities, the increase in sales discount concessions is related to the company's sales discount policy, and the predicted increase in after-sales service expense is related to the increase of after-sales service rate in 2018. The main reasons for the decline of company's income and the rise of sales expenses are also due to the increase of after-sales service expenses. We calculate the final after-sales service expenses according to the actual after-sales service expenses in 2018 and the proportion of after-sales service expenses of the company.**

**Question 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 RMB 248 million and the termination benefits payable within over one year amounted to RMB 119 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 auditor:

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

In February 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 dimission and rest with them after confirming their satisfaction of the dimission 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. The signing of resettlement agreements are mainly completed 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.

The time when the company cannot unilaterally withdraw the dismissal benefits that provided by the termination of the labor relations plan or the reduction proposal.

The time when the company confirms and pays costs or expenses associated with restructuring that involves paying for dismissal benefits.

The company cannot unilaterally withdraw the agreement of dismissal or early retirement signed with the staff and workers in that year, and shall be recognized as liabilities according to the standard of issuance and compensation which stipulated in the agreement, and shall be included in the profits and losses of the current period at one time. If the internal refund benefits are completed within one year but the payment time exceeds one year, the interest rate of treasury bonds in the same period in the interbank bond market (less than five years) shall be chosen as the discount rate. At the same time, the amount after discount shall be included in the current profits and losses and the remuneration payable (dismissal benefits) to employees.

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.

**We believe that the company's accounting treatment of dismissal benefits conforms to the relevant provisions of Articles 20 and 21 of the Accounting Standards for Enterprises No. 9.**

**Question 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 auditor:

**(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:

| Item | Original value as at the end of the reporting period (RMB 10,000) |
|---|---|
| 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.

**We believe that the company's provision for impairment of inventory in accordance with the principle of lower net realizable value and book value is in line with the requirements of accounting standards. At the end of 2018, the main reason for the large impairment loss of raw materials is the decrease in market prices of some special raw materials of some products. The price of similar products at the end of 2017 is higher than that at the end of 2018. This can also be confirmed by a 7.66% drop in the company's gross margin and a 6.07% decrease in gross profit margin of power machinery business in 2018. At the end of 2017, inventory impairment has been fully calculated in accordance with the prevailing market conditions.**

**Question 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 auditor:

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 RMB 37.48 million).

**We tracked all the evidences related to Guoyu Logistics Bond Loss. Judging from the evidences obtained, The company's classification of the assets meet the requirements and classification criteria of the CBRC for the five-level classification of assets. The impairment losses of the assets during the respective attribution periods are properly calculated in accordance with the classification of the assets by the enterprise.**

**Question 9: During the reporting period, the Company made provision for impairment of the advances to suppliers in an amount of RMB 6,456,800, including the provision for impairment of the advances to suppliers aged less than 1 year in an amount of RMB 4,613,400. 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 auditor:

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 RMB 6,456,800. In particular, the book balance of the advances to suppliers aged less than one year amounted to RMB 106 million and provision for impairment of such advances to suppliers was RMB 4,613,400. 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.

**We believe that full provision for impairment of advance to suppliers of the company is in line with the requirements of enterprise accounting standards from the current progress of the event analysis.**

**Question 11: As at the end of the reporting period, the book balance of the Company's monetary funds was RMB 1,550 million, the balance of short-term loans was RMB 2,778 million, and the balance of long-term loans was RMB 868 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 auditor:

**(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 RMB 1,550 million, among which the restricted funds was RMB 270 million, mainly including the statutory reserve of RMB 227 million deposited in the Central Bank by YTO Finance, acceptance bill deposits of RMB 33 million and other deposits of RMB 10 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 RMB 1,500 million were repaid by the Company in the first half of 2018, the Company' s interest-bearing debts fell by RMB 530 million year-on-year at the end of the reporting period, the details of which are as follows:

Unit: RMB 10,000

| Item | At the end of year 2018 | At the end of year 2017 | Change of amount |
|---|---|---|---|
| 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 | 370,599 | 423,187 | -52,588 |

**We believe that the true and accurate disclosure of relevant information. Total liabilities declined at the end of the reporting period.**

**Question 16: The annual report discloses that the closing balance of construction in progress was RMB 233 million. In the current year, RMB 228 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 RMB 11.30 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 auditor:

**(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:

| Name of project | Amount at the end of 2018 (RMB 10,000) | 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 | 410 | The construction works in relation to the project are under acceptance; the equipment that has arrived has not been |

| | | |
|---|---|---|
| Workshop | | transferred to fixed assets as the commissioning has not been completed therefor. |
| Agricultural high-power diesel engine project | 169 | The majority of equipment and works in relation to the project have been completed and<br>transferred to fixed assets. However, a horizontal double-sided duplex drilling and expanding tool 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 RMB 19.41 million, with provision of RMB 11.31 million made for impairment. In particular, RMB 4.84 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 RMB 60.23 million and net book value totaling RMB 48.89 million, including 21 projects over RMB 600,000 with a book balance of RMB 43.97 million, and 223 scattered projects with a book balance of RMB 16.26 million. According to the principle of materiality, we have made the following supplementary disclosures for the projects with a book balance of over RMB 600,000 at the end of the reporting period:

| Name of project | Beginning balance | Increase in the reporting period | Transfer to fixed assets in the reporting period | Other decrease in the reporting period | Ending balance | Impairment | Net book value |
|---|---|---|---|---|---|---|---|
| Quality improvement project for core components | 584,615.38 | 584,615.38 | | | 1,169,230.76 | | 1,169,230.76 |
| 2T Air Hammer Project | 924,240.08 | 170,000.00 | | | 1,094,240.08 | | 1,094,240.08 |
| 16t upper Anvil Project | 1,948,717.94 | 74,978.88 | | | 2,023,696.82 | | 2,023,696.82 |
| Renovation project of automatic conveyor of | | 941,874.85 | | | 941,874.85 | | 941,874.85 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| punch press | | | | | | | |
| Cab Factory Project | | 8,805,003.74 | | 509,245.28 | 8,295,758.46 | | 8,295,758.46 |
| Renovation project of low pressure workshop at foundry | 108,108.11 | 541,246.83 | | | 649,354.94 | | 649,354.94 |
| New project of automatic grinder for bearing cover curved surface | 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 | 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 | 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 | 6,766,634.07 | | | | 6,766,634.07 | 6,766,634.07 | - |
| Technical measures project | 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 | | 1,269,777.97 | | | 1,269,777.97 | | 1,269,777.97 |
| Coating line upgrading project | 602,564.10 | 1,524,799.37 | 1,376,953.77 | | 750,409.70 | | 750,409.70 |
| 16-ton column hammerhead project | | 800,000.00 | | | 800,000.00 | | 800,000.00 |
| YTO zero sewage discharge project | 639,031.63 | 1,129,632.24 | | | 1,768,663.87 | | 1,768,663.87 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Industrial park thermal pipeline project | | 994,659.44 | | | 994,659.44 | | 994,659.44 |
| Power machinery northern and western living room reinforcement project | 1,053,430.41 | 382,280.03 | | | 1,435,710.44 | | 1,435,710.44 |
| Information technology projects | 1,962,559.24 | 509,245.28 | | | 2,471,804.52 | | 2,471,804.52 |
| Building Reinforcement Project in 2018 | | 659,142.66 | | | 659,142.66 | | 659,142.66 |

**We checked inventory of the construction-in-progress projects and interviewed the asset management department and the project use department. We believe that there is no delay in the transformation of the construction projects.**

**Question 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 RMB 247,100 and RMB 5 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 auditor:

**(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 RMB 18.74 million, which was aged within 1 year; and government subsidies receivable from Henan Industry and Information Technology Commission in the amount of RMB 10 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 (Cai Shui (2012) No.39), and was not a government subsidy.

