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 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 announcement of First Tractor Company Limited* 第一拖拉機股份有限公司 (the "**Company**") in relation to proposal for the 2020 non-public issuance of A shares (revised), which is published by the Company on the website of the Shanghai Stock Exchange (www.sse.com.cn) (the "**Announcement**"), is reproduced herein for your reference.

This announcement was originally prepared in Chinese and the English version is for reference only. If there is any discrepancy between the English and Chinese version, the Chinese version shall prevail. Pursuant to the Implementation Rules for the Non-public Issue of Shares by Listed Companies (2020 Revision) (上市公司非公開發行股票實施細則(2020年修訂)) promulgated by the CSRC, the Board shall prepare the proposal for non-public issuance of A Shares (the "**Proposal**") in accordance with the requirements set out in No. 25 Guideline on the Contents and Formats of Information Disclosure by the Companies – Advanced Proposal and Issuance Reports on the Non-public Issue of Shares by Listed Companies (公開發行證券的公司資訊披露內容與格式準則第25號－上市公司非公開發行股票預案和發行情況報告書) ("**No. 25 Guideline**"). The said Proposal is required to be approved by the Board and the Shareholders in accordance with the Administrative Measures for the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法) and , the Non-public Issue of Shares by Listed Companies (2020 Revision) (上市公司非公開發行股票實施細則(2020年修訂)) promulgated by the CSRC.

All the numbers in this announcement are prepared using PRC GAAP. The "net profit attributable to the owner of parent company" and the "net profit attributable to the owner of parent company after deduction of non-recurring items" for the year ending 31 December 2020 (the "**Relevant Information**") under the section headed "(II) Analysis of the impact of dilution of current returns by the Issuance on key financial indicators" constitutes profit forecast under Rule 10 of the Takeovers Code. Inclusion of the Relevant Information in the Announcement is required under relevant laws, rules and/or regulations in the PRC. Shareholders and other investors should note that the Relevant Information has not been prepared to a standard required under Rule 10 of the Takeovers Code and has not been reported on in accordance with Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting the Relevant Information and when assessing the merits or demerits of the Proposed A Shares Issue and dealing or investing in the Shares or other securities of the Company.

The Executive has granted a waiver to the Company from its obligation to comply with Rule 10 of the Takeovers Code in respect of the Relevant Information.

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

Luoyang, the PRC
7 July 2020

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

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement, and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statements in this announcement misleading.

* *For identification purposes only*

Stock Code: 601038.SH/0038.HK **Abbreviation: FIRST TRACTOR**

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*
2020 PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

(Revised)

July 2020

COMPANY'S STATEMENT

I. The Company and all members of the Board of Directors guarantee that the contents of the proposal are true, accurate and complete without false records, misleading statements or major omissions.

II. Upon completion of this non-public issuance of A shares, any change in the operation and revenue shall be borne by the Company at its own and any investment risk arising from the non-public issuance of A shares shall be assumed by the investors.

III. The proposal is the description of the non-public issuance of A shares by the Board of Directors of the Company, and any statement to the contrary shall be misrepresentation.

IV. Investors should consult their own stockbrokers, lawyers, professional accountants or other professional advisers if in doubt.

V. The matters mentioned in the proposal do not represent the substantive judgment, confirmation, approval or verification of the approval authorities on the matters relating to the non-public issuance of A shares, and the matters related to the non-public issuance of shares mentioned in the proposal are still subject to the granting of the Whitewash Waiver from the Securities and Futures Commission, the review and approval by the general meeting and class meetings of the shareholders, and the approval and verification of the China Securities Regulatory Commission.

SPECIAL REMINDERS

I. The proposal for the non-public issuance has been reviewed and approved at the 17th meeting of the eighth session of the Board of Directors of the Company and the adjustment to the validity period of the shareholders' resolution to be proposed at the general meeting in relation to the proposal for the non-public issuance has been reviewed and approved at the 19th meeting of the eighth session of the Board of Directors of the Company. The proposal for non-public issuance shall still be subject to the granting of the Whitewash Waiver from Securities and Futures Commission, review and consideration by shareholders' general meeting and class meetings as well as approval and verification by the CSRC.

II. The target subscriber of the non-public issuance shall be YTO Group Corporation. As only one specific investor is involved, the non-public issuance is in line with the regulations of the China Securities Regulatory Commission and other securities regulatory departments which restricts the maximum number of target subscribers to 35. YTO Group Corporation shall subscribe for all shares under the non-public issuance of the Company by cash. YTO Group Corporation has signed the conditional share subscription agreement. The non-public issuance constitutes a connected transaction.

III. The Pricing Benchmark Date of the non-public issuance shall be one day after the date of on which the board approved the non-public issuance of shares at the 17th meeting of the 8th session of the board, being 24 April 2020. The issue price of shares under the non-public issuance will be RMB5.08 per share, which is not lower than 80% of the average trading price of shares 20 trading days prior to the Pricing Benchmark Date. The average trading price of shares 20 trading days prior to the Pricing Benchmark Date equals to the total trading amount of shares traded 20 trading days prior to the Pricing Benchmark Date, divided by the total trading volume of shares 20 trading days prior to the Pricing Benchmark Date.

If there are any ex-right and ex-dividend issues such as dividend distribution, bonus issue, and capitalization issue during the period from the Pricing Benchmark Date to the issue date, the issue price of this non-public issuance shall be adjusted accordingly.

IV. The number of shares in issue under the non-public issuance equals to the total amount of proceeds divided by the issue price. The number of shares issued under the non-public issuance will be 137,795,275 shares, which does not exceed 30% of total share capital of the Company before the issuance, i.e. 295,755,000 shares. The final issue size shall be subject to the approval of the issuance by the CSRC. The number of shares issued under the non-public issuance shall be subject to adjustment if there are any changes in the issue price and total share capital of the Company before the issuance due to bonus issue and capitalization issue or otherwise during the period from the Pricing Benchmark Date to the issue date.

V. The total amount of proceeds of the issuance will be RMB700 million, and all of the net proceeds after deducting issue expenditure will be used to supplement the working capital of the Company.

VI. No shares under the non-public issuance subscribed for by the target subscriber shall be transferable within 36 months from closing of the issuance. Shares derived from dividend distribution, capitalization issue and by other forms shall also comply with the lock-up arrangement above. Reduction in shares of the Company obtained by the target subscriber under the issuance will be implemented in accordance with the relevant requirements of the CSRC and the Shanghai Stock Exchange.

VII. After the completion of this non-public issuance, the new and existing shareholders of the Company shall share the undistributed profits of the Company before the non-public issuance so that the interests of both new and existing shareholders will be protected.

VIII. For details of the prevailing profit distribution policies, profit distribution in recent three years and shareholders' return plan in next three years of the Company, please refer to "Section V Profit Distribution Policies of the Company and its Implementation" of the proposal.

IX. The non-public issuance of shares will not result in change in controlling shareholders or actual controller of the Company.

X. The non-public issuance of shares will not cause the shareholding structure of the Company to fail to meet the listing requirements.

XI. The immediate returns (financial indicators including basic earnings per share and diluted earnings per share) of the Company may decline in the short term upon completion of the non-public issuance. Investors are reminded the risk that the non-public issuance may dilute the immediate returns. Although the Company has formulated return remedial measures to cope with potential dilution of the immediate returns, such measures are not undertakings made by the Company as to its future profits. Investors should not make any investment decision based on such assumptions, and the Company disclaims any liability for any losses incurred by investors arising from any investment decisions made based on them. Investors are advised to exercise caution. For details, please see "Section VI Dilution of Current Returns due to the Non-public Issuance of Shares and Remedial Measures".

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DEFINITION

In this proposal, the following abbreviations shall have the specific meaning stated in the definition unless otherwise specified:

"Administration Measures"	Administration Measures on Securities Issuance of Listed Companies
"Agreement", "Share Subscription Agreement"	the "Non-Public Offering Share Subscription Agreement between First Tractor Company Limited and YTO Group Corporation" entered into between the Company and YTO Group Corporation
"agricultural machinery"	various machinery used in the crop farming and animal husbandry, and the primary processing of agricultural and animal products
"Articles of Association"	the Articles of Association of First Tractor Company Limited
"Board"	the Board of Directors of First Tractor Company Limited
"Company Law"	Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"First Tractor", "Listed Company", the "Company"	First Tractor Company Limited (第一拖拉機股份有限公司)
"funds appropriated from state-owned capital"	the central state-owned capital budget (appropriation) provided by YTO Group Corporation to First Tractor Company Limited through an entrusted loan since 2015
"Implementation Rules"	Implementation Rules for Non-public Issuance of Shares by Listed Companies
"issuance", "non-public issuance"	the Company intends to issue 137,795,275 ordinary shares (A shares) with a par value of RMB1.00 per share to YTO Group Corporation through a non-public issuance

"Listing Rules of the Shanghai Stock Exchange"	Rules Governing the Listing of Securities on the Shanghai Stock Exchange
"Listing Rules of the Stock Exchange"	Rules Governing the Listing of Securities on the Stock Exchange
"MOF"	the Ministry of Finance of the People's Republic of China
"National Ⅲ"	the stage III standard of Limits and Measurement Methods for Exhaust Pollutants from Diesel engines of Non-road Mobile Machinery (CHINA Ⅲ, Ⅳ) (GB20891 – 2014)
"National Ⅳ"	the stage IV standard of Limits and Measurement Methods for Exhaust Pollutants from Diesel engines of Non-road Mobile Machinery (CHINA Ⅲ, Ⅳ) (GB20891 – 2014)
"National II"	the stage II standard of Limits and Measurement Methods for Exhaust Pollutants from Diesel engines of Non-road Mobile Machinery (CHINA I, II) (GB20891 – 2007)
"One Belt and One Road"	Abbreviations for "Silk Road Economic Belt" and "21st Century Maritime Silk Road"
"power machinery"	products including diesel engine and fuel injection pump
"CVT"	Continuously variable transmission, a type of automotive transmission
"Pricing Benchmark Date"	one day after the date on which the Board approved this non-public offering at the 17th meeting of the 8th session of the Board, being 24 April 2020
"proposal", "this proposal"	the revised proposal for non-public issuance of A shares in 2020 of First Tractor Company Limited
"RMB, RMB10,000, RMB100 million"	RMB, RMB10,000, RMB100 million

"SASAC", "ultimate actual controller"	the State-owned Assets Supervision and Administration Commission of the State Council
"Securities Law"	Securities Law of the People's Republic of China
"Shanghai Stock Exchange"	Shanghai Stock Exchange
"SINOMACH", "actual controller"	China National Machinery Industry Corporation Ltd. (中國機械工業集團有限公司)
"State Council"	the State Council of the People's Republic of China
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidies"	the subsidies for purchasing agricultural machinery
"target subscriber", "subscription party", "subscriber"	YTO Group Corporation*(中國一拖集團有限公司)
"Whitewash Waiver"	a waiver from the Executive of the Securities and Futures Commission pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of YTO Group Corporation to make a general offer for all shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by YTO Group Corporation and its concert parties) as a result of the non-public issuance
"YTO Group Corporation", "controlling shareholder"	YTO Group Corporation*(中國一拖集團有限公司)

All amounts are rounded to two decimal places unless otherwise stated. Any discrepancy between the total and the sum of its components is due to the effects of rounding.

