

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

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 0038)

ANNUAL REPORT

2016





IMPORTANT NOTICE

- I. The board of directors (the “**Board**”) and board of supervisors (the “**Board of Supervisors**”) of First Tractor Company Limited (the “**Company**”), and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management confirm that there are no false information, misleading statements or material omissions contained in this Annual Report, and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents therein.
- II. All Directors have attended the Board meeting, Mr. Wu Tak Lung, the independent non-executive Director, who was unable to attend the on-site meeting due to business engagement and appointed Mr. Yu Zhengbiao, the independent non-executive Director to vote on his behalf.
- III. ShineWing Certified Public Accountants LLP issued the standard unqualified audit report to the Company.
- IV. Mr. Zhao Yanshui (the person in charge of the Company), Mr. Yao Weidong (the person in charge of the accounting function) and Ms. Zhou Juan (the person in charge of the Accounting Department and the accounting manager) have declared and confirmed the truthfulness, accuracy and completeness of the financial statements in this Annual Report.
- V. Proposal of profit distribution or proposal of capitalization from capital reserves for the year ended 31 December 2016 (the “**Reporting Period**”) as considered by the Board

The proposal of profit distribution of the Company for the year of 2016 is to distribute cash dividend of RMB0.57 (tax inclusive) per every ten shares to all shareholders, based on the total share capital of the Company as at the record date for dividend distribution. The Company does not have any capitalization from capital reserves this year.

- VI. Statement for the risks involved in forward-looking statements

Forward-looking statements such as the development strategy and business plan of the Company contained in this Annual Report do not constitute any substantial commitment to investors by the Company. Investors are advised to pay attention to risks.

- VII. Is there any misappropriation of funds not in the ordinary course of business by the controlling shareholders or its associates?

No.

- VIII. Is there any external guarantee in violation of any established decision-making procedures?

No.

- IX. Significant risks warning

Please refer to “Management Discussion and Analysis” of this Annual Report for detailed description of unfavourable factors and risks which may occur in management and future development of the Company concluded based on the industry and operation situation of the Company under the materiality principle.

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MAJOR EVENTS OF FIRST TRACTOR IN 2016

February

“Dongfanghong” brand of the Company was honoured the Jinkoubei Award of Chinese Agricultural Machinery Brands in the large-scale public-welfare investigation activity of the 5th “Jinkoubei Award” hosted by Farmer’s Daily Newspaper Office

March

The whole series power shift tractors of the Company with 80–220 horsepower was launched in Zhengzhou Agricultural Trade Fair

The Company announced the annual results for the year of 2015



April

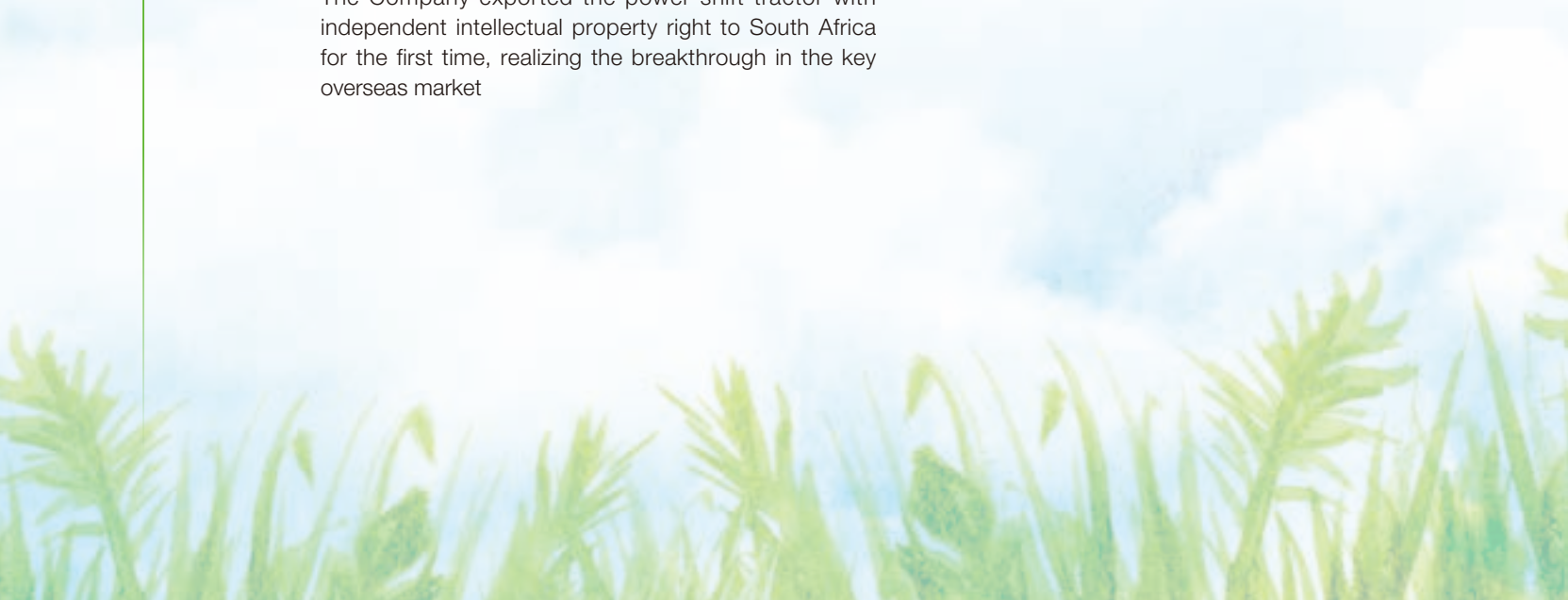
The first National Key Laboratory for Tractor Power Systems in the PRC was established by the Company



May

The Company convened the 2015 annual general meeting

The Company exported the power shift tractor with independent intellectual property right to South Africa for the first time, realizing the breakthrough in the key overseas market



MAJOR EVENTS OF FIRST TRACTOR IN 2016 (CONTINUED)

— June

Dongfanghong-LW4004 continuously variable transmission heavy-duty tractor was launched in the National “12th Five-Year Plan” Scientific and Technological Innovation Exhibition



— July

The Company and the Agricultural Mechanization Technology Development and Promotion Center of the Ministry of Agriculture jointly organized the National III Agricultural Machinery Application and Promotion Campaign in Fuyang, Anhui Province



Dongfanghong E-commerce Platform jointly developed by the Company and Nongji 1688 was formally launched into operation

The Company started to carry out the repurchase of H shares



MAJOR EVENTS OF FIRST TRACTOR IN 2016 (CONTINUED)

August

The production line for major products of the Company, Dongfanghong hi-powered wheeled tractor realized comprehensive adaption of all machineries for the National III Standard, and the mid-powered wheeled tractor had already been adapted to the National III Standard



The Company's subsidiary, YTO Diesel Engine ranked No. 1 in the appraisal of "2016 Leading Chinese Enterprises of Agricultural Machinery Spare Parts" organized by the China Association of Agricultural Industry, and won the title of "Leading Chinese Enterprise of Agricultural Machinery Spare Parts" again

The Company announced the interim results for the year of 2016

The Company was rated as an A Class Information Disclosure (Outstanding) Company for the year of 2015 by the Shanghai Stock Exchange



October

The Company launched the first driverless tractor Dongfanghong LF954-C in the PRC



The Whole-set Manufacturing Technology R&D Project of Power Shift Tractor Transmission System of the Company won the first grade prize of the scientific and technological award of the machinery industry in 2016



MAJOR EVENTS OF FIRST TRACTOR IN 2016 (CONTINUED)



Dongfanghong tractors of the Company with 100 horsepower or above and Dongfanghong diesel engines were honoured as the Most Influential Brand of China's Agricultural Machinery Industry in 2016 in the Agricultural Machinery Industry Annual Awards Event hosted by the China Association of Agricultural Industry

November

Dongfanghong large tractor of the Company, was on the list of the demonstration enterprises of the first 60 "Champions for a certain product in the Manufacturing Industry" announced by the Ministry of Industry and Information Technology



The Company received seven awards including the "Top Ten Competitive Brands in the Machinery Manufacturing Market" in Agricultural Machinery Industry in the seventh session of the "Agricultural Cup" awards event

The controlling shareholder of the Company, YTO finished the capital reduction and buy-back of equities from financial shareholders using certain of its shares in the Company as consideration, after which YTO remained the controlling shareholder of the Company with its shareholding in the Company changed to 41.24%

YTO products of the Company, won the gold medal at the 34th Cuba Havana International Expo



December

Dongfanghong-LF2004/2204 wheeled tractor of the Company, won the first grade prize of the scientific and technological award of machinery industry in 2016





MAJOR EVENTS OF FIRST TRACTOR IN 2016 (CONTINUED)



The Company exported 486 units of hi-powered wheeled tractors to the Cuban Ministry of Agriculture



The Company was awarded the “Award of Board Value Creation” and “Excellent Board of Directors” under the twelfth “Gold Table Award (金圆桌獎)” of the PRC Boards of Directors of Listed Companies



The Company won the “Award of the Highest Brand Value” among Chinese listed companies with financing in 2016

The Company was honoured with the Charming Brand of the Year in the appraisal of the quality award of 2016 “Light of Quality” hosted by the China Quality Inspection Newspaper



The Company convened the first extraordinary general meeting in 2016

DEFINITIONS

I. DEFINITIONS

Unless the context otherwise requires, the following terms should have the following meanings in the Annual Report:

Company	means	First Tractor Company Limited (第一拖拉機股份有限公司)
Group	means	the Company and its controlled subsidiaries
controlled subsidiary	means	a company held as to more than 50% shares or equity interest by the Company, or a company actually controlled by the Company through agreement and arrangement
subsidiary	means	a subsidiary as defined under the Listing Rules of the Stock Exchange
YTO	means	YTO Group Corporation (中國一拖集團有限公司), the controlling shareholder of the Company
Sinomach	means	China National Machinery Industry Corporation (中國機械工業集團有限公司), the ultimate controlling shareholder of the Company
YTO International Trade	means	YTO International Economy and Trade Company Limited (一拖國際經濟貿易有限公司), a wholly-owned subsidiary of the Company
Xinjiang Equipment Company	means	YTO (Xinjiang) Dongfanghong Equipment Machinery Company Limited (一拖(新疆)東方紅裝備機械有限公司), a wholly-owned subsidiary of the Company
YTO France	means	YTO France SAS (一拖法國農業裝備有限公司), a wholly-owned subsidiary of the Company
YTO Foundry	means	YTO (Luoyang) Foundry Company Limited (一拖(洛陽)鑄造有限公司), a wholly-owned subsidiary of the Company
YTO Forklift Truck	means	YTO (Luoyang) Forklift Truck Company Limited (一拖(洛陽)叉車有限公司), a wholly-owned subsidiary of the Company
YTO Shentong	means	YTO (Luoyang) Shentong Construction Machinery Company Limited (一拖(洛陽)神通工程機械有限公司), a wholly-owned subsidiary of the Company
YTO Transportation	means	YTO (Luoyang) Transportation Machinery Company Limited (一拖(洛陽)搬運機械有限公司), a controlled subsidiary of the Company
YTO Finance	means	China YTO Group Finance Company Limited (中國一拖集團財務有限公司), a controlled subsidiary of the Company



DEFINITIONS (CONTINUED)

Changxing Company	means	Luoyang Changxing Agricultural Machinery Company Limited (洛陽長興農業機械有限公司), a controlled subsidiary of the Company
YTO Diesel Engine	means	YTO (Luoyang) Diesel Engine Company Limited (一拖(洛陽)柴油機有限公司), a controlled subsidiary of the Company
YTO Fuel Injection Pump	means	YTO (Luoyang) Fuel Injection Pump Company Limited (一拖(洛陽)燃油噴射有限公司), a controlled subsidiary of the Company
Jiangyan Power	means	YTO (Jiangyan) Power Machinery Company Limited (一拖(姜堰)動力機械有限公司), a controlled subsidiary of the Company
CAMACO	means	China-Africa Machinery Corp. (中非重工投資有限公司), a controlled subsidiary of the Company
Tractors Research Company	means	Luoyang Tractors Research Institute Company Limited (洛陽拖拉機研究所有限公司), a controlled subsidiary of the Company
Changtuo Company	means	Changtuo Agricultural Machinery Equipment Group Company Limited (長拖農業機械裝備集團有限公司), a controlled subsidiary of the Company
ZF YTO Drive Axle	means	ZF YTO (Luoyang) Drive Axle Company Limited (采埃孚一拖(洛陽)車橋有限公司), an equity participating company of the Company
BOL Financial Leasing	means	BOL Financial Leasing Company Limited (洛銀金融租賃股份有限公司), an equity participating company of the Company
Bank of Luoyang	means	Bank of Luoyang Company Limited (洛陽銀行股份有限公司), an equity participating company of the Company
auditor	means	the financial statement auditor, ShineWing Certified Public Accountants LLP, appointed by the Company as the Company's auditor for the year of 2016
CBRC	means	China Banking Regulatory Commission
CSRC	means	China Securities Regulatory Commission
SASAC	means	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
Shanghai Stock Exchange	means	the Shanghai Stock Exchange
Stock Exchange	means	The Stock Exchange of Hong Kong Limited
Listing Rules of the Shanghai Stock Exchange	means	Listing Rules of the Shanghai Stock Exchange (as amended from time to time)

DEFINITIONS (CONTINUED)

Listing Rules of the Stock Exchange	means	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
A Share(s)	means	ordinary share(s) as approved by the CSRC which are issued to domestic investors and qualified foreign investors, traded on the PRC domestic stock exchange, denominated, subscribed for and traded in RMB
H Share(s)	means	ordinary share(s) as approved by the CSRC which are issued to foreign investors, and listed with the approval of the Stock Exchange, denominated in RMB, subscribed for and traded in Hong Kong dollars
agricultural machinery	means	various machinery used in the crop farming and animal husbandry production, and the primary processing and treatment of agricultural and animal products
power machinery	means	products including diesel engine and fuel injection pump
hi-powered wheeled tractor	means	wheeled tractor with horsepower of 70 (inclusive) or above
mid-powered wheeled tractor	means	wheeled tractor with horsepower of 25 (inclusive) to 70
crawler tractor	means	tractor with crawler as walking device
diesel engine	means	internal combustion engine that uses diesel as fuel
PRC	means	the People's Republic of China which, for the purpose of this Annual Report, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
Hong Kong	means	the Hong Kong Special Administrative Region of the PRC



COMPANY PROFILE AND KEY FINANCIAL INDICATORS

I. INFORMATION OF THE COMPANY

Chinese name of the Company	第一拖拉機股份有限公司
Abbreviation in Chinese	一拖股份
English name of the Company	First Tractor Company Limited
Abbreviation in English	First Tractor
Legal representative of the Company	Zhao Yanshui

II. CONTACT PERSONS AND METHODS

	Secretary to the Board	Representative of Securities Affairs
Name	Yu Lina	Wei Yajun
Contact address	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Telephone	(86 379) 6496 7038	(86 379) 6497 0213
Facsimile	(86 379) 6496 7438	(86 379) 6496 7438
E-mail	yulina@yotogroup.com	weiyajun027@163.com

III. INTRODUCTION OF BASIC INFORMATION

Registered address of the Company	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Postal code of the registered address of the Company	471004
Office address of the Company	No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
Postal code of the office address of the Company	471004
Website of the Company	http://www.first-tractor.com.cn
E-mail	mssc0038@yotogroup.com

IV. PLACE FOR INFORMATION DISCLOSURE AND DOCUMENTS INSPECTION

Name of newspapers designated by the Company for dissemination of information	“China Securities Journal” and “Shanghai Securities News”
Website for publication of the annual report as designated by the CSRC	www.sse.com.cn
Website for publication of the Annual Report as designated by the Stock Exchange	www.hkex.com.hk
Place for inspection of the annual report (report for A Shares)	Office of the Board of the Company
Place for inspection of the Annual Report (report for H Shares)	Li & Partners, 22/F, World-Wide House, Central, Hong Kong

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

V. BASIC INFORMATION OF SHARES OF THE COMPANY

Type	Stock exchange for listing	Abbreviation of shares	Stock code	Abbreviation of shares prior to the change
A Share	Shanghai Stock Exchange	一拖股份	601038	/
H Share	Stock Exchange	First Tractor	0038	/

VI. OTHER RELATED INFORMATION

Auditor of the Company (the PRC)	Name	ShineWing Certified Public Accountants LLP
	Office address	9/F, Block A, Fu Hua Mansion, No. 8 Chao Yang Men Bei Street, Dong Cheng District, Beijing, the PRC
	Names of the signing accountants	Ma Chuanjun, Song Gang
Sponsor providing on-going supervision and guidance during the Reporting Period	Name	CITIC Securities Company Limited
	Office address	North Tower, Phase II, Excellence Times Square, No. 8 Zhongxin San Road, Futian District, Shenzhen, Guangdong Province, the PRC
	Names of the signing sponsor representatives	Yu Hui, Zhu Yexin
	On-going supervision and guidance period	8 August 2012 to 31 December 2014

Note: The period for CITIC Securities Company Limited, the sponsor, to provide on-going supervision and guidance to the Company expired, but CITIC Securities Company Limited shall continue to supervise the use of raised funds.



COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

VII. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LATEST THREE YEARS

(I) Key Accounting Data

Unit: Yuan Currency: RMB

Key accounting data	2016	2015	Increase/Decrease during the Reporting Period as compared with the corresponding period last year (%)	2014
Total operating revenue	8,871,153,114.15	9,655,491,061.08	-8.12	9,026,978,821.14
Operating revenue	8,687,502,227.41	9,299,840,739.37	-6.58	8,929,316,050.68
Net profit attributable to shareholders of the Company	223,369,729.35	135,322,811.53	65.06	167,698,247.35
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	161,857,993.74	59,060,936.02	174.05	-21,999,386.97
Net cash flows from operating activities	2,093,174,716.44	637,795,720.18	228.19	74,866,397.52
	As at the end of 2016	As at the end of 2015	Increase/Decrease as at the end of the Reporting Period as compared with the end of the corresponding period last year (%)	As at the end of 2014
Net assets attributable to shareholders of the Company	4,829,340,535.85	4,673,879,851.60	3.33	4,593,468,033.54
Total assets	13,210,513,281.43	13,272,449,559.98	-0.47	12,355,694,645.67

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

(II) Key Financial Indicators

Currency: RMB

Key financial indicators	2016	2015	Increase/Decrease during the Reporting Period as compared with the corresponding period last year (%)	2014
Basic earnings per share (RMB/share)	0.2245	0.1359	65.19	0.1684
Diluted earnings per share (RMB/share)	0.2245	0.1359	65.19	0.1684
Basic earnings per share after deduction of non-recurring profit or loss (RMB/share)	0.1627	0.0593	174.37	-0.0221
Weighted average return on net assets (%)	4.69	2.92	Increased by 1.77 percentage points	3.68
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	3.40	1.27	Increased by 2.13 percentage points	-0.48

Explanation on the key accounting data and financial indicators of the Company for the latest three years as at the end of the Reporting Period:

The Company repurchased H Shares during the Reporting Period, basic earnings per share and diluted earnings per share were calculated based on the number of shares after deducting the number of repurchased H Shares as at the end of the Reporting Period.

Basic earnings per share and diluted earnings per share increased by 65.19% as compared with the corresponding period last year, mainly due to the increase in net profit attributable to shareholders of the Company realized this year.

VIII. KEY QUARTERLY FINANCIAL INDICATORS IN 2016

Unit: Yuan Currency: RMB

	Q1 (January–March)	Q2 (April–June)	Q3 (July–September)	Q4 (October–December)
Operating revenue	3,015,738,131.30	2,025,522,050.83	2,288,838,590.94	1,357,403,454.34
Net profit attributable to shareholders of the Company	92,485,373.84	65,864,210.02	93,476,253.85	-28,456,108.36
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	87,685,334.38	54,962,357.41	87,538,981.89	-68,328,679.94
Net cash flows from operating activities	252,971,498.09	234,170,139.52	776,690,766.86	829,342,311.97



COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

Non-recurring profit or loss Items	<i>Unit: Yuan Currency: RMB</i>		
	Amounts in 2016	Amounts in 2015	Amounts in 2014
Profit or loss from disposal of non-current assets	-9,165,962.45	-3,503,966.64	160,576,609.27
Government grants credited to current profit or loss (except for those which are closely related to the Company's ordinary business, in accordance with the PRC national policies and continuously received in certain standard amounts and quantities)	41,413,541.72	32,513,241.88	27,077,645.98
Gain or loss from debt restructuring	671,843.19	-5,057,432.79	1,741,068.71
Corporate restructuring costs, such as employee relocation expenses and integration costs	0.00	0.00	-36,041,618.25
Net profit or loss for the Reporting Period from subsidiaries arising from business combination involving entities under common control from the beginning of the period to the date of consolidation	0.00	0.00	-1,266,667.02
Profit or loss from changes in fair value arising from holding held-for-trading financial assets and held-for-trading financial liabilities, and investment income from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets (except for effective hedging business related to the Company's ordinary business)	39,090,268.83	60,360,102.36	16,208,980.55
Non-operating income and expenses other than those stated above	4,453,061.78	24,581,807.46	17,020,695.73
Profit or loss from transfer of long-term equity investment	0.00	0.00	51,600,103.86
Impact on minority shareholders equity interests	-5,657,014.73	-13,712,233.12	-7,190,659.67
Effects on income tax	-9,294,002.73	-18,919,643.64	-40,028,524.84
Total	61,511,735.61	76,261,875.51	189,697,634.32

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

X. ITEMS UNDER FAIR VALUE MEASUREMENT

Unit: Yuan Currency: RMB

Items	Balance as at the beginning of the Reporting Period	Balance as at the end of the Reporting Period	Change during the Reporting Period	Amount affecting profit for the Reporting Period
Change in fair value of financial assets credited to current profit or loss under fair value measurement (excluding derivative financial assets)	414,865,981.64	62,657,466.94	-352,208,514.70	31,110,224.24
Derivative financial assets	0.00	14,833,000.00	14,833,000.00	14,833,000.00
Available-for-sale financial assets	71,305,200.00	47,604,558.74	-23,700,641.26	15,075,696.07
Total	<u>486,171,181.64</u>	<u>125,095,025.68</u>	<u>-361,076,155.96</u>	<u>61,018,920.31</u>

XI. FINANCIAL SUMMARY OF THE COMPANY FOR THE LATEST FIVE YEARS

1. Results

Unit: 0'000 Currency: RMB

Items	2016	For the year ended 31 December			
		2015	2014	2013	2012
Total operating revenue	887,115	965,549	902,698	1,105,784	1,150,804
Total profit	28,010	22,168	21,189	33,910	46,149
Income tax expense	5,421	8,262	4,766	7,223	7,110
Net profit	22,589	13,905	16,423	26,687	39,039
Net profit attributable to shareholders of the Company	22,337	13,532	16,770	22,709	32,497
Profit or loss attributable to minority shareholders	252	373	-347	3,978	6,542



COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

2. Assets, liabilities and shareholders equity interests

Unit: 0'000 Currency: RMB

Items	2016	For the year ended 31 December			
		2015	2014	2013	2012
Total assets	1,321,051	1,327,245	1,235,569	1,169,928	1,098,837
Total liabilities	770,687	787,387	703,487	644,176	604,580
Total shareholders equity interests	550,364	539,858	532,082	525,752	494,257
Total amount attributable to shareholders equity interests of the Company	482,934	467,388	459,347	450,311	441,708
Minority shareholders equity interests	67,430	72,470	72,735	75,441	52,549

The financial summary of the Company for the latest five years are financial data prepared under the PRC Accounting Standards for Business Enterprises.

REPORT OF THE CHAIRMAN OF THE BOARD



TO THE SHAREHOLDERS,

I am pleased to present on behalf of the Board of First Tractor Company Limited the Annual Report of the Group for the year of 2016 to its shareholders.

BUSINESS REVIEW

In 2016, the PRC economy maintained a stable development amidst the macroeconomic environment remained complicated. Given the decrease in subsidy for purchasing agricultural machinery, the decline in food prices and the National III standard transformation, the growth of the agricultural machinery industry continued to slowdown, which resulted in an apparent decline in the overall tractor market. Facing the complicated economic environment and industry development trend, the Company insisted on the development strategy of “focusing on the core areas for stronger businesses, being innovation-driven and developing whole-set solutions” to unite all staff to overcome difficulties, and thus achieving good results on strategic management innovation, product structure adjustment, resources integration and optimization, and improvement in operation quality. The Company maintained a stable development. The profitability of the Company increased substantially and the market shares of hi-powered and mid-powered wheeled tractors of the Company continued to rank first in the industry despite the decrease in the revenue of principal business.



REPORT OF THE CHAIRMAN OF THE BOARD (CONTINUED)

During the Reporting Period, the transformation and upgrading of the Company achieved effective results. Firstly, the independent innovation ability of the Company achieved new breakthrough. Dongfanghong-LW4004 continuously variable transmission heavy-duty wheeled tractor was developed successfully and exhibited on the National “12th Five-Year Plan” Scientific and Technological Innovation Exhibition. The breakthroughs on core technologies of heavy-duty tractor such as continuously variable transmission drive system and intelligent control-management system have filled the technological gaps in the PRC. The first driverless tractor in its true sense in the PRC, Dongfanghong LF954-C, was shown and operated on-site successfully on the 2016 PRC International Agricultural Machinery Exhibition, further enhancing the high-end-leading industry image of the Company. Secondly, new progress was made on product structure adjustment. Based on the continuous rapid growth in the recent years, the sales of power-shift tractor had 40% year-on-year increase, preliminarily forming new advantages in middle to high-end supply. Meanwhile, the Company took the lead in transformation of products to National III standard in the industry, gaining the first mover advantage of National III product in the industry and showing the corporate image of actively undertaking social responsibilities. Thirdly, new achievement was made on key projects in relation to research and development and technology reform. Projects such as the “New Energy Saving and Environmental Friendly Agricultural Engine Development” were listed as the National “13th Five-Year Plan” key research and development projects. Projects such as the New Intelligent Manufacturing Mode Application on Wheeled Tractor were listed as the 2016 intelligent manufacturing integrated standardization and new mode application projects by the Ministry of Industry and Information Technology and the Ministry of Finance. The “New Core Capacity Upgrade on Wheeled Tractor” project was completed.

Improving the quality and quantity and solidifying the foundation. The Company focused on enhancing the control on accounts receivable and inventory scale, so as to reduce the operational risk. This played an important role in improving the quality of economic operation of the Company. Through the integration of internal resources and vigorous promotion of disposal of inefficient and ineffective assets as well as making good use of the existing resources, the operation efficiency of the Company has been improved.

During the Reporting Period, after obtaining the general mandate by the Board at the general meeting of the Company, the Company repurchased H Shares at the appropriate time to boost investors’ confidence, as well as improving return to its shareholders.

Regarding the structure of the Board, the Company amended and improved the “Implementation Rules for the Audit Committee of the Board” and the “Decision Making Principles on Investments and Operation” of the Company according to the needs of business development and internal control, and thus providing support to realize the standardized operation of the Board and implement its corporate development strategy. The Company was awarded the prize of the “Excellent Board of Directors” again and the “Value-added Board of Directors” award under the 12th “Gold Table Award” event. Moreover, the Company was rated as an A Class Information Disclosure Company by the Shanghai Stock Exchange this year and for three consecutive years since its listing of A Shares.

Looking back in 2016, the Company firmly promoted the transformation and upgrading and enhancement of the internal management, achieving success to a certain level. However, as affected by the economic and market environment, there was a gap between the annual sales revenue and the expected goal of the Company, the internal loss of business and inefficient assets were still eroding the profits of the Company, and more effort is still needed to improve the ability to provide whole-set solutions.

REPORT OF THE CHAIRMAN OF THE BOARD (CONTINUED)

PROSPECT

On the basis of the development trend of agricultural machinery industry in recent years and the analysis of the market, it is expected that in 2017, the agricultural machinery market will continue the basic trend with a slowing down growth rate but with opportunities and challenges at the same time. On the one hand, the further promotion of structural reforms on the agricultural supply side in the PRC laid a policy foundation for the development of agricultural machinery industry. The agricultural machinery and equipment manufacturing industry has been listed as the ten key development fields in “Made in China 2025”. The development of high-end agricultural equipment, such as large tractors, and the key core spare parts will be accelerated. The promulgation of the “Action Plan on Agricultural Equipment Development (2016–2025)” of the PRC provides an exceptional strategic opportunity for the transformation and upgrade of enterprises. The good market performance of power-shift products and machinery products with National III standard provides the Company with the first mover advantage in industry competition and transformation and upgrade. On the other hand, factors including the decreased total amount of subsidies in purchasing agricultural machineries in the PRC, the accelerated reforms in marketization of prices of grains, the influences of national policy of returning farmland to forest and grass on the agricultural machinery demands in 2017, as well as the impacts of concentrated destocking of tractors with National II standard on the overdraw of subsequent market demands in 2016, will restrain the demands of machinery purchase to a certain extent. Furthermore, the increases in raw materials prices will also put pressure on the earnings of the Company.

In the face of the opportunities and challenges, the Company will take the strategic ideas of “focusing on the core areas for stronger businesses, being innovation driven and developing whole-set solutions” as the guidance, and work in accordance with the overall work concepts of “insisting on strategy, changing with innovation and improvement, and improving for breakthrough”. The Company will take the improvement in the competitive advantages of existing core business and the rapid breakthrough in new business as major strategies, so as to complete and perfect works in 2017.

For principal products, the Company continued to vigorously promote power-shift tractors and develop new products (representing high-end demand in the industry), and prepare research and development reserve of products and technology such as intelligent agricultural machinery. Besides, according to the demand to accelerate the upgrade of national emission standards, the Company will work on the technical upgrade and transformation of power machinery products and accelerate the development of the engines in compliance with the National IV and V and their matching verification with the tractor bodies, so as to lead the upgrade of products in the industry and assume the responsibilities as the leading enterprise in the industry.

For business models, the Company will take the advantages in the products, manufacturing, technology and resources, etc. to optimize the combination and allocation of various competitive factors, in order to build the platform business models based on the core capacity of the Company. The Company will be user demand oriented to promote the transition from provision of products to provision of whole-set solutions, using development of whole-set as the breakthrough point.

For the integration of resources, the Company will emphasize on making the core business bigger and stronger. Internally, the Company will promote optimal allocation of resources and improve the utilization efficiency of resources. Externally, the Company will actively and orderly integrate resources and be open for cooperation, as well as grasping the strategic opportunity of the “Belt and Road Initiative” to expand the market space, adjust the market structure, provide strong support for business development and make great efforts to accelerate the development and breakthrough of the Company.

The development of modern agriculture in the PRC needs the support of high-quality agricultural machinery, and therefore agricultural machinery industry in the PRC has good development prospect.

Taking this opportunity, I hereby, on behalf of the Board of Directors, express my sincere respect and gratitude to all the shareholders, clients, other stakeholders and our employees for their concern, support and hard work for the development of the Company.



OVERVIEW OF THE BUSINESS OF THE COMPANY

I. EXPLANATION ON THE PRINCIPAL BUSINESSES, OPERATION MODES AND INDUSTRY OF THE COMPANY DURING THE REPORTING PERIOD

(I) Principal Businesses

The Group aims to provide agricultural equipment with advanced technology and reliable quality for mechanization of the PRC agricultural industry. The Group's principal businesses include research and development, manufacturing and sales of agricultural machinery, power-shift machinery and their spare parts. YTO Finance, a controlled subsidiary of the Company, has engaged in the business of fund settlement, financing and other financial services. During the Reporting Period, there was no major change to the principal businesses of the Company.

Agricultural Machinery Business: The business includes research and development, manufacturing and sales of the whole series of wheeled and crawler tractors and their key components including castings, gears, gear boxes and covers. Tractor products of the Company are mainly used for agricultural production. During the Reporting Period, the Company attained better improvement in the market sales of its power-shift and power steering tractors, of which the Company possesses complete and exclusive intellectual property rights.

Power Machinery Business: The products include off-road diesel engines with displacement of 2L to 12L and power output of 10KW to 405KW and their accessory parts including fuel injection pump and fuel injector. The products are mainly agricultural machinery, such as tractors and harvesters, and accessories of construction machinery, low-speed vehicles, vessels and power generators. During the Reporting Period, the air pollutant emission standard for off-road mobile machinery's diesel engines produced by the Company has been upgraded from National II to National III. The market response to equipping main units such as tractors and harvesters with National III standard diesel engines is positive.

Finance Business: YTO Finance, a controlled subsidiary of the Company, is a non-bank financial institution approved by the CBRC. It provides members of the corporate group with services within the scope approved by the CBRC, such as fund settlement, deposit and loan, bills, financial lease, buyer credit and investment.

(II) Key Operation Modes

Most of the products of the Company are generic products, while a few are personalized and customized products. During the Reporting Period, there was no major change to the key operation modes of the Company.

Product Research and Development: The Company adopts a two-tier model for research and development to combine the Company's research and development center with subsidiaries and professional factories. The research and development center of the Company is responsible for the strategic development of the Company and the research and development for significant product improvement. When the research products were approved to be mature by the market, the products would be manufactured by subsidiaries and professional factories. On such basis, the subsidiaries and professional factories would improve and perfect the products according to market needs, in order to fulfill requirements of different market segments.

OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

Procurement Mode: The Company adopts a model combining collective centralized procurement and collective decentralized procurement. For main raw materials and components (such as steel, pig iron, tire and bearing) with high demand and generic in nature in the production process, collective centralized procurement would be adopted so as to take full advantage of economies of scale. On the other hand, collective decentralized procurement would be adopted for differentiated raw materials and components required by each operating unit based on its needs.

Production Mode: The Company manufactures and operates through mass production in assembly lines. The Company reasonably arranges its production plans and organizes production according to market forecasts, market sales, information on product demand reflected by dealers and the seasonal features of sales of the Company's products. The power-shift machinery products of the Company are mainly supplied through execution of annual supply contracts entered into between main unit manufacturers and the Company, with production arranged and organized according to the demand plans and the specific orders.

Sales Mode: Tractor products are mainly sold by dealers of the Company. Our PRC sales network covers all 31 provinces, autonomous regions and municipalities in the PRC. As for the international market, the Company is establishing and improving its sales and service network step by step according to the progress of its business development, in order to adapt to market needs. Diesel engines are mainly supplied to be accessory for main unit manufacturers, mostly by direct sale.

(III) Industry Development

Since 2014, the development of the agricultural machinery industry in the PRC has been in the transition period. The main development characteristics of the industry are that: the high-speed growth changes to a medium-to-high speed growth; and the mode and driving force of development shifts from capacity expansion driven by investment to quality development driven by innovation.

In 2016, the agricultural machinery industry entered the key period of industrial upgrade and structural adjustment. The growth of the revenue from the principal business of agricultural machinery enterprises with national scale or above was around 5.2%. The comprehensive mechanization level of plowing, planting and harvesting of crops in the PRC reached around 65%, which means that there is still room for development as compared to the goal of reaching 70% comprehensive mechanization level of plowing, planting and harvesting of crops by 2020. During the Reporting Period, in addition to the agricultural machinery purchase subsidy policy which has been implemented for years, the government introduced a series of favourable policy for the agricultural machinery industry, which brings new opportunities for the development of the agricultural machinery industry in the PRC. The industrialization of key technology on modern agricultural machinery is listed as one of the six projects in the "Notice on the Implementation of Major Project Package for Enhancing the Core Competitiveness of Manufacturing Industry (關於實施增強製造業核心競爭力重大工程包的通知)" issued by the National Development and Reform Commission. The "Development Action Plan for Agricultural Machinery (2016–2025) (農機裝備發展行動方案(2016–2025))" also puts forward five special projects, i.e. promoting advancement and innovation of agricultural machinery technology, developing key parts, enhancing the product reliability, building public service platform and integrating the agricultural machinery with agricultural process, to achieve the strategic goal of enhancing the manufacturing capacity of agricultural machinery and promoting the development of the modern agriculture. The No. 1 central government document 2017 focuses on deepening and promoting structural reform of agricultural supply chain and accelerating modern agricultural development, which indicates the direction for transformation and development in the industry.

According to analysis on factors including economic environment in the PRC and overseas, stimulation of national policies, market adjustment and rigid demand, the agricultural machinery industry will continue to maintain a stable development trend in 2017. The growth of tractor industry will still slow down in 2017 due to multiple factors such as increase of inventory and rise in price of National III products.



OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

II. EXPLANATION ON MATERIAL CHANGES IN THE MAIN ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

As at the end of the Reporting Period, total assets of the Company amounted to RMB13.2105133 billion, among which assets outside the PRC was RMB260.3143 million (accounting for 1.97% of the total assets). Original value of fixed assets amounted to approximately RMB6.14035 billion, representing an increase of RMB357.90 million as compared with that of 2015, of which, newly added fixed assets amounted to RMB455.80 million, mainly due to the transfer into and increase in fixed assets after completion and production of projects such as the improved core capacity of the Company's new wheeled tractors, the workshops for giant body parts of hi-powered wheeled tractor and the improved manufacturing capacity for the agricultural high-power diesel engines and the hydraulic lifter for hi-powered and mid-powered wheeled tractors. The completion and implementation of the abovementioned projects will accelerate the Company's corporate transformation and upgrade, providing products and technical support for the industry and product structure adjustment.

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The Company strived to enhance its core competitiveness and strengthen its research and development capability and the construction of its research and development system, so as to promote technical upgrade of the products. The Company has strengthened its technique, quality management and key projects construction, and continuously improved its manufacturing capacity and standard. In addition, the Company actively proceeded with its innovative marketing and brand building to raise its competitiveness in the end market. During the Reporting Period, there was no significant change in the core competitiveness of the Company.

In respect of technical research and development, the Company possesses the leading technology research and development and the independent innovation capacity in the industry. The Company enjoys leadership status in the PRC in the research and development capabilities of tractors and agricultural diesel engines. The Company is also equipped with institutions certified by the national authorities, such as the National Level Corporate Technical Center (國家級企業技術中心), the National Key Laboratory for Tractor Power Systems (拖拉機動力系統國家重點實驗室), the Tractor Engineering Center of the Machinery Industry (機械工業拖拉機工程中心), the National CNAS Accredited Laboratory (國家CNAS授權認可實驗室), the OECD Accredited Official Tractor Laboratory in the PRC (OECD授權認可中國官方拖拉機實驗室), and the National Center for the Quality Supervision and Testing of Tractors (國家拖拉機質量監督檢測中心). Furthermore, the Company has achieved bulk sales of large power-shift tractors, a product that the Company took lead in research and development of the most advanced technology in the PRC with the independent intellectual property rights of the Company. Besides, the Company has also attained major achievements in the research and development of heavy-duty continuously variable transmission tractors.

In respect of manufacturing, the Company has the most comprehensive manufacturing system in the PRC for tractors, diesel engines and their key spare parts. The Company is also able to independently manufacture key components such as forged parts, castings, gears, gear boxes, covers, crankshafts and cylinder. A comprehensive manufacturing system with effective management and control has enabled the Company to effectively ensure its product quality and protect its core product manufacturing techniques.

In respect of marketing, the Company possesses a complete marketing and service network and the most influential brand in the industry, "Dongfanhong". Moreover, the Company pays constant attention to develop its marketing and service network. With the newly launched call center and the customer relationship management (CRM) system, etc. by the Company, the distribution service network of the Company could be managed in a more scientific and effective way, so as to enhance the customer response speed, quickly achieve customer review on aftersales service request and serve our customers more promptly. Abundant customer resources and information also provide substantive support to the Company on grasping the market demand and developing our products to improve user experience.

MANAGEMENT DISCUSSION AND ANALYSIS

I. MANAGEMENT DISCUSSION AND ANALYSIS

In 2016, the industrial added value of the agricultural machinery increased by 7.7%, which is 0.7 percentage point lower than last year's growth rate. There is an apparent slowdown in growth rate. Due to multiple unfavourable factors, the tractor industry had an overall declining trend. The annual industrial sales volume of hi-powered and mid-powered wheeled tractors by core enterprises was 283,000 units, with a year-on-year drop of 11.1%. In this situation, the Company actively coped with challenges generated from market changes by following the annual operation direction of "expand the market with steady growth; improve quality and create new advantages; adjust structure and promote to make transformation; strengthen management and improve efficiency". The Company maintains the first mover advantage in leading market products and an overall stable trend of corporate development. During the Reporting Period, the Company realized a total operating revenue of RMB8.871 billion, with a year-on-year decrease of 8.12%, among which operating revenue was RMB8.688 billion, with a year-on-year decrease of 6.58%, and net profits attributable to shareholders of the Company was RMB223 million, with a year-on-year increase of 65.06%.

(I) Enhancing high-end and mid-end supply capacity continuously and maintaining the leading advantages in the industry in principle products

Tractor Business

The Company strengthened the market competitiveness of Dongfanghong tractor through a series of measures including strengthening product promotion, adjusting marketing strategy, enhancing channel management, innovating marketing mode and enhancing service safety on the basis of its active grasp in competitive factors including industrial situation, regional characteristics and market change. During the Reporting Period, the Company realized a sales volume of 68,700 units of hi-powered and mid-powered wheeled tractors, with a year-on-year decrease of 11.27%, keeping its No. 1 in the industry in terms of market share.

During the Reporting Period, the Company took the lead in transforming products to National III standard in the industry, and realized a sales volume of 34,000 units of tractor with National III standard, as the market leader. The Company sped up the promotion and application of power-shift tractor by promotion and sales in key and suitable areas. The Company realized a sales volume of over 4,700 units of power-shift tractors, with a year-on-year increase of 40%, further enhancing the Company's advantageous position in supplying high-end and mid-end products in the industry. We launched a series of new products of mid-powered wheeled tractors which are applicable to agricultural operations such as paddy field, rotary tillage, orchard and greenhouse, meeting the agricultural characteristics of specific area and personalized needs of clients, thus the product competitiveness is improved. Meanwhile, the Company implemented resources integration in relation to manufacturing resources of mid-powered and low-powered wheeled tractors, in order to improve the efficiency of resources allocation. Furthermore, the Company optimized mid-powered wheel tractor product platform to create favourable conditions for promoting product technology upgrade. During the Reporting Period, the Company continued to promote expansion in the international market and intensify projects operation. The Company had a breakthrough in the key overseas markets. After exporting over 1,000 tractors to Cuba in 2015, the Company completed the export project to Cuba Ministry of Agriculture by exporting 486 units of hi-powered wheeled tractor in 2016, creating favourable conditions for the Company to expand influence of its products in the Latin-American market.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Power Machinery Business

The Company focused on developing and supplementing the National III products market by fully completing market expansion in the National III products market, continuously speeding up optimization in market structure and product structure adjustment. The Company obtained positive results. The Company created accessories for National III products with mainstream 80 to 150 horsepower, accounting for an external sales volume of 66%, representing a year-on-year increase of 3 percentage points. The annual sales volume of six cylinders diesel engines reached 47,400 units, with a year-on-year increase of 6.1%. The Company actively explored the wheat harvester market, with an annual sales volume of wheat harvester and accessories reaching a year-on-year increase of 12%. However, due to the overall decline in the tractor and harvester markets, the Company sold 142,000 units of diesel engine products, with a year-on-year decrease of 19.9%, among which the external sales volume reached 94,000 units with a year-on-year decrease of 15.7%.

Other Business

The finance business of the Company overcome the unfavourable factors including market interest rate reduction and liquidity shortage, and enhanced its bills business and inter-bank fund business development to improve capital efficiency.

(II) Technological innovation capacity improved continuously and key projects were in good progress

Scientific research and innovation achievements were in rich reserve

The Company's "Power-shift Tractor Series" was awarded the Machinery Industry Excellent Scientific Achievement in the "12th Five-year Plan". The "Research and Development on the Whole-set Manufacturing Process of Power-shift Tractor Power Tread System" project won the first graded prize in the PRC Machinery Industry Science and Technology Award. Projects such as the "Development of New Energy Saving and Environmental Friendly Agricultural Engine" and the "Key Technology Research and Development on the Entire Machine of Tractors Used in Hills and Mountains" were listed as key research and development plan project in the PRC "13th Five-Year Plan". The "Systemic Application Research and Demonstration of Agricultural Equipment Intelligent Manufacturing and Innovation Method" project was filed successfully as a special major science and technology project of the Ministry of Science and Technology. Meanwhile, the Company effectively promoted construction of an innovation platform, where the "Tractor Power System National Key Laboratory" was in construction.

The independent innovation ability improved continuously

The Company's research and development and industrialization on its LF series power-shift tractor, and commercialization on its National III tractor were in good progress, which consolidated the leading position of the Company in technology in the industry. The research of high-end tractor products of the Company including power-shift series, continuously variable transmission and automatic drive was successful. There was also research and development reserves of new product and technology relating to tractors with National IV and V standards and intelligent agricultural machinery. Commercialization of the abovementioned key research projects was also accelerated. These have great significance for the formation of the advantageous mid-end and high-end product portfolio of the Company by speeding up optimization and adjustment of product structure, leading the transformation and upgrade in the industry as well as enhancing the supply capacity of mid-end and high-mid products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Key projects were in good progress

During the Reporting Period, core capability improvement project of new wheeled tractors passed the inspection and was completed. The casting system green technology upgrade and reconstruction project will be inspected and completed in 2017. As one of the key construction project in the “13th Five-Year Plan”, the digitalized factory project of intelligent cockpit of modern agricultural equipment, was in steady implementation. Construction of the key projects of the Company laid a solid foundation for shaping its leading manufacturing advantage in the industry.

In 2016, YTO (with the Company as the core part) was confirmed as the demonstration pilot enterprise in intelligent manufacturing in Henan province, and successfully listed as the first batch of the “Champion in Single Product Manufacturing Industry” demonstration enterprise by the Ministry of Industry and Information Technology. The intelligent manufacturing of new wheeled tractor application project of the Company was listed as the “National Intelligent Manufacture Special Projects” by the Ministry of Industry and Information Technology in 2016.

(III) Effectively improved work quality and efficiency, and continuously achieved management improvement

In 2016, according to the corporate strategic plan, the Company continued to focus on its principal business and integrate internal resources by disposal of the loss-making business and low-efficient assets including forklift truck business and mining truck business. It improved assets operation efficiency and had positive influence on the growth of the annual results of the Company.

During the Reporting Period, the Company focused on delicacy management and promoted implementation of cost optimization project, reasonably determined and separated cost optimization indicators according to the principle of matching cost target with operation target. The Company improved economic operation quality through its continuous strengthening of budget management.

The Company focused on improving control on the “two amounts” (accounts receivable and inventory) and decreased the scale of the “two amounts”. The Company greatly reduced the scale of accounts receivable and inventory through strengthening client credit management, strict control of credit line and strengthening measure on disposal of inventory and other measures, etc. The Company kept on promoting synergy of product research and development and market quality information, construction and promotion of MES platform and procurement control information system, through increasing the breadth and depth of application of information system to effectively promote the deep integration of the “two modernizations”.

As to implementation of internal control, the Company continuously consolidated the institutional foundation of internal control, and examined and evaluated the internal control operating effects on management processes focusing on investment business and credit management business. The risk management measures were refined and optimized to upgrade execution level of the internal control and the abilities to prevent and control operational risks in advance.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

II. MAIN OPERATING SITUATION DURING THE REPORTING PERIOD

Please refer to the “Management Discussion and Analysis” in part I of this section.

(I) Analysis on principal business

Analysis on Changes in Items of the Income Statement and the Cash Flow Statement

Unit: Yuan Currency: RMB

Items	For the Reporting Period	For the corresponding period of last year	Changes (%)
Operating revenue	8,687,502,227.41	9,299,840,739.37	-6.58
Operating costs	7,088,783,071.84	7,617,420,810.89	-6.94
Taxes and surcharges	44,525,763.68	33,623,299.94	32.43
Selling costs	441,566,712.01	446,334,564.36	-1.07
Administrative expenses	913,876,338.90	933,468,993.96	-2.10
Finance costs	86,073,671.32	147,304,923.93	-41.57
Loss in asset impairment	87,289,662.58	158,306,457.84	-44.86
Gain from change in fair value	15,243,438.25	3,009,536.29	406.50
Income tax expenses	54,210,189.22	82,623,352.12	-34.39
Net cash flow generated from operating activities	2,093,174,716.44	637,795,720.18	228.19
Net cash flow generated from investing activities	-679,988,523.01	-643,001,833.63	N/A
Net cash flow generated from financing activities	-221,524,088.51	-10,693,437.77	N/A
Research and development expenses	404,592,452.39	389,241,683.88	3.94
Interest revenue	183,205,912.89	355,264,578.40	-48.43
Interest costs	55,437,794.90	243,810,083.69	-77.26

Operating revenue and operating cost: decreased by 6.58% and 6.94% respectively as compared with the corresponding period of last year, mainly resulting from the slight year-on-year decrease in sales of various products of the Company.

Taxes and surcharges: increased by 32.43% as compared with the corresponding period of last year, mainly resulting from the reclassification of property tax, land use tax, stamp duty and vehicle and vessel use tax, etc. from administrative expenses to taxes and surcharges by the Company since 1 May 2016 according to the “Accounting Rules for Value-added Tax (增值稅會計處理規定)” (Caikuai [2016] No. 22).

Loss in asset impairment: decreased by 44.86% as compared with the corresponding period of last year, mainly resulting from the year-on-year decline in overdue receivables and the significant decline in newly added bad debt risk as compared to the corresponding period of last year as the Company strengthened the management on trade receivables during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gain from change in fair value: increased by 406.50% as compared with the corresponding period of last year, mainly resulting from settlement of the foreign exchange swap settlement business as the Company strengthened the management of exchange rates during the Reporting Period.

Income tax expenses: decreased by 34.39% as compared with the corresponding period of last year, mainly resulting from the decrease in the taxable income amount of the Company for the Reporting Period.

Interest revenue and interest costs: decreased by 48.43% and 77.26% respectively as compared with the corresponding period of last year, mainly resulting from the significant year-on-year decrease in the inter-bank bills discounting business of YTO Finance whom adjusted its business lines during the Reporting Period.

1. *Income and cost analysis*

During the Reporting Period, the Company realized an operating revenue of RMB8.68750 billion, which is decreased by 6.58% as compared with the corresponding period of last year, mainly resulting from the slight decrease in sales of various products of the Company.

(1) *Principal businesses by industry, by products and by region*

Unit: 0'000 Yuan Currency: RMB

Principal business by industry

By industry	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year
Equipment manufacturing industry	868,750	708,878	18.40	-6.58	-6.94	Increased by 0.31 percentage point



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal business by products

By products	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year
Agricultural machinery	766,893	650,947	15.12	-7.59	-8.07	Increased by 0.44 percentage point
Power machinery	231,199	186,116	19.50	-1.28	0.19	Decreased by 1.18 percentage points
Other machinery	4,298	5,455	-26.92	-27.55	-31.19	Increased by 6.73 percentage points
Inter-segment elimination	-133,640	-133,640	/	/	/	/
Total	868,750	708,878	18.40	-6.58	-6.94	Increased by 0.31 percentage point

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal Businesses by Region

By region	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year (%)
In the PRC	830,082	678,757	18.23	-5.16	-5.71	Increased by 0.48 percentage point
Outside the PRC	38,668	30,121	22.10	-29.32	-28.06	Decreased by 1.37 percentage points

(2) Analysis on production and sales volume

Main Products	Production volume (unit)	Sales volume (unit)	Inventories (unit)	Increase/decrease in production volume as compared with last year (%)	Increase/decrease in sales volume as compared with last year (%)	Increase/decrease in inventories as compared with last year (%)
Tractor products	68,334	69,629	1,095	-15.64	-14.52	-54.18
Diesel engine products	141,555	141,635	8,194	-19.54	-19.94	-0.97
Other mechanical products	203	268	13	-37.15	-32.83	-83.33



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(3) Cost analysis

Unit: 0'000 Currency: RMB

By industry

By industry	Cost items	Amount for the Reporting Period	Amount for the Reporting Period as a percentage of total costs (%)	Amount for the corresponding period of last year	Amount for the corresponding period of last year as a percentage of total costs (%)	Changes in the amount for the Reporting Period as compared with the corresponding period of last year (%)
Equipment manufacturing industry	Material	727,038	86.29	783,776	86.92	-7.24
	Labour	47,919	5.69	49,028	5.44	-2.26
	Production costs	67,561	8.02	68,968	7.65	-2.04

By products

By products	Cost items	Amount for the Reporting Period	Amount for the Reporting Period as a percentage of total costs (%)	Amount for the corresponding period of last year	Amount for the corresponding period of last year as a percentage of total costs (%)	Changes in the amount for the Reporting Period as compared with the corresponding period of last year (%)
Agricultural machinery	Material	565,236	86.83	623,406	88.04	-9.33
	Labour	35,172	5.40	35,168	4.97	0.01
	Production costs	50,539	7.76	49,505	6.99	2.09
Power machinery	Material	157,282	84.51	154,289	83.06	1.94
	Labour	12,446	6.69	13,145	7.08	-5.32
	Production costs	16,387	8.80	18,331	9.87	-10.60
Other machinery	Material	4,520	82.84	6,081	76.71	-25.67
	Labour	301	5.52	715	9.02	-57.90
	Production costs	635	11.64	1,132	14.28	-43.90

Note: This table contains data before inter-segment elimination.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Explanation on other situation on cost analysis:

Agricultural Machinery: In recent years, the Company has continued to increase the real asset investment in the tractor-related products, and most real investment gradually completed in 2016, resulting in a year-on-year increase in fixed costs.

Power Machinery: As affected by the upgrade switch from National II to National III, the proportion of material cost rises slightly year-on-year.

Other Machineries: Due to the overall decline in the industry and the Company's contraction of business for risk control, the product sales declined to a greater extent, but the Company reduced the operating costs through cost control, Labour cost control and other measures, so that the cost had a year-on-year decline.

In 2016, the Company continued to implement cost optimization at all levels. By managing and controlling expenses, refining the causes of each expense and explicitly defining the responsible department for managing and controlling each expense, and enhancing the cost control consciousness of all staff, the annual material costs and labour costs declined to various extents.

(4) *Information of major customers and major suppliers*

Sales to the top five customers amounted to RMB761.98 million, accounting for 8.77% of the total sales of the Company for the year, among which, sales to the top five customers which were sales to the related parties amounted to RMB144.90 million, accounting for 1.67% of the total sales of the Company for the year.

Procurement from the top five suppliers amounted to RMB931.51 million, accounting for 15.92% of the total procurement amount of the Company for the year, among which, procurement from the top five suppliers which was procurement from the related parties amounted to RMB194.96 million, accounting for 3.33% of the total procurement amount of the Company for the year.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Expenses

Unit: Yuan Currency: RMB

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Change in amounts	Change (%)
Selling expenses	441,566,712.01	446,334,564.36	-4,767,852.35	-1.07
Administrative expenses	913,876,338.90	933,468,993.96	-19,592,655.06	-2.10
Finance expenses	86,073,671.32	147,304,923.93	-61,231,252.61	-41.57

During the Reporting Period, the Company's total expenses were RMB1,441.52 million, with a year-on-year decrease of RMB85.59 million at the decreasing rate of 5.60%.

Selling expenses and administrative expenses decreased slightly as compared with the corresponding period of last year, mainly due to the decline in the sales volume of the principal products of the Company and the enhanced expenses control by the Company at the same time during the Reporting Period.

Finance expenses decreased significantly as compared with the corresponding period of last year, mainly because the Company had a higher net loss in foreign exchange for external debts of the Company in USD and Euro due to the volatile exchange rate in the corresponding period of last year. The Company had locked all its external debts with forward exchange rate for the Reporting Period.

(5) Research and development investment

Research and development investment table

Unit: Yuan Currency: RMB

Research and development investment expensed during the Reporting Period	404,592,452.39
Research and development investment capitalized during the Reporting Period	0.00
Total research and development investment	404,592,452.39
Total research and development investment as a percentage of operating revenue (%)	4.66
Number of research and development personnel of the Company	1,567
Number of research and development personnel as a percentage of total staff of the Company (%)	13.48
Ratio of research and development investment capitalization (%)	0.00

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Explanation:

Research and development expenses for the Reporting Period increased slightly by 3.94% as compared with the corresponding period of last year, mainly due to the continuing enhancement in the research and development investment of the Company in relation to technological upgrade of products relating to tractor and power machinery for the purposes of enhancing the technical level of the principal products of the Company and consolidating and improving product competitiveness.

(6) *Cash Flow*

Unit: Yuan Currency: RMB

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Change in amounts	Change (%)
Net cash flow from operating activities	2,093,174,716.44	637,795,720.18	1,455,378,996.26	228.19
Net cash flow from investment activities	-679,988,523.01	-643,001,833.63	-36,986,689.38	N/A
Net cash flow from financing activities	-221,524,088.51	-10,693,437.77	-210,830,650.74	N/A

Net cash flow from operating activities increased by an inflow of RMB1,455.38 million as compared with the corresponding period of last year, mainly due to the significant decrease in inter-bank bills discounting business of YTO Finance as compared with the corresponding period of last year and the sales during the Reporting Period of financial assets purchased with agreement to re-sale held at the beginning of the period.

Net cash flow from investment activities decreased by an inflow of RMB36.99 million as compared with the corresponding period of last year, mainly due to the decrease in income from investment by the Company during the Reporting Period as compared with the corresponding period of last year.

Net cash flow from financing activities increased by an outflow of RMB210.83 million as compared with the corresponding period of last year, mainly due to the increase in loan repaid to banks by the Company during the Reporting Period as compared with the corresponding period of last year.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(II) Analysis on asset and liability

1. Assets and liabilities situation

Unit: Yuan Currency: RMB

Items	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Cash and cash equivalents	3,261,735,812.98	24.69	1,897,794,077.61	14.30	71.87	Mainly due to the increase in cash received from operating activities of the Company
Change in fair value of financial assets credited to current profit or loss under fair value measurement	62,657,466.94	0.47	414,865,981.64	3.13	-84.90	Decrease in trust products held by YTO Finance
Derivative financial assets	14,833,000.00	0.11	0.00	0.00	N/A	Purchase of foreign exchange swap settlement contract by the Company
Advance payment	143,734,037.70	1.09	60,933,298.85	0.46	135.89	Increase in advance payment for procurement
Interest receivable	12,027,545.45	0.09	1,878,611.11	0.01	540.24	Increase in interest receivable of YTO Finance
Other receivables	104,926,297.50	0.79	67,644,192.90	0.51	55.12	Increase in security deposit of export business
Financial assets purchased with agreement to re-sale	354,848,615.72	2.69	899,544,776.20	6.78	-60.55	Decrease in financial assets purchased with agreement to re-sale of YTO Finance
Other current assets	1,412,930,377.64	10.70	468,428,422.33	3.53	201.63	Increase in purchase of wealth management products using short term idle funds, and the transfer of value-added tax carried forward to other current assets due to the change from business tax to value-added tax
Loans issued and advances	748,364,409.66	5.66	1,859,617,637.45	14.01	-59.76	Decrease in businesses of bills discounting and transfer discounting of YTO Finance

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Items	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Held-to-maturity investments	58,352,738.68	0.44	0.00	0.00	N/A	Newly purchased bonds of YTO Finance
Construction in progress	376,823,261.61	2.85	613,389,411.85	4.62	-38.57	Transfer from infrastructure project to fixed assets
Advance from customers	199,663,201.54	1.51	303,082,198.22	2.28	-34.12	Decrease in advance from customers during the Reporting Period
Taxes payables	25,426,038.74	0.19	-347,088,631.55	-2.62	N/A	Reclassification of value-added tax carried forward to other current assets due to the change from business tax to value-added tax
Long-term loans	9,133,500.00	0.07	26,607,000.00	0.20	-65.67	Transfer of long-term loans due within one year to current liabilities during the Reporting Period
Other comprehensive income	-2,685,750.24	-0.02	9,734,262.44	0.07	-127.59	Disposal of certain available-for-sale financial assets and decrease in fair value of available-for-sale financial assets held during the Reporting Period

(1) Key financial ratio

Items	As at the end of the Reporting Period	As at the beginning of the Reporting Period	Year-on-year change
Gearing ratio (%)	58.34	59.32	Decreased by 0.98 percentage point
Current ratio	1.27	1.05	Increased by 0.22
Quick ratio	1.10	0.86	Increased by 0.24

As at the end of the Reporting Period, the gearing ratio of the Company decreased by 0.98 percentage point as compared with the beginning of the Reporting Period, and as at the end of the Reporting Period, the current ratio increased by 0.22 as compared with the beginning of the Reporting Period and the quick ratio increased by 0.24 as compared with the beginning of the Reporting Period, mainly due to the decrease in current liabilities of the Company as at the end of the Reporting Period.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(2) *Bank loans*

Bank loans of the Group are mainly in the currency unit of RMB, USD and Euro. As at the end of the Reporting Period, bank loans of the Group due within one year amounted to RMB1.5977155 billion, in which loans in foreign currency amounted to RMB827.7150 million (mainly consisted of loans denominated in USD); bank loans due over one year amounted to RMB9.1335 million; and the bank loans with fixed interest rate amounted to RMB1.4734999 billion. The Company has good bank credit rating and financing ability in the PRC and overseas.

2. **Restrictions on main assets as at the end of the Reporting Period**

As at the end of the Reporting Period, the Group's cash and cash equivalents with restrictions on any rights amounted to RMB367,430,005.50, including the guarantee letter deposits of RMB908,559.21, bank's acceptance bill deposits of RMB108,674,642.08, trade financing deposits of RMB7,088,798.79, letter of credit deposits of RMB3,829,400.18, the risk provisions for projects of RMB2,175,733.77, deposited investment fund of RMB3,572,792.66, the central bank's legal deposit reserve of RMB41,180,078.81 and deposited investment fund (bank deposit prepared for the purchase of wealth management products) of RMB200,000,000.00 in the deposits held in banks.

As at the end of the Reporting Period, the Group's notes receivable with restrictions on any rights was RMB26,060,900.00, which was the amount of notes receivable pledged in the bank during the Reporting Period.

As at the end of the Reporting Period, the Group's original value of the fixed assets and intangible assets with restrictions on any rights amounted to a total of RMB100,098,120.94, and the net value amounted to a total of RMB88,717,045.86, which were buildings and land mortgaged to the bank for short-term loans to the Group during the Reporting Period.

3. **Other Explanation**

(1) *Foreign exchange risk*

The business of the Company is mainly situated in the PRC and most of the transactions are settled in RMB. However, as the Company has loans denominated in foreign currencies and its export transactions are settled in foreign currencies (mainly in USD, HKD, Euro, Japanese Yen, AUD, XOF and ZAR), exchange rate fluctuations may affect the operating results of the Company to a certain extent.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(2) *Contingent liabilities*

Save for contingent events in external guarantees and pending litigation, as at 31 December 2016, the Company had no other material contingent events. For details of the guarantees of the Company, please refer to “Significant Events”, Section VI of this Annual Report. For details of pending litigation of the Company, please refer to “Financial Statement Prepared in accordance with the PRC Accounting Standards for Business Enterprises”, Section XIII of this Annual Report.

(3) *Principal sources and use of funds*

The main sources of funds of the Company are receipts from product sales, bank borrowings and advance from customers. The fund was mainly used for the projects relating to operating and investment activities of the Company.

(III) Analysis on Investments

1. Overall analysis on external equity investments

(1) *Financial asset under fair value measurement*

Overall situation

Unit: Yuan Currency: RMB

Items	Amount as at the beginning of the Reporting Period	Profit/Loss from change in fair value during the Reporting Period	Accumulated change in fair value included in equity interests	Impairment provided for the Reporting Period	Amount as at the end of the Reporting Period
Financial asset					
1. Change in fair value of financial assets credited to current profit or loss under fair value measurement (exclusive of derivative financial assets)	414,865,981.64	410,438.25	0.00	0.00	62,657,466.94
2. Derivative financial assets	0.00	14,833,000.00	0.00	0.00	14,833,000.00
3. Available-for-sale financial assets	71,305,200.00	0.00	-5,834,146.95	0.00	47,604,558.74
Total	486,171,181.64	15,243,438.25	-5,834,146.95	0.00	125,095,025.68



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Investment in securities

Unit: Yuan Currency: RMB

Number	Type of security	Stock code	Abbreviation of the security	Initial investment amount (Yuan)	Number of shares held (share)	Book value	As a percentage to	Profit/
						as at the end of the Reporting Period (Yuan)	total security investment as at the end of the Reporting Period (%)	loss during the Reporting Period (Yuan)
1	Shares	SH.601818	China Everbright Bank	9,560,288.26	2,510,000.00	9,814,100.00	45.11	77,309.73
2	Shares	HK.1140	OP Fin Inv	1,847,450.88	4,580,000.00	9,095,019.88	41.80	2,639,970.43
3	Shares	HK.2208	Goldwind	565,856.00	93,800.00	1,099,156.00	5.05	-97,017.68
4	Shares	HK.0152	Shenzhen Int'l	452,843.00	65,351.00	660,565.49	3.04	-143,869.52
5	Shares	HK.0042	NE Electric	311,479.00	200,000.00	466,934.22	2.15	-22,946.47
6	Shares	HK.2308	EVOC	186,121.00	176,000.00	199,940.88	0.92	-20,430.98
7	Shares	HK.0235	China Strategic	281,712.76	1,260,000.00	199,493.62	0.92	-44,543.70
Other securities investment held as at the end of the Reporting Period				1,061,513.43	/	222,256.85	1.01	-66,860.27
Profit/loss in securities investment sold during the Reporting Period				/	/	/	/	10,301,045.30
Total				<u>14,267,264.33</u>	<u>/</u>	<u>21,757,466.94</u>	<u>100.00</u>	<u>12,622,656.84</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Equity interests in other listed companies

Unit: Yuan Currency: RMB

Stock code	Abbreviation of the security	Initial investment amount	Shareholding ratio at the beginning of the Reporting Period (%)	Shareholding ratio at the end of the Reporting Period (%)	Book value as at the end of the Reporting Period	Profit/loss during the Reporting Period	Changes in owners' equity interests during the Reporting Period	Accounting items	Sources of shares
601328	Bank of Communications	5,256,363.64	0.008	0.004	17,021,500.00	13,597,496.07	-13,558,388.64	Available-for-sale financial asset	Purchase
601818	China Everbright Bank	24,118,000.00	0.0167	0.0167	30,419,800.00	1,478,200.00	-1,925,550.00	Available-for-sale financial asset	Purchase
603660	KEDACOM	40,688.01	0.000	0.002	163,258.74	0.00	91,928.05	Available-for-sale financial asset	Purchase
Total		<u>29,415,051.65</u>	<u>/</u>	<u>/</u>	<u>47,604,558.74</u>	<u>15,075,696.07</u>	<u>-15,392,010.59</u>		<u>/</u>



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Equity interests in non-listed financial enterprises

Currency: RMB

Name of the investee company	Initial investment amount (Yuan)	Shareholding ratio at the beginning of the Reporting Period (%)	Shareholding ratio at the end of the Reporting Period (%)	Book value as at the end of the Reporting Period (Yuan)	Profit/loss during the Reporting Period (Yuan)	Changes in owners' equity interests during the Reporting Period (Yuan)	Accounting items	Sources of shares
Bank of Luoyang	78,129,341.41	4.89	4.06	78,129,341.41	16,122,000.00	0.00	Available-for-sale financial asset	Purchase
BOL Financial Leasing	110,000,000.00	18.34	6.875	110,000,000.00	0.00	0.00	Available-for-sale financial asset	Established by investment
Total	<u>188,129,341.41</u>	<u>/</u>	<u>/</u>	<u>188,129,341.41</u>	<u>16,122,000.00</u>	<u>0.00</u>	<u>/</u>	<u>/</u>

Explanation on the equity interests in non-listed financial enterprises:

During the Reporting Period, the registered capital of Bank of Luoyang increased from RMB2.2 billion to RMB2.65 billion. The shareholding ratio of YTO Diesel Engine in Bank of Luoyang decreased from 4.89% at the beginning of the Reporting Period to 4.06% at the end of the Reporting Period as the investment in Bank of Luoyang by YTO Diesel Engine did not increase.

