



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)

2017 ANNUAL REPORT



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. Directors absent at the meeting of the Board of the Company

Position of absent director	Name of absent director	Reason for absence	Name of proxy
Independent Director	Yu Zengbiao	Business engagement	Wu Tak Lung

III. Da Hua Certified Public Accountants (Special General Partnership) 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 the Annual Report.

V. Proposal of profit distribution or proposal of capitalization from capital reserves for the Reporting Period as considered by the Board.

After comprehensively considering the financial position and repurchase of H Shares of the Company, the Company proposes not to distribute any cash dividend for the year. Please refer to section VI “Significant Events” of this annual report for the detailed description of proposal of profit distribution.

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 unfavorable 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 2017

February

The YTO tractor of the Company was shown at the 77th International Agricultural Machinery and Agricultural Technology Exhibition in France



March

The Company convened the first extraordinary general meeting in 2017

The Company announced the 2016 annual results

April

"Dongfanghong" and "YTO" brands of the Company were honoured by Farmer's Daily Newspaper the Jinkoubei Award for enterprise and product brands

May

The Company's high-power tractor that is equipped with a heavy-duty diesel engine independently developed and produced by the Company was exported to the central region of Russia for the first time



June

The Company convened the annual general meeting

July

The Company won many awards such as Technology Innovation Award and Market Leading Gold Award in the 2017 Agricultural Machinery Industry TOP50 hosted by the China Association of Agricultural Machinery Manufacturers, the Chinese Society for Agricultural Machinery and the journal Farm Machinery



The Company strengthened the internal resource integration, reorganized the hi-power wheeled tractor business and crawler tractor business, and established a high-power tractor assembly factory

The Company transferred its 100% stake in YTO (Luoyang) Forklift Truck Company Limited

MAJOR EVENTS OF FIRST TRACTOR IN 2017 (CONTINUED)



The Company deregistered 10.05 million H shares repurchased during the period authorized at the general meeting, and reduced the registered capital to RMB985.85 million accordingly

▶ **August** The Company announced the 2017 interim results

▶ **September** The Company's Dongfanghong 400-horsepower continuously variable transmission heavy-duty tractor was launched on a large-scale achievement exhibition named "The Five Years of Development"



The Company amalgamated its wholly-owned subsidiary – YTO (Luoyang) Drive Axle Company Limited

▶ **October** The "Dongfanghong" tractors of the Company that is equipped with a high-pressure common-rail diesel engine was launched on the market



Dongfanghong LF954-C driverless tractor, Dongfanghong-LR-6M3Z diesel engine and LR-series National III diesel engine won the 2017 Gold Product Award and 2017 Market Performance Award for China agricultural machinery industry at the 2017 China International Agricultural Machinery Exhibition hosted by the China Association of Agricultural Machinery Manufacturers, the China Agricultural Mechanization Association and the China Agricultural Machinery Distribution Association. The Company won the 2017 Excellence Award for Chinese Agricultural Machinery Manufacturers



MAJOR EVENTS OF FIRST TRACTOR IN 2017 (CONTINUED)

The project “Digital Factory with Intelligent Cockpit of Modern Agricultural Equipment” of the Company was selected as a pilot project of the Ministry of Industry and Information Technology and the Ministry of Finance for the comprehensive standardization and new model application for intelligent manufacturing in 2017

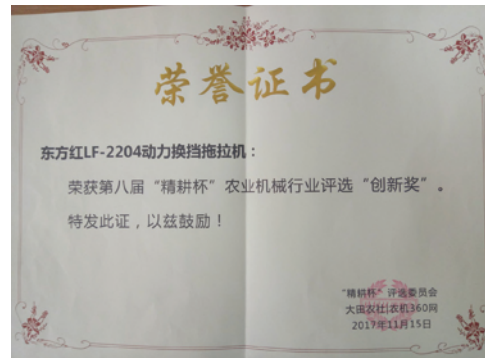
The Company announced it was the first enterprise to join the precision agriculture platform covering the whole agricultural industry chain in China



November The Dongfanghong LF-2204 power shift tractor of the Company was exhibited in Agritechnica



The Dongfanghong LF-2204 power shift tractor of the Company won the “Innovation Award” for agricultural machinery industry in the 8th Intensive Cultivation Cup, and the Company won such awards as “Top 10 Tractor Brands Most Desired by Users” and “An Influential Brand in Chinese Market”



The Company convened the 2nd extraordinary general meeting in 2017, appointing Da Hua Certified Public Accountants as the auditor for financial report and internal control

MAJOR EVENTS OF FIRST TRACTOR IN 2017 (CONTINUED)



▶ **December**

The project “Key Technology and Equipment for Mouldless Composite Forming Manufacturing of Complex Casting” completed jointly by the Company and entities such as China Academy of Machinery Science and Technology was awarded the Second Prize of National Technology Invention



The Company won the Most Socially Responsible Listed Company Award in the 2017 Golden Hong Kong Stock hosted by Zhitongcaijing, a financial information and service provider



The Company acquired 100% stake in YTO Belarus Technology Co., Ltd.



DEFINITIONS

I. DEFINITIONS

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

The Company/Company Group	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 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 Belarus Technology	means	YTO Belarus Technology Company Limited (一拖白俄技術有限公司), a wholly-owned subsidiary of the Company

DEFINITIONS (CONTINUED)

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責任公司), a controlled subsidiary of the Company
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
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, Da Hua Certified Public Accountants (Special General Partnership), appointed by the Company as the Company's auditor for the year of 2017
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

DEFINITIONS (CONTINUED)

Prospectus	means	Prospectus for the Initial Public Offerings of A shares of First Tractor Company Limited prepared by the Company according to the relevant laws and regulations
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)
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

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@ytogroup.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@ytogroup.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 Hong Kong 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

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	00038	/

VI. OTHER RELATED INFORMATION

Auditor of the Company (the PRC)	Name	Da Hua Certified Public Accountants (Special General Partnership)
	Office address	Unit 1101, Bldg7, No.16 Xi Si HuanZhong Road, Haidian District, Beijing
	Names of the signing accountants	Yu Fanghong, Lin Haiyan
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 ZhongxinSan Road, Futian District, Shenzhen, Guangdong Province, the PRC
	Names of the signing sponsor representatives	Zhu Yexin, Bao Dandan
	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. As of the date of this annual report, the raised funds have been fully utilized.

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	2017	2016	Increase/Decrease during the Reporting Period as compared with the corresponding period last year (%)	2015
Total operating revenue	7,357,944,190.89	8,871,153,114.15	-17.06	9,655,491,061.08
Operating revenue	7,219,310,386.11	8,687,502,227.41	-16.90	9,299,840,739.37
Net profit attributable to shareholders of the Company	56,514,222.97	223,369,729.35	-74.70	135,322,811.53
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	-123,062,354.20	161,857,993.74	-176.03	59,060,936.02
Net cash flows from operating activities	-556,313,931.89	2,093,174,716.44	-126.58	637,795,720.18

	As at the end of 2017	As at the end of 2016	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 2015
Net assets attributable to shareholders of the Company	4,797,305,395.91	4,829,340,535.85	-0.66	4,673,879,851.60
Total assets	14,102,773,527.68	13,210,513,281.43	6.75	13,272,449,559.98

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

(II) Key Financial Indicators

Currency: RMB

Key Financial Indicators	2017	2016	Increase/Decrease during the Reporting Period as compared with the Corresponding period last year (%)	2015
Basic earnings per share (RMB/share)	0.0572	0.2245	-74.52	0.1359
Diluted earnings per share (RMB/share)	0.0572	0.2245	-74.52	0.1359
Basic earnings per share after deduction of non-recurring profit or loss (RMB/share)	-0.1246	0.1627	-176.58	0.0593
Weighted average return on net assets (%)	1.17	4.69	Decreased by 3.52 percentage points	2.92
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	-2.56	3.40	Decreased by 5.96 percentage points	1.27

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

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:

During the Reporting Period, due to the lower grain returns and the increased cost of National III products, the agricultural machinery industry conducted in-depth adjustment which results in a slump in the sales volume of tractor products. Affected by this, the Company's leading product sales declined substantially. Meanwhile, the prices of raw materials such as steel and natural rubber rose significantly year-on-year, leading to an increase in product costs and decrease in profitability. The Company repurchased H shares during the Reporting Period, basic earnings per share and diluted earnings per share were calculated based on the weighted average number of shares after deducting the number of repurchased H shares as at the end of the Reporting Period. Owing to the decrease in the net profit attributable to shareholders of the Company, basic earnings per share and diluted earnings per share decreased by 74.52% as compared with the corresponding period last year.

VIII. KEY QUARTERLY FINANCIAL INDICATORS IN 2017

Unit: Yuan Currency: RMB

	Q1 (January- March)	Q2 (April- June)	Q3 (July- September)	Q4 (October- December)
Operating revenue	2,661,668,231.55	1,541,651,993.51	1,832,632,941.77	1,183,357,219.28
Net profit attributable to shareholders of the Company	64,037,860.01	-31,772,215.15	41,140,539.90	-16,891,961.79
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	52,318,365.25	-51,327,321.79	-72,340,133.42	-51,713,264.24
Net cash flows from operating activities	-315,066,590.44	-634,187,436.52	306,920,203.84	86,019,891.23

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

IX. NON-RECURRING PROFIT OR LOSS ITEMS AND AMOUNTS

Unit: Yuan Currency: RMB

Non-recurring profit or loss Items	Amounts in 2017	Note (as applicable)	Amounts in 2016	Amounts in 2015
Profit or loss from disposal of non-current assets	2,318,017.87		-9,165,962.45	-3,503,966.64
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)	92,652,577.65		41,413,541.72	32,513,241.88
Gain or loss from debt restructuring	-1,091,366.39		671,843.19	-5,057,432.79
Corporate restructuring costs, such as employee relocation expenses and integration costs	0.00		0.00	0.00
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	-1,099,244.09		0	0
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)	-1,878,085.90		39,090,268.83	60,360,102.36
Non-operating income and expenses other than those stated above	11,865,066.15		4,453,061.78	24,581,807.46
Profit or loss from transfer of long-term equity investment	94,994,451.25	Gain from disposal of investment in subsidiary		
Impact on minority shareholders equity interests	-8,699,457.27		-5,657,014.73	-13,712,233.12
Effects on income tax	-9,485,382.10		-9,294,002.73	-18,919,643.64
Total	<u>179,576,577.17</u>		<u>61,511,735.61</u>	<u>76,261,875.51</u>

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
Financial assets measured at fair value and its movement recorded through profit and loss (excluding derivative financial assets)	62,657,466.94	40,478,838.50	-22,178,628.44	24,667,858.60
Derivative financial assets	14,833,000.00	0.00	-14,833,000.00	-14,833,000.00
Available-for-sale financial assets	47,604,558.74	0.00	-47,604,558.74	22,364,982.22
Derivative financial liabilities	0.00	12,800,000.00	12,800,000.00	-12,800,000.00
Total	<u>125,095,025.68</u>	<u>53,278,838.50</u>	<u>-71,816,187.18</u>	<u>19,399,840.82</u>

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

1. Results

Unit: 0'000 Currency: RMB

Items	For the year ended 31 December				
	2017	2016	2015	2014	2013
Total operating revenue	735,794	887,115	965,549	902,698	1,105,784
Total profit	5,606	28,010	22,168	21,189	33,910
Income tax expense	1,835	5,421	8,262	4,766	7,223
Net profit	3,771	22,589	13,905	16,423	26,687
Net profit attributable to shareholders of the parent company	5,651	22,337	13,532	16,770	22,709
Profit or loss attributable to minority shareholders	-1,880	252	373	-347	3,978

COMPANY PROFILE AND KEY FINANCIAL INDICATORS (CONTINUED)

2. Assets, liabilities and shareholders' equity interests

Unit: 0'000 Currency: RMB

Items	2017	For the year ended 31 December			
		2016	2015	2014	2013
Total assets	1,410,277	1,321,051	1,327,245	1,235,569	1,169,928
Total liabilities	866,379	770,687	787,387	703,487	644,176
Total shareholders' equity interests	543,898	550,364	539,858	532,082	525,752
Total amount attributable to shareholders' equity interests of the parent company	479,730	482,934	467,388	459,347	450,311
Minority shareholders equity interests	64,168	67,430	72,470	72,735	75,441

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

XII. DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2017, calculated in accordance with the applicable laws in the PRC, the Company's place of incorporation, amounted to RMB1,273,219,846.84 and the capital surplus – equity premium was RMB 1,851,848,375.56.

REPORT OF THE CHAIRMAN OF THE BOARD



Mr. Zhao Yanshui
Chairman

BUSINESS REVIEW

In 2017, China's economy achieved stable recovery, with industrial production increasing steadily and its structure continually being optimized. The total revenue from the principal business of agricultural machinery enterprises with national scale or above in the 12 sub-sectors in the agricultural machinery industry amounted to RMB429.135 billion, with a year-on-year increase of 6.15%. However, the sales volume of main agricultural machinery declined substantially due to various factors such as lower returns from grain cultivation and an increased inventory of agricultural machinery. Following the downward trend last year, the tractor industry experienced a substantial decline and entered into a period of in-depth adjustments.

Faced with in-depth adjustments in the industry and market, the Company committed to promoting structural adjustments, innovation and resources integration under the general guideline of "persisting in established strategies, and making innovation, progress and breakthroughs", so as to consolidate its advantages in the industry and accumulate strength for transformation and upgrading.

Active efforts were made to promote market structure adjustment. While taking active measures to cope with declined sales volume in the domestic market, the Company proactively optimized its footprint in countries along the "Belt and Road Initiative" and strived to make a breakthrough in key international markets of strategic importance, resulting in a considerable year-on-year growth in overseas sales of hi-powered and mid-powered wheeled tractors.

REPORT OF THE CHAIRMAN OF THE BOARD (CONTINUED)

The Company strived to improve its independent innovation ability and advance manufacturing technology upgrading. While accelerating the research and development of power shift tractors series products, the Company successfully developed intelligent products such as automatic driving tractors and remote orchard tractors, with the 400 horsepower continuously variable transmission tractors being exhibited at the Exhibition of Great Achievements during China's Five Years of Striving. With the acquisition of 100% equity interest of YTO Belarus Technology held by YTO, the Company commenced the construction of the Eastern Europe Research and Development Center. The Company accelerated the integrated development of the new generation of IT technology and manufacturing technology, and was listed as one of the "Made by China 2025" pilot demonstration enterprises by MIIT.

Building presence in precision agriculture and promoting the transformation of the business model. By leveraging on the Internet, Internet of Things and big data technology, the Company promoted the building of a precision agricultural platform and completed the preliminary establishment of platform functions and framework, marking an important progress towards the goal of providing customers with solutions across the whole value chain of the agricultural industry.

Great efforts were made in promoting resource integration and the disposal of loss-making businesses and inefficient assets. In line with the changing industry demand, the Company optimized its product platform and implemented the integration of manufacturing resources among the hi-powered wheeled tractor business, crawler tractor business, and mid-powered and low-powered wheeled tractor business. Meanwhile, the Company completed the disposal of assets and equity owned by subsidiaries engaging in loss-making mining truck and forklift truck businesses, thereby preventing the erosion of the Company's profits.

During the Reporting Period, the Board of the Company actively pushed forward the sustainable development strategies, implemented the development philosophy of "innovation, coordination, green, openness and sharing", coordinated the relationship among customers, suppliers, employees, enterprise and other stakeholders, and actively fulfilled its social responsibilities. The Company was awarded the "Board Green Governance Award" at the thirteenth "PRC Boards of Directors of Listed Companies Gold Table Awards (金圆桌獎)" and was honored as the "2017 Golden Hong Kong Stock Most Socially Responsible Listed Company" award in the "2017 Golden Hong Kong Stock Awards".

Looking back on the work we have done in the past year, although the Company has to some extent made progress in promoting structural adjustments and transformation and upgrading in the "new normal" of development in the agricultural machinery industry, the operating results of the Company was not satisfactory during the Reporting Period. The Company still needs to be united as one to actively respond to new industrial and market developments, and accumulate strength for future development in the period of in-depth adjustments in the industry from 2018 onwards.

REPORT OF THE CHAIRMAN OF THE BOARD (CONTINUED)

PROSPECT

Looking ahead in 2018, affected by various factors such as the increasing inventory of agricultural machinery products and the fading marginal effect of the allowance policy for purchasing agricultural machinery products, the industry will remain in a period of adjustments and the fluctuations in the prices of bulk materials will pose strong pressure to the cost management and control of the Company. Meanwhile, with more efforts made to implement the “rural revitalization strategy” by the central government, the organization of agriculture production will gradually transform and reflect new demand and present new development features. Moreover, the agricultural development in countries and regions alongside the “Belt and Road Initiative” will also provide a broader development space for agricultural machineries enterprises.

The Company will seize the opportunities from the upgrading industry demand and convert its recent investments in the enhancement of technology and improvement of manufacturing capacity to competitive advantages in the market. The Company will accelerate its structural adjustment to meet the increasing domestic demand by providing cost-effective products, on the one hand, and increase its international market share through expanding the optimization of its footprint in key countries and regions alongside the “Belt and Road Initiative”, on the other hand.

The Company will adhere to the policy of transformation and upgrading to overcome homogeneous competition. To this end, the Company will increase investments in the research and development of intelligent control system, including automatic drive control of agricultural machineries, intelligent control, operation monitoring technology and precision operation devices, to develop high-end agricultural machinery equipment and speed up the research and development and industrialization of intelligent systems.

The Company will further adjust and optimize its business structure to enhance its ability to prevent and control risks. The Company will intensify its efforts in the disposal of inefficient and ineffective assets, and optimize the industry chain layout of internal manufacturing to improve the utilization of assets, balance the risk control and business development and achieve quality growth.

Taking this opportunity, I hereby, on behalf of the Board of Directors, express sincere respect and gratitude to all the shareholders of the Company, clients, other stakeholders and 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 Company aims to provide agricultural equipment with advanced technology and reliable quality for mechanization of the PRC agricultural industry. The Company'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 cover that are used in agricultural production.

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.

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

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.

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.

OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

Production Mode: The Company manufactures and operates through mass production in assembly lines, including the production of mass generic products and customized products. The agricultural machinery products of the Company reasonably arranges its production plans and organizes production according to market forecasts, market sales, information on product demand reflected by dealers and users 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: The agricultural machinery products of the Company 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. Power machinery products are mainly supplied to be accessory for main unit manufacturers, mostly by direct sale.

(III) Industry Development

Since 2014, agricultural machinery industry in the PRC has ended the double-digit growth that lasted for more than a decade and entered into the era of single-digit growth and with this as a new starting point, the industry stepped into a "new normal" with continuous slowdown in growth rate. Affected by the increase of inventory in agricultural machinery products, the decreased marginal effect of the agricultural machinery purchase subsidy policy and other factors, the agricultural machinery industry presented new features such as the declined product sales volume in traditional hot markets, price wars between enterprises as a result of digesting inventory and the enhanced bargaining power of customers, which intensified market competition and shrank the profit margin of enterprises. After four years of low-speed industrial growth, agricultural machinery industry in the PRC began to shift from the rapid development of the "golden decade" to the "new normal" of standard improvement and upgrading.

In 2017, due to the combined effects of the year-on-year decrease in the total subsidies for the purchase of agricultural machinery, the reduced amount and proportion of subsidies for a single agricultural machinery, the decline in crop yields, the rise in costs and prices resulted from National III standard transformation as well as the year-on-year increase of raw material prices, market demand has fallen sharply and the agricultural machinery industry remains in deep adjustment.

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 RMB14.1027735 billion, among which assets outside the PRC was RMB387.2972 million (accounting for 2.75% of the total assets). Original value of fixed assets amounted to approximately RMB6.44505 billion, representing an increase of RMB304.69 million as compared with that of 2016, of which, newly added fixed assets amounted to RMB385.51 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 agricultural high-power diesel engines, the production line reconstruction of the diesel engine cylinder and the forged crankshaft machining line. 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.

OVERVIEW OF THE BUSINESS OF THE COMPANY (CONTINUED)

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 succeeded in the research and development of 400 horsepower 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. During the reporting period, the research project of “the manufacturing method and equipment of complex castings without die forming” of the Company was awarded the Second Prize of State Science and Technology Improvement Award (國家科學技術進步獎二等獎) for 2017.

In respect of marketing, the Company possesses a complete marketing and service network and the most influential brand in the industry, “Dongfanghong”. Moreover, the Company pays constant attention to develop its marketing and service network. During the reporting period, while continuing to improving the role of call center, the CRM system and other information technology on marketing services, the Company also strived to create a big platform that provides customers with an all-round package of products and services covering agricultural machinery, agricultural process, agricultural production means and agricultural products by leveraging on technologies such as the Internet, the Internet of Things and big data to promote the development of the precision agriculture platform.

MANAGEMENT DISCUSSION AND ANALYSIS

I. MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the agricultural machinery industry remained in an in-depth adjustment period. The subsidies for the purchase of agricultural machinery recorded a year-on-year decrease. Under the policy of “narrow the scope, decrease the quota and promote to open”, the subsidies and the corresponding proportion for per unit of agricultural machinery also continued to decrease. In addition, due to the combined effects of the decreased revenue from grain production, the extended investment return period of purchasing agricultural machinery as well as the increase in both cost and price resulting from the National III standard transformation, users lacked motivation for purchasing agricultural machinery and as a result, the market demand declined drastically. During the Reporting Period, the industrial sales volume of hi-powered and mid-powered wheeled tractors by core enterprises was 231,500 units, with a year-on-year drop of 24.4%.

During the Reporting Period, due to a substantial decline in the sales volume of its leading products, the Company realized total operating revenue of RMB7.358 billion, with a year-on-year decrease of 17.06%, and net profits attributable to shareholders of the Company was RMB56.51 million, with a year-on-year decrease of 74.70%.

(I) Facing the severe situation and actively seeking for breakthroughs

Confronted with the severe market environment, the Company implemented the decisions and arrangements of the Board, looked into and grasped the trend of the changing demand of market and users, accelerated transformation and upgrading as well as structure adjustment and actively coped with challenges by following the annual business policy of “expanding market share to promote our growth rate, enhancing strengths to create competitive edges, carrying out structural adjustment to promote business transformation, and improving product quality to increase efficiency”.

Tractor business. In the domestic market, the Company took a series of comprehensive measures including optimizing product mix, strengthening product promotion, adjusting marketing strategy, increasing promotion efforts, improving channels and networks, speeding up products improvement, satisfying differentiated demands and enhancing customer experience, and actively sought breakthroughs to cope with the shock of external market changes on the enterprise. During the year, the Company sold 48,000 units of hi-powered and mid-powered wheeled tractors, with a year-on-year decrease of 29.7%, yet keeping its No. 1 position in the industry in terms of market share. In the international market, the Company’s sales volume through various sales channels continued to increase by taking such measures as perfecting the overseas marketing network. The Company made elaborate plans to optimize its regional footprint and cultivated key markets in a systematic way in South America, Africa, Southeast Asia, Middle Asia, Central and Eastern Europe and other countries and regions along the line of the “Belt and Road Initiative”, with annual exports of hi-powered and mid-powered tractors increasing by 51% and 113% year on year, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Power machinery business. Due to the decline in the tractor and harvester markets, the Company sold 104,000 units of diesel engines during the year, representing a year-on-year decrease of 26.9%. In the face of the decline of host products including tractors, the Company started by adjusting the market structure to actively promote the achievement of breakthroughs in the segmented market sales. During the Reporting Period, a year-on-year growth of 26% was recorded in the sales of the accessories of construction machinery, power generators and vessels of Dongfanghong diesel engines, and the sales volume of the external accessories of heavy-duty diesel engines of the Company recorded a relatively significant year-on-year growth.

Finance business. On the basis of actively developing the function of centralized capital management and improving capital utilization efficiency, YTO Finance strengthened risk control and utilized the financial interbank platform in an innovative way to enhance capital income. The financial business achieved a total profit of RMB103.86 million, offsetting the impact of declined sales on the operating results of the Company. At the same time, the asset quality and financial condition of YTO Finance were well-maintained and various regulatory indicators were in line with the regulatory requirements of CBRC.

(II) Persisting in the strategy of being-driven-by-innovation and promoting transformation and upgrading

Under the context of profound adjustment in the industry, the Company adhered to the strategy of “being driven by innovation”, maintained a certain input in research and development as well as in technical reform and promoted key research and development and construction projects in an orderly manner.

The Company carried out quality improvement and a series of research and development on power-shift tractors and completed the development of the new generation of 110–140 horse power tractor, LF3204 power-shift tractor drive system and other products. High pressure common rail diesel engines were launched in the market in small batches and the development of the accessories of the whole series National IV tractors was advanced as scheduled. Eastern Europe Research and Development Center has commenced operation in a real sense, with the overseas research and development team being established, and research and development of products and supporting facilities for cooperation being implemented.

The Company steadily pushed ahead with the projects of “the application for the new model of new-type intelligent manufacturing of wheeled tractors” and “intelligent cockpit digital factory for modern agricultural equipment” that have been listed as national intelligent manufacturing projects of 2016 and 2017. The Company carried forward the upgrading and transformation of National IV diesel engines (phase one) and high power diesel engines (phase two) and the construction of other key projects as planned, so as to do a good closing job for the system green science and technology upgrading and transformation project.

Improve the layout of manufacturing process. The Company set specifications for the construction of industrial project demonstration sites and completed the construction work of the three demonstration sites, namely, Mid-powered and Low-powered Wheeled Tractors Assembly Plant, YTO Diesel Engine and YTO Foundry. Meanwhile, the Company formulated the “13th Five-Year” process and regional layout plan to set a solid foundation for the improvement of process capability and optimization of land resources allocation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(III) Improving quality and efficiency, and increasing quality growth

For the “disposal and governance of zombie and difficult enterprises”, the Company continued to increase its efforts to dispose inefficient and ineffective assets to improve operational management and control efficiency and curb the impact of business losses on the Company. During the Reporting Period, the Company completed the governance and disposal of 6 “zombie and difficult enterprises” (including YTO (Luoyang) Forklift Truck Company Limited).

In respect of cost control, facing the increase in prices of steel, natural rubber and other stable commodities, the Company strived to strengthen cost control by means of optimizing procurement procedures, cutting down procurement links and centralizing procurement scale, which alleviated the impact of the increase in prices of bulk raw materials on the results of the Company.

For the control on inventory and accounts receivable, the Company strengthened the whole-process control on accounts receivable and intensified its efforts on the legal settlement of overdue receivables. The total overdue receivables were controlled. Continuous efforts were also made in controlling inventory, with a significant decrease in inventory over one year as compared with that at the beginning of the year.

For risk control, the Company conducted tracking assessment on the operation effect of risk control system in key areas, focused on sales and receivables business areas and implemented effective rectification of the existing risk issues to improve its risk control level.



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	7,219,310,386.11	8,687,502,227.41	-16.90
Operating costs	6,036,004,631.87	7,088,783,071.84	-14.85
Taxes and surcharges	45,718,702.31	44,525,763.68	2.68
Selling costs	436,011,715.40	441,566,712.01	-1.26
Administrative expenses	889,660,787.33	913,876,338.90	-2.65
Finance costs	73,123,501.81	86,073,671.32	-15.05
Loss in asset impairment	42,454,747.85	87,289,662.58	-51.36
Gain from change in fair value	-25,447,931.82	15,243,438.25	-266.94
Gain from disposal of assets	2,318,017.87	-9,165,962.45	N/A
Other income	55,890,931.87	0.00	N/A
Income tax expenses	18,345,015.80	54,210,189.22	-66.16
Net cash flow generated from operating activities	-556,313,931.89	2,093,174,716.44	-126.58
Net cash flow generated from investing activities	-308,423,718.05	-679,988,523.01	N/A
Net cash flow generated from financing activities	918,985,309.04	-221,524,088.51	N/A
Research and development expenses	386,339,439.17	404,592,452.39	-4.51
Interest revenue	137,931,789.75	183,205,912.89	-24.71
Interest costs	15,819,471.26	55,437,794.90	-71.46

Operating revenue and operating cost: decreased by 16.90% and 14.85% respectively as compared with the corresponding period of last year, mainly resulting from the year-on-year decrease in sales of various products of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Taxes and surcharges: increased by 2.68% as compared with the corresponding period of last year, primarily attributable to the implementation of the Cai Kuai [2016] No. 22, leading to the reclassification of four types of taxes including property tax, land use tax, stamp duty and vehicle and vessel use tax, and, as a result, a decrease of RMB11.13 million in taxes and surcharges as compared with the corresponding period of last year.