SECTION I SUMMARY OF THE NON-PUBLIC ISSUANCE OF A SHARES PLAN

I. Basic information of the Issuer

Company name: 第一拖拉機股份有限公司

English name: First Tractor Company Limited

Legal representative: Li Xiaoyu (黎曉煜)

Date of establishment: 8 May 1997

Listing date of H shares：23 June 1997

Listing date of A shares: 8 August 2012

Listing exchange of its shares: Stock Exchange/Shanghai Stock Exchange

Abbreviation of its shares: FIRST TRACTOR/一拖股份

Stock code of its Shares: 0038.HK/601038.SH

Registered capital: RMB985,850,000

Registered address: No. 154 Jianshe Road, Luoyang City, Henan Province

Office address: No. 154 Jianshe Road, Luoyang City, Henan Province

Postal code: 471004

Tel: 86–379–64970213

Fax: 86–379–64967438

E-mail: msc0038@ytogroup.com

Company website: http://www.first-tractor.com.cn

Business scope: design, manufacturing, sales and services of tractors, harvesters, agricultural machinery and other agricultural machinery products, diesel engines, self-power stations, generator sets, forklifts, castings and forgings and spare parts, and related development, transfer, contracting and consultancy services of tractor and construction machinery technologies, import and export business of self-produced products and related technologies of the Company (including the member companies), except for the commodities and technologies limited by the country to operate or prohibited from import and export (those involving administrative examination and approval and permission shall operate with valid approval and permission).

II. Background and purpose of this non-public issuance

(I) Background of this non-public issuance

1. Challenges and opportunities faced by the agricultural machinery manufacturing industry

Since the country implemented the subsidy policy for purchasing agricultural machinery in 2004, the agricultural machinery market has entered a period of rapid expansion. However, in recent years, due to the increasing number of agricultural machinery products, diminishing marginal effects of agricultural machinery purchase subsidies and the decline in grain production and operating income, the overall development of the agricultural machinery industry has slowed down with lower profit level, and the market has entered a period of structural adjustment from a "golden decade" with rapid growth.

In January 2018, the Opinions of the Central Committee of the Communist Party of China and the State Council on the Implementation of the Rural Revitalization Strategy pointed out: "promoting the transformation and upgrading of China's agricultural machinery and equipment industry, strengthening the joint research of scientific research institutions and equipment manufacturing enterprises, further improving the localization level of bulk crop machinery, and accelerating the development of the economy crops, aquaculture, and agriculture and forestry machinery in hilly and mountainous areas, and developing the manufacturing of high-end agricultural machinery and equipment". The opinions indicate the direction for China's agricultural machinery industry adjustment and supply-side reform: high-end agricultural machinery is the direction supported by national policies; the mechanization of economic crops, aquaculture, and hilly and mountainous areas is particularly supported by the country; the agricultural machinery equipment combined with smart agriculture and the Internet of Things will be the focus of further development; the "green agricultural machinery" related to environmental protection and waste disposal and utilization will usher in large market opportunities.

In March 2020, the offices of the Ministry of Agriculture and Rural Affairs, the Ministry of Finance and the Ministry of Commerce jointly issued the Guiding Opinions on Implementation of Subsidies for Scrapping and Upgrading Agricultural Machinery", which introduced a policy of subsidy for scrapping and upgrading agricultural machinery with overdue service to guide local areas to accelerate the scrapping and upgrading of old agricultural machinery, optimize the structure of agricultural machinery and equipment, promote the safe production and saving energy and reducing emissions of agricultural machinery, as well as upgrading to the National IV emission standards.

The Company will seize the opportunity of industry demand upgrading, transform the investment in technology upgrade and manufacturing capacity improvement in recent years into the strength of market competition, and accelerate the pace of market structure adjustment. The Company adheres to the strategy of "intelligence-driven, collaborative innovation and increased efficiency", and owns a number of domestic leading product technologies with proprietary intellectual property rights. The key R&D and construction projects are advanced in an orderly manner including power shift tractor quality improvement and serialized research and development project, a full range of national IV tractor supporting development project, and the application of new model of wheeled intelligent manufacturing. The Company adheres to the direction of transformation and upgrading, increases investment in the research and development of intelligent control systems such as automatic driving of agricultural machinery, intelligent control, operation monitoring technology, and precision operation devices, and strengthens the development and industrialization of intelligent systems in terms of the development of high-end agricultural equipment.

The Company will actively grasp the important opportunity of "going out for agriculture" under the "One Belt and One Road" initiative, enhance international management capabilities of the enterprise, increase efforts to expand in overseas market, and strive to innovate and improve international business development ideas, optimize the international market entry mode, continuously cultivate in the overseas key market, develop the models suitable for agronomic characteristics of different countries through enhancing product adaptability, improving overseas channel layout, and diversifying international marketing models, so as to create conditions for making breakthroughs in the regional key market and increase sales scale and market share in overseas markets.

2. *State allocated funds obtained earlier shall be injected into the listed company in the form of equity*

According to the Notice of the State-owned Assets Supervision and Administration Commission of the Ministry of Finance on Issuing Central State-owned Capital Budget (Appropriation) for China National Machinery Industry Corporation Ltd. in 2014 (Cai Qi [2014] No. 162), the Ministry of Finance allocated RMB700 million for the upgrading project of the tractor manufacturing industry of YTO Group Corporation to increase the state-owned capital. After obtaining the said funds allocated from state-owned capital, SINOMACH has made a special capital increase to YTO Group Corporation by RMB700 million in the spirit of the above document of the Ministry of Finance. From July 2015 to July 2019, the funds appropriated from state-owned capital have been allocated to First Tractor in the form of entrusted loans. The loan was due on 12 July 2019, and the Company has repaid the loan to YTO Group Corporation as scheduled.

The Interim Provisions on Strengthening the Management of Financial Information of Enterprises (Cai Qi [2012] No. 23) of the Ministry of Finance provide that, "where the parent company of an enterprise group allocates capital and financial funds to its wholly-owned or holding corporation for use, it shall be regarded as an equity investment. Where the holding corporation to which the parent company belongs has no plan for capital increase and share expansion, it shall be regarded as an entrusted loan. Such entrusted loan will be converted into equity investment of the parent company according to law in case of capital increase and share expansion, restructuring and listing pursuant to an agreement entered into between the enterprise and the parent company". The Opinions on the Financial Treatment of Enterprises Obtaining State Direct Investment and Investment Subsidies ((Cai Ban Qi [2009] No. 121)) of the Ministry of Finance provide that, "where a group company obtains financial funds which belong to the state direct investment and the investment subsidy nature and reallocates such financial funds to its subsidiaries for use after handling in accordance with the Article 20 of the General Rules Governing Enterprise Financial Affairs, it shall be regarded as external investment; the financial funds received by its subsidiaries shall be regarded as the capital invested by the group company or capital reserve, and shall not be recorded as internal accounts or other accounting treatment."

According to the above-mentioned requirements, the funds allocated from state-owned capital to YTO Group Corporation shall be converted into its equity investment in the Company.

(II) The purpose of the non-public issuance

1. *Optimize the capital structure, reduce the gearing ratio, increase the current ratio, and improve the robustness of the operation, in line with the national policy guidance for reducing leverage*

   The agricultural machinery manufacturing industry in which the Company is engaged in the capital and technology-intensive industries, and therefore there is a large demand for capital investment. For the past two years, the Company has been working to reduce the scale of debt and reduce the gearing ratio. As of 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%, and the gearing ratio of the Company will decrease to 54.24% after the completion of issuance (assuming other factors are not taken into account).

   In terms of current ratio, it has been declining year by year in the last two years due to the decline in the industry's prosperity. As of 31 March 2020, the current ratio on a consolidated basis of the Company is 1.06, and the current ratio of the Company will rise to 1.17 after the completion of the non-public issuance (assuming other factors are not taken into account). The pressure in liquidity of the Company will be mitigated to a certain extent.

   The improvement of capital structure and the increase of current ratio will provide a good environment for the production and operation of the Company, which is an important measure for the Company to enhance its competitiveness and achieve sustainable development. Meanwhile, the non-public issuance is in line with the country's policy guidance to increase the proportion of direct financing, enhance the financial services of the real economy, and reduce the leverage ratio of state-owned enterprises.

2. *Improve the ability to cope with industry cycles and lay the foundation for further seizing development opportunities*

Affected by factors such as insufficient market demand for traditional products, the weakening of the effect of the purchase subsidy policy and the decline in farmers' grain production and operating income, the agricultural machinery industry is currently undergoing a period of in-depth adjustment and the Company is also facing challenges. Guiding Opinions on the Implementation of Renewal Subsidies for Retirement of Agricultural Machinery issued by the general offices of the three ministries and commissions of Ministry of Agriculture and Rural Affairs, the Ministry of Finance, and the Ministry of Commerce, support by policy to accelerate the elimination of old agricultural machinery with high energy consumption, heavy pollution, and low safety performance, strive to optimize the structure of agricultural machinery equipment and promote the transformation and upgrading of agricultural mechanization and green development in agriculture.

Under the background of strict environmental protection requirements, the implementation of subsidy policies by the state, and encouraging industrial upgrading, the agricultural machinery industry is expected to usher in new development opportunities, and the industry concentration is expected to be continuously improved.

The non-public issuance will improve the current ratio level of the Company, enhance the ability to respond to market change, help to optimize and strengthen the main business of tractors, and maintain technological leadership and industry competitive advantage by ensuring the steady switching of National IV products and the technical reserve of National V products, to promote a stable and healthy development of the Company under the background of industry upgrade and adjustment. Meanwhile, the improvement of the capital structure is conducive to the Company to seize the opportunity, deepen the adjustment and upgrading of the industrial layout around the implementation of the country's rural revitalization strategy and the development trend of smart agriculture, realize the improvement of quality and efficiency, and enhance its going-concern ability.

3. *To undertake the social responsibility of shareholders and establish a good market image and social image*

Since 2020, the international capital market and the domestic A-share market have been affected by the "COVID-2019" epidemic, and there have been large fluctuations. The controlling shareholder, YTO Group Corporation, from the perspective of being courageous in undertaking social responsibilities and being a responsible shareholder, participates in the subscription of shares in this non-public issuance in cash. This fully demonstrates the support of the controlling shareholders for the development of the Company, confidence in its future prospects and recognition of its value, which is conducive to maintaining the stability of the securities market, protecting the interests of all shareholders, and establishing a good market image and social image for the Company.

III. Target subscriber and its relations with the Company

The target subscriber of the non-public issuance shall be YTO Group Corporation, the controlling shareholder of the Company. YTO Group Corporation held 41.66% equity interests of the listed company before this issuance, and YTO Group Corporation, the target subscriber of the non-public issuance, is a connected person of the Company.

IV. Summary of the non-public issuance plan

(I) Class and par value of the shares to be issued

The shares under the non-public issuance are domestically-listed and RMB-denominated ordinary shares (A shares) with a par value of RMB1.00 per share.