During the Reporting Period, the registered capital of BOL Financial Leasing increased from RMB600 million to RMB1.6 billion. The shareholding ratio of the Company in BOL Financial Leasing decreased from 18.34% at the beginning of the Reporting Period to 6.875% at the end of the Reporting Period as the investment in BOL Financial Leasing by the Company did not increase.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trading of shares of other listed companies

Currency: RMB

Stock name	Number of shares as at the beginning of the Reporting Period (share)	Number of purchase of shares during the Reporting Period (share)	Amount of capital used (Yuan)	Number of shares sold during the Reporting Period (share)	Number of shares as at the end of the Reporting Period (share)	Investment revenue generated (Yuan)
CROWNICORP	820,000	0	0.00	820,000	0	704,150.86
China Everbright	760,000	3,250,000	12,680,500.00	1,500,000	2,510,000	-13,711.94
Toly Bread	21,507	0	295,936.32	21,507	0	992,135.11
Qianjing Landscape	1,451	0	27,539.98	1,451	0	70,948.45

Note: Save for the above trading of shares of other listed companies by the Company during the Reporting Period, YTO Finance purchased new shares in initial public offerings for a total capital amount of RMB2,447,840.47 and generated investment revenue of RMB6,038,406.55.

(IV) Sales of material assets and equity interests

During the Reporting Period, there was no sale of any material assets or equity interests by the Company.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(V) Analysis on key equity holding and participating companies

1. Information on key subsidiaries

Currency: RMB, unless otherwise specified

Name of company	Registered capital (0'000)	Principal business	As at 31 December 2016		Realized during the Reporting Period	
			Total assets (0'000)	Net assets (0'000)	Operating revenue (0'000)	Net profit (0'000)
YTO Finance	50,000	Provision of financial services	521,396	72,895	20,222	283
YTO Diesel Engine	USD16 million	Manufacturing and sale of engines	152,970	91,947	199,048	10,703
Jiangyan Power	20,000	Manufacturing and sale of multi-bore small size diesel engines and castings	46,957	24,637	34,873	-830
YTO Fuel Injection Pump	16,192	Manufacturing and sale of products including fuel injector and fuel pump of diesel engine	27,608	22,153	14,469	-678
Tractors Research Company	44,500	Research and development of tractor product	75,790	65,713	22,974	1,456
YTO International Trade	6,600	International sale of agricultural machinery	60,761	8,751	54,164	1,687
YTO France	EURO34.6 million	Manufacturing and sale of agricultural machinery components	27,351	1,738	13,330	-2,098
YTO Foundry	24,883	Processing and sale of rough and semi-finished products and finished products of casting and forging products	30,576	23,297	6,573	1,086
Changtuo Company	28,200	Manufacturing and sale of agricultural machineries and spare parts	18,105	6,429	2,206	-3,506
YTO Shentong	5,300	Manufacturing and sale of mining trucks and other agricultural machinery products	3,936	-27,741	1,516	-4,336
Changxing Company	300	Sales of products including agricultural machinery, spare parts and diesel engines	113,729	-27,026	501,036	-3,786

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Acquisition and disposal of subsidiaries during the Reporting Period

During the Reporting Period, YTO Diesel Engine completed the merger and absorption of its wholly-owned subsidiary, YTO (Luoyang) Power Machinery Company Limited, and such merger did not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules of the Stock Exchange.

3. Subsidiaries contributing more than 10% to the net profit of the Company

Unit: 0'000 Currency: RMB

Number	Name of companies	Operating revenue for the Reporting Period	Operating profit for the Reporting Period	Net profit for the Reporting Period
1	YTO Diesel Engine	199,048	11,704	10,703
2	Changtuo Company	2,206	-3,576	-3,506
3	YTO Shentong	1,516	-4,385	-4,336
4	Changxing Company	501,036	-4,169	-3,786

4. Analysis on material subsidiaries with over 30% change in their operating business

YTO Finance: Net profit decreased by 96.5% year-on-year, due to the significant year-on-year decrease in the inter-bank bills discounting business as a result of the business line adjustment during the Reporting Period, and the impairment provision of RMB56.22 million for "15 Guoyu Logistics CP001" and "15 Guoyu Logistics CP002" bonds purchased during the Reporting Period.

YTO Fuel Injection Pump: Operating revenue decreased by 37.58% year-on-year and net profit decreased by 176.05% year-on-year, due to the significant year-on-year decrease in sales resulting from the impact of the upgrade of national emission standard for off-road machinery during the Reporting Period.

YTO France: Net loss reduced by RMB40.31 million year-on-year due to the significant decrease in year-on-year operating costs as a result of the enhancement in cost control during the Reporting Period.

YTO Shentong: Net loss reduced by RMB40.44 million year-on-year due to the active sales of mining truck in inventories and collection of trade receivables during the Reporting Period.

Changxing Company: Net loss reduced by RMB116.54 million year-on-year due to the significant year-on-year decrease in impairment provision for bad debt as a result of enhancement of trade receivables management during the Reporting Period.

(VI) Information of structured entities controlled by the Company

During the Reporting Period, there was no structured entity controlled by the Company.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

III. THE COMPANY'S DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

(I) Competition dynamics and development trend of the Industry

The current overall agricultural machinery industry in the PRC is loose. Agricultural machinery products, inclusive of tractors, are under a relatively concentrated competition, and these products have large inventories and overcapacity, while their product qualities are under significant homogeneous competition. With the rapid growth of this sector during the last few years, many new players both in the PRC and from abroad have participated in the PRC agricultural machinery industry, thus further increasing the level of competition. The industry competition model has changed in the following three aspects: first, it is the globalization of competition, which is represented by Chinese domestic enterprises keep actively exploring overseas markets, thereby accelerating their respective paces of "Going-out" strategies; second, it refers to the systematized competition. Agricultural production companies are constantly improving product lines while enhancing the industrial chains respectively, so as to meet the ever upgrading and changing market demand; third, the PRC's agricultural structure is undergoing an in-depth adjustment. With the whole-process mechanization of the operation by agricultural machinery and the comprehensive mechanization of the quicker development of agriculture, the industry tends to emerge such highlights as in the technical competition field. The agricultural machinery producers are further increasing their research and development capability as well as the manufacturing level, in order to accelerate the transformation from manufacturing products to integrating both products and services.

It is anticipated that in 2017 the agricultural machinery industry will remain in the adjustment period. On one hand, the total state subsidies for the purchase of agricultural machinery will see a certain range of declines, while certain subsidies are expected to be granted to the sub-soiling operations in agriculture. On the other hand, this industry is facing the ever-increasing structural contradictions, which is reflected by the overcapacity of traditional agricultural machinery products, the on-going saturation of markets for middle and low-end items, and the intensified homogenization of competition in the market; and, there is a supply shortage of large, high-end equipment products and new-type agricultural machinery. In order to meet structural changes in the market demand, the industry will accelerate the supply-side reform, while further quickening its structural adjustment as well as transformation and upgrading. In the future development of the industry, the focus will be attached to such agricultural machinery and equipment that are large-sized, energy-saving, environmental-friendly and intelligent.

There is an important national policy, namely "focusing on agriculture is the foundation for reassuring social stability". Therefore, as set out in the "13th Five-Year Plan" of the PRC, the agricultural development is emphasized with the top priority. Among the equipment manufacturing sectors, the agricultural machinery industry is closely associated with agriculture, and plays a vital role in safeguarding national food security and promoting agricultural production and efficiency. As a result, although the industry has entered into the adjustment stage, but by an outlook to the future, agricultural machinery industry in the PRC is still with great expectations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(II) Development strategy of the Company

The Company will insist on the strategy of “focusing on the core areas for stronger businesses, being innovation-driven and developing whole-set solutions”. The Company will take promotion of product technology as driving force, promotion of manufacturing level and product quality as foundation, promotion of resource integration and operation internationalization as key focus, and control of reform, enhancement of synergy and employment of talents as guarantee, in order to keep the leading advantages of its existing core businesses. The Company will also develop whole-set products for agricultural equipment and innovative business models as a leader in agricultural machinery in the PRC, to provide customers with the most valuable whole-set solutions for agricultural equipment. The Company is devoted to being an excellent international agricultural equipment supplier.

(III) Operation plan

In 2017, the Company will insist on its strategic development idea and follow the annual operation direction of “expand the market with steady growth; improve quality and create new advantages; adjust structure and promote to make transformation; strengthen management and improve efficiency”. The Company will maintain its market leadership, increase its market share, continue to build on and reinforce its leading competitive edge in the industry by focusing on enhancing competitive edge in core businesses and rapid breakthrough in new businesses as strategic priorities.

1. Focusing on the strategic plan of the Company to actively promote collaborative development in all business segments.

The Company will continue to strengthen the competitive edge of the tractor business by speeding up the absorption of the drive system technology provided by YTO France, developing the next generation drive system and creating a complete product platform. The Company will further consolidate its No. 1 advantage in tractor business through leading, scale up and internationalized product technology for whole series of products covering the mid to high end market. It will speed up the technology upgrade and transformation for power machinery business, systematically change the full range of off-road diesel engines into Nation III Standards, and develop new products that comply with Nation IV and V emission standards. At the same time, the Company will endeavor to enhance its products' competitiveness in overseas markets, optimize its overseas marketing system and structure, improve the distribution network in key strategic markets and accelerate its penetration into key overseas markets. The Company aims to achieve rapid business growth through innovations in organization, management processes, development path and mechanism and other areas guided by strategic planning. It will also steadily promote the implementation of whole-set solutions with the sales of agricultural machinery units as the starting point.

2. Creating a competitive and supportive value chain and enhancing the underlying capability for transformation and upgrade.

The Company will insist on being market-driven and directed by users. It will develop industry leading marketing, research and development, production and manufacturing abilities, and form synergy and an effective and efficient market response mechanism in all sections in value chain, so as to provide solid support for its transformation and upgrade.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Continuing to reinforce the operational foundation for quality and efficiency improvement by focusing on enhanced risk prevention.

The Company strives to build a long-term mechanism for improving management and enhancing its ability and performance of delicate management through continuously strengthening internal control and deepening management improvement. At the same time, the Company will firmly establish the risk awareness, improve the risk management system, and prioritize the risk management of key businesses, as well as ensuring that the risk control process is put in place.

(IV) Potential risks

1. *The Fluctuation Risk of Prices of Raw Materials*

Steel, rubber and other materials constitute a major part of the Company's purchases of raw materials and spare parts. If there is any significant price fluctuation of raw materials, it will affect the gross profit of the Company, and may adversely affect the profit of the Company through its stock value and other aspects.

The Company will mitigate the impact of raw material price fluctuation to a certain degree by adopting measures such as optimizing the purchase procedures, shortening the intermediate purchase links and centralizing large-scale purchase; at the same time, the Company will reduce the impact from the price fluctuation of raw materials on the costs for the Company by conducting purchase based on price range and making advance payment to lock the raw material prices which are likely to increase.

2. *Market risk*

In recent years, with the development of large-scale land and intensive management, users' demands on whole set of agricultural equipment solution that meets whole process mechanization of "tilling, planting and harvesting" are continuously increasing. Leading product of the Company is concentrated on tractor and diesel engine products. Variety structure of products is not rich enough, which has certain inadaptability with users' demands.

The Company is consistently enhancing the promotion of the high-end products of large tractor and other products to the market. At the same time as consolidating the foundation of tractor products' competitive advantage, it positively explores paths of unit sales, developing whole set of agricultural equipment; meanwhile, it seizes the historic opportunity of Chinese strategies of "One Belt One Road", and "Agriculture Stepping Out", as well as strengthening the international market development intensity, adjusting market structure, and decreasing market risk.

3. *Product technology upgrade risk*

It is predicated that the emission standard of off-road diesel engines will start to be changed into Nation IV in 2019, which will speed up the development and have greater technical difficulty with more demanding requirements for the Company for the technical upgrade of diesel engines products and the products matching of diesel engines and tractors.

The Company will expedite the product match validation and actively adapt to the needs for industry upgrade by fully making use of its advantages in research and development of off-road diesel engines, and in matching diesel engines with main unit.

SIGNIFICANT EVENTS

I. PROPOSAL OF PROFIT DISTRIBUTION OF ORDINARY SHARES OR CAPITALIZATION FROM CAPITAL RESERVES

(I) Formulation, implementation or adjustment of cash dividend policy

During the Reporting Period, there was no adjustment to the cash dividend policy of the Company. The annual profit distribution plan of the Company is proposed by the Board and will be submitted to the general meeting of the Company for approval.

The Company implemented and completed the 2015 profit distribution plan in July 2016, and distributed dividend of RMB40.8319 million (tax inclusive) to all the shareholders of the Company, accounted for 30.17% of the net profit attributable to the shareholders of the Company in the 2015 consolidated statements of the Company.

(II) Proposal or plan of profit distribution and proposal or plan of capitalization from capital reserves of the Company in the latest three years (including the Reporting Period)

Unit: Yuan Currency: RMB

Year of divided distribution	Number of bonus shares for every 10 shares (share)	Dividend for every 10 shares (Yuan) (tax inclusive)	Number of conversion shares for every 10 shares (share)	Amount of cash dividends (tax inclusive)	Net profit attributable to the shareholders of the Company as shown in the consolidated statements for the year distributing dividend	As a percentage of net profit attributable to the shareholders of the Company as shown in the consolidated statements
					(Yuan)	(%)
2016	/	0.57	/	75,570,900	223,369,729.35	33.83
2015	/	0.41	/	40,831,900	135,322,811.53	30.17
2014	/	0.51	/	50,790,900	167,698,247.35	30.29

Note: Cash dividend amount for 2016 is calculated based on the share capital of the Company after deduction of 5.122 million H Shares repurchased by the Company during the Reporting Period, plus the cash amount paid by the Company in the repurchase of H Shares during the Reporting Period.



SIGNIFICANT EVENTS (CONTINUED)

(III) Inclusion of repurchase of shares by way of cash offer in cash dividend distribution

Unit: 0'000 Yuan Currency: RMB

	Amount included in cash dividend distribution	Percentage (%)
2016	1,909.66	8.55

Note: The above amount is the cash amount paid by the Company in the repurchase of H Shares during the Reporting Period.

II. FULFILLMENT OF UNDERTAKINGS

(I) Undertakings made by the Company's ultimate controller, shareholders, connected parties, acquirers and the Company or other related parties during or subsisting to the Reporting Period

Background of undertaking	Type	Party making the undertaking	Content	Term of the undertaking	Is there any deadline for performance?	Is it performed in a timely and strict manner?
Undertaking related to the initial public offering	Solutions to business competition	The Company	Commencing from 11 January 2012, YTO (Luoyang) Machinery Equipment Company Limited no longer engages in the purchase, assembly and sale of agricultural machinery and equipment products other than the supporting sale of the agricultural machinery and equipment products which have been purchased or ordered. The Company and all its controlled subsidiaries shall not engage in the processing, production or assembly of agricultural machinery and equipment, except the supporting sale and relevant procurement.	Long term	No	Yes
Undertaking related to the initial public offering	Solutions to business competition	YTO	YTO will not engage in and will procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where YTO or other enterprises controlled by it may bring unfair impact on the Company in areas including market share, business opportunity and resources allocation, YTO will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company.	Long term	No	Yes

SIGNIFICANT EVENTS (CONTINUED)

Background of undertaking	Type	Party making the undertaking	Content	Term of the undertaking	Is there any deadline for performance?	Is it performed in a timely and strict manner?
Undertaking related to the initial public offering	Solutions to business competition	Sinomach	Sinomach will not engage in and will procure other enterprises controlled by it not to engage in the same or similar business of the Company to avoid direct or indirect competition with the Company's business operations. In addition, where Sinomach or other enterprises controlled by it may bring unfair impact on the Company in areas including market share, business opportunity and resources allocation, Sinomach will voluntarily give up and procure other enterprises controlled by it to give up business competition with the Company.	Long term	No	Yes
Undertaking related to the initial public offering	Other	YTO	YTO and YTO Finance entered into the Deposit Agreement and Loan Agreement, which stipulated the annual caps of loan obtained by YTO and its subsidiaries (excluding the Company) from YTO Finance. YTO further undertook that, on the basis of the aforesaid Deposit Agreement and Loan Agreement and cap amounts of connected transactions, the loan of YTO and its subsidiaries (excluding the Company) obtained from YTO Finance will be less than their deposits placed with YTO Finance, and YTO will ensure the safety of its subsidiaries' loan through various measures.	Long term	No	Yes
Undertakings made to the minority shareholders of the Company (Note 1)	Other	YTO	YTO continues to perform its duty as a shareholder and support the operation and development of the Company as always, and would not reduce its shareholding in the Company for 6 months since 10 July 2015.	2015.07.10-2016.1.9	Yes	Yes

Note 1: The undertaking of YTO for not reducing shareholding in the Company expired on 9 January 2016.



SIGNIFICANT EVENTS (CONTINUED)

III. OTHER EXPLANATION ON ACCOUNTING POLICY OF THE COMPANY

According to the relevant notice of “Provisions Concerning the Accounting Treatment on Value-Added Tax” printed and issued by the Ministry of Finance (Caikuai [2016] No. 22) on 3 December 2016 and interpretation of related issues of “Provisions Concerning the Accounting Treatment on Value-Added Tax”, after overall trial of the change from business tax to levying value-added tax, subject name of “business taxes and surcharges” is adjusted to “taxes and surcharges” which includes the consumption tax, urban maintenance and construction tax, resources tax, education surcharge and property tax, land use tax, vehicle and vessel use tax, stamp tax and other related taxes relating to enterprise business activities.

The ending debit balances of “value-added tax payable”, “unpaid VAT”, “pending tax deduction on purchase”, “withholding tax to be certified”, “VAT tax credits” and other classification items under the item of “tax payable” shall be listed in the items of “other current assets” and “other non-current assets” in the Balance Sheet according to the circumstances; the ending credit balances of “tax payable-tax pending write-off” and other items shall be listed in the items of “other current liabilities” or “other non-current liabilities” in the Balance Sheet; the ending credit balances of “unpaid VAT”, “simple tax assessment”, “transfer of financial commodity VAT payable”, “withholding and remitting VAT” and other items under the item of “tax payable” shall be listed in the item of “tax payable” in the Balance Sheet.

As to the transactions happened from 1 May 2016 to the implementation of this regulation shall be adjusted as per the regulation, for the amount presented in the financial statements such as assets, liabilities and profit or loss as affected by the regulation; as to the transactions happened from 1 January 2016 to 30 April 2016, it shall not be adjusted retrospectively; and as to the financial statements in the financial statements of 2016 during the comparable period, it shall also not be adjusted retrospectively.

IV. APPOINTMENT OR DISMISSAL OF AUDITOR

Unit: 0'000 Currency: RMB

	Current appointment	
Name of the PRC domestic auditor	ShineWing Certified Public Accountants LLP	
Remuneration of the PRC domestic auditor	170	
Term of the PRC domestic auditor	3	
	Name	Remuneration
Auditor for internal control	ShineWing Certified Public Accountants LLP	40

SIGNIFICANT EVENTS (CONTINUED)

Explanation on appointment or dismissal of auditor

As considered and approved in the annual general meeting in 2013, the Company appointed Baker Tilly China Certified Public Accountants and Baker Tilly Hong Kong Limited as the PRC domestic and overseas auditors of the Company for the year 2014 respectively, and appointed Baker Tilly China Certified Public Accountants as the auditor for internal control of the Company for the year 2014. As the Securities and Futures Commission and the Stock Exchange have accepted that the PRC companies listed in Hong Kong could choose to adopt the PRC Accounting Standards for Business Enterprises to prepare the financial statements and to appoint the qualified PRC Mainland accountants to conduct the audit work, on 31 October 2014, as considered and approved by the second extraordinary general meeting of the Company for the year 2014, the Company appointed the qualified ShineWing Certified Public Accountants LLP as the auditor for financial statements and internal control of the Company for the year 2014, and authorized the Board to determine the remuneration of the auditor.

As considered and approved in the annual general meeting in 2015, the Company continued to appoint ShineWing Certified Public Accountants LLP as the auditor for financial statements and internal control of the Company for the year 2016, and authorized the Board to determine the remuneration of the auditor.

V. POTENTIAL RISK OF SUSPENSION OF LISTING

During the Reporting Period, the Company had no suspension of listing and delisting.

VI. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Company had no material litigation and arbitration.

VII. PUNISHMENT ON AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ULTIMATE CONTROLLER AND ACQUIRERS

During the Reporting Period, there was no punishment on and rectification of the Company and its Directors, supervisors, senior management, controlling shareholders, ultimate controller and acquirers.

VIII. EXPLANATION ON HONESTY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ULTIMATE CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, the Company, YTO, its controlling shareholder, and Sinomach, its ultimate controlling shareholder, operated according to the laws and with honesty. There was no situation of dishonesty of non-performance of court judgement or non-repayment of relative large amount of debt when due, etc.

The Company's ultimate controller is the State-owned Assets Supervision and Administration Commission of the State Council.



SIGNIFICANT EVENTS (CONTINUED)

IX. MATERIAL CONNECTED TRANSACTIONS

(I) Connected transactions relating to daily operation

1. Matters which have been disclosed in the provisional announcements without development or changes in subsequent implementation

For details of the connected transaction of sales of spare parts of tractors by YTO International Trade to YTO, please refer to the “Announcement of the connected transaction on sales of goods” of the Company published on the website of Shanghai Stock Exchange on 29 December 2016 and the announcement of the Company dated 28 December 2016 published on the website of the Stock Exchange.

2. Matters which have been disclosed in the provisional announcements with development or changes in subsequent implementation

Unit: 0'000 Currency: RMB

Connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange and the Listing Rules of Shanghai Stock Exchange:

Number	Agreement	Transaction date	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transactions in 2016	Actual amount of the transaction from January to December 2016	As a percentage to amount of comparable transaction (%)
1	Material Procurement Agreement	2015.8.25	YTO	Controlling shareholder	Purchase of raw materials, other industrial equipment, spare parts and other necessities from YTO by the Company	(1) The market price of an independent third party; (2) if there is no market price determined by an independent third party, the transaction price between YTO Group, associates of YTO, Sinomach or the subsidiaries of Sinomach and an independent third party; and (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	50,000	49,877	9
2	Sale of Goods Agreement	2015.8.25	YTO	Controlling shareholder	Sale of raw materials, components, spare parts, equipment and other necessities by the Company to YTO	(1) The market price of an independent third party; (2) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party; and (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	35,000	34,355	4

SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Transaction date	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated	Actual	As a
							annual cap for transactions in 2016	amount of the transaction from January to December 2016	percentage to amount of comparable transaction (%)
3	Composite Services Agreement	2015.8.25	YTO	Controlling shareholder	Provision of storage and transportation services to the Company and its subsidiaries by YTO	(1) The market price of an independent third party; (2) if there is no market price determined by an independent third party, the transaction price between YTO, its controlled companies and their associates and an independent third party; and (3) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + 4 percentage mark-up)).	14,720	14,717	95
4	Energy Procurement Agreement	2015.8.25	YTO	Controlling shareholder	Provision of energy and related services to the Company and its subsidiaries by YTO	(1) The governmental guidance price; (2) if there is no governmental guidance price, the market price or the transaction price between the Group and an independent third party; (3) if none of the above is applicable, the transaction price between YTO and an independent third party; and (4) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not more than 30% (i.e. price = cost x (1 + percentage mark-up)).	18,500	16,993	94
5	Properties Lease Agreement	2015.8.25	YTO	Controlling shareholder	Lease of properties by YTO to the Company and its subsidiaries	(1) The transaction price between the lessor and an independent third party; and (2) if the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar property.	1,500	780	93
6	Land Lease Agreement	2015.8.25	YTO	Controlling shareholder	Lease of land by YTO to the Company and its subsidiaries	(1) The transaction price between the lessor and an independent third party; and (2) If the above is not applicable, determined after arm's length negotiation between the parties with reference to the market rent of similar property.	1,600	1,263	100
7	Deposit Service Agreement	2015.8.25	YTO	Controlling shareholder	Provision of deposit services by YTO Finance to YTO	The relevant interest rates prescribed by the PBOC.	140,000	125,106	33



SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Transaction date	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated	Actual	As a
							annual cap for transactions in 2016	amount of the transaction from January to December 2016	percentage to amount of comparable transaction (%)
8	Loan Service Agreement	2015.8.25	YTO	Controlling shareholder	Provision of loan services by YTO Finance to YTO	(1) The rate prescribed by the CBRC or the PBOC; (2) If the above rate is not applicable, the rate charged in the same industry in the PRC for the same type and same period of loans by enquiries in the market; and (3) If none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO after considering the fair rate offered by the third party on the comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors.	80,000	64,440	69
9	Bills Acceptance Service Agreement	2015.8.25	YTO	Controlling shareholder	Provision of bills acceptance services by YTO Finance to YTO	(1) The rate in relation to the same type and same period of bills acceptance services prescribed by the CBRC or the PBOC; (2) if the above rate is not applicable, the rate charged in applicable industry for the same type and same period of bills acceptance services; and (3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO after considering the fair rate offered by the third party on the comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors.	25,000	21,455	12
10	Bills Discounting Service Agreement	2015.8.25	YTO	Controlling shareholder	Provision of bills discounting services by YTO Finance to YTO	(1) The rate in relation to the same type and same period of bills discounting services prescribed by the CBRC or the PBOC; (2) if the above rate is not applicable (as the rate prescribed by the CBRC or the PBOC currently is a bills rediscounting rate), the rate charged in applicable industry for the same type and same period of bills discounting services; and (3) if none of the above is applicable, determined after arm's length negotiation between YTO Finance and YTO after considering the fair rate offered by the third party on the comparable transactions in the same industry, their financial positions and terms and size of the transactions as the main factors.	43,000	32,454	36

SIGNIFICANT EVENTS (CONTINUED)

Number	Agreement	Transaction date	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated	Actual	As a
							annual cap for transactions in 2016	amount of the transaction from January to December 2016	percentage to amount of comparable transaction (%)
11	Interbank Business Services Agreement	2015.8.25	Sinomach Finance Co., Ltd.	Controlled subsidiary of an indirect controlling shareholder	YTO Finance and Sinomach Finance Co., Ltd. provide financing services to each other, including interbank deposits, loans, transfer of credit assets and other interbank business services	(1) Based on the SHIBOR announced by Shanghai Interbank Offered Market in the same type and same period of transaction for interbank lending and interbank bond transactions rate for bond transactions conducted between financial institutions; (2) with reference to the deposit rates for the same type and same period of funds announced by other financial institutions for interbank deposit; (3) with reference to the market price of the target assets in capital financing announced by other financial institutions for credit asset transfer; and (4) if none of the above is applicable, after arm's length negotiation between the counterparties after considering their financial positions and terms, size and quality of the financial assets.	70,000	60,000	24
12	Common Resource Services Agreement	2016.4.28	YTO	Controlling shareholder	Provision of plant area greening, cleaning, logistical support and other public resources services by YTO to the Company and its subsidiaries	(1) the transaction prices between YTO and independent third parties; (2) Cost Plus Method, with the percentage mark-up of no more than 10%.	1,000	963	100

- For details of No. 1–11 connected transactions, please refer to the “Announcement on the Resolutions Passed at the Twenty-second Meeting of the Sixth Session of the Board”, “Announcement on Continuing Connected Transactions” and “Announcement on the Resolutions Passed at 2015 First Extraordinary General Meeting of the Company” published on 26 August 2015 and 30 October 2015 respectively on the website of the Shanghai Stock Exchange, and the “Continuing Connected Transactions” announcement and “Poll Voting Results of the Extraordinary General Meeting Held on 29 October 2015” announcement of the Company published on 25 August 2015 and 29 October 2015 respectively on the website of the Stock Exchange.
- For details of No. 12 connected transaction, please refer to the “Announcement on Daily Connected Transactions in Relation to Common Resource Services Agreement” of the Company published on 29 April 2016 on the website of Shanghai Stock Exchange, and the announcement of the Company dated 28 April 2016 published on the website of the Stock Exchange.



SIGNIFICANT EVENTS (CONTINUED)

Connected transaction under Chapter 14A of the Listing Rules of the Stock Exchange:

Number	Agreement	Transaction date	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated	Actual	As a
							annual cap for transactions in 2016	amount of the transaction from January to December 2016	percentage to amount of comparable transaction (%)
13	Technology Services Agreement	2015.8.25	Tractors Research Company	Subsidiary of YTO	Provision of technology research and development, technology consultation and other technology services by Tractors Research Company to the Company	(1) The transaction price between Tractors Research Company and an independent third party; and (2) if the above is not applicable, determined after arm's length negotiation between the parties taking into account depreciation of the research and development equipment, cost of research and development staff, testing fee and other costs used in the research and development (for research and development services).	10,450	10,026	100

- For details of No. 13 connected transaction, please refer to the "Announcement on the Resolutions Passed at the Twenty-second Meeting of the Sixth Session of the Board", "Announcement on Continuing Connected Transactions" and "Announcement on the Resolutions Passed at 2015 First Extraordinary General Meeting of the Company" published on 26 August 2015 and 30 October 2015 respectively on the website of the Shanghai Stock Exchange, and the "Continuing Connected Transactions" announcement and "Poll Voting Results of the Extraordinary General Meeting Held on 29 October 2015" announcement of the Company published on 25 August 2015 and 29 October 2015 respectively on the website of Stock Exchange.

SIGNIFICANT EVENTS (CONTINUED)

Connected transactions under the Listing Rules of Shanghai Stock Exchange:

Number	Agreement	Party to the transaction	Connected relationship	Content of the transaction	Pricing principle of the transaction	Estimated annual cap for transactions in 2016	Actual amount of the transaction from January to December 2016	As a percentage to amount of comparable transaction (%)
14	Premise Tenancy Agreement	ZF YTO Drive Axle	Associated corporation	Lease of land and properties to ZF YTO Drive Axle by the Company	The annual lease fee of RMB7,744,600 was determined by both parties under market principles and negotiation.	774.46	774	67
15	Technology License Agreement	ZF YTO Drive Axle	Associated corporation	Authorization of use of drive axle production technologies granted by the Company to ZF YTO Drive Axle for production and installation of existing and future products	ZF YTO Drive Axle shall pay technology license fee of 0.3% of the sales revenue of technologies authorization fee of products applying these technologies to the Company.	180	90	100
16	Procurement Framework Agreement	ZF YTO Drive Axle	Associated corporation	Purchase of components such as gears and drive shafts for the production of drive axles by ZF YTO Drive Axle from the Company	Prices of components are determined under negotiations between both parties based on prices of past years, the then prevailing market price and factors such as raw material price fluctuations.	16,000	5,031	1
17	Sales Framework Agreement	ZF YTO Drive Axle	Associated corporation	Sale of goods by ZF YTO Drive Axle to the Company and its branches	Prices of drive axle products are determined under negotiations between both parties based on prices of past years, the then prevailing market price and factors such as raw material price fluctuations. The price of goods sold by ZF YTO Drive Axle to the Company or any of its branches shall not exceed that of the same types of goods sold to ZF Hangzhou.	27,000	19,496	3

1. For details of No. 14–15 connected transactions, please refer to the “Announcement on Resolutions Passed at the Fourteenth Meeting of the Sixth Session of the Board of First Tractor Company Limited” of the Company published on 19 July 2014 on the website of the Shanghai Stock Exchange and in the China Securities Journal and the Shanghai Securities News, and the announcement of the Company dated 19 July 2014 published on the website of the Stock Exchange.

2. For details of No. 16–17 connected transactions, please refer to the Company’s “Announcement on Daily Connected Transactions” and “Announcement of Resolutions Passed at the 2014 Annual General Meeting of the Company” published on the website of Shanghai Stock Exchange, and in the China Securities Journal, and Shanghai Securities News, on 17 February 2015 and 30 May 2015 respectively, and the announcements of the Company dated 16 February 2015 and 29 May 2015 respectively published on the website of the Stock Exchange.

3. Having reviewed the records and data of the aforesaid connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange, the independent non-executive Directors confirmed as follows:

(1) such connected transactions were entered into in the ordinary and usual course of business of the Group;



SIGNIFICANT EVENTS (CONTINUED)

- (2) such connected transactions were entered into on normal commercial terms (where applicable, as compared with transactions of similar nature carried out by similar PRC domestic entities or, if no available transactions for comparison, on terms no less favourable than those offered by independent third parties of the Group); and
- (3) such connected transactions were conducted on terms of the agreements governing the relevant transactions, which are fair and reasonable and in the interests of the Company's shareholders as a whole.

4. Confirmation of the aforesaid connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange by auditors

Having reviewed the continuing connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange during the Reporting Period, the auditors of the Company have sent a letter to the Board confirming that such connected transactions:

- (1) had obtained the approval of the Board;
- (2) were conducted in accordance with the pricing policy of the Group and the terms of the relevant agreements; and
- (3) did not exceed the cap amounts as disclosed in the relevant announcements (and if applicable, as approved by the independent shareholders of the Company) at any time during the Reporting Period.

5. Confirmation of the aforesaid connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange by Directors

The Directors (including independent non-executive Directors) confirmed that such transactions were in the interests of the Company and its shareholders as a whole and that none of them has any material interests in the aforesaid connected transactions.

6. Confirmation of the aforesaid transactions by the Company in relation to disclosure requirement

The Company confirmed it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules of the Stock Exchange in respect of the above connected transactions.

7. Related party transaction

Saved as disclosed above, there is no related party transaction or continuing related party transaction as set out in Note XI "Related Parties and Related Party Transactions" to the consolidated financial statements that falls under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules of the Stock Exchange. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules of the Stock Exchange.

SIGNIFICANT EVENTS (CONTINUED)

(II) Matters not disclosed in the provisional announcements

Unit: 0'000 Currency: RMB

Connected Counterparty	Connected Relationship	Type of the connected transaction	Content of the connected transaction	Pricing principle of the connected transaction	Estimated annual cap for connected transaction in 2016	Amount of the connected transaction	Percentage in the total amount of the same type of transactions (%)
YTO	Controlling shareholder	Other inflow	Lease of properties from the Company and its subsidiaries	The PRC State government guidance price; the price of the non-connected transactions between the lessor and the independent third parties; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties.	250	202	20
YTO	Controlling shareholder	Other inflow	Lease of land from the Company and its subsidiaries	The PRC State government guidance price; the price of the non-connected transactions between the lessor and the independent third parties; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties.	200	126	84
YTO	Controlling shareholder	Provision of services	Provision of process and technical service, calibration and testing service to YTO by the Company	The PRC State government guidance price; the price of the non-connected transactions between the Company and the independent third parties; the price of the reasonable cost of the service provided by the Company with the addition of gross margin of the comparable non-connected transactions; if none of the above is available or applicable, then the price will be determined under arm's length negotiations between the two parties.	410	121	17
YTO	Controlling shareholder	Provision of the right to use the patent and trademark, etc.	YTO and its subsidiaries are permitted by the Company to use the Dongfanghong trademark	When YTO and its re-licensed subsidiaries and associated companies' aggregated sale revenue (exclusive of taxes) of trademarked products (excluding products not using the registered trademarks) beyond the Group does not exceed RMB5.0 billion (inclusive), 0.2% of aggregated sale revenue (exclusive of taxes) shall be paid; and if the aggregated sale revenue beyond the Group exceeds RMB5.0 billion, the rate for the exceeding part shall be 0.15%.	15	14	19
Total				/	875	463	/

Explanation

Explanation on the connection transactions is in accordance with the relevant requirements in the Listing Rules of the Shanghai Stock Exchange and the Stock Exchange. The above pricing principle of connected transactions complies with the relevant provisions of the Listing Rules of the Stock Exchange, and the amount does not exceed the amount required for disclosure.



SIGNIFICANT EVENTS (CONTINUED)

(III) Connected transactions of assets or equity acquisition or disposal

1. *Matters which have been disclosed in the provisional announcements with development or changes in subsequent implementation*

On 18 January 2016, the second meeting of the seventh Board of the Company considered and approved the Resolution on Acquisition of the Equity Interest in YTO Finance Company Limited held by SINOMACH-HI (Luoyang) Building Machinery Co., Ltd (for details, please refer to the announcement of the Company dated 19 January 2016 published on the website of the Shanghai Stock Exchange and the overseas regulatory announcement of the Company dated 18 January 2016 published on the website of the Stock Exchange). During the Reporting Period, the transfer of 6% of the equity interest of YTO Finance held by SINOMACH-HI (Luoyang) Building Machinery Co., Ltd to the Company through public tender constitutes a connected transaction under the Listing Rules of the Shanghai Stock Exchange and the Stock Exchange, and the Company has applied for a waiver from consideration and disclosure for the connected transactions pursuant to the Listing Rules of the Shanghai Stock Exchange and the relevant requirements of the “Guidelines of the Shanghai Stock Exchange on Connected Transactions of Listed Companies (《上市公司關聯交易實施指引》)”, and obtained the approval from the Shanghai Stock Exchange. The Company published announcement on the website of the Stock Exchange on 28 January 2016 in accordance with the Listing Rules of the Stock Exchange. The transaction was completed in May 2016.

(IV) Connected credit and debt dealings

1. *Matters which have been disclosed in the provisional announcement without development or changes in subsequent implementation*

Event details	Query index
Provision of entrusted loan with a total amount of no more than RMB15 million by the Company to Changtuo Company	For details, please refer to the “Announcement on Provision of Entrusted Loan and Connected Transaction” of the Company published on the website of the Shanghai Stock Exchange on 29 December 2016 and the announcement of the Company dated 28 December 2016 published on the website of the Stock Exchange.
Acceptance of entrusted loan with an amount of RMB700 million provided by YTO, the controlling shareholder, to the Company	For details, please refer to the “Announcement on Acceptance of Financial Support from Controlling Shareholder” of the Company published on the website of the Shanghai Stock Exchange on 8 July 2016 and the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 7 July 2016.

SIGNIFICANT EVENTS (CONTINUED)

X. MATERIAL CONTRACTS AND THE PERFORMANCE THEREOF

(I) Custody, contracting and lease matters

1. Custody

Unit: Yuan Currency: RMB

Name of principal	Name of trustee	Assets in custody	Amounts of assets in custody	Commencement date of custody	End date of custody	Custody income	Recognition basis for custody income	Impact of custody income on the Company	Is it a connected transaction	Connected relationship
Sinomach	First Tractor	Equity interest	/	2013.3.7	/	/	/	/	Yes	Indirect controlling shareholder

Explanation on custody:

During the Reporting Period, there was no change in the 33.33% equity interest in Changtuo Company held in custody by the Company in favour of Sinomach.

(II) Guarantees

Unit: Yuan Currency: RMB

Guarantor	Relationship of the Guarantor with the		Amount of the guarantee	External guarantees provided by the Company (excluding guarantees provided for subsidiaries)			Whether the guarantee is discharged	Whether the guarantee is overdue	Amount of overdue guarantee	Whether there is any counterguarantee	Whether it is a		
	Company	Beneficiary		Date of guarantee (Date of agreement)	Commencement date of guarantee	End date of guarantee					Type of guarantee	connected party guarantee	Connected relationship
The Company	Company headquarter	Business dealers of Nongjiwang (農機網)	630,000	2016.6.21	/	/	Guarantee with joint liability	No	No	0	Yes	No	/
The Company	Company headquarter	Business dealers of Dianpiaotong (電票通)	18,010,000	2016.6.1	/	/	Guarantee with joint liability	No	No	0	Yes	No	/

Total amount of guarantees provided during the Reporting Period (excluding guarantees provided for subsidiaries)

117,980,000

Total outstanding guarantee amount as at the end of the Reporting Period (A) (excluding guarantees provided for subsidiaries)

18,640,000



SIGNIFICANT EVENTS (CONTINUED)

Guarantees provided by the Company and its subsidiaries for its subsidiaries

Total amount of the guarantees provided to subsidiaries during the Reporting Period	220,754,240
Total outstanding guarantee amount of the guarantees provided to subsidiaries as at the end of the Reporting Period (B)	194,948,600

Total amount of the guarantees provided by the Company (including guarantees for subsidiaries)

Total amount of guarantees (A+B)	213,588,600
Total amount of guarantees as a percentage to the net assets of the Company (%)	4.42
Of which:	
Amount of guarantees provided to shareholders, ultimate controller and its associates (C)	0
Amount of guarantees directly or indirectly provided for liability of parties with a gearing ratio exceeding 70% (D)	183,588,600
The portion of total amount of guarantee in excess of 50% of the net assets (E)	0
Total amount of the above three categories of guarantees (C+D+E)	183,588,600
Explanation on possible several and joint liability for immature guarantees	/
Explanation on guarantee	/

SIGNIFICANT EVENTS (CONTINUED)

(III) Cash assets management by others under entrustment

1. Entrusted assets management

Unit: Yuan Currency: RMB

Trustee	Product categories of entrusted assets	Amount of entrusted assets	Commencement date of the entrusted assets management	End date of entrusted assets management	Calculation method of remuneration	Actual principal recovered	Actual revenue earned	Whether it passed the legal procedures	Amount provided for impairment	Whether it is a connected transaction	Whether it involved litigation	Connected relationship
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.3.21	2016.6.21	As agreed on contract	200,000,000.00	1,840,000.00	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.4.5	2016.7.6	As agreed on contract	200,000,000.00	1,840,000.00	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.4.5	2016.7.6	As agreed on contract	200,000,000.00	1,713,972.60	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.5.30	2016.8.30	As agreed on contract	200,000,000.00	1,713,972.60	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.6.28	2016.9.28	As agreed on contract	200,000,000.00	1,688,767.12	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	400,000,000.00	2016.7.21	2016.10.21	As agreed on contract	400,000,000.00	3,407,780.82	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.8.31	2016.12.1	As agreed on contract	200,000,000.00	1,613,150.68	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.9.29	2016.12.30	As agreed on contract	200,000,000.00	1,613,150.68	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	400,000,000.00	2016.10.27	2016.12.29	As agreed on contract	400,000,000.00	2,312,676.71	Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	2016.12.15	2017.6.22	As agreed on contract			Yes	0.00	No	No	No
Luoyang Jingshua Branch of Bank of Communications	Principal guaranteed short-term wealth management	300,000,000.00	2016.12.30	2017.6.28	As agreed on contract			Yes	0.00	No	No	No
Total	/	2,700,000,000.00	/	/	/	2,200,000,000.00	17,743,671.21	/	/	/	/	/

Cumulative amount of principal and gains overdue (RMB)

0.00



SIGNIFICANT EVENTS (CONTINUED)

2. Entrusted loans

Unit: Yuan Currency: RMB

Name of borrower	Amount of entrusted loan	Term of the loan	Interest rate of the loan	Usage of the loan	Security or guarantor	Whether it is overdue	Whether it is a connected transaction	Whether its Term is extended	Whether it involved litigation	Connected relationship	Gain/loss of the investment
YTO Shentong	14,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	14,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	12,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	11,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	9,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	14,000,000	One year	4.35%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	20,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Shentong	20,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Transportation	1,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Controlled subsidiary	Gain
YTO Transportation	500,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Controlled subsidiary	Gain
YTO Transportation	500,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Controlled subsidiary	Gain
YTO Transportation	1,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Controlled subsidiary	Gain
YTO Transportation	2,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Controlled subsidiary	Gain
YTO Transportation	2,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Controlled subsidiary	Gain
YTO Forklift Truck	10,000,000	Two years	6.175%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Forklift Truck	10,000,000	Two years	6.175%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Forklift Truck	8,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Forklift Truck	5,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Forklift Truck	8,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Forklift Truck	1,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain
YTO Forklift Truck	2,000,000	One year	5.655%	Production and operation	Secured by assets	No	No	No	No	Wholly-owned subsidiary	Gain

SIGNIFICANT EVENTS (CONTINUED)

3. Other investment, assets management and investments in derivatives

Type of investment	Amount of investment	Term of investment	Product type	Investment gain/loss	Whether It involved litigation
Trading financial assets	13,900,000.00	1.5 years	Collective fund trust plan	442,615.66	No
Trading financial assets	27,000,000.00	2 years	Collective fund trust plan	859,757.05	No
Held-to-maturity investments	500,000.00	206 days	THE INTER-BANK BOND (15 Guoyu Logistics CP001)	/	Yes
Held-to-maturity investments	100,000.00	284 days	THE INTER-BANK BOND (15 Guoyu Logistics CP002)	/	Yes
Held-to-maturity investments	300,000.00	281 days	THE INTER-BANK BOND (15 Guoyu Logistics CP002)	/	Yes
Held-to-maturity investments	200,000.00	2 years	Exchange Bond (16 Luo Municipal Bond)	821,917.80	No

Explanation on other investment, assets management and investments in derivatives:

- The face value per trading financial asset is RMB1, and the face value per held-to-maturity investment is RMB100.
- As at the date of this Annual Report, the 15 Guoyu logistics CP001 and 15 Guoyu logistics CP002 bonds held by YTO Finance were due, and the bond issuer failed to pay the principal and interest timely. (For details, please refer to the “Announcement on Non-repayment of Debt Obligation of controlled subsidiary when due of First Tractor Company Limited”, the “Supplemental Announcement on Non-repayment of Debt Obligation of controlled subsidiary when due of First Tractor Company Limited” and the “Announcement on Non-repayment of Debt Obligation of controlled subsidiary when due of First Tractor Company Limited” published by the Company on the website of Shanghai Stock Exchange on 11 August, 12 August and 1 November 2016, and the relevant overseas regulatory announcements of the Company dated 10 August, 11 August and 31 October 2016 published on the website of the Stock Exchange.)
- For details of the litigation, please refer to “Note XIII. Subsequent Events after the Balance Sheet Date” in Section XIII Financial Statement Prepared in accordance with the PRC Accounting Standards for Business Enterprises.



SIGNIFICANT EVENTS (CONTINUED)

XI. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

(I) Poverty Alleviation by the Company

1. Targeted Poverty Alleviation Planning

As required for poverty alleviation by the central, provincial and municipal government, in accordance with the uniform deployment for poverty alleviation by Luoyang, the Company provided support for Zhifang Village of Tantou Town, Luanchuan County and stationed the First Secretary in the village to innovate poverty alleviation work mechanism, focused on the resolution of salient problems constraining local development, gave priority to aspects such as infrastructure, public service undertakings, industrial development programs, employment, relocation to other places, school admission for children, and social security for precise poverty alleviation in an effort to enable those in poverty to develop on their own and quicken the pace of precise poverty alleviation and the development towards a moderately prosperous society.

2. Summary of Annual Targeted Poverty Alleviation

In 2016, the employees of the Company and poverty families in the Zhifang Village, Tantou Town, Luanchuan County were matched in the engagement for one-to-one pairing activities for poverty alleviation, helped promote the processing base of the green and agricultural products in the village in the markets, which substantially ameliorated the living standard for local poverty families. As for infrastructure, every family had access to running water and street lights at night. In addition, there is a big facelift in the village. Moreover, the Company organized the photography exhibition of the folk customs of Zhifang Village, promoting the Development of local tourism. All these helped Zhifang Village get rid of the title of Poverty Village in late 2016. 203 people in 57 families went out of poverty in a steady pace and the rest of 30 people in 7 families will follow in 2017.

3. Statistical Table of 2016 Targeted Poverty Alleviation by the Company

Unit: 0'000 Currency: RMB

Index

Number and implementation information

I. General information

The Company's employees and poverty families in the Zhifang Village, Tantou Town, Luanchuan County were matched in the engagement for one-to-one pairing activities for poverty alleviation; the Company helped Zhifang Village sell green agricultural products with sales income reaching RMB1,308,000. The Company organized the photography exhibition for folk customs of Zhifang Village twice, which boosted the development of local tourism.

SIGNIFICANT EVENTS (CONTINUED)

Index	Number and implementation information
Including: 1. Funds converted from materials	3
2. Number of poor people helped to be removed from administrative record for poverty registering (<i>Person</i>)	203
II. Itemized Input	
1. Poverty Alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	Poverty alleviation through agricultural and forestry industry Poverty alleviation through asset profit
1.2 Number of industrial poverty alleviation projects	1
1.3 Amount invested in industrial poverty alleviation projects	90
1.4 Number of poor people helped to be removed from administrative record for poverty registering (<i>Person</i>)	32
2. Poverty alleviation through job transfer	
Including: 2.1 Number of poor people helped to be removed from administrative record for poverty registering (<i>Person</i>)	72
3. Poverty alleviation through relocation	
Including: 3.1 Number of people who get employed after relocation (<i>Person</i>)	78
III. Prize awarded (Contents and grade)	

The First Secretary appointed by the Company was awarded the title of "Excellent Worker in Party Affairs" and "Most Beautiful Person in Tantou Town" by Luanchuan County in 2016.



SIGNIFICANT EVENTS (CONTINUED)

4. *Follow-Up Targeted Poverty Alleviation Planning*

Reinforcement will be made for families lift out of poverty in 2016 to prevent them from returning to poverty again. Follow-up support will be rendered for the families lift out of poverty in 2017. We will strive to carry out the pilot work of village-level collective economy and joint stock partnership of rural economy to explore economical rules and further highlight the function of independent development of Zhifang Village. The pavement of the 3.5km main road in Zhifang Village will be widened and hardened.

(II) Social responsibility

For details of the social responsibility performance of the Company, please refer to the “2016 Social Responsibility Report” of the Company published on the website of Shanghai Stock Exchange and the overseas regulatory announcement and the “2016 Environmental, Social and Governance Report” of the Company published on the website of the Stock Exchange.

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Table of changes in ordinary shares

1. *Table of changes in ordinary shares*

During the Reporting Period, there was no change in the total number of ordinary shares and capital structure of the Company.

2. *Explanation on changes in ordinary shares*

The Company convened the 2015 Annual General Meeting, the 2016 First A Share Class Meeting and the 2016 First H Share Class Meeting on 27 May 2016, which considered and approved the “Company’s Resolution on the General Mandate to Repurchase H Shares” respectively. The Company started to implement the repurchase of H Shares since July 2016 under such general mandate. As at the date hereof, a total of 6,042,000 H Shares were repurchased on the Stock Exchange for a total accumulated consideration of HK\$25,768,080 (excluding commission and other expenses), and the repurchased H Shares in 2016 had not yet been cancelled.

3. *Impact of the changes in ordinary shares on the financial indicators such as earnings per share and net assets per share for the year and for the period (if any)*

In accordance with the relevant requirements, the Company shall disclose the total number of shares in issue after deducting the shares that have been repurchased when publishing its periodic report during the repurchase period, and the related indicators (such as basic earnings per share) shall be calculated based on the number of shares after the deduction. Based on the total number of shares before the repurchase, the earnings per share was RMB0.2243, and the net assets per share was RMB4.8492 for 2016. The repurchase did not have significant impact on the key financial indicators of the Company as the difference between the financial indicators being calculated based on the number of shares before and after the repurchase was insignificant.



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

II. ISSUANCE AND LISTING OF SECURITIES

(I) Issuance of securities as at the end of the Reporting Period

Unit: Share Currency: RMB

Types of shares and derivative securities	Date of issue	Issuing price (or interest rate)	Issuing amount	Date of listing	Number of shares approved for listing and trading	Closing date of transactions
Ordinary shares						
A Share	2012.07.27	RMB5.4/share	150,000,000	2012.08.08	150,000,000	/
Corporate bonds						
12 First Tractor 01	2013.03.04	4.8%	800,000,000	2013.04.02	800,000,000	2018.03.03
12 First Tractor 02	2013.05.30	4.5%	700,000,000	2013.06.26	700,000,000	2018.05.29

III. SHAREHOLDERS AND ULTIMATE CONTROLLER

(I) Total number of shareholders

Total number of ordinary shareholders as at the end of the Reporting Period (<i>shareholder</i>)	37,849 (37,473 holders of A Shares; 376 holders of H Shares)
Total number of ordinary shareholders as at the end of the month prior to the date of the annual report (<i>shareholder</i>)	35,211 (34,835 holders of A Shares; 376 holders of H Shares)
Total number of preference shareholders with voting rights restored as at the end of the Reporting Period (<i>shareholder</i>)	/
Total number of preference shareholders with voting rights restored as at the end of the month prior to the date of the annual report (<i>shareholder</i>)	/

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

(II) Table of shareholdings of the top ten shareholders and the top ten shareholders of circulating shares (or shareholders without selling restrictions) as at the end of the Reporting Period

Unit: Share

Shareholdings of the top ten shareholders

Name of shareholder (full name)	Increase/ decrease during the Reporting Period	Total number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held subject to selling restrictions	Nature of shares	Number of shares pledged or frozen Number	Nature of shareholder
YTO	-33,219,422	410,690,578	41.24	0	Nil	0	State-owned legal person
HKSCC NOMINEES LIMITED (Note 1)	-83,999	398,045,399	39.97	0	Unknown	/	Overseas legal person
China Huarong Asset Management Co., Ltd.	15,720,296	15,720,296	1.58	0	Unknown	/	State-owned legal person
China Construction Bank Corporation Henan Province Branch	9,444,950	9,444,950	0.95	0	Unknown	/	Other
Hong Kong Securities Clearing Company Limited (Note 2)	921,144	1,453,756	0.15	0	Unknown	/	Overseas legal person
Kang Xuehong	1,118,967	1,118,967	0.11	0	Unknown	/	Domestic natural person
Jiao Yanfeng	-166,000	1,000,000	0.10	0	Unknown	/	Domestic natural person
Bu Junbo	867,000	867,000	0.09	0	Unknown	/	Domestic natural person
Zhou Min	846,442	846,442	0.08	0	Unknown	/	Domestic natural person
Hao Xiaohong	833,500	833,500	0.08	0	Unknown	/	Domestic natural person



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

Shareholdings of the top ten shareholders without selling restrictions

Name of shareholders	Number of circulating shares without selling restrictions held	Number and class of share	
		Class	Number
YTO	410,690,578	Ordinary shares denominated in RMB	410,690,578
HKSCC NOMINEES LIMITED (Note 1)	398,045,399	Overseas listed foreign shares	398,045,399
China Huarong Asset Management Co., Ltd.	15,720,296	Ordinary shares denominated in RMB	15,720,296
China Construction Bank Corporation Henan Province Branch	9,444,950	Ordinary shares denominated in RMB	9,444,950
Hong Kong Securities Clearing Company Limited (Note 2)	1,453,756	Ordinary shares denominated in RMB	1,453,756
Kang Xuehong	1,118,967	Ordinary shares denominated in RMB	1,118,967
Jiao Yanfeng	1,000,000	Ordinary shares denominated in RMB	1,000,000
Bu Junbo	867,000	Ordinary shares denominated in RMB	867,000
Zhou Min	846,442	Ordinary shares denominated in RMB	846,442
Hao Xiaohong	833,500	Ordinary shares denominated in RMB	833,500

Explanation on connected relation or acting in concert of the aforesaid shareholders

Among the top ten shareholders and top ten shareholders without selling restrictions, YTO, the controlling shareholder of the Company, has no connected relationship with, nor is it a party acting in concert (as defined in the Administrative Measures on Acquisitions by Listed Companies) with, any other shareholders. The Company is not aware of any connected relationship among other shareholders, nor aware of any parties acting in concert among them as defined in the Administrative Measures on Acquisitions by Listed Companies.

Explanations on preference shareholders with / voting rights restored and number of shares held thereby

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

Note 1: The overseas listed foreign shares held by HKSCC NOMINEES LIMITED are held on behalf of various customers; and

Note 2: The RMB ordinary shares held by Hong Kong Securities Clearing Company Limited are held on behalf of foreign investors who purchased RMB ordinary shares of the Company through Shanghai-Hong Kong Stock Connect.

(III) Substantial shareholders' interests and short positions disclosed in accordance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")

As at 31 December 2016, the following shareholders of the Company (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity	Nature of interests	Number of shares held ¹	Number of underlying shares held under equity derivatives ¹	Total number of shares interested ¹	Percentage of the relevant issued class of share capital (%)	Percentage of the total issued share capital (%)	Type of share
YTO ²	Beneficial owner	Beneficial interest	410,690,578 (L)	/	410,690,578 (L)	69.15 (L)	41.24 (L)	A Share

Note 1: (L) – Long position

Note 2: Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 410,690,578 A Shares of the Company.

IV. CONTROLLING SHAREHOLDER AND ULTIMATE CONTROLLER

(I) Controlling Shareholder

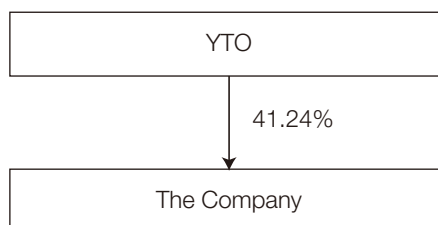
1 Corporate

Name	YTO
Person in charge or legal representative	Zhao Yanshui
Date of establishment	6 May 1997
Principal business	Agricultural machinery, power machinery, vehicles and components industry
Equities interests (either controlling or participating) held in other Chinese and overseas listed companies during the Reporting Period	Nil
Other explanation	Nil



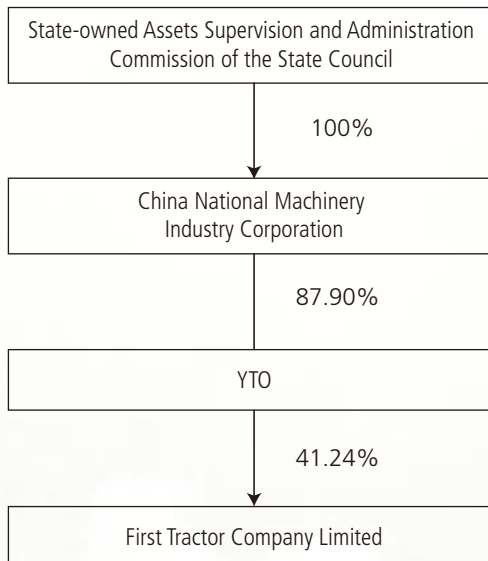
CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

- 2 **Block diagram of property right and controlling relationship between the Company and the controlling shareholders**



(II) Ultimate Controller

- 1 **Name of the Ultimate Controller:** State-owned Assets Supervision and Administration Commission of the State Council
- 2 **Block diagram of property right and controlling relationship between the Company and the ultimate controller**



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

(III) Other Information of Controlling Shareholder and Ultimate Controller

In December 2016, YTO, the controlling shareholder of the Company, completed the reduction of its registered capital and the repurchase of all the equity interest of YTO held by China Huarong Asset Management Co., Ltd., China Construction Bank Corporation Henan Province Branch and China Orient Asset Management Corporation, and the consideration for reduction in registered capital was paid by A Shares of the Company held by YTO (For details, please refer to the “Indicative Announcement on the Equity Restructuring of the Controlling Shareholder of First Tractor Company Limited” of the Company published on the website of the Shanghai Stock Exchange, “China Securities Journal” and “Shanghai Securities News” on 13 January 2016 and 9 April 2016, 23 August 2016, 12 October 2016 and 2 December 2016 respectively, and the announcements and the overseas regulatory announcements of the Company published on the website of the Stock Exchange on 12 January 2016, 8 April 2016, 22 August 2016, 11 October 2016 and 1 December 2016, respectively).

V. OTHER CORPORATE SHAREHOLDERS HOLDING OVER 10% OF SHARES

According to the register of shareholders provided by HKSCC Nominees Limited, the H shares held by the shareholder of the Company, HKSCC NOMINEES LIMITED, holding 39.97% of H shares, are held on behalf of various clients.

VI. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the PRC which would oblige the Company to offer new shares of the Company on a pro rata basis to its existing shareholders.



CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

VII. REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company convened the 2015 Annual General Meeting, the 2016 First A Share Class Meeting and the 2016 First H Share Class Meeting on 27 May 2016, which considered and approved the “Company’s Resolution on the General Mandate to Repurchase H Shares” respectively. The Company started to implement the repurchase of H Shares since July 2016 under such general mandate. As at the date hereof, a total of 6,042,000 H Shares were repurchased on the Stock Exchange for a total accumulated consideration of HK\$25,768,080 (excluding commission and other expenses), and the repurchased H Shares in 2016 had not yet been cancelled. The monthly breakdown of the repurchase of the H Shares during the Reporting Period is as follows:

Month of Repurchase	Number of H Shares repurchased	The highest price paid per H Share (HK\$)	The lowest price paid per H Share (HK\$)	Aggregate consideration paid (HK\$)
July 2016	1,230,000	4.10	3.98	4,978,060
August 2016	832,000	4.20	4.15	3,483,840
September 2016	500,000	4.40	4.29	2,163,860
November 2016	500,000	4.35	4.28	2,163,180
December 2016	2,980,000	4.40	4.28	12,979,140
Total	6,042,000			25,768,080

Save as disclosed above, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company’s listed securities during the Reporting Period.

VIII. PUBLIC FLOAT

Pursuant to the published information and to the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained the required public float under the Listing Rules of the Stock Exchange.

IX. TAX CONCESSIONS

None of the holders of the Company’s listed securities was entitled to any tax concessions for holding securities of the Company.