Loss in asset impairment: decreased by 51.36% as compared with the corresponding period of last year, mainly resulting from the impairment provision made for Guoyu Logistics bonds during the corresponding period of last year.

Gain from change in fair value: decreased by 266.94% as compared with the corresponding period of last year, mainly resulting from the loss recognized in the swap agreement for the foreign exchange settlement and sale at the end of the year due to the decrease in USD exchange rate.

Gain from disposal of assets: The Company has added the item of “Gain from disposal of assets” to the Income Statement and has reported the net profit separately on an ongoing concern basis in accordance with the requirements of the Accounting standards for Business Enterprises No. 42 – Non-current Assets and Disposal Groups Held for Sale and Discontinued Operation issued by the Ministry of Finance and the Notice of the Ministry of Finance on the Revision of the Format for Issuing General Enterprise Financial Statements (Cai Kuai [2017] No. 30).

Other income: according to the Accounting standards for Business Enterprises No. 16 – Government Grants, the Company has included government grants relating to the daily activities of the Company in 2017 under the item of other income and the item of “non-operating income – government grants” in 2016.

Income tax expenses: decreased by 66.16% as compared to the corresponding period of last year, mainly resulting from a decrease in the taxable income in the current period of the Company.

Interest revenue and interest costs: decreased by 24.71% and 71.46% respectively as compared to the corresponding period of last year, mainly resulting from a decrease in the income from the discounting business of the YTO Finance as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. *Income and cost analysis*

During the Reporting Period, the Company realized operating revenue of RMB7.21931 billion, which decreased by 16.90 % as compared with the corresponding period of last year, mainly resulting from the decrease in sales of various products of the Company.

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

Unit: 0'000 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	721,931	603,600	16.39	-16.90	-14.85	Decreased by 2.01 percentage point

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal businesses 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	656,908	561,674	14.50	-14.34	-13.71	Decreased by 0.62 percentage point
Power machinery	179,639	156,214	13.04	-22.30	-16.07	Decreased by 6.46 percentage point
Other machinery	2,688	3,016	-12.20	-37.45	-44.70	Increased by 14.72 percentage point
Inter-segment elimination	-117,304	-117,304				
Total	721,931	603,600	16.39	-16.90	-14.85	Decreased by 2.01 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	661,209	553,060	16.36	-20.34	-18.52	Decreased by 1.87 percentage point
Outside the PRC	60,722	50,540	16.77	57.04	67.79	Decreased by 5.33 percentage point

(2) *Analysis on production and sales volume*

Main Products	Production volume	Sales volume	Inventories	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	48,350	48,722	723	-29.24	-30.03	-33.97
Diesel engine products	107,732	103,557	12,369	-23.89	-26.88	50.95
Other mechanical products	110	117	6	-45.81	-56.34	-53.85

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	Explanation
						the amount for the Reporting Period as compared with the corresponding period of last year (%)	
Equipment manufacturing industry	Material	609,017	84.48	727,038	86.29	-16.23	
Equipment manufacturing industry	Labour	46,073	6.39	47,919	5.69	-3.85	
Equipment manufacturing industry	Production costs	65,814	9.13	67,561	8.02	-2.59	

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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	Explanation
						(%)	
Agricultural machinery	Material	476,000	84.75	565,236	86.83	-15.79	
Agricultural machinery	Labour	34,518	6.14	35,172	5.40	-1.86	
Agricultural machinery	Production costs	51,156	9.11	50,539	7.77	1.22	
Power machinery	Material	130,355	83.45	157,282	84.51	-17.12	
Power machinery	Labour	11,469	7.34	12,446	6.69	-7.85	
Power machinery	Production costs	14,390	9.21	16,387	8.80	-12.19	
Other machinery	Material	2,662	88.26	4,520	82.84	-41.11	
Other machinery	Labour	86	2.85	301	5.52	-71.43	
Other machinery	Production costs	268	8.89	635	11.64	-57.80	

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

Explanation on other situations on cost analysis:

Agricultural Machinery: In 2017, the prices of raw materials recorded a year-on-year decrease due to a drop in the sales of the hi-powered and mid-powered wheeled tractors, while labour costs also recorded a year-on-year decrease mainly due to a reduction of our labour forces.

Power Machinery: In 2017, the prices of raw materials, labour costs and manufacturing expenses recorded a year-on-year decrease due to a drop in the sales of diesel engines.

Other Machineries: As affected by the Company's contraction of business control risks, the revenue, costs and relevant expenses recorded a year-on-year decrease in the last two years.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(4) Information on major customers and major suppliers

Sales to the top five customers amounted to RMB557.29 million, accounting for 7.72% of the total sales for the year, among which, sales to the top five customers which were sales to related parties amounted to RMB126.86 million, accounting for 1.76% of the total sales for the year.

Procurement from the top five suppliers amounted to RMB756.40 million, accounting for 15.06% of the total procurement amount for the year, among which, procurement from the top five suppliers which was procurement from related parties amounted to RMB366.08 million, accounting for 7.29% of the total procurement amount for the year.

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	436,011,715.40	441,566,712.01	-5,554,996.61	-1.26
Administrative expenses	889,660,787.33	913,876,338.90	-24,215,551.57	-2.65
Finance expenses	73,123,501.81	86,073,671.32	-12,950,169.51	-15.05

During the Reporting Period, the Company's total expenses were RMB1,398.80 million, with a year-on-year decrease of RMB42.72 million at the decreasing rate of 2.96%.

The selling expenses and administrative expenses recorded a slight decrease as compared with the corresponding period of last year, which was due to a decrease in selling expenses mainly caused by the decrease in sales of the main products of the Company during the Reporting Period and the decrease in administrative expenses mainly caused by the impact from the release of the Cai Kuai [2016] No. 22 document and enhanced control over expenses.

The finance expenses recorded a decrease as compared with the corresponding period of last year, which mainly resulted from exchange gains from the Company's debts denominated in USD due to a significant depreciation of the exchange rate of USD against RMB during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. *Research and development investment*

Research and development investment table

Unit: Yuan Currency: RMB

Research and development investment expensed during the Reporting Period	386,339,439.17
Research and development investment capitalized during the Reporting Period	0.00
Total research and development investment	386,339,439.17
Total research and development investment as a percentage of operating revenue (%)	5.35
Number of research and development personnel of the Company	1,557
Number of research and development personnel as a percentage of total staff of the Company (%)	14.60
Ratio of research and development investment capitalization (%)	0.00

Explanation:

The research and development expenses decreased by 4.51% as compared with the corresponding period of last year. However, the research and development investment as a percentage of the operating revenue increased by 0.69%, remaining at a relatively high level, which was mainly due to continued efforts made by the Company to increase research and development investment in the upgrading of tractors and power machinery products in order to improve the technological level of the main products of the Company and to consolidate and enhance market competitiveness.

4. *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	-556,313,931.89	2,093,174,716.44	-2,649,488,648.33	-126.58
Net cash flow from investment activities	-308,423,718.05	-679,988,523.01	371,564,804.96	N/A
Net cash flow from financing activities	918,985,309.04	-221,524,088.51	1,140,509,397.55	N/A

Net cash flow from operating activities amounted to RMB-556.3139 million during the current year, representing an increase of an outflow of RMB2,649.49 million as compared with the corresponding period of last year, mainly resulting from a higher percentage of credit sales of the Company in light of the overall funding environment in the industry and tight cash position of our customers; and due to the Company simultaneously intensifying its efforts in overseas sales but the overseas receivables which had a relatively longer collection period being not yet recovered.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net cash flow from investment activities amounted to RMB-308,423,700 during the current year, representing a decrease in outflow of RMB371.56 million as compared with the corresponding period of last year, mainly due to the successive expiry and redemption of wealth management products and structured deposits during the current period.

Net cash flow from financing activities amounted to RMB918,985,300 during the current year, representing an increase in inflow of RMB1,140.51 million as compared with the corresponding period of last year, mainly due to early deployment of financing arrangements and an increase in long and short term borrowings.

(II) Analysis on assets and liabilities

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
Financial assets measured at fair value and its movement recorded through profit and loss	40,478,838.50	0.29	62,657,466.94	0.47	-35.40	Decrease in trust products held by YTO Finance
Derivative financial assets	0.00	0.00	14,833,000.00	0.11	-100.00	Maturity of foreign exchange swap settlement contract during the Reporting Period
Accounts receivable	1,238,285,603.95	8.78	674,313,323.03	5.10	83.64	The Company has enhanced credit sales and the expansion of international market as a result of agricultural machinery market downturn
Advance payment	233,704,609.47	1.66	143,734,037.70	1.09	62.60	An increased level of inventory during the Reporting Period in order to cope with rising raw material prices
Financial assets purchased with agreement to re-sale	80,207,776.70	0.57	354,848,615.72	2.69	-77.40	Decrease in financial assets purchased with agreement to re-sale of YTO Finance
Receipts of deposits and deposits from other banks	780,195,528.74	5.53	588,286,840.09	4.45	32.62	A decrease in receipts of deposits of YTO Finance as compared with corresponding period of last year

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
Derivative financial liabilities	12,800,000.00	0.09	0.00	0.00	N/A	Exchange rate of USD dropped during the Reporting Period and recognition of foreign exchange swap settlement contracts as liabilities at the end of the year
Notes payable	820,501,598.94	5.82	1,417,113,769.49	10.73	-42.10	Due and payment of acceptance notes issued during prior periods
Taxes payable	17,361,319.90	0.12	25,426,038.74	0.19	-31.72	A decrease in value-added tax and income tax payable but unpaid during the Reporting Period
Non-current liabilities due within one year	1,522,040,174.73	10.79	34,422,532.04	0.26	4,321.64	Transfer of corporate bonds and long-term borrowings due within one year during the Reporting Period
Long-term loans	689,011,500.00	4.89	9,133,500.00	0.07	7,443.78	New long-term loans incurred during the Reporting Period
Bonds payable	0.00	0.00	1,496,694,996.06	11.33	-100.00	Transfer of corporate bonds due within one year to non-current liabilities due within one year
Treasury shares	0.00	0.00	19,140,912.00	0.14	-100.00	Cancellation of H shares repurchased during the Reporting Period
Other comprehensive income	-16,268,084.50	-0.12	-2,685,750.24	-0.02	505.72	Disposal of certain available-for-sale financial assets during the Reporting Period

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other Explanations

(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 (%)	61.43	58.34	Increased by 3.09 percentage point
Current ratio	1.09	1.27	Decreased by 0.18
Quick ratio	0.94	1.10	Decreased by 0.16

The gearing ratio increased while the current ratio and quick ratio decreased mainly due to the advanced deployment of capital to repay the corporate bonds the Company issued earlier that will fall due in the short term so as to ensure an on-time repayment of bonds.

(2) *Bank loans*

Bank loans of the Group are mainly in the currency units of RMB, USD and Euro. As at the end of the Reporting Period, bank loans of the Group due within one year amounted to RMB2.0436326 billion, of which loans in foreign currency amounted to RMB673.6326 million (mainly consisting of loans denominated in USD); bank loans due over one year amounted to RMB689.0115 million; and bank loans with fixed interest rate amounted to RMB1.4234200 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 RMB346,249,459.65, including guarantee letter deposits of RMB5,109,779.00, bank's acceptance bill deposits of RMB59,188,686.97, letter of credit deposits of RMB2,434,080.39, forward settlements on foreign exchange margin of RMB67,000.00, and the central bank's legal deposit reserves of RMB279,449,913.29.

As at the end of the Reporting Period, the Group's notes receivable with restrictions on any rights was RMB18,795,582.05, which was the amount of notes receivable pledged with the bank during the Reporting Period.

As at the end of the Reporting Period, the Group's original value of 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 RMB82,900,010.90, which were buildings and land mortgaged to the bank for short-term loans to the Group during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Other Explanations

(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.

(2) Contingent liabilities

For further details, please refer to “VI.39 Estimated Liabilities” under section XIII Financial Statement of this report.

(3) Principal sources and use of funds

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

4. Overall analysis on external equity investments

(1) Financial asset under fair value measurement

Unit: Yuan Currency: RMB

Item	Initial cost of investment	Amount acquired during the Reporting Period	Amount sold during the Reporting Period	Changes in fair value	Investment income	Source of funds
1. Financial assets measured at fair value and its movement recorded through profit and loss	31,659,783.00	32,952.80	24,489,391.98	2,185,068.18	22,482,790.42	Self-funded
2. Derivative financial assets	0.00	0.00	0.00	-14,833,000.00	0.00	Self-funded
3. Available-for-sale financial assets	0.00	0.00	50,216,304.05	0.00	22,364,982.22	Self-funded
4. Derivative financial liabilities	12,800,000.00	0.00	0.00	-12,800,000.00	0.00	Self-funded
Total	44,459,783.00	32,952.80	74,705,696.03	-25,447,931.82	44,847,772.64	

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(III) 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.

(IV) 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 2017		Realized during the Reporting Period	
			Total assets (0'000)	Net assets (0'000)	Operating income (0'000)	Net profit (0'000)
YTO Finance	50,000	Provision of financial services	533,218	80,472	17,483	8,059
YTO Diesel Engine	USD16 million	Manufacturing and sale of engines	134,322	88,344	146,306	1,749
Jiangyan Power	20,000	Manufacturing and sale of multi-bore small size diesel engines and castings	46,176	24,523	36,693	-114
YTO Fuel Injection Pump	16,192	Manufacturing and sale of products including fuel injector and fuel pump of diesel engine	23,881	19,654	9,278	-2,499
Tractors Research Company	44,500	Research and development of tractor products	77,572	67,216	25,231	1,488
YTO International Trade	6,600	International sale of agricultural machinery	70,526	4,325	64,276	-2,908
YTO France	EURO22.60 million	Manufacturing and sale of agricultural machinery components	34,129	18,331	11,427	-3,416
YTO Foundry	24,883	Processing and sale of rough and semi-finished products and finished products of casting and forging products	31,853	25,361	12,620	2,065
Changtuo Company	28,200	Manufacturing and sale of agricultural machineries and spare parts	15,588	2,479	12	-3,934

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Currency: RMB, unless otherwise specified

Name of company	Registered capital (0'000)	Principal business	As at 31 December 2017		Realized during the Reporting Period	
			Total assets (0'000)	Net assets (0'000)	Operating income (0'000)	Net profit (0'000)
YTO Shentong	5,300	Manufacturing and sale of mining trucks and other agricultural machinery products	3,096	-29,273	1,081	-1,545
Changxing Company	300	Sales of products including agricultural machinery, spare parts and diesel engines	83,798	-34,683	438,371	-7,657

2. Acquisition and disposal of subsidiaries during the Reporting Period

During the Reporting Period, the Company acquired the equity interest of YTO Belarus Technology Company Limited from YTO Group Corporation. As YTO Group Corporation is a controlling shareholder of the Company, it constituted a business combination involving entities under common control. YTO Belarus Technology Company Limited applied for industrial and commercial registration of changes at the end of December 2017 and the amount of equity transfer was paid at the end of December 2017.

During the Reporting Period, the Company entered into a Property right transaction contract with Luoyang Hou He De Real Estate Development Co., Ltd., pursuant to which the Company transferred the whole equity of YTO (Luoyang) Forklift Truck Company Limited to Luoyang Hou He De Real Estate Development Co., Ltd. for a consideration of RMB31 million. The Company received equity transfer fee and completed the equity transfer in August 2017.

The Company consolidated its wholly-owned subsidiary YTO (Luoyang) Drive Axle Co., Ltd. by absorption merger. After the completion of the absorption merger, YTO (Luoyang) Drive Axle Co., Ltd. was dissolved and cancelled. The cancellation procedures for YTO (Luoyang) Drive Axle Co., Ltd. were completed on 22 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 (Luoyang) Diesel Engine Company Limited	146,306	-320	1,749
2	Luoyang Tractors Research Institute Company Limited	25,231	1,652	1,488
3	YTO (Luoyang) Foundry Company Limited	12,620	2,017	2,065
4	Luoyang Changxing Agricultural Machinery Company Limited	438,371	-8,341	-7,657
5	YTO (Luoyang) Transportation Machinery Company Limited	1,522	-497	-442
6	YTO (Luoyang) Shentong Construction Machinery Company Limited	1,081	-3,228	-1,545
7	China YTO Group Finance Company Limited	17,483	10,387	8,059
8	Brilliance China Machinery Holdings Co., Ltd.	0	1,528	1,528
9	YTO (Luoyang) Fuel Injection Pump Company Limited	9,278	-2,599	-2,499
10	YTO (Xinjiang) Dongfanghong Equipment Machinery Company Limited	15,108	-395	-475
11	YTO France SAS	11,427	-3,681	-3,416
12	YTO Heilongjiang Agricultural Machinery Co., Ltd.	4,916	-872	-884
13	Changtuo Agricultural Machinery Equipment Group	12	-3,934	-3,934
14	YTO International Economy and Trade Company Limited	64,276	-2,400	-2,908

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

YTO Diesel Engine: the market demand for diesel engine products declined and net profit decreased by 83.66% year-on-year, due to the significantly reduced sales volume of tractors and harvesters during the Reporting Period.

YTO Foundry: operating revenue increased by RMB60.47 million year-on-year and net profit increased by 90.04% year-on-year, due to the fact that we actively explored external market during the Reporting Period.

Changxing Company: due to the significantly reduced sales volume of hi-powered and mid-powered wheeled tractors during the Reporting Period, operating revenue decreased by 12.51% year-on-year and net loss increased by RMB38.71 million year-on-year.

YTO Shentong: net loss reduced by RMB27.91 million year-on-year, due to the enhancement in cost control, active collection of trade receivables and receipt of Zombie enterprise grants during the Reporting Period.

YTO Finance: an impairment provision of RMB56.22 million was made for “15 Guoyu Logistics CP001” and “15 Guoyu Logistics CP002” bonds last period. Meanwhile, the Company strengthened the centralized management of funds and increased the fund utilization efficiency, resulting in a year-on-year increase in our capital income.

YTO International Trade : net profit decreased by RMB45.50 million year-on-year, due to the falling exchange rate of USD and AUD during the Reporting Period, the year-on-year increase in exchange loss and impairment provision for Cuba accounts receivable.

(V) **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 industrial development situation and market changes in recent years demonstrated that China's agricultural machinery industry has transited from "high-speed development" to the "new normal" of "deepening structural adjustment and optimizing industrial upgrading", and user demand and competitive factors are undergoing profound changes.

On one hand, this industry is facing the ever-increasing structural contradictions, which is reflected by the imbalanced supply and demand of domestic agricultural machinery products, the supply shortage of high-end products the overcapacity of low-end items, and the supply shortage of operation machinery for feed and economic crops and the overcapacity of operation machinery for food crops, and the impact of the decreased crop yields on the purchasing power of downstream peasants will remain in a certain period.

On the other hand, with China's economy transferring from the stage of high-speed growth to high-quality development, the development of the agricultural machinery industry will demonstrate new trends. The central rural work conferences clearly put forward "time schedule" and plan "roadmap" for the implementation of "rural revitalization strategy", which clearly insists on taking the agricultural supply-side structural reform as the main line to accelerate the advancement of agricultural and rural modernization. In light of the development of the agricultural machinery industry, the agricultural mechanization rate of China exceeded 66% in 2017 and is expected to surpass 70% at the end of the "13th Five-Year Plan" period, which will offer an even broader space for the development of the agricultural machinery enterprises. From user requirements, the long-term and stable land contracting policy will stimulate the motivation of various new agricultural business entities to increase input and develop production. Low-end production capacity will gradually be phased out in the process of supply-side reform and the requirements of agricultural production on large, compound, green and environmentally-friendly and intelligent agricultural machinery will increase gradually. From market competition, the manufacturing and sales of agricultural machinery products will further present the characteristic of "wide varieties and small bulk". Agricultural machinery enterprises will continuously intensify their efforts in areas of scientific and technological research and development, production organization and sales promotion by centering on the changing market competition characteristics. Leading enterprises with technological superiorities and advanced management level will win in the competition. From model innovation, with the accelerated development of agricultural machinery products towards the direction of intelligence, big data and the Internet of Things, and the significantly enhanced capability of the agricultural machinery and equipment in information collection, intelligent decision-making and precision operation, the completion in the agricultural machinery industry will transit from the stage of "provision of single products" in the past to "provision of comprehensive operation services", the trend of platform competition will become more obvious.

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 2018, affected by the increase of inventory in agricultural machinery products, the decreased marginal effect of the agricultural machinery purchase subsidy policy and other factors, it is anticipated that the industry will remain at the status of structural adjustment, increased demand for high power tractors and shrunken total sales volume. The Company will comprehensively implement the annual business policy of “expanding market share to promote our growth rate, enhancing strengths to create competitive edges, carrying out structural adjustment to promote business transformation, and improving product quality to increase efficiency”, take transformation and upgrading as well as quality and efficiency improvement as its central task, focus on “providing users with cost-effective products”, persist in strategy, market and problem orientation, make innovation in ideas and methods and do well in various key work in a creative way.

1. *Focusing on business development and consolidating and enhancing its competitive edges*

In terms of the tractor business, the Company will strive to seize larger market share through a combination of competitive product mix, sales channels accessible to end-users and a complete service system offering rapid response as well as financial supporting methods such as Dongfanghong commercial loans and financial leasing. Meanwhile, the Company will grasp the new opportunities arising from the implementation of the “Belt & Road” Initiative and “Agriculture Stepping Out” Strategy by continuing to improve the sales channels and network layout of key strategic markets and enhancing the competitiveness of its products in overseas markets through an effective combination of products, techniques, capital and services, with a view to making a breakthrough in main businesses in key markets. Besides, the Company will also intensify its efforts in the development of key projects, so as to ensure the steady increase of the sales volume of its products in the international market.

In terms of the diesel engine business, the Company will promote the launching of high-pressure common rail products across the board. On the basis of consolidating its market share in the tractor accessory market, the Company will mainly focus on increasing its market shares in high horsepower tractors, harvesters, engineering machinery and marine electric and other sectors. The development and preparation for the production of whole series of engines that meets the National IV standards will be completed while the research and development of new diesel engines meeting the National V standards will be speeded up.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. *Improving the quality of business operation to consolidate the foundation for sustainable development of the Company*

The Company will step up its efforts in the management of loss-making enterprises, that is, it will actively applying national policies to help it with reducing the losses or making a turnaround for loss-making enterprises. The Company will standardize the management and control procedures for credit risk and strike a balance between risk control and business development, so as to ensure the healthy development of our sales business. In order to enhance the “cost performance” of its products, the Company will optimize the cost of design and manufacturing by exercising cost control over the whole value chain of products and promoting the modularized, standardized, serialized and generalized design of products, and accelerate the launching of high horsepower products with cost efficiency.

3. *Enhancing the operation efficiency across the value chain through mechanism reform and stimulating vitality*

According to the principle of “prioritizing business development with stronger support”, the Company will promote the adjustment of its management and control system, implement a classified performance appraisal system for employees at various levels and level up its incentives and restrictions for employees holding key positions. The Company will optimize its organizational structure and staff composition, and create a synergy in research and development, manufacturing, marketing and other links, so as to further increase the speed of response to the market and customers’ demand. An operational model matching with the scale of targeted markets and their cost structures will be developed for small teams and organizations, so as to enable them to deal with new markets and emerging customer groups directly, and corresponding mechanism will be established to promote the rapid development of new businesses.

(IV) Potential risks

1. *Risk relating to rising prices of raw materials*

In recent years, commodity prices have been on the rise. As steel, rubber and other materials constitute a major part of the Company’s purchases of raw materials and spare parts, the profitability of the Company will be affected if there is any significant increase in the prices of raw materials. The Company will mitigate the impact of rising raw material prices on the results of the Company by adopting such measures as optimizing procurement process, shortening the intermediate purchase links and centralizing large-scale purchases. The Company will also mitigate the risk of fluctuating raw material prices by making advance payment to lock the prices of raw materials which are likely to increase significantly.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. **Market risk**

The level of income of our users and their purchasing power were affected due to a variety of factors such as the marketization of grain prices, increased level of inventory of agricultural machinery, lesser amount and lower percentage of subsidies for the purchase of agricultural machinery. It is expected that the market demand for agricultural products such as tractors will continue to decline. Meanwhile, the demand for whole-process mechanization and whole-set of agricultural equipment solutions continue to increase and the overall demand for various products in the agricultural machinery industry become more and more diversified in line with the development trend of large-scale land and intensive management. However, the Company doesn't have a diversified product variety and mix. In this regard, The Company will intensify its efforts in market structural adjustment by accelerating the development of the international market. In the mean time, the Company will actively promote the sales of machinery units and develop whole-set of agricultural equipment to mitigate market risk while enriching the product mix of tractors and consolidating its competitive edges in tractor products.

3. **Risk relating to product technology upgrade**

With further implementation of environmental protection policies, people's enhanced awareness of environmental protection, and accelerated application of National IV emission standards for off-road diesel engines, it is expected that diesel engine products failing to meet the requirements of revised national environmental protection and emission standards are likely to be eliminated, which imposes higher requirements for technical upgrading of diesel engine products and matching diesel engines with main units of the Company. Therefore, in order to actively adapt itself to the requirements of industry upgrading, the Company will accelerate the research and development and commercialization of new technologies by leveraging on its advantages in research and development of off-road diesel engines and in matching diesel engines with main units of the Company.

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 2016 profit distribution plan in July 2017, and distributed dividend of RMB75.5709 million (tax inclusive) to all the shareholders of the Company, which, when aggregated with the payment of RMB19,096,600 in connection with the share repurchases in 2016, accounted for 33.83% of the net profit attributable to the shareholders of the Company in the 2016 consolidated statements of the Company.

(ii) Proposal or plan of profit distribution of ordinary shares 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 dividend 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 (%)
2017	0	0	0	17,868,700	56,514,222.97	31.62
2016	0	0.57	0	75,570,900	223,369,729.35	33.83
2015	0	0.41	0	40,831,900	135,322,811.53	30.17

Note: The Company repurchased a total of 4,928,000 H Shares for a total consideration of RMB17,868,700 (excluding commission and other expenses) in 2017. Pursuant to the requirements of the Guidelines on the Distribution of Cash Dividends by Listed Companies of the Shanghai Stock Exchange, the cash payments made by the Company for the purpose of share repurchases during the Reporting Period shall be deemed as cash dividends.

SIGNIFICANT EVENTS (CONTINUED)

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

Unit: 0'000 Currency: RMB

	Amount of cash dividend distribution	Percentage (%)
2017	1,786.87	100

Note: The above amount is the cash amount (excluding commission and other expenses) 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	Yes	Yes
	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	Yes	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?
	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	Yes	Yes
	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	Yes	Yes

SIGNIFICANT EVENTS (CONTINUED)

III. ANALYSIS AND EXPLANATION ON THE REASONS AND IMPACTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS OF THE COMPANY

(i) Analysis and explanation on changes in accounting policies and accounting estimates of the Company

In May 10, 2017, the Ministry of Finance announced the revised “Enterprise Accounting Standards No. sixteenth: government subsidies” and the amendment shall come into force on June 12, 2017. Meanwhile, the government subsidies existed on 1 January 2017 is subject to prospective application method and the new government subsidies received between 1 January 2017 and the date of implementation of the standard will be adjusted pursuant to the revised standard. Since June 12, 2017, the Company has adopted the revised guidelines. The main contents of the above accounting policies are: government subsidies related to daily business activities are included into other benefits.