(II) Method and timing of issuance

The shares will be issued to a specific target through non-public issuance, which will be implemented during the validity period of the approval from the CSRC.

(III) Target subscriber and subscription method

The target subscriber of the non-public issuance shall be YTO Group Corporation. YTO Group Corporation will subscribe for all shares under the non-public issuance in cash.

(IV) Pricing benchmark date, pricing principle and issue price

The pricing benchmark date of the non-public issuance of A shares is the announcement date of resolutions of the 17th meeting of the 8th session of board of directors of the Company, namely 24 April 2020. The issue price shall be RMB5.08 per share and shall not be lower than 80% of the average transaction price of A shares in the 20 trading days prior to the pricing benchmark date (average price of A shares in the 20 trading days before the pricing benchmark date = total amount of trading A shares in the 20 trading days before the pricing benchmark date/total volume of trading A shares in the 20 trading days before the pricing benchmark date).

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital occurs in respect of the shares of the Company during the period from the pricing benchmark date to the date of this issuance, the issue price shall be adjusted accordingly. The specific adjustment formula is as follows:

Distribution of cash dividends: $P_1=P_0-D$

Bonus shares or converted into share capital: $P_1=P_0/(1+N)$

Combination of both: $P_1=(P_0-D)/(1+N)$

Where: P_0 denotes the issue price before adjustment; D denotes the cash dividend per share, N denotes the number of shares distributed as bonus shares or converted into share capital per share; P_1 denotes the issue price after adjustment.

(V) Number of shares to be issued

The number of shares under this non-public issuance shall be determined by dividing the total amount of the proceeds from this non-public issuance of RMB700 million by the issue price, that is, the number of shares issued is 137,795,275 shares, which does not exceed 30% of the total share capital of the Company before this non-public issuance. The final number of shares issued shall be subject to the approval of the CSRC.

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital, issuing new shares or rights issues occur during the period from the pricing benchmark date of A shares to the date of this issuance, the number of shares under the non-public issuance shall be adjusted accordingly.

(VI) Use of proceeds

The total proceeds from the non-public issuance is RMB700 million, which is intended to be used for the following purpose after deducting the cost of issue:

Unit: RMB10'000

No.	**Item name**	**Estimated total investment**	**Amount of proceeds to be utilized**
1	Supplement working capital	70,000	70,000
	Total	70,000	70,000

All proceeds raised by the Company are intended to be used to supplement working capital after deducting the cost of issue.

(VII) Lock-up period

The A shares subscribed by YTO Group Corporation under this issuance shall not be transferred within 36 months from the completion of the issuance. Where laws and regulations impose other provisions on the lock-up period, those provisions shall prevail. The shares derived from the subscription of the underlying shares by YTO Group Corporation under the non-public issuance due to the distribution of bonus shares and conversion of capital reserves to share capital shall also comply with the above lock-up arrangements. Upon the expiration of the lock-up period, the reduction in shares of the Company obtained by YTO Group Corporation under the non-public issuance shall also be implemented in compliance with relevant laws and regulations such as the Company Law and the Securities Law and related requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange.

(VIII)Listing location

A share under the non-public issuance will be listed and traded on the Shanghai Stock Exchange after the expiration of the lock-up period.

(IX) Arrangement for retained profits before the non-public issuance of A shares

After the completion of the non-public issuance of A shares, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before the non-public issuance of A shares.

(X) Validity period of resolution regarding the non-public issuance of A shares

The resolution regarding the non-public issuance of A share shall be valid for 12 months from the date on which the resolution is approved by the general meeting of shareholders and class meeting of shareholders.

V. Whether the issuance will constitute a connected transaction

As the subscription of A shares under the non-public issuance by YTO Group Corporation, which is the controlling shareholder of the Company, constitutes a connected transaction with the Company, the Company will comply with the approval procedures for connected transactions strictly in accordance with the laws and regulations and the internal rules of the Company. When the board of directors of the Company votes on the resolution regarding the non-public issuance of A shares, the affiliated directors shall abstain from voting, and the independent directors and the audit committee of the board of directors shall express their opinions on such connected transaction. The affiliated shareholders shall abstain from voting on the relevant resolution at the general meeting of shareholders and the class meeting of shareholders when reviewing and considering the non-public issuance at such meetings.

VI. Whether the issuance will cause a change in the right of control of the Company

The total share capital of the Company is 985,850,000 shares before the issuance, of which the controlling shareholder, YTO Group Corporation, holds 410,690,578 A shares, accounting for 41.66% of the total share capital of the Company. SINOMACH holds 87.90% equity interests of YTO Group Corporation and is the actual controller of the listed company. The State-owned Assets Supervision and Administration Commission of the State Council holds 100% equity interests of SINOMACH and is the ultimate actual controller of listed company. YTO Group Corporation undertakes to subscribe for all A shares under the non-public issuance. Upon the completion of the issuance, the shareholding ratio of YTO Group Corporation will increase, and will remain the controlling shareholder of the Company, while SINOMACH will remain the actual controller of the Company, and the State-owned Assets Supervision and Administration Commission of the State Council will remain the ultimate actual controller of the Company. The non-public issuance will not result in a change in right of control of the Company.

VII. Whether this issuance will result in the Company's shareholding distribution not being eligible for listing

Based on the number of shares to be issued under the non-public issuance, it is expected that after the completion of this issuance, the proportion of public float of A shares and public float of H shares in the total number of share capital of the Company comply with the requirements regarding listing conditions of the Securities Law, the Listing Rules of the Shanghai Stock Exchange, and the Listing Rules of the Stock Exchange.

VIII. Approval obtained for this issuance plan from the relevant competent authorities and procedures to be submitted for approval

The proposal for the non-public issuance has been reviewed and approved at the 17th meeting of the eighth session of the Board of Directors of the Company, and the adjustment to the validity period of the shareholders' resolution to be proposed at the general meeting in relation to the proposal for the non-public issuance has been reviewed and approved at the 19th meeting of the eighth session of the Board of Directors of the Company.

The Reply on Issues Concerning the Non-Public Issuance of A Shares by First Tractor《關於一拖股份非公開發行A股股票有關問題的批覆》(Guo Ji Zhan Tou [2020] No.142) issued by SINOMACH, the actual controller of the Company, has been obtained, and the outstanding approval procedures include:

1. seeking a whitewash waiver from the Securities and Futures Commission;

2. seeking an approval for the non-public issuance plan, the agreement, whitewash waiver, waiver from general offer obligations, and related and incidental proposals at the general meeting and class meeting of shareholders (as appropriate) of the Company;

3. seeking an approval for the application for this non-public issuance of shares from the China Securities Regulatory Commission.

There are uncertainties as to whether the above-mentioned approval or verification can be obtained, and if so, when can they be obtained. Investors are reminded of the risk of approval.

SECTION II BASIC INFORMATION OF THE TARGET SUBSCRIBER AND SUMMARY OF THE CONDITIONAL SHARE SUBSCRIPTION AGREEMENT

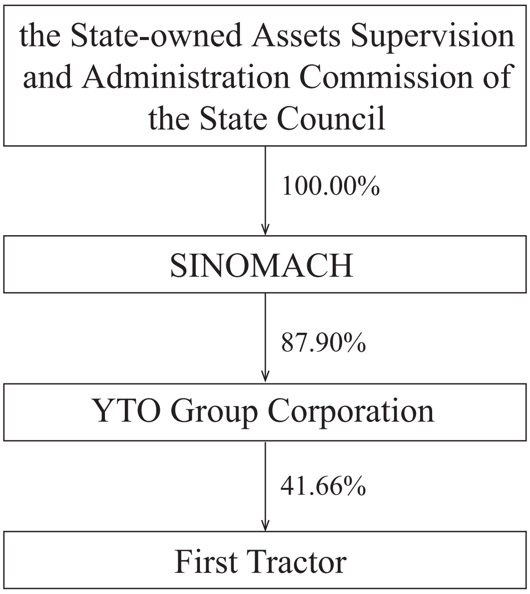
I. Basic information of YTO Group Corporation

(I) Basic information

Company name	YTO Group Corporation* (中國一拖集團有限公司)
Registered capital	RMB3,023,749,600
Legal representative	Li Xiaoyu (黎曉煜)
Registered address	No. 154 Jianshe Road, Luoyang City, Henan Province
Business scope	Manufacturing and sales of tractors and other agricultural machinery, automobiles, engineering machinery, diesel engines, generators, forklifts, bicycles, fuel injection pumps and spare parts of the above products; manufacturing of coal mining machinery, tank trucks, molds, machine tools, forging castings, clip aids and non-standard equipment. Industrial gas (prohibited as non-fuel use such as chemical raw materials, limited to branch operations); production and sale of oxygen (compressed), oxygen (liquefied), nitrogen (compressed), nitrogen (liquefied), and air (compressed) (above five items are limited to operating in the branch vouchers); road transportation of general cargo and road transportation of dangerous goods (including items 3 of Class 2 and Class 3, operating with a permit); import and export (according to qualification certificate); contracting overseas mechanical and electrical engineering and domestic and international bidding project; export of equipment and materials required for the above-mentioned overseas projects; dispatch of labor required for the implementation of the above-mentioned projects. (enterprise shall not operate any of the above scopes without approval)

(II) Equity control relationship

As of the date of this announcement, the controlling shareholder of YTO Group Corporation is SINOMACH, and its actual controller is the State-owned Assets Supervision and Administration Commission of the State Council. The equity control relationship between YTO Group Corporation and its controlling shareholder and actual controller is as follows:



(III) Main business condition and development and operating results of the main business in the recent three years

YTO Group Corporation is a large-scale equipment manufacturing enterprise group with agricultural machinery as its core product and also operates multiple products such as power machinery, special vehicles, parts and components. Since its establishment, it has accumulated core competitive advantages in technology, brand, market, talents, etc., and has made positive contributions to the construction of "agriculture, rural areas and farmers" in China.

The business segment of YTO Group Corporation is mainly divided into agricultural machinery segment, power machinery segment and other business segments, of which the agricultural machinery segment mainly includes tractors, harvesters, agricultural machinery and their parts and components; the power machinery segment mainly includes engines and its major parts and components business; other business segments mainly include special vehicles, finance, transportation, energy, engineering, media and other machinery and manufacturing services.

The total operating income of YTO Group Corporation from 2017 to 2019 was RMB8,225,805,600, RMB6,556,678,700 and RMB6,767,155,100 respectively.

(IV) Key financial data

The key financial data of YTO Group Corporation on a consolidated basis for the most recent year and quarter is as follows:

Unit: RMB10,000

Balance sheet	**31 March 2020**	**31 December 2019**
total assets	1,509,517.36	1,458,152.27
total liability	970,957.89	950,403.39
owners' equity	538,559.47	507,748.88
Equity attributable to the owner of parent company	264,149.02	244,490.42
Income statement	**January to March 2020**	**2019**
total operating income	252,423.76	676,715.51
operating income	251,130.66	670,550.40
operating profits	29,292.93	-32,436.10
total profits	29,377.35	-27,855.94
net profits	31,172.25	-34,223.96
Net profits attributable to the owner of the parent company	20,218.31	-35,486.36

Note: The financial data of YTO Group Corporation for 2019 has been audited by the accountants and its financial data for the first quarter of 2020 has not been audited..