PREFERENCE SHARES

The Company had no preference shares during the Reporting Period.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CHANGE IN SHAREHOLDINGS AND REMUNERATION

(I) Change in shareholdings and remuneration of incumbent and resigned Directors, Supervisors and senior management during the Reporting Period

Unit: share

Name	Position <i>(note)</i>	Gender	Age	Commencement date of tenure	End date of tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in the number of shares held during the year	Reason of change	Total remuneration	Whether
										received from the Company during the Reporting Period <i>(RMB'000)</i>	he/she received remuneration from related parties of the Company
Zhao Yanshui	Executive Director and Chairman	Male	53	2015.10.29	2018.10.28	0	0	0	/	88.44	Yes (Note 1)
Wang Erlong	Executive Director and Vice Chairman	Male	52	2015.10.29	2018.10.28	0	0	0	/	88.44	Yes (Note 1)
Wu Yong	Executive Director and General Manager	Male	51	2015.10.29	2018.10.28	0	0	0	/	83.95	No
Li Hepeng	Non-executive Director	Male	63	2015.10.29	2018.10.28	0	0	0	/	0.23	Yes (Note 2)
Xie Donggang	Non-executive Director	Male	60	2015.10.29	2018.10.28	0	0	0	/	0	Yes
Li Kai	Non-executive Director	Male	62	2015.10.29	2018.10.28	0	0	0	/	0.46	Yes (Note 2)
Yin Dongfang	Non-executive Director	Male	55	2015.10.29	2018.10.28	0	0	0	/	0	No
Xing Min	Independent non-executive Director	Male	63	2015.10.29	2018.10.28	0	0	0	/	8.92	No
Wu Tak Lung	Independent non-executive Director	Male	51	2015.10.29	2018.10.28	10,000	10,000	0	/	9.02	No
Yu Zengbiao	Independent non-executive Director	Male	61	2015.10.29	2018.10.28	0	0	0	/	9.49	No
Yang Minli	Independent non-executive Director	Female	51	2015.10.29	2018.10.28	0	0	0	/	9.02	No
Li Pingan	Chairman of the Board of Supervisors	Male	52	2015.10.29	2018.10.28	0	0	0	/	52.81	Yes (Note 1)
Xu Weilin	Supervisor	Male	54	2015.10.29	2018.10.28	0	0	0	/	0	Yes (Note 2)
Wang Jianjun	Staff Representative Supervisor	Male	40	2015.10.29	2018.10.28	0	0	0	/	20.58	No
Zhao Guozhong	Staff Representative Supervisor	Male	56	2015.10.29	2018.10.28	0	0	0	/	32.01	No
Wang Yong	Supervisor	Male	48	2015.10.29	2018.10.28	0	0	0	/	6.94	No
Huang Ping	Supervisor	Male	48	2015.10.29	2018.10.28	0	0	0	/	7.40	No
Wang Kejun	Deputy General Manager	Male	52	2015.10.30	2018.10.28	0	0	0	/	70.75	Yes (Note 1)
Liu Jiguo	Deputy General Manager	Male	52	2015.10.30	2018.10.28	0	0	0	/	77.94	Yes (Note 1)
Su Wensheng	Deputy General Manager	Male	48	2015.10.30	2018.10.28	0	0	0	/	74.51	No
Yao Weidong	Financial Controller	Male	50	2015.10.30	2018.10.28	0	0	0	/	69.51	No
Zhu Weijiang	Deputy General Manager	Male	45	2015.10.30	2018.10.28	0	0	0	/	74.51	No
Song Yuping	Deputy General Manager	Male	52	2015.10.30	2018.10.28	0	0	0	/	69.51	No
Yu Lina	Deputy General Manager and Secretary to the Board	Female	46	2015.10.30	2018.10.28	0	0	0	/	69.51	No
Total	/	/	/	/	/	10,000	10,000	0	/	923.95	/

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Zhao Yanshui	<p>Born in April 1963, professor level senior engineer, currently serves as Chairman, Chairman of the Strategy and Investment Committee under the Board, Member of the Nomination Committee of the Company, and Chairman, Deputy Party Secretary and General Manager of YTO. Mr. Zhao currently serves as the Vice President of China Association of Agricultural Machinery Manufacturing Industry. Mr. Zhao joined YTO in 1983, and served as the Deputy General Manager, General Manager and Vice Chairman of the Company, and the Deputy Chief Engineer and Deputy General Manager of YTO. Mr. Zhao studied in the Jiangsu Institute of Technology and Jiangsu University with a doctorate in engineering, and served as a visiting scholar to pursue advanced studies in Hokkaido University and Kyoto University in Japan for one year in 1994 and 2001 respectively. Mr. Zhao has extensive experience in corporate management, strategic planning, product development and design, technology management, etc.</p>
Wang Erlong	<p>Born in October 1964, senior accountant, Certified USA Management Accountant, auditor, currently serves as the Vice Chairman, member of the Strategy and Investment Committee under the Board of the Company, and the Vice Chairman, Party Secretary and Financial Controller of YTO. Mr. Wang currently also serves as the director of Sinomach Capital Holdings Limited. Mr. Wang joined YTO in October 2012, and worked for the Audit Office in the Audit Bureau of Ministry of Machinery Industry for many years, and served as the Financial Controller of CNAICO Foreign Economic and Technical Cooperation Company Limited, the Financial Controller of China National Automotive Industry International Corporation (CNAICO), and the Financial Controller and Deputy General Manager of China Automotive Industry Import and Export Corporation. Mr. Wang studied in Luoyang Institute of Technology, Renmin University of China and Xiamen University with EMBA degree. Mr. Wang has extensive experience in financial management, internal audit, international trade, etc.</p>
Wu Yong	<p>Born in May 1965, senior economist and currently serves as Executive Director, member of the Strategy and Investment Committee under the Board, General Manager of the Company, and Deputy Party Secretary of YTO. Mr. Wu joined YTO in 1987, and served as the Party Secretary and Secretary of the Discipline Inspection Commission of the Company, and the member of the Standing Committee of the Communist Party, Deputy General Manager, and Secretary of the Discipline Inspection Commission of YTO. Mr. Wu studied in Henan University of Economics and Law and Hong Kong Polytechnic University with a master of science degree. Mr. Wu has extensive experience in business operation, human resource management and strategic planning.</p>



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Li Hepeng	Born in March 1954, senior engineer, Non-Executive Director, member of the Remuneration Committee of the Company, Director of the Sinomach Jinggong Company Limited and YTO. Mr. Li served as the Deputy Director and Director of the Tianjin Institute of Mechanical Engineering, President and Party Secretary of Tianjin Research Institute of Mechanical Engineering, the General Manager and Party Secretary of China Mechanical Engineering Corporation, Party Secretary and Deputy Chairman of China Sinomach Heavy Industry Corporation Limited, and Director of Zhengzhou Institute of Abrasives Grinding. Mr. Li studied in Tianjin Open University and Tianjin University Postgraduate Course in Business Administration. Mr. Li has extensive experience in corporate management, scientific research management, hydraulic transmission, etc.
Xie Donggang	Born in November 1956, researcher level senior engineer, currently serves as the Non-Executive Director, member of the Remuneration Committee of the Company, and Director of YTO. Mr. Xie currently also serves as Director of the Sinomach Capital Holdings Company Limited, China CNMEG Finance Co., Ltd., China National Erzhong Factory, Lanpec Technologies Limited and Tianjin Research Institute of Electric Science Co., Ltd.. Mr. Xie served as Deputy Director, Director and Party Secretary of the Xi'an Institute of Heavy Machinery, the President and Party Secretary of China National Heavy Machinery Research Institute, and Chairman, Party Secretary and General Manager of China National Heavy Machinery Research Institute Company Limited, Mr. Xie studied in Northeast Heavy Machinery College and Chongqing University with a Master's degree in engineering. Mr. Xie has extensive experience in operation management, metallurgical machinery design, etc.
Li Kai	Born in September 1954, professor level senior engineer, currently serves as the Non-Executive Director, member of the Strategy and Investment Committee of the Board of the Company, and Director of YTO. Mr. Li served as the Vice President and Executive Vice-President of the No. 6 Design Institute of Machinery Industry, Director and Standing Deputy General Manager of the SIPPR Engineering Group Company Limited. Mr. Li studied in and graduated from the Northeast Heavy Machinery College. Mr. Li has extensive experience in engineering design, engineering project management and forging technology, etc.
Yin Dongfang	Born in April 1961, third-grade lawyer, currently serves as the Non-Executive Director, member of the Audit Committee of the Company, Senior Advisor of Luoyang Guohong Investment Group Co., Ltd. and Director of YTO. Mr. Yin served as the Vice Chairman of Luoyang Bar Association and General Manager of the Luoyang State-Owned Assets Operation Company Limited. Mr. Yin studied in Zhengzhou University. Mr. Yin has extensive experience in laws, investment, etc.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Xing Min	Born in January 1954, professor level senior engineer, currently serves as the Independent Non-Executive Director, Chairman of the Nomination Committee under the Board, member of the Remuneration Committee of the Company, and Vice President and Secretary General of China Internal Combustion Engine Industry Association. Mr. Xing also serves as the Independent Director of Zhongyuan Components Group Company Limited, Wuxi Weifu High-Technology Group Company Limited, and Hunan Tianyan Machinery Company Limited. Mr. Xing studied in Northeastern University of Technology, the Party School of the CPC and Hunan University. Mr. Xing is familiar with internal combustion engines, machine tools, heavy machinery, agricultural machinery industry, etc.
Wu Tak Lung	Born in May 1965, member of Hong Kong Institute of Certified Public Accountants, senior member of Hong Kong Securities Institute, the UK Association of Chartered Certified Accountants, Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries, currently serves as the Independent Non-Executive Director, Chairman of the Audit Committee under the Board, and member of the Remuneration Committee of the Company. Mr. WU is additionally the independent non-executive director of several Stock Exchange listed companies including Beijing Media Corporation Limited, China Huarong Investment Co., Ltd., Jinxing National Machine Holding Co., Ltd., China Machinery Engineering Corporation and Sinomax Group Co., Ltd. Mr. Wu studied in the Hong Kong Baptist University, the University of Manchester and University of Wales with an MBA degree. Mr. Wu is familiar with professional areas of finance and investment management, etc.
Yu Zengbiao	Born in September 1955, a professor of Tsinghua University, doctoral tutor, is the Independent Non-Executive Director, Chairman of the Remuneration Committee under the Board, member of the Audit Committee of the Company, Independent Director of Avic Aviation High-Technology Company Limited and Tsingtao Brewery Company Limited, and the External Supervisor of CITIC Group Company Limited. Mr. Yu studied in Hebei University, Xiamen University and University of Illinois with a PhD degree in economics (accounting) and Chinese CPA qualifications, and is familiar with finance and accounting, etc.
Yang Minli	Born in October 1965, currently serves as the Independent Non-Executive Director, member of the Strategy and Investment Committee under the Board and the Nomination Committee of the Company, professor and doctoral tutor of the College of Engineering of China Agricultural University. Ms. Yang currently also serves as an adjunct professor at Northwest Agriculture and Forestry University, Director of Centre for Sustainable Agricultural Mechanization of the United Nations, Standing Director of Chinese Society for Agricultural Machinery, Chairman and Secretary-General of Agricultural Mechanization Branch, Director of Chinese Society of Agricultural Engineering, Standing Director of Agricultural Equipment and Engineering Technology Branch of China Agro-technological Extension Association, member of American Association of Agricultural and Biological Engineering and the Foreign Agricultural and Engineering Association, expert of the Sugarcane Machinery Committee of National Agriculture Standardization Technical Committee of the Ministry of Agriculture and the committee of experts of Agricultural Machinery Promotion (Supervision) Master Station of the Ministry of Agriculture. Ms. Yang is familiar with the field of agricultural machinery.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Li Pingan	Born in July 1964, senior economist and first-grade legal adviser, currently serves as the Chairman of the Board of Supervisors, the Chief Legal Counsel and Minister of the Legal Affairs Department of the Company, and the Deputy Secretary of the Discipline Inspection Commission of YTO. Mr. Li currently also serves as the Chairman of the Board of Supervisors of Luoyang Business Daily Company Limited. Mr. Li joined YTO in 1987, and served as the Director of the Legal Affairs Center of YTO, Chief Legal Counsel of YTO, etc. Mr. Li studied in Zhengzhou University with qualification of lawyer. Mr. Li has extensive experience in enterprise comprehensive risk management, legal affairs management, etc.
Xu Weilin	Born in August 1962, economist, currently serves as the Supervisor of the Company, Deputy Secretary of the Discipline Inspection Commission and the Director of the Supervision Division of YTO. Mr. Xu joined YTO in 1982, and served as the Party Secretary, Plant manager and staff representative Supervisor of No. 1 Assembly Plant of the Company. Mr. Xu studied in Zhengzhou University, Jiangsu Institute of Technology and Henan University of Science and Technology. Mr. Xu has extensive experience in auditing supervision, enterprise management, etc.
Wang Jianjun	Born in November 1976, engineer, currently serves as the staff representative Supervisor of the Company, Party Secretary and Secretary of the Discipline Inspection Commission and Labour Union Chairman of the Agricultural Equipment Marketing Center. Mr. Wang currently also serves as the Director of Luoyang Zhongshou Machinery Equipment Limited Company and YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd. Mr. Wang served as the Secretary of Youth League Committee, Deputy Director of the Department of Party-masses Work of YTO, the Party Secretary, Secretary of the Discipline Inspection Commission and Labour Union Chairman of the Procurement Center of the Company's No. 4 Assembly Plant.
Zhao Guozhong	Born in April 1960, currently serves as the staff representative Supervisor of the Company, Party Secretary and Labour Union Chairman of YTO (Luoyang) Diesel Engine Company Limited. Mr. Zhao served as the Party Secretary and Deputy General Manager of YTO (Luoyang) Kaichuang Equipment Science & Technology Co., Ltd, and Party Secretary, Labour Union Chairman and Deputy General Manager of YTO (Luoyang) Drive Axle Co., Ltd.
Wang Yong	Born in November 1968, with a PhD degree in Civil and Commercial Law, currently serves as the Supervisor of the Company, Director, Professor and doctoral tutor of the Institute of Commercial Law of School of Civil, Commercial and Economic Law of China University of Political Science and Law, Director of China Commercial Law Association and China Securities Law Association. Mr. Wang currently also serves as the Independent Director of Shengbang Microelectronics (Beijing) Company Limited, COFCO Property (Group) Co., Ltd., Zhongke Chuangda Software Technology (Beijing) Company Limited, and Beijing Xinwei Communication Technology Company Limited. Mr. Wang has extensive experience in civil law, corporate law, securities law, corporate governance, etc.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Huang Ping	Born in November 1968, China CPA, currently serves as the Supervisor of the Company, and partner of Vanda Accounting Firm of Vanda Group. Mr. Huang currently also serves as the Independent Director of Zhuhai Zhongfu Industrial Company Limited. Mr. Huang studied in Luoyang Institute of Science and Technology. Mr. Huang has extensive experience in financial audit, corporate restructuring, debt-to-equity swap, investment and financing, merger, acquisitions, bankruptcy liquidation, etc.
Wang Kejun	Born in December 1964, senior engineer, currently serves as the Deputy General Manager of the Company, Chairman of YTO (Heilongjiang) Dongfanghong Industrial Park Company Limited, YTO Heilongjiang Agricultural Equipment Company Limited and CAMACO, and Executive Director of YTO International Trade and Luoyang Changhong Industrial and Trade Company Limited. Mr. Wang joined YTO in July 1985, and served as the General Manager Assistant and Deputy General Manager of YTO, and the Director of the Company. Mr. Wang studied in Hunan University and Jiangsu University with a Master's degree in Engineering. Mr. Wang has extensive experience in marketing management, power engineering, etc.
Liu Jiguo	Born in December 1964, senior engineer, currently serves as the Deputy General Manager of the Company and Executive Director of YTO (Luoyang) Lubricant Company Limited. Mr. Liu joined YTO in 1987, and served as the General Manager Assistant, Deputy General Manager and Safety Director of YTO, and General Manager and Director of the Company. Mr. Liu studied in Northeast Heavy Machinery College and Jiangsu University with a Bachelor degree in Engineering and a Master degree in Engineering. Mr. Liu has extensive experience in corporate management, production and management, financial operation, etc.
Su Wensheng	Born in August 1968, senior engineer, currently serves as the Deputy General Manager of the Company, Executive Director of YTO (Luoyang) Zhongcheng Machinery Company Limited, Chairman of YTO (Luoyang) Logistics Company Limited, YTO (Luoyang) Wit Tools & Equipment Company Limited, ZF YTO Drive Axle and YTO France and Director of Changtuo Company. Mr. Su joined YTO in 1991, and served as the General Manager Assistant of the Company, etc. Mr. Su graduated from Gansu University of Technology, Jiangsu University, Henan University of Science and Technology with a Bachelor degree in Engineering and a Master degree in Engineering. Mr. Su has extensive experience in production operation, enterprise management, etc.
Yao Weidong	Born in July 1966, senior accountant, currently serves as the Financial Controller of the Company, Chairman of YTO Finance, Director of Brilliance China Machinery Holdings Company Limited and BOL Financial Leasing, and Supervisor of Luoyang Changhong Industrial and Trade Company Limited and Changxing Company. Mr. Yao joined YTO in 1989, and served as the Deputy Chief Accountant, Chief Accountant, etc. of the Company. Mr. Yao graduated from Shaanxi Institute of Mechanical Engineering, and the postgraduate course of Management Science and Engineering of University of Science and Technology of China. Mr. Yao has extensive experience in corporate finance management.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Zhu Weijiang	Born in April 1971, senior engineer, currently serves as the Deputy General Manager of the Company, Executive Director of YTO (Xinjiang) Dongfanghong Machinery Equipment Company Limited and Changxing Company, Chairman of Luoyang Zhongshou Machinery & Equipment Co., Ltd., Director of YTO Finance and CAMACO. Mr. Zhu joined YTO in 1992, and served as the General Manager Assistant of the Company, etc. Mr. Zhu graduated from Chongqing University and Henan University of Science and Technology with a Master's degree in Engineering and a Bachelor degree in Engineering. Mr. Zhu has extensive experience in mechanical design, production management, marketing management, etc.
Song Yuping	Born in October 1964, professor-level senior engineer, currently serves as the Deputy General Manager of the Company, and Chairman of Luoyang Tractor Research Institute Company Limited. Mr. Song joined YTO in 1987, and served as the General Manager Assistant of the Company, etc. Mr. Song graduated from Luoyang Institute of Technology with a Bachelor degree in Engineering. Mr. Song has extensive experience in technical management, product research and development, quality and process management, etc.
Yu Lina	Born in August 1970, economist, level two corporate legal adviser, with the qualification of lawyer, currently serves as the Deputy General Manager and Secretary to the Board of the Company, Director of Brilliance China Machinery Holdings Company Limited. Ms. Yu joined YTO in 1992, and served as the Director of Investor Relations, etc. of the Company. Ms. Yu studied in the Zhongnan University of Economics and Law and China University of Political Science and Law with a Bachelor degree in Law and a Master degree in Law. Ms. Yu has extensive experience in enterprise management, capital operation, etc.

Other explanation:

Note 1: The remuneration of certain Directors and senior management of the Company from related parties are mainly as follows: during the Reporting Period, YTO adopted a compensation incentive assessment methods for its senior management, pursuant to which the performance bonus for 2012 were paid. The Directors and senior management who received the said bonus worked for YTO in 2012.

Note 2: During the Reporting Period, such Directors or Supervisors were employed in related parties of the Company and received remuneration.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

II. APPOINTMENTS OF INCUMBENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(I) Positions in shareholder entities

For details, please refer to the major work experience of incumbent Directors, Supervisors and senior management.

(II) Positions in other entities

For details, please refer to major work experience of incumbent Directors, Supervisors and senior management.

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process for remuneration of Directors, Supervisors and senior management	The remuneration packages are proposed by the Remuneration Committee under the Board and, after having been considered and approved by the Board, submitted for shareholders' approval at a general meeting. The Remuneration Committee under the Board of the Company sets out the "Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company" and submitted it to the Board for approval. The annual remuneration of senior management of the Company is determined by the remuneration committee under the Board in accordance with the "Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company".
Basis for determining the remuneration of Directors, Supervisors and senior management	The remuneration of Directors, Supervisors and senior management members are determined based on remuneration standard of the industry and with reference to the factors including the Company's remuneration system and operating results for current year.
Remuneration paid to Directors, Supervisors and senior management	During the Reporting Period, the Company paid RMB9.2395 million to its Directors, Supervisors and senior management.
Total remuneration received by all Directors, Supervisors and senior management as at the end of the Reporting Period	RMB9.2395 million



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

IV. EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(I) Employees

Number of existing employees of the parent company	7,145
Number of existing employees of major subsidiaries	4,477
Total existing employees	11,622
Number of retired employees who are pensioned by the parent company and major subsidiaries	14,746

Staff composition

Category	Number of persons
Production staff	6,957
Sales staff	863
Technical staff	1,567
Administrative staff	1,916
Service staff	319
Total	11,622

Educational Background

Education level	Number of persons (person)
Postgraduate and above	279
Undergraduate	2,505
Diploma	2,375
Below diploma	6,463
Total	11,622

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

(II) Remuneration policy

According to its actual situation, the Company implemented a basic salary system based on the wage of the job position with increasing portion allocated to “strategic human resources” and “core human resources” with a focus on combination of “distribution according to work and distribution based on production factors”. For personnel of different types, the Company, based on their job nature, formulated their respective distribution pattern including annual salary system, merit-based salary in job position system, piece-rated system, time-rated system, project based commission system and negotiated salary system, which motivated the initiative of personnel from different positions effectively and therefore supported the sustainable development of the enterprise.

The Company has established a wide range of incentives, which implemented medium-and long-term incentives policy for middle and senior management; the Company has broadened channels for the growth of all kinds of talents, continuously strengthened the construction of multi-channel employee growth mechanism, set up chief experts, Class I expert, Class II expert, chief technician, director, manager and other different levels of professional channels, continued to implement the multi-channel talent incentives to fully mobilize the enthusiasm and creativity of all categories of personnel, so as to provide talent support for enterprise development.

(III) Training plan

The Company has actively carried out training for all staff, with the starting point and goal of enhancing the quality of staff, further improved the staff training development system, curriculum development system and trainer team building, carried out various types of targeted training of different levels and systems, so as to constantly optimize the knowledge structure and skills of employees, and promote the match between the employees’ competency and job requirements. During the Reporting Period, an accumulative total of 738 training courses were organized and the number of trained staff was 36,275.

VII. OTHERS

(I) DIRECTORS’ AND SUPERVISORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the Reporting Period, no rights were granted to any Directors, Supervisors, or their respective spouse or minor children, which would have enabled them to acquire benefits by means of acquisition of shares in or debentures of the Company or any other corporations; nor was the Company, its subsidiaries or holding company, or its holding company’s subsidiaries a party to any arrangement, which would have enabled the Directors or Supervisors to acquire such rights in the Company or any other corporations.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

(II) DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests considered or deemed to be held by such Directors, Supervisors and chief executives under provisions such as the SFO), or as recorded in the register required to be kept by the Company under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules of the Stock Exchange, were as follows:

Name	The Company/ associated corporation	Capacity	Nature of interests	Number of shares held	Total number of shares interested	Percentage of the relevant issued class of share capital (%)	Percentage of the total issued share capital of the Company (%)	Type of share
Wu Tak Lung	The Company	Beneficial owner	Beneficial interest	10,000 (Long position)	10,000 (Long position)	0.0025	0.0010	H Share

(III) DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

During the Reporting Period and up to the date of the Annual Report, except as disclosed in this section, none of the Directors or Supervisors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

(IV) INTERESTS OF DIRECTORS, SUPERVISORS AND ENTITY CONNECTED WITH THEM (AS DEFINED IN THE LISTING RULES OF THE STOCK EXCHANGE) IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

During the Reporting Period and up to the date of the Annual Report, save as disclosed in this section, none of the Directors, Supervisors or entity connected with them (as defined in the Listing Rules of the Stock Exchange) had any direct or indirect material interest in any transaction, arrangement or contract of significance to the business of the Company to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

CORPORATE GOVERNANCE

I. EXPLANATION ON CORPORATE GOVERNANCE RELATED SITUATION

During the Reporting Period, the Company was strictly in compliance with the “Company Law”, “Securities Law”, “Code of Corporate Governance for Listed Companies”, “Rules Governing the Listing of Stocks on Shanghai Stock Exchange” and other laws, regulations, regulatory documents and “Articles of Association” of the Company, so as to continue improving the structure of corporate governance and operation of the Company. The corporate governance of the Company is in line with the requirements for the corporate governance of listing companies of the CSRC. During the Reporting Period, the corporate governance of the Company were as follows:

1. Amendments to the corporate governance documents of the Company: According to the relevant provisions of the CSRC and the Shanghai Stock Exchange, combined with the actual situation of the three meetings, the “Articles of Association”, the “Procedural Rules for the General Meetings”, the “Decision-making System of Investment and Operation” and the “Implementation Rules for the Audit Committee of the Board of Directors” of the Company were revised to further improve the corporate governance system of the Company.
2. Shareholders and General Meetings: During the Reporting Period, the Company convened 4 general meetings (including 1 A Share class meeting and 1 H Share class meeting). The convening procedure for general meetings fully complied with the requirements as set out in the “Articles of Association” and the “Procedural Rules for General Meetings”, which ensures the equal status enjoyed by all the shareholders of the Company, especially medium and minority shareholders, and all shareholders shall be entitled to fully exercise their own rights.
3. Relationship between controlling shareholders and the Company: The controlling shareholders exercised their rights as capital contributors at general meetings by virtue of the law and there were no conducts which went beyond the authority granted at the general meeting of the Company that interrupted the operation decisions and activities of the Company. During the Reporting Period, there were no conducts by the controlling shareholders of the Company which infringed and damaged the interests of the Company and other shareholders by their special status. Resolutions on connected transactions at general meetings of the Company are considered strictly in accordance with the stipulated procedure and the connected shareholders shall abstain from voting to ensure the relevant connected transactions are being considered in an open, fair and reasonable way.
4. Directors and the Board: All the Directors of the Company were strictly in compliance with the requirements of the “Articles of Association” and “Procedural Rules for Meetings of the Board” of the Company and other laws and regulations, to give independent, objective and fair judgement on the resolution considered by the Board with their expertise and skill in an honest, dedicated and diligent manner, so as to safeguard the interests of all shareholders by exercising their rights and performing their duties according to the law.
5. Supervisors and the Board of Supervisors: All the Supervisors were in compliance with the requirements of the “Articles of Association” and “Procedural Rules for Meetings of the Board of Supervisors” and other laws and regulations, to perform their duties for the interests of all shareholders with a serious and responsible attitude to supervise the financial position, ordinary connected transaction and the performance of duties by the Directors and senior management of the Company according to the law and regulation, so as to safeguard the legal interests of the Company and shareholders.



CORPORATE GOVERNANCE (CONTINUED)

6. Management system for inside information and insiders: During the Reporting Period, the Company strictly implemented the “Management System for Inside Information and Insiders”. As such, insider information are discussed, transmitted, reviewed and disclosed in a standardized and legal manner and were prudently and properly kept confidential. No insider was benefited illegally in the course of transactions with inside information and in turn damaged the interests of the Company and all shareholders.

II. BRIEFS OF GENERAL MEETINGS

Session of meeting	Date	Inquiry index for the designated website for publishing the voting results	Date of publication of the voting results
2015 Annual General Meeting	27 May 2016	“Announcement of First Tractor Company Limited on Resolution of 2015 Annual General Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	28 May 2016
		Announcement published on the website of the Stock Exchange (www.hkexnews.hk)	27 May 2016
2016 First A Share Class Meeting	27 May 2016	“Announcement of First Tractor Company Limited on Resolution of 2016 First A Share Class Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	28 May 2016
		Announcement published on the website of the Stock Exchange (www.hkexnews.hk)	27 May 2016
2016 First H Share Class Meeting	27 May 2016	“Announcement of First Tractor Company Limited on Resolution of 2016 First H Share Class Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	28 May 2016
		Announcement published on the website of the Stock Exchange (www.hkexnews.hk)	27 May 2016
2016 First Extraordinary General Meeting	13 December 2016	“Announcement of First Tractor Company Limited on Resolution of 2016 First Extraordinary General Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	14 December 2016
		Announcement published on the website of the Stock Exchange (www.hkexnews.hk)	13 December 2016

Explanation on General Meetings:

During the Reporting Period, resolutions presented at the 2015 Annual General Meeting, the 2016 First A Share Class Meeting, the 2016 First H Share Class Meeting and the 2016 First Extraordinary General Meeting of the Company were all considered and approved.

CORPORATE GOVERNANCE (CONTINUED)

III. PERFORMANCE OF DUTIES BY DIRECTORS

(I) Attendance of Board meetings and general meetings by Directors

Name	Independent Director	Required attendance for the year	Attendance at Board meetings			Absence from two consecutive meetings		Attendance at general meetings
			Attendance by physical presence	Attendance by telecommunication	Attendance by proxy	Absence	No	
Zhao Yanshui	No	7	7	5	0	0	No	4
Wang Erlong	No	7	7	5	0	0	No	0
Wu Yong	No	7	7	5	0	0	No	3
Li Hepeng	No	7	6	5	1	0	No	0
Xie Donggang	No	7	6	5	1	0	No	0
Li Kai	No	7	7	5	0	0	No	0
Yin Dongfang	No	7	7	5	0	0	No	4
Xing Min	Yes	7	7	5	0	0	No	3
Wu Tak Lung	Yes	7	5	5	2	0	No	0
Yu Zengbiao	Yes	7	7	5	0	0	No	0
Yang Minli	Yes	7	7	5	0	0	No	4

Number of Board meetings convened during the year	7
Among which: number of physical meetings	2
Number of meetings held by means of telecommunication	5
Number of meetings convened on site and with the use of telecommunication	0

(II) Independent Directors' objection to relevant matters of the Company

During the Reporting Period, none of the independent non-executive Directors of the Company raised any objection to resolutions proposed at Board meetings or meetings of the Company other than Board meetings. For details of performance of duties by independent non-executive Directors, please refer to the "Report on Performance of Duties of the Independent Directors" published on the website of the Shanghai Stock Exchange and the overseas regulatory announcement published on the website of the Stock Exchange.



CORPORATE GOVERNANCE (CONTINUED)

IV. DETAILS FOR DISCLOSURE OF MATERIAL OPINIONS AND SUGGESTION AND OBJECTION RAISED IN PERFORMANCE OF DUTIES IN SPECIAL COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

There are four special committees under the Board, namely the Strategy and Investment Committee, Audit Committee, Nomination Committee and Remuneration Committee. All members of each of the committee had considered each Director's professional background and experience and the composition requirements set out in the "Code of Corporate Governance for Listed Companies" of the CSRC and the "Code on Corporate Governance" of the Stock Exchange, among which the Audit Committee, Nomination Committee and Remuneration Committee are all chaired by independent non-executive Directors while the members are mostly non-executive Directors of the Company.

(I) Remuneration Committee

The Remuneration Committee of the seventh session under the Board of the Company consists of 5 directors, including Mr. Yu Zengbiao (independent non-executive Director and Chairman of the Remuneration Committee), Mr. Xing Min (independent non-executive Director), Mr. Wu Tak Lung (independent non-executive Director), Mr. Li Hepeng (non-executive Director), and Mr. Xie Donggang (non-executive Director).

Duties and operation of the Remuneration Committee are:

- (1) to make recommendations to the Board on the Company's remuneration policy and structure for Directors, Supervisors and senior management, the remuneration of non-executive Directors and the remuneration packages of individual executive Directors and senior management as well as on matters including the establishment of a formal and transparent procedure for developing remuneration policy;
- (2) to review and approve the management's remuneration proposals; compensation payable to executive Directors and senior management for any loss or termination of office or appointment; and compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- (3) to supervise the implementation of the Company's remuneration policy to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Details of the Directors, the Supervisors and senior management's remuneration are set out in Section IX of this Annual Report, "Directors, Supervisors and Senior Management and Employees".

During the Reporting Period, the Remuneration Committee of the seventh session of the Board held two meetings on 14 October 2016 and 26 December 2016. All members were present at the meetings, which considered and approved the Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company, the Measures on Performance Appraisal and the Company's 2015 annual remuneration and performance appraisal on the senior management respectively.

CORPORATE GOVERNANCE (CONTINUED)

(II) Nomination Committee

The Nomination Committee of the seventh session under the Board of the Company consists of 3 directors, including Mr. Xing Min (independent non-executive Director) serving as the chairman of the committee, Mr. Zhao Yanshui (executive Director) and Ms. Yang Minli (independent non-executive Director) serving as members.

Duties and operation of the Nomination Committee are set out as follows:

- (1) to review the structure, size and composition of the Board based on the operating activities, asset scale and shareholding structure of the Company and make recommendations to the Board on any proposed changes to the Board in relation to implementation of the Company's corporate strategy;
- (2) to study the election criteria and procedures for Directors and managers of the Company and make recommendations to the Board;
- (3) to select appropriate candidates for Directors, managers and other senior management of the Company subject to the Board's approval pursuant to the proposals of the workgroup and to make recommendations to the Board with respect to the candidates for the Directors and managers;
- (4) to assess the independence of independent Directors; and
- (5) to make recommendations to the Board on the appointment or reappointment of Directors and the succession plan for Directors, in particular for the Chairman and the general manager.

During the Reporting Period, no meeting was held by the Nomination Committee.

(III) Audit Committee

The Audit Committee of the seventh session under the Board of the Company consists of 3 directors, including Mr. Wu Tak Lung (independent non-executive Director) serving as the chairman of the Audit Committee, and Mr. Yu Zengbiao (independent non-executive Director) and Mr. Yin Dongfang (non-executive Director) serving as members of the Audit Committee. The composition of the Audit Committee under the Board is in compliance with the provisions under Rule 3.21 of the Listing Rules of the Stock Exchange.

Duties and operation of the Audit Committee are set out as follows:

- (1) to oversee the relationship between the external auditors and the Company, including but not limited to making recommendations to the Board on appointment, reappointment and removal of external auditors, approving the audit fee, terms of appointment and policies on non-audit services of external auditors, raising any queries in respect of their resignations or dismissals, and reviewing and monitoring the independence and objectivity of the auditors and the effectiveness of audit process;
- (2) to review the financial reports of the Company as to whether they are in compliance with the accounting standards and relevant requirements in relation to financial reporting under the listing rules and other laws and regulations;



CORPORATE GOVERNANCE (CONTINUED)

- (3) to regulate and review the effectiveness of the internal control system of the Company, the review scope covers the effectiveness and compliance of the Company's internal control system, financial controls, internal audits and risk management systems, etc.;
- (4) to review the Company's financial and accounting policies and practices; and
- (5) to study other topics defined by the Board.

During the Reporting Period, the Audit Committee under the Board convened five meetings, all the members attended all the on-site meetings and fully expressed their opinion. Details are set out below:

Session of meeting	Date	Resolutions	Results
First Meeting in 2016	2016.1.13	<ol style="list-style-type: none"> 1. Plan for preparation of annual report of the Company in 2015 2. Plan for preparation of auditing of annual financial report of the Company in 2015 3. Implementation Rules for the Audit Committee of the Board (revised) of the Company 4. Administrative Measures on evaluation on internal control of the Company 5. Proposal for preparation of annual internal control evaluation of the Company in 2015 	All were passed
Second Meeting in 2016	2016.3.23	<ol style="list-style-type: none"> 1. The annual report and audited financial report of the Company in 2015 2. The annual internal control evaluation report of the Company in 2015 3. Recommendations on appointment of annual financial adviser and internal control auditor of the Company in 2016 4. The performance report of the Audit Committee under the Board of the Company in 2015 5. The execution of connected transactions of the Company in 2015 	

CORPORATE GOVERNANCE (CONTINUED)

Session of meeting	Date	Resolutions	Results
Third meeting in 2016	2016.4.25	The first quarterly report of the Company in 2016	
Fourth meeting in 2016	2016.8.22	1. The interim report of the Company in 2016 2. The execution of connected transactions report for the first half of 2016	
Fifth meeting in 2016	2016.10.25	The third quarterly report of the Company in 2016	

As at the date of publication of this Annual Report, the Audit Committee under the seventh session of the Board of the Company has reviewed the financial report of the Company in 2016 prepared in accordance with the PRC Accounting Standards for Business Enterprises and the internal control evaluation report of the Company in 2016 in accordance with the requirements of the Stock Exchange.

(IV) Strategy and Investment Committee

The Strategy and Investment Committee of the seventh session under the Board of the Company consists 5 members, including Mr. Zhao Yanshui (executive Director and Chairman of the Board) serving as the chairman, and Mr. Wang Erlong (executive Director), Mr. Wu Yong (executive Director), Mr. Li Kai (non-executive Director) and Ms. Yang Minli (independent non-executive Director) serving as members.

Duties and operation of the Strategy and Investment Committee are set out as follows:

- (1) to study and make recommendations on the medium and long-term strategic development plans of the Company;
- (2) to study and make recommendations on significant investments, financing proposals and material capital operations which are subject to the approval of the Board as required under the "Articles of Association" of the Company and relevant regulations of the Company;
- (3) to study and make recommendations on significant events which may affect the development of the Company;
- (4) to inspect implementation of the above matters; and
- (5) other matters as authorized by the Board.

During the Reporting Period, no meeting was held by the Strategy and Investment Committee.



CORPORATE GOVERNANCE (CONTINUED)

V. REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors of the Company was in compliance with the requirements of the CSRC and performed its duties conferred by the “Company Law” and the “Articles of Association” with a serious and responsible attitude for all shareholders. During the Reporting Period, the Board of Supervisors convened four meetings. It attended the decision making process of the main issues of the Company, audited the periodic report of the Company, and supervised production, operation and financial position of the Company and the performance of duties of the Directors and senior management to promote standardized operation of the Company and safeguard the interests of the Company and its shareholders.

(I) Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Company convened four meetings and attended all on-site Board Meetings and General Meetings and was informed of all matters voted by the Board. Some of the Supervisors attended the Annual General Meeting of the Company. Details of the meetings of the Board of Supervisors during the Reporting Period are as follows:

1. On 29 March 2016, the second meeting of the seventh session of the Board of Supervisors was convened by way of on-site meeting. Except Supervisor Wang Yong was attended by proxy due to business engagement, the rest of Supervisors attended the on-site meeting, and considered and approved the 2015 annual report and annual report summary, 2015 dividend distribution proposal, 2015 internal control self-evaluation report, 2015 social responsibility report and special report on deposits and actual use of raised funds of the Company, and listened to the 2015 work report on investors relation management of the Company. (The announcement on the Resolutions of the Board of Supervisors was available on the website of Shanghai Stock Exchange, “China Securities Journal” and “Shanghai Securities News” dated 30 March 2016 and the website of the Stock Exchange on 29 March 2016 as an overseas regulatory announcement.)
2. On 28 April 2016, the third meeting of the seventh session of the Board of Supervisors was convened by way of telecommunication. All Supervisors attended the meeting, and considered and approved the 2016 first quarterly report of the Company.
3. On 25 August 2016, the fourth meeting of the seventh session of the Board of Supervisors was convened by way of on-site meeting. Except Supervisors Xu Weilin and Wang Yong were attended by proxy due to business engagement, the rest of Supervisors attended the on-site meeting, and considered and approved the 2016 interim report and the special report on deposits and actual use of raised funds in the first half of 2016 of the Company. (The announcement on the Resolutions of the Board of Supervisors was available on the website of Shanghai Stock Exchange, “China Securities Journal” and “Shanghai Securities News” dated 26 August 2016 and the website of the Stock Exchange on 25 August 2016 as an overseas regulatory announcement.)
4. On 27 October 2016, the fifth meeting of the seventh session of the Board of Supervisors was convened by way of telecommunication. All Supervisors attended the meeting, and considered and approved the 2016 third quarterly report of the Company.

CORPORATE GOVERNANCE (CONTINUED)

(II) Work of the Board of Supervisors of the Company in 2016

1. Supervision on the operation of the Company in accordance with the law

In 2016, the Board of Supervisors conducted necessary and effective supervision on the matters relating to production and operation, financial position and internal control of the Company. The Board of Supervisors believed that the relevant internal control system of the Company was timely amended as per actual situation and the operational procedure of decision-making of the Company was in compliance with relevant laws and regulations during the Reporting Period. The Directors, senior management of the Company performed their duties and exercised their functions in due diligence. No violation of laws, regulation, the “Articles of Association” or damage to the interests of the Company and investors was found.

2. Review of the financial position of the Company

During the Reporting Period, the Board of Supervisors maintained communication with the management, listened to the work report from the financial officer of the Company, audited the financial report of the Company and reviewed audit report issued by the accounting firms to carefully perform the supervision and checking on the financial position and finance management work of the Company. The Board of Supervisors was of the view that the finance and internal control system of the Company were sound, and accounting and financial management system of the Company were effectively implemented. There was no material omission of information and false statements in the Company’s 2016 Annual Report. It truly and accurately reflected the financial position and operating results of the Company.

3. Inspection on the use of raised funds

During the Reporting Period, the Board of Supervisors carried out inspection on the use of raised funds from public offering of shares, concluded that the procedures for the deposits and actual management and use of raised funds of the Company are in compliance with the requirements of regulators and the requirements of the Company on the use and management of raised funds. There was no any non-compliance of using raised funds, any shifting of or shifting in disguise of the investment of raised funds or any damage to the interests of the shareholders.

4. Supervision on approval and implementation of connected transactions

After supervision and examination on the reviews, votes, disclosures and performances of connected transaction of the Company and disclosure in a timely and sufficient basis during the Reporting Period, the Board of Supervisors was of the opinion that connected transactions of the Company were in line with the actual needs of the production and operation of the Company with fair and reasonable pricing. The approval procedure by the Board was in compliance with the requirements of the laws, regulations and the “Articles of Association”, disclosed in a timely and sufficient basis, and did not damage the interests of the Company and the shareholders.



CORPORATE GOVERNANCE (CONTINUED)

5. Opinions on evaluation on internal control of the Company

The Board of Supervisors supervised the Company's internal control implementation through listening to the work report and checking the working papers, etc., and is of the view that the 2016 evaluation report on internal control issued by the Company gave a true and objective picture of the establishment and implementation of the internal control of the Company, and met the requirement of internal control of the Company.

6. Supervision over the investor relation management of the Company during the Reporting Period

In 2016, the Company worked on information disclosure. Meanwhile, the Company communicated with investors in the form of road show by management, general meeting, telephone conferences, etc., to help investors understand the Company's operation and management situation. The Company's 2016 annual investor relations management was in line with the requirements of the "Management System for Investor Relations".

7. Audit on the periodic report of the Company

During the Reporting Period, the Board of Supervisors of the Company considered and approved the periodic report of the Company in a serious manner, concluded that the preparation and deliberation procedure of periodic report were in compliance with the requirements of the laws, regulations, "Articles of Association" and the internal control system of the Company, the content and form of which conformed to the requirements of the CSRC, the Shanghai Stock Exchange, and the Stock Exchange, the information contained therein give a true and fair view of the financial position of the Company in all respect, and no breach of confidentiality requirements by the persons involved in the preparation and consideration and approval of periodic report was found. The 2016 annual financial report of the Company has been audited by ShineWing Certified Public Accountants, which issued an unqualified standard audit report. The 2016 Annual Report truly and accurately reflected the financial position and operating results of the Company.

In 2017, the Board of Supervisors of the Company will continue to be in compliance with the requirements of the "Company Law", "Articles of Association" of the Company and "Procedural Rules for Meetings of the Board of Supervisors" and other laws and regulations, and performed their duties in a loyal and diligent manner to promote standardized operation of the Company and safeguard the interests of the Company and its shareholders.

VI. APPRAISAL MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD AND ESTABLISHMENT AND IMPLEMENTATION OF INCENTIVE MECHANISM

The "Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company" approved by the Board separates the appraisal of the senior management into two parts: annual remuneration management and medium to long term incentives. During the Reporting Period, the Remuneration Committee under the Board determined the results of the annual remuneration and the medium to long term incentives of the senior management according to the "Interim Measures on Medium to Long-term Incentives for Remuneration and Performance Management of Executives of the Company" and based on the Company's budget, KPI indicators, major works and completion results of the operating indicators of division of labours in units.

CORPORATE GOVERNANCE (CONTINUED)

VII. WHETHER THERE IS DISCLOSURE OF INTERNAL CONTROL SELF-ASSESSMENT REPORT

For details, please refer to the “2016 Annual Internal Control Evaluation Report of First Tractor Company Limited”.

VIII. EXPLANATION ON INTERNAL CONTROL AUDIT REPORT RELATED MATTERS

For details, please refer to the “2016 Annual Internal Control Audit Report of First Tractor Company Limited”.

Whether there is disclosure of internal control audit report: Yes

IX. CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company strictly complied with the principles and most code provisions under the “Corporate Governance Code “and” Corporate Governance Report” (the “**Code**”) as set out in Appendix 14 to the Listing Rules of the Stock Exchange, and the Company has amended the “Implementation Rules for the Audit Committee of the Board of Directors” on 18 January 2016 and re-complied with code provision C.3.3 which sets out that the terms of reference of the audit committee should include certain minimum duties, including code provisions C.3.3(a) to (n). The Company deviated from Code provision A.6.7 which requires that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Due to other business engagement, Mr. Wu Tak Lung, Mr. Yu Zengbiao, independent non-executive Directors and Mr. Li Hepeng, Mr Xie Donggang and Mr. Li Kai, non-executive Directors, did not attend the general meeting of the Company held on 27 May 2016, A Shareholders’ Class Meeting and H Shareholders’ Class Meeting; and, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao, independent non-executive Directors and Mr. Li Hepeng, Mr Xie Donggang, and Mr. Li Kai, Non-executive Directors, did not attend the general meeting of the Company held on 13 December 2016. Other non-executive Directors and independent non-executive Directors had been present at the respective general meetings, A Shareholders’ Class Meeting, H Shareholders’ Class Meeting, to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

(I) Shareholders’ right

1. According to Article 74 of the “Articles of Association” of the Company, when shareholder(s) solely or jointly holding 10 percent or more of the Company’s voting shares require(s) to convene an extraordinary general meeting in writing, the Board of the Company shall convene an extraordinary general meeting within two months.
2. According to Article 78 of the “Articles of Association” of the Company, shareholders individually or jointly holding more than 3% of the Company’s shares may raise a provisional proposal and submit to the Board in writing 10 days prior to the date of the general meeting. The Board shall issue a supplemental notice of general meeting announcing the contents of the provisional proposals within 2 days upon receipt of the proposals.



CORPORATE GOVERNANCE (CONTINUED)

3. If shareholders of the Company have enquiry about relevant information of the Company or request for information, they shall provide documentary evidence that they are holding certain type and numbers of shares of the Company to the Secretary to the Board or office of the Board. After verifying the identity of the shareholders by the Company, the Company will provide relevant information as stipulated in Article 58 of the “Articles of Association” of the Company. For details of contact information of the Company, please refer to annual reports, interim reports and relevant announcements of the Company.

In consideration of the above, the Company was in strict compliance with all the Code provisions and the “Articles of Association” of the Company in relation to shareholders’ rights during the Reporting Period.

(II) SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules of the Stock Exchange (the “**Model Code**”) as its own code of conduct regarding securities transactions by the Directors. After making enquiries to, and as confirmed by all the Directors of the Company, Mr. Wu Tak Lung, an independent non-executive Director of the Company, held 10,000 H Shares of the Company during the Reporting Period. During the Reporting Period, all the Directors of the Company had strictly complied with the code of conduct in relation to the securities transactions by the Directors under the Model Code.

(III) DIRECTORS AND THE BOARD OF DIRECTORS

1. *Directors*

The seventh session of the Board consisted of eleven Directors, including executive Directors of Mr. Zhao Yanshui (Chairman), Mr. Wang Erlong (vice chairman), Mr. Wu Yong (general manager), Non-executive Directors of Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai, Mr. Yin Dongfang, and independent non-executive Directors of Mr. Xing Min, Mr. Wu Tak Lung, Mr. Yu Zengbiao and Ms. Yang Minli.

The biographical details of Directors are set out in Section IX headed “Directors, Supervisors, Senior Management and Employees” in this report. The Company has received the annual confirmation letter issued by each of the four independent non-executive Directors, namely Mr. Xing Min, Mr. Wu Tak Lung, Mr. Yu Zengbiao and Ms. Yang Minli, in respect of their respective independence in accordance with Rule 3.13 of the Listing Rules of the Stock Exchange. The Company considers that all the independent non-executive Directors are qualified independent persons and comply with the requirements on independence as set out in Rule 3.13 of the Listing Rules of the Stock Exchange.

One-third of the members of the Board are independent non-executive Directors. The members of the Board have different professional backgrounds and possess expertise and years of management experience in terms of corporate management, machinery design and manufacturing, and financial management, etc. The diversified professional backgrounds of Directors can ensure the decisions made by the Board to be more scientific and efficient.

CORPORATE GOVERNANCE (CONTINUED)

During the Reporting Period, other than their working relationships with the Company, none of the Directors, Supervisors or senior management of the Company had any financial, business or family relationship or any other material/connected relationship with each other.

During the Reporting Period, by preparing the “Directors Correspondence”, and sending the links of announcements of the Company to all of its Directors, Supervisors and senior management in a timely manner, the Company provided them with its latest operation updates and public information for them to rely on as basis in making better judgments and decisions on the Company’s affairs. The Director, Supervisor, Senior Management of the Company have been organized to attend the training on improving the performance ability of Director, Supervisor, Senior Management of the listed company organized by the CSRC and the Shanghai Stock Exchange, to further improve the compliance awareness in performance of Director, Supervisor, Senior Management of the Company.

2. Board of Directors

The Board is responsible for formulating and reviewing the Company’s development strategies and operating strategies, preparing annual budgets and final accounting schemes and annual business plans, proposing dividend plans, monitoring the management and holding regular meetings to discuss matters affecting the Company’s operations pursuant to the relevant laws and regulations, rules and “Articles of Association” of the Company. The “Articles of Association” and the “Procedural Rules for the Board” of the Company as considered and approved at the general meeting has stipulated the terms of reference of the Board.

The Board diversity policy formulated by the Company aims to cause the Company to take into account the composition of the Board members from various aspects when electing and appointing them, including but not limited to gender, age, race, cultural and educational background, professional experiences, knowledge and expertise, thereby avoiding a collective mindset of the Board from simplex composition and allowing Board members to consider issues from different perspectives so as to enable the Board to be more deliberate and prudent in making important decisions.

The seventh session of the Board has diversified feature, its members’ age range is between 40 and 65, consisting of male and female, with backgrounds of accounting experts, industry experts in agriculture machinery, power machinery and experienced persons in the fields of finance and investment and manufacturing industry. Their knowledge structure and expertise are professional and mutually complementary to the overall structure of the Board. A diversified Board provides guarantee and support for the scientific decision-making of the Board.

During the Reporting Period, the “Articles of Association” of the Company was revised by the Company according to the relief of the restrictions on trading of shares of the controlling shareholders.

During the Reporting Period, the Board convened seven meetings (including Board meetings held by way of telecommunication), including four regular meetings. Attendance of Directors in Board meetings are set out in this section “Performance of Duties by Directors”.



CORPORATE GOVERNANCE (CONTINUED)

(IV) The Chairman and the management

Mr. Zhao Yanshui is the Chairman of the Company, and Mr. Wu Yong is the General Manager of the Company, thus the positions of the Chairman and the General Manager are held by different persons, complying with the Code provisions of A.2.1.

The management of the Company includes the General Manager, Deputy General Manager and Financial Controller, who are responsible for the Company's daily business operation, business planning and implementation, and accountable for the operation of the Company to the Board. The management of the Company shall keep in touch with all Directors to ensure that the Directors are kept updated of information about the Company's business activities. The "Articles of Association" and "Working Rule of the General Manager" of the Company were approved in the general meeting which specifically define the duties and authority of the management.

(V) Non-executive Directors (Including Independent Non-executive Directors)

The terms of office of the non-executive Directors, Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai, Mr. Yin Dongfang, and the independent non-executive Directors, Mr. Xing Min, Mr. Wu Tak Lung, Mr. Yu Zengbiao and Ms. Yang Minli, will end on 28 October 2018.

All the above eight non-executive/independent non-executive Directors possess proper experience and professional qualifications required to perform the duties of Directors. In particular, independent non-executive Director Mr. Xing Min is a senior expert in combustion engine industry; independent non-executive Director Mr. Wu Tak Lung has extensive experience in finance, financial affairs and investments; independent non-executive Director Mr. Yu Zengbiao is a senior expert in finance and accounting, and independent non-executive Director Ms. Yang Minli is a senior expert in agricultural machinery industry.

(VI) Special committees under the Board

During the Reporting Period, the Audit Committee of the Board amended the procedural rules for meetings of the Audit Committee in accordance with the requirements of the Code on risk management and internal control consultation conclusion. The procedures of auditing the periodic report of the Company by the Audit Committee have been improved, and the duties of Audit Committee such as "to review the self-evaluation report of internal control and the audit report on internal control issued by external auditor, to review and control the risk management of the Company, to assess the result of internal control evaluation and audit, and to supervise and urge the rectification of defect of internal control" have been defined.

Details of the Remuneration Committee, Nomination Committee, Audit Committee and Strategy and Investment Committee are set out in this section "Details for disclosure of material opinions and suggestion and objection raised in performance of duties in special committees under the Board during the Reporting Period".

CORPORATE GOVERNANCE (CONTINUED)

(VII) Auditors' remuneration

During the Reporting Period, the auditor provided internal control audit services to the Company and issued an audit opinion on the internal control of the Company. The Company signed an appointment agreement with the auditor with respect to such non-audit services, which set out the scope of the audit contents and remuneration of the auditor.

For details, please refer to "Appointment or Dismissal of Auditor" under Section VI Significant Events.

(VIII) Risk Management and Internal Control

During the Reporting Period, the Company has established proper risk management and internal control system. The risk management and internal control system is established and gradually improved with the orientation to possible risks exposed by the Company in various key business and management activities. The Board is responsible for the development of risk management and internal control system and the review of their effectiveness. The audit department of the Company is responsible for reviewing the effectiveness of internal control.

The Audit Committee under the Board of the Company shall hear the report from the audit department on annual conclusion and plans of the internal audit in due course every year and review the adequacy and effectiveness of the internal control and risk management of the Company.

Each year, the Board of the Company shall review the risk management and internal control monitoring system, and issue the Annual Internal Control Assessment Report to investors. During the Reporting Period, the Board of the Company conducted annual review on the risk management and internal control system and its effectiveness and considered that the Company had constructed a systematic internal control monitoring system and all the internal control system was in compliance with the PRC laws, rules and requirements. The internal control monitoring system covers all parts of operation, business and internal management of the Company, defining risk management methods and establishing three layers of risk management, which effectively guaranteed the safety and completeness of the assets and formation of true and fair financial statements. During the Reporting Period, the overall internal control and operation of the Company was good and there was effective internal control in all material aspects in maintaining an effective financial report. Despite the above, the Board of the Company has to indicate that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. For details, please refer to the "2016 Annual Internal Control Evaluation Report of First Tractor Company Limited" issued by the Company on the same date as this report on the website of the Shanghai Stock Exchange and the overseas regulatory announcement on the website of the Stock Exchange.

With respect to the management of inside information, the Company has formulated the "Management System for Inside Information and Insiders" which sets out the procedures and internal controls for handling and dissemination of inside information and includes the definition of inside information and insider, the right to access to inside information, the duty of confidentiality of insider, the relevant accountability and handling regulations as well as the remedy for leakage of inside information and the duty to disclose information thereafter.

During the Reporting Period, before the preparation of the 2015 Annual Report and the 2016 Interim Report of the Company, the Company has notified all the Directors, Supervisors and senior management of the Company not to deal in any securities of the Company as provided by the relevant regulations in the Listing Rules of the Stock Exchange.



CORPORATE GOVERNANCE (CONTINUED)

(IX) Investor Relations

During the Reporting Period, the Company focused on information disclosure and well-prepared investor relations works. The Company continued to disclose the Company's announcements on the website of the Stock Exchange and the designated media as required, and timely published announcements on investor relation special column of the Company's website. On that basis, the Company further strengthened the exchange and communication with investors, passing information to investors through holding of the online results explanation session, the Shanghai Stock Exchange's E-platform interactive, etc.; facilitated voting of minority and medium shareholders by providing network voting for the general meeting; organized road show by the management after release of results, so as to answer investors' questions; properly arranged for the PRC or overseas investors' visit requirements, and received visit of many batches of fund managers and analysts of investment institutions by means of teleconference and on-site meeting throughout the year. Through communication with investors and listening to their advices, the effectiveness of information disclosure of the Company has been further improved.

(X) Internal key contact person of the Company

For details, please refer to Section II of this Annual Report, "Company Profile and Key Financial Indicators".

(XI) Amendment of Articles of Association

For details, please refer to this section, "Explanation on Corporate Governance Related Situation".

(XII) Annual Report and Financial Statements

The Directors acknowledge their responsibility for the preparation of the annual report and financial statements of the Company, ensuring that the financial statements give a true and fair presentation in accordance with the applicable laws and accounting standards.

RELEVANT INFORMATION ON CORPORATE BONDS

I. BASIC SITUATION OF THE CORPORATE BONDS

Unit: 0'000 Yuan Currency: RMB

Name of bond	Abbreviation	Code	Issue date	Due date	Balance of Bond	Interest rate	The method of repayment of capital with interest	Trading places
Publicly issued corporate bond of First Tractor Company Limited in 2012 (Tranche I)	12 First Tractor 01	122225	4 March 2013	4 March 2018	80,000	4.8%	Adopting simple annual interest without compound interest nor interest for overdue payment. Interest is paid annually and principal is paid when due. Last interest payment will be paid together with the principal repayment.	Shanghai Stock Exchange
Publicly issued corporate bond of First Tractor Company Limited in 2012 (Tranche II)	12 First Tractor 02	122253	30 May 2013	30 May 2018	70,000	4.5%	Adopting simple annual interest without compound interest nor interest for overdue payment. Interest is paid annually and principal is paid when due. Last interest payment will be paid together with the principal repayment.	Shanghai Stock Exchange

Interest payment of the corporate bond

The Company paid the interests for the publicly issued corporate bond in 2012 (Tranche I) and publicly issued corporate bond in 2012 (Tranche II) of the Company for the year of 2015 on 4 March and 30 May 2016 on schedule and in full respectively.

II. THE CONTACT PERSON AND CONTACT INFORMATION OF THE CORPORATE BOND TRUSTEE AND CONTACT INFORMATION OF THE CREDIT RATING AGENCY

Bond Trustee	Name	Everbright Securities Company Limited
	Office address	No. 1508, Xinzha Road, Jingan District, Shanghai
	Contact person	Wang Yasheng
	Phone	021-2216 9999
Credit Rating Agency	Name	Shanghai Brilliance Credit Rating & Investors Service Company Limited
	Office address	14/F, Huasheng Building, No. 398, Hankou Road, Shanghai, the PRC



RELEVANT INFORMATION ON CORPORATE BONDS (CONTINUED)

III. USE OF FUNDS RAISED BY CORPORATE BONDS

According to the “Prospectus for Publicly Issued Corporate Bonds in 2012 (Tranche I)”, the funds raised by the current bonds was proposed to be fully used to supplement working capital and repay bank loans after deducting the issuing expenses. As at 31 December 2016, the Company had used RMB700 million of raised funds for repayment of bank loans, and the rest were used to supplement working capital.

According to the “Prospectus for Publicly Issued Corporate Bonds in 2012 (Tranche II)”, the funds raised by the current bonds was proposed to be fully used to supplement working capital after deducting the issuing expenses. As at 31 December 2016, the Company had used all of the raised funds to supplement working capital.

IV. THE CREDIT RATING OF CORPORATE BONDS

During the Reporting Period, based on the comprehensive analysis and evaluation of the Company’s business conditions, industry and other situation, Shanghai Brilliance Credit Rating & Investors Service Company Limited issued the “Track Rating Report on 12 First Tractor 01 Corporate Bonds and 12 First Tractor 02 Corporate Bonds of First Tractor Company Limited”. The Company’s corporate credit rating was AA+, the credit rating of 12 First Tractor 01 corporate bonds was AA+ and the credit rating of 12 First Tractor 02 corporate bonds was AA+.

V. MEETING OF HOLDERS OF CORPORATE BONDS

On 24 June 2016, the Company convened the 2016 first meeting of bondholders in respect of the corporate bonds publicly issued in 2012, at which the “Proposal on No Request from Bondholders for Guarantee of the Company” and the “Proposal on Adjustment to the Way of Convening and Voting Method of the Meetings of Bondholders of “12 First Tractor 01” and “12 First Tractor 02”” were considered and approved. (For details, please refer to the “Announcement of Everbright Securities Company Limited in relation to the Results Announcement of the 2016 First Bondholders Meeting for 2012 Corporate Bonds of First Tractor Company Limited” of the Company published on the website of Shanghai Stock Exchange, “China Securities Journal” and “Shanghai Securities News” on 28 June 2016 and the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 27 June 2016.)

VI. SITUATION OF THE PERFORMANCE OF DUTIES OF THE CORPORATE BOND TRUSTEE

During the Reporting Period, the bond trustee, Everbright Securities Company Limited, performed the duties of a bond trustee according to the “Management Method for Corporate Bond Issuance and Transaction”, “Listing Rules of Shanghai Stock Exchange on Corporate Bonds” and “Code of Conduct for Corporate Bond Trustees” and other laws and regulations, including but not limited to continuous concern on the credit status of the Company, supervision of the designated special account intended for receiving, storing and transferring of the funds raised by corporate bonds, and its principal and interest payment.

RELEVANT INFORMATION ON CORPORATE BONDS (CONTINUED)

VII. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE LATEST TWO YEARS AS AT THE END OF THE REPORTING PERIOD*Unit: Yuan Currency: RMB*

Main indicators	2016	2015	Year-on-year increase/decrease (%)	Reason for Change
Earnings before interest, taxes, depreciation and amortization	731,686,426.61	661,879,203.46	10.55	/
Current Ratio	1.27	1.05	20.95	/
Quick Ratio	1.10	0.86	27.91	/
Asset-liability ratio	58.34%	59.32%	-1.65	/
EBITDA over total debt	0.09	0.08	12.50	/
Interest coverage ratio	3.35	2.76	21.38	/
Cash interest coverage ratio	17.91	6.53	174.27	Significant increase in net cash flow from operating activities compared with the corresponding period of last year
EBITDA interest coverage ratio	6.15	5.26	16.92	/
Loan repayment rate	100%	100%	0	/
Interest coverage rate	100%	100%	0	/

VIII. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company obtained a total of RMB5 billion credit from eight banks including ICBC, China Construction Bank, Agricultural Bank of China, Bank of Communications, HSBC and Everbright Bank.



RELEVANT INFORMATION ON CORPORATE BONDS (CONTINUED)

IX. FULFILLMENT OF RELEVANT COVENANTS AND UNDERTAKINGS IN THE PROSPECTUS FOR CORPORATE BONDS BY THE COMPANY DURING THE REPORTING PERIOD

Pursuant to the terms on adjustment to the interest rate of corporate bonds and repurchase under the “Prospectus for Public Issue of Corporate Bonds by First Tractor Company Limited in 2012 (Tranche I)” and the “Prospectus for Public Issue of Corporate Bonds by First Tractor Company Limited in 2012 (Tranche II)”, in January and April 2016, the Company issued an announcement on no adjustment to the coupon rates of the “12 First Tractor 01” and “12 First Tractor 02” and the measures for repurchase of bonds, respectively, pursuant to which the coupon rates of the “12 First Tractor 01” and “12 First Tractor 02” will remain unchanged at 4.80% and 4.50% for the last two years in the duration, respectively.

According to the statistical results of the repurchase application of the “12 First Tractor 01” and “12 First Tractor 02” Corporate Bonds as released by the Shanghai Branch of China Securities Depository and Clearing Co., Ltd. in February and May 2016, the repurchase application of “12 First Tractor 01” and “12 First Tractor 02” Corporate Bonds was zero with a repurchase amount of RMB0.

X. MATERIAL EVENTS OF THE COMPANY AND IMPACT ON OPERATION AND REPAYMENT ABILITY OF THE COMPANY

During the Reporting Period, the Company had good operation and there was no material events that might affect the repayment ability of the Company.

For details of changes in the “15 Guoyu Logistics CP001” and “15 Guoyu Logistics CP002” held by YTO Finance, a subsidiary of the Company, please refer to the “Announcement on Non-repayment of Debt Obligation of Controlled Subsidiary When Due of First Tractor Company Limited”, the “Supplemental Announcement on Non-repayment of Debt Obligation of Controlled Subsidiary When Due of First Tractor Company Limited” and the “Announcement on Non-repayment of Debt Obligation of Controlled Subsidiary When Due of First Tractor Company Limited” published by the Company on the website of Shanghai Stock Exchange on 11 August, 12 August and 1 November 2016, and the relevant overseas regulatory announcements of the Company published on the website of the Stock Exchange.

SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY

I. BASIC INFORMATION ON FINANCE BUSINESS

YTO Finance is a non-banking financial institution established as approved by Document No. 299 of the Head Office of the People's Bank of China (1992), with registered capital of RMB500 million. During the Reporting Period, the Company acquired 6% of the equity interest in YTO Finance held by SINOMACH-HI (Luoyang) Building Machinery Co., Ltd. Therefore, the shareholding percentage of the Company in YTO Finance increased to 94.6%.

The business development of YTO Finance was strictly in compliance with the "Administration of the Finance Companies of Enterprises Groups Procedures" and other relevant laws and regulations. YTO Finance principally engages in business including handling of internal transfer settlement between member companies, collecting the deposit of member companies, providing loans, finance lease, bill acceptance and discounting, and entrusting loans and investments to member companies; and is approved to deal with business including equity investment, portfolio investment with financial institutions, consumer credit service, buyer's credit and finance lease for products of member companies and inter-bank borrowing and lending.

YTO Finance overcame various adverse effects including economic downturn and increase of operating difficulty. Combining the corporate business development, YTO Finance leveraged its advantages to improve finance service, which further improved its efficiency of fund usage and maintained steady growth of its assets scale. During the Reporting Period, the average asset scale of YTO Finance amounted to RMB4,690 million, with a capital adequacy ratio of 18.57%, a debt coverage ratio of 33.97%, an liquidity ratio of 42.78%, an non-performing loan ratio of 0, an non-performing asset ratio of 1.42%. The various regulatory indicators were in line with the regulatory requirements.

II. CARRYING OUT FINANCIAL BUSINESS TO PROVIDE SUPPORT TO THE OPERATION OF THE COMPANY

(I) Strengthening the business of fund settlement and centralized funds management to reduce the financial risk of the Group

YTO Finance continued to improve its financial services and improved financial service quality. During the Reporting Period, the fund settlement by YTO Finance amounted to RMB187.303 billion, among which the concentration ratio of funds was 90.62%, the concentration ratio of bills was 94.46%, which were both higher than the industry level. Through the centralized funds management platform of YTO Finance, the unified corporate management system was developed and improved. The centralized funds management, unified funds controlling, unified funds allocation of the Group was achieved, enhancing capital efficiency and effectively reducing the capital risk of Group in general.



SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY (CONTINUED)

(II) Improving the loans and bills management system to provide funding service to various business units

YTO Finance provides various services such as liquidity loans, project loans and order loans according to the situation and needs of each member of the Group to help them solve the funding needs and support business development of the Company. During the Reporting Period, total loans amounted to RMB2.185 billion was granted by YTO Finance to the Company and its subsidiaries. By coordinating the cyclical difference of funding gap of various companies, the short-term funding needs of each business unit were solved effectively. As such, YTO Finance actively develops its commercial bills business and is committed to engaging in the whole process of bill business, providing the service of issuing, discounting and honouring of bills and consignment collection to members of the Group. During the Reporting Period, total commercial bills amounting to RMB2.835 billion was issued by YTO Finance, and the total bills being discounted was RMB1.159 billion, enriching the financing instrument and means of the Company, which facilitated the commodity circulation in the supply chain.

(III) Leveraging on the interbank and investment business to enhance capital income

The interbank and investment business is an important supplement to the traditional business of YTO Finance, and an effective way to enhance capital income. Given the credit demand from members of the Group was limited and capital was sufficient in phases, to take full advantage of funds, YTO Finance increased the size of bank deposit and lending. During the Reporting Period, the interest from interbank borrowings and lendings of YTO Finance amounted to RMB13.1417 million, the income from interbank business amounted to RMB45.4134 million, and the investment income amounted to RMB34.6607 million.

III. RISK MANAGEMENT SYSTEM OF FINANCE BUSINESS

The Group attaches great importance to risk management of finance business. With established corporate governance structure, sound risk management and complete internal control system of YTO Finance, the Group supervises and manages the business development and operational risk control of YTO Finance.

- (I) Corporate governance structure consisting of main bodies of shareholders' meeting, board of directors, board of supervisors and management was established. The board set up the Risk Management Committee which is responsible for formulating and implementing system and procedures to identify, measure, supervise and manage corporate risk, analyzing and evaluating various possible risks in corporate operating activities, estimating possible loss of various risks, and adopting effective control policies and measures, in order to ensure realization of corporate targets on risk management and operation. Meanwhile, the board set up the internal audit committee to conduct internal audit inspection on various business of the company regularly and irregularly, produce independent internal audit report and be accountable to the board of directors.

SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY (CONTINUED)

Under the management of YTO Finance, the Internal Control Committee, Assets-Liabilities Management Committee, Credit Review Committee and Investment Audit Committee were established to manage and control YTO Finance's internal control, assets and liabilities structure, different credit and investment businesses respectively.

- (II) During the Reporting Period, YTO Finance continued to promote comprehensive risk management and improve its risk management. Firstly, YTO Finance amended relevant management system to further define the duty, procedure rules, and rights and obligation of the Risk Management Committee and the Internal Control Committee, so as to improve the risk control of the Company. Secondly, YTO Finance carried out comprehensive risk assessment for 2016, explicitly defined the method of risk assessment, adopted three-tier risk assessment, established risk event base and improved its risk management. Thirdly, YTO Finance optimized its risk alert control system and established reporting mechanism on material risk control to promote risk management of each business unit.
- (III) YTO Finance continued to develop internal control system and improve the effectiveness of internal control. In accordance with changes in industrial environment and the relevant requirements of assessment of internal control, YTO Finance carried out careful assessment on the effectiveness of the design and operation of internal control based on daily supervision and special inspection. Timely amendment to the internal control defect being found was made according to the standard identification of internal control defect. YTO Finance further regulated its approval authority of each business, further strengthened its internal control and improved its management efficiency, so as to ensure the achievement of the control goal by adapting to the changes of strategic adjustment and business management model of the Company.



FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

AUDITOR'S REPORT

XYZH/2017BJA40284

To the Board of Directors of First Tractor Company Limited:

1. OPINION

We have audited the financial statements of First Tractor Company Limited (hereafter referred to as "YTO Company"), which comprise the consolidated and the parent company's balance sheets as at December 31, 2016, and the consolidated and the parent company's income statements, the consolidated and the parent company's cash flow statements, the consolidated and the parent company's statements of changes in shareholder's equity for the year then ended, and the notes to the relevant financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and the parent company's financial position of YTO Company as at December 31, 2016, and of their consolidated and the parent company's financial performance and cash flows for the year then ended.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing for Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of YTO Company in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities of the code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (CONTINUED)

3. KEY AUDIT MATTERS

Key audit matters are those matters that we consider, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our audit opinion thereon, and we do not express a separate opinion on these matters.

The key audit matter identified by us in the audit was the net realizable value of the goods in process and merchandise inventories:

Key Audit Matter	Response measures in the audit
<p><i>Net realizable value of goods in process and merchandise inventories</i></p> <p>YTO Company mainly engages in the research and development, manufacturing and sales of products such as agricultural machinery and power machinery. The main products are tractors, diesel engines and key components. Inventories are measured at the lower of cost and net realizable value.</p> <p>Please refer to the Note VI.10 Inventories of the financial statements. The book balance of inventories on December 31, 2016 was RMB1,104.2428 million, with the accrued falling price reserves of RMB89.5288 million, and the net book value of RMB1,014.714 million.</p> <p>The net realizable value is determined by deducting the costs estimated to incur to the completion, the estimated sales costs and the related taxes and fees from the estimated selling price of finished products manufactured. The management needs to use the critical judgment when determining the estimated sales price, and comprehensively considers the historical selling price and the changing tendency of the future market.</p> <p>Because such item involves a significant amount and needs the management to make a significant judgment, we take such item as the key audit matter.</p>	<p>Performed an evaluation on the design and implementation of the internal control system related to the inventory of YTO Company;</p> <p>Performed the observation on the inventory stock counting of YTO Company, and inspected the information such as quantity and condition of the inventories;</p> <p>Obtained the year end stock aging list of YTO Company. Combining with status of products, performed the analytical review on the inventories with a relatively long stock aging, and analyzed whether the inventory falling price reserves were reasonable;</p> <p>Obtained the calculation sheet of inventory falling price reserves of YTO Company. Performed the inventory impairment test. Inspected whether the Company performed according to the relevant accounting policies of YTO Company. Inspected the information such as the current year change situation of the inventory falling price reserves accrued in prior years. Analyzed whether the accrual of inventory falling price reserves was sufficient;</p> <p>For a part of the inventories sold after December 31, 2016, we performed the sampling test, and compared the actual selling price of the samples with the estimated selling price;</p> <p>We performed an evaluation on the rationality of the management by comparing and analyzing the costs still need to incur to the completion of the goods in process of the similar kind.</p> <p>The evidence we obtained can support the judgment made by the management in determining the net realizable value.</p>



FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (CONTINUED)

4. OTHER INFORMATION

The management of YTO Company is responsible for the other information. The other information comprises the information included in the YTO Company 2016 annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information. We are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation; and designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing YTO Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate YTO Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible to overseeing YTO Company's financial reporting process.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

During the course of audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism. We also carry out the following works:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (CONTINUED)

- (2) Obtain an understanding of internal control relevant to the audit in order to design the appropriate audit procedures.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on YTO Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we shall modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause YTO Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and also whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient and appropriate audit evidence on the financial information of the entities or business activities of YTO Company in order to express the audit opinion on the financial statements. We are responsible for directing, supervising and performing the group audit, and assume the full responsibility for the audit opinion.

We communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings etc., (including any significant deficiencies in internal control that we identify during our audit).