On April 28, 2017, the Ministry of Finance issued the Accounting Standards for Enterprises No. forty-second – non-current assets held for sale, disposal group and terminated operation, which has been implemented since May 28, 2017. According to the guideline and the regulation of the Ministry of Finance on the revision of the general corporate financial statement format (Cai Kuai [2017] No. 30), the Company has added the item of assets disposal income in the income statement and has classified and reported the net profit according to the management continuity. In accordance with the relevant provisions of the “Accounting Standards for Enterprises No. thirtieth – presentation of financial statements” and so on, the Company adjust the comparable data during the comparable period. Adjust the income RMB-9,165,962.45 for the disposal of the assets in the last period. Adjust to reduce the income of assets disposal by RMB1,008,437.99 in non-operating income. Reduce the amount of RMB10,174,400.44 in non-operating expenses.

At the same time, the guidelines stipulate that the enterprise shall re-report the information reported on the original sustained profit and loss as the terminated profit and loss of the comparable accounting period in the financial statements for the current period when the company discontinues the operating.

IV. APPOINTMENT OR DISMISSAL OF AUDITOR

Unit: 0'000 Currency: RMB

	Previous appointment	Current appointment
Name of the domestic auditor	ShineWing Certified Public Accountants LLP	Da Hua Certified Public Accountants (Special General Partnership)
Remuneration of the domestic auditor	170	173
Term of the domestic auditor	3	1
	Name	Remuneration
Auditor for internal control	Da Hua Certified Public Accountants (Special General Partnership)	40

SIGNIFICANT EVENTS (CONTINUED)

Explanation on appointment or dismissal of auditor

As considered and approved in the annual general meeting in 2014, 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 2015, 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.

As considered and approved in the annual general meeting in 2016, 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 2017, and authorized the Board to determine the remuneration of the auditor.

On 15 November 2017, as considered and approved by the second extraordinary general meeting of the Company for the year 2017, the Company ceased to appoint ShineWing Certified Public Accountants LLP as the auditor for the Company's financial report (the "Financial Report Auditor") and the internal control auditor of the Company for the year 2017 and appointed Da Hua Certified Public Accountants (Special General Partnership) as the Financial Report Auditor and the Internal Control Auditor for the year 2017. The Board was authorized to determine its remuneration.

Explanation on change of auditor during the Reporting Period

For details, please refer to the Announcement on Change of Financial Report Auditor and Internal Control Auditor of the Company for 2017 of the Company published on the website of Shanghai Stock Exchange on 30 September 2017 and the Announcement on Proposed Change of Financial Report Auditor and Internal Control Auditor of the Company published on the website of Stock Exchange on 29 September 2017.

SIGNIFICANT EVENTS (CONTINUED)

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 judgment 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*

Event details

Connected transactions relating to premises lease agreement between the Company and ZF YTO (Luoyang) Drive Axle Co., Ltd. (2018–2020)

Query index

For details please refer to “announcement on the resolution passed at seventeenth meeting of seventh session of the Board” dated 1 December 2017 published on the website of Shanghai 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 2017	Actual amount of the transaction from January to December 2017	As a percentage to amount of comparable transaction (%)
1	Material Procurement Agreement	25 August 2015	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)).	149,800	72,452	11.90

SIGNIFICANT EVENTS (CONTINUED)

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 2017	Actual amount of the transaction from January to December 2017	As a percentage to amount of comparable transaction (%)
2	Sale of Goods Agreement	25 August 2015	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)).	46,000	36,284	5.03
3	Composite Services Agreement	25 August 2015	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 + percentage mark-up)).	21,500	15,892	96.75
4	Energy Procurement Agreement	25 August 2015	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)).	19,200	15,448	94.69

SIGNIFICANT EVENTS (CONTINUED)

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 2017	Actual amount of the transaction from January to December 2017	As a percentage to amount of comparable transaction (%)
5	Properties Lease Agreement	25 August 2015	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.	1,800	933	100
6	Land Lease Agreement	25 August 2015	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.	1,900	1,267	100
7	Deposit Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of deposit services by YTO Finance to YTO	The relevant interest rates prescribed by the PBOC.	160,000	144,163	37.78
8	Loan Service Agreement	25 August 2015	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.	85,000	84,940	51.27

SIGNIFICANT EVENTS (CONTINUED)

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 2017	Actual amount of the transaction from January to December 2017	As a percentage to amount of comparable transaction (%)
9	Bills Acceptance Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of bills acceptance services by YTO Finance to YTO	<p>(1) The rate in relation to the same type and same period of bills acceptance services prescribed by the CBRC or the PBOC;</p> <p>(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</p> <p>(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.</p>	28,000	26,618	13.83
10	Bills Discounting Service Agreement	25 August 2015	YTO	Controlling shareholder	Provision of bills discounting services by YTO Finance to YTO	<p>(1) The rate in relation to the same type and same period of bills discounting services prescribed by the CBRC or the PBOC;</p> <p>(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</p> <p>(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.</p>	46,000	12,787	33.66

SIGNIFICANT EVENTS (CONTINUED)

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 2017	Actual amount of the transaction from January to December 2017	As a percentage to amount of comparable transaction (%)
11	Interbank Business Services Agreement	25 August 2015	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.	80,000	70,000	27.57
12	Common Resource Services Agreement	28 February 2017	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%.	1,400	1,233	100

- For details of No. 1-No.11 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 the Stock Exchange. On 13 June 2017, the "Resolution on the Increase in 2017 and 2018 Annual Cap Amounts of Continuing Connected Transactions in Material Procurement, Sales of Goods and Composite Services" was considered and approved at the 2016 annual general meeting of the Company. For details, please refer to the "Announcement on the Resolutions Passed at 2016 Annual General Meeting, the 2017 First A Share Class Meeting and the 2017 First H Share Class Meeting of First Tractor Company Limited" published by the Company on the website of the Shanghai Stock Exchange on 14 June 2017, and the announcement published by the Company on the website of the Stock Exchange on 13 June 2017.

SIGNIFICANT EVENTS (CONTINUED)

2. 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 1 March 2017 on the website of Shanghai Stock Exchange, and the “Announcement on Continuing Connected Transaction Common Resource Services Agreement” of the Company dated 28 February 2017 published on the website of the Stock Exchange.

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 2017	amount of the transaction from January to December 2017	percentage to amount of comparable transaction
13	Technology Services Agreement	25 August 2015	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).	11,000	10,988	100

1. 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	Actual	As a
						annual cap for transactions in 2017	amount of the transaction from January to December 2017	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	741	65.76
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.	240	62	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.	20,000	3,597	0.50
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.	30,000	16,687	2.74
18	/	Luoyang Bank	Associated corporation	The provision of credit service (loans and notes) by Luoyang Bank to the Company	Finance cost of credit business, such as loan rate and note fee, should not be higher than that of other corporative banks	15,000	1,477	0.29
19	/	Luoyang Bank	Associated corporation	The provision of deposit service by Luoyang Bank to the Company	The rate of deposit business prescribed by the PBOC	7,000	416	0.13

SIGNIFICANT EVENTS (CONTINUED)

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 and “Announcement on Resolutions Passed at the Seventeenth Meeting of the Seventh Session of the Board of First Tractor Company Limited” of the Company published on 1 December 2017 on the website of the Shanghai Stock Exchange and in the China Securities Journal and the Shanghai Securities News, and the “Announcement on the Discloseable Transaction” 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, the “Announcement on Daily Connected Transactions”, “Announcement on the Resolutions Passed at 2017 Second Extraordinary General Meeting of the Company” published on the website of Shanghai Stock Exchange, and in the China Securities Journal, and Shanghai Securities News, on 30 September 2017 and 16 November 2017 respectively, the “Announcement on Sales Framework Agreement and Procurement Framework Agreement” published on the website of Stock Exchange on 17 February 2015, “Announcement on Results of the 2014 Annual General Meeting” dated 30 May 2015, “Announcement on Sales Framework Agreement and Procurement Framework Agreement” dated 29 September 2017 and “Announcement on Results of the 2017 Second Extraordinary General Meeting” dated 15 November 2017.
 3. For details of 18 – 19 connected transactions, please refer to “Announcement on Daily Connected Transactions” and “Announcement on the Resolution Passed at Seventeenth Meeting of Seventh Session of the Board” published on the website of Shanghai Stock Exchange, and in the China Securities Journal, and Shanghai Securities News on 1 December 2017 and related overseas regulatory announcements published on the Stock Exchange on 30 November.
- 1. *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;
 - (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.

SIGNIFICANT EVENTS (CONTINUED)

2. 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.

3. 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.

4. 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.

5. 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 Parties’ 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)

3. **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 2017	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 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.	370	211	27.78
YTO	Controlling shareholder	Other inflow	Lease of land from the Company and its subsidiaries	The 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.	240	141	38.49
YTO	Controlling shareholder	Provision of services	Provision of process and technical service to YTO by the Company	The 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.	350	260	32.24
YTO	Controlling shareholder	Provision of services	Provision of calibration service and calibration instrument testing services to YTO by the Company	The 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.	80	71	36.66

SIGNIFICANT EVENTS (CONTINUED)

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 2017	Amount of the connected transaction	Percentage in the total amount of the same type of transactions (%)
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%.	70	22	43.22
Total				/	1,110	705	/

Details on return of large-sum sales Null

Explanation on connected transactions

The above pricing principle of connected transactions complies with the relevant provisions of the Listing Rules of the Shanghai Stock Exchange and the Stock Exchange, and the amount does not exceed the amount required for disclosure.

(II) 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 24 August 2017, the fourteenth meeting of the seventh Board of the Company considered and approved the Resolution on Acquisition of the 100% Equity Interest in YTO Belarus Technology Company Limited and increase on capital by US\$7 million (see "Announcement on the Resolutions Passed at the Fourteenth Meeting of the Seventh Session of the Board of First Tractor Company Limited" published on 25 August 2017 on the website of the Shanghai Stock Exchange); on 17 October 2017, the Company and YTO entered into equity transfer agreement (see "Announcement on H shares of YTO" published on 18 October 2017 on the website of the Shanghai Stock Exchange), and completed the equity transfer on 7 December 2017, and YTO Belarus Technology Company Limited became the wholly-owned subsidiary of the Company.

SIGNIFICANT EVENTS (CONTINUED)

(III) 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
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 11 July 2017 and the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 10 July 2017.
During the Reporting Period, the Company provided a total of RMB15 million of entrust loans to Changtuo Company through China YTO Group Finance Company Limited.	For details, please refer to the “Announcement on the Provision of Entrusted Loans and Connected Transactions” of the Company published on the Shanghai Stock Exchange on 29 December 2016 and the announcement of the Company published on the website of the Stock Exchange on 28 December 2016.

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	/	7 March 2013	/	/	/	/	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.

SIGNIFICANT EVENTS (CONTINUED)

(II) Guarantees

Unit: Yuan Currency: RMB

Guarantor	Relationship of the Guarantor with the Company	Beneficiary	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 counter guarantee	Whether it is a connected party guarantee	Connected relationship
			Amount of the guarantee	Date of guarantee (Date of agreement)	Commencement date of guarantee	End date of guarantee	Type of guarantee						
The Company	Company headquarter	Business dealers of Dianpiaotong	160,768,000	13 June 2017			Guarantee with joint liability	No	No	0	Yes	No	
Luoyang Changxing Agricultural Machinery Co., Ltd.	Controlled subsidiary	Buyer credit business customer	16,097,840	16 August 2017			Guarantee with joint liability	No	No	0	Yes	No	

Total amount of guarantees provided during the Reporting Period (excluding guarantees provided for subsidiaries)	242,849,840
Total outstanding guarantee amount as at the end of the Reporting Period (A) (excluding guarantees provided for subsidiaries)	176,865,840

Guarantees provided by the Company and its subsidiaries for its subsidiaries

Total amount of the guarantees provided to subsidiaries during the Reporting Period	71,011,500
Total outstanding guarantee amount of the guarantees provided to subsidiaries as at the end of the Reporting Period (B)	69,011,500

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

Total amount of guarantees (A+B)	245,877,340
Total amount of guarantees as a percentage to the net assets of the Company (%)	5.13

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)	215,877,340
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)	215,877,340

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

(1) General Entrusted assets management

Unit: Yuan Currency: RMB

Type	Source of fund	Amount incurred	Amount not yet due	Amount overdue and not recovered
Principal guaranteed short-term wealth management	Own funds	1,900,000,000.00	700,000,000.00	0.00

(2) Individual Entrusted assets management

Unit: Yuan Currency: RMB

Trustee	Categories of entrusted assets	Amount of entrusted assets	Commencement date of the entrusted assets management	End date of entrusted assets management	Source of fund	Use of fund	Calculation method of remuneration	Annual rate of return	Expected gains (if any)	Actual gains or loss	Actual recovery	Whether it passed the legal procedures	Whether there is entrusted assets management in the future	Amount provided for impairment (if any)
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	200,000,000.00	3 January 2017	3 July 2017	Own funds		As agreed on contract		3,967,123.29	3,967,123.29	200,000,000.00	Yes		0
Huashan Branch of ICBC	Principal guaranteed short-term wealth management	100,000,000.00	13 April 2017	17 October 2017	Own funds		As agreed on contract		1,793,150.68	1,793,150.68	100,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	30 June 2017	1 August 2017	Own funds		As agreed on contract		210,410.96	210,410.96	50,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	30 June 2017	4 July 2017	Own funds		As agreed on contract		15,890.42	15,890.42	50,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	5 July 2017	9 October 2017	Own funds		As agreed on contract		604,931.51	604,931.51	50,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	2 August 2017	3 November 2017	Own funds		As agreed on contract		548,219.18	548,219.18	50,000,000.00	Yes		0
Huashan Branch of ICBC	Principal guaranteed short-term wealth management	150,000,000.00	7 August 2017	6 November 2017	Own funds		As agreed on contract		1,323,287.67	1,323,287.67	150,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	300,000,000.00	23 August 2017	25 September 2017	Own funds		As agreed on contract		1,139,178.08	1,139,178.08	300,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	24 August 2017	24 November 2017	Own funds		As agreed on contract		592,328.77	592,328.77	50,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	25 August 2017	23 November 2017	Own funds		As agreed on contract		579,452.05	579,452.05	50,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	600,000,000.00	30 September 2017	8 January 2018	Own funds		As agreed on contract		7,232,876.71			Yes		0
Jianxi Branch of Agricultural Bank of China	Principal guaranteed short-term wealth management	100,000,000.00	12 October 2017	25 December 2017	Own funds		As agreed on contract		851,506.85	851,506.85	100,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	29 November 2017	4 December 2017	Own funds		As agreed on contract		12,602.72	12,602.72	50,000,000.00	Yes		0
Jinghua Branch of Bank of Communications	Principal guaranteed short-term wealth management	50,000,000.00	5 December 2017	2 July 2018	Own funds		As agreed on contract		1,345,616.44			Yes		0
Luoyang Branch of Zhongyuan Bank	Principal guaranteed short-term wealth management	50,000,000.00	6 December 2017	8 March 2018	Own funds		As agreed on contract		541,917.81			Yes		0

SIGNIFICANT EVENTS (CONTINUED)

2. Entrusted loans*(1) General Entrusted loans*

Unit: Yuan Currency: RMB

Type	Source of fund	Amount incurred	Amount not yet due	Amount overdue and not recovered
Entrusted loans	Own funds	164,000,000.00	210,000,000.00	0.00

(2) Individual Entrusted loans

Unit: Yuan Currency: RMB

Trustee	Categories of entrusted loan	Amount of entrusted loan	Commencement date of the entrusted loan	End date of entrusted loan	Source of fund	Use of fund	Calculation method of remuneration	Annual rate of return	Expected gains (if any)	Actual gains or loss	Actual recovery	Whether it passed the legal procedures	Whether there is entrusted loan in the future	Amount provided for impairment (if any)
YTO Shentong	Entrusted loans	14,000,000.00	6 February 2016	6 February 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	12,000,000.00	15 February 2016	15 February 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	11,000,000.00	18 March 2016	18 March 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	9,000,000.00	28 July 2016	28 July 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	20,000,000.00	23 October 2017	23 October 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	20,000,000.00	26 October 2017	26 October 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	13,000,000.00	21 July 2017	21 July 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	20,000,000.00	28 July 2017	28 July 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	25,000,000.00	10 August 2017	10 August 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	14,000,000.00	29 August 2017	29 August 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	7,000,000.00	23 November 2017	23 November 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Shentong	Entrusted loans	7,000,000.00	27 November 2017	27 November 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	500,000.00	2 June 2017	2 June 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	2,000,000.00	16 November 2017	16 November 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	2,000,000.00	21 November 2017	21 November 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	1,000,000.00	10 January 2017	10 January 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	1,000,000.00	24 January 2017	24 January 2018	Own funds	Production and operation		5.655%				Yes		0

SIGNIFICANT EVENTS (CONTINUED)

Trustee	Categories of entrusted loan	Amount of entrusted loan	Commencement date of the entrusted loan	End date of entrusted loan	Source of fund	Use of fund	Calculation method of remuneration	Annual rate of return	Expected gains (if any)	Actual gains or loss	Actual recovery	Whether it passed the legal procedures	Whether there is entrusted loan in the future	Amount provided for impairment (if any)
YTO Transportation	Entrusted loans	500,000.00	23 February 2017	23 February 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	500,000.00	9 March 2017	9 March 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	1,000,000.00	27 March 2017	27 March 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	14,000,000.00	14 July 2017	14 July 2018	Own funds	Production and operation		5.655%				Yes		0
YTO Transportation	Entrusted loans	500,000.00	24 October 2017	24 October 2018	Own funds	Production and operation		5.655%				Yes		0
Changtuo Company	Entrusted loans	6,000,000.00	9 January 2017	9 January 2018	Own funds	Production and operation		5.655%				Yes		0
Changtuo Company	Entrusted loans	2,600,000.00	7 June 2017	7 June 2018	Own funds	Production and operation		5.655%				Yes		0
Changtuo Company	Entrusted loans	1,000,000.00	25 September 2017	25 September 2018	Own funds	Production and operation		5.655%				Yes		0
Changtuo Company	Entrusted loans	2,400,000.00	23 November 2017	23 November 2018	Own funds	Production and operation		5.655%				Yes		0
Changtuo Company	Entrusted loans	3,000,000.00	22 December 2017	22 December 2018	Own funds	Production and operation		5.655%				Yes		0

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
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)	1,407,340.35	No

SIGNIFICANT EVENTS (CONTINUED)

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

1. The face value per held-to-maturity investment is RMB100.
2. 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 published on the website of the Stock Exchange.)
3. For details of the litigation, please refer to “VI.14 Held-to-maturity investments” in Section XIII Financial Statement in the annual report.

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 2017, the Company conducted the one-to-one targeted poverty alleviation activities for poverty families in Zhifang Village; we helped promote the sales and marketing of the green agricultural products in Zhifang Village with sales income reaching RMB900,000, which substantially improved the living standards of the local poverty families. During the season of wheat harvest, we established our Dongfanghong tractor team to commence the three summer services activities. In 2017, the 19 targeted poverty families in poverty alleviation activities went out of poverty.

SIGNIFICANT EVENTS (CONTINUED)

3. Effect of Targeted Poverty Alleviation

Unit: 0'000 Currency: RMB

Index

I. General information

Including:	1. Capital	90
	2. Funds converted from materials	15.32
	3. Number of poor people helped to be removed from administrative record for poverty registering (<i>Person</i>)	66

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 tourism
- Poverty alleviation through E-commerce
- Poverty alleviation through asset profit
- Poverty alleviation through science and technology
- Others

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 (*Person*)

66

Number and implementation 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 RMB900,000 ; the Company donated agricultural machinery with the value of RMB138,000 to Zhifang Village and supported the three summer services activities.

SIGNIFICANT EVENTS (CONTINUED)

4. Follow-Up Targeted Poverty Alleviation Planning

Based on the resource endowments of poverty stricken areas, we focused on resolving the prominent problems restricting the local development with market-oriented approach, and highlighted the function of independent development of poverty alleviation areas. With deepening industrial cooperation, we established the green supply chain in poverty alleviation areas and further developed the products of Dongfanghong love tofu noodles factory to develop collective economy in poverty stricken areas, with the aim of making every poverty family have a stable income. We intensified occupational skills training and employment service for poverty families, conducted labor service cooperation and promoted job transfer in the original and nearest place, so as to achieve job transfer of members of unemployed poverty families with labour capacity and desire for employment.

(II) Social responsibility

For details of the social responsibility performance of the Company, please refer to the “2017 Social Responsibility Report” of the Company published on the website of Shanghai Stock Exchange and the “2017 Environmental, Social and Governance Report” of the Company published on the website of the Stock Exchange.

(III) Environment Information

1. Companies that are not in severely polluting industries

For information on ecological protection, pollution prevention and environmental responsibility performance of the Company, please refer to the “2017 Social Responsibility Report” of the Company published on the website of Shanghai Stock Exchange and the “2017 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) Changes in Ordinary Shares

1. Changes in ordinary shares

Unit: Ten thousand shares

	Before the Change		Issue new stock	Changes in current year (+, -)			Subtotal	After the change	
	Number	Percentage (%)		Bonus share	Equity fund transferred into shares	Others		Number	Percentage (%)
I. Shares subject to selling restrictions	0	0					0	0	
II. Non-restricted Circulating shares	99,590	100				-1,005	-1,005	98,585	100
1. Ordinary shares denominated in RMB	59,391	59.64						59,391	60.24
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	40,199	40.36				-1,005	-1,005	39,194	39.76
4. Others									
III. Total number of ordinary shares	99,590	100				-1,005	-1,005	98,585	100

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 "Resolution on the General Mandate to Repurchase some H Shares by the Company" respectively, pursuant to which the general mandate shall be valid for the period commencing from 27 May 2016 and ending on 26 May 2017. During the above-mentioned validity period, the Company started to implement the repurchase of H Shares in July 2016 to repurchase a total of 10,050,000 H Shares. During the Reporting Period, the Company repurchased a total of 4,008,000 H Shares. As at the date of this Report, the repurchased H Shares had been cancelled, and the change of business registration procedure in respect of registered capital reduction of the Company had been completed. After the capital reduction, the total number of the shares of the Company was 985,850,000 shares, and its registered capital was RMB985,850,000.

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

II. ISSUANCE AND LISTING OF SECURITIES

(I) Issuance of securities as 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 shares	27 July 2012	RMB5.40	150,000,000	8 August 2012	150,000,000	/
Corporate bonds						
12 First Tractor 01	4 March 2013	4.8%	800,000,000	2 April 2013	800,000,000	3 March 2018
12 First Tractor 02	30 May 2013	4.5%	700,000,000	26 June 2013	700,000,000	29 May 2018

(II) Changes in total number of ordinary shares, shareholding and assets and liabilities of the Company

Details of the changes in total number of ordinary shares and shareholding of the Company, please refers to the Section headed “Changes in ordinary shares”.

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>)	37,685 (37,317 holders of A Shares; 368 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>)	35,030 (34,666 holders of A Shares; 364 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	Number of shares pledged or frozen Nature of shares	Number	Nature of shareholder
YTO Group Corporation	0	410,690,578	41.66	0	Nil	0	State-owned legal person
HKSCC NOMINEES LIMITED (Note 1)	-934,000	388,111,399	39.37	0	Unknown	/	Overseas legal person
China Huarong Asset Management Co., Ltd.	-1,651,000	14,069,296	1.43	0	Unknown	/	State-owned legal person
China Construction Bank Corporation Henan Province Branch	0	9,444,950	0.96	0	Unknown	/	Other
Tibet Dongfang Kaishuo Investment Company Limited	4,090,935	4,090,935	0.41	0	Unknown	/	Domestic non state-owned legal person
Hong Kong Securities Clearing Company Limited (Note 2)	1,341,662	2,795,418	0.28	0	Unknown	/	Overseas legal person
Zhou Zhihao	2,155,400	2,155,400	0.22	0	Unknown	/	Domestic natural person
Xu zuquan	2,000,000	2,000,000	0.20	0	Unknown	/	Domestic natural person
Jiao Yanfeng	-40,000	960,000	0.10	0	Unknown	/	Domestic natural person
LIU HON NAM	0	726,000	0.07	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		Numbers
YTO Group Corporation	410,690,578	Ordinary shares denominated in RMB		410,690,578
HKSCC NOMINEES LIMITED (<i>Note 1</i>)	388,111,399	Overseas listed foreign shares		388,111,399
China Huarong Asset Management Co., Ltd.	14,069,296	Ordinary shares denominated in RMB		14,069,296
China Construction Bank Corporation Henan Province Branch	9,444,950	Ordinary shares denominated in RMB		9,444,950
Tibet Dongfang Kaishuo Investment Company Limited	4,090,935	Ordinary shares denominated in RMB		4,090,935
Hong Kong Securities Clearing Company Limited (<i>Note 2</i>)	2,795,418	Ordinary shares denominated in RMB		2,795,418
Zhou Zhihao	2,155,400	Ordinary shares denominated in RMB		2,155,400
Xu zuquan	2,000,000	Ordinary shares denominated in RMB		2,000,000
Jiao Yanfeng	960,000	Ordinary shares denominated in RMB		960,000
LIU HON NAM	726,000	Overseas listed foreign shares		726,000

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;

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 2017, 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	Total number of shares interested ¹	Percentage of the relevant issued class of share capital ¹ (%)	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)	41.66 (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

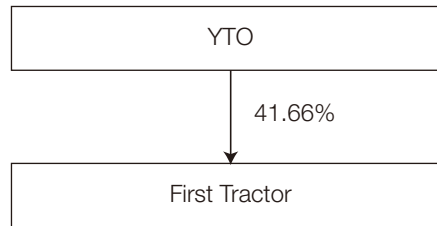
(I) Controlling Shareholder

1 Corporate

Name	YTO Group Corporation
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

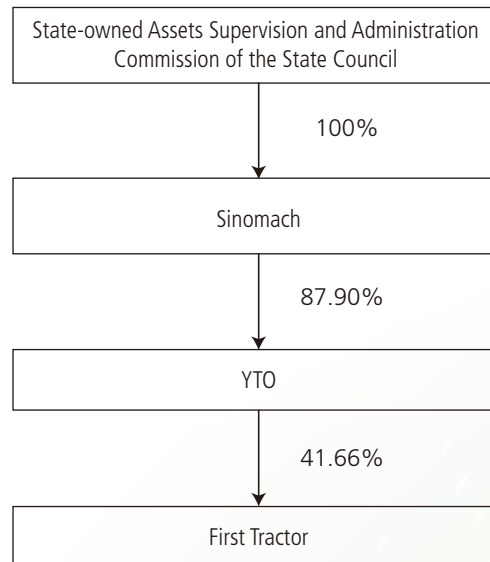


(II) Ultimate Controller

1 Name of the Ultimate Controller

Name 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



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 39.37% of H shares, are held on behalf of various clients.

CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS (CONTINUED)

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.

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, pursuant to which the general mandate shall be valid for the period commencing from 27 May 2016 and ending on 26 May 2017. The Company started to implement the repurchase of H Shares since July 2016 under such general mandate. As at 26 May 2017, a total of 10,050,000 H Shares (including the 4,008,000 H Shares repurchased during the Reporting Period) were repurchased on the Stock Exchange for a total consideration of HK\$41,944,440 (excluding commission and other expenses), and as of 18 July 2017, the repurchased H Shares had been cancelled, and the change of business registration procedure in respect of registered capital reduction of the Company had been completed. After the capital reduction, the total number of the shares of the Company was 985,850,000 shares, and its registered capital was RMB985,850,000.