(V) Description on administrative punishment, criminal punishment and major civil litigation or arbitration related to economic disputes in the past five years

YTO Group Corporation and its directors, supervisors, senior management (or the principals) have not received any administrative punishment or criminal punishment, or involved in major civil litigation or arbitration related to economic disputes within the past five years.

II. Horizontal competition and connected transactions after the issuance

(I) Horizontal competition after the completion of the non-public issuance

After the completion of the non-public issuance, the business relationship between YTO Group Corporation, its controlling shareholders, actual controllers and related parties and listed companies will remain unchanged. The issuance will not result in new horizontal competition between the listed company and other companies controlled by its actual controller.

(II) Connected transactions after the completion of the non-public issuance

Except that the subscription of shares under the non-public issuance by YTO Group Corporation constitutes a connected transaction, there will be no new connected transaction among YTO Group Corporation, its controlling shareholders, actual controllers and related parties due to the issuance after the completion of the issuance.

III. Major transactions among the controlling shareholders, the actual controllers and the enterprises under their control and the Company within 24 months before the disclosure of the proposal

Significant transactions between SINOMACH, YTO Group Corporation and the affiliated enterprises under their control and the Company within 24 months before the announcement have been publicly disclosed. For details, please refer to relevant information disclosure documents such as periodic reports and interim announcements published in the China Securities Journal, the Shanghai Securities News and the website of the Shanghai Stock Exchange (www.sse.com.cn). Except for the transactions and major agreements disclosed by the Company in the periodic report or interim report, there is no other major transaction between the Company and YTO Group Corporation, its controlling shareholders and actual controllers.

IV. Summary of the Conditional Share Subscription Agreement

The Company and YTO Group Corporation have entered into a conditional Share Subscription Agreement on 23 April 2020, the main contents of which are as follows:

(I) Parties to the contract

Issuer：First Tractor Company Limited

Subscriber：YTO Group Corporation

(II) Issue of shares and issue price

The issuer agrees to issue the domestically listed RMB-denominated ordinary shares (A shares) with a nominal value of RMB1.00 per share to subscribers provided that all precedent conditions specified in this agreement are satisfied.

The issue price of the issuance is RMB5.08, which shall not be lower than 80% of the average transaction price of A shares in the 20 trading days prior to the pricing benchmark date.

The calculation formula of "average price of A shares in the 20 trading days before the pricing benchmark date" (the following parameters should use the data officially announced by the Shanghai Stock Exchange) is: Average price of A shares in the 20 trading days before the pricing benchmark date = total amount of trading A shares of issuer in the 20 trading days before the pricing benchmark date/total volume of trading A shares in the 20 trading days before the pricing benchmark date.

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital occurs during the period from the pricing benchmark date to the date of this issuance, the issue price shall be adjusted accordingly. The specific adjustment formula is as follows:

Distribution of cash dividends: $P_1=P_0-D$

Bonus shares or converted into share capital: $P_1=P_0/(1+N)$

Combination of both: $P_1=(P_0-D)/(1+N)$

Where: P_0 denotes the issue price before adjustment; D denotes the cash dividend per share, N denotes the number of shares distributed as bonus shares or converted into share capital per share; P_1 denotes the issue price after adjustment.

(III) Number and method of subscription

The subscriber agrees to subscribe for 137,795,275 shares of the non-public issuance in cash of RMB700 million. The final number of shares issued shall be subject to the approval of the CSRC.

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital, issuing new shares or rights issues occur during the period from the pricing benchmark date of A shares to the date of this issuance, the number of shares under the non-public issuance shall be adjusted accordingly.

The total subscription price to be paid by the subscriber for the subscription of the underlying shares shall be the number of shares subscribed by the subscriber multiplied by the issue price per share, and the subscription price shall be measured in RMB cents.

(IV) Payment of subscription amount and delivery of underlying shares

After the issuance was approved by the CSRC, the subscribers shall transfer all the subscription price to the bank account specially opened by the master underwriter for the issuance in accordance with the requirements of Payment Notice issued by the issuer and the master underwriter. Upon completion of capital verification by accounting firms with securities-related qualifications and deduction of related fees, the master underwriter shall transfer the funds to the issuer's specific deposit account for proceeds.

After the China Securities Regulatory Commission approves the issuance, the issuer shall complete the relevant work of the issuance as soon as possible. After a qualified accountant firm has verified the capital for the issuance, the issuer shall go through the registration procedures for the underlying shares with China Securities Depository and Clearing Co., Ltd. Shanghai Branch within 15 business days; the issuer shall timely modify the current Articles of Association, and complete the relevant procedures for registration of changes with its original industrial and commercial registration authority according to the situation of this issuance.

(V) Lock-up period

The subscriber agrees and undertakes that the underlying shares obtained through the issuance shall not be transferred within 36 months from the completion of the issuance. Where laws and regulations impose other provisions on the lock-up period, those provisions shall prevail.

The shares derived from the subscription of the underlying shares by the subscriber due to the issuer's distribution of share dividends, conversion of capital reserves, etc., shall also comply with the above lock-up arrangements. Upon the expiration of the lock-up period, such restricted shares of the subscriber shall be transferred and traded in accordance with the laws and regulations in force at that time, such as the Company Law and Securities Law and the rules of the China Securities Regulatory Commission and the Shanghai Stock Exchange.

(VI) Conditions precedent for the Agreement

This agreement is a conditional agreement and shall become effective subject to the satisfaction of all the following conditions:

(1) The issuance is approved by the board of directors of the issuer;

(2) The issuance is approved by the competent state-owned assets supervision and administration authorities;

(3) The issuance, the agreement, whitewash waiver, waiver from general offer obligations, and related and incidental proposals are reviewed and approved by the general meeting of shareholders and class meetings of shareholders of the Company respectively;

(4) The granting of Whitewash Waiver by the SFC;

(5) The issuance is approved by the CSRC.

All of the above conditions are non-waivable by any party to the agreement.

(VII) Arrangement for the undistributed profits

The subscriber agrees that after the completion of this issuance, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before the issuance in proportion to their shareholdings after the issuance.

(VIII) Taking effect, change and termination of the agreement

The agreement shall be established after the execution of both the issuer and the subscriber and shall take effect on the date on which all precedent conditions specified in the agreement are satisfied. Any change in the agreement shall be agreed upon by both the issuer and the subscriber with a written agreement.

The agreement shall be terminated under the following circumstances:

(1) Both parties have fulfilled their obligations in accordance with the agreement;

(2) The agreement has been terminated upon mutual agreement between the issuer and the subscriber;

(3) Either party may terminate the agreement in accordance with the provisions hereof due to force majeure;

(4) The issuance has not been completed within the validity period of the approval documents issued by the CSRC.

(IX) Liability for breach of contract

Except for force majeure and termination of this agreement due to circumstances stipulated in this agreement, if any party fails to perform its obligations or commitments under this agreement or the statements or warranties made are untrue or materially inaccurate, the party shall be deemed as in breach of this agreement. The breaching party shall rectify its behaviors within 15 days from the date on which the notice for rectification is served to the observant party. If the breaching party fails to make rectification in time, the observant party shall have the right to request the breaching party to compensate it for the direct losses suffered by the observant party.

SECTION III FEASIBILITY ANALYSIS OF THE BOARD OF DIRECTORS ON THE USE OF PROCEEDS

I. Plan of the use of proceeds

The total amount of proceeds from the non-public issuance is RMB700 million, which will be used to supplement working capital after deducting the cost of issue.

II. Necessity analysis on the use of the proceeds

(I) Meet the relevant requirements of funds appropriated from state-owned capital

In accordance with the relevant documents of the Interim Provisions on Strengthening the Management of Financial Information of Enterprises and Opinions on the Financial Treatment of Enterprises Obtaining State Direct Investment and Investment Subsidies and other relevant documents of the Ministry of Finance, the funds appropriated from state-owned capital obtained by YTO Group Corporation should be converted into the equity investment of the YTO Group Corporation to First Tractor timely based on the actual use, in order to meet the relevant requirements of funds appropriated from state-owned capital.

(II) Optimize the capital structure and improve the risk-resistance ability

As of 31 March 2020, the comparison of gearing ratio, current ratio and quick ratio between the Company and the comparable listed companies in the agricultural machinery industry is as follows:

	31 March 2020			31 December 2019			31 December 2018			31 December 2017		
Stock abbreviation	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio
Gifore (吉峰科技)	87.00	0.98	0.62	83.65	0.98	0.66	78.57	1.05	0.75	80.47	1.04	0.67
Xinjiang Machinery Research Institute (新研股份)	41.44	1.12	0.88	42.09	1.15	0.93	33.09	1.66	1.40	29.38	1.86	1.53
Thinker Agricultural Machinery (星光農機)	33.71	2.08	1.72	35.19	1.83	1.54	32.06	1.83	1.42	22.64	2.55	2.19
Shandong Hongyu Agricultural Machinery (弘宇股份)	17.18	4.49	3.39	15.66	4.90	3.79	16.95	4.46	3.27	16.44	4.44	3.31
Shandong Swan Cotton Industrial Machinery (天鵝股份)	32.40	2.53	1.58	37.33	1.98	1.29	32.93	2.11	1.56	23.97	3.56	2.82
Median	33.71	2.08	1.58	37.33	1.83	1.29	32.93	1.83	1.42	23.97	2.55	2.19
Average	42.34	2.24	1.64	42.79	2.17	1.64	38.72	2.22	1.68	34.58	2.69	2.10
Company	57.49	1.06	0.90	58.86	1.02	0.86	64.57	1.05	0.85	61.43	1.09	0.94

Note: The financial data as at 31 March 2020 has not been audited and the financial data for 2017 to 2019 has been audited.

As of 31 March 2020, the gearing ratio, current ratio and quick ratio of the Company were 57.49%, 1.06 and 0.90, respectively, while the average gearing ratio, current ratio and quick ratio of the comparable companies in the industry were 42.34%, 2.24 and 1.64, respectively. Compared with the same industry, higher gearing ratio and relatively lower asset liquidity increased the potential financial risks of the Company and were not conducive to the financing. This non-public issuance will help the Company optimize its capital structure and reduce financial risks by reducing the gearing ratio, thereby improving the Company's risk-resistance ability and financing in the future.

(III) Reduce financial expenses and improve financial stability

The agricultural machinery industry in which the Company is engaged in is a capital and technology-intensive industry, and there is a large demand for capital investment. The current interest-bearing liabilities level of the Company remains generally maintained at a high level. The interest-bearing liabilities of the Company in 2018, 2019 and as at 31 March 2020 are as follows:

Unit: RMB100 million

Item	**31 March 2020**	**31 December 2019**	**31 December 2018**
Short-term loan	13.28	14.20	27.78
Non-current liabilities due within one year	5.56	6.49	0.77
Long term loan	1.00	1.39	8.68
Subtotal	19.84	22.08	37.23
Total Liabilities	67.12	68.45	84.85

Note: The above data are on a consolidated basis, the data as at the end of the first quarter of 2020 has not been audited and the data as at the end of 2019 and 2018 has been audited.