We also provide those charged with governance with a statement that we have complied with those relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and related safeguards, where applicable.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation prohibited public disclosure about the matter or when, in rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ShineWing Certified Public Accountants
(Limited Liability Partnership)

Beijing, China

Chinese Certified Public Accountant: **Ma, Chuanjun**
(Audit Partner)

Chinese Certified Public Accountant: **Song, Gang**

March 28, 2017



CONSOLIDATED BALANCE SHEET

As at December 31, 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Note	Ending balance	Beginning balance
Current assets:			
Cash and cash equivalents	VI.1	3,261,735,812.98	1,897,794,077.61
Settlement reserves for balance			
Loans to banks and other financial institutions			
Financial assets measured at fair value and its movement recorded through profit and loss	VI.2	62,657,466.94	414,865,981.64
Derivative financial assets	VI.3	14,833,000.00	0.00
Notes receivable	VI.4	554,932,731.17	629,595,676.71
Accounts receivable	VI.5	674,313,323.03	846,592,058.32
Advances to suppliers	VI.6	143,734,037.70	60,933,298.85
Premium receivables			
Reinsurance receivables			
Reinsurance contract reserves receivable			
Interest receivable	VI.7	12,027,545.45	1,878,611.11
Dividend receivable			
Other receivables	VI.8	104,926,297.50	67,644,192.90
Financial assets purchased with agreement to re-sale	VI.9	354,848,615.72	899,544,776.20
Inventories	VI.10	1,014,713,967.01	1,168,906,538.26
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	VI.11	1,412,930,377.64	468,428,422.33
Total current assets		<u>7,611,653,175.14</u>	<u>6,456,183,633.93</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Non-current assets:			
Loans and advances to customers	VI.12	748,364,409.66	1,859,617,637.45
Available-for-sale financial assets	VI.13	235,733,900.15	259,434,541.41
Held-to-maturity investments	VI.14	58,352,738.68	0.00
Long-term receivables			
Long-term equity investments	VI.15	149,098,999.76	150,640,194.51
Investment properties			
Fixed assets	VI.16	2,970,855,427.52	2,866,761,443.98
Construction in progress	VI.17	376,823,261.61	613,389,411.85
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	VI.18	896,641,004.79	922,350,120.29
Research and development expenses	VI.19	0.00	0.00
Goodwill	VI.20	0.00	0.00
Long-term deferred expenditures	VI.21	40,223,194.44	34,047,868.91
Deferred tax assets	VI.22	122,767,169.68	110,024,707.65
Other non-current assets			
Total non-current assets		<u>5,598,860,106.29</u>	<u>6,816,265,926.05</u>
Total assets		<u>13,210,513,281.43</u>	<u>13,272,449,559.98</u>



CONSOLIDATED BALANCE SHEET (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Current liabilities:			
Short-term loans	VI.23	1,579,448,510.67	1,938,954,945.26
Borrowings from central bank			
Receipts of deposits and deposits from other banks	VI.24	588,286,840.09	527,213,699.13
Loans from other banks	VI.25	250,000,000.00	350,000,000.00
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable	VI.26	1,417,113,769.49	1,299,804,364.19
Accounts payable	VI.27	1,384,168,457.64	1,526,746,992.98
Advance from customers	VI.28	199,663,201.54	303,082,198.22
Funds from selling out and repurchasing financial assets			
Fee and commission payable			
Employee salary payable	VI.29	105,911,905.79	102,912,994.81
Taxes payables	VI.30	25,426,038.74	-347,088,631.55
Interests payable	VI.31	55,151,085.52	53,716,956.57
Dividends payable			
Other payables	VI.32	257,257,848.82	242,762,492.73
Reinsurance accounts payables			
Reserves for insurance contracts			
Brokerage for trading securities			
Brokerage for consigning securities			
Liabilities classified as held for sale			
Non-current liabilities due within one year	VI.33	34,422,532.04	32,395,168.40
Other current liabilities	VI.34	93,369,345.75	98,038,848.99
Total current liabilities		5,990,219,536.09	6,128,540,029.73

CONSOLIDATED BALANCE SHEET (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Non-current liabilities:			
Long-term loans	VI.35	9,133,500.00	26,607,000.00
Bonds payable	VI.36	1,496,694,996.06	1,494,277,758.19
Including: Preference shares			
Perpetual bond			
Long-term payables			
Long-term employee salary payable			
Special payables			
Provisions			
Deferred income	VI.37	176,628,594.78	184,932,985.40
Deferred tax liabilities	VI.22	34,198,365.33	39,507,239.32
Other non-current liabilities			
Total non-current liabilities		<u>1,716,655,456.17</u>	<u>1,745,324,982.91</u>
Total liabilities		<u>7,706,874,992.26</u>	<u>7,873,865,012.64</u>



CONSOLIDATED BALANCE SHEET (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Shareholder's equity:			
Share capital	VI.38	995,900,000.00	995,900,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bond			
Capital reserves	VI.39	2,126,685,588.57	2,124,246,289.70
Less: Treasury shares	VI.40	19,140,912.00	0.00
Other comprehensive income	VI.41	-2,685,750.24	9,734,262.44
Special reserves	VI.42	4,485,866.00	2,441,385.29
Surplus reserves	VI.43	423,908,219.34	389,744,226.05
General risk reserves	VI.44	10,774,059.81	8,819,548.63
Retained earnings	VI.45	1,289,413,464.37	1,142,994,139.49
Total equity attributable to shareholders of the Company		<u>4,829,340,535.85</u>	<u>4,673,879,851.60</u>
Minority interests	VI.46	<u>674,297,753.32</u>	<u>724,704,695.74</u>
Total shareholder's equity		<u>5,503,638,289.17</u>	<u>5,398,584,547.34</u>
Total liabilities and shareholder's equity		<u>13,210,513,281.43</u>	<u>13,272,449,559.98</u>

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

BALANCE SHEET OF THE PARENT COMPANY

As at December 31, 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Note	Ending balance	Beginning balance
Current assets:			
Cash and cash equivalents	XV.1	2,332,459,180.15	2,641,377,805.70
Financial assets measured at fair value and its movement recorded through profit and loss			
Derivative financial assets	XV.2	14,833,000.00	0.00
Notes receivable	XV.3	143,070,848.93	160,330,666.21
Accounts receivable	XV.4	647,872,610.08	786,820,250.06
Advances to suppliers	XV.5	265,250,773.93	125,952,346.17
Interests receivable	XV.6	5,782,316.41	5,026,297.48
Dividends receivable	XV.7	0.00	4,910,000.00
Other receivables	XV.8	9,714,113.36	21,157,333.66
Inventories	XV.9	471,316,763.14	635,262,051.21
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	XV.10	1,129,216,874.12	545,688,872.91
Total current assets		5,019,516,480.12	4,926,525,623.40



BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Non-current assets:			
Available-for-sale financial assets	XV.11	127,021,500.00	148,318,000.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XV.12	2,807,650,845.03	3,110,401,363.95
Investment properties			
Fixed assets	XV.13	1,617,355,502.09	1,452,487,773.35
Construction in progress	XV.14	249,165,495.36	494,736,372.32
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	XV.15	554,742,502.20	570,647,987.35
Research and development expenses	XV.16	0.00	0.00
Goodwill			
Long-term deferred expenditures	XV.17	36,748,015.17	31,799,571.67
Deferred tax assets	XV.18	20,276,789.40	16,464,738.92
Other non-current assets			
Total non-current assets		<u>5,412,960,649.25</u>	<u>5,824,855,807.56</u>
Total assets		<u>10,432,477,129.37</u>	<u>10,751,381,430.96</u>

BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Current liabilities:			
Short-term loans	XV.19	1,393,700,000.00	1,953,532,480.00
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			
Notes payable	XV.20	1,160,974,722.95	1,271,660,254.35
Accounts payable	XV.21	850,915,338.66	1,053,676,797.99
Advance from customers	XV.22	118,528,607.00	131,835,905.09
Employee salary payables	XV.23	41,532,696.11	36,318,471.38
Taxes payable	XV.24	6,726,459.77	-306,489,816.89
Interests payable	XV.25	54,564,051.15	52,990,678.02
Dividends payables			
Other payables	XV.26	152,170,170.20	160,626,647.15
Liabilities classified as held for sale			
Non-current liabilities due within one year	XV.27	30,767,363.64	24,882,000.00
Other current liabilities	XV.28	13,304,237.40	7,922,339.20
Total current liabilities		3,823,183,646.88	4,386,955,756.29



BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Non-current liabilities:			
Long-term loans	XV.29	9,133,500.00	26,607,000.00
Bonds payable	XV.30	1,496,694,996.06	1,494,277,758.19
Including: Preferred shares			
Perpetual bond			
Long-term payables			
Long-term employee salary payable			
Special payables			
Provisions			
Deferred income	XV.31	113,239,856.95	119,031,862.41
Deferred tax liabilities	XV.18	1,764,770.45	4,157,427.27
Other non-current liabilities			
Total non-current liabilities		<u>1,620,833,123.46</u>	<u>1,644,074,047.87</u>
Total liabilities		<u>5,444,016,770.34</u>	<u>6,031,029,804.16</u>

BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

As at December 31, 2016

Item	Note	Ending balance	Beginning balance
Shareholder's equity:			
Share capital	XV.32	995,900,000.00	995,900,000.00
Other equity instruments			
Including: Preference shares			
Perpetual bond			
Capital reserves	XV.33	2,018,025,662.91	2,018,025,662.91
Less: Treasury shares	XV.34	19,140,912.00	0.00
Other comprehensive income	XV.35	10,000,365.91	23,558,754.55
Special reserves	XV.36	0.00	0.00
Surplus reserves	XV.37	349,414,935.51	315,250,942.22
Retained earnings	XV.38	1,634,260,306.70	1,367,616,267.12
Total shareholder's equity		<u>4,988,460,359.03</u>	<u>4,720,351,626.80</u>
Total liabilities and shareholder's equity		<u>10,432,477,129.37</u>	<u>10,751,381,430.96</u>

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan



CONSOLIDATED INCOME STATEMENT

For the year of 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Note	This year	Last year
1. Total operating revenue		8,871,153,114.15	9,655,491,061.08
Including: Operating revenue	VI.50	8,687,502,227.41	9,299,840,739.37
Interest income	VI.51	183,205,912.89	355,264,578.40
Earned insurance premiums			
Fees and commission income	VI.52	444,973.85	385,743.31
2. Total cost of operation		8,717,909,468.82	9,580,721,409.54
Including: Cost of operation	VI.50	7,088,783,071.84	7,617,420,810.89
Interest expenses	VI.51	55,437,794.90	243,810,083.69
Fees and commission expense	VI.52	356,453.59	452,274.93
Refunded premiums			
Net amount of compensation payout			
Net amount of reserves for reinsurance contract			
Policy dividend payment			
Reinsurance expenses			
Taxes and surcharges	VI.53	44,525,763.68	33,623,299.94
Selling and distribution expenses	VI.54	441,566,712.01	446,334,564.36
Administrative expenses	VI.55	913,876,338.90	933,468,993.96
Financial expenses	VI.56	86,073,671.32	147,304,923.93
Loss on impairment of assets	VI.57	87,289,662.58	158,306,457.84
Add: Gain arising from the changes in fair value (Loss listed with "-")	VI.58	15,243,438.25	3,009,536.29
Investment income (Loss listed with "-")	VI.59	74,235,860.45	95,364,775.28
Including: Income from investments in associates and joint ventures		8,712,098.59	2,498,121.25
Exchange gain (Loss listed with "-")			
3. Operating profit (Loss listed with "-")		242,722,944.03	173,143,963.11
Add: Non-operating income	VI.60	51,763,953.91	59,808,311.35
Including: Gain from disposal of non-current assets		1,008,437.99	908,287.65
Less: Non-operating expenses	VI.61	14,391,469.67	11,274,661.44
Including: Loss on disposal of non-current assets		10,174,400.44	4,412,254.29

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year of 2016

Item	Note	This year	Last year
4. Total profit (Loss listed with "-")		280,095,428.27	221,677,613.02
Less: Income tax expenses	VI.62	54,210,189.22	82,623,352.12
5. Net profit (Net loss listed with "-")		225,885,239.05	139,054,260.90
Net profit attributable to owners of the company		223,369,729.35	135,322,811.53
Non-controlling interest		2,515,509.70	3,731,449.37
6. Net other comprehensive income after tax	VI.67	-11,524,350.45	-7,172,820.86
Net other comprehensive income after tax attributable to owners of the company		-12,420,012.68	-6,561,478.76
(1) Other comprehensive income that can not be reclassified to profit and loss in subsequent periods			
1. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans			
2. Share of other comprehensive income of investee that will not be subsequently reclassified to profit and loss under equity method			
(2) Other comprehensive income that will be subsequently reclassified to profit and loss		-12,420,012.68	-6,561,478.76
1. Share of other comprehensive income of investee that will be subsequently reclassified to profit and loss under equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets		-15,369,818.14	-17,442,385.10
3. Gains and losses from held-to-maturity investment reclassified as available-for-sale financial assets			
4. Effective part of hedging gains and losses from cash flows			
5. Exchange differences from retranslation of financial statements		2,949,805.46	10,880,906.34
6. Others			
Net other comprehensive income after tax attributable to minority interests		895,662.23	-611,342.10
7. Total comprehensive income		214,360,888.60	131,881,440.04
Total comprehensive income attributable to shareholders of the parent company		210,949,716.67	128,761,332.77
Total comprehensive income attributable to minority interests		3,411,171.93	3,120,107.27
8. Earnings per share:			
(1) Basic earnings per share	VI.66	0.2245	0.1359
(2) Diluted earnings per share	VI.66	0.2245	0.1359

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan



INCOME STATEMENT OF THE PARENT COMPANY

For the year of 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Note	This year	Last year
1. Operating revenue	XV.42	6,430,804,013.27	6,763,127,047.38
Less: Cost of operation	XV.42	5,565,895,194.15	5,827,381,298.18
Taxes and surcharges	XV.43	13,102,602.76	2,149,436.50
Selling and distribution expenses	XV.44	56,407,629.75	49,869,488.48
Administrative expenses	XV.45	544,423,265.62	575,175,365.96
Financial expenses	XV.46	42,701,828.24	108,332,165.67
Loss on impairment of assets	XV.47	-7,855,381.90	86,400,301.02
Add: Gain arising from the changes in fair value (Loss listed with "-")	XV.48	14,833,000.00	0.00
Investment income (Loss listed with "-") Including: Gain from investments in associates and joint ventures	XV.49	118,826,049.09	96,961,107.60
		8,772,257.32	2,771,106.81
2. Operating profit (Loss listed with "-")		349,787,923.74	210,780,099.17
Add: Non-operating income	XV.50	23,928,709.17	18,311,443.92
Including: Gain from disposal of non-current assets		367,705.01	742,433.96
Less: Non-operating expenses	XV.51	13,402,382.80	2,298,866.46
Including: Loss from disposal of non-current assets		9,891,815.08	1,855,018.39
3. Total profit (Total loss listed with "-")		360,314,250.11	226,792,676.63
Less: Income tax expenses	XV.52	18,674,317.24	19,078,901.69
4. Net profit (Net loss listed with "-")		341,639,932.87	207,713,774.94

CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the year of 2016

Item	Note	This year	Last year
5. Net other comprehensive income after tax	XV.56	-13,558,388.64	-13,977,245.45
(1) Other comprehensive income that can not be reclassified to profit and loss in subsequent periods			
1. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans			
2. Share of other comprehensive income of investee that will not be subsequently reclassified to profit and loss under equity method			
(2) Other comprehensive income that will be subsequently reclassified to profit and loss		-13,558,388.64	-13,977,245.45
1. Share of other comprehensive income of investee that will be subsequently reclassified to profit and loss under equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets		-13,558,388.64	-13,977,245.45
3. Gains and losses from held-to-maturity investment reclassified as available-for-sale financial assets			
4. Effective part of hedging gains and losses from cash flows			
5. Exchange differences from retranslation of financial statements			
6. Others			
6. Total comprehensive income		328,081,544.23	193,736,529.49

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan



CONSOLIDATED CASH FLOW STATEMENT

For the year of 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Note	This year	Last year
1. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		9,449,607,124.08	10,159,448,631.12
Net increase in deposits from customers and deposits from other banks		61,073,140.96	-49,032,642.15
Net increase in loans from central bank			
Net increase in loans from other financial institutions		-100,000,000.00	0.00
Cash receipts of premium of direct insurance contracts			
Net cash received from reinsurance contracts			
Net increase in deposits from insurance policy holders and investment			
Net increase in disposal of financial assets at fair value through profit and loss			
Cash receipts of interest, fees and commission		173,501,952.40	353,905,182.82
Net increase in placement from banks and other financial institution			
Net increase in sales and repurchase operations		543,426,794.55	-897,369,493.18
Cash received from taxes refund		33,593,473.23	55,853,125.40
Cash received relating to other operating activities	VI.68	76,256,639.30	89,960,837.82
Sub-total of cash inflows from operating activities		10,237,459,124.52	9,712,765,641.83
Cash paid for goods and services		6,809,240,522.03	6,153,518,040.32
Net increase in loans and disbursement to customers		-733,611,644.67	422,637,379.77
Net increase in deposit with central bank and inter-banks		1,639,051.38	-44,014,692.06
Cash paid for claims of direct insurance contracts			
Cash paid for interest, fee and commission		56,291,045.61	244,124,019.22
Cash paid for dividends of insurance policies			
Cash paid to and on behalf of employees		1,235,418,041.24	1,231,694,475.04
Payments of taxes and surcharges		252,791,644.77	324,665,856.57
Cash paid relating to other operating activities	VI.68	522,515,747.72	742,344,842.79
Sub-total of cash outflows from operating activities		8,144,284,408.08	9,074,969,921.65
Net cash flows from operating activities		2,093,174,716.44	637,795,720.18

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year of 2016

Item	Note	This year	Last year
2. Cash flows from investment activities:			
Cash received from return of investments		25,128,376.76	8,455,816.13
Cash received from investments income		53,303,801.96	110,152,104.83
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,731,156.62	171,965,083.80
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities	VI.68	12,054,000.00	24,480,000.00
Sub-total of cash inflows from investing activities		93,217,335.34	315,053,004.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets		217,836,833.22	410,751,381.82
Cash paid for investments		355,369,025.13	547,303,456.57
Net increase in pledged deposits			
Net cash paid to acquire subsidiaries and other business units			
Cash paid relating to other investing activities	VI.68	200,000,000.00	-
Sub-total of cash outflow from investing activities		773,205,858.35	958,054,838.39
Net cash flows from investing activities		-679,988,523.01	-643,001,833.63
3. Cash flows from financing activities			
Cash received from investment absorption Including: Cash received by subsidiaries from investment absorption of minority interest			
Cash received from loans granted		1,628,696,680.00	1,627,890,025.00
Cash received from issue of bonds			
Cash received relating to other financing activities			
Sub-total of cash inflows from financing activities		1,628,696,680.00	1,627,890,025.00
Cash paid for settlement of borrowings		1,663,110,370.00	1,455,543,010.00
Cash paid for dividends, profits appropriation or payments of interest		167,969,486.51	183,040,452.77
Including: Dividends and profits paid to minority interests		8,516,310.10	6,075,589.00
Cash paid relating to other financing activities	VI.68	19,140,912.00	0.00
Sub-total of cash outflows from financing activities		1,850,220,768.51	1,638,583,462.77
Net cash flows from financing activities		-221,524,088.51	-10,693,437.77



CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year of 2016

Item	Note	This year	Last year
4. Effect of changes in foreign exchange rate on cash and cash equivalents		12,358,275.24	-43,717,189.67
5. Net increase in cash and cash equivalents		1,204,020,380.16	-59,616,740.89
Add: Cash and cash equivalents at the beginning of the year		1,690,285,427.32	1,749,902,168.21
6. Cash and cash equivalents at the end of the year		2,894,305,807.48	1,690,285,427.32

Legal Representative:

Zhao, Yanshui

Chief Financial Officer:

Yao, Weidong

Accounting Manager:

Zhou, Juan

CASH FLOW STATEMENT OF THE PARENT COMPANY

For the year of 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Note	This year	Last year
1. Cash flows from operating activities			
Cash received from sales of goods and rendering of services		7,485,919,700.60	7,275,802,028.13
Cash received from taxes refund		1,910,243.20	5,545,518.31
Cash received relating to other operating activities	XV.57	24,502,526.50	74,199,048.11
Sub-total of cash inflows from operating activities		7,512,332,470.30	7,355,546,594.55
Cash paid for goods and services		6,198,905,787.03	4,956,914,182.90
Cash paid to and on behalf of employees		639,417,307.20	620,760,695.92
Payments of taxes and surcharges		57,820,576.40	57,769,173.38
Cash paid relating to other operating activities	XV.57	109,356,279.54	551,820,995.90
Sub-total of cash outflows from operating activities		7,005,499,950.17	6,187,265,048.10
Net cash flows from operating activities		506,832,520.13	1,168,281,546.45
2. Cash flows from investing activities			
Cash received from return of investments		730,157,238.85	137,078,181.82
Cash received from investments income		188,492,832.64	136,614,571.96
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,651,313.62	167,786,100.94
Net cash received from disposal of subsidiaries and other business units			
Cash received relating to other investing activities			
Sub-total of cash inflows from investing activities		920,301,385.11	441,478,854.72
Cash paid to acquire fixed assets, intangible assets and other long-term assets		116,561,872.35	278,698,100.64
Cash paid for investments		700,738,012.00	632,014,886.92
Net cash paid to acquire subsidiaries and other business units			
Cash paid relating to other investing activities	XV.57	200,000,000.00	0.00
Sub-total of cash outflows from investing activities		1,017,299,884.35	910,712,987.56
Net cash flows from investing activities		-96,998,499.24	-469,234,132.84



CASH FLOW STATEMENT OF THE PARENT COMPANY (CONTINUED)

For the year of 2016

Item	Note	This year	Last year
3. Cash flows from financing activities			
Cash received from investment absorption			
Cash received from loans granted		1,567,030,000.00	1,870,116,900.00
Cash received from issue of bonds			
Cash received relating to other financing activities			
Sub-total of cash inflows from financing activities		1,567,030,000.00	1,870,116,900.00
Cash paid for settlement of borrowings		2,175,739,670.00	1,494,722,210.00
Cash paid for dividends, profits appropriation or payments of interest		150,617,400.61	186,867,523.41
Cash paid relating to other financing activities	XV.57	19,140,912.00	0.00
Sub-total of cash outflows from financing activities		2,345,497,982.61	1,681,589,733.41
Net cash flows from financing activities		-778,467,982.61	188,527,166.59
4. Effect of changes in foreign exchange rate on cash and cash equivalents		927,610.46	-39,829,583.82
5. Net increase in cash and cash equivalents		-367,706,351.26	847,744,996.38
Add: Cash and cash equivalents at the beginning of the year		2,246,586,151.42	1,398,841,155.04
6. Cash and cash equivalents at the end of the year		1,878,879,800.16	2,246,586,151.42

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

For the Year 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	Equity attributable to the shareholders of the parent company										Total shareholder's equity			
	Share capital	Preference shares	Perpetual bond	Others	Capital reserves	Treasury shares	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves		General risk reserves	Retained earnings	Minority interests
1. Ending balance of last year	995,900,000.00				2,124,246,289.70	0.00	0.00	9,734,262.44	2,441,365.29	369,744,226.05	8,819,548.63	1,142,994,139.49	724,704,695.74	5,398,594,547.34
Add: Changes in accounting policies														
Correction of prior periods errors														
Business combination under common control														
Others														
2. Beginning balance of current year	995,900,000.00				2,124,246,289.70	0.00	0.00	9,734,262.44	2,441,365.29	369,744,226.05	8,819,548.63	1,142,994,139.49	724,704,695.74	5,398,594,547.34
3. Increase/Decrease for the year (Decrease listed with "-")					2,439,288.87	19,140,912.00	-12,420,012.68	2,044,480.71	34,163,993.29	1,954,511.18	1,954,511.18	146,419,324.88	-50,406,942.42	105,063,741.83
(1) Total comprehensive income							-12,420,012.68	2,044,480.71	34,163,993.29	1,954,511.18	1,954,511.18	146,419,324.88	-50,406,942.42	105,063,741.83
(2) Contribution and withdrawal of capital by shareholders														
1. Ordinary shares contributed by shareholders						19,140,912.00								
2. Equity contributed by holders of other equity instruments														
3. Share-based payments recognized in equity														
4. Others														
(3) Profit appropriations														
1. Appropriation to surplus reserves														
2. Appropriation to general risks reserves														
3. Appropriation to equity holders (for shareholders)														
4. Others														
(4) Internal transfer of shareholder's equity														
1. Transfer of capital reserve to share capital														
2. Transfer of surplus reserves to share capital														
3. Surplus reserves making up of losses														
4. Others														
(5) Special reserves														
1. Current year appropriation														
2. Current year write-off														
(6) Others														
4. Ending balance of current year	995,900,000.00				2,126,685,578.57	19,140,912.00	-2,685,750.24	4,485,846.00	423,908,219.34	10,774,059.81	1,289,419,464.37	674,297,753.32	5,503,688,289.17	
								2,044,480.71	2,339,877.33	295,506.62	2,339,877.33	1,462,994.46	18,755,532.21	
								17,292,537.75	1,462,994.46	1,462,994.46	18,755,532.21	-1,167,467.84	-16,415,544.88	
								-15,246,057.04						



CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (CONTINUED)

For the Year 2016

Item	Equity attributable to the shareholders of the parent company										Total shareholder's equity			
	Share capital	Preference shares	Perpetual bond	Other equity instruments	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves		General risk reserves	Retained earnings	Minority interests
1. Ending balance of last year	985,900,000.00				2,124,246,289.70			16,295,741.20	0.00	388,972,846.56	7,683,706.66	1,080,369,447.42	727,358,866.64	5,320,826,900.18
Add: Changes in accounting policies														
Correction of prior periods errors														
Business combination under common control														
Others														
2. Beginning balance of current year	985,900,000.00				2,124,246,289.70			16,295,741.20	0.00	388,972,846.56	7,683,706.66	1,080,369,447.42	727,358,866.64	5,320,826,900.18
3. Increase/Decrease for the year (Decrease listed with "-")														
(1) Total comprehensive income								-6,561,478.76	2,441,385.29	20,771,377.49	1,135,841.97	62,624,692.07	-2,654,170.90	77,757,647.16
(2) Contribution and withdrawal of capital by shareholders								-6,561,478.76				135,922,811.53	3,120,107.27	131,881,440.04
1. Ordinary shares contributed by shareholders														
2. Equity contributed by holders of other equity instruments														
3. Share-based payments recognized in equity														
4. Others														
(3) Profit appropriations														
1. Appropriation to surplus reserves										20,771,377.49	1,135,841.97	-72,698,119.46	-6,075,589.00	-56,866,489.00
2. Appropriation to general risks reserves										20,771,377.49		-20,771,377.49		0.00
3. Appropriation to equity holders (for shareholders)											1,135,841.97	-1,135,841.97		0.00
4. Others														
(4) Internal transfer of shareholder's equity														
1. Transfer of capital reserve to share capital														
2. Transfer of surplus reserves to share capital														
3. Surplus reserves making up of losses														
4. Others														
(5) Special reserves														
1. Current year appropriation														
2. Current year write-off														
(6) Others														
4. Ending balance of current year	985,900,000.00				2,124,246,289.70			9,734,262.44	2,441,385.29	389,744,226.05	8,819,546.63	1,142,994,139.49	724,704,695.74	5,398,594,547.34

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY OF THE PARENT COMPANY

For the Year 2016

Prepared by: First Tractor Company Limited

Unit: RMB

Item	This year						Total shareholder's equity				
	Share capital	Preference shares	Perpetual bond	Others	Capital reserves	Less: Treasury shares		Other comprehensive income	Special reserves	Surplus reserves	Retained earnings
1. Ending balance of last year	995,900,000.00				2,018,025,662.91	0.00	23,558,754.55	0.00	315,250,942.22	1,367,616,267.12	4,720,351,626.80
Add: Changes in accounting policies											
Correction of prior periods errors											
Others											
2. Beginning balance of current year	995,900,000.00				2,018,025,662.91	0.00	23,558,754.55	0.00	315,250,942.22	1,367,616,267.12	4,720,351,626.80
3. Increase/Decrease for the year (Decrease listed with "-")						19,140,912.00	-13,558,388.64	0.00	34,163,993.29	266,644,039.58	268,108,732.23
(1) Total comprehensive income							-13,558,388.64				
(2) Contribution and withdrawal of capital by shareholders						19,140,912.00					
1. Ordinary shares contributed by shareholders											
2. Equity contributed by holders of other equity instruments											
3. Share-based payments recognized in equity											
4. Others						19,140,912.00					
(3) Profit appropriations									34,163,993.29	-74,965,863.29	-40,831,900.00
1. Appropriation to surplus reserves											
2. Appropriation to shareholders											
3. Others											
(4) Internal transfer of shareholder's equity											
1. Transfer of capital reserve to share capital											
2. Transfer of surplus reserves to share capital											
3. Surplus reserves making up of losses											
4. Others											
(5) Special reserves											
1. Current year appropriation								7,781,563.52			7,781,563.52
2. Current year write-off								-7,781,563.52			-7,781,563.52
(6) Others											
4. Ending balance of current year	995,900,000.00				2,018,025,662.91	19,140,912.00	10,000,365.91	0.00	349,414,935.51	1,634,260,306.70	4,988,460,359.03



STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY OF THE PARENT COMPANY (CONTINUED)

For the Year 2016

Item	Other equity instruments					Less: Treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Total shareholder's equity
	Share capital	Preference shares	Perpetual bond	Others	Capital reserves						
1. Ending balance of last year	985,900,000.00			2,018,025,682.91	2,018,025,682.91		37,536,000.00	0.00	294,479,564.73	1,231,464,769.67	4,577,405,997.31
Adj.: Changes in accounting policies											
Correction of prior periods errors											
Others											
2. Beginning balance of current year	985,900,000.00			2,018,025,682.91	2,018,025,682.91		37,536,000.00	0.00	294,479,564.73	1,231,464,769.67	4,577,405,997.31
3. Increase/Decrease for the year (Decrease listed with "-")											
(1) Total comprehensive income							-13,977,245.45	0.00	20,771,377.49	136,151,497.45	142,945,629.49
(2) Contribution and withdrawal of capital by shareholders							-13,977,245.45	0.00	20,771,377.49	207,713,774.94	193,736,529.49
1. Ordinary shares contributed by shareholders											
2. Equity contributed by holders of other equity instruments											
3. Share-based payments recognized in equity											
4. Others											
(3) Profit appropriations									20,771,377.49	-71,562,277.49	-50,790,900.00
1. Appropriation to surplus reserves									20,771,377.49	-20,771,377.49	0.00
2. Appropriation to shareholders											
3. Others											
(4) Internal transfer of shareholder's equity											
1. Transfer of capital reserve to share capital											
2. Transfer of surplus reserves to share capital											
3. Surplus reserves making up of losses											
4. Others											
(5) Special reserves											
1. Current year appropriation											7,690,187.75
2. Current year write-off											-7,690,187.75
(6) Others											
4. Ending balance of current year	985,900,000.00			2,018,025,682.91	2,018,025,682.91		23,558,754.55	0.00	315,250,942.22	1,367,616,267.12	4,720,351,626.80

Chief Financial Officer:
Yao, WeidongAccounting Manager:
Zhou, JuanLegal Representative:
Zhao, Yanshui

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

I. GENERAL INFORMATION OF THE COMPANY

First Tractor Company Limited (referred hereunder as the “Company”; the Company together with its subsidiaries are referred as the “Group”) is a limited company located in People’s Republic of China and established on May 8, 1997. The Company took over the principle business on tractor manufacturing and the corresponding assets and liabilities of YTO Group Corporation (referred hereunder as the “YTO Group”), with the net assets of RMB636,346,000 equivalent to 450,000,000 state-owned corporation shares held by the Company, according to the reorganization plan effective from December 31, 1996. Thereafter, the Company issues 335,000,000 H shares (par value: RMB1) under approval and the issuance resulted in the increase registered and paid-up share capital of the Company to RMB785,000,000. The Company has been listed in Hong Kong Exchanges and Clearing Limited (“HKEx”) since June 23, 1997. On October 24, 2007, the Company allotted 60,900,000 H shares with the price of HKD3.95/share, which increased the registered and paid-up share capital of the Company to RMB845,900,000.

According to the Permission [2012] No. 736 of China Securities Regulatory Commission, the Company was approved to publicly issue RMB common stocks not exceeding 150,000,000 shares, and the Company actually issued 150,000,000 shares with the issue price of RMB5.40/share on July 27, 2012. The total proceeds from the issuance of shares was received by the Company on August 1, 2012. The Company was listed and started to trade in Shanghai Stocks Exchange on August 8, 2012. The registered and paid-up share capital of the Company had increased to RMB995,900,000.

On May 27, 2016, the 2015 annual general meeting, the first meeting of 2016 A share class shareholders’ meeting, and the first meeting of 2016 H share class shareholders’ meeting held by the Company reviewed and approved ‘The bill about the general authorization of repurchasing part of the H shares’. According to the authorization, on July 12, 2016, the seventh meeting of the board of directors of the fifth meeting of the Company reviewed and agreed to establish the executive committee of H share repurchase to decide the specific repurchase proposal, and to implement the H share repurchase on July 19, 2016. By December 31, 2016, the total number of H shares repurchased by the Company was 5,122,000 shares, accounting for the 1.2742% of the total number of H shares held by the Company, and accounting for the 0.5143% of the total share capital of the Company. The cumulative total amount of the repurchase funds paid was RMB19,140,912.00 (HKD21,833,676.72).

The business license registration number of the Company is 410000400013049. The registered address is No. 154 Construction Road, Luoyang, Henan Province. The legal representative is Zhao, Yanshui. The Company is in agricultural machinery manufacturing industry; its business scope mainly includes manufacturing and selling agricultural machineries, diesel engines and fuel injections, other machineries and operating business of finance company.

The direct controlling shareholder of the Company is YTO Group Corporation (referred hereunder as the “YTO Group”) and the ultimate controlling party of the Company is China National Machinery Industry Corporation (referred hereunder as the “SinoMach Group”). Both of the two companies are companies registered and established in China.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

II. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company include First Tractor Company Limited, YTO (Luoyang) Diesel Engine Co., Ltd., Luoyang Changxing Agricultural Machinery Co., Ltd., YTO Finance Company Limited, and other 28 companies. Compared with the results of the last year, in this year, due to the absorption merger by YTO (Luoyang) Diesel Engine Co., Ltd to merge YTO (Luoyang) Power Machinery Co., Ltd, the number of subsidiaries is decreased by one company. See the details in the Notes “VII. Changes in scope of consolidation”.

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1. Basis of preparation

Based on the going-concern assumption and transactions and events actually incurred, the consolidated financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises by the Ministry of Finance of the PRC, No. 15 Information Disclosures Regulations for Companies Offering Shares in Public – General Rules of Preparing Financial Reports (revised in 2014) issued by China Securities Regulatory Commission (CSRC), disclosure requirements by Rules Governing the Listing of Securities issued by Hong Kong Stock Exchange and Companies Ordinance, and “IV. Principal accounting policies and accounting estimates” of this Notes.

2. Going concern

The Group has a history of generating profit from operation recently and has the support of financial resources. The determination that the financial statements are prepared based on going concerns is reasonable and in conformity with the actual operation of the Group.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of compliance of Accounting Standards for Business Enterprises

The 2016 financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (ASBEs), and present truly and completely the consolidated and the financial position of the Company as at December 31, 2016 and their financial performance and cash flows and other related information.

Given the fact that Chinese ASBEs are equivalent to Hong Kong Financial Reporting Standards (HKFRSs), the Hong Kong Securities and Futures Commission and the Hong Kong Stock Exchange have both accepted financial statements prepared by Hong Kong listed companies originally from mainland China in accordance to the Chinese ASBEs and audited by accounting firms based in mainland China with relevant qualifications. Approved by the 2014 second extraordinary Shareholders Meeting of the Company on October 31, 2014, the Group no longer prepares financial statements under both ASBEs and HKFRSs from the reporting year of 2014. Only the financial statements prepared in accordance to the Chinese ASBEs will be provided to shareholders of A shares and H shares of the Company.

2. Accounting year

The accounting year of the Group is from January 1 to December 31 of each calendar year.

3. Operating cycle

The operating cycle of the Group is 12 months.

4. Recording currency

The recording currency of the Group is Renminbi (RMB). Its subsidiaries, associates and joint operators determine their own recording currency according to their main economic environment.

The Group applies Renminbi (RMB) as the recording currency for the preparation of the financial statements.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

5. Accounting method for business combination under the common control and not under the common control

The Group, as the acquirer, recognizes acquired assets and liabilities under common control at the carrying amounts of the acquiree in the consolidated financial statements of the ultimate shareholder on the acquisition date. The difference between the carrying amount of the net assets obtained and the amount of consideration paid for the combinations adjusted to capital reserves. If the balance of capital reserves is insufficient to be offset, any excess is adjusted against retained earnings.

Identifiable assets, liabilities and contingent liabilities acquired through business combination not under the common control are recognized at their fair values at the acquisition date. The cost of business combination is the sum of cash paid, the fair value of non-cash assets, liabilities issued or assumed, equity securities issued on the date of acquisition, and other direct expenses incurred in order to obtain the control over acquiree (the cost of the combination is the sum of the cost of each individual transaction for enterprise consolidation realized through multiple steps of transactions). Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, firstly review the fair value of each identifiable net assets, liabilities and contingent liabilities and the non-cash assets or issued equity securities as the consolidation of the combination. After the review, if the combination cost is still less than the entitled fair value of the net identifiable assets acquired from the acquiree under the combination, the remaining difference is recognized as non-operating income in the current profit or loss.

6. Preparation of consolidated financial statements

The consolidation scope of the Group includes all subsidiaries controlled.

When accounting policies and accounting period that subsidiaries adopt are not in accordance with the ones of the Company, the financial statements of subsidiaries should be adjusted necessarily based on the accounting policies or accounting period of the Company when preparing consolidated financial statements.

All significant inter-company balances, transactions and unrealized profits are eliminated when consolidation statements are prepared. Shareholders' equity of subsidiaries not attributable to the parent, net profit and loss, other comprehensive income and the comprehensive income that is attributable to minority interest shall be disclosed as non-controlling shareholders' equity, non-controlling shareholders' profit or loss, other comprehensive income attributable to non-controlling shareholders and total comprehensive income attributable to non-controlling shareholders in the consolidation income statements.

For a subsidiary acquired through business combination under common control, its operating results and cash flow shall be consolidated from the beginning of the period that the Group acquires its control. Adjustments to prior period during the preparation of consolidated financial statements are considered to exist in the reporting entity after combination since the ultimate control was obtained.

For subsidiaries acquired through business combination not under the common control, its operating results and cash flow shall be consolidated from the date that the Group obtained the control. Adjustments to subsidiary shall be made based on the fair value of identifiable assets, liabilities and contingent liabilities on acquisition date when preparing consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

7. Category on joint arrangement and accounting treatment on joint operations

The joint arrangement of the Group includes joint operations and joint venture entities. For joint operations, the Group, as the joint operator of the joint operations, recognizes assets and liabilities solely held and liabilities assumed by the Group, recognizes assets and liabilities jointly owned proportionally, and recognizes income and expenses solely or proportionally based on the related agreements. When the Company incurs asset transactions of purchase and sales not constituting to business transactions, the Company only recognizes the portion of profit or loss generated due to the transaction attributable to other parties of the joint operations.

8. Cash and cash equivalents

Cash in the cash flow statement of the Group indicates both cash on hand and the deposit held in bank which are available for payment at any time. Cash equivalents are held less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

9. Foreign exchange translation for financial statements

(1) Transactions involving foreign currencies

Foreign currency transactions of the Group are translated into RMB at the spot exchange rate on the date of the transaction.

The monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance date. Except for the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized, the exchange difference is accounted into current profit or loss. For non-monetary items measured in foreign currency under historical cost method, the exchange rate on the date when the cost is recognized is applied and the amount in RMB is consistent. For non-monetary items in foreign currency measured at fair value, the exchange rate on the date when the fair value is recognized is applied and the exchange difference is accounted into current profit or loss as a result of fair value change, or recognized as other comprehensive income and charged into capital reserves.

(2) Foreign currency translation of financial statements

The asset and liability items in the foreign currency balance sheets are translated at a spot exchange rate as at the balance sheet date. The owner's equity items, except for retained earnings, are translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit or loss statements are translated at the average exchange rate during the accounting period. The difference arisen from the above translation's are presented separately under other comprehensive income. The cash flows in foreign currencies are translated at the spot exchange rate at the date when the cash flows incurred. The impact amount of exchange rate fluctuations on cash and cash equivalents is separately presented in the statement of cash flow.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and liabilities

The Group recognizes a financial asset or a financial liability in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

(1) *Financial assets*

1) *The classification, recognition and measurement of financial assets*

The financial assets of the Group are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loan and receivables and available-for-sale financial assets, according to the purposes of investments and their economic substance.

Financial assets at fair value through profit or loss include trading financial assets and the financial assets designated as, when initially recognized, the financial assets measured at fair value and its movement recorded through profit and loss.

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments for which management has both positive intention and ability to hold to maturity. Held to maturity investment is subsequently measured under amortized costs. Its amortization, impairment, and gain or loss from derecognition is recognized as profit or loss of the current year.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets of any other class at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and liabilities (Continued)

(1) *Financial assets* (Continued)

2) *Recognition and measurement of financial assets transfer*

A financial asset is derecognized when any one of the following conditions is satisfied: i) the rights to receive cash flows from the asset expire, ii) the financial asset has been transferred and the Group transfers substantially all risks and rewards relating to the financial assets to the transferee, iii) the financial asset has been transferred to the transferee, the Group has given up its control of the financial asset although the Group neither transfers nor retains all risks and rewards of the financial asset.

Where an entity neither transfers nor retains substantially all risks and rewards of financial asset and does not give up the control over such financial asset, then the entity recognizes such financial asset to the extent of its continuous involvement and recognizes the corresponding liabilities.

In the case where the financial asset as a whole qualifies for the de-recognition conditions, the difference between the carrying value of transferred financial asset and the sum of the amount received for transfer and the accumulated amount of changes in fair value that was previously recorded under other comprehensive income is charged into profit or loss for the period.

If the partial transfer of the financial assets meets the condition to terminate the recognition, the Company allocates the collective book value of the transferred financial asset between the portion terminated in recognition and the portion not terminated in recognition according to the fair value of each portion, and recognizes the difference between the aforementioned allocated book value and the sum of the consideration collected and the accumulative amount of change in the fair value recognized into the other comprehensive income allocated to the portion terminated in recognition into the current profit or loss.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and liabilities (Continued)

(1) *Financial assets* (Continued)

3) *Test of impairment on financial assets and relevant accounting treatments*

The Group assesses the carrying amount of financial assets, other than those at fair value through profit and loss, at the balance sheet date. Impairment of financial assets is accrued when there is objective evidence shows that a financial asset is impaired.

The available-for-sale stock assets of the Group are measured at fair value on balance sheet date. If the cost recognized on purchase price decreased by 50% or over 50%, or has continuously decreased over 12 months, then the Group will recognize the accumulated impairment according to the difference between cost and fair value at the end of the period.

When an impairment of financial assets carried at amortized cost has occurred, the amount of loss is accrued for the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit loss that have not been incurred). If there is objective evidence indicating that the value of the financial asset is recovered and recovery is related objectively to events occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss for the period.

When impairment incurred in available for sale financial assets, the accumulated losses in fair value that was previously directly recorded in shareholder's equity are transferred out and recognized as impairment losses. For the available-for-sale investment on debt instruments which impairment losses have been recognized, if in subsequent period, its fair value increases and the increase is objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previous recognized impairment loss is reversed into profit or loss for the period. For equity investments classified as available-for-sale equity on which impairment loss has been recognized, the increase in its fair value in a subsequent period is directly charged into shareholder's equity.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and liabilities (Continued)

(2) Financial liabilities

1) *The classification, recognition and measurement of financial liability*

Financial liabilities of the Group are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated as fair value through profit or loss on initial recognition. They are subsequently measured at fair value. The net gain or loss arising from changes in fair value, dividends and interest paid related to such financial liabilities are recorded in profit or loss for the period in which they are incurred.

Other liabilities are subsequently measured at residual cost using the effective interest rate method.

2) *De-recognition of financial liability*

When the current obligations of the financial liabilities are entirely or partially released, the Company terminates to recognize the portion of released financial liabilities or obligations. When the Company signs an agreement with the creditors to replace the current financial liabilities by the method of assuming new financial liabilities, and that the new financial liabilities are substantially different in the contractual terms with the current financial liabilities, the Company derecognizes the current financial liabilities, and recognizes the new financial liabilities at the same time. When the Company makes substantial change to the entire or partial contractual terms of the current financial liabilities, the Company derecognizes the entire or the partial current financial liabilities, and recognizes the financial liabilities of which the terms are modified as new financial liabilities at the same time. The difference between the book value of the portion terminated in recognition and the consideration afforded is recognized into current profit or loss.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and liabilities (Continued)

(2) *Financial liabilities* (Continued)

3) *Determine the fair value of financial assets and financial liabilities*

Fair values of the financial assets and liabilities of the Group are determined by prices existed in major markets. Where there is no major market, the most beneficial market prices together with then available and sufficient data and other evaluation technology supporting information are used to determine fair values of financial assets and liabilities.

Input data for determining fair values has three levels, the first level is the available unadjusted price for a same asset or liability on the date of evaluation in an active market; the second level is the direct or indirect visible input data related to the same asset or liability apart from data in the first level; the third level is the invisible input data related to the same asset or liability.

Input data in the first layer has the first priority and the third layer is the last to consider by the Group. The lowest layer that has significant impact on the overall fair value evaluation determines which layer this fair value evaluation result shall belong to.

11. Bad debts provision of receivables

Receivables include accounts receivable, other receivables, advances to suppliers etc. The account receivables of the Group arise from selling goods and rendering services. The Group initially recognize account receivables in accordance to the fair value of the selling price stated in the contract signed or the amount negotiated with purchasers.

The Group recognizes bad debts when the following conditions are met: the debtors are dissolved, bankrupt, insolvent, in significant deficiency in cash flows or suspended its business due to natural disaster and unable to settle the debts in the foreseeable period; or there are conclusive evidences indicating the debts are not recovered or not likely to be recoverable.

Provision for bad debts is made using allowance account method. At the balance sheet date, receivables are assessed for impairment on individual or portfolio basis. Provision for bad debts is recognized in the profit or loss for the period. When there are objective evidences indicating the receivable are considered not recoverable, it is written off against the allowance account in accordance with the approval procedures of the Group.

Individual and portfolio methods are applied to estimate impairment loss on accounts receivable.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

11. Bad debts provision of receivables (Continued)

(1) Individually significant and provided for bad debts on individual basis

The basis or standard for determining the significant level of individual receivable	Consider individual receivables above RMB5 million as the significant amount
Provision-making method on individual receivables above significant level	The provision of bad debts is made according to the difference between the present value of future cash flows and the book value of receivables

(2) Receivables that are accrued for bad debts on credit risk portfolio basis

Basis for determination of portfolio (aging analysis, percentage of balance, and other methods)

Aging group	Accrued for bad debts based on the aging analysis of receivables
Low risk portfolio of deposits and petty cash	Do not accrue for bad debts

Percentage of bad debts provision according to aging analysis method is as follows:

Aging	Accrual percentage (%)
Within 1 year	1.00–15.00
1–2 years	50.00
2–3 years	100.00
Over 3 years	100.00

(3) Accounts receivable that are individually insignificant but are accrued for bad debts separately

Reason for accruing bad debts individually	Individual receivables below significant level whereby the combined method does not reflect its risk characteristics
Method for provision of bad debts	Provision for bad debts is accrued using the difference between the present value of future cash flows and the book value of receivables



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

12. Inventories

The inventories of the Group include raw material, packing materials, low-valued consumables, work-in-process, finished goods, and projects costs etc.

The Group maintains a perpetual inventory system. Inventories are recorded at actual cost of purchase. Cost is calculated using weighted average method when the inventories are issued or consumed. Low value consumables and packaging material are amortized by one-time write off.

Net realisable value of finished goods, work in progress, or held-for-sale raw materials are determined by their estimated selling price less estimated selling expenses and related taxes. Net realisable value for raw material held for production are determined by the estimated selling price of finished goods less the estimated cost to completion, selling expenses and taxes.

13. Long-term equity investment

Long-term equity investments of the Group mainly include investment on subsidiaries, associates, and joint ventures.

The Group determines that a common control exists when all parties or groups of parties control that arrangement unilaterally and decisions relating to the basis operating activity of the entity require the unanimous consent of the parties sharing the control.

The Group holds, directly or through subsidiaries, more than 20 percent but less than 50% of the voting power of the investee, it is assumed that the Group has significant influence. When the Group holds less than 20% of the voting power of the investee, significant influence shall be considered under actual fact and circumstances such as there is a delegate of the investor in the investee's the Board of Directors and other similar power bodies, the investor gets involved in investee's financial and operating policies decision-making process, there are significant transactions occurred between the investor and the investee, the investor assigns management personnel in the investee and the investor provides key technical support to the investee.

When investee is controlled by the Group, it is considered as the Group's subsidiary. The investment cost for long-term equity investment acquired through business combination under common control is the carrying value of the share of equity at the combination date in the acquired company. The investment cost is recorded as zero when the carrying amount of the share of equity at the combination date in the acquired company is in deficit.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Long-term equity investment (Continued)

For shareholding which obtained by different transactions by steps and become business combination finally, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements, and accounted as the initial investment cost of long-term investment. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust capital reserve. If the balance of capital reserve is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under the common control, cost of combination will be treated as the initial investment cost.

For the equity investment to the investee entity not under the common control obtained by steps through multiple transactions, and forming enterprise combination ultimately, if it belongs to package transaction, the accounting method for which each transaction applies will treat as one transaction which obtains control. If it does not belong to package transaction, Initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the invested company when it directly dispose related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for the current period on the date of combination.

Apart from the long-term equity investments acquired through business combination mentioned above, the cost of investment for the long-term equity investments acquired by cash payment is the amount of cash paid. For long-term equity investment acquired by issuing equity instruments, the cost of investment is the fair value of the equity instrument issued. For long-term equity investment injected to the Group by the investor, the initial cost is the consideration as specified in the relevant contract or agreement.

Investments in subsidiaries are accounted for by the Group using cost method and equity method is used for investment in joint ventures and associates.

Additional investments to long-term equity investments subsequently accounted on the cost method are measured to increase its carrying amount on the fair value of the additional cost and other transaction related expenses occurred. Dividends declared or profit distributed by the investee shall be recognized as investment income in the current period.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Long-term equity investment (Continued)

For long term equity investment adopting equity method as the subsequent measurement, the book value of the long term equity investment should be adjusted with an increase or decrease according to the change of the owner' equity of the investee entity. When recognizing the entitle portion in the net profit or loss in the investee company, the basis is the fair value of each identifiable assets of the investee entity obtained in the investment, according to the accounting policies and accounting period of the Group, and netted with the portion of profit or loss of the internal transactions entitled in the investee enterprise based on the calculation according to the shareholding percentage to be recognized after the adjustment to the net profit of the investee entity.

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognized as investment income for the period. For long-term investments accounted for under the equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

In the situation where the Company does not have joint control or does not have significant influence over the investee company due to reasons such as disposing a portion of the equity investment, the rest share equity after the disposal is classified as the available-for-sale financial asset. The difference between the fair value at the date when the Company lost the joint control or the impact of significant influence and the book value is recognized into the current profit or loss. The other comprehensive income of the previous equity investment recognized under the equity method is treated according to the accounting treatment same to the basis adopted by the investee company to directly dispose the relative assets or liabilities when terminating the adoption of equity method.

For loss of control in the invested company due to partly disposed long-term equity investment, for remaining share holding which can apply common control or imposes significant influence to the invested company after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for sale financial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

For each transaction not belonged to a deal of package by steps through multiple disposals of equity investment to lose the right of control, the Group makes accounting treatment separately to each transaction. If belonged to a deal of package, the Group treats each transaction as one transaction to dispose a subsidiary and lose the right of control to make accounting treatment. Nonetheless, the difference between the consideration of disposal and the book value of the respective long term equity investment disposed for each transaction before losing the right of control is recognized into other comprehensive income. When reaching the lost of the right of control, the amount is transferred into the current period of profit or loss of the period losing the right of control.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Investment properties

The investment properties of the Group include land use rights leased out, land use rights held for sale after appreciation and leased buildings. Investment properties of the Group are subsequently measured using cost model.

Investment properties are depreciated or amortized on straight line method. The estimated useful life, residual percentage, and annual depreciation (amortization) rates are in consistent with the ones adopted for fixed assets.

15. Fixed assets

Fixed assets are tangible assets, having useful life over one accounting year, which are held for the production of goods and/or the rendering of services, leasing to others, or for operating purposes.

Fixed asset is recognized when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Fixed assets consist of buildings, machinery, transportation equipment, electric devices, office equipment, other equipments, and land recognized individually.

Apart from those fixed assets that are fully depreciated but still in use, as well as land separately recognized, the Group depreciates all fixed assets under straight-line method.

Useful life, estimated residual value, depreciation rate of the fixed assets under the classification of the Group are as the following:

Classification	Useful life (year)	The rate of estimated residual value (%)	Annual depreciation rate (%)
Land	Long-term	-	-
Building	10-30	5-10	3.00-9.50
Machinery	10-14	5-10	6.40-9.50
Transportation equipment	8-12	5-10	7.50-11.90
Electric & office equipment	5-8	5-10	11.30-19.00
Others	5-14	5-10	6.40-19.00

The Group assesses the useful life, the depreciation rate and the method of depreciation for fixed assets at the end of each year. If any changes occur, they will be treated as changes on accounting estimates.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

16. Construction in progress

Construction in progress is transferred to the fixed assets on the date the asset is ready for its intended use at an estimated amount based on the project budget or actual cost of construction. Depreciation is provided for as from the next month of the transfer. The estimated cost of the asset is adjusted to reflect its actual cost when the construction settlement procedure is completed. However, no adjustment is necessary for the depreciation or amortization that is previously accrued.

17. Borrowing cost

Borrowing costs directly attributed to purchasing or constructing fixed assets, investment properties and inventories that are ready for use or sale for the period of more than one year shall be capitalised when expenditures and borrowing cost have occurred and purchasing or constructing activities making assets available for use or sale already commenced. When assets that are eligible for capitalisation reach the condition of ready for use or sale, no more borrowing cost will be capitalized. Subsequent borrowing costs are accounted in current period profit or loss. Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of an eligible asset is interrupted abnormally and the interruption is for a continuous period of more than 3 months. The suspension ceases when the acquisition, construction or production activities are resumed.

For specific borrowings obtained for the acquisition of eligible assets, the amount of borrowing costs to be capitalised is the interest expenses actually incurred during the period of capitalisation deducting any interest income earned from depositing the unused borrowings in the banks or any investment income arising from temporary investment of those borrowings. For general borrowings obtained for the acquisition of eligible assets, the amount of borrowing cost to be capitalised is determined by applying the weighted average of the excess amount of cumulative capital expenditures on the assets over the amount of specific borrowings multiplies capitalisation ratio on general borrowings that has been reached. Capitalisation ratio is calculated based on the weighted average interest rate on general borrowings.

18. Intangible assets

The intangible assets of the Group include the land use right, patent technology, non-patent technology, software, and trade mark. Intangible assets are measured at their actual cost when acquired. Amongst, the cost of purchased intangible assets is the actual purchase price and other necessary expenditures on purchase. The cost of intangible assets injected by investors to the Company is measured at the consideration as specified in the investment contracts or agreements. In the case where the consideration of the contracts or agreements is not a fair value, the assets are measured at its fair value. For intangible asset obtained through the consolidation not under the common control from the acquiree, which is owned by the acquiree but is not recognized in its financial statements, the intangible asset is recognized based on its fair value when initially recognizing the assets of the acquiree.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

18. Intangible assets (Continued)

Land-use rights are amortized evenly over the lease terms from the date of transferred. The amortization period is 35–50 years. Software, patent and other intangible assets are amortized over the shortest of their estimated useful life, contractual beneficial period and useful life specified in the law. The amortization period of software is 2–10 years. The amortization period of patent is 5–10 years. The amount of amortization is included in the relevant asset cost and current profit or loss according to the beneficiary. Assessment on useful life and amortization for those assets that have limited useful lives takes place at the end of each year. In case of changes on method exists, adjustment to accounting estimates shall be made accordingly.

The right to use on trade mark and the production permission have no fixed term of use. Evaluation of the useful life is based on the trend of market and competition, service cycle of products, and long-term management and development strategy. The basis indicates that the right to use on trade mark and the production permission will generate net cash flow during long-term period without definite time limit. Therefore, term within which the right and permission will economically benefit the Group is unpredictable. The useful life is indefinite.

Research and development expenditures of the Group is classified into expenditure on the researching phase and expenditure on the development phase depends on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project. The expenditures in research phase are accounted into current profit or loss. The expenditures in development phase are recognized as intangible assets if they meet the following conditions simultaneously:

- (1) It is technically feasible that the intangible asset can be used or sold upon completion;
- (2) The management has the intention to complete the intangible asset for use or sale;
- (3) There is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market;
- (4) There is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) The expenses attributable to the development stage of the intangible asset can be measured reliably.

Other expenditures that do not meet the above conditions are expensed in the period as incurred. Development expenditure previously expensed is not recognized as an asset in subsequent period. Capitalised expenditure on the development phase is presented in the balance sheet as development expenditure and transfer to intangible assets when they are ready for intended use.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

19. Impairment on long-term assets

The Group assesses at each balance sheet date whether there is any indication that long-term equity investments, investment properties measured under cost modelling, fixed assets, construction in progress, and intangible assets with definite useful life may be impaired. If there is any indication that an asset may be impaired, it will be tested for impairment by the Group. Goodwill and intangible assets with indefinite useful life are tested for impairment every year end regardless of whether indication for impairment exists.

If the recoverable amount of an asset is less than its carrying amount, the difference is accounted as provision for impairment and recognized as an impairment loss. Above impairment loss is not allowed to be reversed at subsequent accounting period once it has been recognized. Recoverable amount of assets means the higher of the net amount of asset's fair value less disposal cost and the present value of predicted cash flows that are generated by the assets in the future.

Indications of impairment are as the following:

- (1) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (2) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- (3) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- (4) Evidence is available of obsolescence or physical damage of an asset;
- (5) Assets has or will become idle and discontinued and the plan to dispose of an asset before the previously expected date;
- (6) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. For example, net cash flow or operating profit (or loss) generated by assets is significantly lower (or higher) than the expected amount etc.;
- (7) Other matters indicating that impairment of assets might have taken place.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

20. Long-term prepayments

Long-term prepayments are expenditures that have been incurred but shall be amortized over the current period and subsequent periods of more than one year (not included one year). The expenditures are amortized evenly over the estimated beneficial period and disclosed at the net amount of actual expenditure after accumulated amortization. If the long-term prepayments are no longer beneficial to the subsequent accounting periods, the unamortized balance is then transferred to profit or loss for the period. The long-term prepayments of the Group include expenses such as the maintenance fee, and the amortization on moulds. The amortization period of the maintenance fee is 3–10 years. The amortization period of moulds amortization is 2–10 years.

21. Employee benefits

Employee's benefits include short-term remuneration, post-employment benefits, layoff benefits and other long-term benefits.

Short-term remuneration includes salary, bonus, allowance, welfare, and the social security include medical, injury, and birth insurance, housing fund, labour union, staff education, short-period paid leave, short-term profit sharing plan, non-monetary benefit, and other short-term employees benefit. It shall be recognized as liabilities during the accounting period when the employee renders services to the Group and allocated to related cost of assets and current period profit or loss based on different beneficiaries.

Post employment benefits refer to the compensation and benefits provided, after employees' retirement and termination of employment, by the Group in order to obtain services from employees, except for the short-term compensation and employee benefits. Post employment benefits including the endowment insurance, pension, unemployment insurance, retirement benefits and other post employment benefits, and classified into defined contribution plan and defined benefit plan according to the risks and liabilities assumed by the Company. As for defined contribution plan under which the group consumed obligation of making payment to independent funds, in order to exchange for staff services to be provide during the accounting period, shall be recognized as liabilities, and included into the profit or loss or related assets cost of the current period of the beneficiary.

Defined contribution plan of the Group refers to the basic endowment insurance, unemployment insurance, and enterprise annuity paid for the employees according to relevant regulation by local governments. During the accounting period when employees render services to the Group, amount payable calculated by the base and ratio in conformity with local regulation is recognized as liability and accounted for profit and loss or related cost of assets.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

21. Employee benefits (Continued)

Termination benefits refer to the compensation paid when the Group terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. For the situation where although the employee does not relieve the labour service contract with the Group, the employee will no longer provide services to the Group in the future and cannot bring economic benefits to the Group, the Group commits to provide the economic compensation with the nature of termination benefits, for instance the situation of “early retirement”. In such a situation, before the formal retirement date of the employee, the Group adopts the treatment according to the treatment to the termination benefits. While after the formal retirement date, the Group adopts the treatment according to the treatment of the welfare after the termination of service.

Where the Group provides termination benefits to employees, the Group recognizes the liabilities of employee benefits payable generated from the termination benefits at the earlier date of the following two dates: 1) when the Group cannot reverse the termination benefits due to the plan of cancelling the labour relationship or the termination benefits provided by the advice of reducing staff; and 2) the Group recognizes the cost or expense relative to the payment of termination benefits of restructuring into the current profit or loss.

For termination plan of which the termination benefits which are expected not to be entirely paid after the twelve months of the end of the Reporting Period and the substantial termination work is completed within one year but the term to pay the compensation payment exceeds one year, the Group adopts the appropriate discounted rate and adopts the discounted amount to measure the amount of termination welfare that should be recognized into the current profit or loss.

Early retirement benefits refer to the benefit offered to the employees who voluntarily accept Group’s arrangement for early retirement. The Group pays the salary and social security for the employee who voluntarily retires after approval even though the employee has not yet reached the retiring age stated in government regulation. When qualified for early retirement benefit, proposed payment on early retirement benefit from the date when rendering of service terminated to date when the employee regularly retired is discounted and then recognized as liability and accounted into profit or loss.

Other long-term employment benefit refers to all employee benefit except for short-term benefit, post employment benefit, and termination benefit, includes long-term paid absence, long-term disability benefit and long-term profit-sharing plan etc. Relevant accounting treatments for defined contribution plan are adopted for other long-term employment benefit qualified for defined contribution plan. When the qualification is satisfied, net assets and liabilities of other long-term employment benefits are recognized and measured, accordingly. At the end of Reporting Period, employee benefits from other long-term employment benefits are recognized into the following components: cost of service, net interests on the net assets liabilities of other long-term employment benefit, changes from revaluation of net assets liabilities of other long-term employment benefit. The total net amount will be recognized as profit and loss or costs to related assets for the current year.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

22. Contingent liabilities

When an external warranty, commercial acceptance discount, pending legal proceedings or arbitration, warranty on quality of goods or other contingent matters meet the following requirements, the Group shall recognize contingent liabilities: the assumed responsibilities are current liability; the fulfilment of obligations will cause the outflow of economic benefit from the Group; the amount of liabilities can be measured reliably.

Estimated liabilities are initially recognized at the most appropriate estimation of obligations by considering relative risks, uncertainties, and time value of the currency etc. If the effect from the time value of the currency is significant, the most appropriate estimation will be discounted into the present value. On each balance sheet date, the book value of estimated liabilities is reviewed, and adjusted to reflect the current best estimate if the book value changes.

23. Recognition principles and measurement method of revenue

The revenue of the Group is mainly derived from selling goods, rendering services and allowing the use of assets by others. The criteria of reorganization are as follows:

(1) *The revenue from sales of goods*

Sales of goods are recognized when the significant risks and rewards of the ownership of commodities are transferred to customers; the Group has no longer retained continuous management rights generally associated with the ownerships; the Group has no longer effective control over the commodities sold; the amount of revenue can be reliably measured; it is very likely that the economic benefits will flow to the enterprise; and the related costs that has incurred or will be incurred can be reliably measured.

(2) *The revenue from rendering service*

The revenue from rendering service will be recognized when the total income and cost of service can be measured reliable, relative economic benefits likely flow into the Group, and the percentage of completion of the service can be measured reliably. As at the balance sheet date, the amount of rendering could be reliably measured, is recognized at percentage of completion, which is determined by the actual labour cost already incurred divided by the total estimate costs;

When the amount of rendering could not be reliably measured, the amount of the labour cost which is actually incurred and estimated to be compensated is recognized into the service revenue from rendering of labour services. Meanwhile, the labour cost incurred is recognized as the current period expense. If the labour cost incurred is estimated not to be compensated, no revenue is recognized then.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

23. Recognition principles and measurement method of revenue (Continued)

(3) *The revenue from transfer of asset use right*

The revenue from the property alienation of the Group includes interest income and royalty fee. The revenue from transferring the asset use right is recognized when both the two conditions are met, namely that the related economic interests are likely to flow into the enterprise, and that the amount of revenue can be measured reliably. The amount of interest income is calculated according to the time and the actual interest rate at which other people use the monetary funds of the Group. The income amount from the asset use fee is determined by the calculation according to the relevant contract or agreement of the charging time and method.

24. Government subsidy

Government grants are monetary or non-monetary assets obtained from the governments, excluding the contributed capital from the government investor.

Where a government grant is in the form of a monetary asset, it is measured at the amount received. Where a government grant is made on the basis of a fixed amount or strong evidence showing such grant is expected to receive and relevant government finance supporting policies are met, it is measured at the amount receivable. Where a government grant is in the form of a non-monetary asset, it is measured at fair value. If fair value cannot be determined reliably, it is measured at a nominal amount of RMB1.00.

The Group classifies government subsidies as grants pertinent to assets and grants pertinent to incomes. The government grants pertinent to assets are recognized as deferred revenue, and equally accounted into current profit or loss within the useful life. The government grants pertinent to incomes and used to compensate the related expenses or losses in subsequent periods are recognized as deferred income, and accounted into profit and loss during the period when the related expenses are recognized; the government grants used to compensate the related expenses or losses are directly recognized in profit or loss.

25. Deferred tax assets/deferred tax liabilities

Deferred tax assets and deferred liabilities of the Group are recognized based on the differences (temporary differences) between tax bases of assets and liabilities and respective carrying amount. Deductible losses or tax credit that can be carried forward in accordance with tax law requirements for deduction of taxable income in subsequent years are recognized as deferred tax assets. The temporary difference of initial recognition of goodwill shall not be recognized as deferred tax liabilities. The temporary difference caused by the initial recognition of assets and liabilities from non-enterprise combination, which does not influence profits and tax payables, shall not be recognized as deferred tax asset and liabilities. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or liability is settled.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Lease

Leases are classified as finance leases and operating leases at the date of inception. Finance lease is a lease that substantially transfers all the risks and rewards of ownership of the assets. Operating leases are leases other than finance leases. The leases of the Group are operating leases.

The Group, as a lessee to a financing lease, recognizes the assets under finance lease at the lower of the fair value at the inception of the lease and the present value of minimum lease payment. The corresponding liability is recorded as long-term payable at the amount of minimum lease payments. The difference is recorded as unrecognized finance lease charge.

The Group, as a lessee to an operating lease, recognizes lease payment on a straight-line basis over the terms of the lease and records as a cost of an assets or an expense for the period.

27. Five level classification of the asset quality in financial business

The subsidiary of the Company YTO Group Finance Co., Ltd belongs to the non-banking financial institutions. In accordance with the requirements of the China Banking Regulatory Commission, a five level classification management is implemented on the assets of creditor's rights type, assets of equity type and other assets. Such assets are classified into five categories as normal, attention, secondary, suspicious and loss class. The percentage on which the impairment provision is accrued for each class is 1.5%, 3%, 30%, 60% and 100% respectively.

