



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

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

2016  
Environmental, Social  
And Governance Report





## Introduction

First Tractor Company Limited (the “**Company**”) is a limited liability company solely established by YTO Group Corporation in the People’s Republic of China (the “**PRC**”) on 8 May 1997 in accordance with the law based on the restructuring of business, assets, liabilities and personnel related to the tractor business. In June 1997, the Company successfully issued H shares (stock code: 00038) outside of the PRC and was listed on The Stock Exchange of Hong Kong Limited; In August 2012, the Company issued A shares (stock code: 601038) in the PRC and was listed on the Shanghai Stock Exchange through an initial public offering, and is the sole listed company with A shares and H shares issued in the agricultural machinery industry in the PRC.

As one of the largest agricultural machinery manufacturers with the most advanced technology and strongest comprehensive strength in the PRC, the Company mainly engages in the research and development, manufacturing and sale of products including agricultural machineries and power machineries. The Company has strong manufacturing ability of the whole industry chain for tractors, the leading products include the “Dong Fanghong” series of hi-powered, mid-powered and low-powered wheeled tractors and crawler tractors, diesel engines and spare parts. “Dong Fanghong” is the best-selling tractor brand with the largest quantity in the PRC and the most trustworthy agricultural machinery brand for Chinese farmers. Dongfanghong has witnessed and ushered the whole process in which the PRC’s agricultural machinery industry grew from the beginning, developed and expanded. “YTO” is an overseas market brand for the Company to participate in global competition, as well as an important representative of the PRC’s agricultural machinery enterprises that “Go Global”.

This report comprises five parts: social development, environmental protection, production safety, staff development and social benefit.



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## Part I Social Development

### 1.1 Corporate Strategy

Deeply implementing the development concept of “innovation, coordination, greening, openness and sharing” under the new normal of the economic development, persisting in the strategy of “focusing on the core areas for stronger businesses, being innovation-driven and developing whole-set solutions”, and the Company takes promotion of product technology as power, promotion of manufacturing level and product quality as basis, promotion of resource integration and operation internationalization as emphasis, and management reform, synergy enhancement and talent acquisition as guarantee, in order to keep the leading advantages of its existing core businesses, develop whole-set products for agricultural equipment and create new business development models to provide customers with the most valuable whole-set solutions for agricultural equipment and become the forerunner in agricultural machinery in the PRC with the determination complete to become an excellent international agricultural equipment supplier.

### 1.2 Corporate Governance

As an A+H share listed company, the Company has established a standard and complete legal person governance structure and corporate governance system in accordance with the Company Law and Securities Law of the PRC and regulatory requirements of domestic and overseas places of listing. The compliance operation is guaranteed by the standard and effective operation of shareholders’ meeting, board of directors and board of supervisors in accordance with the Articles of Association and various rules of procedure of the Company, as well as the mutual balance and coordinative development between the decision-making organ, supervision organ and the management. In 2016, the Company continuously strengthened the development of the board of directors, guaranteed the diversified composition of board members, perfected the decision-making process, and gave full play to the strategic leading role of the board of directors and the consultative and supporting role of all the special committees, which continuously enhanced the decision-making level and efficiency, and improved the standard and effective operation of the board of directors. During the appraisal of the 12th Gold Prize of Round Table of Chinese Boards of Listed Companies, the Company was re-honored as the “Outstanding Board”, and won the “Award of Board Value Creation”.

The Company strives to realize the maximum benefits for shareholders. Its profit distribution policy focuses on the reasonable return for investors with a consideration to the sustainable development of the Company. It is explicitly stipulated in the Articles of Association of the Company that, no less than 25% of profits available for distribution in the current year shall be allocated on a yearly basis for the profit distribution in cash in the absence of major investment plans or significant cash outflows, provided that the normal production and operation fund demands shall be satisfied. The cash bonus respectively accounted for 30.17% and 30.29% of the profits available for distribution in 2014 and 2015. The profit distribution plan in 2016: RMB0.57 (tax included) shall be issued as cash dividends for every 10 shares, and the cash bonus and cash paid for buy-back of H shares shall account for 33.83% of the profits available for distribution.



## Part I Social Development

### 1.3 Scientific and Technological Innovation

The Company continuously improving on its technological innovation system and accelerating the upgrading of the product technologies with proven success. In 2016, the Company realized a year-on-year sales growth of 40% when expediting development and commercialization of power shift tractors. Dongfanghong-LW4004 Continuously Variable Transmission (CVT) Heavy-Duty Wheeled Tractor appeared on the exhibition on science and technology achievements during the 12th Five-Year Plan period. This product has filled multi-technical gaps in our country by making breakthroughs in core technologies for heavy-duty tractors, such as continuously variable transmission system and intelligent control and administration system.