The current liabilities account for a large proportion of the Company liabilities, and the current liabilities such as short-term loans are susceptible to fluctuations due to factors such as the macroeconomic environment, national credit and financial policies, industry development situation and enterprise fundamentals, etc., which easily leads the Company to face liquidity risks. The higher level of interest-bearing liabilities has resulted in the long-term high level of interest expenditure of the Company, and the interest expense amount of the Company was RMB138 million in 2019. This non-public issuance will supplement our working capital, effectively alleviate the funding pressure, reduce the scale of short-term liabilities, decrease the interest expenses, and improve the level of financial stability of the Company.

(IV) Funds required for future operations and development

The future development strategy of the Company requires funds, and on the basis of its own operation and development. It is necessary for the Company to reasonably use a variety of financing tools such as the capital market of A shares refinancing to meet the needs of industrial upgrading and business development, increase operating liquidity, reduce financial expenses, use the raised funds more effectively to strengthen the production, sales and research and development of the Company, accelerate the promotion of agricultural mechanization and agricultural machinery equipment industry upgrading, and promote the revitalization of rural areas and agricultural modernization of China.

(V) Subscription of shares by the controlling shareholder will enhance market confidence

The participation of YTO Group Corporation, our controlling shareholder, in the subscription of shares under the non-public issuance in cash fully demonstrates the support of the controlling shareholder for the development and confidence in the future prospects of the Company, which is conducive to maintaining the stability of the securities market, protecting the interests of all shareholders and establishing a good market image of the Company.

III. Feasibility analysis on the use of proceeds

(I) The use of proceeds from the non-public issuance complies with the provisions of laws and regulations

The use of proceeds from the non-public issuance of the Company complies with the relevant policies, laws and regulations, and is feasible. After the proceeds from the non-public issuance are in place, the gearing ratio of the Company will be reduced, which will help to improve the capital structure of the Company, reduce financial risks, and improve its going-concern ability, thus laying a solid foundation for the subsequent production and development.

(II) The issuer of this non-public issuance has established sound governance and internal control system

The Company has established a modern corporate system with a corporate governance structure as the core, and through continuous improvement and refinement, the Company has formed a standardized corporate governance system and a perfect internal control environment that meet the requirements of listed company governance. Regarding the management of raised funds, the Company has established Management System for the Use of Raised Funds in accordance with regulatory requirements, which clearly stipulates the storage, use, change of investment direction, inspection and supervision of the raised funds. After the proceeds from the non-public issuance are in place, the board of directors and board of supervisors of the Company will continue to monitor the storage and use of proceeds to ensure that the proceeds are used in a reasonable manner and prevent the risk of use of the proceeds.

IV. Impacts of the issuance on the business operations and financial condition of the Company

(I) Impacts of the issuance on the business operations of the Company

The proceeds raised in the non-public issuance will be used to supplement working capital after deducting the cost of issue. This will help to further enhance the Company's comprehensive strengths, optimize its capital structure, and reduce the financial risks, so as to closely follow the industry trend, and achieve long-term sustainable development of the Company.

After the raised proceeds are put in place and put into use, the capital strength of the Company will be significantly enhanced, and its sustainable development will be more stable. The issuance is in line with the interests of the Company and all shareholders.

(II) Impacts of the issuance on the financial condition of the Company

Based on the benchmark date of 31 March 2020, assuming that the issue cost and other factors are not taken into consideration, the gearing ratio of the Company (on a consolidated basis) will be reduced from 57.49% to 54.24% by supplementing the working capital through funds raised from the non-public issuance. The non-public issuance will effectively optimize the Company's capital structure, improve its financial position, improve the cash flow generated from future financing activities, reduce financial expenses, enhance its risk-resistance ability and going-concern ability, and further improve its ability to create continuous returns to shareholders, which is in line with the goal of maximizing the interests of shareholders.

SECTION IV DISCUSSION AND ANALYSIS OF THE BOARD OF DIRECTORS ON THE IMPACT OF THE ISSUANCE ON THE COMPANY

I. Changes in Business, Articles of Association, Shareholder Structure, Management Structure, and Business Income Structure of the Company

(I) Impact of the Issuance on the Company's Business and Assets

Upon completion of the non-public issuance, the principal business of the Company will remain unchanged and there involves no integration of existing business and assets of the Company. The total proceeds from the non-public issuance after deducting issuance expenditure, is proposed to be used to supplement working capital, which will reduce the gearing ratio of the Company. It is conductive to optimising the capital structure of the Company, increasing asset size of the Company and providing a strong support for the Company to expand and strengthen its principal business.

(II) Impact of the issuance on the Articles of Association

The registered capital, total number of shares and capital structure of the Company will change upon completion of the non-public issuance. The Company will make amendments to relevant articles of the Articles of Association pursuant to the issuance and comply with the procedures for the change in industrial and commercial registration.

Save for the aforementioned matters, the Company has no plan to adjust other matters under the Articles of Association as of the date of the proposal.

(III) Impact of the issuance on capital structure

The issuance will result in certain changes in the capital structure of the Company. The Company will issue additional 137,795,275 shares with trading restrictions.

Prior to the issuance, YTO Group Corporation, which is the controlling shareholder of the Company and the target subscriber, directly held 41.66% equity interest of the Company. Based on 1,123,645,275 share in issue, the proportion of shares directly held by YTO Group Corporation in the Company is expected to increase to 48.81% upon completion of the issuance, and YTO Group Corporation will remain as the controlling shareholder of the Company. The issuance will not result in change in actual control of the Company.

(IV) Impact of the issuance on management structure

There will be no significant changes in the management structure of the Company upon completion of the issuance.

(V) Impact of the issuance on business structure

The issuance will not have a significant impact on the business and income structure of the Company as the proceeds will be used to supplement working capital after deducting the issuance costs.

II. Changes in financial position, profitability and cash flows of the Company

Based on the major assumption set out in the next section below, the non-public issuance will have positive impact on the overall financial condition of the Company. Upon receipt of proceeds from the non-public issuance, the financial risks of the Company will be effectively reduced, with further improved ability to continue operations and sharpened comprehensive competitive edge. Particulars on the impacts are as follows:

(I) Impact on financial condition of the Company

Upon completion of the non-public issuance, the Company's total assets and net assets will increase accordingly with lower gearing ratio as a whole. As at 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%. Based on information as at 31 March 2020, without taking into consideration of issuance expenditure and other factors, the Company's gearing ratio upon the issuance will be reduced to 54.24%. The non-public issuance may optimise the capital structure of the Company to a certain degree, facilitate the Company's ability to resist financial risks and enhance its sustainable profitability.

(II) Impact on profitability of the Company

Upon implementation of the non-public issuance and after the proceeds are used to supplement working capital, the Company will reduce short-term borrowings for daily operations annually, thereby reducing interest expenses on short-term borrowings, alleviating short-term funding pressure, improving short-term debt solvency, effectively reducing financial expenses, and enhancing the sustainable profitability of the Company.

The issuance may reduce the Company's gearing ratio, increase the size of net assets, and optimise the Company's capital structure. The improvement of asset quality and debt repayment ability will help the Company to broaden its financing channels and enhance its refinancing ability, which will benefit its capital turnover and sustainable operation.

(III) Impact on cash flows of the Company

Upon completion of non-public issuance, the total proceeds of RMB700 million will be used to supplement working capital after deducting the related issuance costs. The cash flow generated from financing activities of the Company will increase the cash inflow received from investment. Without considering other influencing factors, the net increase in cash and cash equivalents of the Company will increase that year. The issuance helps improve the Company's cash flow condition, enhance the Company's ability to resist risks and competitiveness, and lay a foundation for the future business expansion of the Company.

III. Business relationship, management relationship, connected transactions and competition between the Company and the controlling shareholder and its affiliates

Upon completion of the issuance, there will be no significant changes in the business relationship and management relationship between the Company, and the actual controller and its affiliates, nor will competition arise from the issuance.

In the issuance proposal, save that the subscription for shares under the non-public issuance by cash by the controlling shareholder, YTO Group Corporation, which constitutes a connected transaction, no other connected transaction will arise from the issuance.

IV. Upon completion of the issuance, whether there will be embezzlement of funds and assets by the controlling shareholder and its affiliates, or whether guarantee will be provided by the Company for the controlling shareholder and its affiliates

As of the date of the proposal, the authorization approval procedures on use of capital and external guarantee of the Company and information disclosure obligation were strictly complied with in accordance with relevant laws and regulations and the relevant provisions of the Articles of Association. There was no embezzlement of funds and assets in breach of the rules by controlling shareholder, actual controller or its affiliates, or guarantee provided for its controlling shareholder or its affiliates in breach of the rules.

Upon completion of the issuance, there will be no embezzlement of funds and assets of the Company in breach of the rules by controlling shareholder and its affiliates, nor will be there any guarantee provided by the Company for its controlling shareholder or its affiliates in breach of the rules.

There will be no embezzlement of funds and assets in breach of the rules by controlling shareholder and its affiliates, nor will be there any guarantee provided by the Company for its controlling shareholder or its affiliates in breach of the rules due to the issuance.

V. Effect of the Issuance on the debt structure of the Company

As of 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%. Based on the data as at 31 March 2020 and assuming that the issuance expenditure and other factors are not taken into account, the gearing ratio of the Company upon completion of the issuance will reduce to 54.24%.

The non-public issuance will optimize the capital structure of the Company and help to reduce the financial risk of the Company. The Company will not significantly increase its liabilities (including contingent liabilities) or has a gearing ratio that is too low as a result of the issuance, nor will there be any unreasonable finance cost.

VI. Risks concerning the issuance

(I) Risks concerning the non-public issuance of A Shares

1. Risk of approval

Matters regarding the non-public issuance shall be subject to approval of the competent state-owned assets supervision and administration department, the granting of the Whitewash Waiver by Securities and Futures Commission, review and consideration by general meeting and class shareholders' meeting of the Company, and approval of the China Securities Regulatory Commission.

There are certain uncertainties on the approval or verification from the general meeting of shareholders, class shareholder's meetings and relevant competent authorities being given, as well as the timing of final approval or verification from the relevant competent authorities. All investors are advised to pay attention to investment risks.

2. Risk of dilution of immediate returns

The non-public issuance will increase the total share capital and net assets of the Company. If the growth rate of the Company's net profit is lower than the growth rate of equity and net assets in the short term, there is a risk that the earnings per share and the return on net assets will be diluted in the short term after the issuance.

3. *Risk of stock price volatility*

Stock investment itself involves certain risks. The fluctuation in stock prices is not only affected by the Company's financial condition, operation results and development prospects, but also affected by many factors such as the political and economic condition at home and abroad, national economic policy, macroeconomic cycle, stock market supply and demand. Therefore, there are certain uncertainties in the price of stock at secondary market upon completion of the non-public issuance. If the stock price is lower than expected, investors will be exposed to the risk of investment losses.