28. Safety production cost

The Group accrues safety production cost and records it to the cost of related products or in the profit or loss and transferred to special reserve based on Caiqi [2012] No. 16 Management of Drawing and Using Safety Production Cost jointly issued by the Ministry of Finance and State Administration of Work Safety on February 14, 2012. The Group shall directly reduce special reserve if the safety production cost is belonging to expense. If fixed asset is arose in using safety production cost, all expenditures are recorded in construction in progress and recognized as fixed asset when the safety project is finished and ready for its intended use; meanwhile, the Group shall reduce special reserve based on the cost of the fixed asset and recognize the accumulated depreciation in the same amount. No depreciation shall be recognized in for this fixed asset in following periods.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

29. General risk reserve

The subsidiary of the Company YTO Group Finance Co., Ltd belongs to the non-banking financial institutions. According to the provisions in the 'Measures for the administration of reserve provision of financial enterprises' (Cai Jin [2012] No. 20) issued by the Ministry of finance, after adopting the standard method to calculate the potential risk valuation of risk assets, with the deduction of the asset impairment provision accrued, at the end of each year, the general risk reserve which is used to make up the unidentified possibility loss should be accrued from the net profit. When the potential risk valuation is lower than the asset impairment provision, no general risk reserve should be accrued. In principle, the balance of the general risk reserve should not be lower than the 1.5 % of the ending balance of the risk assets.

The assets borne the risk and loss of YTO Group Finance Co., Ltd specifically include: loans and advances granting out, financial assets available-for-sale, held-to-maturity investments, long-term equity investments, inter-bank deposits, funds lending out, assets used to set off debts and other receivables, etc.

30. Segment information

The Group determines the operating segments on the basis of internal structure, management requirements and internal reporting system and adopts these operating segments as the basis for reporting segments for disclosure purposes. An operating segment is a component of the Group that satisfies all of the following conditions: it is able to earn revenue and incur expenses from ordinary business activities; its operating results are regularly reviewed by the Group's management for making decision about resources to be allocated to the segment and to assess its performance; and for which the financial information on the financial position, operating results and cash flow of these components is available to the Group. Two or more operating segments can be aggregated into one single operating segment if they have similar economic characteristic and satisfy certain conditions.

Segment transfer price is determined by reference to the market price. Joint costs, except for those which are unable to be allocated reasonably, shall be allocated among segments based on ratio of income derived.

31. Discontinued operation

Discontinued operation is a component of the Group that either has been disposed of or is classified as held-for-sale, and can be distinguished from other components within the Group in the business operations and in the preparation of financial statements. The component will be wholly or partly disposed of according to the plan of the Group.

A component is classified as held-for-sale when all of the following conditions are satisfied: the Group has made a resolution on disposal of the component; an irrevocable contract with the transferee has been signed; and the transfer will be completed within one year.

32. Changes in significant accounting policies and accounting estimates

None.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

V. TAXATION

Main categories of tax and tax rates

1. Value added tax (VAT)

VAT rate of 13% is applied to purchase and sale of water, heat, gas, agricultural machinery (whole machine), etc of the Group.

VAT rate of 17% is applied to other purchases and sales of goods.

During January 1, 2016 and December 31, 2016, Luoyang Tractor Research Institute Co., Ltd, as the transformed scientific research institute, was exempted from import tariffs and VAT for importing reasonable quantities of technical research products that cannot be locally manufactured or whose performance cannot meet the needs according to the decisions of Cai Guan Shui 2016 No. 70 'the Ministry of Finance and the General Administration of Customs of the State Administration of Taxation on the "13th Five-Year" period to support technological innovation import tax policy notice' and Cai Guan Shui [2016] No. 72 'Notice on the publication of the exemption list of import scientific research, scientific and technological development and teaching supplies'.

Luoyang Tractor Research Institute Co., Ltd. is exempted from VAT on revenue from technology development according to the provision of (the twenty-sixth item) of the article 1 of the Appendix 3 'The rules of the pilot by replacing business tax with VAT transition policy' of the 'Notice of the Ministry of Finance and the State Administration of Taxation on the full implementation of the pilot by replacing business tax with VAT' (Caishui [2016] No. 36).

Luoyang Changhong Trading Co., Ltd. and Luoyang Changxing Agriculture Machinery Co., Ltd., subsidiaries of the Company, are exempted from VAT on sale of agricultural machinery according to Caishui [2001] No. 113 Notice of Exemption from VAT for Agricultural Production Issued by Ministry of Finance and State Administration of Taxation.

Since the subsidiaries of the Company, CAD FUND MACHINERY (SA) (PTY) LTD., YTO France SAS and YTO Cote d'Ivoire Agricultural Machinery Assembly Co., Ltd were registered overseas, these companies pay VAT in accordance with local applicable tax rates.

Since May 1, 2016, if the Group leases out the immovable properties acquired before April 30, 2016, the Group can choose to apply the simple tax calculation method with the application of 5% levy rate, and can also choose to apply the general method of tax calculation with the application of 11% tax rate. If the Group leases out the immovable properties acquired after May 1, 2016, the Group applies the general method of tax calculation with the application of 11% tax rate. The Group applies the 6% VAT rate when providing finance and modern services.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

V. TAXATION (Continued)

Main categories of tax and tax rates (Continued)

2. **Business tax**

As for the revenue from service fee and etc., of the Group, the business tax is calculated on 5% of the taxable income. According to the 'Notice of the Ministry of Finance and the State Administration of Taxation on the full implementation of the pilot by replacing business tax with VAT' (Caishui [2016] No. 36) Issued jointly by the Ministry of Finance and the State Administration of Taxation, since May 1, 2016, the full implementation of the pilot of replacing business tax with VAT was performed nationwide. All the business tax payers, including from the industries of construction, real estate, finance, and life services, etc., were all included in the scope of pilot, changing from paying business tax to paying VAT. Since then, from May 1, 2016, the Group has fully implemented the replacement of the business tax with VAT.

3. **Urban construction and maintenance tax**

Urban construction and maintenance tax is paid at 7% or 5% of the actual payment on turnover tax.

4. **Education surcharges**

Educational surcharges are calculated at 3% of the actual payment on turnover tax. Meanwhile, the Company and its domestic subsidiaries also pay local educational surcharges based on 2% of the actual payment on turnover tax.

5. **Enterprise income tax**

As jointly approved by the Science and Technology Department and the Finance Department of Henan Province, the State Administration of Taxation and the local tax bureau, First Tractor Company Limited and its subsidiaries, YTO Diesel Engine Co., Ltd., Tractors Research Company, Luoyang Xiyuan Vehicles and Power Inspection Institute Co., Ltd. and YTO Flag Auto-body Company Limited are entitled to the 15% preferential income tax rate for new and high tech enterprises according to the stipulations of Article 28 of Law of the People's Republic of China on Enterprise Income Tax.

Since the subsidiaries of the Company, CAD FUND MACHINERY (SA) (PTY) LTD., YTO France SAS and YTO Cote d'Ivoire Agricultural Machinery Assembly Co., Ltd were registered overseas, these companies pay income tax in accordance with local applicable tax rates.

The other subsidiaries of the Company are entitled to the 25% enterprise income tax.

6. **Property tax**

The applicable tax rate is 1.2% when the tax base is 70% of the property's original cost. The applicable tax rate is 12% when the tax base is the rental income.

7. **Other taxes**

Other taxes shall be paid in accordance with relevant provisions of the country.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT

For the following disclosed financial statement data, except for otherwise indicated, 'Beginning balance' refers to January 1, 2016, 'Ending balance' refers to December 31, 2016, 'Current period' refers to the period from January 1, 2016 to December 31, 2016, 'Last period' refers to the period from January 1, 2015 to December 31, 2015, and the monetary unit is RMB.

1. Monetary funds

Item	Ending balance	Beginning balance
Cash on hand	875,133.16	983,395.10
Bank deposits	3,119,921,093.62	1,717,588,725.96
Other monetary funds	140,939,586.20	179,221,956.55
Total	<u>3,261,735,812.98</u>	<u>1,897,794,077.61</u>
Including: total amount deposited abroad	69,927,057.07	28,910,171.89

Notes: At the end of December 31, 2016, the restricted monetary funds of the Group is RMB367,430,005.50, including statutory deposit reserve of RMB41,180,078.81 deposited at central bank. The deposits for investment in the bank deposits (bank deposits prepared for the payment of purchasing financial products) was RMB200,000,000.00. The security deposit of acceptance notes was RMB108,674,642.08. The other security deposit of RMB14,002,491.95, and the deposits for investment of RMB3,572,792.66.

2. Financial assets measured at fair value with changes in value recognized in profit or loss

(1) Classification of trading financial assets

Item	Ending balance	Beginning balance
Trading financial assets	21,757,466.94	44,865,981.64
Including: Investments on bond instrument	0.00	10,424,360.53
Investments on equity instrument	21,757,466.94	14,432,348.51
Others	0.00	20,009,272.60
Designated as financial assets measured at fair value with changes in value recognized in profit or loss	40,900,000.00	370,000,000.00
Including: Investments on debt instrument	0.00	0.00
Investments on equity instrument	0.00	0.00
Trust products	40,900,000.00	370,000,000.00
Total	<u>62,657,466.94</u>	<u>414,865,981.64</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

2. Financial assets measured at fair value with changes in value recognized in profit or loss (Continued)

(2) Analysis of trading financial assets is as following:

Item	Ending fair value	Beginning fair value
Listed		
China (except for Hong Kong)	9,888,035.47	4,092,441.10
Hong Kong	11,869,431.47	10,339,907.41
Subtotal	21,757,466.94	14,432,348.51
Unlisted	40,900,000.00	400,433,633.13
Total	62,657,466.94	414,865,981.64

Notes: The market value of the stock held by the Group is RMB21,757,466.94 at the end of the year.

3. Derivative financial assets

Item	Ending balance	Beginning balance
Currency derivative instruments:		
Currency forwards and swaps	14,833,000.00	0.00
Buy in of currency option	14,833,000.00	0.00
Sale out of currency option	0.00	0.00
Interest derivative instrument:	0.00	0.00
Commodity derivative instrument and others:	0.00	0.00
Total	14,833,000.00	0.00

Note: The Company signed a one-year loan contract with Bank of Communications Ltd Luoyang branch on September 29, 2016, with the loan amount of USD100 million. At the same time, the Company signed a swap agreement for the foreign exchange settlement and sale with the Bank of Communications Ltd Luoyang branch, agreeing that the Company shall purchase USD100 million according to the exchange rate of 6.7536 before October 11, 2017 with the method of first settling and then purchasing the foreign currency, and use the fund to repay the aforementioned loan. According to the provisions of 'Accounting standards for Business Enterprises No. 22 – recognition and measurement of financial instruments', when the Company becomes a party of a financial instrument contract, the Company should recognize an item of financial asset or financial liability. Therefore, the Company recognized such item of the financial instrument as a derivative financial asset.

The Company conducted the measurement on the derivative financial asset according to the fair value. When the Company performed the evaluation on the derivative financial asset, the main factors considered involved: time value of money, credit risk, foreign exchange prices, commodity prices, equity prices, volatility, performance risk, and the service fees of financial assets.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

4. Notes receivable

(1) Classification of notes receivable

Types of notes	Ending balance	Beginning balance
Bank acceptance notes	533,954,502.75	603,725,168.22
Commercial acceptance notes	20,978,228.42	25,870,508.49
Total	<u>554,932,731.17</u>	<u>629,595,676.71</u>

(2) Notes receivables which have been pledged at the end of the year

Item	Amount pledged at the end of the year
Bank acceptance notes	<u>26,060,900.00</u>

(3) Notes receivables which have been endorsed or discounted but not yet due at the end of the year

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance notes	658,044,903.55	0.00
Commercial acceptance notes	69,443,028.04	0.00
Total	<u>727,487,931.59</u>	<u>0.00</u>

(4) The Group does not have any note receivable being transferred to account receivable because of the inability to fulfil the contract by the issuers at the end of the year.

(5) The aging of the notes receivable of the Group was within 180 days.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable

Name of the item	Ending balance	Beginning balance
Accounts receivable	1,179,087,715.82	1,365,434,680.04
Less: provision for bad debts	504,774,392.79	518,842,621.72
Net amount	<u>674,313,323.03</u>	<u>846,592,058.32</u>

(1) Aging analysis of accounts receivable

Aging	Ending balance	Beginning balance
Within 1 year	459,244,684.80	718,873,964.01
1-2 years	204,736,479.38	89,726,305.78
2-3 years	0.00	24,505,256.60
Over 3 years	10,332,158.85	13,486,531.93
Net amount	<u>674,313,323.03</u>	<u>846,592,058.32</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable (Continued)

(2) Classification of accounts receivables by risks

Category	Ending balance				Book value
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Individually significant and provided for bad debts on individual basis	307,920,885.11	26.12	118,444,404.48	38.47	189,476,480.63
Provided for bad debts on portfolio basis of credit risk characteristics	859,356,940.82	72.88	378,542,660.99	44.05	480,814,279.83
Individually insignificant but provided for bad debts on individual basis	11,809,889.89	1.00	7,787,327.32	65.94	4,022,562.57
Total	<u>1,179,087,715.82</u>	<u>-</u>	<u>504,774,392.79</u>	<u>-</u>	<u>674,313,323.03</u>

Category	Beginning balance				Book value
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Individually significant and provided for bad debts on individual basis	497,166,498.52	36.41	126,507,886.80	25.45	370,658,611.72
Provided for bad debts on portfolio basis of credit risk characteristics	854,961,785.02	62.62	386,189,223.29	45.17	468,772,561.73
Individually insignificant but provided for bad debts on individual basis	13,306,396.50	0.97	6,145,511.63	46.18	7,160,884.87
Total	<u>1,365,434,680.04</u>	<u>100.00</u>	<u>518,842,621.72</u>	<u>-</u>	<u>846,592,058.32</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable (Continued)

(2) Classification of accounts receivables by risks (Continued)

- 1) Accounts receivable that are individually significant and provided for bad debts on individual basis at the end of the year

Company name	Ending Balance			Reason for provision
	Book balance	Amount of bad debts	Accrual percentage (%)	
Import and Export Company of Technical Products, TECHNOIMPORT	175,583,629.78	2,442,792.32	1.39	Note
Ningxia Boxin Hengtong Mechanical Equipment Co., Ltd	70,353,097.14	70,353,097.14	100.00	Note
Shanxi Linfeng Engineering Machinery Co., Ltd	22,948,112.87	22,948,112.87	100.00	Note
Tumoteyouqi Santian Mining Co., Ltd	15,954,573.72	5,893,040.71	36.94	Note
Shanxi Dongyuan Auto Sales Co., Ltd	8,530,035.54	8,530,035.54	100.00	Note
Luoyang Jinjun Industry and Trade Co., Ltd	8,145,999.99	8,145,999.99	100.00	Note
Central Enterprise for Supply and Sales of Heavy Transportation Equipment and their Parts	6,405,436.07	131,325.91	2.05	Note
Total	<u>307,920,885.11</u>	<u>118,444,404.48</u>	<u>/</u>	<u>/</u>

Note: According to the business nature of the Group, for customer accounts receivable of which the individual amount was more than 5 million yuan, these accounts receivables were tested separately. Provision for bad debts amount is based on the assessed loss rate. Bad debt allowance was accrued according to the difference by which the present value of future cash flows was lower than the book value.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable (Continued)

(2) Classification of accounts receivables by risks (Continued)

2) *Within the portfolio, accounts receivables of which bad debt allowances are made by aging analysis*

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	457,271,542.61	7,744,261.52	1.69
1-2 years	62,573,997.48	31,286,998.74	50.00
2-3 years	106,816,870.96	106,816,870.96	100.00
Over 3 years	232,694,529.77	232,694,529.77	100.00
Total	<u>859,356,940.82</u>	<u>378,542,660.99</u>	<u>44.05</u>

Aging	Beginning balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	392,453,450.01	8,588,167.95	2.19
1-2 years	169,814,559.35	84,907,279.68	50.00
2-3 years	210,800,427.33	210,800,427.33	100.00
Over 3 years	81,893,348.33	81,893,348.33	100.00
Total	<u>854,961,785.02</u>	<u>386,189,223.29</u>	<u>45.17</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable (Continued)

(2) Classification of accounts receivables by risks (Continued)

3) At the end of the year, accounts receivables which are individually insignificant but provided for bad debts on individual basis

Company name	Book balance	Amount of bad debts	Accrual percentage (%)	Reason for provision
Zhang, Yang Luoyang Jiangyang Metal Component Co., Ltd	3,592,300.00	3,592,300.00	100.00	Note
Luoyang Glass Co., Ltd	2,232,276.83	1,614,276.83	72.32	Note
Algeria SARL FRABIC IMPORT EXPORT	1,482,772.21	1,482,772.21	100.00	Note
The Republic of Congo HUBEI STAR IMPORT AND EXPORT TRADE CO	1,125,875.10	2,208.11	0.20	Note
Ethiopia SUGARCORPORATION	781,799.90	3,066.59	0.39	Note
Tunisia INTERPARTS	685,918.49	14,803.66	2.16	Note
He, Jinjun Jiangsu Zhunti Machinery Manufacturing Co., Ltd	578,732.61	18,311.00	3.16	Note
Tumd Right Banner Si Dao Gou Mining Co., Ltd	440,000.00	440,000.00	100.00	Note
Tongliao Yutai Auto Trade Co., Ltd	383,452.00	383,452.00	100.00	Note
	282,262.75	11,636.92	4.12	Note
	224,500.00	224,500.00	100.00	Note
Total	<u>11,809,889.89</u>	<u>7,787,327.32</u>	<u>-</u>	<u>-</u>

Note: According to the business nature of the Group, for customer accounts receivable of similar credit risk characteristics, these accounts receivables were classified as a special group. Provision for bad debts amount is based on the assessed loss rate.

(3) Details of accrual, collection or reversal of bad debt allowance

The amount of bad debt allowance accrued in this period is RMB114,601,054.08; the amount of reversed bad debt allowance is RMB81,988,721.85.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable (Continued)

(4) Accounts receivable actually written off during the year

Item	Amount written off
Accounts receivable actually written off	46,698,737.39

Among which, details of significant accounts receivable written off:

Company name	Nature of accounts receivable	Amount written off	Reason for written off	Written off procedures performed	Whether arising from related party transactions
Luoyang Tianfu Forging Co., Ltd	Payment for goods	2,815,815.80	Proceeding procedures completed, the court has made a decision to terminate the execution	Board meeting resolution	No
OAO TSENTRALNIY NAUCHNO-ISPITATELNIY POLIGON STROITELNIH I DOROZHNIH MASHIN	Payment for goods	2,452,166.62	The payment unable to recover, other than the insurance compensation	Board meeting resolution	No
INFINITY IMPORT EXPORT LTDA.	Payment for goods	1,081,222.63	The payment unable to recover, other than the insurance compensation	Board meeting resolution	No
Changchun unsettled subsidies	Agricultural machinery subsidies	36,424,700.00	Confirmed as not recoverable	Board meeting resolution	No
YTO (Shenyang) Co., Ltd	Payment for goods	2,336,811.25	The other party ceased operation	Board meeting resolution	Yes
Total	/	45,110,716.30	/	/	/



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

5. Accounts receivable (Continued)

(5) *Details of top five accounts receivables with the ending balance classified by the borrowers*

Company name	Relationship to the Group	Ending balance	Aging	Proportion to the ending balance of accounts receivable (%)
Import and Export Company of Technical Products, TECNOIMPORT	Non-related party	175,583,629.78	1-2 years	14.89
Liaoning Dongsheng Machinery Equipment Co., Ltd	Non-related party	82,395,347.00	1-2 years RMB52,500.00 2-3 years RMB3,613,319.00 over 3 years RMB78,729,528.00	6.99
Ningxia Boxin Hengtong Mechanical Equipment Co., Ltd	Non-related party	70,353,097.14	1-2 years RMB1,991,914.66 2-3 years RMB264,158.39 over 3 years RMB68,097,024.09	5.97
Wulumuqi Shifeng Agricultural Machinery Co., Ltd	Non-related party	63,016,518.81	2-3 years RMB29,226,840.00 over 3 years RMB33,789,678.81	5.34
YTO Group Corporation	Related party	47,571,196.27	Within 1 year	4.03
Total	-	<u>438,919,789.00</u>	-	<u>37.22</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

6. Advances to suppliers

Name of the item	Ending balance	Beginning balance
Advances to suppliers	145,822,237.87	63,465,891.75
Less: Bad debt allowance	2,088,200.17	2,532,592.90
Net amount	<u>143,734,037.70</u>	<u>60,933,298.85</u>

(1) Aging analysis of advances to suppliers

Item	Ending balance		Beginning balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	122,098,423.37	84.95	47,065,479.16	77.24
1-2 years	17,743,647.41	12.35	2,700,201.60	4.43
2-3 years	2,348,955.83	1.63	2,280,121.16	3.74
Over 3 years	1,543,011.09	1.07	8,887,496.93	14.59
Total	<u>143,734,037.70</u>	<u>100.00</u>	<u>60,933,298.85</u>	<u>100.00</u>

(2) Details of top five advances to suppliers with the ending balance classified by the payees:

Company name	Ending balance	Aging	Percentage in the ending balance of advances to suppliers (%)
Xuzhou Xu Tyre Rubber Co., Ltd	24,840,901.65	Within 1 year	17.04
Guizhou Tyre Co., Ltd	9,171,390.81	Within 1 year	6.29
Linzhou Hexin Casting Industry Co., Ltd	6,700,487.20	Within 1 year	4.59
Anyang Iron and Steel Co., Ltd	5,531,041.63	Within 1 year	3.79
Saint-Gobain (Xuzhou) Pipeline Co., Ltd	5,526,857.80	Within 1 year	3.79
Total	<u>51,770,679.09</u>	-	<u>35.50</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

7. Interest receivable

(1) *Classification of interests receivable*

Item	Ending balance	Beginning balance
Interest on fixed term deposits	12,027,545.45	1,878,611.11

(2) *The Group does not have any significant overdue interest at the end of the year.*

8. Other receivables

Name of the item	Ending balance	Beginning balance
Other receivables	123,269,614.75	81,965,303.92
Less: Bad debt allowance	18,343,317.25	14,321,111.02
Net amount	104,926,297.50	67,644,192.90

(1) *Aging analysis of other receivables*

Aging	Ending balance	Beginning balance
Within 1 year	85,275,371.51	55,672,162.70
1-2 years	9,226,565.07	6,097,207.27
2-3 years	5,074,934.78	2,866,780.35
Over 3 years	5,349,426.14	3,008,042.58
Net amount	104,926,297.50	67,644,192.90

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

8. Other receivables (Continued)

(2) Classification of other receivables

Category	Ending balance				Book value
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Other receivables that are individually significant and are provided for bad debts on individual basis	6,490,000.00	5.26	2,292,959.42	35.33	4,197,040.58
Other receivables that are provided for bad debts on portfolio basis of credit risk characteristics	116,633,364.75	94.62	15,998,686.75	13.72	100,634,678.00
Other receivables that are individually insignificant but are individually provided for bad debts	146,250.00	0.12	51,671.08	35.33	94,578.92
Total	<u>123,269,614.75</u>	<u>100.00</u>	<u>18,343,317.25</u>	<u>-</u>	<u>104,926,297.50</u>

Category	Beginning balance				Book value
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Other receivables that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are provided for bad debts on portfolio basis of credit risk characteristics	81,965,303.92	100.00	14,321,111.02	17.47	67,644,192.90
Other receivables that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00
Total	<u>81,965,303.92</u>	<u>100.00</u>	<u>14,321,111.02</u>	<u>-</u>	<u>67,644,192.90</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

8. Other receivables (Continued)

(2) Classification of other receivables (Continued)

- 1) Other receivables which had an individually significant balance and for which the provision of bad debts were accrued individually

Company name	Ending Balance			Reason of provision
	Book balance	Amount of bad debts	Accrual percentage (%)	
Shanghai Peng Pu Machinery Factory Co., Ltd	6,490,000.00	2,292,959.42	35.33	Note

Note: In accordance with the business nature, the Group performed the separate tests on the other receivables due from the clients with the individual balance over RMB5 million, and took the assessed loss rate as the basis to accrue the amount of bad debt reserves.

- 2) Within the portfolios, other receivables on which bad debt allowances are accrued by aging analysis

Aging	Ending balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Within 1 year	11,812,043.02	239,518.97	2.03
1-2 years	1,746,801.36	873,400.69	50.00
2-3 years	2,201,145.78	2,201,145.78	100.00
Over 3 years	12,684,621.31	12,684,621.31	100.00
Total	28,444,611.47	15,998,686.75	56.25

Aging	Beginning balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Within 1 year	22,473,169.99	422,280.43	1.88
1-2 years	5,748,428.20	1,125,667.88	19.58
2-3 years	2,966,474.95	542,871.56	18.30
Over 3 years	14,541,278.68	12,230,291.15	84.11
Total	45,729,351.82	14,321,111.02	31.32

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

8. Other receivables (Continued)

(2) Classification of other receivables (Continued)

- 2) *Within the portfolios, other receivables on which bad debt allowances are accrued by aging analysis (Continued)*

Within the portfolios, other receivables on which bad debt allowances are accrued by other methods:

Item	Ending balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Low risk portfolio of deposits and petty cash	88,188,753.28	0.00	0.00

Item	Beginning balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Low risk portfolio of deposits and petty cash	36,235,952.10	0.00	0.00

- 3) *Other receivables which had an individually insignificant balance but for which the provision of bad debts were accrued individually*

Company name	Book balance	Amount of bad debts	Accrual percentage (%)	Reason of provision
Jurong Topall Machinery Manufacturing Co., Ltd	146,250.00	51,671.08	35.33	Note

Note: in accordance with the business nature, the Group classified the other receivables due from clients with similar credit risk characteristics as the special portfolio, and took the assessed loss rate as the basis to accrue the amount of bad debt reserves.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

8. Other receivables (Continued)

(3) Details of accrual, collection or reversal of bad debt allowance

The amount of bad debt allowance accrued in this period is RMB5,641,023.72; the reversed amount of bad debt allowance is RMB1,618,817.49.

(4) Classification of other receivables by nature

Nature of payment	Carrying amount at the end of the year	Carrying amount at the beginning of the year
Receivables and payments between companies	28,391,682.18	44,037,517.32
Deposits and petty cash	68,025,564.57	10,171,007.22
Receivables from asset transfer	0.00	3,572,242.13
Collection and payment of social insurance withheld	2,860,679.28	4,877,936.27
Others	5,648,371.47	4,985,489.96
Total	104,926,297.50	67,644,192.90

(5) Details of top five other receivables with the ending balance classified by the borrowers

Company name	Nature of payment	Ending balance	Aging	Percentage in the ending balance of other receivables (%)	Ending balance of bad debt allowance
YTO Group Corporation	Deposit and funds between parties	46,858,196.24	Within 1 year RMB45,726,721.50 1-2 years RMB19,600.00 Over 3 years RMB1,111,874.74	38.01	1,060,391.13
National Tax Bureau of Jianxi, Luoyang	Refundable export tax refund	7,534,941.72	Within 1 year	6.11	0.00
Shanghai Peng Pu Machinery Factory Co., Ltd	Payment and receivables on current accounts	6,490,000.00	Over 3 years	5.26	2,292,917.00
Shaanxi Heavy-duty Motor Co. Ltd	Deposit and payment and receivables on current accounts	4,350,297.21	Within 1 year RMB2,351,297.21 1-2 years RMB1,999,000.00	3.53	23,502.97
State Taxation Bureau of Beijing Economic and Technological Development Zone	Refundable export tax refund	3,715,382.37	Within 1 year	3.01	0.00
Total	-	68,948,817.54	-	55.92	3,376,811.10

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

9. Buying back the sale of financial assets

(1) Analysis according to the nature of the counterparty

Item	Ending balance	Beginning balance
Buying back the sale of financial assets	-	-
Domestic interbank institutes	354,848,615.72	899,544,776.20
Domestic other financial institutes	0.00	0.00
Total	<u>354,848,615.72</u>	<u>899,544,776.20</u>

(2) Analysis according to the remaining days to the maturity

Item	Ending balance	Beginning balance
Due within one month	<u>354,848,615.72</u>	<u>899,544,776.20</u>

(3) Analysis according to the asset type

Item	Ending balance	Beginning balance
Bonds	<u>354,848,615.72</u>	<u>899,544,776.20</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

10. Inventories

(1) Classification of inventories

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	437,045,529.52	44,985,679.65	392,059,849.87	520,878,427.01	42,485,078.39	478,393,348.62
Work in progress	284,228,490.13	18,091,727.32	266,136,762.81	335,089,344.27	21,090,101.39	313,999,242.88
Finished goods	372,760,722.03	23,328,733.26	349,431,988.77	402,192,537.54	35,242,101.16	366,950,436.38
Turnover materials	10,208,021.04	3,122,655.48	7,085,365.56	10,242,741.10	679,230.72	9,563,510.38
Total	<u>1,104,242,762.72</u>	<u>89,528,795.71</u>	<u>1,014,713,967.01</u>	<u>1,268,403,049.92</u>	<u>99,496,511.66</u>	<u>1,168,906,538.26</u>

(2) Impairment provision for inventories

Item	Beginning balance	Increase in this year		Decrease in this year		Ending balance
		Provision	Others	Reversed or written-off	Other transfer out	
Raw materials	42,485,078.39	11,635,393.69	656,854.45	9,791,646.88	0.00	44,985,679.65
Work in progress	21,090,101.39	4,090,214.51	0.00	7,088,588.58	0.00	18,091,727.32
Finished goods	35,242,101.16	5,551,902.96	70,491.38	17,535,762.24	0.00	23,328,733.26
Turnover materials	679,230.72	2,443,424.76	0.00	0.00	0.00	3,122,655.48
Total	<u>99,496,511.66</u>	<u>23,720,935.92</u>	<u>727,345.83</u>	<u>34,415,997.70</u>	<u>0.00</u>	<u>89,528,795.71</u>

(3) Impairment provision for inventories

Item	Basis for recognition of net realizable value	Reason for reversal or written-off in this year
Raw materials	Ending market price less estimated expense to incur	Normal reversal of price decrease
Work in progress	Ending market price less estimated expense to incur	Normal reversal of price decrease
Finished goods	Ending market price less estimated expense to incur	Normal reversal of price decrease
Turnover materials	Ending market price less estimated expense to incur	Normal reversal of price decrease
Total	—	—

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

11. Other current assets

Item	Ending balance	Beginning balance
Deferred expenses	2,558,317.81	329,857.61
Structured deposit	231,000,000.00	75,000,000.00
Prepaid enterprise income tax	20,288,679.64	11,098,564.72
Financial products	500,000,000.00	382,000,000.00
Value-added tax left for deduction	336,169,328.06	0.00
Restrictive collective asset management plan	308,000,000.00	0.00
Advance payment of value-added tax	14,914,052.13	0.00
Total	1,412,930,377.64	468,428,422.33

- (1) On November 25, 2016, the Company and Luoyang Xiyuan Road Branch of China Everbright Bank signed the 'Structured deposit contract', to purchase '2016 The number one hundred and twenty-fourth unified issue of the structured deposit product to public business' at the amount of RMB62 million. The annual rate of return is 2.9%. The starting date to calculate the return is November 25, 2016 and the maturity date is May 25, 2017. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (2) On December 22, 2016, the Company and Luoyang Xiyuan Road Branch of China Everbright Bank signed the 'Structured deposit contract', to purchase '2016 The number twelfth issue of the customized product to public business' at the amount of RMB100 million. The annual rate of return is 3.85%. The starting date to calculate the return is December 22, 2016 and the maturity date is June 22, 2017. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (3) On October 26, 2016, the Company and Luoyang Branch of China Everbright Bank signed the 'Structured deposit contract', to purchase '2016 The number one hundred and eleventh unified issue of the structured deposit product to public business' at the amount of RMB15 million. The annual rate of return is 2.85%. The starting date to calculate the return is October 26, 2016 and the maturity date is April 26, 2017. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (4) On December 19, 2016, the subsidiary of the Company, YTO (Luoyang) Fuel Injection Co., Ltd and China Everbright Bank Luoyang Branch signed the 'Structured deposit contract', to purchase the structured product with the contract number of '2016101044741' at the amount of RMB30 million. The annual rate of return is 3.35%. The starting date to calculate the return is December 19, 2016 and the maturity date is March 19, 2017. The subsidiary also purchased the structured product with the contract number of '2016101044744' at the amount of RMB24 million. The annual rate of return is 3.3%. The starting date to calculate the return is December 19, 2016 and the maturity date is June 19, 2017. The two products are guaranteed income type products. The principal and return will be returned at one time at maturity.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

11. Other current assets (Continued)

- (5) On December 30, 2016, the Company and Bank of Communications Luoyang Branch signed a series of contracts to purchase the 'Yun Tong wealth – daily increasing profits' at the amount of RMB300 million, with the annual rate of return of 4.00%. The starting date to calculate the return is December 30, 2016 and the maturity date is June 28, 2017. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (6) On December 15, 2016, the Company and Bank of Communications Luoyang Branch signed a series of contracts to purchase the 'Yun Tong wealth – A long time pension – Monthly rich' at the amount of RMB200 million, with the annual rate of return of 4.00%. The starting date to calculate the return is December 15, 2016 and the maturity date is June 22, 2017. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.

The total amount of the aforementioned financial products in (5) and (6) was RMB500,000,000.00.

- (7) The subsidiary of the Company, YTO Group Finance Co., Ltd purchased the 'Ying Duo Duo Collective asset management plan' from Donghai Securities Co., Ltd, a product with RMB308,000,000.00 which was not due by the end of the period. The details were as following:

Product name	Amount	Starting date	Termination date
Ying Duo Duo Six-month Type No. 72 Issue A0DY15	55,000,000.00	2016-7-6	2017-1-4
Ying Duo Duo Six-month Type No. 74 Issue A0DY18	50,000,000.00	2016-7-13	2017-1-9
Ying Duo Duo Six-month Type No. 75 Issue A0DY22	20,000,000.00	2016-7-20	2017-1-16
Ying Duo Duo Six-month Type No. 78 Issue A0DY30	31,000,000.00	2016-8-10	2017-2-7
Ying Duo Duo Six-month Type No. 80 Issue A0DY34	10,000,000.00	2016-8-24	2017-2-21
Ying Duo Duo Six-month Type No. 82 Issue A0DY38	30,000,000.00	2016-9-7	2017-3-7
Ying Duo Duo Six-month Type No. 92 Issue A0DY31	6,000,000.00	2016-11-23	2017-5-23
Ying Duo Duo Three-month Type No. 108 Issue A0DY02	26,000,000.00	2016-12-6	2017-3-7
Ying Duo Duo Six-month Type No. 94 Issue A0DY35	80,000,000.00	2016-12-7	2017-6-6
Total:	<u>308,000,000.00</u>	-	-

- (8) According to the Notice of the Ministry of Finance (Cai Kuai [2016] No. 22) on Issuing the 'Provisions on the accounting treatment of value added tax' on December 3, 2016, and the analysis of the issues concerning the 'Accounting treatment of VAT', the ending debit balance of the detail sub accounts of the account of 'taxes payable' such as the 'VAT payable', 'unpaid VAT', 'VAT input tax left for deduction', 'VAT input tax left for authorization', and 'VAT amount retained for deduction' should be listed in the item of 'other current assets' or 'other non-current assets' of the balance sheet. For the ending credit balance of the accounts such as 'taxes payable – output tax to be transferred out', the balances should be listed in the 'other current liabilities' or 'other non-current liabilities' of the balance sheet according to the situation. The ending credit balance of the accounts such as 'unpaid VAT', 'simplified calculation of tax', 'VAT payable on transfer of financial products', and 'withholding payment of value-added tax' under the account of 'taxes payable' should be listed in the item of 'taxes payable' of the balance sheet. For the situation of which the amount of the disclosed items such as assets, liabilities, and profit or loss in the financial statements of the transactions incurred during May 1, 2016 to the implementation period of the provision was affected by the provision, adjustments should be made according to the provision. For the transactions incurred from January 1, 2016 to April 30, 2016, no retroactive adjustment should be made. For the financial statements of the comparable period of the 2016 financial statements, no retroactive adjustment should be made. According to the aforementioned provision, the Company listed the 'value-added tax left for deduction' of RMB336,169,328.06 and 'advance payment of value-added tax' of RMB14,914,052.13 as 'other current assets'.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

12. Granting loans and advances

(1) *Distribution details by individual and corporate of loans and advances*

Item	Ending balance	Beginning balance
Individual loans and advances	1,679,823.91	2,519,006.06
Credit cards	0.00	0.00
Property mortgages	97,823.91	139,006.06
Others	1,582,000.00	2,380,000.00
Corporate loans and advances	769,573,837.28	1,879,186,519.90
Loans	631,400,000.00	614,350,000.00
Discounting	138,173,837.28	1,264,836,519.90
Others	0.00	0.00
Total loans and advances	771,253,661.19	1,881,705,525.96
Less: Impairment provision of loans	22,889,251.53	22,087,888.51
Including: Provision made on individual basis	0.00	0.00
Provision made on portfolio basis	22,889,251.53	22,087,888.51
Total carrying value of loans and advances	748,364,409.66	1,859,617,637.45

(2) *Distribution details by industry sectors of loans and advances*

Distribution of industry	Ending balance	Percentage (%)	Beginning balance	Percentage (%)
Machinery manufacturing	769,573,837.28	99.78	1,879,186,519.90	99.87
Individuals	1,679,823.91	0.22	2,519,006.06	0.13
Total loans and advances	771,253,661.19	100.00	1,881,705,525.96	100.00
Less: Impairment provision of loans	22,889,251.53	2.97	22,087,888.51	1.18
Including: Provision made on individual basis	0.00	0.00	0.00	0.00
Provision made on portfolio basis	22,889,251.53	2.97	22,087,888.51	1.18
Total carrying value of loans and advances	748,364,409.66	/	1,859,617,637.45	/



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

12. Granting loans and advances (Continued)

(3) Distribution details by geographic location of loans and advances

Geographic distribution	Ending balance	Percentage (%)	Beginning balance	Percentage (%)
Northeast China	140,000,000.00	18.15	65,000,000.00	3.45
Central China	629,671,661.19	81.64	1,814,325,525.96	96.42
Northwest China	1,582,000.00	0.21	2,380,000.00	0.13
Total loans and advances	771,253,661.19	100.00	1,881,705,525.96	100.00
Less: Impairment provision of loans	22,889,251.53	2.97	22,087,888.51	1.18
Including: Provision made on individual basis	0.00	0.00	0.00	0.00
Provision made on portfolio basis	22,889,251.53	2.97	22,087,888.51	1.18
Total carrying value of loans and advances	748,364,409.66	/	1,859,617,637.45	/

(4) Distribution details by type of credit guarantee modes

Item	Ending balance	Beginning balance
Credit loans	275,400,000.00	533,880,000.00
Guaranteed loans	356,000,000.00	72,870,000.00
Loans secured by collateral	139,853,661.19	1,274,955,525.96
Including: Mortgage loans	0.00	2,519,006.06
Pledged loans	139,853,661.19	1,272,436,519.90
Total loans and advances	771,253,661.19	1,881,705,525.96
Less: Impairment provision of loans	22,889,251.53	22,087,888.51
Including: Provision made on individual basis	0.00	0.00
Provision made on portfolio basis	22,889,251.53	22,087,888.51
Total carrying value of loans and advances	748,364,409.66	1,859,617,637.45

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

12. Granting loans and advances (Continued)

(5) Provision for losses on loans

Item	Amount in this year		Amount in last year	
	Individual	Portfolio	Individual	Portfolio
Beginning balance	0.00	22,087,888.51	0.00	20,667,398.16
Current year provision	0.00	801,363.02	0.00	1,420,490.35
Ending balance	<u>0.00</u>	<u>22,889,251.53</u>	<u>0.00</u>	<u>22,087,888.51</u>

13. Financial assets available for sale

(1) Details of financial assets available for sale

Item	Ending balance		
	Book balance	Impairment provision	Book value
Debt instruments available for sale:	0.00	0.00	0.00
Equity instruments available for sale:	47,604,558.74	0.00	47,604,558.74
Measured at fair value	47,604,558.74	0.00	47,604,558.74
Measured at cost	0.00	0.00	0.00
Others	192,452,141.41	4,322,800.00	188,129,341.41
Measured at cost	192,452,141.41	4,322,800.00	188,129,341.41
Total	<u>240,056,700.15</u>	<u>4,322,800.00</u>	<u>235,733,900.15</u>

Item	Beginning balance		
	Book balance	Impairment provision	Book value
Debt instruments available for sale	0.00	0.00	0.00
Equity instruments available for sale	71,305,200.00	0.00	71,305,200.00
Measured at fair value	71,305,200.00	0.00	71,305,200.00
Measured at cost	0.00	0.00	0.00
Others	197,252,141.41	9,122,800.00	188,129,341.41
Measured at cost	197,252,141.41	9,122,800.00	188,129,341.41
Total	<u>268,557,341.41</u>	<u>9,122,800.00</u>	<u>259,434,541.41</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

13. Financial assets available for sale (Continued)

(2) *Analysis of financial assets available for sale is as following*

Item	Ending balance	Beginning balance
Listed	47,604,558.74	71,305,200.00
China (except for Hong Kong)	47,604,558.74	71,305,200.00
Hong Kong	0.00	0.00
Other regions	0.00	0.00
Unlisted	188,129,341.41	188,129,341.41
Total	235,733,900.15	259,434,541.41

(3) *Financial assets available for sale measured at fair value at year end*

Item	Equity instruments available for sale	Debt instruments available for sale	Others	Total
Cost of equity instrument	29,415,051.65	0.00	0.00	29,415,051.65
Fair value	47,604,558.74	0.00	0.00	47,604,558.74
Accumulated other comprehensive income from changes on fair value	18,189,507.09	0.00	0.00	18,189,507.09
Impairment provision accrued	0.00	0.00	0.00	0.00

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

13. Financial assets available for sale (Continued)

(4) Financial assets available for sale measured at cost at year end

Invested company	Book balance				Impairment provision			Ending balance	Shareholding percentage in the invested company (%)	Cash dividend in the year
	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Beginning balance	Increase in this year	Decrease in this year			
Beijing Zhongnongwang Technology Co., Ltd (Note 1)	2,122,800.00	0.00	0.00	2,122,800.00	2,122,800.00	0.00	0.00	2,122,800.00	15.00	0.00
Nanyang Xiangrui Agricultural Equipment Co., Ltd (Note 2)	1,400,000.00	0.00	0.00	1,400,000.00	1,400,000.00	0.00	0.00	1,400,000.00	7.00	0.00
YTO (Luoyang) Dongfanghong Tire Company (Note 2)	800,000.00	0.00	0.00	800,000.00	800,000.00	0.00	0.00	800,000.00	3.11	0.00
Luoyin Financial Leasing Co., Ltd (Note 3)	110,000,000.00	0.00	0.00	110,000,000.00	0.00	0.00	0.00	0.00	6.875	0.00
Bank of Luoyang Co., Ltd (Note 4)	78,129,341.41	0.00	0.00	78,129,341.41	0.00	0.00	0.00	0.00	4.06	16,122,000.00
Luoyang Bofeng Bearing Co., Ltd (Note 5)	4,800,000.00	0.00	4,800,000.00	0.00	4,800,000.00	0.00	4,800,000.00	0.00	0.00	0.00
Total	197,252,141.41	0.00	4,800,000.00	192,452,141.41	9,122,800.00	0.00	4,800,000.00	4,322,800.00	-	16,122,000.00

Note 1: Beijing Zhongnongwang Technology Co., Ltd has been in the status of discontinued operations. The Group is no longer involved in the operation and liquidation and drawn the related assigned staff back. Full impairment has been provided for the investment in this company.

Note 2: Full impairment has been made on investments in Nanyang Xiangrui Agricultural Equipment Co., Ltd and YTO (Luoyang) Dongfanghong Tire Company by the Group due to their poor management performance.

Note 3: Luoyin Financial Leasing Co., Ltd implemented capital increase on June 28, 2016 with its registered capital increased to RMB1,600 million. Because the Group did not participate in the matters of capital increase, such fact resulted in the shareholding percentage decreased from 18.34% to 6.875%.

Note 4: The subsidiary of the Company, YTO (Luoyang) Diesel Engine Co., Ltd held the share equity of Bank of Luoyang Co., Ltd. Bank of Luoyang Co., Ltd implemented capital increase on April 19, 2016 with its registered capital increased to RMB2,650 million. Because YTO (Luoyang) Diesel Engine Co., Ltd did not participate in the matters of capital increase, such fact resulted in the shareholding percentage decreased from 4.89% to 4.06%.

Note 5: The subsidiary of the Company, YTO International Economic and Trade Co., Ltd held 16% of the share equity of Luoyang Bofeng Bearing Co., Ltd. Luoyang Bofeng Bearing Co., Ltd has been in the status of discontinued operations. YTO International Economic and Trade Co., Ltd has made the impairment provision at the full amount. On December 2, 2016, the general manager office meeting approved that the treatment of investment loss on the share equity right of Luoyang Bofeng Bearing Co., Ltd should be made and the equity should be written off.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

13. Financial assets available for sale (Continued)

(5) Impairment provision of financial assets available for sale

Classification of financial assets available for sale	Equity instruments available for sale	Debt instruments available for sale	Others	Total
Beginning balance of impairment provision accrued	0.00	0.00	9,122,800.00	9,122,800.00
Current year provision	0.00	0.00	0.00	0.00
Including: Transferred in from other comprehensive income	0.00	0.00	0.00	0.00
Decrease in this year	0.00	0.00	4,800,000.00	4,800,000.00
Including: Reversal due to fair value increase afterwards	0.00	0.00	0.00	0.00
Ending balance of impairment provision accrued	<u>0.00</u>	<u>0.00</u>	<u>4,322,800.00</u>	<u>4,322,800.00</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

14. Held to maturity investments

(1) Details of held to maturity investments

Item	Ending balance			Beginning balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Bonds	114,574,997.38	56,222,258.70	58,352,738.68	0.00	0.00	0.00
Total	<u>114,574,997.38</u>	<u>56,222,258.70</u>	<u>58,352,738.68</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

(2) Significant held to maturity investments in the ending balance

Bond item	Face value	Coupon rate	Real interest rate	Date of maturity
15 short term financing bills Guoyu logistics CP001	50,000,000.00	7.00%	7.60%	2016-8-6
15 short term financing bills Guoyu logistics CP002	10,000,000.00	7.00%	7.50%	2016-10-28
15 short term financing bills Guoyu logistics CP002	30,000,000.00	7.00%	8.00%	2016-10-28
Corporate bonds 16 Luoyang municipality	20,000,000.00	7.50%	7.50%	2019-6-3
Total	<u>110,000,000.00</u>	<u>-</u>	<u>-</u>	-

Note: The subsidiary of the Company, YTO Group Finance Co., Ltd purchased the short-term financing bonds 'Guoyu logistics CP001' of RMB50 million, and 'Guoyu logistics CP002' of RMB40 million. The issuer Wuhan Guoyu Logistics Group Co., Ltd could not pay the funds to discharge the due debts at the full amount in accordance with the agreement. The two items of held to maturity investments held by YTO Group Finance Co., Ltd were not recovered and were past due. Combined with the information such as market prices, corporate governance, financial condition, the rating of rating firms and the valuation condition of China Bond at the end of the period, according to the 'Five level classification standard of asset quality of YTO Group Finance Co., Ltd', the investments were identified as suspicious claims. At the end of the period, the 60% impairment provision of RMB56,222,258.70 was accrued on the two items of held to maturity investments held.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

15. Long term equity investments

(1) Classification of long term equity investments

Invested company	Beginning balance	Additional investment	Investment reduced	Changes of increase/decrease in the year						Ending balance	Ending balance of impairment provision
				Investment profit/loss recognized under equity method	Adjustment of other comprehensive income	Other equity changes	Declared cash dividends/profit to be distributed	Provision for impairment	Others		
I. Investments in subsidiaries	16,200,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16,200,000.00	16,200,000.00
YTO (Shenyang) Co., Ltd (Note 1)	16,200,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16,200,000.00	16,200,000.00
II. Investments in associates	157,644,710.16	0.00	7,093,705.01	8,492,510.26	0.00	0.00	2,940,000.00	0.00	0.00	156,103,515.41	7,004,515.65
ZF YTO (Luoyang) Drive Axle Co., Ltd	142,444,910.59	0.00	0.00	8,546,860.34	0.00	0.00	2,940,000.00	0.00	0.00	148,051,770.93	0.00
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	1,021,539.70	0.00	0.00	-64,770.14	0.00	0.00	0.00	0.00	0.00	956,769.56	0.00
Luoyang Fusaite Auto Co., Ltd (Note 1)	7,004,515.65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,004,515.65	7,004,515.65
Luoyang I&C Technology Consulting Co., Ltd	80,039.21	0.00	0.00	10,420.06	0.00	0.00	0.00	0.00	0.00	90,459.27	0.00
Luoyang Yongwei Machinery Co., Ltd (Note 2)	7,083,705.01	0.00	7,093,705.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	173,844,710.16	0.00	7,093,705.01	8,492,510.26	0.00	0.00	2,940,000.00	0.00	0.00	172,303,515.41	23,204,515.65

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

15. Long term equity investments (Continued)

(1) *Classification of long term equity investments* (Continued)

Note 1: YTO (Shenyang) Co., Ltd and Luoyang Fusaito Auto Co., Ltd have been in the state of discontinued operations. The Group is no longer involved in the operation and liquidation of the above companies and drawn the related assigned staff back. Full impairment has been provided for investments in above companies.

Note 2: The subsidiary of the Company, YTO (Luoyang) Flag Auto-Body Company Limited signed an equity transfer agreement with the natural person, Chen, Qingfeng, under which YTO (Luoyang) Flag Auto-Body Company Limited transferred the 48.6% share equity right of Luoyang Yongwei Machinery Co., Ltd held to Chen, Qingfeng at RMB7.215 million. The price of the equity transaction was based on the assessed net asset value of Luoyang Yongwei Machinery Co., Ltd by November 30, 2015. As of November 30, 2015, the value of net asset assessed by China United Assets Appraisal Group Co., Ltd was RMB14.8456 million. Luoyang Yongwei Machinery Co., Ltd completed the procedures of business registration change on July 15, 2016.

(2) *Analysis of long term equity investments*

Item	Ending balance	Beginning balance
Listed	0.00	0.00
Unlisted	149,098,999.76	150,640,194.51
Total	149,098,999.76	150,640,194.51



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

16. Fixed assets

(1) Detail spreadsheet of fixed assets

Item	Land	Buildings	Machinery	Transportation equipment	Electronic and office equipment	Other equipment	Total
I. Original book balance							
1. Beginning balance	7,329,341.60	2,030,160,497.00	3,544,583,720.27	55,214,326.94	132,284,803.13	12,877,809.94	5,782,450,498.88
2. Increase amount in this year	218,582.80	96,063,507.80	343,504,239.97	4,542,399.28	9,224,364.13	2,250,560.77	455,803,654.75
(1) Purchase	0.00	657,644.26	32,948,402.74	2,219,923.79	4,826,782.07	504,216.99	41,156,969.85
(2) Transferred from construction in progress	0.00	95,353,749.02	309,321,442.85	2,322,475.49	4,391,501.24	1,673,873.51	413,063,042.11
(3) Others	218,582.80	52,114.52	1,234,394.38	0.00	6,080.82	72,470.27	1,583,642.79
3. Decrease amount in this year	0.00	39,299,948.31	51,736,467.20	5,553,698.80	1,310,078.52	0.00	97,900,192.83
(1) Disposal of scrapped	0.00	38,954,462.83	51,327,997.11	5,553,698.80	1,310,078.52	0.00	97,146,237.26
(2) Others	0.00	345,485.48	408,470.09	0.00	0.00	0.00	753,955.57
4. Ending balance	7,547,924.40	2,086,924,056.49	3,836,351,493.04	54,203,027.42	140,199,088.74	15,128,370.71	6,140,353,960.80
II. Accumulated depreciation							
1. Beginning balance	0.00	775,281,217.29	2,014,764,265.11	31,167,457.01	68,301,144.67	7,730,667.16	2,897,244,751.24
2. Increase amount in this year	0.00	62,570,170.75	223,066,031.25	4,560,542.18	10,132,888.41	912,614.07	301,242,246.66
(1) Provision	0.00	62,562,841.22	222,031,819.92	4,526,937.00	9,852,670.03	881,241.37	299,855,509.54
(2) Others	0.00	7,329.53	1,034,211.33	33,605.18	280,218.38	31,372.70	1,386,737.12
3. Decrease amount in this year	0.00	8,370,727.83	36,543,354.10	4,578,129.68	1,194,788.13	0.00	50,686,999.74
(1) Disposal of scrapped	0.00	8,370,727.83	36,413,279.24	4,578,129.68	1,194,788.13	0.00	50,556,924.88
(2) Others	0.00	0.00	130,074.86	0.00	0.00	0.00	130,074.86
4. Ending balance	0.00	829,480,660.21	2,201,286,942.26	31,149,869.51	77,239,244.95	8,643,281.23	3,147,799,998.16
III. Impairment provision							
1. Beginning balance	0.00	1,500.00	18,223,290.85	11,663.13	0.00	207,849.68	18,444,303.66
2. Increase amount in this year	0.00	1,469,889.40	1,565,777.96	143,737.75	0.00	78,226.35	3,257,631.46
(1) Provision	0.00	1,469,889.40	1,565,777.96	143,737.75	0.00	78,226.35	3,257,631.46
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	0.00	1,500.00	1,900.00	0.00	0.00	0.00	3,400.00
(1) Disposal of scrapped	0.00	1,500.00	1,900.00	0.00	0.00	0.00	3,400.00
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	0.00	1,469,889.40	19,787,168.81	155,400.88	0.00	286,076.03	21,698,535.12
IV. Book value							
1. Ending balance of book value	7,547,924.40	1,255,973,506.88	1,615,277,381.97	22,897,757.03	62,959,843.79	6,199,013.45	2,970,855,427.52
2. Beginning balance of book value	7,329,341.60	1,254,877,779.71	1,511,596,164.31	24,035,206.80	63,983,658.46	4,939,293.10	2,866,761,443.98

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

16. Fixed assets (Continued)

(1) *Detail spreadsheet of fixed assets* (Continued)

Note: The depreciation recognized as profit or loss was RMB299,855,509.54 in this year (amount in last year: RMB281,111,036.92).

Increase in fixed assets includes RMB413,063,042.11 transferred from construction in progress.

The net loss on sale of fixed asset in the current year is RMB9,165,962.45.

At the end of the period, the original value of the fixed assets on which the accumulated depreciation was fully accrued and still in use continuously was RMB1,535,070,027.76.

Refer to the statement in the Note "VI.71" for detailed information about the ending balance of pledge on fixed assets.

(2) *Analysis of houses and buildings by regions of location and investment period:*

Item	Ending balance	Beginning balance
Located within the territory of China	1,255,973,506.88	1,254,877,779.71
Long-term (Over 50 years)	0.00	0.00
Mid-term (10–50 years)	1,255,973,506.88	1,254,877,779.71
Short-term (Within 10 years)	0.00	0.00
Located abroad	0.00	0.00
Long-term (Over 50 years)	0.00	0.00
Mid-term (10–50 years)	0.00	0.00
Short-term (Within 10 years)	0.00	0.00
Total	1,255,973,506.88	1,254,877,779.71

(3) *Fixed assets leased out by operating lease*

The ending balance of the fixed assets with book value of RMB91,979,373.90 is leased out due to operating lease (last year: RMB64,431,076.00). The details are as followings:

Item	Book value
Houses and buildings	89,988,939.06
Machine and equipment	1,990,434.84
Total	91,979,373.90



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

16. Fixed assets (Continued)

(4) Fixed assets with the property right certificate unprocessed yet

With a carrying amount of RMB46,679,925.51 of fixed assets are purchased from outside party in this year (Beginning balance: RMB55,019,469.15); the formalities of property rights transfer are not processed or still in progress. Since transferring process stated above is implemented based on relevant legal agreements, the Board of Directors of the Group believes that there are no substantive legal barriers or impacts which could affect the normal use rights of these buildings regarding to the transfer of ownership rights; and not constituting significant impacts on the normal operations of the Group. Accordingly no provision for impairment needs to be recorded, and no significant additional cost would incur.

Item	Book value	Reason for property right certificate not yet processed
Main Factory house and office building of subsidiary Fulaige Zhengzhou Branch	13,406,131.51	Land title was obtained in April 2012. Administration Committee of Economic Development Zone and Haima Company had requirement on the progress of the construction project and the project must be completed as planned. They required the construction project to commence before the application of relevant formalities to be started. The application of planning permit of construction project is in progress. Bidding file, construction permit, fire file, quality testing and project completion acceptance shall all be applied after receiving the planning permit of construction project. And the property ownership certificate is expected to be obtained at the end.
Subsidiary transportation machinery plant and office building	15,576,634.24	The land was bought from Cijian Town People's Government Xin'an County in August 2004. According to the agreement signed by both of the parties, land transfer fee, certificate fee and relevant taxes should all be included in the total price. However during the application process for property ownership certificate, the developer refused to pay the taxes for deed and farmland occupation. With the unsuccessful negotiation with the developer, the enterprise cannot afford such a relatively large amount of taxes because of the consecutive business losses suffered in the recent years. Therefore, the property ownership certificate application is still in progress.
The factory buildings of the 100 thousand light diesel engine of the subsidiary, Jiangyan Power	17,697,159.76	The land property right of such house property has not yet been completed
Total	<u>46,679,925.51</u>	-

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

17. Construction in progress

(1) Detail spreadsheet of construction in progress

Item	Ending balance			Beginning balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Core capacity upgrading project on new wheeled tractor	14,342,024.77	0.00	14,342,024.77	181,656,589.97	0.00	181,656,589.97
Agricultural high-power diesel engine project	144,266,230.70	0.00	144,266,230.70	160,110,988.49	0.00	160,110,988.49
New giant parts workshop of No. 3 Assembling Factory	5,074,905.98	0.00	5,074,905.98	68,002,643.08	0.00	68,002,643.08
Cylinder old line reconstruction project	9,110,117.95	0.00	9,110,117.95	14,615,143.64	0.00	14,615,143.64
EPC project	0.00	0.00	0.00	6,711,337.76	0.00	6,711,337.76
Forged crankshaft machining line project	4,401,730.99	0.00	4,401,730.99	3,070,320.43	0.00	3,070,320.43
Technical innovation project	23,738,898.21	0.00	23,738,898.21	16,231,226.80	0.00	16,231,226.80
Construction in progress in France	8,973,928.03	6,006,920.28	2,967,007.75	7,576,695.24	5,981,106.34	1,595,588.90
IF furnace reconstruction project	0.00	0.00	0.00	4,618,714.63	0.00	4,618,714.63
KW model line transformation system project	0.00	0.00	0.00	7,412,071.81	0.00	7,412,071.81
Technology improvement project to promote the qualities for P-type injector, P-type injector pump	5,657,198.48	0.00	5,657,198.48	5,596,360.53	0.00	5,596,360.53
Enhancement of the heat treatment	191,501.32	0.00	191,501.32	6,597,049.23	0.00	6,597,049.23
Project of command and exhibition center	0.00	0.00	0.00	2,168,589.30	0.00	2,168,589.30
400 and LF904 fender welding automatic production line	5,012,822.94	0.00	5,012,822.94	4,072,651.99	0.00	4,072,651.99
Cooling road expansion project	0.00	0.00	0.00	3,011,038.45	0.00	3,011,038.45
Electrophoresis line	4,571,112.96	0.00	4,571,112.96	4,571,112.96	0.00	4,571,112.96
Plant foundation	2,206,437.39	0.00	2,206,437.39	2,224,411.39	0.00	2,224,411.39
Environmental protection facilities upgrading precipitators	0.00	0.00	0.00	2,283,435.16	0.00	2,283,435.16
Logistics service building and dismounting room project	0.00	0.00	0.00	3,450,616.05	0.00	3,450,616.05
Technical innovation project of the Company	44,291,032.24	0.00	44,291,032.24	17,543,913.97	0.00	17,543,913.97
Public rental housing project	46,237,350.29	0.00	46,237,350.29	38,397,949.20	0.00	38,397,949.20
Diesel engine upgrading project	12,789,743.55	0.00	12,789,743.55	0.00	0.00	0.00
Others	61,984,037.63	10,018,891.54	51,965,146.09	67,981,635.31	8,533,977.20	59,447,658.11
Total	392,849,073.43	16,025,811.82	376,823,261.61	627,904,495.39	14,515,083.54	613,389,411.85



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

17. Construction in progress (Continued)

(2) Details of significant changes of construction in progress

Project name	Budget	Beginning balance	Increase in this year	Transferred in fixed assets	Other decrease	Ending balance	Percentage of project investment to the budgeted amount (%)	Rate of progress (%)	Accumulated capitalization of interest	Including: capitalization of interest in this year	Rate of interest capitalization in this year (%)	Source of funds
Core capacity upgrading project on new wheeled tractor	596,300,000.00	181,656,589.97	21,923,584.14	180,238,149.34	0.00	14,342,024.77	90.00	98.00	0.00	0.00	0.00	Fund-raising
Agricultural high-power diesel engine project	199,000,000.00	160,110,988.49	3,216,256.10	19,061,013.89	0.00	144,266,230.70	90.00	98.00	12,829,031.02	0.00	4,404-6.9	Fund-raising
New giant parts workshop of No. 3 Assembling Factory	93,000,000.00	68,002,643.08	5,709,025.82	88,686,782.72	0.00	5,074,905.98	88.00	95.00	0.00	0.00	0.00	Self-raised
Cylinder old line reconstruction project	38,050,000.00	14,615,143.64	341,128.17	5,846,183.86	0.00	9,110,117.95	98.90	98.90	0.00	0.00	0.00	Self-raised
EPC project	29,775,300.00	6,711,337.76	87,179.48	6,798,517.24	0.00	100.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Forged crankshaft machining line project	58,000,000.00	3,070,320.43	1,331,410.96	0.00	0.00	4,401,730.99	88.00	92.00	819,901.92	0.00	4,404-6.9	Self-raised
Technical innovation project	43,709,000.00	16,231,228.80	29,860,524.53	22,111,855.25	260,987.87	23,738,898.21	71.74	71.74	0.00	0.00	0.00	Self-raised
Construction in progress in France	33,132,624.73	7,576,686.24	6,866,428.75	3,385,583.17	1,583,642.79	8,973,928.03	29.00	29.00	0.00	0.00	0.00	Self-raised
IF furnace reconstruction project	52,200,000.00	4,618,714.63	0.00	4,618,714.63	0.00	0.00	100.00	100.00	0.00	0.00	0.00	Self-raised
KW model line transformation system project	7,982,000.00	7,412,071.81	507,616.88	7,919,688.79	0.00	0.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Technology improvement project to promote the qualities for P-type injector, P-type injector pump	126,000,000.00	5,586,360.53	60,837.95	0.00	0.00	5,657,198.48	64.52	100.00	0.00	0.00	0.00	Self-raised
Enhancement of the heat treatment	14,800,000.00	6,597,049.23	1,653,864.31	8,259,412.22	0.00	191,501.92	89.00	99.00	0.00	0.00	0.00	Self-raised
Project of command and exhibition center 400 and LF504 tender welding automatic production line	3,980,000.00	2,168,588.30	620,416.07	1,646,588.30	1,142,416.07	0.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Cooling road expansion project	6,275,000.00	4,072,651.99	940,170.95	0.00	0.00	5,012,822.94	88.00	88.00	0.00	0.00	0.00	Self-raised
Electrophoresis line	3,100,000.00	3,011,038.45	0.00	3,011,038.45	0.00	0.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Plant foundation	4,900,000.00	4,571,112.96	0.00	0.00	0.00	4,571,112.96	53.29	53.29	0.00	0.00	0.00	Self-raised
Environmental protection facilities upgrading preplators	3,268,000.00	2,224,411.39	0.00	0.00	17,974.00	2,206,437.39	73.55	73.55	0.00	0.00	0.00	Self-raised
Logistics service building and dismounting room project	7,980,000.00	2,283,435.16	1,745,414.09	4,026,849.25	0.00	0.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Technical innovation project of the Company	4,600,000.00	3,450,616.05	2,378,237.04	5,828,853.09	0.00	0.00	100.00	100.00	0.00	0.00	0.00	Fund-raising/ Self-raised
Public rental housing project	951,063,367.34	17,543,913.97	52,405,507.31	25,117,671.11	540,717.93	44,291,032.24	23.60	23.60	0.00	0.00	0.00	Self-raised
Diesel engine upgrading project	90,000,000.00	38,397,949.20	7,839,401.09	0.00	0.00	46,237,350.29	51.37	51.37	0.00	0.00	0.00	Self-raised
Others	53,000,000.00	0.00	12,789,743.55	0.00	0.00	12,789,743.55	24.13	24.13	0.00	0.00	0.00	Self-raised
		67,981,635.31	33,274,168.94	37,556,219.80	1,715,544.82	61,984,037.63						
Total	2,420,023,292.07	627,504,495.39	183,269,913.63	413,063,042.11	5,261,293.48	392,849,073.43	-	-	13,648,932.94	-	-	-

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

17. Construction in progress (Continued)

(3) Details of accruals of impairment provision on construction in progress in this year

Project name	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Others	8,533,977.20	1,484,914.34	0.00	10,018,891.54
Construction in progress in France	5,981,106.34	25,813.94	0.00	6,006,920.28
Total	<u>14,515,083.54</u>	<u>1,510,728.28</u>	<u>0.00</u>	<u>16,025,811.82</u>

18. Intangible assets

(1) Detail spreadsheet of intangible assets

Item	Land use right	Patents	Trademarks	Software	Others	Total
I. Original book balance						
1. Beginning balance	929,757,928.04	3,131,084.91	59,526,000.00	56,105,155.44	8,944,496.28	1,057,464,664.67
2. Increase amount in this year	0.00	746,460.53	0.00	6,199,886.13	223,976.02	7,170,322.68
(1) Purchase	0.00	635,667.27	0.00	5,057,470.06	37,600.00	5,730,737.33
(2) Others	0.00	110,793.26	0.00	1,142,416.07	186,376.02	1,439,585.35
3. Decrease amount in this year	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	929,757,928.04	3,877,545.44	59,526,000.00	62,305,041.57	9,168,472.30	1,064,634,987.35
II. Accumulated amortization						
1. Beginning balance	97,191,732.51	2,953,789.25	0.00	33,518,136.53	1,450,886.09	135,114,544.38
2. Increase amount in this year	23,983,015.58	158,077.71	0.00	8,138,331.73	600,013.16	32,879,438.18
(1) Provision	23,983,015.58	49,578.18	0.00	8,138,331.73	578,752.15	32,749,677.64
(2) Others	0.00	108,499.53	0.00	0.00	21,261.01	129,760.54
3. Decrease amount in this year	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	121,174,748.09	3,111,866.96	0.00	41,656,468.26	2,050,899.25	167,993,982.56
III. Impairment provision						
1. Beginning balance	0.00	0.00	0.00	0.00	0.00	0.00
2. Increase amount in this year	0.00	0.00	0.00	0.00	0.00	0.00
(1) Provision	0.00	0.00	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	0.00	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	0.00	0.00	0.00	0.00	0.00	0.00
IV. Book value						
1. Ending balance of book value	808,583,179.95	765,678.48	59,526,000.00	20,648,573.31	7,117,573.05	896,641,004.79
2. Beginning balance of book value	<u>832,566,195.53</u>	<u>177,295.66</u>	<u>59,526,000.00</u>	<u>22,587,018.91</u>	<u>7,493,610.19</u>	<u>922,350,120.29</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

18. Intangible assets (Continued)

(2) Analysis of land use right by regions of location and terms:

Item	Ending balance	Beginning balance
Located within the territory of China	929,757,928.04	929,757,928.04
Long-term (Over 50 years)	609,175,607.80	609,175,607.80
Mid-term (10–50 years)	320,582,320.24	320,582,320.24
Short-term (Within 10 years)	0.00	0.00
Located abroad	0.00	0.00
Total	929,757,928.04	929,757,928.04

Note: The amortization amount recognized as profit or loss in this year was RMB32,749,677.64 (last year: RMB33,292,606.41).

The intangible assets with indefinite useful life at the end of the year are two trademarks 'Yi Tuo' and 'Dong Fang Hong' purchased from YTO Group Corporation with a total amount of RMB59,526,000.00 in 2011. The recoverable amount of the trademark use right and the production license is the value in use calculated using the discounted cash flow method. This method includes the cash flow of the affiliated companies in five years until 31 December 2021 (perpetual afterwards). As for the years after the regulated years matured, hypothetical sustainable growth rate of 5% has been applied to the perpetual period. The expected growth rate is consistent with the expectation of the business development. The present value of the cash flow is calculated using the discount rate before tax of 4.3%. The Company determines that these two trademarks and patents are intangible assets with indefinite useful life and impairment test is carried out annually at year end. No indication for impairment is identified for the current year.