The monthly breakdown of the Shares repurchased during the Reporting Period is as follows:

Month of Repurchase	Number of Shares repurchased	The highest price paid per Share (HK\$)	The lowest price paid per Share (HK\$)	Aggregate consideration paid (HK\$)
May 2017	4,008,000	4.13	3.95	16,176,360
Total	4,008,000			16,176,360

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 (before tax) received from the Company during the Reporting Period <i>(RMB'0'000)</i>	Whether he/she received remuneration from related parties of the Company
Zhao Yanshui	Executive Director and Chairman	Male	54	2015.10.29	2018.10.28	0	0	0	/	88.74	Yes <i>(Note 1)</i>
Wang Erlong	Executive Director and Vice Chairman	Male	53	2015.10.29	2018.10.28	0	0	0	/	89.29	Yes <i>(Note 1)</i>
Wu Yong	Executive Director and General Manager	Male	52	2015.10.29	2018.10.28	0	0	0	/	103.57	Yes <i>(Note 1)</i>
Li Hepeng	Non-executive Director	Male	64	2015.10.29	2018.10.28	0	0	0	/	0.46	Yes <i>(Note 2)</i>
Xie Donggang	Non-executive Director	Male	61	2015.10.29	2018.10.28	0	0	0	/	0.57	Yes <i>(Note 2)</i>
Li Kai	Non-executive Director	Male	63	2015.10.29	2018.10.28	0	0	0	/	0.59	Yes <i>(Note 2)</i>
Yin Dongfang	Non-executive Director	Male	56	2015.10.29	2018.10.28	0	0	0	/	0	No
Xing Min	Independent non-executive Director	Male	64	2015.10.29	2018.10.28	0	0	0	/	7.73	No
Wu Tak Lung	Independent non-executive Director	Male	52	2015.10.29	2018.10.28	10,000	10,000	0	/	7.94	No
Yu Zengbiao	Independent non-executive Director	Male	62	2015.10.29	2018.10.28	0	0	0	/	8.18	No
Yang Minli	Independent non-executive Director	Female	52	2015.10.29	2018.10.28	0	0	0	/	7.83	No
Li Pingan	Chairman of the Board of Supervisors	Male	53	2015.10.29	2018.10.28	0	0	0	/	52.58	Yes <i>(Note 1)</i>
Xu Weilin	Supervisor	Male	55	2015.10.29	2018.10.28	0	0	0	/	0	Yes <i>(Note 2)</i>
Wang Jianjun	Staff Representative Supervisor	Male	41	2015.10.29	2018.10.28	0	0	0	/	32.98	No
Zhao Guozhong	Staff Representative Supervisor	Male	57	2015.10.29	2018.10.28	0	0	0	/	27.97	No
Wang Yong	Supervisor	Male	49	2015.10.29	2018.10.28	0	0	0	/	5.95	No
Huang Ping	Supervisor	Male	49	2015.10.29	2018.10.28	0	0	0	/	6.41	No
Wang Kejun	Deputy General Manager	Male	53	2015.10.30	2018.10.28	0	0	0	/	69.79	Yes <i>(Note 1)</i>
Liu Jiguo	Deputy General Manager	Male	53	2015.10.30	2018.10.28	0	0	0	/	77.58	Yes <i>(Note 1)</i>
Su Wensheng	Deputy General Manager	Male	49	2015.10.30	2018.10.28	0	0	0	/	92.72	No <i>(Note 3)</i>
Yao Weidong	Financial Controller	Male	51	2015.10.30	2018.10.28	0	0	0	/	91.59	No <i>(Note 3)</i>
Zhu Weijiang	Deputy General Manager	Male	46	2015.10.30	2018.10.28	0	0	0	/	93.58	No <i>(Note 3)</i>
Song Yuping	Deputy General Manager	Male	53	2015.10.30	2018.10.28	0	0	0	/	91.13	No <i>(Note 3)</i>
Yu Lina	Deputy General Manager and Secretary to the Board	Female	47	2015.10.30	2018.10.28	0	0	0	/	92.81	No <i>(Note 3)</i>
Total	/	/	/	/	/	10,000	10,000	0	/	1,049.99	/

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

- Note 1:* The remuneration of certain Directors and senior management received from related parties mainly relating to the roles held by them in YTO in 2013. During the Reporting Period, YTO adopted a compensation incentive assessment system for its senior management, pursuant to which the performance bonus for 2013 was paid.
- Note 2:* During the Reporting Period, such Directors or Supervisors were employed in related parties of the Company and received remuneration.
- Note 3:* During the Reporting Period, the total compensation before tax received by such senior management of the Company included mid-to-long term incentives paid from June 2012 to December 2013.

Name	Major work experience
Zhao Yanshui	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 and Chairman of Luoyang Intelligent Agricultural Equipment Research Institute Co., Ltd. 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.
Wang Erlong	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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Wu Yong	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 degree of science. Mr. Wu has extensive experience in business operation, human resource management and strategic planning.
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, Bearing Science & Technology Co., Ltd. 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 and Lanpec Technologies Limited and Chairman of 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 the Northeast Heavy Machinery College. Mr. Li has extensive experience in engineering design, engineering project management and forging technology, etc.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
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.
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 and Investment Institute, the Association of Chartered Certified Accountants, Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries, a visiting professor of School of Business, Hong Kong Baptist University, 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, Jinxing National Machine Holding Co., Ltd., China Machinery Engineering Corporation, Sinomax Group Co., Ltd., Olympic Circuit Technology Co., Ltd., Sinotrans Shipping Limited and Henan Jinma Energy Company Limited. Mr. WU was awarded the bachelor's degree of Accounting by the Hong Kong Baptist University and the master's degree of business administration (MBA) jointly by the University of Manchester and the University of Wales. 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 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Yang Minli	<p>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 experienced in the field of agricultural machinery.</p>
Li Pingan	<p>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.</p>
Xu Weilin	<p>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.</p>
Wang Jianjun	<p>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 Group Corporation, 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.</p>

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
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.
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 China-Africa Heavy Industry Investment Co., Ltd., and Executive Director of YTO International Economic and Trade Co., Ltd. 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
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 (Luoyang) Drive Axle Company Limited and YTO France SAS and Director of Chang Tuo Agricultural Machinery Equipment Group Co., Ltd. Mr. Su joined YTO in 1991, and served as the General Manager Assistant of the Company, etc. Mr. Su studied in 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 Company Limited, Director of Brilliance China Machinery Holdings Company Limited and Luoyin Financial Leasing Co., Ltd., and Supervisor of Luoyang Changhong Industrial and Trade Company Limited and Luoyang Changxing Agricultural Machinery Co., Ltd. Mr. Yao joined YTO in 1989, and served as the Deputy Chief Accountant, Chief Accountant, etc. Mr. Yao studied in the 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.
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 Luoyang Changxing Agricultural Machinery Co., Ltd., Chairman of Luoyang Zhongshou Machinery & Equipment Co., Ltd., Director of YTO Finance Company Limited and China-Africa Heavy Industry Investment Co., Ltd. Mr. Zhu joined YTO in 1992, and served as the General Manager Assistant of the Company, etc. Mr. Zhu studied in the 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 studied in the 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.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Name	Major work experience
Yu Lina	Born in August 1970, economist, level two corporate legal advisers, 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, Supervisor of China SINOMACH Heavy Industry Corporation. 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, corporate governance and capital operation, etc.

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.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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 RMB10.4999 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

RMB10.4999 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	6,675
Number of existing employees of major subsidiaries	3,993
Total existing employees	10,668
Number of retired employees who are pensioned by the parent company and major subsidiaries	14,767

Staff composition

Category	Number of persons
Production staff	6,329
Sales staff	798
Technical staff	1,557
Administrative staff	1,729
Service staff	255
Total	<u>10,668</u>

Educational Background

Education level	Number of persons (person)
Postgraduate and above	352
Undergraduate	2,281
Diploma	2,081
Below diploma	5,954
Total	<u>10,668</u>

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 1,014 training courses were organized and the number of trained staff was 43,687.

V. OTHERS

1. 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)

2. Directors', Supervisors' and Chief executives' interests and short positions in the shares, underlying shares and debentures

As at 31 December 2017, 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, 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)	0.0026	0.0010	H Share

3. 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).

4. 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.

5. Responsibilities of Directors and Senior Management

No permitted indemnity provision was in force during the Reporting period.

The Company has arranged appropriate insurance to cover the liabilities in respect of legal action against the Directors, Supervisors and senior management of the Company that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis.

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, internal control system and operation of the Company. The corporate governance of the Company is in line with the requirements for the corporate governance of the Company of the CSRC. During the Reporting Period, the corporate governance of the Company was as follows:

1. Amendments to the corporate governance documents of the Company: According to the H shares repurchased by virtue of the approval granted by the Company at the 2015 annual general meeting, relevant provisions relating to the total share capital in the “Articles of Association” of the Company were revised.
2. Shareholders and General Meetings: During the Reporting Period, the Company convened 5 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 thereupon or 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, objective 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 judgment 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.
7. Information disclosure: the Company strictly complied with the “Code of Corporate Governance for Listed Companies” to perform its obligation of information disclosure, and timely disclosed relevant information including the regular reports and temporary announcement in a fair, accurate and completed way strictly based on a fair, objective, and open principles.

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
2017 First Extraordinary General Meeting	3 March 2017	“Announcement of First Tractor Company Limited on Resolution of 2017 First Extraordinary General Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	4 March 2017
2016 Annual General Meeting	13 June 2017	“Announcement of First Tractor Company Limited on Resolution of 2016 Annual General Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	14 June 2017
2017 First A Share Class Meeting	13 June 2017	“Announcement of First Tractor Company Limited on Resolution of 2017 First A Share Class Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	14 June 2017
2017 First H Share Class Meeting	13 June 2017	“Announcement of First Tractor Company Limited on Resolution of 2017 First H Share Class Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	14 June 2017
2017 Second Extraordinary General Meeting	15 November 2017	“Announcement of First Tractor Company Limited on Resolution of 2017 Second Extraordinary General Meeting” published on www.sse.com.cn of Shanghai Stock Exchange	16 November 2017

CORPORATE GOVERNANCE (CONTINUED)

Explanation on General Meetings:

During the Reporting Period, resolutions presented at the 2017 First Extraordinary General Meeting, the 2016 Annual General Meeting, 2017 First A Share Class Meeting, the 2017 First H Share Class Meeting and the 2017 Second Extraordinary General Meeting of the Company were all considered and approved.

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	9	9	7	0	0	No	1
Wang Erlong	No	9	9	7	0	0	No	5
Wu Yong	No	9	9	7	0	0	No	0
Li Hepeng	No	9	9	7	0	0	No	0
Xie Donggang	No	9	9	7	0	0	No	3
Li Kai	No	9	9	7	0	0	No	0
Yin Dongfang	No	9	8	7	1	0	No	4
Xing Min	Yes	9	9	7	0	0	No	1
Wu Tak Lung	Yes	9	7	7	2	0	No	0
Yu Zengbiao	Yes	9	8	7	1	0	No	0
Yang Minli	Yes	9	9	7	0	0	No	3

Number of Board meetings convened during the year	9
Among which: number of physical meetings	2
Number of meetings held by means of telecommunication	7
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 at the same date of the annual report.

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 a meeting on 25 December 2017. All members were present at the meetings, which considered and approved the 2016 performance appraisal on the senior management of the Company.

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 external 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 seven 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 2017	9 January 2017	<ol style="list-style-type: none"> 1. Plan for preparation and disclosure of annual report of the Company in 2016 2. Plan for preparation of auditing of annual financial report of the Company in 2016 3. Proposal for preparation of annual internal control evaluation of the Company in 2016 	All were passed
Second meeting in 2017	23 February 2017	Resolution on the increase of cap amounts for daily connected transactions in relation to material procurement, sale of goods and composite services in 2017 and 2018	
Third meeting in 2017	24 March 2017	<ol style="list-style-type: none"> 1. The audited financial report of the Company in 2016 2. The annual internal control evaluation report of the Company in 2016 3. Recommendations on appointment of annual financial advisor and internal control auditor of the Company in 2017 4. The performance report of the Audit Committee under the Board in 2016 	
Fourth meeting in 2017	21 April 2017	The first quarterly report of the Company in 2017	

CORPORATE GOVERNANCE (CONTINUED)

Session of meeting	Date	Resolutions	Results
Fifth meeting in 2017	18 August 2017	<ol style="list-style-type: none"> 1. The interim report of the Company in 2017 2. The execution report of connected transactions for the first half of 2017 	
Sixth meeting in 2017	26 September 2017	<ol style="list-style-type: none"> 1. Resolution on the change of the financial advisor and internal control auditor of the Company in 2017 2. Resolution on the cap amounts for daily connected transactions between ZF YTO Drive Axle and the Company from 2018 to 2020 	
Seventh meeting in 2017	23 October 2017	The third quarterly report of the Company in 2017	

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 2017 prepared in accordance with the PRC accounting standards for business enterprise and the internal control evaluation report of the Company in 2017 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.

CORPORATE GOVERNANCE (CONTINUED)

During the Reporting Period, the Strategy and Investment Committee under the seventh session of the Board of the Company had convened a meeting on 23 August 2017 to review and approve resolution on the acquisition of equity as well as additional investment of US\$7 million in YTO Belarus Technology Company Limited and resolution as regarding investment projects of small and medium construction line of foundry plant.

V. REPORT OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Board of Supervisors of the Company performed its duties of the Board of supervisors conferred by the “Company Law”, “Code of Corporate Governance for Listed Companies”, “Articles of Association” of the Company and “Procedural Rules for Meetings of the Board of Supervisors” for the development of the Company and the legal interest of shareholders as a whole, and supervised the operation activities, financial position, and the performance of duties by the Directors and senior management of the Company to promote a sound function, so as to safeguard the interests of the Company and shareholders.

I. Meetings of the Board of Supervisors

During the Reporting Period, the Board of Supervisors of the Company convened five meetings. Details of the meetings of the Board of Supervisors are as follows:

Session of meeting	Date	Newspapers of disclosure	Resolutions	Disclosure date
the sixth meeting of the seventh session of the Board of Supervisors	28 March 2017	China Securities Journal and Shanghai Securities News	considered and approved resolutions including the 2016 annual report and annual report summary, 2016 annual result announcement, 2016 dividend distribution proposal, 2016 social responsibility report, 2016 internal control self-evaluation report, and special report on deposits and actual use of raised funds of the Company	29 March 2017
the seventh meeting of the seventh session of the Board of Supervisors	26 April 2017	/	considered and approved the 2017 first quarterly report of the Company	N/A
the eighth meeting of the seventh session of the Board of Supervisors	24 August 2017	China Securities Journal and Shanghai Securities News	considered and approved the 2017 interim report, 2017 interim results announcement and the special report on deposits and actual use of raised funds in the first half of 2017 of the Company	25 August 2017
the ninth meeting of the seventh session of the Board of Supervisors	26 October 2017	/	considered and approved the 2017 third quarterly report of the Company	N/A
the tenth meeting of the seventh session of the Board of Supervisors	30 November 2017	China Securities Journal and Shanghai Securities News	considered and approved the resolution on the use of surplus raised funds from construction project of Xinjiang agricultural equipment to permanently replenish working capital	1 December 2017

CORPORATE GOVERNANCE (CONTINUED)

(II) Work of the Board of Supervisors of the Company in 2017

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

During the Reporting Period, the Board of Supervisors had presented all on-site Board Meetings and general meetings, and reviewed all matters voted by the Board, supervised the convening process, decisions of general meetings and Board meetings and the implementation of resolutions of the general meeting by the Board, and timely reminded the possible risk of the Board and senior management 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 2017 Annual Report. It truly and accurately reflected the financial position and operating results of the Company.

3. *Inspection on the use of raised funds*

- (1) 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.
- (2) The use of surplus raised funds from construction project of Xinjiang agricultural equipment to permanently replenish working capital by the Company is conducive to the increase of funding utilization, to the satisfaction of the actual demand for operations. Such act complies with the relevant requirements on the management of proceeds of the CSRC and Shanghai Stock Exchange. There was no shifting in disguise of the investment of raised funds or any damage to the interests of the shareholders.

CORPORATE GOVERNANCE (CONTINUED)

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 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” of the Company, disclosed in a timely and sufficient basis, and did not damage the interests of the Company and the shareholders.

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 was of the view that internal control system of the Company was implemented in an effective way and internal audit department was well equipped with personnel and other resources, thus ensuring a full and effective implementation and supervision on fundamental activities of internal control. The evaluation report on internal control of 2017 issued by the Company gave a true and objective picture of the establishment and implementation of the internal control system 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 2017, the Company worked on information disclosure. Meanwhile, the Company communicated with investors in the form of road show by management, general meeting, telephone conferences, online communications, investor reception, etc., to help investors understand the Company's operation and management situation. The Company's 2017 annual investor relations management was in line with the requirements of the “Management System for Investor Relations”.

CORPORATE GOVERNANCE (CONTINUED)

7. *Audit on the periodic report of the Company*

During the Reporting Period, the Board of Supervisors of the Company considered and approved the four periodic reports 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 and “Articles of Association” of the Company, the content and form of which conformed to the requirements of the CSRC, the Shanghai Stock Exchange, and the Hong Kong Stock Exchange, the information contained therein gave 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 2017 annual financial position of the Company has been audited by Da Hua Certified Public Accountants, which issued an unqualified standard audit report. The 2017 Annual Report truly reflected the financial position and operating results of the Company.

In 2018, the Board of Supervisors of the Company will continue to perform their duties in accordance with the requirements of the “Company Law”, and the “Articles of Association” of the Company. While independently perform duties according to the laws, the Board of Supervisors of the Company will further strengthen the internal control, implement the supervision mechanism, improve the working procedures, expand the supervision scope, and enhance supervision capability, so as to better fulfill their supervision responsibilities on the finance, risk control, act of conduct of directors and senior management of the Company and safeguard the legitimate interests of the Company and all its investors and facilitate its healthy and sustainable development.

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 of the Company into two parts: annual remuneration 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.

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

For details, please refer to the “2017 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 “2017 Annual Internal Control Audit Report of First Tractor Company Limited”.

Whether there is disclosure of internal control audit report: Yes

CORPORATE GOVERNANCE (CONTINUED)

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. 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, Ms. Yang Minli independent non-executive Directors and Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Yin Dongfang, non-executive Directors, did not attend the general meeting of the Company held on 3 March 2017; Mr. Wu Tak Lung, Mr. Yu Zengbiao and Mr. Xing Min, independent non-executive Directors and Mr. Li Hepeng and Mr. Li Kai, non-executive Directors, did not attend the general meeting of the Company held on 13 June 2017, A Shareholders’ Class Meeting and H Shareholders’ Class meeting; and Mr. Xing Min, Mr. Wu Tak Lung, Mr. Yu Zengbiao and Ms. Yang Minli, 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 15 November 2017. 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, and the Company has informed the opinions expressed by Shareholders contained in the minutes of the general meeting to all Directors, 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.
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.

CORPORATE GOVERNANCE (CONTINUED)

(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 the annual 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.

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 information disclosure announcement, and sending the operation information 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. The Directors, Supervisors, Senior Management of the Company have been organized to attend the training on improving the performance ability of Director, Supervisor, Senior Management of the Company organized by the CSRC and the Shanghai Stock Exchange, to further improve the compliance awareness in performance of Directors, Supervisors, Senior Management of the Company.

CORPORATE GOVERNANCE (CONTINUED)

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 45 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, which helped members of the Board to consider issues from different perspectives so as to enable the Board to be more deliberate and prudent in making any important decisions. A diversified Board provides guarantee and support for the scientific decision-making of the Board.

During the Reporting Period, the provisions on total share capital in "Articles of Association" of the Company was revised by the Company based on the repurchase and cancellation of H shares.

During the Reporting Period, the Board convened nine 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."

(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 at the general meeting which specifically define the duties and authority of the management.

CORPORATE GOVERNANCE (CONTINUED)

(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

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”.

(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 of this Annual Report.

(VIII) Risk Management and Internal Control

For details, please refer to “2017 Annual Internal Control Evaluation Report of First Tractor Company Limited” issued by the Company on the same date as this annual report on the website of the Shanghai Stock Exchange and the overseas regulatory announcement on the website of the Stock Exchange.

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.

CORPORATE GOVERNANCE (CONTINUED)

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 year, 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 “2017 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 2016 Annual Report, the 2017 First Quarterly Report, the 2017 Interim Report and the 2017 Third Quarterly 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.

(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 participating in Henan Listed Companies Association Online Reception Day, 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.

CORPORATE GOVERNANCE (CONTINUED)

(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 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	122225 01	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	122253 02	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 2016 on 6 March and 31 May 2017 on schedule and in full respectively.

As at the date of disclosure of the annual report, the Company has fully paid the principal together with interests due and payable for the last year in respect of the publicly issued corporate bond (Tranche I) of the Company for the year of 2012.

RELEVANT INFORMATION ON CORPORATE BONDS (CONTINUED)

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	021-22169999
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

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. 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)

VI. 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	2017	2016	Year-on-year	Reason for Change
			increase/decrease (%)	
Earnings before interest, taxes, depreciation and amortization	527,534,185.43	731,686,426.61	-27.9	
Current Ratio	1.09	1.27	-14.17	
Quick Ratio	0.94	1.10	-14.55	
Asset-liability ratio (%)	61.43	58.34	5.3	
EBITDA over total debt	0.06	0.09	-33.33	
Interest coverage ratio	1.39	3.35	-58.51	
Cash interest coverage ratio	-2.45	17.91	-113.68	Significant decrease in net cash flow from operating activities compared with the corresponding period of last year
EBITDA interest coverage ratio	3.68	6.15	-40.16	
Loan repayment rate (%)	100	100	0	
Interest coverage rate (%)	100	100	0	

VII. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the Company obtained a total of RMB6 billion credits from nine banks including ICBC, China Construction Bank, Agricultural Bank of China, Bank of Communications, Everbright Bank, Industrial Bank, and Zhongyuan Bank.

SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY

I. BASIC INFORMATION

China YTO Group Finance Company Limited (hereinafter referred to as “YTO Finance”) is a non-banking financial institution established as approved by the People’s Bank of China in August 1992 and commenced business operation on 28 December 1992. It is the first finance company of enterprise group in Henan province.

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.

Centering on the goal of development of the Group, YTO Finance adhered to the guiding principle of “based on the Group, serving principal businesses, conducting stable operation and making innovated development”, focused on strengthening centralized management of group development funds, developed new growth models and provided new financial management services, with the aim of becoming a well-recognised financial services provider.

In 2017, YTO Finance realized total profit of RMB103,861,500, representing a year-on-year increase of RMB77,662,500 or 296.43%. As at the end of December 2017, YTO Finance had total assets of RMB5,332,177,200, representing a year-on-year increase of RMB118,216,000 or 2.27%.

II. INFORMATION ABOUT BUSINESS OPERATION OF YTO FINANCE

(I) Information about business operation

Since its establishment, YTO Finance has adhered to the principle of conducting stable operation and carried out its business in strict compliance with the Company Law of the People’s Republic of China, Law of the People’s Republic of China on Regulation of and Supervision over the Banking Industry, Accounting Standards for Business Enterprises and Administration of Finance Companies of Enterprises Groups Procedures and other laws and regulations. It has played an irreplaceable and active role in promoting the operation and management of the Company and cutting down finance expenses of the members of the Company.

SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY (CONTINUED)

Continuous efforts have been made in improving its ability to provide financial services so as to fully support the development of the Group. YTO Finance continued to improve its financial services. In terms of the expansion of the foreign exchange business, YTO Finance was approved to commence foreign currency business by CBRC Henan Office. In terms of the assets management business, the ability of members of the Group to recover external funds was strengthened to ensure the smooth progress of funds settlement activities, contributing to an increased concentration of funds.

During the Reporting Period, the average asset scale of YTO Finance amounted to RMB5,176 million, with a capital adequacy ratio of 19.84%, a debt coverage ratio of 60.51%, a liquidity ratio of 46.47%, a non-performing loan of RMB700,000, and a non-performing asset ratio of 1.55%. The various regulatory indicators were in line with the regulatory requirements.

(II) Explanations on connected transactions

On 29 October 2015, the Resolution on Continuing Connected Transactions of the Company Between 2016 and 2018 was considered and approved at the first extraordinary general meeting of the Company in 2015, which mainly included transactions relating to Deposit Service Agreement, Loan Service Agreement, Bills Discounting Service Agreement and Bills Acceptance Service Agreement between YTO Finance and YTO as well as Interbank Business Services Agreement between YTO Finance and Sinomach Finance Co., Ltd.

During the Reporting Period, connected transactions conducted by YTO Finance complied with the terms of relevant agreements and the approved caps thereunder. For information about the specific figures, please refer to section VI. (XIV) of this annual report.

III. RISK CONTROL

In order to enhance internal control, guard against financial risks, safeguard the healthy and stable operation of the company, YTO Finance developed and implemented a series of system, procedures and methods, promoted the building of a comprehensive risk management system, and established a dynamic process and control mechanism for the purposes of risk prevention, risk control, and afterward supervision and correction for various business activities in accordance with the requirements of Guidelines on Internal Control of Commercial Banks, Administrative Measures for Comprehensive Risks and Internal Control of Group Members and other laws and regulations.

SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS OF THE COMPANY (CONTINUED)

(I) A governance structure based on the shareholders' general meeting, board of directors, board of supervisors and senior management

The shareholder' general meeting, board of directors, board of supervisors and the senior management of YTO Finance operated effectively in accordance with the relevant requirements of the Company Law and the articles of association of the company. YTO Finance has in place a sound governance structure, standardized management and operation and a checked and balanced organizational structure with reasonable division of labour, explicit division of roles and responsibilities and clear reporting lines, which laid the foundation necessary for effective risk management.

(II) Continuing to improve risk management system to enhance risk prevention level

By adhering to the principle of "proactive compliance and system guidance", YTO Finance has included internal control measures into various regulations and systems as well as the operation of various jobs, thus forming a mechanism to effectively identify risks and proactively avoiding violation of regulations. On the basis of risk examination and diagnosis, YTO Finance has completed the preparation of the Comprehensive Risk List of YTO Finance through a complete examination of the internal control system, business procedures and risks involved in various business, so as to conduct key supervision over the impact of potential risks and businesses which may subject to risks. The Solutions to Major Risks of YTO Finance has also been formulated, which specifies the risk management strategies and risk solutions, so as to facilitate the comprehensive risk management of YTO Finance.

(III) Continuing to improve the internal control system to achieve better internal control results

In light of the industry environment and according to relevant requirements of internal control assessment and management, YTO Finance has conducted a careful assessment on the effectiveness of design and operation of the internal control system based on the results of daily supervision and special examination of internal control, and made amendments to relevant system on the notification of any defects in internal control based on the criteria for determination of internal control defects. According to the self assessment of the internal control in 2017, YTO Finance carried out normal business operation in strict compliance with the requirements of the Administrative Measures for Group Financial Companies issued by the China Banking Regulatory Commission. It had high quality of assets, high capital adequacy ratio and sufficient provisions. And it has a sound and effective internal control and risk management system and the risks exposed to by its various risks were controllable.

AUDIT REPORT

DAHUASHENZI [2018] No.000038

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, 2017, 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, 2017, 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.



AUDIT REPORT (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.

We confirm that the following matters are key audits that need to be communicated in the audit report:

- I. Revenue recognition.
- II. Provision for accounts receivable impairment.
- III. Provision for inventories impairment.

(1) Revenue recognition

a. Audit matter

Sales revenue mainly comes from selling various types of tractors and accessories to dealers at home and abroad. In 2017, the sales revenue of main business was RMB7 billion 151 million 937 thousand and 400, accounting for 97% of the company's total revenue. Since revenue is one of the key performance indicators of a joint-stock company, there is an inherent risk of management to achieve specific goals or expectations. Therefore, we will identify the income of a joint-stock company as a key audit item.

b. Response measures in the audit

- I. We understand, evaluate, and test the procedure from the approval of the customer, the order to the income accounted and the related internal control.
- II. We obtain the company's sales policy and check the changes and effects on the policies of credit, sales incentives and so on.
- III. Check the company's sales confirmation based on orders, orders, receipt, invoices, refunds, etc.
- IV. Analyzing the rationality and reasons of the company's gross interest rate change.
- V. Taking Cut-off test of revenue recognition performance for the beginning and end of the 2017 period.
- VI. With the check of accounts receivable to perform the confirmation procedure.
- VII. Combining the sales policy of the company to find out the amount of reward to the dealer and the accounting treatment.

we believe that the overall assessment of revenue recognition by management is acceptable.