In 2016, the Company's project on the "Development of New Energy-Saving and Environment-Friendly Agricultural Engine" was included in major research and development plans during the 13th Five-Year Plan period and the Company's project on the "New Intelligent Manufacturing Mode of New Wheeled Tractor" was included in the PRC's 2016 integrated standardization and new application mode of intelligent manufacturing project. Our tractor intelligent control technology innovation team and non-road diesel machine technology research and innovation team were titled "Excellent Innovation Team in Machine Industry".

In 2016, the Company applied for 103 patents, including 29 inventions, 62 patents for utility models, and 12 design patents; 75 patent licenses, including 20 inventions, 48 patents for utility models and 7 design patents.



Dongfanghong-LW4004 CVT Heavy-Duty Wheel Tractor made debut in the 12th National Science and Technology Innovation Exhibition



## Part I Social Development

### 1.4 Quality Assurance

The Company follows the tenet of “winning customer satisfaction, persisting in greater improvement” and put the idea “zero-defect, internationalized standard” into practice to render customers with high-quality products and services. The Company has formulated and implemented the “Procedure for Customer-Related Control”, the “Control Procedure of Unqualified Products”, the “Management Measures for Products and Services”, the “Management Measures for Early Warning and Prevention of Service Complaints” and other relevant management systems. The Company has established a complete quality management system with third-party certification.

The Company’s leading products including hi-powered, mid-powered and low-powered wheeled and crawler tractors and diesel engines won certificates of product promotion identification certificate, low-powered wheeled tractor products passed the compulsory product certification; diesel engines obtained manufacturing licenses and environment-friendly certificates. In 2016, the Company focused on implementing the process quality control, continuously improved technology and quality standard and constructed rapid quality information response mechanism, realized efficient quality improvement of power shift tractors, efficient assurance for the quality of the products with National III Emission Standard, and stable quality improvement of leading products.



The Company and Agricultural Mechanization Technology Development and Extension Center, Ministry of Agriculture jointly carried out 2016 China “Agriculture, Farmer and Rural Areas” Agricultural Machinery Application Promotion Campaign in Fuyang, An’hui Province



## Part I Social Development

### 1.5 Cooperation for Win-Win

With more emphasis on managing the introduction, cooperation, optimization, evaluation, exit and other links related to suppliers, the Company has formulated and implemented the “*Management Measures for Introducing New Suppliers*”, the “*Management Measures for Performance Evaluation of Suppliers*”, the “*Management Measures for Purchasing Supervision*” and other system documents. Based on performance evaluation on suppliers, quality and price control as well as management on payment, the Company has developed specific and feasible systems and procedures to operate publicly and regularly in practice and established an honest, fair, highly efficient and win-win cooperation mechanism to level up our competitive advantage and operational efficiency in the purchase-supply chain. The Company has entered into 4 layers of cooperation relationship with suppliers, namely strategic, major, targeted and conventional cooperation, currently there are 6 strategic cooperation suppliers and 62 major cooperation suppliers.

The Company has formulated and implemented the strict “*Management Measures for Suppliers*” to ensure that cooperative suppliers are qualified enterprises established and operated legally. It was specified in the “*Compliance Operation Agreement*” entered into with suppliers that both parties must fulfill social responsibilities correctly in terms of quality, environmental protection, safety and intellectual property.



## Part I Social Development

### 1.6 Anti-Corruption

The Company fully implements the system of “Two Responsibilities” for improving and building a clean government, continues the attitude of punishing corrupted personnel, and ensuring pure functionary cadres, thus creating an anti-corruption atmosphere. Our first focus was developing the “*Analysis on the Major Tasks and Responsibilities for the Party Construction and Anti-Corruption*” and signing the statement of responsibility for the party construction level by level to determine each person’s responsibilities in work. Our second focus was strictly implementing the system of “*Double Duty for One Post*” for leaders based on their duties and division of work, properly supervising the anti-corruption construction within the scope of our business and work, and preventing, with tough measures, illegal behaviors that may occur at any time. Our third focus was punishing anyone who commits corruption, and maintaining strict discipline inspection with “zero tolerance”. Following the principle of “Double investigation for one case”. For the units with severe violations against discipline and laws not only the parties involved shall be directly held liable, but also the leaders in charge shall be held liable for negligence in management.