(II) Market and Policy Risk

1. *Market risk*

There is overcapacity of medium and low-end agricultural machinery equipment in the cultivation and harvesting of staple food crops in China, and the number of agricultural machinery kept increasing. The domestic tractor market is expected to continue to be in a period of adjustment due to factors such as the market-oriented reform of grain prices, the decline in the amount and proportion of subsidies for purchases of machinery, and the upgrading of the National IV emission standards for non-road diesel engines. Although the product power continues to rise and the structure continues to be optimized under the policy promotion, it is expected that the product demand will remain difficult to show a clear upward trend in the short term. If the industry continues to be in a period of deep adjustment in the future, the Company's performance in future will be affected.

2. *Policy risk*

With the continuous deepening of China's comprehensive deepening reforms, it is currently in the period of industrial structure adjustment, and changes in industrial policies have a greater impact on agricultural machinery manufacturing. Changes in industry policies such as national macroeconomic policies, taxation policies, pricing policies, agricultural machinery purchase subsidies policy, and national standard models of agricultural machinery will affect the Company's operating performance and development prospects.

(III) Operation and Management Risk

1. Risk of fluctuations in price of major raw materials

Commodities such as steel and rubber account for a relatively high proportion of the Company's raw materials and parts. The prices of such raw materials fluctuate due to such factors as their respective production costs, market demand and short-term speculative in the market, and may therefore affect the production costs of the Company's products, resulting in fluctuations in the Company's profitability. Although the Company has weakened the impact of rising raw material prices on the Company's performance through measures such as optimizing the procurement process, shortening intermediate procurement links, and centralized procurement scale, if the raw material prices continue to rise or remain high, it may be detrimental to the Company's profitability.

2. Risk concerning sales mode

In order to cope with the increasingly fierce domestic market competition and enhance the Company's sales competitiveness, the Company adopted sales methods such as credit sales, buyer credit, and finance leases. Although these new sales methods can promote sales to a certain extent, they have also increased the Company's risk exposure. Although the Company has strengthened risk management and control through the establishment of a more comprehensive customer credit investigation and review system, obtaining counter-guarantee from dealers, and improving the management level of accounts receivable, the Company is still subject to certain operational risks if the customers fail to repay timely.

3. Risk concerning product technology upgrading

In order to win the tough battle of pollution prevention and control, China continues to promote the switching and upgrading of non-road diesel engine emission standards and accelerate the pace of upgrading environmental policy standards. In the future, agricultural machinery that cannot meet the requirements of emission standards will not be available for sale. This will place higher requirements on the technical upgrading of diesel products and the matching of diesel engines and agricultural machinery. The non-road diesel engine National IV emission standard switching will place higher requirements on the product technology, manufacturing technology and overall upgrade of the supply chain of agricultural machinery manufacturing enterprises. If the relevant R&D cannot be successfully completed, it may have a direct impact on the Company's product sales, which in turn will have a negative impact on its future development. Besides, with the continuous acceleration of the entire process of agricultural production and comprehensive mechanization, if the Company cannot fully expand the product variety and effectively cover the new market demand under the development trend of diversified market demand, the income and profit in future will be affected.

(IV) Financial Risk

1. Risk of higher gearing ratio

The equipment manufacturing industry where the Company is operated is a capital-intensive industry, and the construction of production projects and the renovation and transformation of fixed assets require a large amount of capital investment. As of 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%, which is higher than the average gearing ratio of the special equipment manufacturing industry where business of the Company operated. Through the non-public issuance and its own capital accumulation, the Company's gearing ratio will decline in the future, but the capital-intensive operating characteristics still expose the Company to a certain degree of financial risk.

2. Risk of declining profitability

In the past three years, the operating income and profit of the Company fluctuated significantly during the reporting period due to multiple factors such as the decline in crop planting income, the increase in market agricultural machinery ownership, and the weakening of the effect of agricultural machinery purchase subsidies. In 2017, 2018, 2019 and the first quarter of 2020, the operating income of the Company was RMB7.219 billion, RMB5.541 billion, RMB5.737 billion and RMB2.077 billion respectively, and the net profits attributable to the owners of the parent company were RMB57 million, RMB-1,300 million, RMB61 million and RMB198 million respectively. Net sales margins were 0.52%, -24.63%, 2.21% and 8.88% respectively. Although the Company increased its market development efforts to vigorously implement measures such as cost reduction in procurement, product process optimization, quality improvement, and internal management enhancement, and successfully turned losses into profits in 2019, however, in the face of the agricultural machinery market that is currently in a period of deep adjustment, there remains a risk of fluctuations in earnings of the Company.

3. Foreign exchange risk

The Company's business is mainly located in China, and most transactions are settled in RMB. However, due to the foreign currency borrowing and foreign currency settlement in export trading, various related risks may arise due to exchange rate fluctuations, mainly involving currencies such as US dollar, Hong Kong dollar, Euro, Japanese yen, AUD, franc and Rand. Risks include but are not limited to: foreign exchange transaction risks due to the inconsistency of exchange rates between the transaction occurrence date and the settlement date in foreign currency-denominated transactions, and the risk of changes in the value of foreign companies due to exchange rate fluctuations.

(V) Risk arising from COVID-19

The COVID-19 has spread globally since 2020. Although the epidemic is preliminarily under control in China, it still has negative impact on the Company's raw material procurement, manufacturing, resumption of production and terminal sales of finished products in the short term. Besides, considering the seasonal nature of the agricultural machinery market, it is usually the peak season for agricultural machinery production and sales during spring tillage, and it is expected that the COVID-19 will affect the production of agricultural machinery product and market sales in the first half of 2020, market sales will lag, and the sales period in agricultural machinery market will shift backwards, which may adversely affect the short-term performance of the listed company.

In response to the above risks, the Company will establish a risk prevention mechanism and supporting control measures, strictly follow the requirements of relevant laws and regulations, standardize the Company's behavior, disclose important information in a timely, accurate, comprehensive and fair manner, strengthen communication with investors, and try to reduce the Company's investment risk and ensure steady and growth in operating performance.

SECTION V PROFIT DISTRIBUTION POLICY OF THE COMPANY AND ITS IMPLEMENTATION

I. Existing profit distribution policy and decision-making procedures of the Company

According to the relevant provisions and requirements of the No. 3 Guideline for the Supervision of Listed Companies–Cash Dividend Distribution of Listed Companies(《上市公司監管指引第3號－上市公司現金分紅》)issued by the CSRC and the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司現金分紅指引》) issued by Shanghai Stock Exchange, the main provisions of the profit distribution policy in the Articles of Association are set out below:

(I) Principle of profit distribution

The profits after paying related taxes shall be distributed in the following order:

1. making up for the loss;

2. allocation to the statutory surplus reserve;

3. allocation to the discretionary surplus reserve;

4. distribution of dividends on ordinary shares.

The specific distribution ratio of items 3 and 4 under this article in a certain year shall be formulated by the board of directors based on the operating conditions and development need of the Company, and shall be resolved by the general meeting.

Besides, the board of directors may, according to the authorization granted by the general meeting of shareholders, pay an interim dividend that it considers to be acceptable for the Company's profit to the shareholders before the next general meeting of shareholders from time to time without prior approval of the general meeting of shareholders.

The Company shall not distribute dividends before making up for the losses and allocating to the statutory surplus reserve. The Company is not required to pay interests to shareholders in respect of dividends, except for dividends that are due but not yet paid by the Company. If the general meeting distributes, in violation of this paragraph, the profits to shareholders before making up for the losses and allocating to the statutory surplus reserve, the shareholders shall return to the Company the profit distributed in violation of the regulations.

(II) Profit distribution policy

1. The Company shall appreciate the reasonable return on investment for investors and its sustainable development when implementing its profit distribution policy;

2. The Company may distribute dividends in cash, in shares, in a combination of both cash and shares. The Company preferentially adopts cash dividends for profit distribution;

3. The board of directors may distribute interim dividends or dividends upon authorization of the general meeting if available;

4. In the case of meeting the normal production and operation capital requirements of the Company, if there is no major investment plan or major cash expenditure, the profits distributed by the Company in cash every year are not less than 25% of the profits available for distribution in the year;

5. When the Company's net profit realized in that year has increased by more than 20% over that of the previous year, the board of directors may propose a profit distribution plan for issuing dividends;

6. The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of Association:

   (1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

   (2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

   (3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution.

In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(III) Decision-making and implementation procedures for profit distribution

1. The board of directors should fully consider the requirements and wishes of shareholders and appreciate the opinions of independent directors and the board of supervisors after carefully analyzing the industry development trends, the production and operation conditions and future investment planning of the Company and external financing environment, and should formulate the annual profit distribution plan of the Company within three months after the end of each fiscal year in accordance with the profit distribution policy stipulated in Article 217 of the Articles of Association, and submit it to the general meeting of the Company for consideration.

2. The Company shall announce the opinions of the independent directors when issuing the announcement of the resolution of the board of directors or the notice of convening the relevant general meeting. When reviewing the profit distribution plan, the general meeting of shareholders should communicate with shareholders, especially minority shareholders, through various channels to fully listen to the opinions and demands of minority shareholders.

3. The profit distribution plan can be implemented only after it is approved by the general meeting of the Company.

4. After the shareholders' meeting of the Company makes a decision on the profit distribution plan, the board of directors shall complete the distribution of dividends (or shares) within two months from the date of the general meeting.

(IV) Adjustment of profit distribution policy

If the profit distribution policy is required to be adjusted due to a major change in the external operating environment or its own operating conditions, the board of directors should propose an adjustment proposal for profit distribution policy based on the actual situation. The adjusted profit distribution policy shall take protecting shareholders' rights and interests as the starting point, and shall not violate the relevant regulations of the China Securities Regulatory Commission and the exchange. The independent non-executive directors of the Company shall issue written audit opinions on the adjustment of the profit distribution policy, and the proposal on the adjustment of the profit distribution policy is required to be submitted to the general meeting after deliberation by the board of directors, and approved by more than two-thirds of the voting rights held by shareholders attending the general meeting.

The reasons for adjusting the profit distribution policy and the opinions of independent non-executive directors and external supervisors should be disclosed in the periodic reports of the Company.

(V) Methods of Profit Distribution

Dividends or other distributions of ordinary shares shall be distributed and denominated in RMB.

Dividends or other cash distributions of domestic shares shall be paid in RMB.

Dividends or other cash distributions of overseas-listed foreign shares listed in Hong Kong shall be paid in Hong Kong dollars in accordance with the relevant foreign exchange regulations of China; the exchange rate shall be translated from the average closing price of Hong Kong dollar against RMB published by the People 's Bank of China for each business day one week before the date of declaration of dividend.

II. Profit distribution in the recent three years

The Company's profit distribution for the recent three years is as follows:

Unit: RMB10'000

Year of dividend	Amount of cash dividend (tax inclusive)	Net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements	Percentage of net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements *(%)*
2019	–	6147.54	–
2018	–	-130,010.88	–
2017	1,786.87	5,651.42	31.62

Note: The amount of cash dividends in 2017 was the repurchase of 4,928,000 H shares by the Company, and the total amount of expenditure was RMB17.8787 million.