(3) Land use right with property right certificate not yet processed

The land use rights in the intangible assets of the Group with the property right certificate not yet obtained has a net value of RMB217,722.92 at the end of the year (beginning balance: RMB522,101.31). The application for related land use right certificates is being processed. As the above assets are purchased in accordance with the relevant legitimate agreement, the Board of Directors believes that there is no substantive legal barriers which could materially affect the title transfer and no significant impact on the normal operations of the Group. Therefore, no provision for impairment needs to be recorded and no significant additional cost would incur.

Item	Book value	Reason for property right certificate not yet processed
East side of Jing Wu Road, Jiang Yan City	<u>217,722.92</u>	Procedures not completed

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

19. Development expenditure

Classification of research and development	Beginning balance	Increase in this year Internal development expenditure	Decrease in this year		Ending balance
			Recognized as intangible assets	Transfer to current period profit or loss	
Research and development of tractor products	0.00	193,730,562.96	0.00	193,730,562.96	0.00
Research and development for dynamical machinery products	0.00	104,425,010.68	0.00	104,425,010.68	0.00
Updates on accessories and R&D on other machinery products	0.00	45,243,338.33	0.00	45,243,338.33	0.00
Fundamental research	0.00	14,930,766.11	0.00	14,930,766.11	0.00
Technological process research and development	0.00	46,262,774.31	0.00	46,262,774.31	0.00
Total	0.00	404,592,452.39	0.00	404,592,452.39	0.00

20. Goodwill

(1) Original value of goodwill

Name of invested company	Beginning balance	Increase in this year		Decrease in this year		Ending balance
		Formed from business combination	Others	Disposal	Others	
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	14,297,893.81	0.00	0.00	0.00	0.00	14,297,893.81

(2) Impairment provision for goodwill

Name of invested company	Beginning balance	Increase in this year		Decrease in this year		Ending balance
		Provision	Others	Disposal	Others	
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	14,297,893.81	0.00	0.00	0.00	0.00	14,297,893.81



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

21. Long-term deferred expenses

Item	Beginning balance	Increase in this year	Amortization in this year	Other decrease in this year	Ending balance
Patent use right	81,908.82	0.00	21,367.52	0.00	60,541.30
Amortization of equipment relocation expenses	0.00	1,619,244.82	0.00	0.00	1,619,244.82
Mould amortization	24,274,292.65	15,039,968.25	9,473,294.62	0.00	29,840,966.28
Amortization of maintenance expenditure	8,889,080.40	1,825,633.82	2,601,718.27	0.00	8,112,995.95
Others	802,587.04	494,753.19	707,894.14	0.00	589,446.09
Total	<u>34,047,868.91</u>	<u>18,979,600.08</u>	<u>12,804,274.55</u>	<u>0.00</u>	<u>40,223,194.44</u>

22. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets recognized

Item	Ending balance		Beginning balance	
	Deductible temporary difference	Deferred tax asset	Deductible temporary difference	Deferred tax asset
Provision for asset impairment	36,818,261.38	5,862,971.13	39,617,298.67	6,979,960.53
Deductible losses	225,965,535.36	74,568,626.67	200,672,323.24	66,221,866.67
Termination welfare	15,432,209.99	2,418,617.23	19,897,178.46	3,139,632.22
Wages payable and accrued expense	109,768,630.32	22,461,383.54	91,758,115.52	19,360,902.06
Deferred revenue	114,226,151.87	17,455,571.11	95,482,307.78	14,322,346.17
Total	<u>502,210,788.92</u>	<u>122,767,169.68</u>	<u>447,427,223.67</u>	<u>110,024,707.65</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

22. Deferred tax assets and deferred tax liabilities (Continued)

(2) *Deferred tax liabilities recognized*

Item	Ending balance		Beginning balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Asset evaluation increase from business combination not under same control	123,029,454.68	30,757,363.67	131,091,643.65	32,772,910.91
Fair value change of financial assets available-for-sale	18,189,507.08	3,370,863.13	36,585,381.82	6,374,727.27
Valuation of trading financial instruments	280,554.12	70,138.53	1,438,404.58	359,601.14
Total	<u>141,499,515.88</u>	<u>34,198,365.33</u>	<u>169,115,430.05</u>	<u>39,507,239.32</u>

(3) *Deductible temporary difference that are not recognized as deferred tax assets*

Item	Ending balance	Beginning balance
Bad debt allowance	525,205,910.21	535,696,325.64
Impairment provision for inventories	52,710,534.33	59,879,212.99
Impairment provision for long term equity investments	23,204,515.65	23,204,515.65
Impairment provision of financial assets available for sale	4,322,800.00	9,122,800.00
Impairment provision for goodwill	14,297,893.81	14,297,893.81
Impairment provision for fixed assets	21,698,535.12	18,444,303.66
Impairment provision for construction in progress	16,025,811.82	14,515,083.54
Impairment provision on granting loans and advances	22,889,251.53	22,087,888.51
Deductible losses	421,088,769.87	336,337,825.41
Impairment provision for held to maturity investment	56,222,258.70	0.00
Total	<u>1,157,666,281.04</u>	<u>1,033,585,849.21</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

22. Deferred tax assets and deferred tax liabilities (Continued)

(4) Deductible losses unrecognized as deferred tax liabilities due in the following year

Item	Ending balance	Beginning balance	Note
Year of 2016	0.00	31,210,989.09	–
Year of 2017	20,324,715.49	20,324,715.49	–
Year of 2018	71,231,299.70	71,231,299.70	–
Year of 2019	92,771,757.23	92,771,757.23	–
Year of 2020	120,799,063.90	120,799,063.90	–
Year of 2021	115,961,933.55	0.00	–
Total	421,088,769.87	336,337,825.41	–

23. Short-term borrowings

Classification of borrowings

	Ending balance	Beginning balance
Pledged loans	0.00	376,890,220.10
Mortgaged loans	70,000,000.00	70,000,000.00
Guaranteed loans	105,948,600.00	83,013,840.00
Credit loans	1,403,499,910.67	1,409,050,885.16
Total	1,579,448,510.67	1,938,954,945.26

Details of mortgage loans: At the end of the year, the subsidiary of the Group, Changtuo Agriculture Equipment Co., Ltd. drawn short-term loan of RMB70,000,000 from Jilin Bank Dong Sheng Branch, using the building with the original value of RMB100,098,120.94 and land use right as mortgages.

Details of guaranteed loans: At the end of the year, the subsidiary of the Group, YTO (France) Agriculture Co., Ltd. obtained the short-term borrowings of EUR2,000,000.00 from the Industrial and Commercial Bank of China Paris branch bank, and obtained the short-term borrowings of EUR12,500,000.00 from the Industrial and Commercial Bank of China Frankfurt branch bank, with the total amount converted into RMB105,948,600.00, for which the Company was the guarantor.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

24. Absorption of deposits and interbank deposits

Item	Ending balance	Beginning balance
Demand deposit	482,814,340.94	395,974,994.52
Including: Corporate	482,513,395.98	395,713,195.29
Individuals	300,944.96	261,799.23
Time deposit (including notice deposit)	105,472,499.15	131,238,704.61
Including: Corporate	105,472,499.15	131,238,704.61
Individuals	0.00	0.00
Other deposits (including outward remittance, remittance payable etc)	0.00	0.00
Total	<u>588,286,840.09</u>	<u>527,213,699.13</u>

25. Deposits from banks and other financial institutes

Category	Ending book balance	Beginning book balance
Deposits from banks	0.00	350,000,000.00
Deposits from non-bank financial institutions	250,000,000.00	0.00
Total	<u>250,000,000.00</u>	<u>350,000,000.00</u>

26. Notes payable

Types of notes	Ending balance	Beginning balance
Bank acceptance notes	1,249,376,878.64	1,142,243,667.86
Commercial acceptance notes	167,736,890.85	157,560,696.33
Total	<u>1,417,113,769.49</u>	<u>1,299,804,364.19</u>

Note: At the end of the period, the total amount of the notes payable which were due but not paid was RMB3,236,254.00.

The aging of the aforementioned ending balance of the Group's notes payable was within 180 days.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

27. Accounts payable

(1) Accounts payable

Item	Ending balance	Beginning balance
Purchase payable	1,308,157,751.41	1,370,467,578.02
Purchase of construction equipment payable	45,879,477.81	128,465,813.34
Service payment payable	19,757,726.67	23,535,898.88
Others	10,373,501.75	4,277,702.74
Total	1,384,168,457.64	1,526,746,992.98

(2) Aging analysis of accounts payable

The aging analysis of accounts payable as at December 31, 2016 is as follows:

Item	Ending balance	Beginning balance
Within 1 year	1,240,833,573.76	1,381,275,324.73
1-2 years	49,711,952.26	73,232,449.45
2-3 years	34,579,850.82	28,024,357.56
Over 3 years	59,043,080.80	44,214,861.24
Total	1,384,168,457.64	1,526,746,992.98

(3) Accounts payable with significant amount aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
LLAF INTERNATIONAL CO., LTD.	8,785,281.05	Unsettled
The Fourth Design Institute of the Ministry of Machinery Industry	8,214,820.00	Unsettled
Ethiopia DANA	6,114,108.71	Unsettled
Zhangjiagang Free Trade Zone Yetai International Trade Co., Ltd	5,915,437.00	Unsettled
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	3,822,120.07	Unsettled
Total	32,851,766.83	/

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

28. Advance from customers

(1) Advance from customers

Item	Ending balance	Beginning balance
Within 1 year (including 1 year)	165,765,817.20	268,068,899.17
Over 1 year	33,897,384.34	35,013,299.05
Total	<u>199,663,201.54</u>	<u>303,082,198.22</u>

(2) Significant amounts of advance from customers aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
Poly Technologies Inc.	4,291,619.50	Unsettled
M/SSARKERKABIRAHAMED	3,768,339.33	Unsettled
Shanxi Fei Yu Da Construction Engineering Co., Ltd	1,052,142.87	Unsettled
Total	<u>9,112,101.70</u>	/

29. Employee benefits payable

(1) Classification of employee benefits payable

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Short-term remuneration	61,094,318.14	1,092,088,038.98	1,078,907,024.15	74,275,332.97
Post-employment welfare –				
Defined contribution plan	2,134,653.43	161,537,506.81	162,408,828.42	1,263,331.82
Termination welfare	39,684,023.24	13,487,142.80	22,797,925.04	30,373,241.00
Total	<u>102,912,994.81</u>	<u>1,267,112,688.59</u>	<u>1,264,113,777.61</u>	<u>105,911,905.79</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

29. Employee benefits payable (Continued)

(2) Short-term remuneration

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Wages or salaries, bonuses, allowances and subsidies	37,469,828.23	741,954,987.65	730,134,472.94	49,290,342.94
Staff welfare expense	2,660,347.80	72,079,719.83	70,514,743.20	4,225,324.43
Social insurance expense	1,724,965.72	62,732,554.02	64,308,966.21	148,553.53
Including: Medical insurance expense	1,665,447.28	53,783,133.72	55,300,027.47	148,553.53
Work-related injury insurance	11,759.37	5,796,701.27	5,808,460.64	0.00
Maternity insurance	47,759.07	3,152,719.03	3,200,478.10	0.00
Housing funds	1,765,436.75	62,033,840.40	63,046,187.69	753,089.46
Union & employee education funds	17,056,399.20	23,490,972.87	20,997,292.87	19,550,079.20
Short-term paid leave	0.00	0.00	0.00	0.00
Short-term profit sharing plan	0.00	0.00	0.00	0.00
Others	417,340.44	129,795,964.21	129,905,361.24	307,943.41
Total	61,094,318.14	1,092,088,038.98	1,078,907,024.15	74,275,332.97

(3) Defined contribution plan

The Group participates in the social insurance plans set up by the government according to the provisions. According to the plan, the Group pays the costs of such plans according to the relevant provisions of the local government. In addition to the above charges paid, the Group no longer undertakes the further payment obligations. The corresponding expenditure is recognized into the current period profit or loss, or the cost of the related assets when incurred.

The costs which should be paid by the Group to the plans of endowment insurance, annuity and unemployment insurance are as following:

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Basic endowment insurance	1,170,027.81	129,087,828.72	129,939,779.25	318,077.28
Unemployment insurance premium	26,398.31	8,253,408.18	8,279,538.56	267.93
Enterprise annuity payment	938,227.31	24,196,269.91	24,189,510.61	944,986.61
Total	2,134,653.43	161,537,506.81	162,408,828.42	1,263,331.82

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

29. Employee benefits payable (Continued)

(3) *Defined contribution plan* (Continued)

The Group should pay RMB161,537,506.81 to the participated defined contribution plan (in 2015: RMB158,423,408.36). On December 31, 2016, the Group still had the expense payable which was due but not yet paid and which was used for the Reporting Period of RMB1,263,331.82 (on December 31, 2015: RMB2,134,653.43). The relevant expense payable has been paid after the Reporting Period.

30. Taxes payable

Item	Ending balance	Beginning balance
Value-added tax (VAT)	3,805,459.33	-394,007,148.45
Business tax	0.00	2,854,018.57
Enterprise income tax	9,965,719.45	34,562,297.76
Individual income tax	4,038,209.68	1,962,245.42
Urban maintenance and construction tax	413,961.56	515,290.44
Property tax	4,343,139.14	4,174,596.04
Land use tax	1,597,460.36	1,597,460.36
Education surcharge	295,686.82	368,066.20
Other taxes	966,402.40	884,542.11
Total	25,426,038.74	-347,088,631.55

Note: For the change situation of 'value-added tax (VAT)', please refer to the statements in the Notes 'VI. 11 Other current assets'.

31. Interests payable

Item	Ending balance	Beginning balance
Interest payable on corporate bonds	50,334,301.15	50,382,301.08
Interests payable on short-term borrowings	4,475,913.57	2,615,558.13
Interests payable on deposits absorbed	340,870.80	719,097.36
Total	55,151,085.52	53,716,956.57



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

32. Other payables

(1) *Classification of other payables by nature*

Nature of payment	Ending balance	Beginning balance
Receivables and payments between companies	76,273,526.26	69,483,845.33
Deposits and securities	69,420,684.09	65,349,436.65
Expenses payable	74,305,168.25	63,439,870.04
Collection and payment on behalf of others	29,500,228.04	33,279,762.66
Others	7,758,242.18	11,209,578.05
Total	257,257,848.82	242,762,492.73

(2) *Significant amount of other payables aged over 1 year*

Name of the item	Ending balance	Reason for not paid or reversed
YTO Group Corporation	50,007,985.33	Unsettled
Construction margin of public rental housing	5,072,000.00	Unsettled
Funds for housing construction and maintenance	2,517,028.59	Unsettled
Subsidies to the surviving dependants of workers injured on the job	1,769,776.95	Unsettled
Beijing Zhong Kai Hua International Freight Co., Ltd	1,300,000.00	Unsettled
Total	60,666,790.87	/

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

33. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term loans due within 1 year	18,267,000.00	17,738,000.00
Deferred revenues due within 1 year	16,155,532.04	14,657,168.40
Total	34,422,532.04	32,395,168.40

34. Other current liabilities

Item	Ending balance	Beginning balance
Discount and allowance	46,436,388.69	44,015,136.75
Warranty fee for 3 aftersale services included	43,704,478.56	51,748,899.24
Agent service fees	2,100,000.00	1,820,000.00
Others	1,128,478.50	454,813.00
Total	93,369,345.75	98,038,848.99

35. Long-term loans

(1) Classification of loans

Classification of loans	Ending balance	Beginning balance
Credit loans	27,400,500.00	44,345,000.00
Less: Due within 1 year	18,267,000.00	17,738,000.00
Total	9,133,500.00	26,607,000.00

Note: The interest rate range of long-term loans is 6 month EUR LIBOR+3.5%.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

35. Long-term loans (Continued)

(2) Due date analysis of long-term loans

Item	Ending balance	Beginning balance
Over than 1 year after the balance sheet date, but not over than 2 years	9,133,500.00	17,738,000.00
Over than 2 years after the balance sheet date, but not over than 5 years	0.00	8,869,000.00
Total	9,133,500.00	26,607,000.00

36. Bonds payable

(1) Classification of bonds payable

Item	Ending balance	Beginning balance
12 YTO 01 Corporate bond	798,604,059.50	797,472,004.37
12 YTO 02 Corporate bond	698,090,936.56	696,805,753.82
Total	1,496,694,996.06	1,494,277,758.19
The book value of the aforementioned bonds must be repaid during the following period		
Over than 1 year after the balance sheet date, but not over than 2 years	1,496,694,996.06	0.00
Over than 2 years after the balance sheet date, but not over than 5 years	0.00	1,494,277,758.19
Less: Bond payment listed under the item of current liabilities due within 1 year	0.00	0.00
Bond payment listed under the item of non-current liabilities	1,496,694,996.06	1,494,277,758.19

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

36. Bonds payable (Continued)

(2) Increase or decrease movements of bonds payable (not including the other financial instruments such as preferred stocks and perpetual debts which are classified as financial liabilities)

Bond name	Total face value	Issue date	Term of bonds	Amount issued	Beginning balance	Amount issued in the year	Interest accrued on face value in this year	Amortization	Repayment in the year	Ending balance
								on premiums or discounts in this year		
12 YTO 01 Corporate bond	800,000,000.00	2013/3/4	5 years	794,550,000.00	797,472,004.37	0.00	0.00	1,132,055.13	0.00	798,604,059.50
12 YTO 02 Corporate bond	700,000,000.00	2013/5/30	5 years	693,734,150.95	696,805,753.82	0.00	0.00	1,285,182.74	0.00	698,090,936.56
Total	1,500,000,000.00	/	/	1,488,284,150.95	1,494,277,758.19	0.00	0.00	2,417,237.87	0.00	1,496,694,996.06

Note: Approved by the China Securities Regulatory Commission [2013] No. 89 the overall bonds issued is RMB1.5 billion and completed in two phases, which has RMB800 million in the first phase and RMB700 millions in the second phase. The name of the bonds are: 2012 Public Offering Corporate Bonds of the First Tractor Company Limited (Phase I) (Abbreviation: 12 YTO 01 Corporate bonds) and 2012 Public Offering Corporate Bonds of the First Tractor Company Limited (Phase II) (Abbreviation: 12 YTO 02 Corporate bonds).

12 YTO 01 Corporate bond uses simplified annual interest rate with no compound interest applied at a coupon rate of 4.8%. The Company remains the right to decide whether to raise the coupon rate of the bonds for the next two years at the end of the third year. If the Company exercises the right to raise the coupon rate, the rate of outstanding bonds still valid for the next 2 years of existence is the coupon rate of the first 3 years plus added basis point and will remain unchanged for the next 2 years. If the Company chooses not to exercise the option to raise the coupon rate, then the coupon rate of the next 2 years remains unchanged as the original coupon rate during the existence period. According to the statistics of the bond resale declaration of China Securities Depository and Clearing Co., Ltd. Shanghai Branch on 12 YTO 01 Corporate bond in February 2016, the number of valid resale declaration in this time was 0. The resale amount was RMB0.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

36. Bonds payable (Continued)

(2) Increase or decrease movements of bonds payable (not including the other financial instruments such as preferred stocks and perpetual debts which are classified as financial liabilities) (Continued)

12 YTO 02 Corporate bond uses simplified annual interest rate with no compound interest applied at a coupon rate of 4.5%. The Company remains the right to decide whether to raise the coupon rate of the bonds for the next two years at the end of the third year. If the Company exercises the right to raise the coupon rate, the rate of outstanding bonds still valid for the next 2 years of existence is the coupon rate of the first 3 years plus added basis point and will remain unchanged for the next 2 years. If the Company chooses not to exercise the option to raise the coupon rate, then the coupon rate of the next 2 years remains unchanged as the original coupon rate during the existence period. At the end of the third year of the duration period, the Company chose not to raise the coupon rate, i.e. the coupon rate of for the last 2 years of '12 YTO 02 Corporate bond' would still be 4.5%. According to the statistics of the bond resale declaration of China Securities Depository and Clearing Co., Ltd. Shanghai Branch on '12 YTO 02 Corporate bond' in May 2016, the number of valid resale declaration in this time was 0. The resale amount was RMB0.

(3) Other financial instruments classified as financial liabilities

None

37. Deferred revenue

(1) Classification of deferred revenue

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Government grants	184,932,985.40	17,155,000.00	25,459,390.62	176,628,594.78

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

37. Deferred revenue (Continued)

(2) Item of government grants

Item of government grants	Beginning balance	Increase of subsidy in this year	Amount recognized as non-operating income in this year	Other changes	Ending balance	Related to assets/ related to income
High power non-road used diesel engine	49,000,000.00	0.00	0.00	0.00	49,000,000.00	Related to assets
Core ability promotion of new wheeled tractors	53,200,000.00	0.00	2,418,181.82	4,836,363.64	45,945,454.54	Related to assets
Testing platform of key products	15,840,000.00	0.00	0.00	0.00	15,840,000.00	Related to assets
Promote independent research and development ability	15,942,422.99	0.00	0.00	1,295,168.40	14,647,254.59	Related to assets
Industrial revitalization and technological transformation	15,400,000.00	0.00	0.00	2,200,000.00	13,200,000.00	Related to assets
Special funds for urban affordable housing projects	8,640,000.00	0.00	0.00	0.00	8,640,000.00	Related to assets
Project of the energy saving and environmental protection diesel engine crankshaft machining production line	2,407,500.00	2,700,000.00	292,500.00	540,000.00	4,275,000.00	Related to assets
The first batch of the state appropriated funds for the integrated development and matching of the whole machine on medium power energy-saving and environmental protection agricultural diesel engines	0.00	3,380,000.00	0.00	0.00	3,380,000.00	Related to income
Construction project of Xinjiang agricultural equipment	6,574,700.00	0.00	3,358,216.76	0.00	3,216,483.24	Related to income
Research and development, and the industrialization of LF series power shift tractors	3,000,000.00	0.00	0.00	0.00	3,000,000.00	Related to income
Grants for C series government projects	3,580,000.00	0.00	0.00	716,000.00	2,864,000.00	Related to assets
Power shift heavy wheeled tractors with the annual output of 1,000 HP	2,750,000.00	0.00	125,000.00	250,000.00	2,375,000.00	Related to assets
Research and application of the key technology of the fully automatic intelligent precision forging demonstration line	0.00	2,000,000.00	0.00	0.00	2,000,000.00	Related to income
Awards and grants for the science and technology research and development service platform of the 2015 provincial industrial agglomeration area	0.00	2,000,000.00	0.00	0.00	2,000,000.00	Related to income
Technical transformation of wheeled tractors	4,152,000.00	0.00	0.00	2,768,000.00	1,384,000.00	Related to assets



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

37. Deferred revenue (Continued)

(2) Item of government grants (Continued)

Item of government grants	Beginning balance	Increase of subsidy in this year	Amount recognized as non-operating income in this year	Other changes	Ending balance	Related to assets/related to income
Development of key core components of new type energy saving and environmental protection agricultural diesel engines	0.00	1,355,000.00	0.00	0.00	1,355,000.00	Related to income
Demonstration and verification of a new pattern of personalized rapid customization and intelligent manufacturing of equipment complex parts	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to income
Incentive funds for key state laboratories on tractor power system	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to income
Research on key technology and whole machine development of tractors in hilly and mountainous area	0.00	734,000.00	0.00	0.00	734,000.00	Related to income
Funds for the collaborative development of Aid Xinjiang project by the Science and Technology Department	0.00	300,000.00	0.00	0.00	300,000.00	Related to income
Development of intelligent electric tractors	0.00	190,000.00	0.00	0.00	190,000.00	Related to income
Henan Provincial Engineering Laboratory of rapid prototyping technology for agricultural machinery castings	0.00	150,000.00	0.00	0.00	150,000.00	Related to income
The forging and pressure line of diesel engine crankshafts	3,390,000.00	0.00	0.00	3,390,000.00	0.00	Related to assets
Awards and grants for the science and technology research and development service platform	500,000.00	500,000.00	1,000,000.00	0.00	0.00	Related to income
Special fund for rapid development and demonstration application of new casting products of tractors and diesel engines	419,960.00	0.00	419,960.00	0.00	0.00	Related to assets
Waste sand control funds	0.00	1,000,000.00	1,000,000.00	0.00	0.00	Related to income
Special funds of the State Administration of Quality Supervision, Inspection and Quarantine	0.00	160,000.00	0.00	160,000.00	0.00	Related to income
Provincial key laboratory of the key tractor technologies	0.00	600,000.00	600,000.00	0.00	0.00	Related to income
Others	136,402.41	86,000.00	90,000.00	0.00	132,402.41	-
Total	184,932,985.40	17,155,000.00	9,303,858.58	16,155,532.04	176,628,594.78	/

Note: The reason of other changes is that the deferred income which has been transferred to non-current liabilities due within one year.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

39. Capital reserve

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Capital stock premium	1,876,462,052.15	2,439,298.87	0.00	1,878,901,351.02
Others capital reserve	247,784,237.55	0.00	0.00	247,784,237.55
Including: Others	247,784,237.55	0.00	0.00	247,784,237.55
Total	<u>2,124,246,289.70</u>	<u>2,439,298.87</u>	<u>0.00</u>	<u>2,126,685,588.57</u>

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Capital stock premium	1,876,462,052.15	0.00	0.00	1,876,462,052.15
Others capital reserve	247,784,237.55	0.00	0.00	247,784,237.55
Including: Others	247,784,237.55	0.00	0.00	247,784,237.55
Total	<u>2,124,246,289.70</u>	<u>0.00</u>	<u>0.00</u>	<u>2,124,246,289.70</u>

Note: The increase in the period was: in January, 2016, the Group acquired the 6% share equity of the subsidiary of the Group, YTO Group Finance Co., Ltd held by the minority shareholder, SINOMACH-HI (Luoyang) Building Machinery Co., Ltd. After the completion of the acquisition, the Company held the 94.6% of the share equity of YTO Group Finance Co., Ltd, the subsidiary of the Group, YTO (Luoyang) Diesel Engine Co., Ltd holding the 4.2% of its share equity, the subsidiary of the Group, YTO International Economic and Trade Co., Ltd holding the 0.6% of its share equity, and YTO Group Corporation held the 0.6% of its share equity. The difference between the acquisition price of RMB43,158,012.00 and the net asset share of RMB45,597,310.87 entitled in YTO Group Finance Co., Ltd calculated continuously since the merger date of RMB2,439,298.87 was recognized as capital reserve.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

40. Treasury stock

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Repurchase H shares	0.00	19,140,912.00	0.00	19,140,912.00

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Repurchase H shares	0.00	0.00	0.00	0.00

Note: For the changes in the period, please refer to the statement in the Note '1. General information of the Company'.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

41. Other comprehensive income

Item	Beginning balance	Before income tax amount incurred in this year	Amount incurred in this year		Attributable to the parent company after tax	Attributable to the minority shareholders after tax	Ending balance
			Less: recognized into other comprehensive income in prior years and transferred into current period profit or loss	Less: Income tax expense			
I. Other comprehensive income that can not be reclassified to profit and loss in subsequent periods	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Other comprehensive income that will be subsequently reclassified to profit and loss	9,734,262.44	-3,283,669.13	9,557,863.64	-1,317,182.32	-12,420,012.68	895,662.23	-2,685,750.24
Gains and losses from changes in fair value of available-for-sale financial assets	29,731,031.69	-7,151,329.27	9,557,863.64	-1,317,182.32	-15,369,818.14	-22,192.45	14,361,213.55
Exchange differences from retranslation of foreign currency financial statements	-19,996,769.25	3,867,660.14	0.00	0.00	2,949,805.46	917,854.68	-17,046,963.79
Total other comprehensive income	<u>9,734,262.44</u>	<u>-3,283,669.13</u>	<u>9,557,863.64</u>	<u>-1,317,182.32</u>	<u>-12,420,012.68</u>	<u>895,662.23</u>	<u>-2,685,750.24</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

42. Special reserves

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Safety production expense	<u>2,441,385.29</u>	<u>17,292,537.75</u>	<u>15,248,057.04</u>	<u>4,485,866.00</u>

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Safety production expense	<u>0.00</u>	<u>18,786,218.22</u>	<u>16,344,832.93</u>	<u>2,441,385.29</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

43. Surplus reserve

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Statutory surplus reserve	388,972,795.05	34,163,993.29	0.00	423,136,788.34
Discretionary surplus reserve	771,431.00	0.00	0.00	771,431.00
Total	<u>389,744,226.05</u>	<u>34,163,993.29</u>	<u>0.00</u>	<u>423,908,219.34</u>

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Statutory surplus reserve	368,201,417.56	20,771,377.49	0.00	388,972,795.05
Discretionary surplus reserve	771,431.00	0.00	0.00	771,431.00
Total	<u>368,972,848.56</u>	<u>20,771,377.49</u>	<u>0.00</u>	<u>389,744,226.05</u>

Note: The Group reserves for statutory surplus on 10% of the net profits of the parent Company.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

44. General risk reserves

Amount in this year

Item	Ending balance	Beginning balance	Accrual percentage
General risk reserves	<u>10,774,059.81</u>	<u>8,819,548.63</u>	Note

Amount in last year

Item	Ending balance	Beginning balance	Accrual percentage
General risk reserves	<u>8,819,548.63</u>	<u>7,683,706.66</u>	Note

Note: According to the provisions in the Cai Jin [2012] No. 20 'Circular on printing and distributing the measures for the administration of the provision of reserve for financial enterprises' issued by the Ministry of Finance, the general risk reserves was accrued according to the 1.5% percentage of the ending balance of the risk assets of the subsidiary, YTO Group Finance Co., Ltd.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

45. Retained earnings

Amount in this year

Item	Amount	Percentage of accrual or distribution
Ending balance of last year	1,142,994,139.49	
Add: Adjustment on beginning balance of retained earnings	0.00	
Beginning balance of this year	1,142,994,139.49	
Add: Net profit for the year attributable to shareholders of the parent company	223,369,729.35	
Less: Appropriation of the statutory surplus reserve	34,163,993.29	10% of current year net profits of the parent company
Provision of general risk reserves	1,954,511.18	Note
Common stock dividends payable	40,831,900.00	
Ending balance of this year	<u>1,289,413,464.37</u>	

Amount in last year

Item	Amount	Percentage of accrual or distribution
Ending balance of last year	1,080,369,447.42	
Add: Adjustment on beginning balance of retained earnings	0.00	
Beginning balance of this year	1,080,369,447.42	
Add: Net profit for the year attributable to shareholders of the parent company	135,322,811.53	
Less: Appropriation of the statutory surplus reserve	20,771,377.49	10% of current year net profits of the parent company
Provision of general risk reserves	1,135,841.97	Note
Common stock dividends payable	50,790,900.00	
Ending balance of this year	<u>1,142,994,139.49</u>	

Note: Please see the statement in the Note 'VI. 44. General risk reserves'.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

46. Minority interests

Minority interests attributable to the minority shareholders of each subsidiary

Name of the subsidiary	Percentage of minority shareholding (%)	Ending balance	Beginning balance
YTO (Luoyang) Transportation Machinery Co., Ltd	6.61	-301,718.54	265,147.39
Brilliance China Machinery Holdings Co., Ltd	9.90	16,821,115.43	14,873,085.93
YTO Group Finance Co., Ltd	1.21	9,299,203.58	55,076,476.66
China-Africa Heavy Industry Investment Co., Ltd	45.00	46,721,028.32	41,992,081.02
Luoyang Tractor Research Institute Co., Ltd	49.00	321,995,926.70	314,862,253.25
YTO (Luoyang) Diesel Engine Co., Ltd	14.53	192,778,845.29	184,960,156.25
YTO (Luoyang) Fuel Injection Co., Ltd	13.89	31,145,825.99	32,947,280.68
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	66.67	59,612,446.65	83,578,263.21
YTO (Luoyang) Harvesting Machinery Co., Ltd	6.09	-3,774,920.10	-3,850,048.65
Total	-	674,297,753.32	724,704,695.74

47. Net current assets

Item	Ending balance	Beginning balance
Current assets	7,611,653,175.14	6,456,183,633.93
Less: Current liabilities	5,990,219,536.09	6,128,540,029.73
Net current assets	1,621,433,639.05	327,643,604.20



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

48. Total assets minus current liabilities

Item	Ending balance	Beginning balance
Total assets	13,210,513,281.43	13,272,449,559.98
Less: Current liabilities	5,990,219,536.09	6,128,540,029.73
Total assets minus current liabilities	7,220,293,745.34	7,143,909,530.25

49. Borrowings and payables

The summary of loans and payables for the Group is as follows:

Item	Ending balance	Beginning balance
Short-term bank loans	879,448,510.67	1,238,954,945.26
Short-term entrusted loans	700,000,000.00	700,000,000.00
Long-term loans due within 1 year	18,267,000.00	17,738,000.00
Long-term loans	9,133,500.00	26,607,000.00
Bonds payable	1,496,694,996.06	1,494,277,758.19
Total	3,103,544,006.73	3,477,577,703.45

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

49. Borrowings and payables (Continued)

(1) Analysis of borrowings and payables

Item	Ending balance	Beginning balance
Bank loans		
– Must be repaid within one year	897,715,510.67	1,256,692,945.26
– Must be repaid after one year	9,133,500.00	26,607,000.00
Subtotal	<u>906,849,010.67</u>	<u>1,283,299,945.26</u>
Other borrowings		
– Must be repaid within one year	700,000,000.00	700,000,000.00
– Must be repaid after one year	1,496,694,996.06	1,494,277,758.19
Subtotal	<u>2,196,694,996.06</u>	<u>2,194,277,758.19</u>
Total	<u><u>3,103,544,006.73</u></u>	<u><u>3,477,577,703.45</u></u>

(2) Due date analysis of borrowings and payables

1) Bank loans

Item	Ending balance	Beginning balance
Pay upon request or due within 1 year	897,715,510.67	1,256,692,945.26
1–2 years	9,133,500.00	17,738,000.00
2–5 years	0.00	8,869,000.00
Over 5 years	0.00	0.00
Total	<u>906,849,010.67</u>	<u>1,283,299,945.26</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

49. Borrowings and payables (Continued)

(2) Due date analysis of borrowings and payables (Continued)

2) Other borrowings

Item	Ending balance	Beginning balance
Pay upon request or due within 1 year	700,000,000.00	700,000,000.00
1-2 years	1,496,694,996.06	0.00
2-5 years	0.00	1,494,277,758.19
Over 5 years	0.00	0.00
Total	<u>2,196,694,996.06</u>	<u>2,194,277,758.19</u>

50. Operating revenue and operating costs

Item	Amount incurred in this year		Amount incurred in last year	
	Income	Cost	Income	Cost
Main business	8,309,722,844.86	6,736,305,725.14	8,902,031,078.63	7,278,878,224.74
Other business	377,779,382.55	352,477,346.70	397,809,660.74	338,542,586.15
Total	<u>8,687,502,227.41</u>	<u>7,088,783,071.84</u>	<u>9,299,840,739.37</u>	<u>7,617,420,810.89</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

51. Net interest income

Item	Cumulative amount in this year	Cumulative amount in last year
Interest income	183,205,912.89	355,264,578.40
– From deposits in other banks	41,072,682.04	12,961,443.27
– From deposits in central bank	4,340,716.55	5,238,325.65
– Loans to others	13,141,666.79	11,433,902.79
– Loans and advances granted	118,524,257.71	313,891,868.70
Including: Individual loans and advances	152,500.04	204,650.20
Corporate loans and advances	22,190,636.32	17,694,125.92
Notes discounting	96,181,121.35	295,993,092.58
– Buying back the sale of financial assets	6,126,589.80	11,699,646.88
– Others	0.00	39,391.11
Including: Interest income of impaired financial assets	0.00	0.00
Interest expense	55,437,794.90	243,810,083.69
– From loans from other banks	0.00	0.00
– From loans from central bank	0.00	0.00
– Deposits from banks and other financial institutes	1,352,612.47	3,006,886.04
– Deposits adsorption	5,700,240.08	10,188,198.70
– Sale of repurchase financial assets	206,721.92	249,115.07
– Others	48,178,220.43	230,365,883.88
Net interest income	127,768,117.99	111,454,494.71



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

52. Fees and net commission income

Item	Amount in this year	Amount in last year
Fees and commission income	444,973.85	385,743.31
– Clearing and settlement fees	163,326.96	48,805.60
– Agent fees	65,471.69	72,500.00
– Credit commitment fees and commissions	108,853.77	165,300.17
– Others	107,321.43	99,137.54
Fees and commission expense	356,453.59	452,274.93
– Service fee expense	356,453.59	452,274.93
– Commission expense	0.00	0.00
Fees and net commission income	88,520.26	-66,531.62

53. Taxes and surcharges

Item	Amount in this year	Amount in last year
Business tax	4,050,839.67	11,152,874.37
Urban maintenance and construction tax	6,820,935.42	11,100,369.26
Education surcharge	4,886,541.47	4,978,078.22
Property tax	13,405,590.52	0.00
Land use tax	7,957,767.71	0.00
Vehicle and vessel usage tax	146,624.82	0.00
Stamp duty	4,043,264.05	0.00
Others	3,214,200.02	6,391,978.09
Total	44,525,763.68	33,623,299.94

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

53. Taxes and surcharges (Continued)

Note: According to the Notice of the Ministry of Finance (Cai Kuai [2016] No. 22) on Issuing the 'Provisions on the accounting treatment of value added tax' on December 3, 2016, and the analysis of the issues concerning the 'Accounting treatment of VAT', after the full trial of the replacing the business tax to VAT reform, the account name of 'Business taxes and surcharges' was changed to the account 'Taxes and surcharges'. Such account measures the relevant taxes and fees such as the consumption tax, urban maintenance and construction tax, resource tax, education surcharge, property tax, land use tax, vehicle and vessel usage tax and stamp duty incurred in the business activities of enterprises. For the situation of which the amount of the disclosed items such as assets, liabilities, and profit or loss in the financial statements of the transactions incurred during May 1, 2016 to the implementation period of the provision was affected by the provision, adjustments should be made according to the provision. For the transactions happened in the period from January 1, 2016 to April 30, 2016, no retroactive adjustment should be made. For the financial statements of the comparable period of the 2016 financial statements, no retroactive adjustment should be made, too. According to the aforementioned provision, the Group listed the property tax, land use tax, vehicle and vessel usage tax and stamp duty incurred after May 1, 2016 as 'Taxes and surcharges'.

54. Selling expenses

Item	Amount in this year	Amount in last year
Transportation expenses	139,933,047.56	152,459,355.82
Sales service fees	139,681,341.11	114,673,987.17
Employee compensation	93,067,863.86	92,841,487.65
Advertising expenses	14,987,576.05	14,087,585.70
Packing expenses	9,358,401.48	7,820,334.52
Exhibition expenses	3,615,209.68	3,597,226.58
Depreciation expenses	1,139,861.46	1,221,641.51
Insurance expenses	873,896.35	5,741,647.59
Others	38,909,514.46	53,891,297.82
Total	441,566,712.01	446,334,564.36



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

55. Administrative expenses

Item	Amount in this year	Amount in last year
Research and development expenses	404,592,452.39	389,241,683.88
Employee compensation	237,705,946.20	198,059,399.30
Depreciation expenses	49,329,014.63	44,107,632.93
Repair expense	42,578,180.94	43,502,723.15
Amortization of intangible assets	29,358,764.17	29,234,922.74
Rent expense	23,498,782.97	17,337,477.29
Termination welfare	13,310,390.74	15,750,437.78
Taxes	12,318,599.89	35,510,207.77
Office expenses	7,007,095.36	8,305,358.84
Business entertainment expense	5,825,883.51	5,711,271.28
Conference expenses	5,485,795.09	4,465,170.56
Travelling expenses	5,185,910.39	4,595,045.07
Hiring agency fee	3,644,088.63	2,846,218.50
Litigation fee	2,943,290.52	3,722,410.25
Consulting fees	2,598,890.19	3,059,096.28
Insurance expenses	1,716,326.65	1,243,766.42
Others	66,776,926.63	126,776,171.92
Total	913,876,338.90	933,468,993.96

Note: For the changes situation of 'Taxes', please refer to the statements in the Note 'VI. 53. Taxes and surcharges' for details.

Auditors' remuneration of the Group:

Item	Amount incurred in this year	Amount incurred in last year
Auditors' remuneration – Audit service fee	2,380,000.00	1,820,000.00

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

56. Finance expenses

(1) Details of finance expenses

Item	Amount in this year	Amount in last year
Interest expense	118,985,811.16	125,797,947.11
Less: Interest income	30,783,546.57	22,665,622.07
Add: Exchange loss	9,334,554.45	51,671,869.01
Add: Other expense	-11,463,147.72	-7,499,270.12
	<hr/>	<hr/>
Total	86,073,671.32	147,304,923.93

(2) Details of interest expense

Item	Amount in this year	Amount in last year
Bank loans and overdraft interests	46,668,573.22	48,760,190.35
Interest on bonds and discount notes	72,317,237.94	77,037,756.76
Subtotal	118,985,811.16	125,797,947.11
Less: Capitalized interests	0.00	0.00
	<hr/>	<hr/>
Total	118,985,811.16	125,797,947.11



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

56. Finance expenses (Continued)

(3) Detail of interest income

Item	Amount in this year	Amount in last year
Interest income of financial products	24,367,241.44	16,820,931.49
Interest income of bank deposits	6,416,305.13	5,844,690.58
Total	30,783,546.57	22,665,622.07

57. Loss on impairment of assets

Item	Amount in this year	Amount in last year
Loss on bad debt	36,216,324.77	141,577,701.40
Impairment loss on inventories	-10,692,829.71	9,327,159.75
Impairment provision for held to maturity investment	56,222,258.70	0.00
Impairment loss on fixed assets	3,257,631.46	0.00
Impairment loss on construction in progress	1,484,914.34	5,981,106.34
Impairment loss on loans	801,363.02	1,420,490.35
Total	87,289,662.58	158,306,457.84

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

58. Gain/Loss from changes in fair value

Item	Amount in this year	Amount in last year
Financial assets measured at fair value and its movement recorded through profit and loss	410,438.25	3,009,536.29
Fair value gains arising from derivative financial instruments	14,833,000.00	0.00
Total	15,243,438.25	3,009,536.29

59. Investment income

Item	Amount incurred in this year	Amount incurred in last year
Investment income from long-term equity investments by equity method	8,712,098.59	2,498,121.25
Investment income from disposal of long term equity investments	105,983.67	0.00
Investment income on financial assets measured at fair value and its movement recorded through profit and loss in the holding period	19,158,723.12	16,306,263.58
Investment income on disposal of financial assets measured at fair value and its movement recorded through profit and loss in the current period	11,541,062.87	42,521,508.28
Investment returns on held-to-maturity investment during the holding period through profit and loss in the current period	3,757,091.75	878,585.08
Investment returns on disposal of held-to-maturity investment during the holding period	-487,073.98	1,073,159.30
Investment income on financial assets available-for-sale during the holding period	19,248,190.39	17,258,080.00
Investment returns on disposal of financial assets available-for-sale	12,007,784.04	14,733,057.79
After the loss of control, gains from remeasuring the remaining equity at fair value	0.00	0.00
Others	192,000.00	96,000.00
Total	74,235,860.45	95,364,775.28

Note: The investment income of this year is from the listed and unlisted investments with the amount of RMB29,746,016.93 and RMB44,489,843.52 respectively.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

60. Non-operating income

(1) Details of non-operating income

Item	Amount in this year	Amount in last year	Extraordinary gains and losses recognized in this year
Gain on disposal of non-current assets	1,008,437.99	908,287.65	1,008,437.99
Including: Gain on disposal of fixed assets	1,008,437.99	908,287.65	1,008,437.99
Gain on debt restructuring	1,189,494.86	214,240.00	1,189,494.86
Donations accepted	0.00	0.00	0.00
Government grants	41,413,541.72	32,513,241.88	41,413,541.72
Others	8,152,479.34	26,172,541.82	8,152,479.34
Total	51,763,953.91	59,808,311.35	51,763,953.91

Note: RMB51,763,953.91 is recorded in the extraordinary gain and loss in the current year (last year: RMB59,808,311.35).

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

60. Non-operating income (Continued)

(2) Details of government grants

Item	Amount in this year	Amount in last year	Notes
Subsidized funds for the state import interest subsidy projects	10,225,000.00	0.00	Luo Cai Yu [2016] No. 398
The forging and pressure line of diesel engine crankshafts	3,390,000.00	3,390,000.00	Fa Gai Ban Gong Ye [2005] No. 1392
Construction project of Xinjiang agricultural equipment	3,358,216.76	0.00	Wu Jing Kai [2010] No. 107
Comprehensive technical service platform for agricultural machinery equipment	3,000,000.00	0.00	Luo Cai Yu [2015] No. 770
Technical transformation of wheeled tractors	2,768,000.00	2,768,000.00	Fa Gai Ban Gong Ye [2005] No. 279
Subsidy for post stabilization	2,618,987.00	8,069,184.11	Yu Ren She [2015] No. 3 and No. 30
Core ability promotion of new wheeled tractors	2,418,181.82	0.00	Fa Gai Ban Chan Ye [2011] No. 2128, and Fa Gai Tou Zi [2011] No. 2053, Guo Ji Ke [2011] No. 550
Industrial revitalization and technological transformation	2,200,000.00	2,200,000.00	Fa Gai Ban Chan Ye [2013] No. 543
2014 industry support funds	2,000,000.00	0.00	Jing Kai Cai Qi [2016] No. 69
Promote independent research and development ability	1,295,168.40	1,295,168.40	Fa Gai Tou Zi [2012] No. 2719
Subsidies for the technical transformation projects of the eighty thousand domestically made equipment	1,018,000.00	1,018,000.00	Fa Gai Tou Zi [2005] No. 1858
The 2015 special expenditure for the production, construction and business development (waste sand management) of Luoyang Environmental Protection Bureau	1,000,000.00	0.00	Luo Cai Yu [2015] No. 17
Subsidy funds of export credit guarantee project	1,000,000.00	0.00	Luo Cai Yu [2016] No. 258



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

60. Non-operating income (Continued)

(2) Details of government grants (Continued)

Item	Amount in this year	Amount in last year	Notes
2016 Luoyang applied technology research and development fund budget (the first batch) "Research and application of the key technology of the fully automatic intelligent precision forging demonstration line"	1,000,000.00	0.00	Luo Cai Yu [2016] No. 65
The full reward for the part of value-added tax (VAT) paid retained by the local authority	744,600.00	156,300.00	Yang Dong reorganization investment agreement, Jiang Zheng Fa [2012] No. 178
Grants for C series government projects	716,000.00	716,000.00	Luo Fa Gai Gong Ye [2009] No. 53
Project fund for the key laboratory of Henan Province in 2016	600,000.00	0.00	Luo Cai Yu [2015] No. 766 and Luo Cai Yu [2016] No. 74
Project of the energy saving and environmental protection diesel engine crankshaft machining production line	562,500.00	22,500.00	Luo Cai Yu [2013] No. 414
Special fund for rapid development and demonstration application of new casting products of tractors and diesel engines	419,960.00	0.00	Science and technology major projects budget statement of 'High grade CNC machine tools and basic manufacturing equipment'
Freight subsidy project of export bases	352,500.00	0.00	Luo Cai Mao [2015] No. 2
2014 industrial optimization project funds	150,000.00	0.00	Luo Cai Yu [2016] No. 111
Power shift heavy duty tractors with the annual output of 1,000 HP	125,000.00	0.00	Yu Gong Gao [2011] No. 1
The reward of government supporting the enterprise development	105,000.00	0.00	Luo Cai Yu [2016] No. 77

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

60. Non-operating income (Continued)

(2) Details of government grants (Continued)

Item	Amount in this year	Amount in last year	Notes
Special support funds for enterprise export credit insurance	0.00	327,900.00	Luo Cai Yu [2014] No. 398
Technology integration and demonstration of flexible production line of the gearbox for large wheeled tractor – the special funds	0.00	668,773.87	National science support program subject task book
Non-road type high power diesel engine	0.00	8,000,000.00	Luo Cai Yu [2012] No. 260 \ Luo Cai Yu [2015] No. 24
Comprehensive technical service platform of agricultural machinery for small and medium enterprises	0.00	2,000,000.00	On the issue of special funds appropriation notice of Henan Province Bureau of Finance Yu Cai Qi [2014] No. 145
Rewards and subsidy funds for the technological innovation of scientific and technological small- and medium- sized enterprises	0.00	830,000.00	Notice issued in 2014 on the budget of rewards and subsidy funds for the technological innovation of scientific and technological small- and medium- sized enterprises by Luoyang Municipal Finance Bureau, and Science and Technology Bureau Luo Cai Yu [2015] No. 23
KW line dust pollution control	0.00	800,000.00	The document of Tuo An Huan [2015] No. 1 by the safety and environmental protection department of the Group
Others	346,427.74	251,415.50	Other documents of government grants
Total	41,413,541.72	32,513,241.88	–



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

61. Non-operating expenses

Item	Amount in this year	Amount in last year	Extraordinary gains and losses recognized in this year
Total loss from disposal of non-current assets	10,174,400.44	4,412,254.29	10,174,400.44
Include: Loss from disposal of fixed assets	10,174,400.44	4,272,087.83	10,174,400.44
Loss from disposal of intangible assets	0.00	140,166.46	0.00
Losses from debt restructuring	517,651.67	5,271,672.79	517,651.67
Donations to outside party	222.80	10,000.00	222.80
Others	3,699,194.76	1,580,734.36	3,699,194.76
Total	14,391,469.67	11,274,661.44	14,391,469.67

Note: RMB14,391,469.67 is recorded in the extraordinary gain and loss in the current year (last year: RMB11,274,661.44).

62. Income tax expenses

Item	Amount in this year	Amount in last year
Current income tax expenses	67,198,052.97	105,989,030.34
Deferred income tax expense	-12,987,863.75	-23,365,678.22
Total	54,210,189.22	82,623,352.12

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

62. Income tax expenses (Continued)

Reconciliation process of accounting profit and income tax expenses

Item	Amount in this year
Total profit	280,095,428.27
Income tax expenses calculated according to the appropriate/applicable tax rates	64,170,572.80
The impact of subsidiaries applied for different tax rates	-4,052,178.59
The impact of adjustments on the income tax of prior period	3,832,288.77
The impact of non-taxable income	-4,399,200.00
The impact of non-deductible costs, expenses and losses	3,812,861.41
The impact of using the deductible loss of the deferred tax assets unrecognized in the prior period	-5,347,913.71
The impact of the deductible temporary difference or the deductible loss of the deferred tax assets unrecognized in the current period	625,120.80
Others	-4,431,362.26
Income tax expenses	<u>54,210,189.22</u>

63. Depreciation and amortization

Depreciation and amortization recognized in the Income statement for the current year is RMB299,855,509.54 and RMB32,749,677.64 respectively (last year: RMB281,111,036.92 and RMB33,292,606.41 respectively).

64. Operating rental expenses

Operating rental expenses is RMB17,634,677.22 for the current year (last year: RMB11,581,431.65), including rental expenses on machinery equipment of RMB6,136,772.16 (last year: RMB5,028,539.60).

65. Rental income

The rental income on land and buildings is RMB18,267,335.31 for this year (last year: RMB12,141,337.15).



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

66. Earnings per share

(1) Basic earnings per share

Item	This year	Last year
Consolidated net profit attributable to the ordinary shareholders of the parent company	223,369,729.35	135,322,811.53
Consolidated net profit attributable to the ordinary shareholders of the parent company (after deducting extraordinary gains or losses)	161,857,993.74	59,060,936.02
The weighted average outstanding ordinary shares of the parent company	994,943,500.00	995,900,000.00
Basic earnings per share (RMB/share)	0.2245	0.1359
Basic earnings per share (RMB/share) (after deducting extraordinary gains or losses)	0.1627	0.0593

The calculation process of ordinary share weighted average:

Item	This year	Last year
Beginning balance of outstanding ordinary shares issued	995,900,000.00	995,900,000.00
Reserve funds or share dividend distribution to increase the number of shares	0.00	0.00
The number of shares increased from issuing new shares or bonds convertible	0.00	0.00
Increased number of shares (II) the cumulative number of months from next month until the end of the year	0.00	0.00
Reduce the number of shares due to repurchase	956,500.00	0.00
The cumulative number of months since the next month of share reduction to the end of year	2.24	0.00
Number of reduced shares	0.00	0.00
Number of months of the Reporting Period	12.00	0.00
Ending balance of outstanding ordinary shares issued	994,943,500.00	995,900,000.00

(2) Diluted earnings per share

Item	This year	Last year
Adjusted consolidated net profit attributable to the ordinary shareholders of the parent	223,369,729.35	135,322,811.53
Adjusted consolidated net profit attributable to the ordinary shareholders of the parent (after deducting extraordinary gains or losses)	161,857,993.74	59,060,936.02
The adjusted weighted average outstanding basic shares	994,943,500.00	995,900,000.00
Diluted earnings per share (RMB/share)	0.2245	0.1359
Diluted earnings per share (RMB/share) (after deducting extraordinary gains or losses)	0.1627	0.0593

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

67. Other comprehensive income

Item	Amount in this year	Amount in last year
1. Gain (or loss) generated from financial assets available for sale	-7,151,329.27	-9,173,200.00
Less: Impact on income tax generated from financial assets available for sale	-1,317,182.32	-3,711,372.73
Net income previously recognized in other comprehensive income transferred to current profit and loss	9,557,863.64	12,249,818.18
Subtotal	-15,392,010.59	-17,711,645.45
2. The share entitled to in accordance with the equity method of accounting for investments in other comprehensive income	0.00	0.00
Less: Impact on income tax generated from the share entitled to in accordance with the equity method of accounting for investments in other comprehensive income	0.00	0.00
Net income previously recognized in other comprehensive income transferred to current profit and loss	0.00	0.00
Subtotal	0.00	0.00
3. Gain (or loss) amount generated from cash flow hedging instrument	0.00	0.00
Less: Income tax effect on cash flow hedging instrument	0.00	0.00
Net income previously recognized in other comprehensive income transferred to current profit and loss	0.00	0.00
Adjusted amount on the initial recognized amount when changed into hedged item	0.00	0.00
Subtotal	0.00	0.00
4. Exchange differences from retranslation of foreign currency financial statements	3,867,660.14	10,538,824.59
Less: Net gain and loss for the current year from disposal of foreign operation	0.00	0.00
Subtotal	3,867,660.14	10,538,824.59
5. Others	0.00	0.00
Less: Income tax effect from other items in other comprehensive income	0.00	0.00
Net income previously recognized in other comprehensive income transferred to current profit and loss	0.00	0.00
Subtotal	0.00	0.00
Total	-11,524,350.45	-7,172,820.86



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

68. Notes to items of cash flow statement

(1) Cash receipts from other operating activities

Item	Amount in this year	Amount in last year
Cash receipts from interest income of bank deposits	6,416,305.13	22,665,622.07
Cash receipts from other receivables	69,840,334.17	67,295,215.75
Total	76,256,639.30	89,960,837.82

(2) Cash payments to other operating activities

Item	Amount in this year	Amount in last year
Payment of selling and administrative expenses	504,739,612.36	614,507,693.35
Payment of other payables	17,776,135.36	127,837,149.44
Total	522,515,747.72	742,344,842.79

(3) Cash receipts from other investing activities

Item	Amount in this year	Amount in last year
Cash received from assets-related government grants	12,054,000.00	24,480,000.00

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

68. Notes to items of cash flow statement (Continued)

(4) Other cash payments relating to investing activities

Item	Amount in this year	Amount in last year
Funds deposited out to purchase financial products	200,000,000.00	0.00

(5) Other cash payments relating to financing activities

Item	Amount in this year	Amount in last year
Repurchase of H shares	19,140,912.00	0.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

69. Supplementary information for consolidated cash flow statement

(1) *Supplementary information for consolidated cash flow statement*

Item	Amount in this year	Amount in last year
1. Reconciliation of net profit to cash flows from operating activities:	-	-
Net profit	225,885,239.05	139,054,260.90
Add: Provision for asset impairment	87,289,662.58	158,306,457.84
Depreciation of fixed asset	299,855,509.54	281,111,036.92
Amortization of intangible assets	32,749,677.64	33,292,606.41
Amortization of long-term deferred expenses	12,804,274.55	12,088,628.85
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain listed as "-")	9,165,962.45	3,503,966.64
Loss on disposal of fixed assets (Gain listed as "-")	0.00	0.00
Gain or loss from changes in fair value (Gain listed as "-")	-15,243,438.25	-3,009,536.29
Financial expenses (Gain listed as "-")	93,426,832.66	153,320,472.52
Loss on investments (Gain listed as "-")	-74,235,860.45	-95,364,775.28
Decrease in deferred tax assets (Increase listed as "-")	-4,786,418.47	-21,247,307.12
Increase in deferred tax liabilities (Decrease listed as "-")	-3,275,818.31	-2,118,371.10
Decrease in inventories (Increase listed as "-")	164,160,287.20	269,784,944.82
Decrease in operating receivables (Increase listed as "-")	1,782,398,343.72	-957,984,312.08
Increase in operating payables (Decrease listed as "-")	-517,019,537.47	667,057,647.15
Others	0.00	0.00
Net cash flow generated from operating activities	2,093,174,716.44	637,795,720.18
2. Significant non-cash investing and financing activities:	-	-
Conversion of debts into capital	0.00	0.00
Convertible bonds repayable within 1 year	0.00	0.00
Fixed assets acquired under finance lease arrangement	0.00	0.00
3. Net changes in cash and cash equivalents:	-	-
Ending balance of cash	2,894,305,807.48	1,690,285,427.32
Less: Beginning balance of cash	1,690,285,427.32	1,749,902,168.21
Add: Ending balance of cash equivalents	0.00	0.00
Less: Beginning balance of cash equivalents	0.00	0.00
Net increase in cash and cash equivalents	1,204,020,380.16	-59,616,740.89

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

69. Supplementary information for consolidated cash flow statement (Continued)

(2) Cash and cash equivalents

Item	Ending balance	Beginning balance
Cash	2,894,305,807.48	1,690,285,427.32
Including: Cash on hand	875,133.16	983,395.10
Bank deposits ready for payment	2,878,741,014.81	1,678,047,698.53
Other monetary funds ready for payment	14,689,659.51	11,254,333.69
Deposit in the Central Bank ready for payment	0.00	0.00
Interbank deposits	0.00	0.00
Loans to other banks	0.00	0.00
Cash equivalents	0.00	0.00
Including: Bond investments due within 3 months	0.00	0.00
Ending balance of cash and cash equivalents	2,894,305,807.48	1,690,285,427.32
Including: Cash and cash equivalents with restricted use of the parent company or the subsidiaries of the Group	0.00	0.00

(3) Significant investing and financing activities not involving cash expenditures in the current period

None

70. Items in the statement of changes in shareholders' equity

In this year, there is no change in the item 'Others' of the statement of changes in shareholder's equity.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

71. Assets with restricted ownership or right to use

Item	Ending balance of book value	Reasons for the restriction
Monetary funds	367,430,005.50	Bank acceptance bill deposits, letter of credit deposits, trade financing deposits, letter of guarantee deposits, risk reserves, investment funds deposited out, investment funds deposited out in the bank deposits, and the statutory deposit reserve deposit
Notes receivable	26,060,900.00	Pledged
Fixed assets	71,150,253.33	Mortgaged
Intangible assets	17,566,792.53	Mortgaged
Total	482,207,951.36	—

Note: The monetary funds with the restricted ownership were the letter of guarantee deposit of RMB908,559.21, the bank acceptance bill deposit of RMB108,674,642.08, the trade financing deposit of RMB7,088,798.79, the letter of credit deposit of RMB3,829,400.18, the project risk reserve of RMB2,175,733.77, the investment funds deposited out of RMB3,572,792.66, the statutory deposit reserve deposited in the Central Bank of RMB41,180,078.81 and the investment funds deposited out in the bank deposits (bank deposits prepared for the payment of purchasing financial products) of RMB200,000,000.00.

The amount of notes receivables with restricted ownership is the amount of note receivables pledged in the bank in the current period.

The land and properties with restricted ownership of which the total original value of RMB100,098,120.94 and the net value of RMB88,717,045.86 are used as a mortgage to obtain the short-term borrowings of RMB70 million in Dongsheng Branch of Bank of Jilin in the current period.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

72. Foreign currency monetary items

(1) *Foreign currency monetary items*

Item	Ending balance of foreign currency	Exchange rate	Ending balance converted into RMB
Monetary funds	–	–	149,466,905.81
Including: USD	12,078,789.57	6.93700	83,790,563.25
EUR	1,448,466.46	7.30680	10,583,654.74
HKD	47,736,737.64	0.89451	42,700,989.18
XOF	215,934,709.00	0.01110	2,396,875.27
ZAR	18,962,939.48	0.50830	9,638,862.14
YEN	72.00	0.05959	4.29
AUD	69,648.73	5.01570	349,337.14
GBP	777.94	8.50940	6,619.80
Accounts receivable	–	–	241,287,147.95
Including: USD	30,583,308.84	6.93700	212,156,413.42
EUR	1,569,471.51	7.30680	11,467,814.43
ZAR	18,810,488.25	0.50830	9,561,371.18
XOF	350,615,838.22	0.01110	3,891,835.80
AUD	839,307.20	5.01570	4,209,713.12
Other receivables	–	–	11,558,020.31
Including: XOF	12,807,389.50	0.01110	142,162.02
ZAR	71,156.19	0.50830	36,168.69
EUR	1,557,410.85	7.30680	11,379,689.60
Accounts payable	–	–	30,288,783.60
Including: EUR	1,116,506.66	7.30680	8,158,090.86
XOF	138,903,077.44	0.01110	1,541,824.16
ZAR	149,000.00	0.50830	75,736.70
USD	2,957,060.96	6.93700	20,513,131.88
Short-term borrowings	–	–	809,448,510.67
Including: USD	100,000,000.00	6.93700	693,700,000.00
EUR	14,500,000.00	7.30680	105,948,600.00
XOF	882,874,835.00	0.01110	9,799,910.67
Non-current liabilities due within one year	–	–	18,267,000.00
Including: EUR	2,500,000.00	7.30680	18,267,000.00
Long-term loans	–	–	9,133,500.00
Including: EUR	1,250,000.00	7.30680	9,133,500.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VI. NOTES TO THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENT (Continued)

72. Foreign currency monetary items (Continued)

(2) Overseas business entities

Company name	Overseas main business place	Recording currency	The basis for recording currency selection
Brilliance China Machinery Holdings Co., Ltd	Hong Kong	USD	Business environment and the main settlement currency
YITWO Agro-Industrial	Côte d'Ivoire	XOF	Business environment and the main settlement currency
CAD FUND MACHINERY (SA) (PTY) LTD.	South Africa	ZAR	Business environment and the main settlement currency
YTO FRANCE SAS	France	EUR	Business environment and the main settlement currency

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VII. CHANGES IN SCOPE OF CONSOLIDATION

1. Business consolidation not under common control

None

2. Business consolidation under common control

None

3. Changes of scope of consolidation due to other reasons

According to the first 2016 general manager office meeting held on January 25, 2016, the meeting agreed that the subsidiary of the Company, YTO (Luoyang) Diesel Engine Co., Ltd consolidate its wholly owned subsidiary, YTO (Luoyang) Power Machinery Co., Ltd by absorption merger. YTO (Luoyang) Diesel Engine Co., Ltd absorbed YTO (Luoyang) Power Machinery Co., Ltd and continued to exist. After the completion of the absorption merger, YTO (Luoyang) Power Machinery Co., Ltd was dissolved and cancelled. On May 15, 2016, Luoyang Administration for Industry and Commerce approved the cancellation of the industrial and commercial registration of YTO (Luoyang) Power Machinery Co., Ltd.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) Composition of the Group

Name of the subsidiary	Main operating place	Registration place	Business nature	Registered capital (RMB ten thousand)	Shareholding percentage (%)		Acquisition method
					Direct	Indirect	
YTO France SAS	France	France	Tractor manufacturing	30,073.70	100.00	0.00	1
Luoyang Changhong Trading Co., Ltd	China	China	Sale of agricultural machinery	300.00	100.00	0.00	1
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	China	China	Other machinery manufacturing	5,300.00	100.00	0.00	1
YTO (Xinjiang) Machinery Co., Ltd	China	China	Tractor manufacturing	16,000.00	100.00	0.00	1
YTO Heilongjiang Agricultural Machinery Co., Ltd	China	China	Tractor manufacturing	10,000.00	100.00	0.00	1
Luoyang Changxing Agricultural Machinery Co., Ltd	China	China	Sale of agricultural machinery	300.00	70.00	30.00	1
YTO (Luoyang) Transportation Machinery Co., Ltd	China	China	Other machinery manufacturing	5,588.00	93.39	0.00	1
Brilliance China Machinery Holdings Co., Ltd	China	Bermuda	Investment shareholding	9.96	90.10	0.00	1
YTO Group Finance Co., Ltd	China	China	Finance	50,000.00	94.60	4.80	1
China-Africa Heavy Industry Investment Co., Ltd	China	China	Sale of agricultural machinery	10,004.00	55.00	0.00	1
Luoyang Tractor Research Institute Co., Ltd	China	China	Others	44,500.00	51.00	0.00	2
YTO (Luoyang) Forklift Truck Co., Ltd	China	China	Other machinery manufacturing	2,860.00	100.00	0.00	2
YTO (Luoyang) Diesel Engine Co., Ltd	China	China	Power machinery manufacturing	11,294.82	67.94	19.45	2
YTO (Luoyang) Drive Axle Company Limited	China	China	Tractor manufacturing	3,000.00	100.00	0.00	2
YTO (Luoyang) Flag Auto-Body Company Limited	China	China	Tractor manufacturing	6,800.00	100.00	0.00	2
YTO (Luoyang) Fuel Injection Co., Ltd	China	China	Power machinery manufacturing	16,191.50	66.60	22.83	2
YTO (Luoyang) Foundry Company Limited	China	China	Tractor manufacturing	24,883.00	100.00	0.00	2
YTO International Economic and Trade Co., Ltd	China	China	Sale of agricultural machinery	6,600.00	100.00	0.00	2
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	China	China	Tractor manufacturing	28,200.00	33.33	0.00	3
YTO Shunxing (Luoyang) Spare Parts Co., Ltd	China	China	Tractor manufacturing	3,000.00	100.00	0.00	3
YTO (Shenyang) Co., Ltd	China	China	Tractor manufacturing	2,700.00	60.00	0.00	1

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(1) *Composition of the Group* (Continued)

Note: According to the decision of the first meeting of the sixth board of directors in 2012, the Company raised capital with RMB94,250,000.00 based on the valuation of net assets of Changtuo Agricultural Machinery Equipment Group Co., Ltd (referred to as "Changtuo Company") on March 31, 2012. The Company holds 33.33% equity of Changtuo Company after raising capital. In accordance with the agreement between the Company and China National Machinery Industry Corporation (referred to as "SinoMach"), SinoMach authorized its voting right and supervision and management right corresponding to 33.33% equity of Changtuo Company to the Company to independently exercise these rights. The authorization will end when SinoMach transfers the equity to unrelated third parties. During the authorization period, SinoMach cannot unilaterally withdraw its authorization. SinoMach has to obtain the written consent from the Company if SinoMach needs to transfer its equity to a third party. However, the Company has the priority purchase right. At this point, the Company obtained 66.66% voting right and actual control right of Changtuo Company.

Acquisition method: 1. Establishment or investment; 2. Business combination under common control; 3. Subsidiaries acquired through business combination not under common control.