AUDIT REPORT (CONTINUED)

3. KEY AUDIT MATTERS (CONTINUED)**(2) Provision for accounts receivable impairment****a. Audit matter**

In the 2017 year, YTO Company increased the risk management of accounts receivable which is to identify the key units individually and track the return of the other units. As for the company which is unable to return the money in time, YTO Company would take legal measures for litigation and preservation. Individual identification involves lots of management judgment. Management needs to identify accounts receivable impairment account, make future judgement of future cash inflow and guarantee amount. In addition, the estimate and assumption of management is uncertain. As indicated in “VII. 5. Accounts Receivable” under section XIII Financial Report, the closing balance of accounts receivable amounted to RMB1,756.3241 million and bad debts provision for accounts receivable amounted to RMB518.0385 million. As the amount of bad debt preparation is significant for the financial statements and involves the estimation and judgement of future cash flows. we determine the impairment of accounts receivable as a key audit item.

b. Response measures in the audit

- I. Inspecting and testing the internal control which related to the daily management of accounts receivable and the final recovery assessment.
- II. Select samples from accounts receivable which provided for bad debts on individual basis to review management’s basis and rationality to estimate the expected future cash flow.
- III. Check the accuracy of the classification of accounts receivable aging.
- VI. Check the accuracy of calculation of accounts receivable aging in accordance with the provision for impairment.

Based on the implementation of the audit work, we believe that the judgment and estimates of the management of provision for accounts receivable are reasonable.

AUDIT REPORT (CONTINUED)

3. KEY AUDIT MATTERS (CONTINUED)

(3) Provision for inventories impairment

a. Audit matter

YTO Company is mainly engaged in the production of agricultural machinery and power machinery. Its main products are tractors, diesel engines and key components. The value of inventory is the lower one between cost and net realizable value. The net realizable value is the estimated price after deducting the cost that is expected to happen when completed, estimated sales expenses and related taxes. The management needs to make a major decision in determining the expected price and consider the future trend of market change with the historical price. As indicated in "VII. 10. Inventory" under section XIII Financial Report, the closing balance of inventory amounted to RMB1,258.2745 million and the provision for inventory depreciation amounted to RMB90.5934 million. Since the project involves a significant amount of money which requires significant management, we determine it as a key audit item

b. Response measures in the audit

- I. Inspecting and testing the internal control which related to the daily management of accounts receivable and the final recovery assessment.
- II. Select samples from accounts receivable which provided for bad debts on individual basis to review management's basis and rationality to estimate the expected future cash flow.
- III. Check the accuracy of the classification of accounts receivable aging.
- IV. Check the accuracy of calculation of accounts receivable aging in accordance with the provision for impairment.

Based on the implementation of the audit work, we believe that the judgment and estimates of the management of provision for the inventories impairment are reasonable.

AUDIT REPORT (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 2017 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.

Based on what we have done, we should report the fact if we determine that other information has a major misreport. In this respect, we have nothing to report.

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 the matters related to going concern (such as applicable) 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.

AUDIT REPORT (CONTINUED)

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.
- (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).

AUDIT REPORT (CONTINUED)

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

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.

DaHua Certified Public Accountants
(Special General Partnership)

Chinese Certified Public: Yu, Fanghong
(Project partner)
Chinese Certified Public: Lin, Haiyan

Beijing, China

March 29, 2018

CONSOLIDATED BALANCE SHEET

December 31st, 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Assets	Note VI	Ending balance	Beginning Balance
Current assets			
Monetary Funds	Note 1	3,292,984,287.50	3,261,735,812.98
Financial assets measured at fair value with changes in value recognized in profit or loss	Note 2	40,478,838.50	62,657,466.94
Derivative financial assets	Note 3		14,833,000.00
Notes receivable	Note 4	531,530,154.03	554,932,731.17
Accounts receivable	Note 5	1,238,285,603.95	674,313,323.03
Advances to suppliers	Note 6	233,704,609.47	143,734,037.70
Interest receivable	Note 7	14,148,062.85	12,027,545.45
Dividends receivable			
Other receivables	Note 8	123,425,502.13	104,926,297.50
Buying back the sale of financial assets	Note 9	80,207,776.70	354,848,615.72
Inventories	Note 10	1,167,681,087.61	1,014,713,967.01
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets	Note 11	1,694,694,921.00	1,412,930,377.64
Total current assets		8,417,140,843.74	7,611,653,175.14
Non-current assets			
Loans and advances to customers	Note 12	934,741,824.37	748,364,409.66
Financial assets available-for-sale	Note 13	188,129,341.41	235,733,900.15
Held-to-maturity investments	Note 14	58,344,519.48	58,352,738.68
Long-term receivables			
Long-term equity investments	Note 15	141,468,273.42	149,098,999.76
Investment properties			
Fixed assets	Note 16	3,030,222,384.21	2,970,855,427.52
Construction in progress	Note 17	290,749,376.91	376,823,261.61
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	Note 18	859,721,089.66	896,641,004.79
Research and development expenses	Note 19		
Goodwill	Note 20		
Long-term deferred expenses	Note 21	46,023,240.72	40,223,194.44
Deferred income tax assets	Note 22	136,232,633.76	122,767,169.68
Other non-current assets			
Total non-current assets		5,685,632,683.94	5,598,860,106.29
Total assets		14,102,773,527.68	13,210,513,281.43

CONSOLIDATED BALANCE SHEET (CONTINUED)

December 31st, 2017

Liabilities and owners' shareholders' equity	<i>Note VI</i>	Ending balance	Beginning Balance
Current liabilities:			
Short-term loans	Note 23	2,033,879,689.22	1,579,448,510.67
Receipts of deposits and deposits from other banks	Note 24	780,195,528.74	588,286,840.09
Loans from other banks	Note 25	300,000,000.00	250,000,000.00
Financial liabilities measured at fair value and its movement recorded through profit and loss			
Derivative financial liabilities	Note 26	12,800,000.00	
Notes payable	Note 27	820,501,598.94	1,417,113,769.49
Accounts payable	Note 28	1,465,330,454.31	1,384,168,457.64
Advance from customers	Note 29	236,220,968.60	199,663,201.54
Employee salary payable	Note 30	123,521,513.29	105,911,905.79
Taxes payables	Note 31	17,361,319.90	25,426,038.74
Interests payable	Note 32	61,862,938.69	55,151,085.52
Dividends payable	Note 33	55.83	
Other payables	Note 34	276,121,409.06	257,257,848.82
Liabilities classified as held for sale			
Non-current liabilities due within one year	Note 35	1,522,040,174.73	34,422,532.04
Other current liabilities	Note 36	97,842,469.33	93,369,345.75
Total current liabilities		<u>7,747,678,120.64</u>	<u>5,990,219,536.09</u>
Non-current liabilities			
Long-term loans	Note 37	689,011,500.00	9,133,500.00
Bonds payable	Note 38		1,496,694,996.06
Including: Preference shares			
Perpetual bond			
Long-term payables			
Long-term employee salary payable			
Special payables			
Estimated Liabilities	Note 39	13,699,471.42	
Deferred income	Note 40	184,660,141.13	176,628,594.78
Deferred tax liabilities	Note 22	28,741,816.43	34,198,365.33
Other non-current liabilities			
Total non-current liabilities		<u>916,112,928.98</u>	<u>1,716,655,456.17</u>
Total liabilities		<u>8,663,791,049.62</u>	<u>7,706,874,992.26</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

December 31st, 2017

Liabilities and owners' shareholders' equity	<i>Note VI</i>	Ending balance	Beginning Balance
Shareholder's equity			
Share capital	Note 41	985,850,000.00	995,900,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bond			
Capital reserves	Note 42	2,099,632,613.11	2,126,685,588.57
Less: Treasury shares	Note 43		19,140,912.00
Other comprehensive income	Note 44	-16,268,084.50	-2,685,750.24
Special reserves	Note 45	3,674,350.81	4,485,866.00
Surplus reserves	Note 46	438,442,350.67	423,908,219.34
General risk reserves	Note 47	12,754,318.98	10,774,059.81
Retained earnings	Note 48	1,273,219,846.84	1,289,413,464.37
Total equity attributable to shareholders of the parent company		<u>4,797,305,395.91</u>	<u>4,829,340,535.85</u>
Minority interests		<u>641,677,082.15</u>	<u>674,297,753.32</u>
Total shareholder's equity		<u>5,438,982,478.06</u>	<u>5,503,638,289.17</u>
Total liabilities and shareholder's equity		<u>14,102,773,527.68</u>	<u>13,210,513,281.43</u>

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

CONSOLIDATED INCOME STATEMENT

Year of 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Item	Note VI	Amount in current year	Amount in last year
1. Total operating revenue		7,357,944,190.89	8,871,153,114.15
Including: Operating revenue	Note 49	7,219,310,386.11	8,687,502,227.41
Interest income	Note 50	137,931,789.75	183,205,912.89
Fees and commission income	Note 51	702,015.03	444,973.85
2. Total cost of operation		7,539,094,836.34	8,717,909,468.82
Including: Cost of operation	Note 49	6,036,004,631.87	7,088,783,071.84
Interest expenses	Note 50	15,819,471.26	55,437,794.90
Fees and commission expense	Note 51	301,278.51	356,453.59
Taxes and surcharges	Note 52	45,718,702.31	44,525,763.68
Selling expenses	Note 53	436,011,715.40	441,566,712.01
Administrative expenses	Note 54	889,660,787.33	913,876,338.90
Financial expenses	Note 55	73,123,501.81	86,073,671.32
Loss on impairment of assets	Note 56	42,454,747.85	87,289,662.58
Add: Gain arising from the changes in fair value	Note 57	-25,447,931.82	15,243,438.25
Investment income	Note 58	156,910,636.73	74,235,860.45
Including: Income from investments in associates and joint ventures		-460,927.51	8,712,098.59
Asset disposal income	Note 59	2,318,017.87	-9,165,962.45
Other benefits	Note 60	55,890,931.87	
3. Operating profit		8,521,009.20	233,556,981.58
Add: Non-operating income	Note 62	70,579,164.99	50,755,515.92
Less: Non-operating expenses	Note 63	23,043,819.45	4,217,069.23
4. Total profit		56,056,354.74	280,095,428.27
Less: Income tax expenses	Note 64	18,345,015.80	54,210,189.22
5. Net profit		37,711,338.94	225,885,239.05
Including: Net profit achieved by the merger of the merged party before the merger under the same control		-1,099,244.09	
(1) Classification according to the continuity of operation			
Continuous operating net profit		40,662,147.32	232,239,265.95
Termination of net profit		-2,950,808.38	-6,354,026.90
(2) Classification of ownership according to ownership			
Net profit attributable to shareholders of the parent company		56,514,222.97	223,369,729.35
Non-controlling interest		-18,802,884.03	2,515,509.70

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Year of 2017

Item	Note VI	Amount in current year	Amount in last year
6. Net other comprehensive income after tax		-13,936,840.55	-11,524,350.45
Net other comprehensive income after tax attributable to owners of the parent company		-13,582,334.26	-12,420,012.68
(1) Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		0.00	0.00
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		-13,582,334.26	-12,420,012.68
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		-14,361,213.55	-15,369,818.14
3. Gains and losses from held-to-maturity investment reclassified as financial assets available-for-sale			
4. Effective part of hedging gains and losses from cash flows			
5. Exchange differences from retranslation of financial statements		778,879.29	2,949,805.46
6. The income of a package deal dealing with the investment of the subsidiary company before the loss of control			
7. Conversion of non investment real estate to investment real estate measured with fair value model			
Net other comprehensive income after tax attributable to minority interests		-354,506.29	895,662.23
7. Total comprehensive income		23,774,498.39	214,360,888.60
Total comprehensive income attributable to shareholders of the parent company		42,931,888.71	210,949,716.67
Total comprehensive income attributable to minority interests		-19,157,390.32	3,411,171.93
8. Earnings per share:			
(1) Basic earnings per share		0.0572	0.2245
(2) Diluted earnings per share		0.0572	0.2245

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

CONSOLIDATED CASH FLOW STATEMENT

Year of 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Item	Note VI	Amount in current year	Amount in last year
1. Cash Flow from Operating Activities			
Cash from sale and render service		7,077,067,312.62	9,449,607,124.08
Net increase of customer's deposit and deposit taking of interbank		191,908,688.65	61,073,140.96
Net increase borrowings from central bank			
Net increase borrowing funds to other financing institution		50,000,000.00	-100,000,000.00
Cash from original insurance contract premium			
Net cash from reinsurance business			
Net increase of insured deposit and investment			
Net increase of financial assets disposal measured as fair value and the variation included in current profit and loss			
Interest, handling charges and commissions received		149,868,895.44	173,501,952.40
Net increase in funds deposit			
Net increase of repurchasing business funds		274,573,249.44	543,426,794.55
Refund of tax and levies		35,635,006.64	33,593,473.23
Cash relating to other business activities	Note 65	332,549,938.91	76,256,639.30
Sub-total of cash inflows from operating activities		8,111,603,091.70	10,237,459,124.52
Cash payments for goods purchased and services received		6,280,170,107.48	6,809,240,522.03
Net increase in loans and payments on behalf		196,692,292.33	-733,611,644.67
Net increase in deposits with centre bank and interbank		238,269,834.48	1,639,051.38
Payments of claims for original insurance contracts			
Interests, handling charges and commissions paid		14,459,835.56	56,291,045.61
Commissions on insurance policies paid			
Cash payments to and on behalf of employees		1,208,209,391.29	1,235,418,041.24
Payments of all types of taxes		179,031,300.61	252,791,644.77
Other cash payments relating to operating activities	Note 65	551,084,261.84	522,515,747.72
Sub-total of cash outflows from operating activities		8,667,917,023.59	8,144,284,408.08
Net cash flows from operating activities		-556,313,931.89	2,093,174,716.44

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year of 2017

Item	Note VI	Amount in current year	Amount in last year
2. Cash flows from investing activities			
Cash received from disposals and withdraw on investment		175,740,149.57	25,128,376.76
Cash received from returns on investments		87,377,433.26	53,303,801.96
Net cash received from disposals of fixed assets, intangible assets and other long-term assets		3,249,182.64	2,731,156.62
Net cash received from disposals of subsidiaries and other business units		30,745,880.59	
Other cash received relating to investing activities	Note 65	18,900,000.00	12,054,000.00
Sub-total of cash inflows from investing activities		316,012,646.06	93,217,335.34
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		293,152,467.59	217,836,833.22
Cash payments to acquire investments		326,000,000.00	355,369,025.13
Net cash payments for acquisitions of subsidiaries and other business units		5,283,896.52	
Other cash payments relating to investing activities	Note 65	624,436,364.11	200,000,000.00
Sub-total of cash outflows from investing activities		-308,423,718.05	773,205,858.35
Net cash flows from investing activities			-679,988,523.01
3. Cash flows from financing activities			
Cash received from investors in making investment in the enterprise			
Including: cash received from issuing shares of minority shareholders			
Cash received from borrowings		2,932,328,850.00	1,628,696,680.00
Other cash received relating to financing activities			
Sub-total of cash inflows from financing activities		2,932,328,850.00	1,628,696,680.00
Cash repayments of amounts borrowed		1,783,854,993.05	1,663,110,370.00
Cash payments for distribution of dividends or profits, or cash payments for interest expenses		211,562,835.86	167,969,486.51
Including: subsidiary companies pay cash to minority shareholders for interest expenses and distribution of dividends or profit		13,378,274.47	8,516,310.10
Other cash payments relating to financing activities	Note 65	17,925,712.05	19,140,912.00
Sub-total of cash outflows from financing activities		2,013,343,540.96	1,850,220,768.51
Net cash flows from financing activities		918,985,309.04	-221,524,088.51
4. Effect of foreign exchange rate changes on cash and cash equivalents		-1,818,638.73	12,358,275.24
5. Net increase in cash and cash equivalents		52,429,020.37	1,204,020,380.16
Plus: Cash and cash equivalents at beginning of period		2,894,305,807.48	1,690,285,427.32
6. Cash and cash equivalents at end of period		2,946,734,827.85	2,894,305,807.48

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year of 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Item	Amount in this year										
	The owner's equity attributable to parent company										
	Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Minority equity	Total owners' equity
I. Closing balance of prior year	995,900,000.00		2,126,685,588.57	19,140,912.00	-2,685,750.24	4,485,866.00	423,908,219.34	10,774,059.81	1,289,413,464.37	674,297,753.32	5,503,638,289.17
Add: Accounting policy changes											
Prior errors' correction											
Enterprise merger under the same control											
Others											
II. Balance at the beginning of current year	995,900,000.00		2,126,685,588.57	19,140,912.00	-2,685,750.24	4,485,866.00	423,908,219.34	10,774,059.81	1,289,413,464.37	674,297,753.32	5,503,638,289.17
III. Increases/decreases in current year	-10,050,000.00		-27,052,975.46	-19,140,912.00	-13,582,334.26	-811,515.19	14,534,131.33	1,980,259.17	-16,193,617.53	-32,620,671.17	-64,655,811.11
(I) Total comprehensive income					-13,582,334.26				56,514,222.97	-19,157,390.32	23,774,498.39
(II) Capital contributed by owners and capital decreases	-10,050,000.00		-27,052,975.46	-19,140,912.00							-17,962,063.46
1. Capital contributed by owner	-10,050,000.00										-10,050,000.00
2. Holders of other equity instruments invested capital											
3. The amount of the shares paid into the shareholders' rights and interests											
4. Others			-27,052,975.46	-19,140,912.00							-7,912,063.46
(III) Profit distribution							14,534,131.33	1,980,259.17	-72,707,840.50	-13,378,330.30	-69,571,780.30
1. Appropriation of surplus reserve							14,534,131.33		-14,534,131.33		0.00
2. Extraction of general risk reserves								1,980,259.17	-1,980,259.17		0.00
3. Profit distributed to owners (or stockholders)									-56,193,450.00	-13,378,330.30	-69,571,780.30
4. Others											
(IV) Transfers within the owners' equity											
1. Capital (or stock) transferred from capital surplus											
2. Capital (or stock) transferred from surplus reserve											
3. Recovery of losses by surplus reserve											
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans											
5. Others											
(V) Special reserves						-811,515.19				-84,950.55	-896,465.74
1. Extraction of special reserves						12,666,520.66				888,082.52	13,554,603.18
2. Use of special reserves						-13,478,035.85				-973,033.07	-14,451,068.92
(VI) Others											
IV. Balance at the end of current year	985,850,000.00		2,099,632,613.11	0.00	-16,268,084.50	3,674,350.81	438,442,350.67	12,754,318.98	1,273,219,846.84	641,677,082.15	5,438,982,478.06

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Year of 2017

Item	Amount in last year										
	The owner's equity attributable to parent company										Total owners' equity
	Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Minority equity	
I. Closing balance of prior year	995,900,000.00	2,124,246,289.70	0.00	9,734,262.44	2,441,385.29	389,744,226.05	8,819,548.63	1,142,994,139.49	724,704,695.74	5,398,584,547.34	
Add: Accounting policy changes											
Prior errors' correction											
Enterprise merger under the same control											
Others											
II. Balance at the beginning of current year	995,900,000.00	2,124,246,289.70	0.00	9,734,262.44	2,441,385.29	389,744,226.05	8,819,548.63	1,142,994,139.49	724,704,695.74	5,398,584,547.34	
III. Increases/decreases in current year		2,439,298.87	19,140,912.00	-12,420,012.68	2,044,480.71	34,163,993.29	1,954,511.18	146,419,324.88	-50,406,942.42	105,053,741.83	
(I) Total comprehensive income				-12,420,012.68				223,369,729.35	3,411,171.93	214,360,888.60	
(II) Capital contributed by owners and capital decreases		2,439,298.87	19,140,912.00						-43,677,310.87	-60,378,924.00	
1. Capital contributed by owner											
2. Holders of other equity instruments invested capital											
3. The amount of the shares paid into the shareholders' rights and interests											
4. Others		2,439,298.87	19,140,912.00						-43,677,310.87	-60,378,924.00	
(III) Profit distribution						34,163,993.29	1,954,511.18	-76,950,404.47	-10,436,310.10	-51,268,210.10	
1. Appropriation of surplus reserve						34,163,993.29		-34,163,993.29		0.00	
2. Extraction of general risk reserves							1,954,511.18	-1,954,511.18		0.00	
3. Profit distributed to owners (or stockholders)								-40,831,900.00	-10,436,310.10	-51,268,210.10	
4. Others											
(IV) Transfers within the owners' equity											
1. Capital (or stock) transferred from capital surplus											
2. Capital (or stock) transferred from surplus reserve											
3. Recovery of losses by surplus reserve											
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans											
5. Others											
(V) Special reserves					2,044,480.71				295,506.62	2,339,987.33	
1. Extraction of special reserves					17,292,537.75				1,462,994.46	18,755,532.21	
2. Use of special reserves					-15,248,057.04				-1,167,487.84	-16,415,544.88	
(VI) Others											
IV. Balance at the end of current year	995,900,000.00	2,126,685,588.57	19,140,912.00	-2,685,750.24	4,485,866.00	423,908,219.34	10,774,059.81	1,289,413,464.37	674,297,753.32	5,503,638,289.17	

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

BALANCE SHEET OF THE PARENT COMPANY

December 31st, 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Assets	<i>Note XVI</i>	Ending balance	Beginning Balance
Current assets			
Monetary Funds		2,674,257,804.79	2,332,459,180.15
Financial assets measured at fair value with changes in value recognized in profit or loss			
Derivative financial assets			14,833,000.00
Notes receivable		246,333,654.83	143,070,848.93
Accounts receivable	Note 1	1,196,344,093.78	647,872,610.08
Advances to suppliers		339,783,445.58	265,250,773.93
Interest receivable		19,894,867.06	5,782,316.41
Dividends receivable		96,722,501.47	
Other receivables	Note 2	46,805,937.22	9,714,113.36
Inventories		505,348,099.92	471,316,763.14
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		1,526,967,161.19	1,129,216,874.12
Total current assets		6,652,457,565.84	5,019,516,480.12
Non-current assets			
Financial assets available-for-sale		110,000,000.00	127,021,500.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	Note 3	2,980,116,241.67	2,807,650,845.03
Investment properties			
Fixed assets		1,656,170,735.96	1,617,355,502.09
Construction in progress		192,776,115.52	249,165,495.36
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		541,384,568.49	554,742,502.20
Research and development expenses			
Goodwill			
Long-term deferred expenses		40,574,570.02	36,748,015.17
Deferred income tax assets		22,469,834.47	20,276,789.40
Other non-current assets			
Total non-current assets		5,543,492,066.13	5,412,960,649.25
Total assets		12,195,949,631.97	10,432,477,129.37

BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

December 31st, 2017

Liabilities and owners' shareholders' equity	Note XVI	Ending balance	Beginning Balance
Current liabilities			
Short-term loans		2,578,420,000.00	1,393,700,000.00
Financial liabilities measured at fair value and its movement recorded through profit and loss			
Derivative financial liabilities		12,800,000.00	
Notes payable		690,789,304.86	1,160,974,722.95
Accounts payable		1,055,260,515.38	850,915,338.66
Advance from customers		175,265,170.24	118,528,607.00
Employee salary payable		48,217,318.16	41,532,696.11
Taxes payables		7,556,819.53	6,726,459.77
Interests payable		53,352,451.24	54,564,051.15
Dividends payable			
Other payables		193,199,472.30	152,170,170.20
Liabilities classified as held for sale			
Non-current liabilities due within one year		1,516,708,059.16	30,767,363.64
Other current liabilities		8,801,794.13	13,304,237.40
Total current liabilities		<u>6,340,370,905.00</u>	<u>3,823,183,646.88</u>
Non-current liabilities			
Long-term loans		650,000,000.00	9,133,500.00
Bonds payable			1,496,694,996.06
Including: Preference shares			
Perpetual bond			
Long-term payables			
Long-term employee salary payable			
Special payables			
Estimated Liabilities		13,699,471.42	
Deferred income		125,589,939.30	113,239,856.95
Deferred tax liabilities			1,764,770.45
Other non-current liabilities			
Total non-current liabilities		<u>789,289,410.72</u>	<u>1,620,833,123.46</u>
Total liabilities		<u>7,129,660,315.72</u>	<u>5,444,016,770.34</u>

BALANCE SHEET OF THE PARENT COMPANY (CONTINUED)

December 31st, 2017

Liabilities and owners' shareholders' equity (Continued)	<i>Note XVI</i>	Ending balance	Beginning Balance
Shareholder's equity			
Share capital		985,850,000.00	995,900,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bond			
Capital reserves		2,004,793,045.95	2,018,025,662.91
Less: Treasury shares			19,140,912.00
Other comprehensive income			10,000,365.91
Special reserves			
Surplus reserves		363,949,066.84	349,414,935.51
Retained earnings		1,711,697,203.46	1,634,260,306.70
Total shareholder's equity		5,066,289,316.25	4,988,460,359.03
Total liabilities and shareholder's equity		12,195,949,631.97	10,432,477,129.37

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

INCOME STATEMENT OF THE PARENT COMPANY

Year of 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Item	Note XVI	Amount in current year	Amount in last year
1. Operating revenue	Note 4	5,308,725,994.85	6,430,804,013.27
Less: Cost of operation	Note 4	4,623,240,734.86	5,565,895,194.15
Taxes and surcharges		18,637,543.07	13,102,602.76
Selling and distribution expenses		61,189,781.34	56,407,629.75
Administrative expenses		565,068,252.96	544,423,265.62
Financial expenses		13,067,381.10	42,701,828.24
Loss on impairment of assets		10,869,517.75	-7,855,381.90
Add: Gain arising from the changes in fair value		-27,633,000.00	14,833,000.00
Investment income	Note 5	113,224,433.93	118,826,049.09
Including: Gain from investments in associates and joint ventures	Note 5	-485,404.14	8,772,257.32
Asset disposal income		2,735,204.12	-9,524,110.07
Other income		35,763,127.65	
2. Operating profit		140,742,549.47	340,263,813.67
Add: Non-operating income		15,886,328.54	23,561,004.16
Less: Non-operating expenses		13,480,609.77	3,510,567.72
3. Total profit		143,148,268.24	360,314,250.11
Less: Income tax expenses		-2,193,045.07	18,674,317.24
4. Net profit		145,341,313.31	341,639,932.87
Continuous operating net profit		145,341,313.31	341,639,932.87
Discontinued operation net profit			

INCOME STATEMENT OF THE PARENT COMPANY (CONTINUED)

Year of 2017

Item	Note XVI	Amount in current year	Amount in last year
5. Net other comprehensive income after tax		-10,000,365.91	-13,558,388.64
(1) Other comprehensive income that can not be reclassified to profit and loss in subsequent periods		0.00	0.00
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		-10,000,365.91	-13,558,388.64
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		-10,000,365.91	-13,558,388.64
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. The income of a package deal dealing with the investment of the subsidiary company before the loss of control			
7. Conversion of non-investment real estate to investment real estate measured with fair value model			
6. Total comprehensive income		135,340,947.40	328,081,544.23
7. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

CASH FLOW STATEMENT OF THE PARENT COMPANY

Year of 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Item	Note XVI	Amount in current year	Amount in last year
1. Cash Flow from Operating Activities			
Cash from sale and render service		5,469,940,659.91	7,485,919,700.60
Refund of tax and levies		3,899,551.37	1,910,243.20
Cash relating to other business activities		21,899,662.63	24,502,526.50
Sub-total of cash inflows from operating activities		5,495,739,873.91	7,512,332,470.30
Cash payments for goods purchased and services received		5,110,841,393.34	6,198,905,787.03
Cash paid to and on behalf of employees		633,849,966.38	639,417,307.20
Payments of taxes and surcharges		36,388,429.77	57,820,576.40
Cash paid relating to other operating activities		77,333,461.23	109,356,279.54
		<u>5,858,413,250.72</u>	<u>7,005,499,950.17</u>
Sub-total of cash outflows from operating activities			
Net cash flows from operating activities		<u>-362,673,376.81</u>	<u>506,832,520.13</u>
2. Cash flows from investing activities			
Cash received from return of investments		141,390,088.00	730,157,238.85
Cash received from investments income		81,566,954.78	188,492,832.64
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,755,670.56	1,651,313.62
Net cash received from disposal of subsidiaries and other business units		31,000,000.00	
Cash received relating to other investing activities		18,900,000.00	
Sub-total of cash inflows from investing activities		275,612,713.34	920,301,385.11
Cash paid to acquire fixed assets, intangible assets and other long-term assets		201,875,373.28	116,561,872.35
Cash paid for investments		759,037,628.97	700,738,012.00
Net cash paid to acquire subsidiaries and other business units		5,283,896.52	
Cash paid relating to other investing activities			200,000,000.00
		<u>966,196,898.77</u>	<u>1,017,299,884.35</u>
Sub-total of cash outflows from investing activities			
Net cash flows from investing activities		<u>-690,584,185.43</u>	<u>-96,998,499.24</u>