The Ceremony of 2016 Anti-corruption Education Month and the Release of Clear Culture Manual





## Part II Environmental Protection

### 2.1 Environmental Protection

According to the “Atmospheric Pollution Prevention Law”, the “Prevention and Control of Environmental Pollution by Solid Wastes”, the Regulations on the Administration of Construction Project Environmental Protection” and other laws and regulations, the Company duly fulfilled the social responsibility for environmental protection and promoted the implementation of sustainable development by formulating rules and systems,



conducting comprehensive supervision and controlling pollutions to strive to build a “resource-saving” and “environment-friendly” enterprise.



#### 0 Emission



The Company persists in discharging pollutants in line with the standard and disposing hazardous wastes properly. In 2016, no COD, the major pollutant in industrial waste water, was discharged;

25.5 tons of sulphur dioxide, the pollutant in industrial waste gas, was emitted with a year-on-year decrease of 22.7%; 78.9 tons of nitrogen oxides was discharged with a year-on-year decrease of 11.1%;



#### 100% Execution



discharge of industrial waste water and gas and disposal of hazardous wastes fully reached the target, the construction project of “Three Simultaneities” was fully implemented, and there exists no environmental pollution events.

The Company successfully passed the assessment of the hazardous wastes management conducted by the North China Supervision Group under the Ministry of Environmental Protection of the PRC, and succeeded in convening “Demonstration and Exchange Activity for Standardized Management on Hazardous Wastes” for environmental protection agencies as well as enterprises from 18 cities of Henan province, in which the experience and achievements in the management of hazardous wastes were exchanged and demonstrated.



Demonstration and Exchange Activity for Standardized Management on Hazardous Wastes held by the Company in Henan Province



## Part II Environmental Protection

### 2.2 Clean and Energy-Saving

The Company has formulated and implemented the “Measures for Energy Conservation Evaluation and Review of Projects Investing in Fixed Assets”, the “Energy Evaluation and Management Measures”, the “Evaluation and Management Measures for Energy-Saving Targets”, the “Regulations for Management on Energy Consumption Quota of Key Energy-Consuming Equipment” and other energy management systems to enhance the implementation of supervision, inspection and rectification.

In 2016, the energy consumption per RMB 10,000 turnover recorded a year-on-year decrease of 12.19% and the water consumption per RMB 10,000 turnover recorded a year-on-year decrease of 1.78%. During the course of choosing equipment for investment projects and the process of technical design, the Company strictly implemented the Catalogue for Guiding Industrial Restructuring and other policy regulations to proactively eliminate obsolete processes, technologies and equipment with high energy consumption. In 2016, the Company fully stopped using self-produced coal gas with obsolete processes and replaced it with clean environmental-friendly natural gas.

**4.23** million KWh



The Company attached importance to the development and utilization of clean energies and recorded 4.23 million KWh of power from its solar photovoltaic power generation projects.



Project of Recycling and Reuse of Waste Sand in YTO Foundry



## Part III Production Safety

### 3.1 Production Safety

Holding the concept of safe development, the Company has implemented the “Production Safety Law” of the PRC, strictly complied with regulations on production safety including the “Regulation on the Safety Management of Agricultural Machinery” and the “Measures for Supervision and Administration of “Three Simultaneities” for the Safety Devices of Construction Projects”. The Company insists on the safety red-line awareness of “development should not come at the cost of safety”, and formulated and implemented the “Supervision and Reporting System for Safety and Environmental Protection,” the “Regulations on Safety Supervision and Administration of Agricultural Machinery” and other production safety management systems. In line with the work safety responsibility system of “Same accountability for CPC committee members and government officials, dual responsibilities for one post, accountability for failure to fulfil obligations, and universal monitoring and reporting”, the Company built an independent institution for production safety management, advanced the work of production safety standardization, implemented the control mode of “level-to-level management, division-based responsibility and classified supervision” and established the safety guarantee system from organizational guarantee, institutional improvement, target assessment, risk control, emergency rescue, education and training, occupational health and comprehensive supervision, thus offering guarantee for the Company’s production safety.

In 2016, the workplace safety of the Company is stable and improving. Three accidents resulting in minor injury to three persons occurred, which is half of that in 2015, showing a better achievement of the annual production safety target. In the meantime, the Company paid close attention to the specialized production safety rectification and took a series of technical safety measures including the reconstruction of electricity transmission and distribution systems, replacement of coal gas with natural gas, “substantial-to-few” strategy for hazardous chemicals and reinforcement of buildings and factories, thus improving the safety level and laying a solid foundation for preventing major incidents.