(2) *Significant partially-owned subsidiaries*

Name of the subsidiary	Shareholding percentage of minority shareholders	Profit or loss attributable to minority shareholders	Dividends declared to minority shareholders in this year	Ending balance of minority interests
Brilliance China Machinery Holdings Co., Ltd	9.90%	1,446,543.68	0.00	16,821,115.43
YTO (Luoyang) Transportation Machinery Co., Ltd	6.61%	-622,272.88	0.00	-301,718.54
YTO Group Finance Co., Ltd	1.21%	34,229.15	2,112,000.00	9,299,203.58
China-Africa Heavy Industry Investment Co., Ltd	45.00%	4,312,578.43	0.00	46,721,028.32
Luoyang Tractor Research Institute Co., Ltd	49.00%	7,133,673.45	0.00	321,995,926.70
YTO (Luoyang) Diesel Engine Co., Ltd	14.53%	11,326,960.58	7,464,310.10	192,778,845.29
YTO (Luoyang) Fuel Injection Co., Ltd	13.89%	-941,454.69	860,000.00	31,145,825.99
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	66.67%	-24,237,016.25	0.00	59,612,446.65



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(3) Main financial information of significant partially-owned subsidiaries

Item	Ending balance/Amount in this year							
	YTO (Luoyang)	Brilliance China			Luoyang			Chang Tuo
	Transportation	Machinery	YTO Group	Heavy Industry	Tractor	YTO (Luoyang)	YTO (Luoyang)	Agricultural
	Machinery	Holdings	Finance	Investment	Research	Diesel Engine	Fuel Injection	Machinery
	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Group Co., Ltd
Current assets	17,573,971.66	163,046,545.55	3,377,204,500.65	134,151,060.75	258,335,834.16	1,144,523,478.22	150,836,750.75	19,102,927.36
Non-current assets	25,474,546.77	10,405,500.00	1,836,756,695.93	2,734,977.70	499,564,657.53	769,816,260.57	125,243,100.31	195,206,373.78
Total assets	43,048,518.43	173,452,045.55	5,213,961,196.58	136,886,038.45	757,900,491.69	1,914,339,738.79	276,079,851.06	214,309,301.14
Current liabilities	47,503,947.02	3,541,788.78	4,483,335,251.64	34,908,018.78	54,093,692.80	806,346,190.91	54,547,010.88	116,760,240.62
Non-current liabilities	0.00	0.00	1,676,231.21	0.00	46,672,254.59	22,626,988.84	0.00	8,130,374.83
Total liabilities	47,503,947.02	3,541,788.78	4,485,011,482.85	34,908,018.78	100,765,947.39	828,973,179.75	54,547,010.88	124,890,615.45
Operating income	25,956,066.41	0.00	202,220,245.80	52,669,304.63	229,740,574.51	2,298,522,511.66	144,685,533.90	22,063,426.82
Net profit	-9,178,855.13	14,611,552.32	2,828,154.54	8,953,447.83	14,558,517.25	99,151,750.71	-6,779,395.76	-36,355,524.36
Total comprehensive income	-9,178,855.13	19,677,065.63	994,532.59	9,833,499.28	14,558,517.25	99,151,750.71	-6,779,395.76	-36,355,524.36
Cash flow from operating activities	-1,089,191.07	778,035.13	1,238,358,136.31	10,367,594.34	30,111,430.95	250,558,356.84	12,736,541.74	-2,148,170.90

Item	Beginning balance/Amount in last year							
	YTO (Luoyang)	Brilliance China			Luoyang			Chang Tuo
	Transportation	Machinery	YTO Group	Heavy Industry	Tractor	YTO (Luoyang)	YTO (Luoyang)	Agricultural
	Machinery	Holdings	Finance	Investment	Research	Diesel Engine	Fuel Injection	Machinery
	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Co., Ltd	Group Co., Ltd
Current assets	25,879,400.80	143,808,195.44	2,781,474,990.27	121,793,766.04	235,098,802.34	1,091,385,579.93	188,629,319.91	40,472,425.51
Non-current assets	27,063,080.36	9,740,400.00	2,689,978,184.85	3,013,198.24	501,125,740.94	786,821,486.20	138,168,469.92	210,396,878.74
Total assets	52,942,481.16	153,548,595.44	5,471,453,175.12	124,806,964.28	736,224,543.28	1,878,207,066.13	326,797,789.83	250,869,304.25
Current liabilities	48,586,767.69	3,315,404.30	4,708,921,092.84	32,662,443.89	49,726,093.24	808,566,050.12	90,365,553.89	116,939,543.95
Non-current liabilities	0.00	0.00	2,576,901.14	0.00	43,922,422.99	24,210,559.48	0.00	8,562,351.43
Total liabilities	48,586,767.69	3,315,404.30	4,711,497,993.98	32,662,443.89	93,648,516.23	832,776,609.60	90,365,553.89	125,501,895.38
Operating income	37,213,849.73	0.00	379,762,308.57	72,615,890.68	192,796,381.21	2,323,467,488.74	231,777,548.13	35,434,202.85
Net profit	-9,408,193.32	10,816,002.68	80,919,530.29	186,517.56	27,004,534.54	117,327,980.74	8,914,818.03	-47,180,763.04
Total comprehensive income	-9,408,193.32	15,794,904.87	77,185,130.29	-1,590,863.08	27,004,534.54	117,327,980.74	8,914,818.03	-47,180,763.04
Cash flow from operating activities	1,815,598.41	192,180.24	118,397,015.89	9,786,153.11	45,178,520.09	241,680,313.81	26,675,292.71	7,205,112.05

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

2. Situation of which the portion of shareholders' equity in a subsidiary changed but still in control of the subsidiary

(1) **Explanation on the change situation in the portion of shareholders' equity in subsidiaries:**

During the Reporting Period, the Company acquired the 6% share equity right of the non-wholly owned subsidiary, YTO Group Finance Co., Ltd held by SINOMACH-HI (Luoyang) Building Machinery Co., Ltd. The comparison of the change of shareholders' equity portion before and after the stock right transfer was as following:

Shareholder	Shareholding amount		Shareholding percentage (%)	
	Ending balance	Beginning balance	Percentage at the end of the period	Percentage at the beginning of the period
First Tractor Company Limited	473,000,000.00	443,000,000.00	94.60	88.60
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd	0.00	30,000,000.00	0.00	6.00
YTO (Luoyang) Diesel Engine Co., Ltd	21,000,000.00	21,000,000.00	4.20	4.20
YTO Group Corporation	3,000,000.00	3,000,000.00	0.60	0.60
YTO International Economic and Trade Co., Ltd	3,000,000.00	3,000,000.00	0.60	0.60
Total	500,000,000.00	500,000,000.00	100.00	100.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

2. Situation of which the portion of shareholders' equity in a subsidiary changed but still in control of the subsidiary (Continued)

(2) Impact on the minority shareholders' interest and the shareholders' equity attributable to the parent company of the transactions

Item	YTO Group Finance Co., Ltd
Purchase cost/disposal consideration	43,158,012.00
– Cash on hand	43,158,012.00
Total purchase cost/disposal consideration	43,158,012.00
Less: Net asset share of the subsidiary calculated according to percentage of the acquired/disposed share equity right	45,597,310.87
Difference	-2,439,298.87
Including: Adjustment on capital reserve	2,439,298.87
Adjustment on surplus reserve	0.00
Adjustment on retained earnings	0.00

3. Interests in joint ventures or associates

(1) Significant joint ventures or associates

Name of joint ventures or associates	Main operating place	Registration place	Business nature	Shareholding percentage (%)		Accounting method of investments in joint ventures or associates
				Direct	Indirect	
ZF YTO (Luoyang) Drive Axle Co., Ltd	China	China	Tractor manufacturing	49.00	0.00	Equity method
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	China	China	Tractor manufacturing	20.00	0.00	Equity method

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

3. Interests in joint ventures or associates (Continued)

(2) Main financial information of important joint ventures

Item	Ending balance/Amount incurred in this year		Beginning balance/Amount incurred in last year	
	YTO Chuanlong		YTO Chuanlong	
	Sichuan Agricultural Equipment Co., Ltd	ZF YTO (Luoyang) Drive Axle Co., Ltd	Sichuan Agricultural Equipment Co., Ltd	ZF YTO (Luoyang) Drive Axle Co., Ltd
Current assets	5,485,004.58	148,520,337.98	3,850,569.52	174,470,563.84
Including: Cash and cash equivalents	16,498.83	110,661,907.99	573,538.14	53,676,401.47
Non-current assets	1,593,764.62	197,525,341.29	1,171,788.52	197,413,511.15
Total assets	7,078,769.20	346,045,679.27	5,022,358.04	371,884,074.99
Current liabilities	2,294,921.38	43,723,102.06	-85,340.49	80,860,031.55
Non-current liabilities	0.00	0.00	0.00	0.00
Total liabilities	2,294,921.38	43,723,102.06	-85,340.49	80,860,031.55
Minority interests	0.00	0.00	0.00	0.00
Equity attributable to the parent company shareholders	4,783,847.82	302,322,577.21	5,107,698.53	291,024,043.44
Share of net assets calculated by shareholding ratio	956,769.56	148,138,062.83	1,021,539.70	142,601,781.29
Adjusted matters	0.00	-86,291.90	0.00	-156,870.70
– Goodwill	0.00	0.00	0.00	0.00
– Unrealized profits from internal transactions	0.00	-86,291.90	0.00	-156,870.70
– Others	0.00	0.00	0.00	0.00
Book value of equity investments in joint ventures	956,769.56	148,051,770.93	1,021,539.70	142,444,910.59
Fair value of equity investments in joint ventures with public offer	0.00	0.00	0.00	0.00
Operating income	4,418,441.60	288,122,572.98	11,914,751.16	279,471,022.67
Finance expenses	461.75	-1,233,849.56	-7,576.76	-605,650.29
Income tax expenses	0.00	6,181,560.70	0.00	2,188,370.68
Net profit	-323,850.71	17,298,533.77	-344,587.88	8,024,043.44
Net profits of discontinuing operation	0.00	0.00	0.00	0.00
Other comprehensive income	0.00	0.00	0.00	0.00
Total comprehensive income	-323,850.71	17,298,533.77	-344,587.88	8,024,043.44
Dividends from joint ventures for current period	192,000.00	2,940,000.00	96,000.00	0.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

3. Interests in joint ventures or associates (Continued)

(3) Summary financial information of insignificant associates

Item	Ending balance/ Amount incurred in this year	Beginning balance/ Amount incurred in last year
Associates:		
Total book value of investments	90,459.27	80,039.21
Total amount of the following items calculated by shareholding ratio	10,420.06	-97,365.14
– Net profit	10,420.06	-97,365.14
– Other comprehensive income	0.00	0.00
– Total comprehensive income	10,420.06	-97,365.14

(4) Significant restrictions of the ability to transfer funds from associates to the Company

None

(5) Excess loss incurred in associates

None

(6) Unconfirmed commitments related to investments in associates

None

(7) Contingent liabilities related to investments in associates

None

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

4. Significant joint operation

None

5. Structured entity not included in the scope of consolidated financial statements.

None

IX. RISK RELATED TO FINANCIAL INSTRUMENTS

Major financial instruments of the Group include: monetary funds, receivables, financial assets measured at fair value and its movement recorded through profit and loss, financial assets available for sale, loans and advances granting, accounts payable, borrowings from financial institutes, bonds payable etc. For the specific details of each financial instrument, please refer to the Note VI. The risks related to financial instruments and the risk management policies for risk mitigation of the Group are stated as following. The management and supervision on the risk exposure is to ensure that the risks mentioned above are controlled within a reasonable range.

1. Risk management objectives and policies

The risk management objectives of the Group are to obtain an appropriate balance between risk and return, to reduce negative effects caused by operating results to a lowest level, and to maximize interest of shareholders and other equity investors. Based on these objectives, the basic strategies are to confirm and analyze all potential risks related to the Group, to set appropriate risk limitations, to manage and monitor all risks timely and effectively, and to control the risks within a limited scope.

(1) Market risk

1) Exchange rate risk

Most of the business of the Group is in China. As a result, most transactions are settled in RMB, which means the Group does not need to face a high exchange rate risk. The foreign exchange exposure of the Group is mainly related to U.S. Dollar, H.K. Dollar, Euro, Yen, Australian Dollar, West African francs and rand. On December 31, 2016, the ending balances of assets and liabilities held by the Group are all in RMB, except for the ending balances in foreign currencies stated in the following schedule. The exchange rate risk rose from ending balances in foreign currencies of assets and liabilities may have effects on the operation performance of the Group.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(1) Market risk (Continued)

1) Exchange rate risk (Continued)

Item	Ending balance		Beginning balance	
	Original currency	Converted into RMB	Original currency	Converted into RMB
Monetary funds	–	149,466,905.81	–	118,860,889.73
USD	12,078,789.57	83,790,563.25	11,087,048.31	71,994,856.87
EUR	1,448,466.46	10,583,654.74	199,553.22	1,415,869.98
HKD	47,736,737.64	42,700,989.18	39,697,639.09	33,257,888.08
YEN	72.00	4.29	9,535,848.00	513,982.20
AUD	69,648.73	349,337.14	1,030,259.30	4,870,653.87
XOF	215,934,709.00	2,396,875.27	279,539,251.41	3,019,023.91
ZAR	18,962,939.48	9,638,862.14	8,711,718.81	3,635,400.26
GBP	777.94	6,619.80	15,933.46	153,214.56
Accounts receivable	–	241,287,147.95	–	418,515,634.85
USD	30,583,308.84	212,156,413.42	59,170,131.29	384,227,164.55
EUR	1,569,471.51	11,467,814.43	2,983,979.92	21,171,934.33
YEN	0.00	0.00	16,757,062.00	903,205.64
AUD	839,307.20	4,209,713.12	150,985.20	713,797.63
XOF	350,615,838.22	3,891,835.80	150,096,144.45	1,621,038.36
ZAR	18,810,488.25	9,561,371.18	23,672,404.37	9,878,494.34
Other receivables	–	11,558,020.31	–	15,636,482.77
XOF	12,807,389.50	142,162.02	9,167,625.00	99,010.35
ZAR	71,156.19	36,168.69	152,545.00	63,657.03
EUR	1,557,410.85	11,379,689.60	2,180,885.02	15,473,815.39
Advances to suppliers	–	65,400,293.75	–	264,674,115.70
USD	100,514.56	697,269.50	240,964.56	1,564,727.47
EUR	8,780,622.36	64,158,251.46	35,684,791.63	253,190,733.57
YEN	0.00	0.00	184,019,567.00	9,918,654.66
XOF	48,203,598.97	535,059.95	0.00	0.00
ZAR	19,108.48	9,712.84	0.00	0.00
Accounts payable	–	30,288,783.60	–	31,505,683.85
USD	2,957,060.96	20,513,131.88	1,068,731.67	6,939,916.00
EUR	1,116,506.66	8,158,090.86	3,240,843.64	22,994,433.79
XOF	138,903,077.44	1,541,824.16	139,085,055.56	1,502,118.60
ZAR	149,000.00	75,736.70	165,864.98	69,215.46

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(1) Market risk (Continued)

1) Exchange rate risk (Continued)

Item	Ending balance		Beginning balance	
	Original currency	Converted into RMB	Original currency	Converted into RMB
Other payables	-	13,895,177.16	-	10,245,241.13
USD	510,564.91	3,541,788.78	0.00	0.00
EUR	1,274,095.54	9,309,561.29	1,318,126.21	9,352,369.09
XOF	93,286,251.34	1,035,477.39	82,358,633.18	891,120.41
ZAR	16,426.72	8,349.70	4,197.53	1,751.63
Advances from customers	-	109,142,998.61	-	58,471,931.15
USD	1,005,676.42	6,976,377.33	2,586,671.25	16,796,808.42
EUR	13,897,210.08	101,544,134.61	5,401,845.14	38,327,171.64
GBP	0.00	0.00	300,000.00	2,884,770.00
XOF	56,079,879.76	622,486.67	41,727,971.30	450,662.09
ZAR	0.00	0.00	30,000.00	12,519.00
Short-term borrowings	-	809,448,510.67	-	792,064,725.16
USD	100,000,000.00	693,700,000.00	96,800,000.00	628,580,480.00
EUR	14,500,000.00	105,948,600.00	21,700,000.00	153,965,840.00
XOF	882,874,835.00	9,799,910.67	881,333,811.11	9,518,405.16
Non-current liabilities due within one year	-	18,267,000.00	-	17,738,000.00
EUR	2,500,000.00	18,267,000.00	2,500,000.00	17,738,000.00
Long-term loans	-	9,133,500.00	-	26,607,000.00
EUR	1,250,000.00	9,133,500.00	3,750,000.00	26,607,000.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(1) Market risk (Continued)

1) Exchange rate risk (Continued)

The Group pays close attention to the impact of fluctuations in exchange rate. Three agreements of forward foreign currency purchasing transactions were signed in the last year and were completed in the Reporting Period. A swap foreign currency settlement agreement was newly signed in this year to hedge the foreign currency exchange rate fluctuation risk and the agreement was not completed yet. The content was as following:

Counter party of the transaction	Unit of currency	Exchange rate of the deal	Amount agreed to purchase	Date of delivery
Luoyang Xigong Branch of Industrial and Commercial Bank of China	USD	6.5015	38,600,000.00	July 25, 2016
Luoyang Xigong Branch of Industrial and Commercial Bank of China	EUR	7.0033	10,000,000.00	June 28, 2016
Luoyang Henan Branch of China Construction Bank	USD	6.5841	50,000,000.00	August 1, 2016
Luoyang Henan Branch of Bank of Communications	USD	6.7536	100,000,000.00	Before October 11, 2017

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(1) *Market risk* (Continued)

2) *Interest rate risk*

The interest rate risk of the Group arises from bank loans and bonds payable and other interest-bearing debts. Financial liabilities with floating interest rates push the Group to face the cash flow interest rate risk. Financial liabilities with fixed interest rates push the Group to face the fair value interest rate risk. The Group needs to decide a relative proportion between contracts with floating interest rates and contracts with fixed interest rates according to the market environment.

The risk of changes in market interest rates the Group exposed is mainly related to loans and advances granting as well as deposits absorbed and borrowings.

The Group maintains a proper fixed and floating rate instruments combination, and regularly reviews and monitors the combination to make a proper arrangement to reduce the risk. The Group does not use derivative financial instruments to hedge interest rate risks.

On December 31, 2016, interest-bearing debts of the Group are mainly borrowing contracts in EUR with floating interest rates and contracts denominated in RMB, USD and XOF with fixed interest rates. The total amount of borrowing contracts with floating interest rates is RMB133,349,100.00 (RMB127,358,840.00 on December 31, 2015). The total amount of contracts with fixed interest rates is RMB2,970,194,906.73 (RMB3,350,218,863.45 on December 31, 2015).

3) *Price risk*

The Group sells products on the market price. Therefore the Group is influenced by the fluctuation of the market price.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(2) Credit risk

On December 31, 2016, the potential maximum exposure to credit risk of the Group is mainly because of the counterparties' failure to perform their obligations leading to losses of financial assets related to the Group, including accounts receivable of the Group and loan transactions in YTO Group Finance Co., Ltd, a subsidiary of the Group.

The policy of the Group is to make all customers with credit term transactions to go through credit audit procedures. In addition, the Group will continue to monitor balances of accounts receivable. The board of directors believes that the uncollected accounts receivable in the financial statement has an adequate allowance. Considering with such procedures, the board of directors believes that the credit risk has been significantly reduced.

The total amount of the top five accounts receivable is RMB438,919,789.00 (RMB582,104,709.51 on December 31, 2015). The risk exposure of the Group is distributed across multiple clients. At the end of the year, 37.22% of the accounts receivable of the Group (42.63% for last year) comes from the top five customers respectively. Therefore, the Group has no significant credit concentration risk.

YTO Group Finance Co., Ltd, a subsidiary of the Group, has built up a series of strict credit standards and loan approval systems to control and manage the credit risk. The loan approval commitment is responsible for making policies and confirming credit limitations to make a collective review of each credit loan business. The audit department of YTO Group Finance Co., Ltd is responsible for monitoring the policies and inspecting implementations of the systems.

Bank deposits and pledged bank deposits are all in state-owned banks or other reputable financial institution. Therefore, the credit risk of bank deposits is limited.

Note receivable is guaranteed by state-owned banks or other reputable financial institution. Therefore, the credit risk of notes receivable is limited.

Regarding the carrying amount of financial assets in the consolidated balance sheet, for financial instruments measured at fair value, the book value reflects its risk exposure but not the maximum risk exposure. The maximum risk exposure will change along with the change of fair value in the future.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(3) *Liquidity risk*

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations at maturity date.

Cash flow forecast is performed by the operation entity of the Group and calculated in summary by the Group finance. The Group finance monitors the rolling forecast of liquidity requirements to ensure that there are adequate funds to meet operation needs. It also maintains adequate undrawn commitments loan limitations to protect the Group from breaking any loan limitations or terms (if any). Such prediction considers the debt financing plan of the Group, compliance of terms, ratio target of internal financial position statement, and external regulation or legislation like currency restriction.

The difference between the remaining cash held by the operation entity and the amount needed for working capital management is transferred to the Group treasurer. The Group treasurer invests the remaining funds into the fixed deposits, money market deposits and securities which have proper maturity dates or adequate liquidity to provide adequate space for the above forecast.

At the end of year, cash and cash equivalents held by the Group is RMB2,894,305,807.48 (RMB1,690,285,427.32 on December 31, 2015) (Note VI. 69), accounts receivable and notes receivable of approximate RMB1,734,020,446.99 (RMB1,995,030,356.75 on December 31, 2015) (Note VI. 4, 5). Cash flow is expected to real-timely generated to manage the liquidity risk. Besides, listed transactional equity securities held by the Group is RMB21,757,466.94 (RMB14,432,348.51 on December 31, 2015) (Note VI. 2). These securities can be real-timely realized to cash when there is a need to provide the source of cash further.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

1. Risk management objectives and policies (Continued)

(3) *Liquidity risk* (Continued)

Analysis of the maturity of financial assets and financial liabilities owned by the Group based on undiscounted remaining contractual obligations is stated as following:

Amount as of December 31, 2016:

Item	Within 1 year or on demand	1-2 years	2-5 years	Over 5 years	Total
Financial assets					
Monetary funds	3,261,735,812.98	0.00	0.00	0.00	3,261,735,812.98
Financial assets measured at fair value and whose changes are recorded in the profits or losses of the current period	62,657,466.94	0.00	0.00	0.00	62,657,466.94
Derivative financial assets	14,833,000.00	0.00	0.00	0.00	14,833,000.00
Notes receivable	554,932,731.17	0.00	0.00	0.00	554,932,731.17
Accounts receivable	1,179,087,715.82	0.00	0.00	0.00	1,179,087,715.82
Advances to suppliers	145,822,237.87	0.00	0.00	0.00	145,822,237.87
Interests receivable	12,027,545.45	0.00	0.00	0.00	12,027,545.45
Other receivables	123,269,614.75	0.00	0.00	0.00	123,269,614.75
Financial assets available for sale-stock	47,604,558.74	0.00	0.00	0.00	47,604,558.74
Held-to-maturity investments	114,574,997.38	0.00	0.00	0.00	114,574,997.38
Loans and advances granting	770,763,837.28	489,823.91	0.00	0.00	771,253,661.19
Financial liabilities					
Short-term borrowings	1,579,448,510.67	0.00	0.00	0.00	1,579,448,510.67
Absorption of deposits and interbank deposits	588,286,840.09	0.00	0.00	0.00	588,286,840.09
Deposits from banks and other financial institutes	250,000,000.00	0.00	0.00	0.00	250,000,000.00
Notes payable	1,417,113,769.49	0.00	0.00	0.00	1,417,113,769.49
Accounts payable	1,384,168,457.64	0.00	0.00	0.00	1,384,168,457.64
Other payables	257,257,848.82	0.00	0.00	0.00	257,257,848.82
Interests payable	55,151,085.52	0.00	0.00	0.00	55,151,085.52
Employee benefits payable	84,000,496.00	7,122,030.69	9,514,737.67	5,274,641.43	105,911,905.79
Non-current liabilities due within one year-loan	18,267,000.00	0.00	0.00	0.00	18,267,000.00
Long-term loans	0.00	9,133,500.00	0.00	0.00	9,133,500.00
Bonds payable	0.00	1,496,694,996.06	0.00	0.00	1,496,694,996.06

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

2. Sensitivity analysis

The Group uses the sensitivity analysis technology to analyze the rationality and changes of risk variables which may effect on the profits and losses in the current period or the owner's equity. The risk variable rarely changes individually and the final influential amount of correlation between variables to a certain risk variable is significant. Therefore, the content below is on the assumption that the change in each variable is independent.

(1) Sensitivity analysis of foreign currency risk

Hypothesis of sensitivity analysis of foreign currency risk: all net investment hedging in overseas operations and cash flow hedging are highly effective.

Based on the above hypothesis, when other variables are constant, the after tax effect of reasonable exchange rate fluctuations to profit or loss in the current period and equity in the current period is stated as following:

Item	Fluctuations in exchange rate	Year of 2016 Effect on profits before income tax	Year of 2015 Effect on profits before income tax
All foreign currency	The appreciation of exchange rate of foreign currency against RMB is 5%	-23,936,044.90	-14,951,660.04
All foreign currency	The depreciation of exchange rate of foreign currency against RMB is 5%	23,936,044.90	14,951,660.04



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (Continued)

2. Sensitivity analysis (Continued)

(2) Sensitivity analysis of interest rate risk

Hypothesis of sensitivity analysis of interest rate risk:

The change of market interest rate will affect interest income or expenses of financial instruments with variable interest rates;

For financial instruments with fixed interest rates and measured at fair value, the change of market interest rate will only affect interest income or expenses;

The change of fair value of derivative financial instruments and other financial assets and liabilities is calculated by the discounted cash flow method with the market interest rate on the balance sheet date.

Based on the above hypothesis, when other variables are constant, the after tax effect of reasonable interest rate fluctuations to profit or loss in the current period and equity in the current period is stated as following:

Item	Change in interest rate	Year of 2016		Year of 2015	
		Effect on net profits	Effect on shareholders' equity	Effect on net profits	Effect on shareholders' equity
Floating rate borrowings	Increase by 1%	-606,274.22	-713,263.79	-518,783.04	-610,332.99
Floating rate borrowings	Decrease by 1%	606,274.22	713,263.79	518,783.04	610,332.99

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

X. DISCLOSURE OF FAIR VALUE

1. Ending balance of assets and liabilities measured at fair value and hierarchy of fair value measurement

Item	Ending fair value			Total
	The first level of fair value measurement	The second level of fair value measurement	The third level of fair value measurement	
I. Continuous fair value measurement				
(I) Financial assets measured at fair value and its movement recorded through profit and loss	62,657,466.94	0.00	0.00	62,657,466.94
1. Trading financial assets	21,757,466.94	0.00	0.00	21,757,466.94
(1) Investments on debt instrument	0.00	0.00	0.00	0.00
(2) Investments on equity instrument	21,757,466.94	0.00	0.00	21,757,466.94
(3) Derivative financial assets	0.00	0.00	0.00	0.00
(4) Others	0.00	0.00	0.00	0.00
2. Designated as financial assets measured at fair value and its movement recorded through profit and loss	40,900,000.00	0.00	0.00	40,900,000.00
(1) Investments on debt instrument	0.00	0.00	0.00	0.00
(2) Investments on equity instrument	0.00	0.00	0.00	0.00
(3) Others (Trust products)	40,900,000.00	0.00	0.00	40,900,000.00
(II) Financial assets available for sale	47,604,558.74	0.00	0.00	47,604,558.74
(1) Investments on debt instrument	0.00	0.00	0.00	0.00
(2) Investments on equity instrument	47,604,558.74	0.00	0.00	47,604,558.74
(3) Others	0.00	0.00	0.00	0.00
(III) Investment properties	0.00	0.00	0.00	0.00
(IV) Biological assets	0.00	0.00	0.00	0.00
Total assets continuously measured at fair value	110,262,025.68	0.00	0.00	110,262,025.68



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

X. DISCLOSURE OF FAIR VALUE (Continued)

2. Determination basis of the market price of the item measured using the first level of fair value measurement continuously and non-continuously.

The fair value of financial instruments traded in the active market is accounted for the market price on the financial statement date. The market is regarded active when the offer can be real-time and regularly acquired from the stock exchange, traders, brokers, insiders, pricing services, or regulatory agencies and the offer represents actual and regular market transactions with an even bargain reference. The market price of financial assets held by the Group is the bid price at that time. These financial instruments are in the first level. Instruments in the first level include equity investments of the Hengsheng index, the composite index of Shanghai stock exchange and component index of Shenzhen stock exchange (classified as financial assets measured at fair value and its movement recorded through profit and loss or available-for-sale financial assets).

3. Valuation techniques and qualitative and quantitative information on important parameters adopted for the second level of continuous and non-continuous fair value measurement

Valuation techniques can be used to determine the fair value of financial instruments not traded in the active market (such as over-the-counter (OTC) derivatives). Valuation techniques should use observable market data as much as possible and use specific estimations as less as possible. If all significant inputs are observable data when calculating the fair value of a financial instrument, the financial instrument is in the second level.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

X. DISCLOSURE OF FAIR VALUE (Continued)

4. Valuation techniques and qualitative and quantitative information on important parameters adopted for the third level of continuous and non-continuous fair value measurement

If one or more of the significant inputs are not based on observable market data, the financial instrument is then listed in the third level.

Specific methods of valuating financial instruments include:

- (1) Market price or industry price of similar financial instruments.
- (2) The fair value of interest rate swap is calculated based on discounted value of estimated future cash flows by observable yield curve.
- (3) Present value discounted from fair value of foreign exchange forward contracts calculated by the exchange rate on the settlement date.
- (4) Other methods such as discounted value of cash flow analysis which is used to calculate the fair value of the rest other financial instruments.

5. No transfer of appropriation of financial assets between the first level and the second level happened in current year.

6. No changes in valuation techniques happened in current year.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Information of the parent company of the enterprise

(1) Controlling shareholders and ultimate controlling parties

Name of controlling shareholder	Registration place	Business nature	Registered capital (RMB ten thousand)	Percentage of shareholding in the Company (%)	Percentage of voting right in the Company (%)
YTO Group Corporation	Henan	Production and sales of large and small tractors, construction machinery, diesel engines, etc.	302,374.96	41.24	41.24

The ultimate controlling party of the Group is China National Machinery Corporation, with the registered address and the operation location in Beijing, whose business scope includes: domestic and foreign contracting of large equipment and projects, organization of the major technology and equipment research in the industry, development and research production and sales of motor vehicles, cars and auto parts; contracted overseas projects and domestic international bidding; import and export businesses; held economic and trade exhibitions overseas and organization of domestic enterprises to participate or hold exhibitions overseas. The registered capital is RMB16,800,000,000.00.

(2) Registered capital of the controlling shareholders and the movements (RMB' 0,000)

	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Controlling shareholder				
YTO Group Corporation	317,494.90	0.00	15,119.94	302,374.96

(3) Shares or equity of the controlling shareholder and the changes (RMB' 0,000)

Controlling shareholder	Shareholding amount		Shareholding percentage (%)	
	Ending balance	Beginning balance	Ending balance percentage	Beginning balance percentage
YTO Group Corporation	41,069.06	44,391.00	41.24	44.57

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

2. Subsidiaries

Please refer to the related content in the Note “VIII 1. (1) Composition of the Group” for details of the subsidiaries.

3. Joint ventures and associates

Please refer to Note VIII.3. (1) for detailed information of significant joint ventures and associates. There are no transactions incurred between the joint ventures and associates with the Group in this year or balances due to or from the Group realized in prior period carried forward.

4. Other related parties

Name of other related parties

Relationship to the Company

Dongfanghong (Luoyang) Culture Communication Centre	Under common control
Luoyang Duoen Advertising Co., Ltd	Under common control
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	Under common control
Luoyang Tianhui Energy Engineering Co., Ltd	Under common control
YTO (Luoyang) Special Purpose Vehicle Co., Ltd	Under common control
YTO Luoyang Motor Vehicle Driver Training Schools Co., Ltd	Under common control
YTO (Luoyang) Logistics Co., Ltd	Under common control
YTO (Luoyang) Lubricants Co., Ltd	Under common control
YTO (Luoyang) Tianze Gas Co., Ltd	Under common control
YTO (Luoyang) Huide Tooling Co., Ltd	Under common control
YTO (Luoyang) Dongchen Mold Technology Co., Ltd	Under common control
YTO (Heilongjiang) Dongfanghong Industrial Park Co., Ltd	Under common control
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd	Under common control
YTO (Luoyang) Zhongcheng Machinery Co., Ltd	Under common control
China SINOMACH Heavy Industry Corporation	Same ultimate control
Changlin Company Ltd	Same ultimate control
China Erzhong Group (Deyang) Heavy Industry Co., Ltd	Same ultimate control
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd	Same ultimate control
SINOMACH-HI (Luoyang) Co., Ltd	Same ultimate control
The Fourth Design Institute of the Ministry of Machinery Industry	Same ultimate control
The Sixth Design Institute Co., Ltd of the Ministry of Machinery Industry	Same ultimate control
The Fifth Design Institute of the Ministry of Machinery Industry	Same ultimate control
Luoyang Zhongshou Machinery & Equipment Co., Ltd	Same ultimate control
Luoyang Bearing Science & Technology Co., Ltd	Same ultimate control
Luoyang Bearing Science & Industry Co., Ltd	Same ultimate control



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

4. Other related parties (Continued)

Name of other related parties	Relationship to the Company
Tianjin Daye Logistics Co., Ltd	Same ultimate control
YTO (Luoyang) Engineering Machinery Co., Ltd	Same ultimate control
YTO (Luoyang) Construction Machinery Co., Ltd	Same ultimate control
Changsha Gas-electric Auto Parts Co., Ltd	Same ultimate control
China CAMC Engineering Co., Ltd	Same ultimate control
China Engineering and Agriculture Machinery Import and Export Co., Ltd	Same ultimate control
China Machine Tool Sales and Technical Services Company	Same ultimate control
The Fourth Construction of China Machinery Industry Co., Ltd.	Same ultimate control
China Machinery Industry Construction Group Inc.	Same ultimate control
China Academy of Agricultural Mechanization Services	Same ultimate control
China National Automotive Industry International Corporation	Same ultimate control
SINOMAC Machine Components Completed Sets Co., Ltd	Same ultimate control
CAAMS Menoble Technology Co., Ltd	Same ultimate control
China Machinery TDI International Engineering Co., Ltd Luo Yang Branch	Same ultimate control
China Automotive Industry International Corporation	Same ultimate control
AIE Zhida (Luoyang) Construction Supervision Company	Same ultimate control

5. Related party transactions

(1) Significant transactions with SINOMACH and its subsidiaries

Item	Amount in this year	Amount in last year
Sales of raw materials and components	34,937,396.97	35,132,186.97
Purchase of raw materials and components	30,022,208.05	32,199,955.19
Interest income	4,806,719.90	6,175,917.71
Pay clients' deposit interest	201,149.86	45,399.54

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

5. Related party transactions (Continued)

(2) Significant transactions between the Group and YTO Group and the subsidiaries

Item	Amount in this year	Amount in last year
Sales of raw materials and components	302,954,989.99	146,944,841.75
Purchase of raw materials and components	239,454,338.84	270,646,820.31
Payment and payable of power expense	169,926,016.44	167,080,608.03
Payment and payable of comprehensive services and transportation fees	156,794,875.33	224,294,495.55
Payment and payable of land rental expenses	12,632,186.69	13,069,660.00
Payment and payable of buildings rental expenses	7,803,612.78	8,043,009.16
Payment and payable of equipment rental expenses	151,214.17	136,508.45
Rental income of leasing buildings and equipment	2,030,833.51	1,946,077.88
Purchase of plant and equipment	18,304,956.57	17,477,909.11
Interest income	22,410,596.28	20,120,044.37
Pay clients' deposit interest	3,088,724.40	6,628,821.98
Payment received of research and development expense	1,088,346.85	739,101.86

(3) Related party transactions between the Group and the joint ventures and associates (including the joint ventures and associates of SINOMACH and YTO Group Corporation)

Item	Amount in this year	Amount in last year
Sales of raw materials and components	83,993,446.32	230,129,298.52
Purchase of raw materials and components	391,335,146.83	529,680,180.93
Interest income	0.00	112,502.48
Pay clients' deposit interest	612.63	1,113.00

6. Borrowing and lending between related parties

Item	Amount in this year	Amount in last year
Loans granting (including Notes discounted)	630,198,377.50	875,606,907.89
Absorption of deposits and interbank deposits	566,396,274.17	519,530,039.21



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

7. Remuneration of key management personnel (Unit: RMB0'000)

Item	Amount incurred in this year	Amount incurred in last year
Remuneration of key management personnel		
Fees	51.48	31.54
Salaries and other benefits	872.47	RMB529.28 EUR 14.26
Retirement benefits scheme contribution	36.15	30.72
Total remuneration	960.10	RMB591.54 EUR14.26

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

7. Remuneration of key management personnel (Unit: RMB0'000) (Continued)

(1) *Analysis of key management personnel remuneration (Unit: RMB0'000):*

Personnel and duties	Fees	Amount in this year		Total
		Salaries and other benefits	Retirement benefits scheme contributions	
Executive directors				
Zhao, Yanshui		88.44	2.62	91.06
Wang, Erlong		88.44	4.71	93.15
Wu, Yong		83.95	2.62	86.57
Non-executive directors				
Li, Hepeng	0.23			0.23
Xie, Donggang				
Li, Kai	0.46			0.46
Yin, Dongfang				
Independent non-executive directors				
Xing, Min	8.92			8.92
Wu, Delong	9.02			9.02
Yu, Zengbiao	9.49			9.49
Yang, Minli	9.02			9.02
Hong, Xian'guo (Former independent non-executive directors)				



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

7. Remuneration of key management personnel (Unit: RMB0'000) (Continued)

(1) *Analysis of key management personnel remuneration (Unit: RMB0'000):* (Continued)

Personnel and duties	Fees	Amount in this year		Total
		Salaries and other benefits	Retirement benefits scheme contributions	
Supervisors				
Li, Ping'an		52.81	2.62	55.43
Xu, Weilin				
Wang, Jianjun		20.58	2.62	23.20
Zhao, Guozhong		32.01	2.62	34.63
Wang, Yong	6.94			6.94
Huang, Ping	7.40			7.40
Key management personnel				
Wang, Kejun (<i>Deputy general manager</i>)		70.75	2.62	73.37
Liu, Jiguo (<i>Deputy general manager</i>)		77.94	2.62	80.56
Zhu, Weijiang (<i>Deputy general manager</i>)		74.51	2.62	77.13
Su, Wensheng (<i>Deputy general manager</i>)		74.51	2.62	77.13
Song, Yuping (<i>Deputy general manager</i>)		69.51	2.62	72.13
Lian, Guoqing (<i>Former deputy general manager</i>)				
Liu, Yao (<i>Former deputy general manager</i>)				
Hou, Zhiping (<i>Former deputy general manager</i>)				
Other key management personnel				
Yao, Weidong (<i>Chief financial officer</i>)		69.51	2.62	72.13
Yu, Li'na (<i>Deputy general manager and secretary of the board of directors</i>)		69.51	2.62	72.13
Total	51.48	872.47	36.15	960.10

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

7. Remuneration of key management personnel (Unit: RMB0'000) (Continued)

(1) Analysis of key management personnel remuneration (Unit: RMB0'000): (Continued)

Personnel and duties	Fees	Amount in last year		Total
		Salaries and other benefits	Retirement benefits scheme contributions	
Executive directors				
Zhao, Yanshui				
Wang, Erlong				
Wu, Yong		71.88	2.55	74.43
Non-executive directors				
Li, Hepeng	0.20			0.20
Xie, Donggang				
Li, Kai	0.20			0.20
Yin, Dongfang	0.20			0.20
Independent non-executive directors				
Xing, Min	5.40			5.40
Wu, Delong	5.20			5.20
Yu, Zengbiao	5.40			5.40
Yang, Minli	0.20			0.20
Hong, Xian'guo (Former independent non-executive directors)	5.40			5.40



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

7. Remuneration of key management personnel (Unit: RMB0'000) (Continued)

(1) **Analysis of key management personnel remuneration (Unit: RMB0'000):** (Continued)

Personnel and duties	Fees	Amount in last year		Total
		Salaries and other benefits	Retirement benefits scheme contributions	
Supervisors				
Li, Ping'an		7.51	0.45	7.96
Xu, Weilin				
Wang, Jianjun		25.93	2.55	28.48
Zhao, Guozhong		24.23	2.55	26.78
Wang, Yong	4.57			4.57
Huang, Ping	4.77			4.77
Key management personnel				
Wang, Kejun (<i>Deputy general manager</i>)		15.00	1.11	16.11
Liu, Jiguo (<i>Deputy general manager</i>)		15.00	1.11	16.11
Zhu, Weijiang (<i>Deputy general manager</i>)		46.53	2.55	49.08
Su, Wensheng (<i>Deputy general manager</i>)		46.53	2.55	49.08
Song, Yuping (<i>Deputy general manager</i>)		46.53	2.55	49.08
Lian, Guoqing (<i>Former deputy general manager</i>)		55.14	2.55	57.69
Liu, Yao (<i>Former deputy general manager</i>)		RMB29.14		RMB31.69
		EUR14.26	2.55	EUR14.26
Hou, Zhiping (<i>Former deputy general manager</i>)		46.60	2.55	49.15
Other key management personnel				
Yao, Weidong (<i>Chief financial officer</i>)		49.43	2.55	51.98
Yu, Li'na (<i>Deputy general manager and secretary of the board of directors</i>)		49.83	2.55	52.38
Total		RMB529.28		RMB591.54
	31.54	EUR14.26	30.72	EUR14.26

The Group did not pay any compensation to attract key management personnel to join the Group in this year and last year. No compensation on termination of employment relationship was paid to key management personnel in both last year and this year. Key management personnel did not give up any remuneration in this year and last year.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

7. Remuneration of key management personnel (Unit: RMB0'000) (Continued)

(2) **Employees' rewards**

This year, the eight individuals with the highest rewards in the Group are all included in the members of key management personnel whose rewards are disclosed in Note XI. 7(1).

(3) **Borrowings receivable from the directors or the related enterprises of the directors**

None

8. Balance due to/from related parties

(1) **Receivables and payables between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)**

Item	Amount in this year	Amount in last year
Accounts receivable	1,582,834.15	5,821,425.26
Other receivables	180,207.00	180,207.00
Advances to suppliers	0.00	610,102.20
Accounts payable	20,839,540.53	21,616,962.28
Other payables	0.00	0.00
Advances from customers	323,003.41	5,223,252.49
	323,003.41	5,223,252.49

(2) **Receivables and payables between the Group and YTO Group and its subsidiaries**

Item	Amount in this year	Amount in last year
Accounts receivable	74,442,388.32	47,574,664.48
Other receivables	46,865,206.03	1,307,054.74
Advances to suppliers	692,666.75	2,310,122.25
Accounts payable	48,771,773.31	69,874,402.82
Other payables	53,044,261.30	51,952,612.33
Advances from customers	128,600.00	405,645.40
	128,600.00	405,645.40



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

8. Balance due to/from related parties (Continued)

(3) *Receivables and payables between the Group and other related parties*

Item	Amount in this year	Amount in last year
Accounts receivable	1,553,996.53	15,375,471.58
Other receivables	888,849.62	2,659,325.93
Advances to suppliers	0.00	0.00
Accounts payable	461,013.59	14,984,006.59
Other payables	0.00	0.00
Advances from customers	43,000.00	0.00
	<u>43,000.00</u>	<u>0.00</u>

9. Related party commitment

None

10. Others

None

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XII. COMMITMENT AND CONTINGENCIES

1. Commitment

(1) Consolidation of significant matters on commitment

- 1) *Capital expenditure commitments of the Group at the end of the year*
None
- 2) *Outsourcing contract with significant amount that was signed and performing or commencing to perform*
None
- 3) *Leased agreement that was signed and performing or commencing to perform and its financial impact*

On December 31, 2016, the minimum future payments of irrevocable operating lease on rental items, assumed by the Group as the lessee, for buildings, machineries, and equipments are as the following:

Period	Amount in this year	Amount in last year
Within 1 year	647,360.83	7,238,138.39
1-2 years	1,749,000.00	647,360.83
2-3 years	563,000.00	1,749,000.00
After 3 years	563,000.00	0.00
Total	3,522,360.83	9,634,499.22



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XII. COMMITMENT AND CONTINGENCIES (Continued)

1. Commitment (Continued)

(1) Consolidation of significant matters on commitment (Continued)

- 3) Leased agreement that was signed and performing or commencing to perform and its financial impact (Continued)

On December 31, 2016, the future minimum rental charges receivable by the Group as the lessor for the irrevocable operating leases of the leasing items of housing, buildings and equipment during the following period was summarized as below:

Period	Amount in this year	Amount in last year
Within 1 year	11,494,693.24	11,237,348.83
1-2 years	3,785,472.27	7,978,758.33
2-3 years	3,463,988.00	234,147.29
After 3 years	1,975,177.00	0.00
Total	20,719,330.51	19,450,254.45

Note: On July 21, 2014, the Company signed a lease agreement with ZF YTO (Luoyang) Drive Axle Co., Ltd to lease out the location of No. 16 Hangong West Road West Industrial District Luoyang, for offices use. The leased area is 68,649 square meters, with annual rental fee of RMB7,744,610.04 and lease term of 3 years. The agreement was effective on January 1, 2015 to December 31, 2017. Leasing charges is paid annually on each March 31, by notes on demand.

- (2) Except for the above, the Group has no other significant commitments as at December 31, 2016.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XII. COMMITMENT AND CONTINGENCIES (Continued)

2. Contingencies

(1) Important contingencies existed on the balance sheet date

1) *Contingencies resulted from external guarantees provided*

As at December 31, 2016, details of the guarantees provided by the Group to other parties are as followings:

In 2016, the Group, Bank of Communication, China Everbright Bank, and YTO Finance Company Limited entered into a Trade Finance Agreement. According to the agreement, the three banking facilities consent to provide a limit on trade financing of RMB126.26 million. The above limit is specifically used for the application to open the bank acceptance notes through the three banking facilities, of the Group or the distributors recommended by the enterprises under the authorization of the Group. The bank acceptances are used for the purchasing of agricultural machineries and mine trucks from the Group or the entities under the authorization of the Group. The Group and its authorized entities provided guarantee through the form of confirmation on commitment or agreement.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XII. COMMITMENT AND CONTINGENCIES (Continued)

2. Contingencies (Continued)

(1) Important contingencies existed on the balance sheet date (Continued)

1) Contingencies resulted from external guarantees provided (Continued)

As at December 31, 2016, the total amount of trade financing guarantee actually assumed by the Group was RMB18.64 million and the guarantee of bank loans provided to other affiliates was RMB194.9486 million. The details are as following:

Entity guaranteed	Type of guarantee	Amount of guarantee
I. Within the Group		
YTO (Luoyang) Transportation Machinery Co.,Ltd	Joint liability assurance	3,000,000.00
YTO (Luoyang) Transportation Machinery Co.,Ltd	Joint liability assurance	2,000,000.00
YTO (Luoyang) Transportation Machinery Co.,Ltd	Joint liability assurance	3,000,000.00
YTO (Luoyang) Transportation Machinery Co.,Ltd	Joint liability assurance	2,000,000.00
YTO (Luoyang) Transportation Machinery Co.,Ltd	Joint liability assurance	2,000,000.00
YTO (Luoyang) Transportation Machinery Co.,Ltd	Joint liability assurance	2,000,000.00
YTO (Jiangyan) Power Machinery Co., Ltd	Joint liability assurance	10,000,000.00
YTO (Jiangyan) Power Machinery Co., Ltd	Joint liability assurance	20,000,000.00
YTO France SAS	General assurance	7,306,800.00
YTO France SAS	General assurance	7,306,800.00
YTO France SAS	General assurance	21,920,400.00
YTO France SAS	General assurance	10,960,200.00
YTO France SAS	General assurance	36,534,000.00
YTO France SAS	General assurance	10,960,200.00
YTO France SAS	General assurance	10,960,200.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	Joint liability assurance	8,500,000.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	Joint liability assurance	9,250,000.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	Joint liability assurance	9,250,000.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	Joint liability assurance	8,500,000.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	Joint liability assurance	9,500,000.00
Subtotal of guarantee within the Group	—	<u>194,948,600.00</u>
II. Outside the Group		
Business dealers of Sinofarm.net (Nong Ji Wang)	Joint liability assurance	630,000.00
Distributors of Dianpiaotong Business	Joint liability assurance	18,010,000.00
Subtotal of guarantee outside the Group	—	<u>18,640,000.00</u>
Total	—	<u>213,588,600.00</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XII. COMMITMENT AND CONTINGENCIES (Continued)

2. Contingencies (Continued)

(1) **Important contingencies existed on the balance sheet date** (Continued)

1) *Contingencies resulted from external guarantees provided* (Continued)

Note: A part of the customers of the subsidiary of the Group, YTO (Luoyang) Shentong Construction Machinery Co., Ltd (hereinafter referred to as the 'Shentong Company') purchased the mine trucks of the subsidiary with the method of applying for the buyer's credit from financial institutions and the finance lease. After picking up the vehicles, the customers paid the financing payments to the financial institutions by installments. When the customers were incapable to make the payments to the financial institutions, Shentong Company should make the advance payments for the customers. During the Reporting Period, Shentong Company did not incur any newly added payments of finance leases. By December 31, 2016, the balance of the advanced financing funds actually incurred by Shentong Company for the customers was RMB124.19 million. After Shentong Company actually made the advanced payments of the financing funds, the Group no longer incurred the guarantee responsibility.

- 2) By the end of this period, the pending litigation matters generated due to the sales or purchase contract disputes of the Group were 176 matters. The total subject amount of the litigations was RMB581.1939 million. Among them: 173 matters were the cases in which the Group was the plaintiff to sue other parties. The cases were still in the course of trial or under the situation in which the judgments were decided but have not been completed in the execution yet. The subject amount of the litigations was RMB576.7839 million. 3 matters were the cases in which the Group was the defendant. The subject amount of the litigations was RMB4.41 million. The cases were still in the course of trial.

As for the above matters, the Group has sufficiently estimated the possible loss from the aforementioned matters according to the accounting policies, and (also) considered the situation of the expected future recoverable cash flows. By the end of this period, the balance of receivables on the book of the Company for suing other parties was RMB416.8334 million, with the bad debts provision accrued of RMB403.4445 million. The aforementioned matters will not bring the additional significant impact on financial judgments to the Group.

- 3) In addition to the existence of the aforementioned contingent matters, by December 31, 2016, the Group did not have any other significant contingent matters.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIII. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

1. Matter of dividend distribution

After the reviewed and approved by the eleventh meeting of the seventh session of the Company's board of directors which was convened on March 28, 2017, the 2016 annual profit distribution proposal was: taking the total share capital on the date of registration of shares for this dividend distribution as the basis, to implement the distribution by distributing the cash dividend of RMB0.57 (including tax) for every 10 shares to all the shareholders. Such proposal has not yet implemented until it is approved by the general meeting of shareholders of the Company.

2. The subsidiary of the Company, YTO Group Finance Co., Ltd sued Wuhan Guoyu Logistics Group Co., Ltd to the Supreme People's Court of Hubei Province, requesting the order that Wuhan Guoyu Logistics Group Co., Ltd should pay the bonds "15 Guoyu Logistics CP001" and "15 Guoyu Logistics CP002" held by YTO Group Finance Co., Ltd with the total amount of the principal RMB90 million, interest RMB6.3 million and the corresponding default interest, etc. The Supreme People's Court of Hubei Province has accepted the case on March 17.

3. Except for the matters disclosed above, the Group has no other significant subsequent events after the balance sheet date.

XIV. OTHER SIGNIFICANT MATTERS

1. Correction of prior period accounting errors

None

2. Debt restructuring

None

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

3. Lease (Continued)

(1) Operating lease (lessor of the operating lease)

By the end of the year, the classification of the assets leased out by the Group under operating lease is as the following:

Classification of assets leased out under operating lease	Ending balance	Beginning balance
Houses and buildings	89,988,939.06	63,196,124.62
Machine and equipment	1,990,434.84	42,918.97
Land	0.00	1,192,032.41
Total	91,979,373.90	64,431,076.00

(2) Minimum lease payments for major operating leases (lessee of the operating lease)

Remaining lease period	Ending amount	Beginning balance
Within 1 year	647,360.83	7,238,138.39
1–2 years	1,749,000.00	647,360.83
2–3 years	563,000.00	1,749,000.00
Over 3 years	563,000.00	0.00
Total	3,522,360.83	9,634,499.22

4. Asset swap

None

5. Annuity plan

The Group has established annuity which is jointly paid by the Group and employees. The payment bases adopted by the Group and employees are both based on employee's actual salary for last year. For income of the employees which is more than 3 times of the average salary for Luoyang social employees, the base is the 3 times of such average salary. For income which is lower than the 60% of the average salary for Luoyang social employees, the base is the 60% of such average salary. The Group assumes 5%, and the amount is recognized as the costs of the Group. Employee assumes 2%, and the amount is recognized as withholding on behalf of the employees.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

6. Discontinued operation

None

7. Segment information

Reporting segment for the year of 2016

Item	Agricultural machinery	Power machinery	Other machinery	Finance	Elimination	Total
Operating income	7,668,937,039.58	2,311,985,517.56	42,982,290.01	202,220,245.80	-1,354,971,978.80	8,871,153,114.15
Including: External transaction revenue	7,115,708,247.41	1,534,860,175.58	36,933,804.42	183,650,886.74	0.00	8,871,153,114.15
Revenue between segments	553,228,792.17	777,125,341.98	6,048,485.59	18,569,359.06	-1,354,971,978.80	0.00
Total profit (or loss) for segment	200,053,660.52	105,227,913.98	-58,889,752.47	26,199,032.31	7,504,573.93	280,095,428.27
Total assets	10,751,091,931.37	2,184,520,810.05	103,886,290.60	5,213,961,196.58	-5,042,946,947.17	13,210,513,281.43
Including: Significant impairment loss on individual assets	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	6,918,232,710.04	877,878,498.16	460,494,057.84	4,485,011,482.85	-5,034,741,756.63	7,706,874,992.26
Supplementary information	-	-	-	-	-	-
Capitalized expenditure	208,958,559.91	39,702,997.16	357,513.39	117,150.43	0.00	249,136,220.89
Loss of impairment recognized in the current period	19,889,814.87	13,757,603.17	-3,381,377.18	57,023,621.72	0.00	87,289,662.58
Including: Allocation of goodwill impairment	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation and amortization expense	327,920,176.34	13,576,547.32	3,040,524.48	872,213.59	0.00	345,409,461.73
Non-cash expenses other than impairment loss, depreciation and amortization	26,190,952.58	26,587,905.94	-1,964,227.53	7,506,871.45	0.00	58,321,502.44

Reporting segment for the year of 2015

Item	Agricultural machinery	Power machinery	Other machinery	Finance	Elimination	Total
Operating income	8,298,791,820.56	2,342,069,937.06	59,316,996.60	379,762,308.57	-1,424,450,001.71	9,655,491,061.08
Including: External transaction revenue	7,755,218,122.67	1,504,001,337.89	40,579,148.81	355,692,451.71	0.00	9,655,491,061.08
Revenue between segments	543,573,697.89	838,068,599.17	18,737,847.79	24,069,856.86	-1,424,450,001.71	0.00
Total profit (or loss) for segment	99,550,078.62	140,976,464.88	-110,049,116.58	105,866,928.68	-14,666,742.58	221,677,613.02
Total assets	10,548,294,050.51	2,182,203,838.97	182,281,136.57	5,471,453,175.12	-5,111,782,641.19	13,272,449,559.98
Including: Significant impairment loss on individual assets	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	6,817,835,499.85	900,341,146.50	484,604,037.26	4,711,497,993.98	-5,040,413,664.95	7,873,865,012.64
Supplementary information	-	-	-	-	-	-
Capitalized expenditure	380,705,773.71	54,410,420.49	211,738.09	1,541,260.00	0.00	436,869,192.29
Loss of impairment recognized in the current period	113,917,079.00	8,956,680.27	34,012,208.22	1,420,490.35	0.00	158,306,457.84
Including: Allocation of goodwill impairment	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation and amortization expense	308,796,217.89	13,014,892.47	3,808,859.52	765,183.55	0.00	326,385,153.43
Non-cash expenses other than impairment loss, depreciation and amortization	74,927,483.24	13,795,959.41	3,545,514.47	0.00	0.00	92,268,957.12

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIV. OTHER SIGNIFICANT MATTERS (Continued)

7. Segment information (Continued)

Domestic and overseas revenue of the Group from outside parties and the total non-current assets except for financial assets and deferred tax assets located in other countries and regions are as the followings:

External transaction revenue	Amount incurred in this year	Amount incurred in last year
China (excluding Hong Kong)	8,484,475,825.58	9,108,378,062.63
Hong Kong	0.00	0.00
Other overseas regions	386,677,288.57	547,112,998.45
Total	8,871,153,114.15	9,655,491,061.08

Total non-current assets	Ending balance	Beginning balance
China (excluding Hong Kong)	4,298,407,874.20	4,394,355,606.44
Hong Kong	0.00	0.00
Other overseas regions	44,487,752.84	42,193,238.59
Total	4,342,895,627.04	4,436,548,845.03

Notes: Total non-current assets do not include the total amount of financial assets and deferred tax asset.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Monetary funds

Item	Ending balance	Beginning balance
Cash on hand	47,159.62	307,585.29
Bank deposits	2,076,889,708.14	2,246,274,600.64
Other monetary funds	255,522,312.39	394,795,619.77
Total	2,332,459,180.15	2,641,377,805.70
Including: total amount deposited abroad	5,515,725.06	0.00

Note: The restricted cash of the Company is the security deposit on the acceptance notes, the deposits for investment, litigation deposits and trade financing margin of RMB453,579,379.99 as of December 31, 2016 (last year: RMB394,791,654.28).

2. Derivative financial assets

Item	Ending balance	Beginning balance
Currency derivative instruments:	14,833,000.00	0.00
Currency forwards and swaps	14,833,000.00	0.00
Buy in of currency option	0.00	0.00
Sale out of currency option	0.00	0.00
Interest derivative instrument:	0.00	0.00
Commodity derivative instrument and others:	0.00	0.00
Total	14,833,000.00	0.00

Note: Please refer to the statements in the Note 'VI. 3. Derivative financial assets' for details.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

3. Notes receivable

(1) *Classification of notes receivable*

Item	Ending balance	Beginning balance
Bank acceptance notes	122,860,882.51	157,841,287.69
Commercial acceptance notes	20,209,966.42	2,489,378.52
Total	<u>143,070,848.93</u>	<u>160,330,666.21</u>

(2) *Notes receivables which have been pledged at the end of the year*

Item	Amount pledged at the end of the year
Bank acceptance notes	<u>2,925,900.00</u>

(3) *Notes receivables which have been endorsed or discounted but not yet due at the end of the year*

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Bank acceptance notes	1,238,715,344.87	0.00
Commercial acceptance notes	169,622,358.04	0.00
Total	<u>1,408,337,702.91</u>	<u>0.00</u>

(4) *At the end of the year, there was no note which was transferred to accounts receivable because the drawer of such note did not perform in compliance with the agreement.*



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

4. Accounts receivable

Name of the item	Ending balance	Beginning balance
Accounts receivable	814,695,197.78	969,682,440.59
Less: Bad debt allowance	166,822,587.70	182,862,190.53
Net amount	<u>647,872,610.08</u>	<u>786,820,250.06</u>

(1) Aging analysis of accounts receivable

Aging	Ending balance	Beginning balance
Within 1 year	641,397,254.68	750,397,730.66
1-2 years	6,475,355.40	27,922,268.80
2-3 years	0.00	0.00
Over 3 years	0.00	8,500,250.60
Net amount	<u>647,872,610.08</u>	<u>786,820,250.06</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

4. Accounts receivable (Continued)

(2) Classification of accounts receivable

Category	Ending balance				Book balance
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Individually significant and provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00
Provided for bad debts on portfolio basis of credit risk characteristics	814,695,197.78	100.00	166,822,587.70	20.48	647,872,610.08
Individually insignificant but provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00
Total	814,695,197.78	100.00	166,822,587.70	-	647,872,610.08

Category	Beginning balance				Book balance
	Book balance		Bad debt allowance		
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Individually significant and provided for bad debts on individual basis	8,500,250.60	0.88	0.00	0.00	8,500,250.60
Provided for bad debts on portfolio basis of credit risk characteristics	961,182,189.99	99.12	182,862,190.53	19.02	778,319,999.46
Individually insignificant but provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00
Total	969,682,440.59	100.00	182,862,190.53	-	786,820,250.06



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

4. Accounts receivable (Continued)

(2) Classification of accounts receivable (Continued)

Within the portfolio, accounts receivables of which bad debt allowances are made by aging analysis

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	654,575,347.64	13,178,092.96	2.01
1-2 years	12,950,710.83	6,475,355.43	50.00
2-3 years	35,779,297.92	35,779,297.92	100.00
Over 3 years	111,389,841.39	111,389,841.39	100.00
Total	<u>814,695,197.78</u>	<u>166,822,587.70</u>	<u>20.48</u>

Aging	Beginning balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	777,206,728.49	26,808,997.83	3.45
1-2 years	55,844,537.60	27,922,268.80	50.00
2-3 years	13,631,311.30	13,631,311.30	100.00
Over 3 years	114,499,612.60	114,499,612.60	100.00
Total	<u>961,182,189.99</u>	<u>182,862,190.53</u>	<u>19.02</u>

(3) Details of accrual, collection or reversal of bad debt allowance

In this period, the amount of bad debt allowance accrued is RMB29,286,332.26, with the reversed bad debt allowance at the amount of RMB42,989,123.84.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

4. Accounts receivable (Continued)

(4) Accounts receivable actually written off during the year

Item	Amount written off
Accounts receivable actually written off	2,336,811.25

(5) Details of top five accounts receivables with the ending balance classified by the borrowers

Company name	Ending balance	Aging	Percentage in the total ending balance of accounts receivable (%)	Ending balance of bad debt allowance
Luoyang Changxing Agricultural Machinery Co., Ltd	410,140,566.87	Within 1 year	50.35	8,202,811.34
YTO (Luoyang) Harvesting Machinery Co., Ltd	82,178,983.83	over 3 years	10.09	82,178,983.83
YTO International Economic and Trade Co., Ltd	58,736,849.40	Within 1 year	7.21	587,368.49
Luoyang Changhong Trading Co., Ltd	56,739,288.16	Within 1 year	6.96	1,123,734.13
YTO (Luoyang) Diesel Engine Co., Ltd	40,365,810.10	Within 1 year	4.95	419,315.70
Total	648,161,498.36	-	79.56	92,512,213.49

5. Advances to suppliers

Name of the item	Ending balance	Beginning balance
Advances to suppliers	266,821,907.97	127,621,662.04
Less: Bad debt allowance	1,571,134.04	1,669,315.87
Net amount	265,250,773.93	125,952,346.17



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

5. Advances to suppliers (Continued)

(1) Aging of advances to suppliers

Item	Ending balance		Beginning balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	235,403,421.07	88.75	104,601,912.77	83.05
1-2 years	9,378,093.44	3.54	20,148,515.47	16.00
2-3 years	19,847,754.17	7.48	257,798.53	0.20
Over 3 years	621,505.25	0.23	944,119.40	0.75
Total	<u>265,250,773.93</u>	<u>100.00</u>	<u>125,952,346.17</u>	<u>100.00</u>

(2) Details of top five advances to suppliers with the ending balance classified by the payees

Company name	Ending balance	Aging	Percentage in the ending balance of advances to suppliers (%)
YTO International Economic and Trade Co., Ltd	136,176,671.04	Within 1 year RMB132,785,133.99 1-2 years RMB642,059.93 2-3 years RMB2,749,477.12	51.03
YTO (Luoyang) Forklift Truck Company Limited	22,800,000.00	1-2 years RMB5,800,000.00 2-3 years RMB17,000,000.00	8.55
Xuzhou Xu Tyre Rubber Co., Ltd	24,840,901.65	Within 1 year	9.31
Guizhou Tyre Co., Ltd	9,171,390.81	Within 1 year	3.44
Linzhou Hexin Casting Industry Co., Ltd	6,700,487.20	Within 1 year	2.51
Total	<u>199,689,450.70</u>	-	<u>74.84</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

6. Interests receivable

Item	Ending balance	Beginning balance
Interest on fixed term deposits	<u>5,782,316.41</u>	<u>5,026,297.48</u>

7. Dividend receivables

Item (Or invested company)	Ending balance	Beginning balance
YTO (Luoyang) Flag Auto-Body Company Limited	<u>0.00</u>	4,910,000.00

8. Other receivables

Name of the item	Ending balance	Beginning balance
Other receivables	<u>39,236,422.14</u>	46,767,035.01
Less: Bad debt allowance	<u>29,522,308.78</u>	25,609,701.35
Net amount	<u>9,714,113.36</u>	21,157,333.66

(1) Aging analysis of other receivables

Aging	Ending balance	Beginning balance
Within 1 year	<u>5,670,920.51</u>	8,276,513.45
1-2 years	<u>997,330.05</u>	12,237,526.41
2-3 years	<u>2,227,350.54</u>	234,290.87
Over 3 years	<u>818,512.26</u>	409,002.93
Net amount	<u>9,714,113.36</u>	<u>21,157,333.66</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

8. Other receivables (Continued)

(2) Classification of other receivables

Category	Book balance		Ending balance		Book balance
	Amount	Percentage (%)	Bad debt allowance		
			Amount	Accrual percentage (%)	
Other receivables that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are provided for bad debts on portfolio basis of credit risk characteristics	39,236,422.14	100.00	29,522,308.78	75.24	9,714,113.36
Other receivables that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00
Total	39,236,422.14	100.00	29,522,308.78	-	9,714,113.36

Category	Book balance		Beginning balance		Book balance
	Amount	Percentage (%)	Bad debt allowance		
			Amount	Accrual percentage (%)	
Other receivables that are individually significant and are provided for bad debts on individual basis	0.00	0.00	0.00	0.00	0.00
Other receivables that are provided for bad debts on portfolio basis of credit risk characteristics	46,767,035.01	100.00	25,609,701.35	54.76	21,157,333.66
Other receivables that are individually insignificant but are individually provided for bad debts	0.00	0.00	0.00	0.00	0.00
Total	46,767,035.01	100.00	25,609,701.35	-	21,157,333.66

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

8. Other receivables (Continued)

(2) Classification of other receivables (Continued)

Within the portfolios, other receivables on which bad debt allowances are accrued by aging analysis:

Aging	Ending balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Within 1 year	2,005,959.63	123,182.95	6.14
1-2 years	830,046.85	415,023.43	50.00
2-3 years	17,175,049.11	17,175,049.11	100.00
Over 3 years	11,809,053.29	11,809,053.29	100.00
Total	<u>31,820,108.88</u>	<u>29,522,308.78</u>	<u>92.78</u>

Aging	Beginning balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Within 1 year	8,343,914.46	67,401.01	0.81
1-2 years	24,320,337.92	12,082,811.51	49.68
2-3 years	2,268,253.87	2,033,963.00	89.67
Over 3 years	11,834,528.76	11,425,525.83	96.54
Total	<u>46,767,035.01</u>	<u>25,609,701.35</u>	<u>54.76</u>

Within the portfolios, the other receivables of which the bad debt reserves were accrued by using other portfolio method:

Item	Ending balance		
	Other receivables	Bad debt reserves	Accrual percentage (%)
Low risk portfolio such as deposits and petty cash	<u>7,416,313.26</u>	<u>0.00</u>	<u>0.00</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

8. Other receivables (Continued)

(3) Details of accrual, collection or reversal of bad debt allowance

In this period, the amount of bad debt allowance accrued is RMB4,419,600.26; with the reversed bad debt allowance at the amount of RMB506,992.83.