CASH FLOW STATEMENT OF THE PARENT COMPANY (CONTINUED)

Year of 2017

Item	Note XVI	Amount in current year	Amount in last year
3. Cash flows from financing activities			
Cash received from investment absorption			
Cash received from the loan		4,241,480,600.00	1,567,030,000.00
Cash received relating to other financing activities			
Sub-total of cash inflows from financing activities		4,241,480,600.00	1,567,030,000.00
Cash paid for settlement of borrowings		2,394,951,793.05	2,175,739,670.00
Cash paid for dividends, profits appropriation or payments of interest		201,151,740.99	150,617,400.61
Cash paid relating to other financing activities		17,925,712.05	19,140,912.00
Sub-total of cash outflows from financing activities		2,614,029,246.09	2,345,497,982.61
Net cash flows from financing activities		1,627,451,353.91	-778,467,982.61
4. Effect of changes in foreign exchange rate on cash and cash equivalents			
		683,461.60	927,610.46
5. Net increase in cash and cash equivalents			
Add: Cash and cash equivalents at the beginning of the year		574,877,253.27	-367,706,351.26
		1,878,879,800.16	2,246,586,151.42
6. Cash and cash equivalents at the end of the year			
		2,453,757,053.43	1,878,879,800.16

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY

Year of 2017

Prepared by: First Tractor Company Limited

Monetary Unit: RMB

Item	Amount in this year								Total owners' equity
	Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Retained earnings	
I. Closing balance of prior 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
Add: Accounting policy changes									
Prior errors' correction									
Others									
II. Balance at the beginning 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
III. Increases/decreases in current year	-10,050,000.00	-13,232,616.96	-19,140,912.00		-10,000,365.91	0.00	14,534,131.33	77,436,896.76	77,828,957.22
(I) Total comprehensive income					-10,000,365.91			145,341,313.31	135,340,947.40
(II) Capital contributed by owners and capital decreases	-10,050,000.00	-13,232,616.96	-19,140,912.00						-4,141,704.96
1. Capital contributed by owner	-10,050,000.00								-10,050,000.00
2. Holders of other equity instruments invested capital									
3. The amount of the shares paid into the shareholders' rights and interests									
4. Others		-13,232,616.96	-19,140,912.00						5,908,295.04
(III) Profit distribution							14,534,131.33	-70,727,581.33	-56,193,450.00
1. Appropriation of surplus reserve							14,534,131.33	-14,534,131.33	0.00
2. Profit distributed to owners (or stockholders)								-56,193,450.00	-56,193,450.00
3. Others									
(IV) Transfers within the owners' equity									
1. Capital (or stock) transferred from capital surplus									
2. Capital (or stock) transferred from surplus reserve									
3. Recovery of losses by surplus reserve									
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans									
5. Others									
(V) Special reserves						0.00			0.00
1. Extraction of special reserves						7,054,363.00			7,054,363.00
2. Use of special reserves						-7,054,363.00			-7,054,363.00
(VI) Others								2,823,164.78	2,823,164.78
IV. Balance at the end of current year	985,850,000.00	2,004,793,045.95	0.00		0.00	0.00	363,949,066.84	1,711,697,203.46	5,066,289,316.25

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY (CONTINUED)

Year of 2017

Item	Amount in last year								
	Paid-in capital (or stock)	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Retained earnings	Total owners' equity
I. Closing balance of prior 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: Accounting policy changes									
Prior errors' correction									
Others									
II. Balance at the beginning 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
III. Increases/decreases in current year				19,140,912.00	-13,558,388.64	0.00	34,163,993.29	266,644,039.58	268,108,732.23
(I) Total comprehensive income					-13,558,388.64			341,639,932.87	328,081,544.23
(II) Capital contributed by owners and capital decreases				19,140,912.00					-19,140,912.00
1. Capital contributed by owner									
2. Holders of other equity instruments invested capital									
3. The amount of the shares paid into the shareholders' rights and interests									
4. Others				19,140,912.00					-19,140,912.00
(III) Profit distribution							34,163,993.29	-74,995,893.29	-40,831,900.00
1. Appropriation of surplus reserve							34,163,993.29	-34,163,993.29	0.00
2. Profit distributed to owners (or stockholders)								-40,831,900.00	-40,831,900.00
3. Others									
(IV) Transfers within the owners' equity									
1. Capital (or stock) transferred from capital surplus									
2. Capital (or stock) transferred from surplus reserve									
3. Recovery of losses by surplus reserve									
4. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans									
5. Others									
(V) Special reserves						0.00			0.00
1. Extraction of special reserves						7,781,563.52			7,781,563.52
2. Use of special reserves						-7,781,563.52			-7,781,563.52
(VI) Others									
IV. Balance at the end 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

(The attached notes to the financial statements are part of the consolidated financial statements)

Legal Representative:
Zhao, Yanshui

Chief Financial Officer:
Yao, Weidong

Accounting Manager:
Zhou, Juan



NOTES TO THE FINANCIAL STATEMENTS OF FIRST TRACTOR COMPANY LIMITED

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

I. GENERAL INFORMATION OF THE COMPANY

(a) The registered address of business license, the type of organization, and the address of headquarters

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 proceed 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, 2017, the total number of H shares repurchased and cancelled by the Company was 10,050,000 shares.

After issuing bonus share, selling new shares, increasing share capital, issuing new paper, and share repurchase, by December 31, 2017, the total capital stock of company is 985,850,000 shares and registered share capital. The registered address of business license of company is No. 154 Construction Road, Luoyang, Henan Province. 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”).

(b) The nature of the company’s business and its main business activities

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.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

I. GENERAL INFORMATION OF THE COMPANY (CONTINUED)

(c) The approval of the financial statements

The financial statements are reported in March 29, 2018 by the board of directors of the company.

II. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company include 27 companies, which are:

The name of subsidiaries	The type of Subsidiaries	Rank	Holding Ratio (%)	Representative Ratio (%)
Zhongfei Heavy Industry Investment Co., Ltd.	Holding subsidiaries	2	55.00	55.00
Changtuo Agricultural Machinery Equipment Group Co., Ltd.	Participating stock subsidiaries	2	33.33	66.66
YTO Heilongjiang Agricultural Equipment Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
Luoyang Tractor Research Institute Co., Ltd.	Holding subsidiaries	2	51.00	51.00
YTO International Economic and Trade Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) Pflieger body Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) fuel injection Co., Ltd.	Holding subsidiaries	2	86.11	86.11
Huachen China Machinery Holding Co., Ltd.	Holding subsidiaries	2	90.10	90.10
Luoyang Changxing agricultural machinery Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
Luoyang Changhong Industrial Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) Shentong Engineering Machinery Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
China YTO Group Finance Limited Liability Company	Holding subsidiaries	2	98.79	98.79
YTO (Luoyang) handling machinery Co., Ltd.	Holding subsidiaries	2	93.39	93.39
YTO (Luoyang) Diesel Engine Co., Ltd.	Holding subsidiaries	2	85.47	85.47
YTO (Luoyang) Shunxing parts limited liability company	Wholly-owned subsidiaries	2	100.00	100.00
YTO (Luoyang) Foundry Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
YTO (Xinjiang) Dongfanghong equipment Machinery Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
YTO (France) Agricultural Equipment Co., Ltd.	Wholly-owned subsidiaries	2	100.00	100.00
YTO Belarus Technology Co. Ltd.	Wholly-owned subsidiaries	2	100.00	100.00

The reason why that the proportion of the subsidiary is different from the proportion of the voting rights and holding half or below the voting power but still controlling the unit invested can refer to "VIII. Interests in other entities 1. Interests in Subsidiaries".

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

II. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Compared the scope of the consolidated financial statements of current accounting period with last period, there are one new companies involved and two companies removed. They are:

1. New company added in the scope of the consolidated financial statements which involved in current accounting period.

Company name	The reason of changing
YTO Belarus Technology Co. Ltd.	Business combination under the same control in practice

2. Company removed from the scope of the consolidation financial statements in current accounting period.

Company name	The reason of changing
YTO (Luoyang) Chache Co., Ltd.	All equity transferred
YTO (Luoyang) Cheqiao Co., Ltd.	Merger

The detailed information of changes in scope of the consolidated financial statements can refer to VII. Changes in scope of the consolidated financial statements.

III. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1. Basis of preparation

Based on the transactions and events incurred, the consolidated financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises and relevant stipulations (hereafter collectively referred as "ASBEs") 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 based on the accounting policies stated in the "Note IV. Principal accounting policies and accounting estimates".

2. Going concern

The sustainability of the 12 months of the report from the end of the period has been evaluated. No significant matters or situation has been found which could influence the ability to maintain its sustainability. Therefore, the financial statements are based on the assumption of going concern.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Specific accounting policies and accounting estimates

Based on historical experience and other factors, including reasonable expectations for future events, our company carries out a continuous evaluation of the important accounting estimates and key assumptions adopted. If significant changes occur, the following important accounting estimates and key assumptions may lead to a significant impact on the asset and debt value of the future accounting year:

- (a) Accounts receivable and other receivables impairment. According to the repayment records, the industry status of the debtor, and the aging of accounts to receivable and other receivables, the management of company analyse the degree of recyclable of accounts receivable and other receivables in order to estimates accounts receivable and other receivables impairment. If any event or circumstance changes, it shows that the company may not recover the relevant balance, then it is necessary to use the estimate to prepare accounts receivable and other receivables. If the expected number is different from the original estimate, the difference will affect the book value of accounts receivable and other receivables, as well as the impairment cost during the estimated change period.
- (b) Estimation of inventory reduction. The management of the company has measured the lower of the cost and the net realizable value on the balance sheet day and the calculation of the net realizable value needs to be assumed and estimated. If the management of company revise the costs when estimating the selling price or project completed, it will affect the estimation of net realizable value of inventory, the differences of estimation will affect the provision of inventory depreciation.
- (c) Estimation of long-term asset impairment. The management of company judge whether the long-term assets are devalued from following aspects: (1) Whether the items that affect the impairment of assets have occurred. (2) Whether the present value of the cash flow expected to be obtained is lower than the book value of the asset. (3) Whether the important assumptions used in the present value of future cash flow are expected to be appropriate.

The assumption that the company used for determining the relevant assumptions of impairment, such as the present value of future cash flow method in the profitability, the discount rate and the growth rate assumption changes which may have a significant impact on the present value of the impairment test and lead the company long-term assets impairment.

- (d) Expected life length and estimated net residual value of fixed assets. The estimated life expectancy and estimated net residual value of fixed assets are based on the actual life and actual net residual value of the fixed assets which are similar in nature and function. In the process of using fixed assets, its economic environment, technological environment and other environment may have a great impact on the life expectancy and the net residual value of fixed assets. If there is a difference between the expected life and the net residual value of the fixed assets and the original estimate, the management will adjust it properly.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

1. Specific accounting policies and accounting estimates (Continued)

- (e) The fair value of financial assets. The company uses various valuation techniques, including cash flow discount, to determine its fair value for financial instruments that are not active in the market. For a legally prescribed sale of financial assets that the group disposed of within a specified period, its fair value is based on market quotation and adjusted according to the characteristics of the instrument. When valuating, the Group need to estimate the credit risk, market volatility and relevance of these partners, such as their own and counterparties, which will affect the fair value of financial instruments.
- (f) Deferred income tax assets and deferred income tax liabilities. When confirming the deferred income tax assets, the company has considered the possibility of a deductible temporary difference and a deductible loss to return. Deductible temporary differences mainly include asset impairment preparation, unapproved pre-tax deduction for pre-tax deductions, and the effect of counteracting unrealized profits. The confirmation of the extended income tax assets is based on our company's expectation that the deductible temporary difference and deductible loss can be returned to the foreseeable future through continuous operation to generate enough taxable income.

The company has proposed the current income tax and deferred income tax following the current tax law and the current best estimate and false design. If the future changes in the tax law or the relevant circumstances, our company needs to adjust the current income tax and deferred income tax.

- (g) Income tax. In normal business activities, the tax treatment in many transactions and matters are uncertain. A significant decision on the income tax is needed. If the final identification result of these tax matters is different from the amount originally entered the account, the difference will affect the amount of tax payable during the final determination period.

2. Statement of compliance of Accounting Standards for Business Enterprises

In accordance with the Accounting Standards for Business Enterprises (ASBEs), the financial statements of the Group present truly and completely the consolidated and the financial position of the Company 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 31 October 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 with consideration of disclosure of the rules of the Hong Kong.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3. Accounting year

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

4. Operating cycle

The operating cycle of the Group is twelve months.

5. 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 currency used by the group at the time of the preparation of this financial statement is RMB.

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

(a) To take many transactions as a package transaction for accounting treatment, the terms, conditions, and economic effects of each transaction in a step by step process conform to one or more of the following cases:

- I. These transactions are occurred at the same time or have considered the impact of each other.
- II. All these transactions together can achieve a complete business result.
- III. The occurrence of a transaction depends on the occurrence of at least one other transaction.
- IV. A deal alone is not economical, but it is economic when considering together with other transactions.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Accounting method for business combination under the common control and not under the common control (Continued)

(b) Enterprise merger under common control

The assets and liabilities acquired by our company during business combination shall be measured according to the book value of the assets and liabilities of the merged party, including the final controlling party's acquisition of the merged party, in the consolidated financial statements of the final controlling party. The difference between the net assets book value acquired in the merger and the book value of the combined consideration value (or the total value of the issued shares) should be adjusted by the equity premium in the capital surplus, if it is not enough, adjust retained earnings.

If there exist contingent consideration which need to confirm the estimated liabilities or assets, the difference between the estimated liabilities or the amount of assets and the price of subsequent contingent consideration, we should adjust the capital surplus (capital premium or equity premium). When the capital surplus is insufficient, adjust the retained earnings.

As enterprise merger realized by multiple transactions which belong to a package transaction, considering these transactions as a control transaction when carrying out accounting method. In the case of non-package transactions, on the day of gaining control day, the difference between the initial investment cost of long-term equity investment and the book value of the new payment consideration with the sum of the book value of the new share price before the merger should be adjusted by adjusting capital surplus. If the capital stock is not enough to be reduced, the retained earnings will be adjusted. Accounting treatment would not be carried out for equity investment which measured by equity method or identification and measurement criteria for financial instruments before merger until disposing of the investment based on the same assets or liabilities that are directly disposed of with the invested unit. Changes in the owner's equity exclude net profit and loss, other comprehensive income and profit distribution would not be processed until the changes is transferred into the current profits and losses.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Accounting method for business combination under the common control and not under the common control (Continued)

(c) *Enterprise merger not under common control*

The purchase date refers to the date that the Company actually obtains the control right of the buyer, that is, the date of transfer of the net assets of the buyer or the control right of production and operation decision to the Company. The Company generally believes that the transfer of control is realized when the following conditions are met:

- I. An enterprise merger contract or agreement has been approved by the internal authority of the Company.
- II. The merger of enterprises should be approved by the relevant competent authorities of the state and has been approved.
- III. The necessary transfer procedures for property rights have been carried out.
- IV. The Company has paid most of the consolidated price and has the ability and plan to pay the surplus.
- V. The Company has actually controlled the financial and operating policies of the purchaser and has the corresponding interest and the corresponding risk.

The difference between the fair value and the book value when the assets, liabilities incurred or incurred on the purchase date are included in the profits and losses of the current period.

When the cost of the merger is larger than the fair value share of the recognizable net assets obtained by the purchaser, the difference between these two is confirmed as the goodwill. When cost of the merger is less than the fair value of the recognizable net assets obtained by the purchase, the difference shall be counted into the profit and loss of the current period after the review.

(d) *the costs of merger*

Intermediary costs and other direct related expenses, such as audit, legal service, evaluation and consultation, and other direct related expenses, are included in the current profit and loss at the time of occurrence. The transaction costs for the issue of equity securities for an enterprise which could be directly attributable to the rights and interests can deduct from rights and interests.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Preparation of consolidated financial statements

(a) Scope of the merger

The consolidation scope of the Group includes all subsidiaries controlled.

(b) Consolidated procedures

Based on the financial statements of their own and each subsidiary, the Company prepare the consolidated financial statements refer to other relevant information. The Company consider the entire enterprise group as an accounting entity when preparing the consolidated financial statements. In accordance with the relevant accounting standards of measurement and reporting requirements, unified accounting policies reflect the enterprise overall financial status, operating results and cash flow.

All subsidiaries included in the consolidated financial statements are consistent with accounting polices. When the accounting policies adopted by the subsidiaries inconsistent with the Company, the necessary adjustment period according to the Company's accounting policies and accounting is needed.

The consolidated financial statements set off the internal transactions between the Company and its subsidiaries which affect the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated shareholders' equity change statement. When the opinion of group consolidated financial statements and the subsidiaries are different, the transitions should be adjusted from the perspective of enterprise group.

The share of minority shareholders in the owner's equity, current net profit and loss and current comprehensive income is separately shown under the owner's equity item of the consolidated balance sheet, the net profit item and the total income of the consolidated income statement and the total income item. The current share losses shared by minority shareholders exceed the balance formed by the minority shareholders' share in the initial owner's equity, then deduct the difference between these two from minority shareholders' rights and interests.

When the subsidiary which was under the same control acquired through business combination, the financial statements should be adjusted based on the book value of its assets and liabilities in the final control party's financial statements (including the goodwill caused by the final controlling party's acquisition of the subsidiary).

When the subsidiary which was not under the same control acquired through business combination, the financial statements should be adjusted which was based on fair value of the identifiable net assets at the acquisition date.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. 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, recognises assets and liabilities solely held and liabilities assumed by the Group, recognises assets and liabilities jointly owned proportionally, and recognises 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.

9. 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.

10. 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 recognised is applied and the amount in RMB is consistent. When convert non-monetary items into foreign currency by the fair value of the spot exchange rate, the exchange difference is counted as the profits and losses of the current period as the profit and loss of the fair value change. If non-monetary item used for sale of foreign currency, the balance of exchange formed into other comprehensive benefits.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Foreign exchange translation for financial statements (Continued)

(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 caused by above translation are separately presented under other comprehensive income.

When dealing with overseas operations, the difference between other comprehensive income items in the balance sheet and equivalent items of overseas operations in the foreign currency financial statements shall be transferred from other comprehensive income items to the current profits and losses. When disposing part of equity investment or other situation which leads to a reduction in the proportion of overseas business rights and interests but not lose control of overseas business, the difference between the foreign currency statements related to the overseas operation and disposal will be attributable to minority shareholders' rights and interests which means it will not be transferred into current profits or losses. When dealing with partial shares of overseas operation as a joint venture or a joint venture, the difference between the foreign currency statements related to the overseas operation is transferred to the current profit or loss according to the proportion of the overseas operation.

11. Financial instruments

Financial instruments include financial assets, financial liabilities, and equity instrument.

(1) *Category of financial instruments*

According to the terms of the contract issuing financial instruments which not only reflected in the form of law but economic essence with the purpose of holding financial assets and financial liabilities, the financial assets and financial liabilities are divided into different categories in the initial recognition: financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investment, accounts receivable, financial assets available for sale, other financial liabilities.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(2) *The recognition and measurement of financial instruments*

- (a) *Financial assets (financial liabilities) are measured in the fair value whose changes are recorded in the profit and loss of the current period*

Financial assets or financial liabilities are measured at fair value whose changes are included in the profits and losses of the current period, including trading financial assets or financial liabilities, and directly designated as financial assets or financial liabilities that are measured at fair value and whose changes are included in the profits and losses of the current period.

Trading financial assets or financial liabilities are financial assets or financial liabilities that meet one of the following conditions:

- I. The purpose of obtaining the financial assets or financial liabilities is to sell, buy back or redemption in the short term.
- II. It is part of a portfolio of recognizable financial instruments for centralized management, and there is objective evidence that our company is managing short-term portfolios in short time.
- III. Except: the derivatives which are belong to the financial derivatives but are designated as effective hedging instruments of derivatives, or the derivatives which are belong to financial guarantee contracts derivatives, or the derivatives which is linked to investment in equity instruments that are not quoted in active market and whose fair value cannot be measured reliably, meanwhile, those derivatives must be settled through the delivery of the equity instruments.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(2) *The recognition and measurement of financial instruments (Continued)*

- (a) *Financial assets (financial liabilities) are measured in the fair value whose changes are recorded in the profit and loss of the current period (Continued)*

A financial asset or financial liability can be designated as a financial asset or financial liability that is measured at fair value and is included in profit or loss at the initial measurement only when it met one of the following conditions:

- I. The designation can eliminate or significantly reduce the relative gains or losses caused by different measurement basis of financial assets or liabilities.
- II. A formal written document on risk management or investment strategy has been stated that the financial asset portfolio, the financial liability portfolio, or the combination of the financial assets and financial liabilities shall be managed, evaluated and reported to key management personnel which based on fair value.
- III. A mixed tool containing one or more embedded derivatives, unless the embedded derivatives have no significant change in the cash flow of the mixed tools, or the embedded derivatives should not be separated from the related hybrid tools
- IV. A hybrid tool containing an embedded derivative that needs to be separated but cannot be measured separately on the balance sheet date of the time or subsequent balance sheet.

When acquire the financial assets or financial liabilities which based on fair value through profit or loss, take fair value as the initial confirmation amount (deducting announced but not cash dividends or have to pay interest on the bonds but not yet received), related transaction costs included in the current profits and losses. Interest or cash dividend obtained during the period of holding is recognized as the income of investment and at the end of the term, the changes in the fair value are included in the profit and loss of the current period. At the time of disposal, the difference between the fair value and the initial amount of account is confirmed as the income of the investment, while adjusting the profit and loss of the fair value change.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(2) *The recognition and measurement of financial instruments (Continued)*

(b) *Accounts receivable*

Accounts receivable are non-derivative financial assets in active markets with no quotations, fixed amounts of recoveries or non-derivative financial assets.

Receivable creditor's rights which gain from external sales of goods or the provision of services of the Company and the holdings of debt, including accounts receivable and other receivables, notes receivable of other companies use the price of the contract or agreement to the buyer as the initial confirmation amount receivable; those which has financing nature determine the price by present value of initial recognition.

When retracted or disposed of, the difference between the price obtained and the book value of the receivable is included in the profit and loss of the current period.

(c) *Held-to-maturity investments*

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.

When at the time of acquisition, the Company makes the sum of value of holding-to-maturity investments at fair value and the related transaction costs as these initial recognition amount of the holding to maturity investment (excluding the interest on bonds that has been paid to the interest rate but not yet received). During the period of holding, the interest income is confirmed in accordance with the cost of the balance and the actual interest rate which consider as gains on investments. The actual interest rate is determined at the time of acquisition and remains unchanged during the expected duration or within the shorter period of application. At the time of disposal, the difference between the cost of the price and the book value of the investment is counted into the income of the investment.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(2) *The recognition and measurement of financial instruments (Continued)*

(c) *Held-to-maturity investments (Continued)*

If held-to-maturity investment disposal or re-classified as other financial assets amount, the rest of the held-to-maturity investments after disposal or re-classified should be classified as available for sale financial assets when previous held-to-maturity take a big proportion in all held-to-maturity. On the date of reclassification, the difference between the book value of the investment and its fair value is included in other comprehensive income, and it is transferred to the current profit and loss when the sale of the financial asset is impaired or terminated. However, it can be excluded from the following circumstances:

- I. The date of sale or reclassification is closer to the maturity date or the redemption date of the investment, such as within three months before the expiration date. Meanwhile, the change of market interest rate has no significant influence on the fair value of the investment.
- II. In accordance with the terms of payment agreed in the contract, the enterprise has withdrawn almost all the initial principal.
- III. The sale or reclassification is caused by an independent event that is uncontrolled by the enterprise and is not expected to be repeated and is unreasonably expected.

(d) *Available-for-sale financial assets*

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, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(2) *The recognition and measurement of financial instruments (Continued)*

(d) *Available-for-sale financial assets (Continued)*

When at the time of acquisition, the Company makes the sum of value of available-for-sale financial assets and the related transaction costs as the initial confirmation amount of available-for-sale financial assets (deducting the cash dividends declared but not yet paid, or the interest on the bonds that have been paid to the interest rate but not yet received). Interest or cash dividends obtained during holding are recognized as investment returns. Gains or losses arising from the change of fair value of available-for-sale financial assets shall be directly included in other comprehensive income after deducting the impairment loss and the difference between the foreign currency and the monetary assets. The disposal of financial assets available for sale, the difference between the price obtained and the book value of financial assets, included in investment profits and losses, at the same time, the cumulative amount from the corresponding disposal amount of change in fair value will be directly included in other comprehensive income, investment income included.

The derivatives are measured as cost which is linked to investment in equity instruments that are not quoted in active market and whose fair value can not be measured reliably. Meanwhile, those derivatives must be settled through the delivery of the equity instruments.

(e) *Other financial liabilities*

In accordance with the sum of its fair value and the related transaction costs as the initial confirmation amount. Using amortized cost for follow-up measurement.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(3) *Recognition and measurement of financial assets transfer*

When the Company transfer financial assets, if the ownership of the financial asset transferred nearly all risks and rewards to the transferee, then confirm the termination of the financial assets. If such as retained nearly all risks and rewards of ownership of the financial asset, not derecognise the financial asset.

When judging whether the transfer of financial assets meets the conditions for the termination of the above financial assets, the principle of substance outweighs the form is used. The Company distinguishes the transfer of financial assets into the overall transfer and partial transfer of financial assets. The overall transfer of financial assets meets the conditions for termination of confirmation, then the difference between the following two amounts of money is included in the profit and loss of the current period:

- I. The book value of the transfer of financial assets.
- II. The sum of the consideration received from the transfer and the total amount of the fair value change that is directly charged to the owner's equity (the case involving the transfer of the financial assets for the sale of the financial assets).

When part of the transfer of financial assets meet the conditions of termination of recognition, the entire book value of the transferred financial assets in derecognise part and confirm the termination part are allocated according to the fair value. The difference between the amount of the two items included in the current profits and losses:

- I. The book value of the termination part that is confirmed.
- II. The sum of the corresponding amount of the termination confirmation part and the total amount of the fair value change of the termination confirmation part that was directly charged to the owner's equity (the case involving the transfer of the financial assets for the sale of the financial assets).

If the transfer of a financial asset does not meet the conditions for the termination of the confirmation, the financial asset is continued to be confirmed and the price received is recognized as a financial liability.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(4) *conditions for the confirmation of termination of financial liabilities*

If the current obligation of a financial liability has been completely or partially cancelled, the financial liability or part of the financial liability is terminated. If an agreement is signed with the creditor to replace the existing financial liabilities in the form of new financial liabilities and the new financial liabilities are substantially different from the terms of the existing financial liabilities, the existing financial liabilities shall be terminated and the new financial liabilities shall be recognized at the same time.

If a substantial modification is made to all or part of the contractual terms of the existing financial liabilities, the existing financial liabilities or part thereof shall be terminated. Meanwhile, the financial liabilities after the modified clauses shall be recognized as a new financial liability.

When the financial liabilities are completely or partially terminated, the difference between the book value of the financial liabilities that are terminated and the payment consideration will be included in the current profits and losses (including the transferred non-cash assets or the new financial liabilities).

If a company repurchases some of its financial liabilities, the total book value of the financial liability shall be allocated according to the relative fair value of the continued confirmation part and the termination confirmation part on the repurchase date. The difference between the book value assigned to the final confirmation part and the paid consideration is included in the current profit and loss (including the transferred non-cash assets or the new financial liabilities).