The Company Carried Out Safety Education Activities for Production Sites



## Part III Production Safety

### 3.2 Occupational Health

Strictly complying with the “Law on Prevention and Control of Occupational Disease”, the Company has carefully fulfilled its corporate duty to prevent and control occupational diseases as an enterprise. Insisting on the principle of “putting prevention first, combining prevention with control and comprehensive management” the Company implemented the “Measures for Supervision and Administration of “Three Simultaneities” for Occupational Health in Construction Projects”, and complied with the relevant laws and regulations and various rules and systems related to occupational health, including the “Eight Provisions on the Prevention and Control of Occupational Hazards by Employers”. The Company has also revised the “Management Measures for the Occupational Health”, as well as formulated and implemented the “Occupational Health Surveillance and Measurement Plan” to strengthen source prevention and control of occupational diseases and protect both physical and psychological health of staff members.

### Provided health checkups for **ALL** staff in danger of occupational hazards

In 2016, the Company enhanced the administration of occupational health, improved the system for prevention and control of occupational diseases, and fully provided health checkups for staff in danger of occupational hazards. No new occupational disease was found;



Increase of **3.5** percentage points

Conducted dynamic quality supervision on operating environment for all of toxic dust operation points and achieved an increase of 3.5 percentage points in compliance rate when compared with the same period last year;

The Company proactively prevented and controlled welding fumes and dusts, improved the quality of operating environment and prevented occupational hazards and poisoning incidents. The Company also enhanced supervision on the purchasing, using, replacing and other links of labor protection equipment to ensure that they are correctly used for controlling and eliminating occupational hazards efficiently.



## Part IV Staff Development

### 4.1 Staff Overview

The Company implements the strategy of “thriving by building a strong talent pool” and insists on the talent concept of “people-oriented attitude in career and development, provide opportunities to the aspiring, stage for the competent, and incentives to the accomplisher” to provide staff with a platform to show their talents and facilitate a win-win situation of corporate development and staff development.

As at the end of 2016, the Company has a total of 11,622 staff, of which the numbers of administrative staff, technical staff, sales staff, production staff and service staff are 1,916, 1,567, 863, 6,957 and 319, respectively; if categorised by educational background, the Company has 279 staff with Master’s degree and above, 2505 staff with Bachelor’s degree and 2,375 staff with post-secondary education; if categorised by professional and technical titles, the Company has 508 staff with senior titles, 1,237 staff with intermediate titles and 989 staff with junior titles; if categorised by occupational qualification, the Company has 366 senior technicians, 898 technicians, 3,525 senior workers, 1,803 intermediate workers and 165 junior workers. In 2016, the Company recruited 136 graduates and 137 disabled persons.



## Part IV Staff Development

### 4.2 Protection of Rights and Interests

#### Labor Contract

The Company has implemented laws and regulations such as the “*Labor Law*”, the “*Labor Contract Law*”, and the “*Regulation on the Implementation of the Employment Contract Law*” and formulated the strict “*Management Measures for the Labor Contract*” to strengthen the construction of labor system and standardize the management of labor. The signing rate of labor contracts reaches 100%, and there exists no child labor or forced labor.

#### Salary Management

After combining local and industrial salary standards and constantly perfecting the performance salary system, the Company has formulated and implemented the “*Gross Payroll Budget Management Measures*” to fully push forward the performance appraisal of all staff, consistently upgrading the incentive and restraint mechanism, as well as implementing the mechanism for steady staff compensation growth and self-control for gross payroll, to ensure the total wages can coincide with corporate benefits and staff income can be steadily increased.

The Company implements a basic salary system based on the wage of the job position combined with the notion of “distribution according to work done and distribution based on production factors”. For personnel of different types, the Company, based on their job nature, has formulated their respective distribution patterns such as annual salary system, performance-based salary in job position system, piece-rate system, time-rate system, project-based commission system and negotiated salary system to motivate the initiative of personnel from different positions effectively. In the meantime, the Company has developed and strictly implemented the “*Salary Payment Method*” to regulate the salary payment behaviors and protect the legal rights and interests of all staff.

#### Social Insurance

The Company pays for five social insurances including basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance in full and on time for registered staff according to the law to ensure the implementation of staff’s social insurance benefits. The Company also pays the housing provident fund for staff according to the law at 20% of their salary in the previous year (10% paid by individuals and 10% paid by the Company, whereas for staff who are not on the job, the contribution rate would be 5% by each party). On this basis, the Company has initiated the occupational pension system since 2010 in the affiliated enterprises where conditions permit. Presently, a relatively complete corporate pension management system and operation procedure have already been formed.