At the end of the reporting period, RMB 10 million receivable as a government subsidy from Henan Industry and Information Technology Commission, which is the first major technical equipment award and premium subsidy in Henan Province which was formed in 2017. Accounting basis is the announcement of the evaluation results of the first major technical equipment award and premium subsidy fund in Henan Province in 2017. The publicity period ended at the end of December 2017.

In 2017, as the evaluation results of the first major technical equipment award and premium subsidy fund in Henan Province was announced, and combined with the relevant provisions of Accounting Standards for Enterprises No. 16 - Government Subsidies which is

No.6 Government subsidies can only be recognized if they satisfy the following conditions at the same time:

Enterprises can meet the conditions of government subsidies.

Enterprises can receive government subsidies.

No.9 II. Where it is used to compensate for the related costs or losses incurred by an enterprise, it shall be directly included in the profits and losses of the current period or in the reduction of the related costs.

**We believe that the evidence obtained by the company in 2017 has confirmed that it can receive government subsidies and be accounted in the current income statement, which is in line with the provisions of Accounting Standards for Enterprises No. 16 - Government Subsidies. In 2018, the impairment loss is calculated based on the current forecast credit loss portfolio classification, which meets the requirements of accounting standards.**

**Question18: 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 RMB 203 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 auditor:

**(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 specific R&D mode of the company, and whether the collection of related costs 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 RMB 378 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 the 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.

**We have read the above statement. Based on our audit of the financial statements for the year 2018, we believe that the above statement is consistent with the information we have learned during the execution of the audit of the company's financial statements for the year 2018.**

**Question 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 RMB 44.46 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 auditor:

**(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 the company's annual report of 2018.

**(2) Reasons for other receivables of controlling shareholders and whether there is non-operational capital occupation.**

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.

**We checked the businesses between companies and the controlling shareholder, China YTO Group Co., Ltd., and found no occupancy of non-operating funds by the controlling shareholders.**

DaHua Certified Public Accountants
（Special General Partnership）

Beijing, China

Chinese Certified Public Accountant:

(Partner)

Chinese Certified Public Accountant:

May 15, 2019

统一社会信用代码

91110108590676050Q

# 营业执照

（副 本）(5-1)

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| | |
|---|---|
| 名称 | 大华会计师事务所（特殊普通合伙） |
| 类型 | 特殊普通合伙企业 |
| 执行事务合伙人 | 梁春 |
| 经营范围 | 审查企业会计报表，出具审计报告；验证企业资本，出具验资报告；办理企业合并、分立、清算事宜中的审计业务，出具有关报告；基本建设年度财务决算审计；代理记帐；会计咨询、税务咨询、管理咨询、会计培训；法律、法规规定的其他业务；无（企业依法自主选择经营项目，开展经营活动；依法须经批准的项目，经相关部门批准后依批准的内容开展经营活动；不得从事本市产业政策禁止和限制类项目的经营活动。） |
| 成立日期 | 2012年02月09日 |
| 合伙期限 | 2012年02月09日 至 长期 |
| 主要经营场所 | 北京市海淀区西四环中路16号院7号楼1101 |

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登记机关 北京市工商行政管理局海淀分局

2019年 03月 19日

会 计 师 事 务 所

# 执业证书

名　　　称：大华会计师事务所（特殊普通合伙）

首席合伙人：梁春

主任会计师：

经营场所：北京市海淀区西四环中路16号院7号楼12层

组织形式：特殊普通合伙

执业证书编号：11010148

批准执业文号：京财会许可[2011]0101号

批准执业日期：2011年11月03日

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证书序号：0000093

## 说　明

1、《会计师事务所执业证书》是证明持有人经财政部门依法审批，准予执行注册会计师法定业务的凭证。

2、《会计师事务所执业证书》记载事项发生变动的，应当向财政部门申请换发。

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4、会计师事务所终止或执业许可注销的，应当向财政部门交回《会计师事务所执业证书》。