On 29 May 2018, the Company held the 2017 Annual General Meeting of Shareholders, at which the Company's 2017 profit distribution plan was reviewed and approved. In 2017, the Company recorded the net profit of RMB56,651,400 attributable to ordinary shareholders of the Company. Taking into account its production and operation conditions and capital requirements, the Company did not distribute the cash dividends for 2017. In 2017, the Company repurchased 4,928,000 H shares and paid a total amount of RMB17.8687 million (excluding commissions, etc.), and according to the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司現金分紅指引》), the cash paid by the Company for share repurchase during the reporting period was regarded as cash dividend.

On 11 June 2019, the Company held the 2018 Annual General Meeting of Shareholders, at which the Company's 2018 profit distribution plan was considered and approved: the Company would not carry out profit distribution for 2018 according to the Articles of Association as the audited net profit in 2018 of the Company was a loss.

On 15 June 2020, the Company held the 2019 Annual General Meeting, at which the Company's 2019 profit distribution plan was considered and approved: After taking into account the development features of the agricultural machinery industry, the Company's development strategies and capital need, the Company will not make any profit distribution for 2019.

The Company formulated and implemented its profit distribution plan for the past three years strictly in accordance with the provisions of the Articles of Association, with clear dividend standards and proportions and complete decision-making procedures and mechanisms, which effectively safeguarded the legitimate rights and interests of shareholders.

III. Future profit distribution planning of the Company

In order to improve and develop the scientific, sustained and stable dividend distribution mechanism, and to protect the legitimate rights and interests of scattered investors, the Company has formulated shareholders' return plan for the next three years (2020-2022) by taking into account the development plan, profitability and other actual conditions of the Company in accordance with the People's Republic of China Company Law, the Announcement on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies (Zheng Jian Fa [2012] No.37) issued by the CSRC, Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies (Announcement [2013] No. 43 of the CSRC) and the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange and the relevant provisions of the Articles of Association.

The specific contents of the plan are as follows:

(I) Basic principles for developing a shareholders' return plan

The plan is made based on factors such as the Company's development plan, profitability, shareholder returns, social capital costs and external financing environment, and by fully taking into account the Company's profitability scale, cash flows, development stage, funding requirements for project investment, and bank credit environment in the next three years, and on the basis of balancing the reasonable return on investment of shareholders and the long-term development of the Company.

(II) Principles of the return plan for the next three years

The Company implements a continuous and stable profit distribution policy by comprehensively considering reasonable returns to investors and sustainable development of the Company. Subject to the satisfaction of profit distribution conditions and the requirements of its normal operation and the medium and long-term development strategy, the Company preferentially selects cash dividends and emphasizes on reasonable investment return to investors.

(III) Specific plans for shareholders' return in the next three years

1. The Company proactively distributes dividends in cash or shares, or makes distribution to shareholders by adopting other methods permitted by laws and regulations. If the conditions for cash dividends are satisfied, cash dividends should be used for profit distribution; if stock dividends are used for profit distribution, various factors including the Company's growth, dilution of net assets per share should be fully considered.

2. *Profit distribution policy of the Company*

   (1) The Company implements a continuous and stable profit distribution policy. The Company shall emphasize the reasonable return on investment for investors and its sustainable development when implementing its profit distribution policy;

   (2) The Company may distribute dividends in cash, in shares, or in a combination of both cash and shares. The Company preferentially adopts cash dividends for profit distribution, and the following conditions shall be satisfied when implementing cash dividends:

      1) the distributable net profits realized by the Company in the year or half year (i.e. net profit of the Company after making up the loss and allocating its profits to the statutory reserve) are positive, and its cumulative distributable profits are positive with adequate cash flow;

      2) the auditor has issued a standard unqualified audit report for the annual or semi-annual financial statements of the Company;

      3) the implementation of cash dividends will not affect the Company's continued operations;

4) the Company has no major investment plans or major cash disbursements (excluding projects funded by raised proceeds).

   Significant investment plan or significant cash expenditure refers to the Company's cumulative expenditures of its proposed foreign investment, asset acquisition or other major expenditures in the next twelve months reaching or exceeding 30% of its most recent audited net assets.

(3) When the Company's net profit realized in that year has increased by more than 20% over that of the previous year, the board of directors may propose a profit distribution plan for issuing dividends;

(4) The board of directors may distribute interim dividends or dividends upon authorization of the general meeting if available;

(5) The profits distributed by the Company in cash in the recent three years are not less than 25% of the profits available for distribution in the year.

The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of Association:

1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution.

In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(IV) Decision-making mechanism for shareholders' return plan

1. The board of directors should fully consider the requirements and wishes of shareholders and appreciate the opinions of independent directors and the board of supervisors after carefully analyzing the industry development trends, the production and operation conditions and future investment planning of the Company and external financing environment, and should formulate the annual profit distribution plan of the Company within three months after the end of each fiscal year in accordance with the profit distribution policy stipulated in the Articles of Association, and submit it to the general meeting of the Company for consideration.

2. The Company shall announce the opinions of the independent directors when issuing the announcement of the resolution of the board of directors or the notice of convening the relevant general meeting. When reviewing the profit distribution plan during the general meeting, the Company should communicate with the shareholders, especially minority shareholders, through various channels to fully listen to the opinions and demands of minority shareholders.

3. The profit distribution plan can be implemented only after it is approved by the general meeting of the Company.

4. After the shareholders' meeting of the Company makes a decision on the profit distribution plan, the board of directors shall complete the distribution of dividends (or shares) within two months from the date of the general meeting.

5. In the next three years, the Company may adjust its profit distribution policy if it encounters force majeure events such as war, natural disasters, epidemics, or changes in external operating environment that have a major impact on the production and operations of the Company, or suffers significant change in its own operating conditions.

(V) Matters not covered in this plan

The outstanding matters shall be implemented in accordance with relevant laws and regulations, regulatory documents and the Articles of Association. The board of directors is responsible for the interpretation of this plan, which will be implemented from the date of consideration and approval by the general meeting of the Company.

SECTION VI DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF SHARES AND REMEDIAL MEASURES

According to the requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》), Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (Announcement No. 31 [2015] of the CSRC) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), to protect the interests of scattered investors, the Company has made careful analysis on the impact of dilution of current returns caused by the non-public issuance and has formulated specific remedial measures for the diluted current returns. The relevant entities have made a commitment to ensure that the Company will earnestly implement the remedial measures for the current returns.

I. Impact of Dilution of Current Returns by the Non-public Issuance on Key Financial indicators

(I) Major Assumptions

The following assumptions are made mainly in estimating the effects of the non-public Issuance on key financial indicators of the Company. They do not represent the Company's expectation of its results of operation and trend, and neither do they constitute a profit forecast. Investors shall not make any investment decision based on such estimates, and the Company disclaims any liability for any losses incurred by investors arising from any investment decisions made based on them. The relevant assumptions are as follows:

1. Assuming there will be no material adverse changes in macroeconomic environment, industrial policies, industry development conditions and product market conditions;

2. Assuming the non-public issuance will be completed at the end of October 2020, which is only an estimate and does not constitute a commitment to the actual date of completion. Investors should not make investment decisions on this basis and the Company shall not be liable for losses incurred by investors who make investment decisions on this basis. It is subject to the actual date of completion following the approval from CSRC for the Issuance;

3. Assuming the number of shares to be issued under the non-public issuance is 137,795,275 shares, and the total amount of proceeds is RMB700 million, without taking into account the issuance costs. The above figures are just an estimation, and are only used for measuring the impact of the issuance on the Company's earnings per share. Such figures do not represent the Company's judgment on the number of shares to be issued and the total amount of proceeds, which is subject to the approval by the CSRC;

4. Assuming that the amount of net profit of the Company attributable to the owner of parent company and net profit of the Company attributable to the owner of parent company after deduction of non-recurring items for 2020 shall fall within one of the following three scenarios:

   (1) The profit of the Company attributable to the owner of parent company and net profit of the Company attributable to the owner of parent company after deduction of non-recurring items of the Company for 2020 decrease by 10% compared with the those of 2019;

   (2) The profit of the Company attributable to the owner of parent company and net profit of the Company attributable to the owner of parent company after deduction of non-recurring items for 2020 remain at the same level as those of 2019; and

   (3) The profit of the Company attributable to the owner of parent company and net profit of the Company attributable to owners of the parent company after deduction of non-recurring items of the Company for 2020 increase by 10% compared with those of 2019;

5. In estimating the equity attributable to the owner of parent company under the non-public issuance, factors other than estimated net profits and proceeds from the non-public issuance for 2020 or the impact of profit distribution are not taken into consideration;

6. The impact on the Company's production and operation after receiving proceeds from the issuance is not taken into consideration;

7. In estimating the total share capital at the end of the period upon the completion of the non-public issuance and the earnings per share, only the impact of the non-public issuance on the total share capital is considered, and other possible equity changes that may occur in 2020 are not taken into consideration;

8. Earnings per share and weighted average return on equity were calculated based on Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision).

(II) Analysis of the impact of dilution of current returns by the Issuance on key financial indicators

Based on the aforesaid assumptions, the impact of the non-public issuance on key financial indicators of the Company is as follows:

Item	**2019/ 31 December 2019**	**2020/ 31 December 2020 (without taking into account the issuance)**	**2020/ 31 December 2020 (taking into account the issuance)**
Total share capital at the end of the period *(in ten thousand shares)*	98,585.00	98,585.00	128,160.50
Total proceeds from the issuance *(in RMB ten thousand)*	–	–	70,000.00
Equity attributable to the owner of parent company as at the beginning of the period *(in RMB ten thousand)*	400,708.17	407,000.54	407,000.54

Item	**2019/ 31 December 2019**	**2020/ 31 December 2020 (without taking into account the issuance)**	**2020/ 31 December 2020 (taking into account the issuance)**
Scenario 1: assuming that net profit attributable to the owner of parent company and net profit attributable to the owner of parent company after deduction of non-recurring items for 2020 decreases by 10% compared with those of 2019			
Net profit attributable to the owner of parent company *(in RMB ten thousand)*	6,147.54	5,532.79	5,532.79
Net profit attributable to the owner of parent company after deduction of non-recurring items *(in RMB ten thousand)*	-25,125.93	-27,638.52	-27,638.52
Basic earnings per share *(RMB)*	0.0624	0.0561	0.0534
Basic earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2804	-0.2670
Diluted earnings per share *(RMB)*	0.0624	0.0561	0.0534
Diluted earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2804	-0.2670
Weighted average return on equity	1.52%	1.35%	1.31%
Weighted average return on equity after deduction of non-recurring items	-6.22%	-6.74%	-6.56%

Item	2019/ 31 December 2019	2020/ 31 December 2020 (without taking into account the issuance)	2020/ 31 December 2020 (taking into account the issuance)
Scenario 2: assuming that net profit attributable to the owner of parent company and net profit attributable to the owner of parent company after deduction of non-recurring items for 2020 remains at the same level as those of 2019			
Net profit attributable to the owner of parent company *(in RMB ten thousand)*	6,147.54	6,147.5	6,147.54
Net profit attributable to the owner of parent company after deduction of non-recurring items *(in RMB ten thousand)*	-25,125.93	-25,125.93	-25,125.93
Basic earnings per share *(RMB)*	0.0624	0.0624	0.0594
Basic earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2549	-0.2427
Diluted earnings per share *(RMB)*	0.0624	0.0624	0.0594
Diluted earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2549	-0.2427
Weighted average return on equity	1.52%	1.50%	1.46%
Weighted average return on equity after deduction of non-recurring items	-6.22%	-6.13%	-5.96%