#### Staff Vocation

To fully protect the rights of staff to have breaks and holidays, the Company has formulated and strictly implemented the “*Staff Attendance System*” and the “*Implementation Measures for Paid Annual Leave*”, according to which staff are entitled to enjoy various statutory paid leaves including statutory holidays, annual leave, marriage leave, family visit leave, compassionate leave, maternity leave, sick leave and work injury leave, etc.

#### Other Welfare Benefits

The Company has perfected and carried out the “*Administrative Measures for Staff Allowance*”, implemented the system of special allowances and subsidies including food allowance, heating fee, high-temperature allowance, night duty allowance and technical grade allowance to tally with the tenet of “people-oriented”.



## Part IV Staff Development

### 4.3 Growth and Development

#### Staff Training

With the goal of enhancing staff quality, the Company has built for all staff the training development system, curriculum development system and trainer team, organised and carried out various types of targeted training with different levels and systems, so as to optimize staff skills and match the staff competency with job requirements. In 2016, the Company organized more than 730 training courses of variety, with over 36,000 attendance and 100% participation rate of all staff, of which over 19,000 attendance were made by technical staff.



The Company Hosted New Employee Admission Training Course



## Part IV Staff Development

### Multi-Channel Development

The Company has established a diversified talent development and incentive policies and implemented multi-channel project-based incentive strategies for chief experts, Class I expert, Class II expert, chief technician, manager and officer to fully mobilize the enthusiasm and creativity of all categories of personnel. Also, the Company adopted medium to long term incentive policies for middle and senior management so as to provide talent support for the long-term enterprise growth.

### Development Opportunity

The Company emphasized the building of platforms to actively create a favorable talent growth atmosphere. The backup leading personnel selection platform, the one-hundred young outstanding personnel for on-the-job experience secondment platform and the star of new staff platform were established to enable the synchronous development of staff and the Company. In 2016, the Company successfully recommended 12 talents of various types to our country, provinces and cities and industries.

### 4.4 Democratic Supervision

The Labor Union Organization actively performed the duty of rights protection according to the laws, and participated in deliberating collective salary agreement, social insurance, use of welfare funds and other major events that may affect the vital interests of staff, as well as strived to build harmonious and stable labor relations.



Democratic Inspection Tour by the Rights Protection Committee of the Workers' Congress





## Part V Social Benefit

### 5.1 Harmonious Community

Centering on staff demands, the Company has effectively integrated resources from all parties, first by initiating the construction of modern life service platform to constantly satisfy the logistics service required by the staff; secondly, by investing RMB1 million to improve dining conditions in the staff canteen; thirdly, by implementing the full replacement project with the digital TV in the living area.

### 5.2 Poverty Alleviation Partnership

The Company organized employees to participate in the “one-to-one” partnership assistance activity for the impoverished households in Zhifang Village, Tantou Town, Luanchuan County, Luoyang City, Henan Province to help the green agricultural products processing base in the village to develop market sales. In 2016, nearly 100,000kg of featured agricultural products such as vermicelli, tofu and cereal were sold and realized a sales volume exceeding RMB1.3 million, which has greatly improved the living standard of local impoverished households. At the same time, to actively respond to the call of national poverty alleviation work, the Company sent deputy county head, first secretary of villages and other cadres to Huaibin County, Xinyang City, Henan Province; Luanchuan County, Luoyang City, Henan Province; Gushi County directly controlled by Henan Province on secondment to alleviate poverty and actively fulfill social responsibilities.



The Company organized staff visit to assist households on a “One-to-One” basis



## Part V Social Benefit

### 5.3 Caring Activity

The Company actively and effectively made use of the assistance and support fund by issuing a total of RMB1.82 million relief fund in 2016, representing a year-on-year growth of 8%; organized consoling visits to enterprises in financial difficulties, model workers, staff in difficulties and workers suffering from serious illnesses on “two festivals” and issued a total of RMB250,000 consolation payments; donated 168 caring presents for newly recruited graduates and gave out 272 suitcases to children of our staff who were admitted to the universities in that year; organized 160 children of our staff to participate in the activity named “Dongfanghong Children Industrial Tour”; young volunteers of the Company’s Communist Youth League also launched more than 20 activities such as visiting day care centers and community hygiene cleanup in the name of the “Dongdong & Honghong in Communities”. All these activities have been recognized and praised by our staff.



The management of the Company visited employees who have difficulty in their life and distributed relief fund to them



The Company Held Caring activity to children of our staff admitted to Universities





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