(5) *The method of determining the fair value of financial assets and financial liabilities*

When the financial assets or financial liabilities are in an active market, the quoted prices in active markets to determine these fair values. Active market quotation includes those related assets or liabilities which can be easy and regular to get from the exchange, traders, brokers, industry group, pricing mechanism or regulatory agencies and can represent the actual and often occur in even bargain basis market transactions.

The fair value of the initial or derived financial assets or financial liabilities are determined are based on the market price.

Valuation techniques are used to determine the fair value of the financial assets or financial liabilities that do not exist in an active market. In the valuation, valuation techniques are chosen which are available in the current circumstances and are supported by enough available data and other information. The input value is chosen that is consistent with the selection of market participants considering in the relevant assets or liabilities in the transaction of assets or liabilities and choose the relevant observable input as far as possible. Unobservable input values are used when the relevant observable input values are unavailable or unpracticable.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(6) *Preparation for impairment of financial assets (excluding receivables)*

The book value of the financial assets other than those of the financial assets that are measured at fair value and whose changes are included in the profits and losses of the current period are checked on the balance sheet date. If there is any objective evidence that the financial assets are impaired, the provision for impairment shall be made.

The objective evidence of the impairment of financial assets, including but not limited to:

- I. The issuer or debtor has serious financial difficulties.
- II. The debtor violates the terms of the contract, such as the payment of interest or principal in default or overdue.
- III. The creditor makes a concession to the debtor who has a financial difficulty, considering the economic or legal factors.
- IV. The debtor is likely to fail or carry out other financial restructuring.
- V. The financial assets cannot continue to be traded in the active market because the issuer has major financial difficulties.
- VI. The cash flow of an asset cannot identify a set of financial assets in the already reduced, but according to the published data for the overall evaluation found that the group of financial assets since its initial recognition of the expected future cash flow has been reduced and the measurement, such as the group of financial assets of the debtor to pay the ability to gradually deteriorate, the price of the debtor or the country or region where the unemployment rate increased, the collateral in the area decreased significantly, which the industry downturn.
- VII. There are significant adverse changes in the technology, market, economic or legal environment of the issuer of equity instruments, which may make it impossible for equity and tool investors to recover the cost of investment.
- VIII. A serious or non-temporary decline in the fair value of an equity instrument investment.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial instruments (Continued)

(6) *Preparation for impairment of financial assets (excluding receivables) (Continued)*

a. *Devaluation preparation of available-for-sale financial assets*

When an available-for-sale financial asset is impaired, even if the financial asset is not terminated, the accumulated loss resulting from the decrease of the fair value which will directly take part in other comprehensive will be transferred from the other comprehensive income to the current profit and loss. The total loss from the transfer is equal to the cost of the initial acquisition cost of the sale of financial assets after deducting the sum of the recovered principal and the remaining amount, the current fair value and the impairment loss that has been included in the profit and loss.

For available-for-sale debt instruments that have been identified for impairment loss and its fair value has increased which objectively related to the matter of confirmation of the original impairment loss during the subsequent accounting period, its original recognized impairment loss is to be transferred back to the current profit and loss. The loss of impairment of available-for-sale equity instruments which are in the investment for sale is turned back through equity when the value of the equity tool rebounded. However, the investment of an equity instrument whose the fair value is not reliably measured and not quoted in an active market or the impairment loss of a derivative financial asset which is associated with equity instrument and has to be settled through the equity tool shall not reversed.

b. *Devaluation preparation of Held-to-maturity investment*

There is evidence that prove the depreciation of held-to-maturity investment. The impairment loss provision is determined by the difference between its book value and the present value of expected future cash flow margin. If the evidence shows that its value has been restored, the original recognized impairment loss can be transferred back to the current profit or loss. However, the carrying value of the returned asset will not exceed the amortized cost of the financial asset on the return date when the value is not prepared.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Accounts receivable

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 recognise 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 recognises 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 recognised 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.

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

The criteria for determining individually significant and provided for bad debts on individual basis: RMB5 million.

Provision-making method on individual receivables above significant level: Separately carry out the impairment test, prepare the bad debt considering the expected future cash flow present value below the balance of its book value, then take account of the current profit and loss.

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

(a) *The criteria for the determination of bad debts on credit risk portfolio basis*

The basis for determining the portfolios:

The name of portfolio	Accrual method	The basis for determining the portfolios
Aging group	Aging analysis method	According to the previous historical experience, we make the best estimate of the proportion of the receipts based on aging of accounts receivable portfolio credit risk classification
Non-risk portfolio group	Do not accrue for bad debts	According to the nature of the business, it is found that there is no credit risk, the main package employee's reserve, deposit, deposit etc.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Accounts receivable (Continued)

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

(b) Accrual method based on credit risk portfolio basis

Accrual 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 accounts receivable when the present value is lower than the book value.

13. Inventories

(1) Classification of inventories

Inventories are products that our company holds for sale in daily activities, materials consumed in the production process, materials in the process of providing services, in the production process. The inventories of the Group include raw material, packing materials, low-valued consumables, work-in-process, finished goods, and projects costs etc.

(2) Method of valuation of inventory

The purchase and emits of the stock are priced at the planned cost. Setting the “material cost difference” course and accounting balance of actual cost and plan cost, the final will be issued and balances the cost of inventory adjustment for the actual cost.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Inventories (Continued)

(3) *the basis for determining the net realizable value of inventory and the accrual method for the stock price drop preparation*

The estimated sales price of the inventories, such as finished products, inventory commodities and materials directly used for sale is deducted from the estimated sales cost and the amount after the relevant taxes and fees, and the net realizable value is determined. The net realizable value of inventory which require processes is determined by the estimated selling price of finished products deducting the estimated cost, estimated sales cost and related taxes and fees after completion. To execute sales contracts or labour contracts, the net realizable value is measured by the contract price. If the quantity of stock held is more than that of the sales contract, the net realizable value of the excess part will be measured by the general selling price.

Inventories provision accrues individually at the end of term. If a large stock has a lower unit price, provision for decline in inventory is prepared in accordance with the inventory category. If the inventory is related to a series of products that are produced which sold in the same area and have the same or similar end uses or purposes and it is difficult to separate the items from other items, the provision for decline in inventory will be combined.

If the reduction factors of inventory value have disappeared in the past, the reduced amount shall be recovered. Meanwhile, reserving the original provision for inventory, reversal of the amount count in the current profits and losses

(4) *Inventory system*

Adopting the perpetual inventory system.

(5) *Amortization method of low priced and easily worn articles and packaging*

- I. low priced and easily worn articles adopt once writing-off method.
- II. Packaging adopt once writing-off method.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. 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.

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 acquire 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.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

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 disposes 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 recognised as investment income in the current period.

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.

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

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised 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 joint control or does not has significant influence over the investee company due to the 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 shareholding 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 loss 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, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. 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 amortised 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.

16. Fixed assets

(1) *Conditions for confirmation of fixed assets*

Fixed assets are tangible assets, having useful life over one accounting year, which are held to produce goods and/or the rendering of services, leasing to others, or for operating purposes. Fixed assets are confirmed when the following conditions are met at the same time:

- I. Fixed asset is recognised when it is probable that future economic benefits associated with the item will flow to the Group;
- II. The cost of the item can be measured reliably.

(2) *Initial measurement of fixed assets*

The initial measurement of the group of fixed assets is based on costs.

- a. Purchased fixed assets cost including purchase price, import tariffs and other related taxes and fees, as well as the fixed asset for its intended use before the other expenses are directly attributable to the asset.
- b. The cost of building a fixed asset by itself is made up of the necessary expenditure until the construction of the assets has reached the desired state of use.
- c. The fixed assets invested by investors shall be accounted for the value stipulated in the investment contract or agreement. However, if the value of the contract or agreement is not fair, count the fair value.
- d. The cost of fixed assets is based on the present value of purchase price when the purchase price of fixed assets exceeds the normal credit condition which substantially has the nature of financing. The difference between the actual payment and the present value of the purchase price is recognised in profit or loss over the credit period, except for such difference that is capitalised.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Fixed assets (Continued)

(3) Follow-up measurement and disposal of fixed assets

a. Depreciation of fixed assets

Provision of fixed asset depreciation is determined by its entry value after deducting the estimated net residual value in expected life. For fixed assets that have been prepared for impairment, the amount of depreciation of it is determined by book value after deducting the impairment based on useful life. When the fixed assets whose accumulated depreciation are enough, no longer depreciate it which continue being used.

The fixed assets formed by special reserve expenditures shall be reduced by the cost of forming fixed assets and the accumulated depreciation of the same amount shall be confirmed. The fixed assets shall not be further depreciated in the future.

Based on the nature and usage of fixed assets, the Company determines the service life of the fixed assets and the estimated net residual value. At the end of the year, the service life of the fixed assets, the estimated net residual value and the method of depreciation shall be reviewed, such as the corresponding adjustment to the original estimates.

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

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

b. Subsequent measurements of fixed assets

The subsequent expenditures related to the fixed assets, if satisfies the criteria of capitalization, recognize to the cost of fixed assets. if not, charges to profit or loss when it occurs.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Fixed assets (Continued)

(3) *Follow-up measurement and disposal of fixed assets (Continued)*

c. *Disposal of fixed assets*

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, discarded, damaged or destroyed, the Company shall deduct the carrying value of it as well as the relevant taxes from the disposal income, and include the residual amount in the current profits or losses.

17. Construction in progress

(1) *Initial measurement of construction in process*

The actual construction cost of the construction in progress is determined by the actual expenses incurred before the construction of the asset reaches the intended usable condition, including the cost of engineering materials, labor costs and relevant taxes payable. Capitalized borrowing costs and indirect costs that should be apportioned.

(2) *The criteria for construction-in-progress to convert into fixed asset*

The total expenditure incurred before the construction project is constructed to reach the intended usable condition shall be recorded as the value of the fixed assets. The construction of fixed assets under construction has reached the intended use of the state, but has not yet completed the final accounts, since the scheduled use of the date of use, according to the project budget, cost or actual project costs, according to the estimated value into fixed Assets and depreciation of fixed assets in accordance with the depreciation policy of the Company's fixed assets. After the completion of the final accounts, the original estimated value shall be adjusted according to the actual cost, but the original depreciation amount shall not be adjusted.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Borrowing cost

(1) *Recognition principle of capitalization of borrowing costs*

The borrowing costs, the Company can directly attributable to the acquisition and construction or production of assets eligible for capitalization, in the case of eligible for capitalization start capitalization, included in the relevant asset costs; Other borrowing costs shall be recognized as expenses at the time of occurrence and shall be included in the current profits and losses.

Assets that are eligible for capitalization are assets that require a long period of time to purchase or produce activities to achieve fixed assets, investment real estate and inventory that are intended to be available or sold.

Borrowing costs begin to capitalize when the following conditions are met:

- I. Assets expenditure has occurred, including expenditure incurred in the form of cash, transfer of non-cash assets or interest-bearing debt for the acquisition or construction of assets eligible for capitalization.
- II. Borrowing costs have already occurred.
- III. The purchase and construction or production activities necessary for the asset to reach the intended use or saleable status.

(2) *Capitalization period of borrowing costs*

During the period of capitalization, the period during which the borrowing costs are suspended from capitalization is not included during the period from the point of time when the borrowing costs are capitalized to the point where the capitalization is stopped.

The borrowing costs shall cease to be capitalized when the assets acquired or produced meet the conditions for capitalization are ready for use or sold.

When part of the assets purchased or produced in accordance with the capitalization conditions are completed and can be used alone, the part of the asset borrowing costs to stop capitalization.

The parts of the assets purchased or produced are completed separately but must wait until the whole is completed or can be sold abroad. The capitalization of the borrowing costs shall be stopped when the asset is completed as a whole.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Borrowing cost (Continued)

(3) Suspension of capitalization period

If the assets that meet the capitalization conditions are interrupted abnormally during the construction or production process and the interruption time lasts for more than 3 months, the borrowing costs shall be suspended; the borrowing costs continue to be capitalized if the acquisition or production of assets eligible for capitalization to meet the required usable status or the availability of sales. The borrowing costs incurred during the interruption are recognized as profit or loss for the current period and the borrowing costs continue to be capitalized until the asset is purchased or the activity is resumed.

(4) Calculation for capitalization of borrowing costs

Special loan interest charges (excluding unused borrowing money deposited in the bank interest income, or for a temporary investment return on investment) and its ancillary expenses and construction or production of assets eligible for capitalization, before to the expected conditions for use or sale shall be capitalized.

Based on the weighted average of the asset expenditures that exceed the special borrowing portion, the accumulative asset expenditure is calculated to determine the amount of interest that the general borrowing should be capitalized. The capitalization rate is determined based on the average borrowing weighted average interest rate.

Where there is a discount or premium in the loan, the interest amount shall be adjusted in accordance with the real interest rate method to determine the discount or premium amount that shall be amortized during each accounting period.

19. Intangible assets and development expenditure

An intangible asset is an identifiable non-monetary asset without physical substance. Including land use right, software, other intangible assets.

(1) Initial measurement of intangible assets

The cost of outsourcing intangible assets, including purchase price, related taxes and other expenses directly attributable to the asset to the intended use. The purchase price of intangible assets exceeds the normal credit terms deferred payment, in essence, the nature of the financing, the cost of intangible assets to determine the value of the purchase price.

Debt restructuring to the debtor to owe, intangible assets, on the basis of the fair value of the intangible assets to determine its costs, and the book value of the debt restructuring and the to a debt is the difference between the fair value of intangible assets, included in the current profits and losses.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Intangible assets and development expenditure (Continued)

(1) *Initial measurement of intangible assets (Continued)*

The intangible assets acquired under the same control are determined by the book value of the merged party. The intangible assets acquired by enterprises under the control of non-identical control shall determine their accounting value at fair value.

Internal self-developed intangible assets, and its cost includes: the development of the intangible assets, consumption of materials, labour costs, registration fees, used in the development process of the amortization of patents and other concessions and for capitalization of interest costs, as well as to make the intangible asset to the expected purpose of the other direct costs.

(2) *The subsequent measurement of intangible assets*

The Company analyses and determines its service life when acquiring intangible assets, which is divided into intangible assets with limited service life and uncertain service life.

a. Intangible assets with limited service life

For intangible assets with limited service life, they are amortized by straight-line method for the economic benefits of enterprises. The life expectancy of the intangible assets with limited life span is predicted as follows:

Project	Expect service life	Reason
Land-use life	30–50 years	Benefit years
Software	2–10 years	Benefit years
Patent right	5–10 years	Benefit years

At the end of each term, the service life and amortization method of the intangible assets with limited service life will be rechecked. If there are differences with the original estimates, corresponding adjustments will be made.

After reviewing, the life and amortization methods of intangible assets are not different from previous estimates.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Intangible assets and development expenditure (Continued)

(2) *The subsequent measurement of intangible assets (Continued)*

b. *Intangible assets with uncertain service life*

It is impossible to foresee that intangible assets will bring economic benefits to enterprises, which are regarded as intangible assets with uncertain service life. The intangible assets with uncertain service life are as follows:

The right of use of the trademark and the license of production have uncertain service life. The evaluation of the time limit for the right to use trademark and the right of production is based on the trend of market and competitive environment, the cycle of product use and the long-term development strategy of management. These bases generally show that the use of trademark and production license will provide a long-term net cash flow for the group within a limited period of time. The service life of it is uncertain because it cannot be foreseen for the period of economic benefits for the group.

For intangible assets with uncertain service life, they will not be amortized during the holding period, and the life of intangible assets will be reviewed at the end of each term. If the final review remains uncertain, the impairment test will continue during each accounting period.

After reviewing, the service life of this kind of intangible assets is still uncertain.

(3) *Division of the research and development stages of internal research in the Company and the specific standards for development projects*

The stage of research: a stage of original planning, research, and research for the acquisition and understanding of new scientific or technical knowledge.

Development stage: before the commercial production or use, the research results or other knowledge will be applied to a plan or design to produce new or substantial improvements in materials, devices, products and other activities.

The expenditure of the research stage of the internal research and development project is included in the current profit and loss at the time of occurrence.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Intangible assets and development expenditure (Continued)

(4) Specific standard for capitalization of expenditure in the development stage

Internal research and development projects in the development phase of the expenditure, while meeting the following conditions identified as intangible assets:

- a. Complete the intangible asset so that it can be used or sold in technical feasibility.
- b. The intention to complete the intangible asset and to use or sell it.
- c. Intangible assets to generate economic benefits, including the ability to prove the existence of the products using the intangible assets market or the market of intangible assets, intangible assets will be used internally, to prove its usefulness.
- d. Having sufficient technical, financial resources and other resource support to complete the development of the intangible asset and have the ability to use or sell the intangible asset.
- e. Expenditures attributable to the development stage of the intangible asset can be reliably measured.

Expenditures incurred in the development stage that do not meet the above conditions shall be included in the current profit and loss in the event of occurrence. The development expenditure which has been included in the profit and loss has not been reconfirmed as an asset in the future. Expenditures in the capitalized development phase are shown on the balance sheet as development expenditures and are converted into intangible assets from the date of the project's intended use.

20. Impairment on long-term assets

On the balance sheet date, the Group determines whether there may be a sign of a reduction in long-term assets. If there are signs of impairment in long-term assets, the recoverable amount is estimated on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, then determine the recoverable amount of the asset group on the basis of the asset group belonging to the asset.

The estimation of assets recoverable amount is the larger amount between the fair value deducting net cost when disposal and the expected value of future cash flow of assets.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Impairment on long-term assets (Continued)

The measurement results show that when the long-term recoverable amount assets is lower than its book value, the book value of long-term assets is reduced to its recoverable amount. The reduced amount is recognized as impairment loss recognised, at the same time, make the corresponding assets depreciation preparation. As soon as the loss of assets is confirmed, it shall not be returned during the subsequent accounting period.

After the asset impairment loss is confirmed, the depreciation or amortization expenses of the impairment assets will be adjusted accordingly in the future period so that the assets' book value of adjusted assets will be allocated in the remaining useful life (deducting the estimated net residual value).

No matter whether there is any sign of impairment or not, the impairment test is carried out every year because of the goodwill and the intangible assets of the enterprise merger.

In the devaluation test of goodwill, the book value of goodwill would be amortised to asset groups or portfolio groups benefiting from the synergy effect of an enterprise merger as expected. When taking an impairment test on the relevant asset group containing goodwill or combination of group assets, such as goodwill and the related asset group or combination of asset groups signs of impairment, first calculate the recoverable amount but not test the impairment which does not contain an asset group or combination of asset groups. Then, compare it with the related book value and confirm the impairment the corresponding loss. Next, testing impairment of goodwill includes asset group or combination of asset groups and comparing book value of the related asset group or combination of asset groups (book value includes the share of goodwill) with the recoverable amount. If the recoverable amount of asset group or combination of asset groups is lower than the book value, confirm the impairment loss of goodwill.

21. Long-term prepayments

(1) *Amortization method*

Long-term prepaid expenses of the Company refer to expenses that already been spent and the benefit period is one year or more (excluding one year). Long-term deferred expenses are amortized using the straight-line method in its useful life.

(2) *Amortization years*

Category	Amortization method	Notes
Maintenance costs	2–10 years	
Mould amortization	3–10 years	

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Employee benefits

Remuneration is that the various forms of remuneration or compensation provided by the Company for the service provided by the staff or the dissolution of labour relations. Employee's benefits include short-term remuneration, post-employment benefits, layoff benefits and other long-term benefits.

(1) *Short-term remuneration*

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 recognised 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.

(2) *Post-employment benefits*

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)

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Employee benefits (Continued)

(3) Termination benefits

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.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Employee benefits (Continued)

(4) *Other long-term employment benefit*

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 quailed 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.

23. Expected liabilities

(1) *Criteria for expected liabilities*

The Group shall recognize expected liabilities if the contingent matters meet the following requirements:

- I. The assumed responsibilities are current liability.
- II. The fulfilment of obligations will cause the outflow of economic benefit from the Group.
- III. The amount of liabilities can be measured reliably.

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

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Expected liabilities (Continued)

(2) *Measurement method of expected liabilities*

The initial measure of expected liabilities is the best estimate of the expenditure required for the performance of the current obligations.

When determining the best estimates, the Company consider the risks, uncertainties and time value of the currency. If the time value of money has a great influence, the Company determine the best estimate by discounting the related future cash outflows.

The best estimates are measured in different situation as follow:

If there is a continuous range (or interval) of the required expenditure and the probability of the occurrence of all the results in the range is the same, the best estimate is determined according to the median value of the range, which is the average of the upper and lower limit.

There is a necessary expense that does not exist a continuous range (or range) or exist a continuous range with a range of different possibility of a variety of results. If the contingencies of individual projects involving, the best estimate is most likely to occur in accordance with the amount determined. If contingencies involving a number of projects, the best estimate according to various possible results and related probability calculation.

The total or part of the expected expenses of the Company is expected to be compensated by the third party. When the amount of the compensation is determined, it is basically determined and it can be independently recognized as assets. The amount of compensation confirmed will not exceed the book value of the estimated liabilities.

24. Revenue

(1) *The revenue from sales of goods*

Revenue from the sale of goods is recognized only when all of the following conditions are satisfied: The Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement nor effective control over the goods sold, and related income has been achieved or evidences of receivable have been obtained, and the associated costs can be measured reliably.

The collection of the contract or agreement price shall be in a deferred manner, which is essentially the nature of the financing, and shall determine the sales amount of the goods in accordance with the fair value of the receivable contract or the price of the agreement.

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

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Revenue (Continued)

(2) Basis for recognition of income from transfer of the right to use assets

If the economic benefits related to the transaction are likely to flow into the enterprise, the amount of income can be reliably measured, and the amount of income of transferring assets shall be determined as follows:

- a. The amount of interest income shall be determined according to the time and real interest rate of the use of the money of the enterprise.
- b. The amount of royalty income shall be determined according to the time and method agreed upon in the relevant contract or agreement.

(3) Basis and methods for recognition of income from provision of services

The results of the provision of labour transactions on the balance sheet date can be reliably estimated and the completion percentage method is used to confirm the provision of labour income. Provide the completion progress of labour transaction, according to the completed work of measurement and determination.

The results of the provision of service transactions can be reliably estimated, which means that the following conditions are met:

- a. The amount of income can be measured reliably.
- b. The relevant economic interests are likely to flow into the enterprise.
- c. The completion of the transaction can be reliably determined.
- d. The costs incurred in the transaction and the costs incurred can be measured reliably.

To determine the total amount of labor income in accordance with the contract or agreement value receivable, except where the contract or agreement is not fair. The balance sheet date multiplied by the total amount of labor income multiplied by the completion of the transaction before deducting the previous accounting period has been confirmed the amount of income after the provision of labor services to confirm the current provision of labor income; at the same time, in accordance with the estimated total cost of labor services multiplied by the completion of the transaction before deducting the previous accounting period has been confirmed the amount of labor costs, carry forward the current labor costs.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Revenue (Continued)

(3) *Providing of service (Continued)*

If the results of the labor service transaction cannot be reliably estimated at the balance sheet date, the following cases shall be handled:

- I. If the cost of labor services incurred is expected to be compensated, the income of labor services shall be recognized in accordance with the amount of labor costs incurred and the labor costs shall be carried forward at the same amount.
- II. If the labor costs incurred are not expected to be compensated, the cost of labor services incurred shall be recorded into the current profits and losses, and the income from providing labor services shall not be confirmed.

The Company's contracts or agreements with other enterprises include the sale of goods and the provision of labor services, the sale of goods and the provision of labor services to distinguish and can be measured separately, the sale of goods as part of the sale of goods, the provision of labor services as part of the provision Labor service. The sale of goods and the provision of labor services cannot be part of the distinction, or can distinguish, but cannot be measured separately, the sales of goods and the provision of labor services as part of all sales of goods.

25. Government subsidy

(1) *Classification of government subsidy*

Government subsidy is the monetary assets and non-monetary assets obtained by the Company from the government free of charge. According to the relevant government documents provided by the subsidy object, the government subsidies are divided into asset-related government subsidies and income-related government subsidies.

As for government subsidies that have not been explicitly subsidized in government documents, the Group classifies government subsidies as grants pertinent to assets and grants pertinent to incomes, relevant judgement is stated which can refer to Note VI. Notes to the items of the consolidated financial statement Deferred revenue & Non-operating income.

Funds related to assets are government grants obtained by the Company for the acquisition, construction or otherwise formation of long-term assets. Revenue-related government grants refer to government grants other than government-related government subsidies.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Government subsidy (Continued)

(2) *Confirmation of government subsidy*

If there is evidence at the end of the period that the Company can meet the relevant conditions stipulated in the financial support policy and is expected to receive financial support funds, the government subsidy shall be recognized according to the amount receivable. In addition, government grants are recognized when they are actually received.

If the government subsidy is monetary assets, it shall be measured according to the amount received or receivable. If the government subsidy is a non-monetary asset, it shall be measured at fair value. If the fair value cannot be obtained reliably, it shall be measured according to the nominal amount (RMB1.00). Government grants measured in nominal terms are directly included in the current profits and losses.

(3) *Accounting treatment method*

The government subsidies related to the assets are recognized as deferred income and are included in the expenses or losses according to the period of use of the assets used or purchased.

Revenue related government subsidies are used to compensate the relevant expenses or losses in the subsequent period of the enterprise and are recognized as deferred income and are included in the expenses or losses during the period when the relevant expenses are recognized. Used to compensate for the relevant costs or losses incurred by the enterprise and are directly included in the current expenses or losses.

Government subsidies related to the daily activities of the business are included in other benefits. Government subsidies that are not related to daily activities in the business are included in the non-operating income.

Receiving government subsidies related to preferential interest rates for preferential loans to reduce related borrowing costs. To obtain the policy preferential interest rate loan provided by the loan bank, the amount of the loan received is taken as the entry value of the loan. The related borrowing cost is calculated according to the loan principal and the policy preferential interest rate.

When a confirmed government subsidy needs to be returned, the book value of the related assets will be reduced at the time of initial confirmation and the book value of the assets is adjusted. The balance of the related deferred income is reduced to the account balance of the related deferred income which is included in the current profit and loss. If there is no related deferred income, directly included in the profit and loss of the current period.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Deferred tax assets/deferred tax liabilities

Deferred tax assets and deferred liabilities are recognised based on the differences (temporary differences) between tax bases of assets and liabilities and respective carrying amount. 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.

(1) *Basis of confirmation for deferred tax assets*

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference and deduct loss and tax deduction for the year after the end of the year. However, deferred income tax assets resulting from the initial confirmation of assets or liabilities in a transaction with the following characteristics are not recognized: a. The transaction is not an enterprise merger. b. The transaction does not affect the accounting profit and the taxable income or the deductible loss as well.

As for deductible temporary differences related to the investment of the joint venture and meet the following conditions to confirm the corresponding deferred income tax assets: Temporary differences are likely to be turned back in the foreseeable future and it is likely to gain the amount of taxable income that is used to offset the temporary difference of deductible in the future.

(2) *Basis of confirmation for deferred tax liabilities*

The Company recognised the temporary tax difference between the current and the previous periods as deferred income tax liabilities. But it does not include:

- a. Temporary differences in the initial recognition of goodwill.
- b. A transaction or event formed by a non-enterprise merger. Meanwhile, when the transaction or event occurs, it will neither affect the accounting profits nor affect the temporary difference formed by the taxable income (or deductible loss).
- c. For temporary tax differences related to investment in subsidiaries and joint ventures, the time of temporary difference reversal can be controlled and the temporary difference is unlikely to turn back in the foreseeable future.

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

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IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Lease

Leases include finance lease and operating lease. A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(1) *Operating lease accounting treatment*

a. *The Run rented assets*

The rental fee paid by the Company for the lease of the assets shall be apportioned according to the straight-line method and included in the current cost. The initial direct expenses related to the leasing transaction are included in the current expenses.

When the lessor undertakes the expenses related to the lease which the Company shall bear, the Company shall deduct the part of the expenses from the total amount of the rent, and the rental expenses shall be apportioned during the lease term and included in the current expenses.

b. *Management of leased assets*

The rental fee charged by the Company for the lease of the assets shall be assessed and confirmed as the rental income without deducting the whole tenancy period of the rent-free period. The initial direct expenses related to the lease transaction paid by the Company shall be included in the current expenses; If the amount is larger, the capital shall be capitalized and shall be included in the current period income according to the same basic stage as the rental income.