(4) Classification of other receivables by the nature of payment

Nature of payment	Carrying amount at the end of the year	Carrying amount at the beginning of the year
Receivables and payments between companies	5,522,995.62	17,029,838.25
Deposits and petty cash	2,063,942.73	1,804,360.31
Collection and payment of social insurance withheld	1,787,851.97	1,579,313.32
Others	339,323.04	743,821.78
	<hr/>	<hr/>
Total	9,714,113.36	21,157,333.66

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

8. Other receivables (Continued)

(5) *Details of top five other receivables with the ending balance classified by the borrowers*

Company name	Nature of payment	Ending balance	Aging	Percentage in the ending balance of other receivables (%)	Ending balance of bad debt allowance
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	Related party	16,494,801.73	Within 1 year RMB400,000.00 1-2 years RMB168,184.10 2-3 years RMB15,926,617.63	42.04	16,070,709.68
YTO Group Corporation	Related party	1,239,634.14	Within 1 year RMB163,559.40 1-2 years RMB16,200.00 over 3 years RMB1,059,874.74	3.16	1,059,878.33
Luoyang Jiangyang Metal Component Co., Ltd	Non-related party	1,060,000.00	1-2 years RMB530,000.00 2-3 years RMB530,000.00	2.70	795,000.00
ZF YTO (Luoyang) Drive Axle Co., Ltd	Related party	888,849.62	Within 1 year	2.27	8,888.50
Sanmenxia Xin Xi Metal Material Co., Ltd	Non-related party	307,140.31	1-2 years	0.78	0.00
Total	—	<u>19,990,425.80</u>	—	<u>50.95</u>	<u>17,934,476.51</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

9. Inventories

(1) Classification of inventories

Item	Ending balance		Book value
	Book balance	Provision for impairment	
Raw materials	205,375,709.52	14,926,147.46	190,449,562.06
Self-made semi finished goods and work in progress	178,670,303.07	4,858,368.28	173,811,934.79
Finished goods (manufactured products)	106,356,510.67	4,479,749.97	101,876,760.70
Reusable materials (packing material, low value consumables, etc.)	5,857,736.31	679,230.72	5,178,505.59
Total	<u>496,260,259.57</u>	<u>24,943,496.43</u>	<u>471,316,763.14</u>

Item	Beginning balance		Book value
	Book balance	Provision for impairment	
Raw materials	263,337,991.89	13,297,551.52	250,040,440.37
Self-made semi finished goods and work in progress	197,169,050.99	4,956,745.98	192,212,305.01
Finished goods (manufactured products)	188,933,872.96	5,488,077.51	183,445,795.45
Reusable materials (packing material, low value consumables, etc.)	10,242,741.10	679,230.72	9,563,510.38
Total	<u>659,683,656.94</u>	<u>24,421,605.73</u>	<u>635,262,051.21</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

9. Inventories (Continued)

(2) Impairment provision for inventories

Item	Beginning balance	Increase in this year		Decrease in this year		Ending balance
		Provision	Others	Reversed or written-off	Other transfer out	
Raw materials	13,297,551.52	10,274,762.77	0.00	8,646,166.83	0.00	14,926,147.46
Work in progress	4,956,745.98	985,431.54	0.00	1,083,809.24	0.00	4,858,368.28
Finished goods	5,488,077.51	0.00	0.00	1,008,327.54	0.00	4,479,749.97
Turnover materials	679,230.72	0.00	0.00	0.00	0.00	679,230.72
Total	<u>24,421,605.73</u>	<u>11,260,194.31</u>	<u>0.00</u>	<u>10,738,303.61</u>	<u>0.00</u>	<u>24,943,496.43</u>

(3) Provision for the impairment of inventories

Item	Basis for recognition of net realizable value	Reason for reversal or written-off in this year
Raw materials	Ending market price less estimated expense to incur	Value recovery or sold
Work in progress	Ending market price less estimated expense to incur	Value recovery or sold
Finished goods	Ending market price less estimated expense to incur	Value recovery or sold
Turnover materials	Ending market price less estimated expense to incur	Value recovery or sold

(4) The ending balance of inventories does not include any capitalization of borrowing expenses.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

10. Other current assets

Item	Ending balance	Beginning balance	Nature
Deferred expenses	0.00	188,872.91	Deferred expenses
Entrusted loans	165,000,000.00	140,500,000.00	Entrusted loans
Structured deposit	177,000,000.00	23,000,000.00	Structured deposit
Financial products	500,000,000.00	382,000,000.00	Financial products
Prepaid enterprise income	7,520,537.97	0.00	Prepaid enterprise income
Value-added tax left for deduction	279,696,336.15	0.00	Value-added tax left for deduction
Total	1,129,216,874.12	545,688,872.91	–

Note: Please refer to the statements in the Note 'VI. 11 Other current assets' for details about value-added tax left for deduction.

11. Financial assets available for sale

(1) Details of financial assets available for sale

Item	Ending balance		Book value
	Book balance	Impairment provision	
Debt instruments available for sale	0.00	0.00	0.00
Equity instruments available for sale	17,021,500.00	0.00	17,021,500.00
Measured at fair value	17,021,500.00	0.00	17,021,500.00
Measured at cost	0.00	0.00	0.00
Others	114,322,800.00	4,322,800.00	110,000,000.00
Measured at cost	114,322,800.00	4,322,800.00	110,000,000.00
Total	131,344,300.00	4,322,800.00	127,021,500.00

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

11. Financial assets available for sale (Continued)

(1) *Details of financial assets available for sale* (Continued)

Item	Book balance	Beginning balance	
		Impairment provision	Book value
Debt instruments available for sale	0.00	0.00	0.00
Equity instruments available for sale	38,318,000.00	0.00	38,318,000.00
Measured at fair value	38,318,000.00	0.00	38,318,000.00
Measured at cost	0.00	0.00	0.00
Others	114,322,800.00	4,322,800.00	110,000,000.00
Measured at cost	114,322,800.00	4,322,800.00	110,000,000.00
Total	<u>152,640,800.00</u>	<u>4,322,800.00</u>	<u>148,318,000.00</u>

(2) *Analysis of financial assets available for sale is as following*

Item	Ending balance	Beginning balance
Listed	17,021,500.00	38,318,000.00
China (except for Hong Kong)	17,021,500.00	38,318,000.00
Hong Kong	0.00	0.00
Other regions	0.00	0.00
Unlisted	110,000,000.00	110,000,000.00
Total	<u>127,021,500.00</u>	<u>148,318,000.00</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

11. Financial assets available for sale (Continued)

(3) Financial assets available for sale measured at fair value at year end

Item	Equity instrument		Debt instrument available for sale	Others	Total
	available for sale	available for sale			
Cost of equity instrument	5,256,363.64	0.00	0.00	0.00	5,256,363.64
Fair value	17,021,500.00	0.00	0.00	0.00	17,021,500.00
Accumulated other comprehensive income from changes on fair value	11,765,136.36	0.00	0.00	0.00	11,765,136.36
Impairment provision accrued	0.00	0.00	0.00	0.00	0.00

(4) Financial assets available for sale measured at cost at year end

Invested company	Beginning balance	Book balance			Impairment provision			Beginning balance	Ending balance	Shareholding percentage in the company (%)	Cash dividend in the year
		Increase in this year	Decrease in this year	Ending balance	Increase in this year	Decrease in this year	Ending balance				
Beijing Zhongnongwang Technology Co., Ltd (Note 1)	2,122,800.00	0.00	0.00	2,122,800.00	2,122,800.00	0.00	0.00	2,122,800.00	15.00	0.00	
Nanyang Xiangrui Agricultural Equipment Co., Ltd (Note 1)	1,400,000.00	0.00	0.00	1,400,000.00	1,400,000.00	0.00	0.00	1,400,000.00	7.00	0.00	
YTO (Luoyang) Dongfanghong Tire Company (Note 1)	800,000.00	0.00	0.00	800,000.00	800,000.00	0.00	0.00	800,000.00	3.11	0.00	
Luoyin Financial Leasing Co., Ltd (Note 1)	110,000,000.00	0.00	0.00	110,000,000.00	0.00	0.00	0.00	0.00	6.875	0.00	
Total	114,322,800.00	0.00	0.00	114,322,800.00	4,322,800.00	0.00	0.00	4,322,800.00	-	0.00	

Note 1: For details about Beijing Zhongnongwang Technology Co., Ltd, Nanyang Xiangrui Agricultural Equipment Co., Ltd, YTO (Luoyang) Dongfanghong Tire Company, and Luoyin Financial Leasing Co., Ltd, please refer to the statements in the Note 'VI. 13 Financial assets available for sale'.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

11. Financial assets available for sale (Continued)

(5) Impairment provision of financial assets available for sale

Classification of financial assets available for sale	Equity instruments available for sale	Debt instruments available for sale	Others	Total
Beginning balance of impairment provision accrued	0.00	0.00	4,322,800.00	4,322,800.00
Current year provision	0.00	0.00	0.00	0.00
Including: Transferred in from other comprehensive income	0.00	0.00	0.00	0.00
Decrease in this year	0.00	0.00	0.00	0.00
Including: Reversal due to fair value increase afterwards	0.00	0.00	0.00	0.00
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Ending balance of impairment provision accrued	<u>0.00</u>	<u>0.00</u>	<u>4,322,800.00</u>	<u>4,322,800.00</u>

12. Long term equity investments

(1) Classification of long term equity investments

Item	Ending balance			Beginning balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Investments to subsidiaries	2,678,237,023.62	18,950,000.00	2,659,287,023.62	2,986,819,799.86	18,950,000.00	2,967,869,799.86
Investments to joint ventures and associates	155,368,337.06	7,004,515.65	148,363,821.41	149,536,079.74	7,004,515.65	142,531,564.09
Total	<u>2,833,605,360.68</u>	<u>25,954,515.65</u>	<u>2,807,650,845.03</u>	<u>3,136,355,879.60</u>	<u>25,954,515.65</u>	<u>3,110,401,363.95</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

12. Long term equity investments (Continued)

(2) Investments to subsidiaries

Invested company	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Current year provision impairment provision	Impairment provision ending balance
YTO France SAS	300,737,040.00	0.00	0.00	300,737,040.00	0.00	0.00
Luoyang Changhong Trading Co., Ltd	2,750,001.00	0.00	0.00	2,750,001.00	0.00	2,750,000.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd	46,500,046.00	0.00	0.00	46,500,046.00	0.00	0.00
YTO (Xinjiang) Machinery Co., Ltd	160,000,000.00	0.00	0.00	160,000,000.00	0.00	0.00
YTO Heilongjiang Agricultural Machinery Co., Ltd	100,000,000.00	0.00	0.00	100,000,000.00	0.00	0.00
Luoyang Changxing Agricultural Machinery Co., Ltd	2,100,000.00	0.00	0.00	2,100,000.00	0.00	0.00
YTO (Jiangyan) Power Machinery Co., Ltd	76,000,000.00	0.00	0.00	76,000,000.00	0.00	0.00
YTO (Luoyang) Transportation Machinery Co., Ltd	52,018,586.00	0.00	0.00	52,018,586.00	0.00	0.00
B Brilliance China Machinery Holdings Co., Ltd	27,869,301.63	0.00	0.00	27,869,301.63	0.00	0.00
YTO Group Finance Co., Ltd (Note 1)	443,802,290.00	41,238,012.00	0.00	485,040,302.00	0.00	0.00
China-Africa Heavy Industry Investment Co., Ltd	55,022,000.00	0.00	0.00	55,022,000.00	0.00	0.00
Luoyang Tractor Research Institute Co., Ltd	281,414,966.36	0.00	0.00	281,414,966.36	0.00	0.00
YTO (Luoyang) Forklift Truck Company Limited	14,022,957.36	0.00	0.00	14,022,957.36	0.00	0.00
YTO (Luoyang) Diesel Engine Co., Ltd	392,257,881.14	0.00	0.00	392,257,881.14	0.00	0.00
YTO (Luoyang) Drive Axle Company Limited (Note 2)	224,961,387.38	0.00	192,820,788.24	32,140,599.14	0.00	0.00
YTO (Luoyang) Flag Auto-Body Company Limited (Note 3)	234,192,767.62	0.00	157,000,000.00	77,192,767.62	0.00	0.00
YTO (Luoyang) Fuel Injection Co., Ltd	152,989,481.32	0.00	0.00	152,989,481.32	0.00	0.00
YTO (Luoyang) Foundry Company Limited	200,391,996.60	0.00	0.00	200,391,996.60	0.00	0.00
YTO International Economic and Trade Co., Ltd	75,668,335.13	0.00	0.00	75,668,335.13	0.00	0.00
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd	94,250,000.00	0.00	0.00	94,250,000.00	0.00	0.00
YTO Shunxing (Luoyang) Spare Parts Co., Ltd	33,670,762.32	0.00	0.00	33,670,762.32	0.00	0.00
YTO (Shenyang) Co., Ltd	16,200,000.00	0.00	0.00	16,200,000.00	0.00	16,200,000.00
Total	<u>2,986,819,799.86</u>	<u>41,238,012.00</u>	<u>349,820,788.24</u>	<u>2,678,237,023.62</u>	<u>0.00</u>	<u>18,950,000.00</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

12. Long term equity investments (Continued)

(2) *Investments to subsidiaries* (Continued)

Note:

1. According to the second meeting of the seventh session of the board of directors of the Company on January 18, 2016, 'The bill on the acquisition of the share equity of YTO Group Finance Co., Ltd held by SINOMACH-HI (Luoyang) Building Machinery Co., Ltd' was considered and passed: agreeing that the Company should apply to the property rights trading institution of farming in the 6% share equity right of YTO Group Finance Co., Ltd (the 'subject equity') held by SINOMACH-HI (Luoyang) Building Machinery Co., Ltd to delist the equity right, a equity right which was listed to transfer. Finally, the Company used its own funds of RMB41.2888 million to pay SINOMACH-HI (Luoyang) Building Machinery Co., Ltd the equity transfer price. On May 16, 2016, after the completion of the acquisition, the shareholding percentage was changed to 94.6%.
2. According to the twenty-third meeting of the sixth session of the board of directors of the Company, 'The bill on the implementation of capital reduction of YTO (Luoyang) Drive Axle Company Limited': agreeing that the Company should implement the capital reduction of RMB192 million (including the registered capital of RMB20 million, and the capital reserve of RMB172.82 million) to its wholly owned subsidiary YTO (Luoyang) Drive Axle Company Limited. On February 24, 2016, after the capital reduction was completed, the registered capital of YTO (Luoyang) Drive Axle Company Limited was changed to RMB30 million.
3. According to the twenty-third meeting of the sixth session of the board of directors of the Company, 'The bill on the implementation of capital reduction of YTO (Luoyang) Flag Auto-Body Company Limited': agreeing that the Company should implement the capital reduction of RMB157 million (including the registered capital of RMB52 million, and the capital reserve of RMB105 million) to its wholly owned subsidiary YTO (Luoyang) Drive Axle Company Limited. On January 28, 2016, after the capital reduction was completed, the registered capital of YTO (Luoyang) Flag Auto-Body Company Limited was changed to RMB68 million.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

12. Long term equity investments (Continued)

(3) Investments to joint ventures and associates

Invested company	Beginning balance	Additional investment	Investment reduction	Changes of increase/decrease in the year						Ending balance	Ending balance of impairment provision
				Investment profit/loss recognized under equity method	Adjustment of other comprehensive income	Other equity changes	Declared cash dividends/profit to be distributed	Provision for impairment	Others		
I. Associates											
ZF YTO (Luoyang) Drive Axle Co., Ltd	141,510,024.39	0.00	0.00	8,837,027.46	0.00	0.00	2,940,000.00	0.00	0.00	147,407,051.85	0.00
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd	1,021,539.70	0.00	0.00	-64,770.14	0.00	0.00	0.00	0.00	0.00	966,769.56	0.00
Luoyang Fusaito Auto Co., Ltd	7,004,515.65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7,004,515.65	7,004,515.65
Total	149,536,079.74	0.00	0.00	8,772,257.32	0.00	0.00	2,940,000.00	0.00	0.00	155,388,337.06	7,004,515.65

(4) Analysis of long term equity investments is as following:

Item	Ending balance	Beginning balance
Listed	0.00	0.00
Unlisted	2,807,650,845.03	3,110,401,363.95
Total	2,807,650,845.03	3,110,401,363.95

Notes: As at December 31, 2016, the fair value of long-term equity investment in listed companies is RMB0.00.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

13. Fixed assets

Detail spreadsheet of fixed assets

Item	Houses and buildings	Machine and equipment	Transportation equipment	Electronic and office equipment	Other equipment	Total
I. Original book balance						
1. Beginning balance	1,019,638,772.28	2,164,338,295.22	29,204,816.92	70,957,275.07	5,957,111.59	3,290,096,271.08
2. Increase amount in this year	70,438,554.46	278,986,960.17	1,607,994.07	4,908,175.39	1,909,671.99	357,851,356.08
(1) Purchase	609,310.92	9,149,162.37	1,039,401.72	2,437,585.96	504,216.99	13,739,677.96
(2) Transferred from construction in progress	69,829,243.54	269,837,797.80	568,592.35	2,470,589.43	1,405,455.00	344,111,678.12
(3) Increase from business combination	0.00	0.00	0.00	0.00	0.00	0.00
(4) Others	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	17,924,914.16	39,323,980.96	2,192,960.63	337,182.65	0.00	59,779,038.40
(1) Disposal of scrapped	17,924,914.16	39,323,980.96	2,192,960.63	337,182.65	0.00	59,779,038.40
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	1,072,152,412.58	2,404,001,274.43	28,619,850.36	75,528,267.81	7,866,783.58	3,588,168,588.76
II. Accumulated depreciation						
1. Beginning balance	500,023,743.37	1,272,871,162.90	16,685,712.04	39,426,709.51	3,580,620.02	1,832,587,947.84
2. Increase amount in this year	29,099,154.21	134,166,780.30	2,540,485.32	5,973,951.06	350,039.78	172,130,410.67
(1) Provision	29,099,154.21	134,166,780.30	2,540,485.32	5,973,951.06	350,039.78	172,130,410.67
(2) Increase from business combination	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	7,482,702.94	29,259,526.87	1,899,614.11	280,577.81	0.00	38,922,421.73
(1) Disposal of scrapped	7,482,702.94	29,259,526.87	1,899,614.11	280,577.81	0.00	38,922,421.73
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	521,640,194.64	1,377,778,416.33	17,326,583.25	45,120,082.76	3,930,659.80	1,965,795,936.78
III. Impairment provision						
1. Beginning balance	1,500.00	4,799,537.08	11,663.13	0.00	207,849.68	5,020,549.89
2. Increase amount in this year	0.00	0.00	0.00	0.00	0.00	0.00
(1) Provision	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	1,500.00	1,900.00	0.00	0.00	0.00	3,400.00
(1) Disposal of scrapped	1,500.00	1,900.00	0.00	0.00	0.00	3,400.00
(2) Others	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	0.00	4,797,637.08	11,663.13	0.00	207,849.68	5,017,149.89
IV. Book value						
1. Ending balance of book value	550,512,217.94	1,021,425,221.02	11,281,603.98	30,408,185.05	3,728,274.10	1,617,355,502.09
2. Beginning balance of book value	519,613,528.91	886,667,595.24	12,507,441.75	31,530,565.56	2,168,641.89	1,452,487,773.35



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

13. Fixed assets (Continued)

Analysis of houses and buildings by regions of location and investment period:

Item	Ending balance	Beginning balance
Located within the territory of China	1,072,152,412.58	1,019,638,772.28
Long-term (Over 50 years)	0.00	0.00
Mid-term (10-50 years)	1,072,152,412.58	1,019,638,772.28
Short-term (Within 10 years)	0.00	0.00
Located abroad	0.00	0.00
Long-term (Over 50 years)	0.00	0.00
Mid-term (10-50 years)	0.00	0.00
Short-term (Within 10 years)	0.00	0.00
Total	<u>1,072,152,412.58</u>	<u>1,019,638,772.28</u>

In this year, the depreciation of fixed assets recognized into profit and loss is RMB172,130,410.67 (amount in last year: RMB154,195,044.04).

The increase of the fixed assets transferred from construction in progress is RMB344,111,678.12.

The loss of fixed asset disposal through sales is RMB9,524,110.07.

In this year, the original value of the fixed assets on which the depreciation was fully accrued but still in use was RMB907,776,431.74.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

13. Fixed assets (Continued)

(1) Fixed assets leased out by operating lease

The book value of fixed assets leased out by operating lease is RMB162,697,982.04 at the end of the year (beginning of the year: book value of RMB61,074,676.59). Detailed analysis is as follows:

Item	Book value
Houses and buildings	143,264,668.79
Machine and equipment	16,604,652.19
Transportation equipment	41,502.94
Electronic and office equipment	2,787,158.12
	162,697,982.04
Total	162,697,982.04

(2) Fixed assets with the property right certificate unprocessed yet: None.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

14. Construction in progress

(1) Detail spreadsheet of construction in progress

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Core capacity upgrading project on new wheeled tractor	14,342,024.77	0.00	14,342,024.77	181,656,589.97	0.00	181,656,589.97
Agricultural high-power diesel engine project	144,266,230.70	0.00	144,266,230.70	160,110,988.49	0.00	160,110,988.49
New giant parts workshop of No. 3 Assembling Factory	5,074,905.98	0.00	5,074,905.98	68,002,643.08	0.00	68,002,643.08
EPC project	0.00	0.00	0.00	2,261,500.04	0.00	2,261,500.04
Forged crankshaft machining line project	4,401,730.99	0.00	4,401,730.99	3,070,320.43	0.00	3,070,320.43
IF furnace reconstruction project	0.00	0.00	0.00	1,938,372.76	0.00	1,938,372.76
KW model line transformation system project	0.00	0.00	0.00	3,167,507.70	0.00	3,167,507.70
Enhancement of the heat treatment	191,501.32	0.00	191,501.32	6,597,049.23	0.00	6,597,049.23
Project of command and exhibition center	0.00	0.00	0.00	2,168,589.30	0.00	2,168,589.30
Cooling road expansion project	0.00	0.00	0.00	109,500.00	0.00	109,500.00
Others	90,907,993.14	10,018,891.54	80,889,101.60	74,187,288.52	8,533,977.20	65,653,311.32
Total	259,184,386.90	10,018,891.54	249,165,495.36	503,270,349.52	8,533,977.20	494,736,372.32

(2) Details of significant changes of construction in progress

Project name	Beginning balance	Increase in this year	Decrease in this year		Ending balance
			Transferred in fixed assets	Other decrease	
Core capacity upgrading project on new wheeled tractor	181,656,589.97	21,923,584.14	189,238,149.34	0.00	14,342,024.77
Agricultural high-power diesel engine project	160,110,988.49	3,216,256.10	19,061,013.89	0.00	144,266,230.70
New giant parts workshop of No. 3 Assembling Factory	68,002,643.08	5,709,025.62	68,636,762.72	0.00	5,074,905.98
EPC project	2,261,500.04	87,179.48	2,348,679.52	0.00	0.00
Forged crankshaft machining line project	3,070,320.43	1,331,410.56	0.00	0.00	4,401,730.99
IF furnace reconstruction project	1,938,372.76	0.00	1,938,372.76	0.00	0.00
KW model line transformation system project	3,167,507.70	507,616.98	3,675,124.68	0.00	0.00
Enhancement of the heat treatment	6,597,049.23	1,853,864.31	8,259,412.22	0.00	191,501.32
Project of command and exhibition center	2,168,589.30	620,416.07	1,646,589.30	1,142,416.07	0.00
Cooling road expansion project	109,500.00	0.00	109,500.00	0.00	0.00
Others	74,187,288.52	65,918,778.31	49,198,073.69	0.00	90,907,993.14
Total	503,270,349.52	101,168,131.57	344,111,678.12	1,142,416.07	259,184,386.90

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

14. Construction in progress (Continued)

(2) Details of significant changes of construction in progress (Continued)

Project name	Budget	Percentage of project investment to the budgeted amount (%)	Project progress	Accumulated capitalization of interest	Including: capitalization of interest in this year	Rate of interest capitalization in this year (%)	Source of fund
Core capacity upgrading project on new wheeled tractor	596,300,000.00	90.00	98.00	0.00	0.00	0.00	Fund-raising
Agricultural high-power diesel engine project	199,000,000.00	90.00	98.00	12,829,031.02	0.00	4.404-6.9	Fund-raising
New giant parts workshop of No. 3 Assembling Factory	93,000,000.00	88.00	95.00	0.00	0.00	0.00	Self-raised
EPC project	29,773,300.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Forged crankshaft machining line project	58,000,000.00	89.00	92.00	819,901.92	0.00	4.404-6.9	Self-raised
IF furnace reconstruction project	52,200,000.00	100.00	100.00	0.00	0.00	0.00	Self-raised
KW model line transformation system project	7,982,000.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Enhancement of the heat treatment	14,800,000.00	89.00	99.00	0.00	0.00	0.00	Self-raised
Project of command and exhibition center	3,980,000.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Cooling road expansion project	3,100,000.00	100.00	100.00	0.00	0.00	0.00	Self-raised
Total	<u>1,058,135,300.00</u>	<u>-</u>	<u>-</u>	<u>13,648,932.94</u>	<u>-</u>	<u>-</u>	<u>-</u>

(3) The situation of the impairment provision for construction in progress accrued in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Accrual reason
Permanent mold casting machine	155,000.00	0.00	0.00	155,000.00	-
Other item	8,378,977.20	1,484,914.34	0.00	9,863,891.54	-
Total	<u>8,533,977.20</u>	<u>1,484,914.34</u>	<u>0.00</u>	<u>10,018,891.54</u>	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

15. Intangible assets

Item	Land use right	Patents	Trademarks	Software	Total
I. Original book balance					
1. Beginning balance	554,719,439.40	1,477,553.68	59,501,000.00	32,933,467.37	648,631,460.45
2. Increase amount in this year	0.00	0.00	0.00	2,913,052.79	2,913,052.79
(1) Purchase	0.00	0.00	0.00	1,770,636.72	1,770,636.72
(2) Internal research and development	0.00	0.00	0.00	1,142,416.07	1,142,416.07
3. Decrease amount in this year	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00	0.00
4. Ending balance	554,719,439.40	1,477,553.68	59,501,000.00	35,846,520.16	651,544,513.24
II. Accumulated amortization					
1. Beginning balance	56,965,498.09	312,226.03	0.00	20,705,748.98	77,983,473.10
2. Increase amount in this year	13,861,765.20	168,937.44	0.00	4,787,835.30	18,818,537.94
(1) Provision	13,861,765.20	168,937.44	0.00	4,787,835.30	18,818,537.94
(2) Transfer and appropriation by subsidiaries	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00
(2) Others	0.00	0.00	0.00	0.00	0.00
4. Ending balance	70,827,263.29	481,163.47	0.00	25,493,584.28	96,802,011.04
III. Impairment provision					
1. Beginning balance	0.00	0.00	0.00	0.00	0.00
2. Increase amount in this year	0.00	0.00	0.00	0.00	0.00
Provision	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	0.00	0.00	0.00	0.00	0.00
(1) Disposal	0.00	0.00	0.00	0.00	0.00
(2) Increase from business combination	0.00	0.00	0.00	0.00	0.00
(3) Others	0.00	0.00	0.00	0.00	0.00
4. Ending balance	0.00	0.00	0.00	0.00	0.00
IV. Book value					
1. Ending balance of book value	483,892,176.11	996,390.21	59,501,000.00	10,352,935.88	554,742,502.20
2. Beginning balance of book value	497,753,941.31	1,165,327.65	59,501,000.00	12,227,718.39	570,647,987.35

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

15. Intangible assets (Continued)

Analysis of land use right by regions of location and terms:

Item	Ending balance	Beginning balance
Located within the territory of China	554,719,439.40	554,719,439.40
Long-term (Over 50 years)	479,301,098.33	479,301,098.33
Mid-term (10–50 years)	75,418,341.07	75,418,341.07
Short-term (Within 10 years)	0.00	0.00
Located abroad	0.00	0.00
Total	554,719,439.40	554,719,439.40

Note: The amortization amount of the intangible assets recognized in profit or loss is RMB18,818,537.94 in this year (last year amount: RMB18,915,748.59).

Please refer to the statement in the Note ‘VI.18’ for the details of the intangible assets with indefinite useful life at the end of the year.

At the end of the year, regarding the intangible assets of the Company, there was no situation of the land use right on which the certificate of the right to use has not yet obtained.

16. Development expenditure

Item	Beginning balance	Increase in this year		Decrease in this year			Ending balance
		Internal development expenditure	Others	Recognized as intangible assets	Transfer to current period profit or loss	Others	
Research and development of tractor products	0.00	194,789,526.43	0.00	0.00	194,789,526.43	0.00	0.00
Research and development for dynamical machinery products	0.00	20,664,184.18	0.00	0.00	20,664,184.18	0.00	0.00
Updates on accessories and R&D on other machinery products	0.00	33,408,597.56	0.00	0.00	33,408,597.56	0.00	0.00
Fundamental research	0.00	11,472,506.14	0.00	0.00	11,472,506.14	0.00	0.00
Technological process research and development	0.00	39,000,899.81	0.00	0.00	39,000,899.81	0.00	0.00
Total	0.00	299,335,714.12	0.00	0.00	299,335,714.12	0.00	0.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

17. Long-term deferred expenses

Item	Beginning balance	Increase in this year	Amortization in this year	Other decrease in this year	Ending balance
Amortization on moulding machine	24,274,292.65	14,757,916.98	9,435,687.82	0.00	29,596,521.81
Amortization of maintenance expenditure	7,053,949.52	1,825,633.82	2,058,079.08	0.00	6,821,504.26
Others	471,329.50	351,929.79	493,270.19	0.00	329,989.10
Total	<u>31,799,571.67</u>	<u>16,935,480.59</u>	<u>11,987,037.09</u>	<u>0.00</u>	<u>36,748,015.17</u>

18. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets recognized

Item	Ending balance		Beginning balance	
	Deferred tax asset	Deductible temporary difference	Deferred tax asset	Deductible temporary difference
Impairment provision for inventories	3,741,524.46	24,943,496.43	3,663,240.86	24,421,605.73
Termination welfare	2,071,734.38	13,811,562.51	2,539,979.82	16,933,198.85
Wages payable and accrued expense	5,031,193.71	33,541,291.40	2,874,510.78	19,163,405.20
Deferred revenue	9,432,336.85	62,882,245.64	7,387,007.46	49,269,216.39
Total	<u>20,276,789.40</u>	<u>135,178,595.98</u>	<u>16,464,738.92</u>	<u>109,787,426.17</u>

(2) Deferred tax liabilities recognized

Item	Ending balance		Beginning balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Fair value change of financial assets available-for-sale	11,765,136.36	1,764,770.45	27,716,181.82	4,157,427.27

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

18. Deferred tax assets and deferred tax liabilities (Continued)

(3) *Deductible temporary difference of unrecognized deferred tax assets*

Item	Ending balance	Beginning balance
Bad debt allowance	197,916,030.52	210,141,207.75
Impairment provision for long term equity investments	25,954,515.65	25,954,515.65
Impairment provision of financial assets available for sale	4,322,800.00	4,322,800.00
Impairment provision for fixed assets	5,017,149.89	5,020,549.89
Impairment provision for construction in progress	10,018,891.54	8,533,977.20
Total	<u>243,229,387.60</u>	<u>253,973,050.49</u>

19. Short-term borrowings

(1) *Classification of short-term borrowings*

Classification of borrowings	Ending balance	Beginning balance
Credit loans	<u>1,393,700,000.00</u>	<u>1,953,532,480.00</u>

(2) *There are no overdue short-term loans at the end of the year.*

20. Notes payable

Types of notes	Ending balance	Beginning balance
Bank acceptance notes	1,102,916,993.14	1,180,076,296.92
Commercial acceptance notes	58,057,729.81	91,583,957.43
Total	<u>1,160,974,722.95</u>	<u>1,271,660,254.35</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

21. Accounts payable

(1) Details of accounts payable

Nature of payment	Ending balance	Beginning balance
Purchase payable	786,292,388.27	983,356,328.59
Purchase of construction equipment payable	64,458,927.39	70,264,294.75
Service payment payable	0.00	0.00
Others	164,023.00	56,174.65
Total	850,915,338.66	1,053,676,797.99

(2) Aging analysis of accounts payable

Item	Ending balance	Beginning balance
Within 1 year	740,862,242.71	930,406,891.14
1-2 years	24,819,108.44	86,602,642.27
2-3 years	58,019,619.97	12,235,505.91
Over 3 years	27,214,367.54	24,431,758.67
Total	850,915,338.66	1,053,676,797.99

(3) Accounts payable with significant amount aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
Luoyang Tractor Research Institute Co., Ltd	47,526,070.00	Unsettled
Zhangjiagang Free Trade Zone Yetai International Trade Co., Ltd	5,915,437.00	Unsettled
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd	3,822,120.07	Unsettled
Bengang Steel Plates Co., Ltd	1,789,968.08	Unsettled
YTO International Economic and Trade Co., Ltd	1,720,806.50	Unsettled
Hebei Huilong Hydraulic Machinery Co., Ltd	1,300,000.00	Unsettled
Total	62,074,401.65	—

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

22. Advances from customers

(1) *Advance from customers*

Item	Ending balance	Beginning balance
Within 1 year (including 1 year)	114,411,690.97	127,316,720.89
Over 1 year	4,116,916.03	4,519,184.20
Total	118,528,607.00	131,835,905.09

(2) *There were no significant payments received in advance with the aging over 1 year at the end of the period.*

23. Employee benefits payable

(1) *Classification of employee benefits payable*

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Short-term remuneration	19,049,436.56	571,530,956.33	563,137,305.28	27,443,087.61
Defined contribution plan	335,835.97	84,568,218.55	84,626,008.53	278,045.99
Termination welfare	16,933,198.85	3,853,130.72	6,974,767.06	13,811,562.51
Total	36,318,471.38	659,952,305.60	654,738,080.87	41,532,696.11



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

23. Employee benefits payable (Continued)

(2) Short-term remuneration

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Wages or salaries, bonuses, allowances and subsidies	11,241,066.00	378,770,583.25	369,774,595.25	20,237,054.00
Staff welfare expense	0.00	22,596,088.74	22,596,088.74	0.00
Social insurance expense	41,226.69	34,920,971.56	34,962,198.25	0.00
Including: Medical insurance expense	0.00	30,079,396.88	30,079,396.88	0.00
Work-related injury insurance	0.00	3,140,473.54	3,140,473.54	0.00
Maternity insurance	41,226.69	1,701,101.14	1,742,327.83	0.00
Housing funds	1,408,284.06	34,954,261.19	35,855,409.69	507,135.56
Union & employee education funds	6,122,485.13	12,839,554.45	12,499,516.21	6,462,523.37
Others	236,374.68	87,449,497.14	87,449,497.14	236,374.68
Total	<u>19,049,436.56</u>	<u>571,530,956.33</u>	<u>563,137,305.28</u>	<u>27,443,087.61</u>

(3) Defined contribution plan

The Company participated in the social insurance program established by the governmental agencies according to the provisions. The Company deposited the costs to the social insurance program according to the relevant provisions of the local government. In addition to the above charges, the Company did not bear the obligation of making any further payment. The corresponding expenditures should be recognized into the current period profit or loss or the costs of the relevant assets when incurred.

The costs which should be deposited and paid by the Company to the insurance program of endowment insurance, pension, and the unemployment insurance respectively in this year were as followed:

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Basic endowment insurance	73,269.36	66,988,665.04	67,061,934.40	0.00
Unemployment insurance premium	0.00	4,442,689.80	4,442,689.80	0.00
Enterprise annuity payment	262,566.61	13,136,863.71	13,121,384.33	278,045.99
Total	<u>335,835.97</u>	<u>84,568,218.55</u>	<u>84,626,008.53</u>	<u>278,045.99</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

23. Employee benefits payable (Continued)

(3) Defined contribution plan (Continued)

In this year, the Company should deposit and pay the costs of RMB84,568,218.55 (in 2015: RMB85,599,232.27) to the participated defined contribution plan. On December 31, 2016, the Company still had RMB278,045.99 (on December 31, 2015: RMB335,835.97) costs which should be deposited and paid, used in the Reporting Period, and which were due but not yet paid. The relevant costs payable has been paid after the Reporting Period.

24. Taxes payable

Item	Ending balance	Beginning balance
Value-added tax (VAT)	7,500.55	-317,938,682.26
Business tax	0.00	111,918.80
Enterprise income tax	0.00	6,426,484.55
Urban maintenance and construction tax	525.04	7,844.37
Property tax	2,931,185.88	3,092,636.44
Land use tax	901,313.19	901,313.19
Individual income tax	2,687,121.18	754,689.10
Education surcharge	375.03	5,603.12
Other taxes	198,438.90	148,375.80
Total	6,726,459.77	-306,489,816.89

Note: Please refer to the statements in the Note 'VI. 11 Other current assets' for the change situation of 'Value-added tax (VAT)'.

25. Interests payable

Item	Ending balance	Beginning balance
Interest payable on corporate bonds	50,334,301.15	50,382,301.08
Interest payable on short-term loans	4,229,750.00	2,608,376.94
Total	54,564,051.15	52,990,678.02



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

26. Other payables

(1) Classification of other payables by nature of payment

Item	Ending balance	Beginning balance
Receivables and payments between companies	85,166,567.78	93,478,121.68
Deposits and securities	51,641,473.67	51,389,168.16
Expenses payable	1,247,864.70	876,274.06
Collection and payment on behalf of others	9,023,425.75	8,367,279.90
Others	5,090,838.30	6,515,803.35
Total	152,170,170.20	160,626,647.15

(2) Details of other payables aged over one year

Company name	Ending balance	Reason for not paid or reversed
YTO Group Corporation	49,540,612.33	Unsettled
YTO (Luoyang) Flag Auto-Body Company Limited	3,448,462.40	Unsettled
Total	52,989,074.73	—

27. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term loans due within 1 year	18,267,000.00	17,738,000.00
Others non-current liabilities due within 1 year	12,500,363.64	7,144,000.00
Total	30,767,363.64	24,882,000.00

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

28. Other current liabilities

Item	Ending balance	Beginning balance
Warranty fee for 3 after sale services included	11,049,424.40	6,047,526.20
Agent service fees	2,100,000.00	1,820,000.00
Others	154,813.00	54,813.00
Total	<u>13,304,237.40</u>	<u>7,922,339.20</u>

29. Long-term loans

(1) Classification of loans

Classification of borrowings

Classification of borrowings	Ending balance	Beginning balance
Credit loans	<u>9,133,500.00</u>	<u>26,607,000.00</u>

(2) Due date analysis of long-term loans

Item	Ending balance	Beginning balance
Over than 1 year after the balance sheet date, but not over than 2 years	9,133,500.00	17,738,000.00
Over than 2 years after the balance sheet date, but not over than 5 years	0.00	8,869,000.00
Total	<u>9,133,500.00</u>	<u>26,607,000.00</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

30. Bonds payable

(1) Classification of bonds payable

Item	Ending balance	Beginning balance
12 YTO 01 Corporate bond	798,604,059.50	797,472,004.37
12 YTO 02 Corporate bond	698,090,936.56	696,805,753.82
Total	1,496,694,996.06	1,494,277,758.19
The book value of the aforementioned bonds must be repaid during the following period		
Over than 1 year after the balance sheet date, but not over than 2 years	1,496,694,996.06	0.00
Over than 2 years after the balance sheet date, but not over than 5 years	0.00	1,494,277,758.19
Less: Bond payment listed under the item of current liabilities due within 1 year	0.00	0.00
Bond payment listed under the item of non-current liabilities	1,496,694,996.06	1,494,277,758.19

(2) Increase or decrease movements of bonds payable

Bond name	Total face value	Issue date	Term of bonds	Amount issued	Beginning balance	Amount issued in the year	Interest accrued on face value in this year	Amortization on premiums or discounts in this year	Repayment in the year	Ending balance
12 YTO 01 Corporate bond	800,000,000.00	2013/3/4	5 years	794,550,000.00	797,472,004.37	0.00	0.00	1,132,055.13	0.00	798,604,059.50
12 YTO 02 Corporate bond	700,000,000.00	2013/5/30	5 years	693,734,150.95	696,805,753.82	0.00	0.00	1,285,182.74	0.00	698,090,936.56
Total	1,500,000,000.00	-	-	1,488,284,150.95	1,494,277,758.19	0.00	0.00	2,417,237.87	0.00	1,496,694,996.06

Notes: Please refer to the Note 'VI. 36 Bonds payable' for details on bonds payable.

(3) Other financial instruments classified as financial liabilities

None

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

31. Deferred revenue

(1) Classification of deferred revenue

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Reason of formation
Government grants	119,031,862.41	9,964,000.00	15,756,005.46	113,239,856.95	—

(2) Item of government grants

Item of government grants	Beginning balance	Amount of newly increased subsidy in this year	Amount recognized as non-operating income in the year	Other changes	Ending balance	Related to assets/ Related to income
High power non-road used diesel engine	49,000,000.00	0.00	0.00	0.00	49,000,000.00	Related to assets
Core ability promotion of new wheeled tractors	53,200,000.00	0.00	2,418,181.82	4,836,363.64	45,945,454.54	Related to assets
Project of the energy saving and environmental protection diesel engine crankshaft machining production line	2,407,500.00	2,700,000.00	292,500.00	540,000.00	4,275,000.00	Related to assets
The first batch of the state appropriated funds for the integrated development and matching of the whole machine on medium power energy-saving and environmental protection agricultural diesel engines	0.00	3,380,000.00	0.00	0.00	3,380,000.00	Related to income
Grants for C series government projects	3,580,000.00	0.00	0.00	716,000.00	2,864,000.00	Related to assets
Power shift heavy duty tractors with the annual output of 1,000 HP	2,750,000.00	0.00	125,000.00	250,000.00	2,375,000.00	Related to assets
Research and application of the key technology of the fully automatic intelligent precision forging demonstration line	0.00	2,000,000.00	0.00	0.00	2,000,000.00	Related to income
Technical transformation of wheeled tractors	4,152,000.00	0.00	0.00	2,768,000.00	1,384,000.00	Related to assets
Demonstration and verification of a new pattern of personalized rapid customization and intelligent manufacturing of equipment complex parts	0.00	1,000,000.00	0.00	0.00	1,000,000.00	Related to income
Research on key technology and whole machine development of tractors in hilly and mountainous area	0.00	734,000.00	0.00	0.00	734,000.00	Related to income
Henan Provincial Engineering Laboratory of rapid prototyping technology for agricultural machinery castings	0.00	150,000.00	0.00	0.00	150,000.00	Related to income
The forging and pressure line of diesel engine crankshafts	3,390,000.00	0.00	0.00	3,390,000.00	0.00	Related to assets
Special fund for rapid development and demonstration application of new casting products of tractors and diesel engines	419,960.00	0.00	419,960.00	0.00	0.00	Related to assets
Other item	132,402.41	0.00	0.00	0.00	132,402.41	Related to assets
Total	119,031,862.41	9,964,000.00	3,255,641.82	12,500,363.64	113,239,856.95	—

Note: The 'other changes' are the deferred income which has been reclassified into 'non-current liabilities due within one year'.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

32. Share capital

The schedule of changes on legally issued paid-up share capital is listed below. All shares of the Company are common stocks with a nominal value of RMB1.00 per share.

Amount in this year

Item	Beginning balance	Issue new stock	Changes in current year (+, -)			Subtotal	Ending balance
			Bonus share	Equity fund transferred into shares	Others		
Total amount of shares	995,900,000.00	0.00	0.00	0.00	0.00	0.00	995,900,000.00

Amount in last year

Item	Beginning balance	Issue new stock	Changes in current year (+, -)			Subtotal	Ending balance
			Bonus share	Equity fund transferred into shares	Others		
Total amount of shares	995,900,000.00	0.00	0.00	0.00	0.00	0.00	995,900,000.00

33. Capital reserve

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Capital stock premium	1,953,153,395.43	0.00	0.00	1,953,153,395.43
Others capital reserve	64,872,267.48	0.00	0.00	64,872,267.48
Total	2,018,025,662.91	0.00	0.00	2,018,025,662.91

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Capital stock premium	1,953,153,395.43	0.00	0.00	1,953,153,395.43
Others capital reserve	64,872,267.48	0.00	0.00	64,872,267.48
Total	2,018,025,662.91	0.00	0.00	2,018,025,662.91

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

34. Treasury stock

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Repurchase of H shares	<u>0.00</u>	<u>19,140,912.00</u>	<u>0.00</u>	<u>19,140,912.00</u>

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Repurchase of H shares	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

Note: For the change in the current period, please refer to the statement in the Note 'I. General information of the Company' for details.

35. Other comprehensive income

Item	Beginning balance	Amount incurred in this year					Ending balance
		Before income tax amount incurred in this year	Less: recognized into other comprehensive income in prior years and transferred into current period profit or loss	Less: Income tax expense	Attributable to the parent company after tax	Attributable to the minority shareholders after tax	
I. Other comprehensive income that can not be reclassified to profit and loss in subsequent periods	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Other comprehensive income to be classified into profit or loss	23,558,754.55	-6,393,181.82	9,557,863.64	-2,392,656.82	-13,558,388.64	0.00	10,000,365.91
Including: Gains and losses from changes in fair value of available-for-sale financial assets	<u>23,558,754.55</u>	<u>-6,393,181.82</u>	<u>9,557,863.64</u>	<u>-2,392,656.82</u>	<u>-13,558,388.64</u>	<u>0.00</u>	10,000,365.91
Total other comprehensive income	<u>23,558,754.55</u>	<u>-6,393,181.82</u>	<u>9,557,863.64</u>	<u>-2,392,656.82</u>	<u>-13,558,388.64</u>	<u>0.00</u>	10,000,365.91



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

36. Special reserves

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Safety production expense	0.00	7,781,563.52	7,781,563.52	0.00

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Safety production expense	0.00	7,690,187.75	7,690,187.75	0.00

37. Surplus reserve

Amount in this year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Statutory surplus reserve	315,250,942.22	34,163,993.29	0.00	349,414,935.51

Amount in last year

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Statutory surplus reserve	294,479,564.73	20,771,377.49	0.00	315,250,942.22

Note: The changes in surplus reserve for this year and last year are the statutory surplus reserved on 10% of the net profit.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

38. Retained earnings

Amount in this year

Item	Amount	Percentage of accrual or distribution
Ending balance of last year	1,367,616,267.12	
Add: Adjustment on beginning balance of retained earnings	0.00	
Beginning balance of this year	1,367,616,267.12	
Add: Net profit of this year	341,639,932.87	Accrued on 10% of net profit or loss
Less: Appropriation of the statutory surplus reserve	34,163,993.29	
Appropriation of discretionary surplus reserve	0.00	
Provision of general risk reserves	0.00	
Common stock dividends payable	40,831,900.00	
Dividends on ordinary shares transferred to share capitals	0.00	
Ending balance of this year	<u>1,634,260,306.70</u>	

Amount in last year

Item	Amount	Percentage of accrual or distribution
Ending balance of last year	1,231,464,769.67	
Add: Adjustment on beginning balance of retained earnings	0.00	
Beginning balance of this year	1,231,464,769.67	
Add: Net profit of this year	207,713,774.94	Accrued on 10% of net profit or loss
Less: Appropriation of the statutory surplus reserve	20,771,377.49	
Appropriation of discretionary surplus reserve	0.00	
Provision of general risk reserves	0.00	
Common stock dividends payable	50,790,900.00	
Dividends on ordinary shares transferred to share capitals	0.00	
Ending balance of this year	<u>1,367,616,267.12</u>	



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

39. Net current assets

Item	Ending balance	Beginning balance
Current assets	5,019,516,480.12	4,926,525,623.40
Less: Current liabilities	3,823,183,646.88	4,386,955,756.29
Net current assets	1,196,332,833.24	539,569,867.11

40. Total assets minus current liabilities

Item	Ending balance	Beginning balance
Total assets	10,432,477,129.37	10,751,381,430.96
Less: Current liabilities	3,823,183,646.88	4,386,955,756.29
Total assets minus current liabilities	6,609,293,482.49	6,364,425,674.67

41. Borrowings and payables

Summary of borrowings and payables of the Company is as following:

Item	Ending balance	Beginning balance
Short-term bank loans	693,700,000.00	929,532,480.00
Short-term entrusted loans	700,000,000.00	1,024,000,000.00
Non-current liabilities due within one year	18,267,000.00	17,738,000.00
Long-term loans	9,133,500.00	26,607,000.00
Bonds payable	1,496,694,996.06	1,494,277,758.19
Total	2,917,795,496.06	3,492,155,238.19

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

41. Borrowings and payables (Continued)

(1) *Analysis of borrowings and payables:*

Item	Ending balance	Beginning balance
Bank loans		
– Must be repaid within one year	711,967,000.00	947,270,480.00
– Must be repaid after one year	9,133,500.00	26,607,000.00
Subtotal	<u>721,100,500.00</u>	<u>973,877,480.00</u>
Other borrowings and payables		
– Must be repaid within one year	700,000,000.00	1,024,000,000.00
– Must be repaid after one year	1,496,694,996.06	1,494,277,758.19
Subtotal	<u>2,196,694,996.06</u>	<u>2,518,277,758.19</u>
Total	<u><u>2,917,795,496.06</u></u>	<u><u>3,492,155,238.19</u></u>

(2) *Due date analysis of borrowings and payables*

Bank loans:

Item	Ending balance	Beginning balance
Pay upon request or due within 1 year	711,967,000.00	947,270,480.00
1–2 years	9,133,500.00	17,738,000.00
2–5 years	0.00	8,869,000.00
Over 5 years	0.00	0.00
Total	<u><u>721,100,500.00</u></u>	<u><u>973,877,480.00</u></u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

41. Borrowings and payables (Continued)

(2) Due date analysis of borrowings and payables (Continued)

Other borrowings:

Item	Ending balance	Beginning balance
Pay upon request or due within 1 year	700,000,000.00	1,024,000,000.00
1-2 years	1,496,694,996.06	0.00
2-5 years	0.00	1,494,277,758.19
Over 5 years	0.00	0.00
Total	<u>2,196,694,996.06</u>	<u>2,518,277,758.19</u>

42. Operating revenue and operating costs

Item	Amount incurred in this year		Amount incurred in last year	
	Income	Cost	Income	Cost
Main business	6,041,776,512.20	5,237,620,346.37	6,676,755,913.05	5,822,474,956.78
Other business	389,027,501.07	328,274,847.78	86,371,134.33	4,906,341.40
Total	<u>6,430,804,013.27</u>	<u>5,565,895,194.15</u>	<u>6,763,127,047.38</u>	<u>5,827,381,298.18</u>

Gross profit

Item	Amount in this year	Amount in last year
Main business income	6,041,776,512.20	6,676,755,913.05
Main business cost	5,237,620,346.37	5,822,474,956.78
Gross profit	<u>804,156,165.83</u>	<u>854,280,956.27</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

43. Taxes and surcharges

Item	Amount in this year	Amount in last year
Business tax	1,064,464.27	1,907,765.01
Urban maintenance and construction tax	78,622.41	140,975.02
Education surcharge	56,158.86	100,696.47
Property tax	7,739,537.02	0.00
Vehicle and vessel usage tax	62,766.39	0.00
Land use tax	2,703,939.57	0.00
Stamp duty	1,397,114.24	0.00
Total	13,102,602.76	2,149,436.50

44. Selling expenses

Item	Amount in this year	Amount in last year
Sales service fees	42,437,335.66	34,212,401.96
Transportation expenses	4,696,688.01	7,263,270.60
Advertising expenses	3,631,321.83	3,243,043.65
Packing expenses	1,458,388.90	1,305,597.72
Employee compensation	1,097,522.14	1,276,525.25
Exhibition expenses	946,775.27	560,091.21
Storage expenses	118,511.29	118,392.70
Repair expense	53,158.01	66,415.68
Others	1,967,928.64	1,823,749.71
Total	56,407,629.75	49,869,488.48



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

45. Administrative expenses

Item	Amount in this year	Amount in last year
Research and development expenses	299,335,714.12	292,435,638.42
Employee compensation	112,906,236.23	74,270,813.00
Repair expense	27,981,980.12	25,662,388.86
Depreciation expenses	23,490,549.79	23,058,351.60
Amortization of intangible assets	18,605,238.48	18,645,311.63
Hiring agency fee	2,735,783.11	2,163,764.14
Office expenses	2,671,858.52	1,397,958.11
Travelling expenses	2,344,173.08	1,302,419.07
Business entertainment expense	2,185,502.22	1,578,382.24
Conference expenses	1,093,887.71	965,872.06
Consulting fees	1,041,757.62	837,699.61
Sewage charge	937,990.39	1,272,502.88
Litigation fee	649,474.81	110,080.00
Insurance expenses	550,349.18	561,260.96
Others	47,892,770.24	130,912,923.38
Total	544,423,265.62	575,175,365.96

46. Finance expenses

(1) Details of finance expenses

Item	Amount in this year	Amount in last year
Interest expense	114,191,569.10	135,820,943.92
Less: Interest income	97,500,500.41	83,605,980.68
Add: Exchange loss	32,898,837.58	60,703,363.71
Add: Other expense	-6,888,078.03	-4,586,161.28
Total	42,701,828.24	108,332,165.67

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

46. Finance expenses (Continued)

(2) Details of interest expense

Item	Amount in this year	Amount in last year
Bank loans and overdraft interests	41,874,331.16	63,004,175.10
Interests on other borrowings due within 5 years	0.00	0.00
Interest on bonds and discount notes	72,317,237.94	72,816,768.82
Subtotal	114,191,569.10	135,820,943.92
Less: Capitalized interests	0.00	0.00
Total	<u>114,191,569.10</u>	<u>135,820,943.92</u>

(3) Detail of interest income

Item	Amount in this year	Amount in last year
Interest income of bank deposits	73,133,258.97	66,785,049.19
Interest income of financial products	24,367,241.44	16,820,931.49
Total	<u>97,500,500.41</u>	<u>83,605,980.68</u>

47. Loss on impairment of assets

Item	Amount in this year	Amount in last year
Loss on bad debt	-9,862,186.94	80,485,628.09
Impairment loss on inventories	521,890.70	5,914,672.93
Impairment loss on financial assets available-for-sale	0.00	0.00
Impairment loss on construction in progress	1,484,914.34	0.00
Others Loss on impairment of assets	0.00	0.00
Total	<u>-7,855,381.90</u>	<u>86,400,301.02</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

48. Gain/Loss from changes in fair value

Item	Amount in this year	Amount in last year
Fair value gains arising from derivative financial instruments	14,833,000.00	0.00

49. Investment income

Item	Amount incurred in this year	Amount incurred in last year
Investment income of long-term equity investments under cost method	96,264,295.70	76,984,943.00
Investment income from long-term equity investments by equity method	8,772,257.32	2,771,106.81
Investment income on financial assets available-for-sale during the holding period	1,606,500.00	2,376,000.00
Investment returns on disposal of financial assets available-for-sale	11,990,996.07	14,733,057.79
Others	192,000.00	96,000.00
Total	118,826,049.09	96,961,107.60

Current-year investment income was generated from the investments on listed and unlisted companies are RMB13,597,496.07 and RMB105,228,553.02 respectively.

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

50. Non-operating income

(1) *Details of non-operating income*

Item	Amount in this year	Amount in last year	Extraordinary gains and losses recognized in this year
Gain on disposal of non-current assets	367,705.01	742,433.96	367,705.01
Including: Gain on disposal of fixed assets	367,705.01	742,433.96	367,705.01
Gain on debt restructuring	80,000.00	0.00	80,000.00
Government grants	21,502,646.82	9,850,585.93	21,502,646.82
Fine income	148,418.00	101,685.34	148,418.00
Payables unable to pay	1,034,931.69	6,199,403.20	1,034,931.69
Others	795,007.65	1,417,335.49	795,007.65
Total	<u>23,928,709.17</u>	<u>18,311,443.92</u>	<u>23,928,709.17</u>



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

50. Non-operating income (Continued)

(2) Details of government grants

Item	Amount in this year	Amount in last year	Sources and basis	Related to assets/ Related to income
Subsidized funds for the state import interest subsidy projects	8,501,000.00	0.00	Luo Cai Yu [2016] No. 398	Related to income
The forging and pressure line of diesel engine crankshafts	3,390,000.00	3,390,000.00	Fa Gai Ban Gong Ye [2005] No. 1392	Related to assets
Technical transformation of wheeled tractors	2,768,000.00	2,768,000.00	Fa Gai Ban Gong Ye [2005] No. 279	Related to assets
Subsidy for post stabilization	2,451,205.00	2,280,312.06	Yu Ren She [2015] No. 3 and No. 30	Related to income
New wheeled type project	2,418,181.82	0.00	Fa Gai Ban Chan Ye [2011] No. 2128, Fa Gai Tou Zi [2011] No. 2053, Guo Ji Ke [2011] No. 550	Related to assets
Grants for C series government projects	716,000.00	716,000.00	Luo Fa Gai Gong Ye [2009] No. 53	Related to assets
Project of the energy saving and environmental protection diesel engine crankshaft machining production line	562,500.00	22,500.00	Luo Cai Yu [2013] No. 414	Related to assets
Special fund for rapid development and demonstration application of new casting products of tractors and diesel engines	419,960.00	0.00	Budget declaration of major scientific and technological project 'High grade CNC machine tools and basic manufacturing equipment'	Related to assets
Power shift heavy duty tractors with the annual output of 1,000 HP	125,000.00	0.00	Yu Gong Gao [2011] No. 1	Related to assets
The reward of government supporting the enterprise development	105,000.00	0.00	Luo Cai Yu [2016] No. 77	Related to income
Subsidy funds of the early elimination of the Yellow standard cars of Luoyang	45,800.00	0.00	Notice of the implementation plan of the 2016 elimination work of Luoyang Yellow standard cars – Luo Zheng Ban [2016] No. 33	Related to income
2012BAF07B01 Integration and demonstration of flexible production line of large wheeled tractor transmission line (special fund)	0.00	668,773.87	Subject assignment book of the national science and technology support program	Related to income
Subsidy for China International Industry Fair (CIIF)	0.00	5,000.00	Luo Cai Yu [2015] No. 222	Related to income
Total	21,502,646.82	9,850,585.93	-	-

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

51. Non-operating expenses

Item	Amount in this year	Amount in last year	Extraordinary gains and losses recognized in this year
Total loss from disposal of non-current assets	9,891,815.08	1,855,018.39	9,891,815.08
Include: Loss from disposal of fixed assets	9,891,815.08	1,855,018.39	9,891,815.08
Losses from debt restructuring	220,000.00	0.00	220,000.00
Fine expenditures	6,707.65	152,800.00	6,707.65
Others	3,283,860.07	291,048.07	3,283,860.07
Total	13,402,382.80	2,298,866.46	13,402,382.80

52. Income tax expenses

Item	Amount in this year	Amount in last year
Current income tax expenses	22,486,367.72	28,442,664.93
Deferred income tax expense	-3,812,050.48	-9,363,763.24
Total	18,674,317.24	19,078,901.69

53. Depreciation and amortization

The depreciation and amortization included in the income statement for this year is RMB172,130,410.67 and RMB18,818,537.94 respectively (last year: RMB154,195,044.04 and RMB18,915,748.59 respectively).

54. Operating rental expenses

The operating rental expenses are RMB4,768,343.06 in this year (last year: RMB4,209,142.95).

55. Rental income

In this year, the rental income on land and buildings, and machine and equipment was RMB11,283,198.84 for the current year (last year: RMB11,876,286.25).



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

56. Other comprehensive income

Item	Amount in this year	Amount in last year
Gain (or loss) generated from financial assets available for sale	-6,393,181.82	-4,194,000.00
Less: Impact on income tax generated from financial assets available for sale	-2,392,656.82	-2,466,572.73
Net income previously recognized in other comprehensive income transferred to current profit and loss	9,557,863.64	12,249,818.18
Subtotal	-13,558,388.64	-13,977,245.45
Total	-13,558,388.64	-13,977,245.45

57. Notes to items of cash flow statement

(1) Cash receipts and payments related to other operating/investing/financing activities

1) Cash receipts from other operating activities

Item	Amount in this year	Amount in last year
Cash receipts related to interest from deposits	14,639,175.69	57,589,303.24
Cash receipts from other parties	9,863,350.81	16,609,744.87
Total	24,502,526.50	74,199,048.11

2) Cash payments to other operating activities

Item	Amount in this year	Amount in last year
Payment of selling and administrative expenses	121,296,205.90	291,652,039.28
Payment of other payables	-11,939,926.36	260,168,956.62
Total	109,356,279.54	551,820,995.90

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

57. Notes to items of cash flow statement (Continued)

(1) Cash receipts and payments related to other operating/investing/financing activities
(Continued)

3) *Other cash payments relating to financing activities*

Item	Amount in this year	Amount in last year
Repurchase of H shares	19,140,912.00	0.00

4) *Other cash payments relating to investing activities*

Item	Amount in this year	Amount in last year
Funds deposited out to purchase financial products	200,000,000.00	0.00



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

57. Notes to items of cash flow statement (Continued)

(2) Supplementary information for the cash flow statement of the parent company

Item	Amount in this year	Amount in last year
1. Reconciliation of net profit to cash flows from operating activities:	-	-
Net profit	341,639,932.87	207,713,774.94
Add: Provision for asset impairment	-7,855,381.90	86,400,301.02
Depreciation of fixed asset	172,130,410.67	154,195,044.04
Amortization of intangible assets	18,818,537.94	18,909,309.84
Amortization of long-term deferred expenses	11,987,037.09	9,499,241.17
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain listed as "-")	9,524,110.07	1,112,584.43
Loss on disposal of fixed assets (Gain listed as "-")	0.00	0.00
Gain or loss from changes in fair value (Gain listed as "-")	-14,833,000.00	0.00
Financial expenses (Gain listed as "-")	147,090,406.68	196,524,307.63
Loss on investments (Gain listed as "-")	-118,826,049.09	-96,961,107.60
Decrease in deferred tax assets (Increase listed as "-")	-3,812,050.48	-9,363,763.24
Increase in deferred tax liabilities (Decrease listed as "-")	-2,392,656.82	0.00
Decrease in inventories (Increase listed as "-")	163,423,397.37	-59,426,154.23
Decrease in operating receivables (Increase listed as "-")	38,517,223.44	336,559,399.68
Increase in operating payables (Decrease listed as "-")	-248,579,397.71	323,118,608.77
Others	0.00	0.00
Net cash flow generated from operating activities	506,832,520.13	1,168,281,546.45
2. Significant non-cash investing and financing activities:	-	-
Conversion of debts into capital	0.00	0.00
Convertible bonds repayable within 1 year	0.00	0.00
Fixed assets acquired under finance lease arrangement	0.00	0.00
3. Net changes in cash and cash equivalents:	-	-
Ending balance of cash	1,878,879,800.16	2,246,586,151.42
Less: Beginning balance of cash	2,246,586,151.42	1,398,841,155.04
Add: Ending balance of cash equivalents	0.00	0.00
Less: Beginning balance of cash equivalents	0.00	0.00
Net increase in cash and cash equivalents	-367,706,351.26	847,744,996.38

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

57. Notes to items of cash flow statement (Continued)

(3) Cash and cash equivalents

Item	Amount in this year	Amount in last year
Cash on hand	1,878,879,800.16	2,246,586,151.42
Including: Cash on hand	47,159.62	307,585.29
Bank deposits ready for payment	1,876,889,708.14	2,246,274,600.64
Other monetary funds ready for payment	1,942,932.40	3,965.49
Deposit in the Central Bank ready for payment	0.00	0.00
Deposits in other banks	0.00	0.00
Loans to other banks	0.00	0.00
Cash equivalents	0.00	0.00
Including: Bond investments due within 3 months	0.00	0.00
Ending balance of cash and cash equivalents	1,878,879,800.16	2,246,586,151.42
Including: Cash and cash equivalents with restricted use of the parent company or the subsidiaries of the Group	0.00	0.00

(4) Significant investing and financing activities not involving cash expenditures in the current period: None

58. Items in the statement of changes in shareholders' equity

In this year, there is no change in the item 'Others' of the statement of changes in shareholders' equity.

XVI. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Broad of Directors of the Company for issuance on March 28, 2017.



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VII.SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

1. Schedule of gain or loss from extraordinary items in this year

In accordance with the requirement on Notice for Public Offering Securities Company Explanatory Information Disclosure No. 1 – Gains or Losses from Extraordinary Items (2008) by the China Securities Regulatory Commission, the gains or losses from extraordinary items of the Group are as following:

Item	Amount in this year
Gain or loss on disposal of non-current assets	-9,165,962.45
Unauthorized or informal approval documents or one-off tax returns and exemptions on tax	0.00
Government subsidy recognized in current profit or loss	41,413,541.72
Capital occupation fees charged to non financial enterprises in current profit or loss	0.00
Income from the difference between the cost of investment on subsidiaries, associates and joint ventures and the fair value of identifiable net assets of invested entities	0.00
Gain or loss from transferring of non-monetary assets	0.00
Gain or loss from investments under entrust by others or assets under management by others	0.00
Provisions of impairment of assets due to force majeure such as nature disasters	0.00
Gain or loss on debt restructuring	671,843.19
Gain or loss on corporation restructuring, such as expenditures on staff placement and integration costs	0.00
Profit or loss in excess of the portion of the fair value generated from transactions of which the transactional price is obviously unfair	0.00
Current net profit and loss of the subsidiary under the common control from the beginning date to the consolidated date	0.00
Gain or loss from non-related business operations or contingencies	0.00
Profit or loss from changes of the fair value of trading financial assets and trading financial liabilities held and investment income from disposal of trading financial assets and trading financial liabilities and financial assets available for sale, except for hedging related to daily operations of the companies	39,090,268.83
Reversal of impairment of receivables on individually impairment test	0.00
Gain or loss from entrusted loans to outside parties	0.00
Gain or loss from changes in the fair value of investment properties using the fair value model as a subsequent measurement	0.00
Impact on gain or loss from one-time adjustments on current gain or loss in accordance with the requirement of tax, accounting and other laws and regulations	0.00
Custody income earned from entrusted operation	0.00
Profit or loss from assignment of long-term equity investment	0.00
Other non-operating income and expenses except for mentioned above	4,453,061.78
Gain or loss from other extraordinary items	0.00
Subtotal	76,462,753.07
Effects on income tax	-9,294,002.73
Effects on non-controlling interests (after tax)	-5,657,014.73
	<hr/>
Total	<u>61,511,735.61</u>

NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED (CONTINUED)

January 1, 2016 to December 31, 2016 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVII. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (Continued)

2. Return on equity and earnings per share

Profit in Reporting Period	Weighted average rate of return on net assets (%)		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	Year of 2016	Year of 2015	Year of 2016	Year of 2015	Year of 2016	Year of 2015
Net profit attributable to shareholders of the parent company	4.69	2.92	0.2245	0.1359	0.2245	0.1359
Net profit attributable to shareholders of the parent after non-operating profit or loss	3.40	1.27	0.1627	0.0593	0.1627	0.0593

3. Reconciliation on shareholders' equity and profit from HKFRS to Chinese ASBEs

Item	Net profit attributable to the parent company		Net assets	
	Amount in this year	Amount in last year	Ending balance	Beginning balance
HKFRS	223,369,729.35	135,322,811.53	5,503,638,289.17	5,398,584,547.34
ASBEs	223,369,729.35	135,322,811.53	5,503,638,289.17	5,398,584,547.34

Except for certain items that are different in presentation and classification, there is no significant difference between the financial statements prepared by the Group under HKFRS and the Chinese ASBEs in terms of comprehensive financial position, comprehensive income or loss, other comprehensive income and comprehensive cash flows.

4. Supplementary information related to changes of accounting policies

None

First Tractor Company Limited
March 28, 2017



DOCUMENTS AVAILABLE FOR INSPECTION

Document available for inspection	The 2016 Annual Report signed by the legal representative of the Company and affixed with the Company seal
Document available for inspection	The 2016 Audited Financial Statement of the Company issued by the accountants
Document available for inspection	The written confirmation and opinion on the 2016 Annual Report of the Company signed by the Directors and senior management of the Company

Chairman: **Zhao Yanshui**

The date of approval by the Board for submission: March 28, 2017