发证机关：北京市财政局

二〇一七年七月七日

中华人民共和国财政部制

证书序号：000398

# 会计师事务所
# 证券、期货相关业务许可证

经财政部、中国证券监督管理委员会审查，批准

大华会计师事务所（特殊普通合伙）执行证券、期货相关业务。

首席合伙人：梁春

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证书号：01　　发证时间：二〇一八年九　月十一日

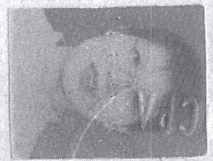
证书有效期至：二〇二〇年九月　十日

中华人民共和国财政部

中国证券监督管理委员会

姓名：俞放虹
证书编号：100000932768
2018-05-11

CPA任职资格检查合格 BICPA 2012
2012.2.15
CPA任职资格检查合格 BICPA 2013
2013.4.16
CPA任职资格检查合格 BICPA 2016
2016-03-21
This certificate is valid for another year after this renewal.
CPA任职资格检查合格 BICPA 2015
2015-04-01
CPA任职资格检查合格 BICPA 2014
2014年4月8日



姓 名
Full name 俞放虹
性 别
Sex 女
出生日期
Date of birth 1966-04-24
工作单位
Working unit 利安达会计师事务所有限责任公司
身份证号码
Identity card No. 310106660424042

THE CHINESE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
中国注册会计师协会

大华会计师事务所（特殊普通合伙）
110000008353

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Registration of the Change of Working Unit by a CPA
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利安达 事务所 CPAs
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Stamp of the transfer-out Institute of CPAs
2011年4月27日
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立信东华 事务所 CPAs
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Stamp of the transfer-in Institute of CPAs
2011年4月27日

注册会计师工作单位变更事项登记
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大华会计师事务所有限公司 事务所 CPAs
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2012年12月25日
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大华会计师事务所（特殊普通合伙） 事务所 CPAs
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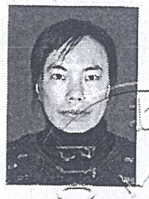
2012年12月25日

证书编号：100000932768
No. of Certificate
批准注册协会：北京注册会计师协会
Authorized Institute of CPAs
发证日期：二OOO年七月 日
Date of Issuance

CPA任职资格检查合格 BICPA 2017
2017-3-31
……合格，继续有效一年。
This certificate is valid for another year after this renewal.
CPA任职资格检查合格 BICPA 2010
CPA任职资格检查合格 BICPA 2011
年 月 日

THE CHINESE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

中国注册会计师协会



姓名
Full name 林海艳

性别
Sex: 女

出生日期
Date of birth 1972-10-29

工作单位
Working unit 利安达会计师事务所有限责任公司

身份证号码
Identity card No. 211322721029156

证书编号：
No. of Certificate 210100910027

批准注册协会：
Authorized Institute of CPAs 北京注册会计师协会

发证日期：
Date of Issuance 二○○一 年 六 月 十八 日

4

CPA任职资格检查合格 BICPA 2015

CPA任职资格检查合格 BICPA 2014

...alid for another year after

2015-04-01

2014.4.8

2009 年 3 月 20 日

5

大华会计师事务所(特殊普通合伙)

年度检验登记
Annual Renewal Registration

本证书经检验合格，继续有效一年。
This certificate is valid for another year after this renewal.

CPA任职资格检查合格 BICPA 2010

CPA任职资格检查合格 BICPA 2011

CPA任职资格检查合格 BICPA 2016

2016-03-21

2011 年 3 月 1 日

6

姓名：林海艳
证书编号：210100910027

CPA任职资格检查合格 BICPA 2012

CPA任职资格检查合格 BICPA 2013

2012.2.1

2013 年 4 月 16 日

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注册会计师工作单位变更事项登记
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