Item	2019/ 31 December 2019	2020/ 31 December 2020 (without taking into account the issuance)	2020/ 31 December 2020 (taking into account the issuance)
Scenario 3: assuming that net profit attributable to the owner of parent company and net profit attributable to the owner of parent company after deduction of non-recurring items for 2020 increases by 10% compared with those of 2019			
Net profit attributable to the owner of parent company *(in RMB ten thousand)*	6,147.54	6,762.30	6,762.30
Net profit attributable to the owner of parent company after deduction of non-recurring items *(in RMB ten thousand)*	-25,125.93	-22,613.33	-22,613.33
Basic earnings per share *(RMB)*	0.0624	0.0686	0.0653
Basic earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2294	-0.2185
Diluted earnings per share *(RMB)*	0.0624	0.0686	0.0653
Diluted earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2294	-0.2185
Weighted average return on equity	1.52%	1.65%	1.60%
Weighted average return on equity after deduction of non-recurring items	-6.22%	-5.51%	-5.36%

Note: The numbers in the table above are prepared using PRC GAAP. The "net profit attributable to the owner of parent company" and the "net profit attributable to the owner of parent company after deduction of non-recurring items" for the year ending 31 December 2020 referred to in the table above constitute profit forecast under Rule 10 of the Takeovers Code. Inclusion of such information in this announcement is required under relevant laws, rules and/or regulations in the PRC. Shareholders and other investors should note that such information has not been prepared to a standard required under Rule 10 of the Takeovers Code and has not been reported on in accordance with Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting such information and when assessing the merits or demerits of the non-public issuance and dealing or investing in the shares or other securities of the Company.

The Executive has granted a waiver to the Company from its obligation to comply with Rule 10 of the Takeovers Code in respect of the Relevant Information.

II. Risk warning for dilution of current returns due to the non-public issuance

The non-public issuance will increase the total share capital and net assets of the Company. If the Company's business and net profit fail to achieve a corresponding increase, there will be a risk of short-term diluted earnings per share and net return on equity after the issuance. Investors are hereby reminded the risk that the non-public issuance may dilute the immediate shareholder returns.

III. Necessity and rationality of the issuance

For details of necessity and rationality of the issuance, please refer to relevant information disclosed in "Section III Feasibility Analysis of the Board of Directors on the use of the proceeds" of this proposal.

IV. Measures adopted by the Company for the dilution of current returns caused by the non-public issuance

(I) Make efforts to enhance the market competitiveness of leading products, actively improve quality and efficiency, and transform and upgrade

Focusing on the development idea of "smart driving, collaborative innovation and improving efficiency", the Company will accelerate the upgrade of technology for core products to continue to lead the technological progress, and strengthen international management capabilities to consolidate and enhance its leading advantages in the industry based on product quality improvement and by taking market competitiveness improvement as the core, intellectualization of agricultural equipment as the starting point and technology collaborative innovation as the means. Meanwhile, it promotes the formation of a company development structure with "outstanding principal business, moderate diversification, solid foundation and efficient operation", and strives to become an outstanding global agricultural equipment manufacturing service provider.

1. Market-oriented approach to enhance the market competitiveness of leading products

For tractor products, the Company will take advantage of research and development, core manufacturing and scale procurement, maintain keen insight, and continuously optimize product design while accelerating the technical upgrading of products such as power shifting, CVT speed control, high-quality tractors and smart products deployment, to further improve product reliability and product cost performance, so as to gain customer trust and increase market share by providing high-quality products and efficient services.

For diesel engine products, the Company will continue to prepare well in product upgrading, technical reserve, quality improvement and market expansion, to promote the development of the National Ⅲ rail diesel engine market, the full switching of the National IV series, and development of the new platform of the National V generation. Taking the upgrade of non-road emission standard from National III to National IV as an opportunity, the Company will comprehensively sort and benchmark products and improve performance indicators, increase market promotion efforts while preparing well in supporting the Company's mainframe products, to transform its in-depth understanding of the agricultural machinery industry into product matching advantages and increase the external matching share; meanwhile, it will reserve National V product technology to maintain the technological leading advantage.

2. *Implement the international special plan and strive for breakthroughs in the international market*

The first is to implement a special internationalization plan, accelerate breakthroughs in key overseas markets, promote the layout of key overseas markets, and explore the transformation from pure international trade to "international trade + overseas marketing + overseas manufacturing". The second is preparing for key overseas market expansion and accelerating the adaptation and quality improvement of export products based on the expansion of overseas key market pipelines and the in-depth development of market research in key regions. The third is to strengthen the construction of an international management talent team, establish an international training mechanism for professional and technical personnel, and improve the salary incentive mechanism for international marketing personnel. The fourth is to optimize the access of the international market, and actively participate in agricultural development cooperation projects through such methods as "borrowing boat to sail" and "forming alliances".

3. *Focus on key core technological breakthroughs, promote technological innovation and product upgrades*

The Company will actively focus on the changes in market demand, accelerate the R&D and application of large-scale, intelligent, environmental and compound agricultural machinery, and actively extend the business development chain, promote the implementation of complete solutions, enhance the service capacity of the entire agricultural industry chain, and promote application of precision agriculture and smart agriculture. The first is to strengthen the integration and sharing of information systems, and step up efforts in the development and demonstration of high-end agricultural equipment and the upgrading of manufacturing technologies. The second is to promote the construction of a smart agricultural platform, optimize platform functions, and achieve rapid development of the platform by virtue of big data services and accelerate transformation and upgrading. The third is to focus on the development of smart agriculture, master information acquisition, intelligent decision-making and precise operation technology, and actively cultivate unmanned driving, new energy and other emerging equipment.

4. *Focus on improving quality and efficiency to maintain stable operation and healthy development*

The Company will strengthen cost control, and improve the profitability of the product value chain focusing on key links such as technology cost reduction, procurement cost reduction, labor cost reduction, production process cost control and financial cost reduction, by implementing a target cost management system, innovating cost control models and mechanisms, and refining cost expenses pressure drop target. Meanwhile, the Company will firmly establish the red line awareness and bottom line thinking, enhance its risk prevention and control capabilities and strengthen the risk early warning mechanism, to build a major risk prevention bottom line, reduce the impact of risk on the Company's operation, and achieve stable and orderly development of the Company.

(II) Strengthen the management of proceeds to ensure the rational and standardized use of proceeds

In order to enhance the management and standardize the use of the proceeds and ensure standardized use of the proceeds, the Company has formulated the Measures for the Administration of Proceeds in accordance with the Company Law, the Securities Law, Rules governing the Listing of Stocks on the Shanghai Stock Exchange, and Measures for the Administration of Issuance, Regulatory Requirements for Fund Raised by Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司募集資金管理規定》). After the proceeds from the non-public issuance are in place, the Company will deposit the funds in a special account designated by the board of directors in accordance with the requirements of the system, and establish a three-party supervision system for the proceeds, which will be supervised jointly by sponsors, regulatory banks and the Company. The sponsors regularly check the use of the raised funds, while the Company regularly conducts internal and external audits on the proceeds, and cooperates with regulatory banks and sponsors to inspect and supervise the use of the proceeds.

(III) Continuously improve profit distribution policy and strengthen investor return mechanism

The Company will strictly implement the shareholder return plan reviewed and approved by the shareholders' meeting, strictly implement the cash dividend policy specified in the Articles of Association to maintain the continuity and stability of the profit distribution policy, and bring reasonable return to investors for overall interests of all shareholders and the sustainable development of the Company in accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in Capital Market (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》), the Notice of the CSRC on the Further Implementation of Matters in Relation to Cash Dividend of Listed Companies, and the Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend of Listed Companies and based on the actual condition of the Company.

(IV) Improve the corporate governance structure of the Company and improve the efficiency of operations and management

The Company will constantly improve the corporate governance structure according to the requirements of laws and regulations and regulatory documents such as the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies, to ensure the standardized operation and efficient execution in such aspects as corporate governance structure, decision-making mechanism, organizational form and decision-making process, and achieve scientific decision-making and standardized operation. The Company will ensure that independent directors can seriously perform their duties to safeguard the Company's overall interests, especially the legitimate rights and interests of small and medium shareholders, and provide institutional guarantee for its development.

Meanwhile, the Company will further improve the level of operation and management, strengthen internal control, and give full play to the effectiveness of corporate control. It will promote comprehensive budget management, strengthen cost management, strengthen budget execution supervision, and improve operating and management efficiency and control operating and management risks based on strict control of expenses.

V. Undertakings of Controlling Shareholders, Actual controller, Directors and Senior Management

(I) Undertakings of directors and senior management

The directors and senior management of the Company will perform their duties faithfully and diligently, and safeguard the legal rights and interests of the Company and all shareholders. In accordance with relevant regulations, the Company makes the following commitments to ensure that its return measures can be effectively fulfilled:

"1. I undertake that I will not direct benefits to other units or individuals at nil consideration or on unfair terms, and will not harm the Company's interests in any other manner;

2. I undertake that I will act to restrain duty-related spending;

3. I undertake that I will not utilise the assets of the Company for any investment or consumption irrelevant with the performance of my duties;

4. the remuneration system formulated by the Board or the Remuneration Committee will be correlated to the implementation of the Company's measures to make up for returns;

5. in the event of the implementation of any share option incentive scheme by the Company in future, the conditions for exercising options under such scheme proposed to be published will be correlated to the implementation of the Company's measures to make up for returns;

6. during the period from the date on which such undertaking is given to the completion of the non-public issuance of shares, supplementary undertakings will be given in accordance with new regulations announced by the CSRC concerning measures to make up for returns and related undertakings, if such regulations are announced by the CSRC and the foregoing undertakings fall short of meeting such new regulations."

(II) Undertakings of controlling shareholder and actual controller

Pursuant to relevant provision such as the "Guidance Opinion on Matters Pertaining to dilution of return for the Current Period Resulting from Initial Offering and Refinancing or Material Asset Reorganisation" (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), YTO Group Corporation and SINOMACH, the controlling shareholder and the actual controller of the Company, make the following undertakings to ensure the return remedial measures of the Company can be effectively performed:

"We undertake that we will not act beyond our powers to interfere with the Company's operating and management activities or infringe upon the Company's interests, will effectively promote the Company's effective implementation of the immediate return remedial measures according to permission, and effectively fulfill our commitments and are willing to compensate the Company or investors in accordance with the law if there is any loss incurred due to breach of such undertakings".

SECTION VII OTHER DISCLOSURES

I. Statement of the Board on whether there are other equity financing plans in the next twelve months apart from this issuance

In addition to this issuance, depending on the progress of the investment projects planned and implemented and after considering factors such as its capital structure and financing requirements, the Company will not rule out the possibility of arranging other equity financing plans within the next 12 months. If the Company arranges equity financing based on the requirements of business development and assets and liabilities in the future, it will perform the review procedures and information disclosure obligations in accordance with relevant laws and regulations.

The Board of Directors of First Tractor
Company Limited
7 July 2020