The Company undertook the shall be borne by the lessee of the costs and expenses relating to this lease, the Company will be the fees deducted from the total amount of rental income, according to the distribution after deduction of the cost of rent during the lease term.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Lease (Continued)

(2) Finance lease accounting treatment

- a. Financial leasing-in assets: The Company on the lease beginning date, the fair value of the leased asset and the present value of minimum lease payment of the two lower as the entry value of the assets and the difference as the unrecognized financing charges. Identification basis, valuation and depreciation method of financing rented assets can refer to Note4/15. Fixed asset.

The Company adopts the effective interest method to amortize the unrecognized financing expenses and be included in the financial expenses during the asset lease period.

- b. Financial leasing-out assets: the Company recognizes the difference between the sum of the finance lease and the unrecognized residual at the beginning of the lease as the unrealized financing income and recognizes the rental income in the future period in which the rent is received, the initial direct costs incurred by the Company relating to the leasing transaction are included in the initial measurement of the finance lease and the amount recognized in the lease term is reduced.

28. Discontinued operation

It can be recognized as an integral part of discontinued operation when the component has been disposed of or classified as a component that can be separately classified for sale and meet one of the following requirements:

- (1) The component represents an independent major business or a separate major operating area.
- (2) This component is part of a related plan to be disposed of an independent major business or a separate major operating area.
- (3) The component is a subsidiary made for resale.

Operating profit and loss and dispose profit and loss as the terminated profit and loss in the profit statement.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. 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 state regulations. The Group shall directly reduce special reserve if the safety production cost is belonging to expense. If fixed asset is arising 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 recognised in for this fixed asset in following periods.

30. 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.

31. 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.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. 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.

33. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

In May 10, 2017, the Ministry of Finance announced the revised "Enterprise Accounting Standards No. Sixteenth: Government Subsidies" and the amendment shall come into force on June 12, 2017. Meanwhile, the requirement of enterprises for government subsidies in January 1, 2017 by the prospective application method, the government subsidies from January 1, 2017 to between the new standards shall according to the revised standard adjustment.

Since June 12, 2017, the Company has adopted the revised guidelines. The main contents of the above accounting policies are: government subsidies related to daily business activities and other income.

In April 28, 2017, the Ministry of Finance issued the accounting standards for Enterprises No. Forty-second – Non-current Assets Held For Sale, disposal group and terminating operation, which has been implemented since May 28, 2017. According to the guideline and the regulation of the Ministry of Finance on the revision of the general corporate financial statement format (Accounting No. [2017] 30, the Company has added the project of assets disposal income in the profit statement and has classified and reported the net profit according to the management continuity.

In accordance with the relevant provisions of the "accounting standards for Enterprises No. thirtieth – presentation of financial statements" and so on, the Company adjust the comparable data during the comparable period. Adjusting the loss RMB9,165,962.45 for the disposal of the assets in the last period. Adjustment to reduce the income of assets disposal by RMB1,008,437.99 in non-operating income. Reduce the amount of RMB10,174,400.44 in non-operating expenses.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IV. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in significant accounting policies and accounting estimates (Continued)

(1) *Changes in significant accounting policies (Continued)*

At the same time, the guidelines stipulate that the enterprise shall report the information reported on the original sustained profit and loss in the current financial statements the terminated profit and loss of the comparable accounting period when the Company discontinues the operating.

(2) *Changes in accounting estimates*

The main accounting estimates in this report did not change.

V. TAXATION

(1) Main categories of tax and tax rates

Categories of tax	Tax basis	Tax rates
Value added tax	Domestic sales: Provide processing, repair and repair services, etc.	17%
	Provide agricultural machinery sales, tap water, heating, gas, etc.	11%
	Other taxable sales service behavior	6%
Urban construction and maintenance tax	Payment of the turnover tax	7%, 5%
Education surcharges	Payment of the turnover tax	3%, 2%
Enterprise income tax	Taxable income	25%, 15%
Property tax	The original value of the property of the 70% (or rental income) as the tax base	1.2%, 12%

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

V. TAXATION (CONTINUED)

(1) Main categories of tax and tax rates (Continued)

The income tax rate of different tax subject:

Name of the subject of tax payment	Income tax rate
First Tractor Company Limited	15%
YTO (Luoyang) Diesel Engine Co., Ltd.	15%
Luoyang Tractor Research Institute Co., Ltd.	15%
Luoyang Xiyuan vehicle and Power Inspection Institute Co., Ltd.	15%
YTO (Luoyang) Flag Auto-body Co., Ltd.	15%
Other subsidiaries	25%
Foreign subsidiaries	Local tax rate

(2) The preferential tax policy and the basis

1. Value added tax (VAT)

From January 1, 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.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

V. TAXATION (CONTINUED)

(2) The preferential tax policy and the basis (Continued)

2. 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.

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

January 1, 2017 to December 31, 2017 (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, 2017, 'Ending balance' refers to December 31, 2017, 'Current period' refers to the period from January 1, 2017 to December 31, 2017, 'Last period' refers to the period from January 1, 2016 to December 31, 2016, and the monetary unit is RMB.

1. Monetary funds

Item	Ending balance	Beginning balance
Cash on hand	814,564.53	875,133.16
Bank deposit	3,225,295,953.08	3,119,921,093.62
Other monetary funds	66,873,769.89	140,939,586.20
Total	<u>3,292,984,287.50</u>	<u>3,261,735,812.98</u>
Including: total amount deposited abroad	100,459,281.64	69,927,057.07

The restricted monetary funds are as follows:

Item	Ending balance	Beginning balance
Deposit of bank acceptance	59,188,686.97	108,674,642.08
Other deposit	7,610,859.39	14,002,491.95
Deposited investments fund	0.00	203,572,792.66
Deposit reserve requirement for central banks	279,449,913.29	41,180,078.81
Total	<u>346,249,459.65</u>	<u>367,430,005.50</u>

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

January 1, 2017 to December 31, 2017 (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

Item	Ending balance	Beginning balance
Trading financial assets	13,478,838.50	21,757,466.94
Including: Investments on bond instrument	13,478,838.50	21,757,466.94
Designated as financial assets measured at fair value with changes in value recognized in profit or loss	27,000,000.00	40,900,000.00
Including: trust products	27,000,000.00	40,900,000.00
Total	<u>40,478,838.50</u>	<u>62,657,466.94</u>

3. Derivative financial assets

Item	Ending balance	Beginning balance
Currency derivative instruments	0.00	14,833,000.00
Including: currency forwards and swaps	0.00	14,833,000.00
Total	<u>0.00</u>	<u>14,833,000.00</u>

4. Notes receivable

(1) Classification of notes receivable

Item	Ending balance	Beginning balance
Bank acceptance notes	492,719,837.02	533,954,502.75
Commercial acceptance notes	38,810,317.01	20,978,228.42
Total	<u>531,530,154.03</u>	<u>554,932,731.17</u>

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

January 1, 2017 to December 31, 2017 (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 (Continued)

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

Item	Amount pledged at the end of the year
Bank acceptance notes	18,795,582.05
Commercial acceptance notes	0.00
Total	<u>18,795,582.05</u>

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

Item	Amount de-recognized at the end of the year	Amount not de-recognized at the end of the year
Bank acceptance notes	866,988,564.02	0.00
Commercial acceptance notes	200,000.00	0.00
Total	<u>867,188,564.02</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, 2017 to December 31, 2017 (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

(1) Classification of Accounts receivable 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	943,046,246.11	53.69	364,304,623.02	38.63	578,741,623.09
Provided for bad debts on portfolio basis of credit risk characteristics	799,979,303.48	45.55	146,804,376.05	18.35	653,174,927.43
Individually insignificant but provided for bad debts on individual basis	13,298,558.68	0.76	6,929,505.25	52.11	6,369,053.43
Total	<u>1,756,324,108.27</u>	<u>100.00</u>	<u>518,038,504.32</u>	<u>29.50</u>	<u>1,238,285,603.95</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	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>100.00</u>	<u>504,774,392.79</u>	<u>42.81</u>	<u>674,313,323.03</u>

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

January 1, 2017 to December 31, 2017 (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) Aging analysis of accounts receivable

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Net book value
Within 1 year	1,064,473,612.54	41,297,821.75	1,023,175,790.79
1-2 years	37,497,622.63	11,202,953.05	26,294,669.58
2-3 years	199,787,962.58	52,836,429.98	146,951,532.60
Over 3 years	454,564,910.52	412,701,299.54	41,863,610.98
Total	<u>1,756,324,108.27</u>	<u>518,038,504.32</u>	<u>1,238,285,603.95</u>

Aging	Beginning balance		
	Accounts receivable	Bad debt allowance	Net book value
Within 1 year	468,756,694.06	9,512,009.26	459,244,684.80
1-2 years	240,714,753.00	35,978,273.62	204,736,479.38
2-3 years	118,699,764.48	118,699,764.48	0.00
Over 3 years	350,916,504.28	340,584,345.43	10,332,158.85
Total	<u>1,179,087,715.82</u>	<u>504,774,392.79</u>	<u>674,313,323.03</u>

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification

- a. *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
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
Jiangsu Wode Agriculture Machinery Co., Ltd.	11,743,425.76	117,434.26	1.00	The expected recoverable amount less than the book value
Liaoning Dongsheng Mechanical Equipment Co., Ltd.	81,922,842.00	81,344,463.96	99.29	The expected recoverable amount less than the book value
Urumqi City Feng Agricultural Machinery Equipment Co., Ltd.	62,923,376.45	62,923,376.45	100.00	The expected recoverable amount less than the book value
Langfang Rongtong Petroleum Machinery Equipment Co., Ltd.	20,865,256.91	1,684,969.10	8.08	The expected recoverable amount less than the book value
Kashi Wan Xingtong Agricultural Machinery Co Ltd.	20,789,772.20	20,789,772.20	100.00	The expected recoverable amount less than the book value
Baichengshi Farm Machinery Co., Ltd.	19,046,124.96	19,046,124.96	100.00	The expected recoverable amount less than the book value
Jiangsu Sannong Agricultural Equipment Limited By Share Ltd.	15,118,362.67	623,288.20	4.12	The expected recoverable amount less than the book value
Hetian Yifeng Agricultural Equipment Co., Ltd.	13,972,709.42	13,972,709.42	100.00	The expected recoverable amount less than the book value
Jiangxi Ruifeng Agricultural Machinery Co., Ltd.	13,088,388.59	539,598.00	4.12	The expected recoverable amount less than the book value
Jiangsu Lihua Agricultural Machinery Chain Co., Ltd.	12,381,679.13	510,462.32	4.12	The expected recoverable amount less than the book value

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

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

Company name	Ending balance			Reason for provision
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
Xunxian Hongda Agricultural Machinery Sales Department	11,922,987.97	491,551.76	4.12	The expected recoverable amount less than the book value
Heilongjiang province Sanjiang Nongken Fanbo Agricultural Machinery Sales Co., Ltd.	11,749,069.90	484,381.60	4.12	The expected recoverable amount less than the book value
Zhumadian City Borui Machinery Co. Ltd.	11,743,231.92	484,140.91	4.12	The expected recoverable amount less than the book value
Xuchang City Xintian Machinery Co. Ltd.	11,166,200.44	460,351.50	4.12	The expected recoverable amount less than the book value
Puyangshi Hongyuan Machinery Sales Co. Ltd.	10,362,406.25	427,213.30	4.12	The expected recoverable amount less than the book value
Shangjiu City Minqiang agricultural machinery Co., Ltd.	10,233,799.00	421,911.17	4.12	The expected recoverable amount less than the book value
Jilin Province Qianzhuang Machinery Co., Ltd.	9,512,486.37	4,478,925.30	47.08	The expected recoverable amount less than the book value
Xinjiang Beautiful Field Trade Co., Ltd.	9,088,331.42	7,345,537.46	80.82	The expected recoverable amount less than the book value
Kashi Fujie Machinery Limited Liability Company	8,435,178.00	347,759.02	4.12	The expected recoverable amount less than the book value
Xianyang Xiangrui Agricultural Machinery Co., Ltd.	7,737,015.61	318,975.72	4.12	The expected recoverable amount less than the book value
Zhoukou Tianhui Agriculture Machinery Corp.	7,659,785.25	315,791.72	4.12	The expected recoverable amount less than the book value

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

a. *Accounts receivable that are individually significant and provided for bad debts on individual basis at the end of the year (Continued)*

Company name	Ending balance			Reason for provision
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
Chifeng City Zhengchang Machinery Limited Liability Company	7,284,469.00	300,318.47	4.12	The expected recoverable amount less than the book value
Bayannaer_Lianxing Electror_Mechanical Equipment Co. Ltd.	7,231,417.71	298,131.31	4.12	The expected recoverable amount less than the book value
Shifang City Yixin Machinery Co. Ltd.	6,269,886.50	258,490.05	4.12	The expected recoverable amount less than the book value
Tianjin Jizhou District Jinlin Agricultural Machinery Sales Co. Ltd.	6,152,085.00	253,633.42	4.12	The expected recoverable amount less than the book value
Henan Jinyu agrochemical Co. Ltd.	6,001,268.11	247,415.66	4.12	The expected recoverable amount less than the book value
Inner Mongolia Xinyang Agricultural Machinery Equipment Co., Ltd.	5,974,409.96	246,308.37	4.12	The expected recoverable amount less than the book value
Anhui Province Agricultural Machinery Incorporated Company	5,829,855.76	240,348.80	4.12	The expected recoverable amount less than the book value
Shangrao City Ruihui Agricultural Machinery sales Co., Ltd.	5,673,473.00	233,901.57	4.12	The expected recoverable amount less than the book value
Nong'an County Longtai Machinery Co. Ltd.	5,632,619.01	232,217.27	4.12	The expected recoverable amount less than the book value
Shanxi PaiFute Trade Limited Company	5,611,083.94	231,329.44	4.12	The expected recoverable amount less than the book value

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

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

Company name	Ending balance			Reason for provision
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
Heilongjiang province Jiansanjiang Agricultural Machinery Sales Co., Ltd. Nongken haven imperial branch	5,610,550.21	231,307.44	4.12	The expected recoverable amount less than the book value
Wusu City Yongsheng Agricultural Machinery Supply Co., Ltd.	5,276,656.37	217,541.92	4.12	The expected recoverable amount less than the book value
Ningxia Boxin Hengtong Machinery Co. Ltd.	70,938,918.20	70,938,918.20	100.00	Aged more than 3 years and no fruit collection
Shanxi Lingfeng Engineering Machinery Co., Ltd.	22,447,316.87	22,447,316.87	100.00	Aged more than 3 years and no result
Tumoteyouqi Santian Mining Limited Liability company	15,954,573.72	5,955,723.91	37.33	Insufficient property preservation after the court's decision
Shanxi Dongyuan Automobile Sales Co., Ltd.	8,334,735.54	8,334,735.54	100.00	Aged more than 3 years and no result
Luoyang Jinjun Industry And Trade Co., Ltd.	8,145,999.99	8,145,999.99	100.00	Aged more than 3 years and no result
CUBA TRANSIMPORT	87,252,908.87	12,677,990.70	14.53	The expected recoverable amount less than the book value
CUBA TECNOIMPORT	233,514,005.83	12,789,113.17	5.48	The expected recoverable amount less than the book value
AZUIMPORT, HAVANA, CUBA	12,136,692.15	861,413.99	7.10	The expected recoverable amount less than the book value
QUIMIMPEX HAVANA CUBA	6,876,520.79	286,658.99	4.17	The expected recoverable amount less than the book value

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

- a. *Accounts receivable that are individually significant and provided for bad debts on individual basis at the end of the year (Continued)*

Company name	Ending balance			Reason for provision
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
CUBA ENERGOIMPORT	16,211,059.04	1,328,033.53	8.19	The expected recoverable amount less than the book value
IMECO HAVANA CUBA	7,223,310.32	419,036.08	5.80	The expected recoverable amount less than the book value
Total	<u>943,046,246.11</u>	<u>364,304,623.02</u>	<u>38.63</u>	

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

b. Within the portfolio, accounts receivable of which bad debt allowances are made by aging analysis

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	656,994,491.14	13,910,271.44	2.12
1-2 years	20,181,415.07	10,090,707.34	50.00
2-3 years	40,010,110.43	40,010,110.43	100.00
Over 3 years	82,793,286.84	82,793,286.84	100.00
Total	<u>799,979,303.48</u>	<u>146,804,376.05</u>	<u>18.35</u>

Aging	Beginning 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>

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

c. *At the end of the year, accounts receivable which are individually insignificant but provided for bad debts on individual basis*

Company name	Ending balance			Reason for provision
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
Taizhou Gaoyun Machinery Co., Ltd.	673,892.52	336,946.26	50.00	The expected recoverable amount less than the book value
Cameroon AGROMACIM.&.EX. Company	513,372.49	1,589.88	0.31	CITIC guarantee receipts 80%, only 20% need to account for bad debts
Tunisia INTER PARTS	378,051.95	1,501.06	0.40	CITIC guarantee receipts 85%, only 15% need to account for bad debts
He, Jinjun	440,000.00	440,000.00	100.00	Aged more than 3 years and no result
Tumd Right Banner Si Dao Gou Mining Co., Ltd.	282,262.75	11,636.91	4.12	Insufficient property preservation after the court's decision
Xuchang Huawei Automobile Trade Co. Ltd.	42,394.03	42,394.03	100.00	The Company refused to repay
MAQUIMPORT HAVANA CUBA	461,697.82	19,246.63	4.17	The expected recoverable amount less than the book value
CUBA CITRICOS CARIBE, S.A	3,312,850.83	138,101.59	4.17	The expected recoverable amount less than the book value
CUBA EMPRESA IMPORTADORA	1,299,551.95	110,597.85	8.51	The expected recoverable amount less than the book value
EMIAH HAVANA CUBA	69,907.51	2,914.21	4.17	The expected recoverable amount less than the book value

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

January 1, 2017 to December 31, 2017 (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)

(3) Accounts receivable classification (Continued)

c. At the end of the year, accounts receivable which are individually insignificant but provided for bad debts on individual basis (Continued)

Company name	Ending balance			Reason for provision
	Accounts receivable	Amount of bad debts	Accrual percentage (%)	
Zhang, Yang	3,592,300.00	3,592,300.00	100.00	The court has decided that it can not be reclaimed
Luoyang Jiangyang Metal Component Co., Ltd.	2,232,276.83	2,232,276.83	100.00	Overdue, has entered legal proceedings
Total	<u>13,298,558.68</u>	<u>6,929,505.25</u>	<u>52.11</u>	

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

The amount of bad debt allowance accrued in this period is RMB14,237,276.19; the amount of reversed bad debt allowance is RMB196,454.39.

(5) Accounts receivable actually written off during the year

Item	Amount written off
Accounts receivable actually written off	<u>755,682.56</u>

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

January 1, 2017 to December 31, 2017 (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) Accounts receivable actually written off during the year (Continued)

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 Shuangli Engineering Machinery Co. Ltd.	Payment for goods	372,230.56	As the aging claims over a long period of time, a lot of lack of evidence. Even the regional manager and business personnel were still unable to achieve a clear return which has formed in fact of bad debts	General manager's office meeting resolution	No
Jiangsu zhunti Machinery Manufacturing Co., Ltd.	Payment for goods	383,452.00	The civil conciliation statement has not been recovered within the period of time	Court decision	No
Total		<u>755,682.56</u>			

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

January 1, 2017 to December 31, 2017 (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)

(6) *Details of top five accounts receivable with the ending balance classified by the borrowers*

Company name	Ending balance	Proportion to the ending balance of accounts receivable (%)	Accrual of bad debt provision
CUBA TECNOIMPORT	233,514,005.83	13.30	12,789,113.17
China YTO Group Corporation	89,525,609.58	5.10	895,246.50
CUBA TRANSIMPORT	87,252,908.87	4.97	12,677,990.70
Liaoning Dongsheng mechanical equipment Co., Ltd.	82,372,042.00	4.69	81,767,413.96
Ningxia Boxin Hengtong Machinery Co. Ltd.	70,938,918.20	4.04	70,938,918.20
Total	563,603,484.48	32.10	179,068,682.53

(7) *Receivables that have not been terminated by the transfer of financial assets*

(8) *the amount of assets and liabilities formed without the transfer of receivables and continued involvement*

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

January 1, 2017 to December 31, 2017 (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

(1) Aging analysis of advances to suppliers

Aging	Ending balance			Beginning balance		
	Amount	Percentage (%)	Bad debt allowance	Amount	Percentage (%)	Bad debt allowance
Within 1 year	226,503,758.83	96.15	0.00	122,098,423.37	83.73	0.00
1-2 years	4,146,459.72	1.76	0.00	17,743,647.41	12.17	0.00
2-3 years	1,413,490.86	0.60	0.00	2,348,955.83	1.61	0.00
Over 3 years	3,517,437.66	1.49	1,876,537.60	3,631,211.26	2.49	2,088,200.17
Total	<u>235,581,147.07</u>	<u>100.00</u>	<u>1,876,537.60</u>	<u>145,822,237.87</u>	<u>100.00</u>	<u>2,088,200.17</u>

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

Company name	Ending balance	Percentage in the ending balance of advances to suppliers (%)	Aging	Reason
Xuzhou Xu Tyre Rubber Co., Ltd.	67,346,405.41	28.59	Within 1 year	Unsettled
Hangang Group Hanbao Steel Co. Ltd.	28,851,961.76	12.25	Within 1 year	Unsettled
Anyang Iron And Steel Incorporate Company	19,647,297.52	8.34	Within 1 year	Unsettled
Hebei Longfeng Mountain Casting Co., Ltd.	10,786,376.74	4.58	Within 1 year	Unsettled
New Zealand DATA COLLECTION LIMITED	3,214,510.30	1.36	Within 1 year	Unsettled
Total	<u>129,846,551.73</u>	<u>55.12</u>		

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

January 1, 2017 to December 31, 2017 (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 interest receivable

Item	Ending balance	Beginning balance
Interest on fixed term deposits	14,148,062.85	12,027,545.45
Total	14,148,062.85	12,027,545.45

(2) Explanation of interest receivable

Main part of Interest receivable is external deposits receivable from one of the Company's subsidiary company, YTO Group Finance Co., Ltd. The Group does not have any significant overdue interest at the end of the year.

8. Other receivables

(1) 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	4.51	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	137,031,623.64	95.20	18,006,425.39	13.14	119,025,198.25
Other receivables that are individually insignificant but are individually provided for bad debts	417,960.94	0.29	214,697.64	51.37	203,263.30
Total	143,939,584.58	100.00	20,514,082.45	14.25	123,425,502.13

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

January 1, 2017 to December 31, 2017 (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)

(1) Classification of other receivables (Continued)

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	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	123,269,614.75	100.00	18,343,317.25	14.88	104,926,297.50

(2) Aging analysis of other receivables

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	102,756,441.06	1,953,613.09	1.90
1-2 years	12,585,720.06	1,281,733.54	10.18
2-3 years	6,594,836.80	868,843.74	13.17
Over 3 years	22,002,586.66	16,409,892.08	74.58
Total	143,939,584.58	20,514,082.45	14.25

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

January 1, 2017 to December 31, 2017 (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) Aging analysis of other receivables (Continued)

Aging	Beginning balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Within 1 year	85,538,930.23	263,558.72	0.31
1-2 years	10,075,926.01	849,360.94	8.43
2-3 years	6,532,121.46	1,457,186.68	22.31
Over 3 years	21,122,637.05	15,773,210.91	74.67
Total	<u>123,269,614.75</u>	<u>18,343,317.25</u>	<u>14.88</u>

(3) Explanation of other receivables

- a. Other receivables that are individually significant and are provided for bad debts on individual basis

Company name	Ending balance			Reason
	Other receivables	Bad debt allowance	Accrual percentage (%)	
Shanghai Peng Pu Machine Factory Co., Ltd.	6,490,000.00	2,292,959.42	35.33	Loss rate after comprehensive assessment
Total	<u>6,490,000.00</u>	<u>2,292,959.42</u>	<u>35.33</u>	

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

January 1, 2017 to December 31, 2017 (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) Explanation of other receivables (Continued)

b. *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	28,708,610.82	1,790,586.53	6.24
1-2 years	2,563,467.07	1,281,733.54	50.00
2-3 years	868,843.74	868,843.74	100.00
Over 3 years	14,065,261.58	14,065,261.58	100.00
Total	<u>46,206,183.21</u>	<u>18,006,425.39</u>	<u>38.97</u>

Aging	Beginning 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	<u>28,444,611.47</u>	<u>15,998,686.75</u>	<u>56.25</u>

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

January 1, 2017 to December 31, 2017 (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) Explanation of other receivables (Continued)

- c. Within the portfolios, other receivables on which bad debt allowances are accrued by other methods

Portfolio name	Ending balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Low risk portfolio of deposits and petty cash	90,825,440.43	0.00	0.00
Total	90,825,440.43	0.00	0.00

Portfolio name	Beginning balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Low risk portfolio of deposits and petty cash	88,188,753.28	0.00	0.00
Total	88,188,753.28	0.00	0.00

- d. Other receivables that are individually insignificant but are individually provided for bad debts

Company name	Ending balance			Reason for provision
	Other receivables	Bad debt allowance	Accrual percentage (%)	
Wuhan Guoyu Logistics Industry Group Co. Ltd.	271,710.94	163,026.56	60.00	Loss rate after comprehensive assessment
Jurong Taiboer Machinery Manufacturing Co., Ltd.	146,250.00	51,671.08	35.33	Loss rate after comprehensive assessment
Total	417,960.94	214,697.64	51.37	

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

January 1, 2017 to December 31, 2017 (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)

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

The amount of bad debt allowance accrued in this period is RMB3,173,413.65; No bad debt allowance is reserved in current period.

(5) Other receivables that are actually written off in the period of our report

Item	Amount of written off
Other receivables that are actually written off	44,568.96

(6) Classification of other receivables by nature

Nature of payment	Ending book value	Beginning book value
Receivables and payments between companies	62,716,087.28	20,371,723.27
Deposits and petty cash	18,113,027.33	68,025,564.57
Collection and payment of social insurance withheld	4,251,566.90	2,860,679.28
Tax refund for export receivables	20,155,412.14	11,735,341.28
Receivables from government subsidies	10,000,000.00	0.00
Others	8,189,408.48	1,932,989.10
Total	123,425,502.13	104,926,297.50

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

January 1, 2017 to December 31, 2017 (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)

(7) 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
Luoyang Houhede Real Estate Development Co., Ltd.	Payment and receivables on current accounts	24,160,451.39	Within 1 year	16.79	241,604.51
National Tax Bureau of Jianxi, Luoyang	Refundable export tax refund	18,566,899.83	Within 1 year	12.90	0.00
China YTO Group Corporation	Deposit and payment and receivables on current accounts	11,562,324.51	Within 1 year RMB2,080,049.77 · 1-2years RMB8,366,200.00 · 2-3Years RMB4,200.00 · over 3 years RMB1,111,874.74	8.03	1,059,874.74
Henan Provincial Industry And Information Committee	Receivables from government subsidies	10,000,000.00	Within 1 year	6.95	0.00
Tax Credit Competitivity Employment	Payment and receivables on current accounts	8,238,466.91	Within 1 year	5.72	0.00
Total		<u>72,528,142.64</u>		<u>50.39</u>	<u>1,301,479.25</u>

(8) Other receivables involving government subsidies

Company name	Name of government subsidy project	Ending balance	Aging	The time, amount and basis expected to be collected
Henan Provincial Industry and Information Committee	The first (set) major technical equipment award and premium subsidy of Henan Province	10,000,000.00	Within 1 year	The results of the review of the first (set) major technical equipment award and premium subsidy funds in Henan stated that it is expected to be collected in 2018.

(9) Other receivables that have not been terminated for the transfer of financial assets

(10) The amount of assets and liabilities formed without the transfer of other receivables and continued involvement

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

January 1, 2017 to December 31, 2017 (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
Domestic interbank institutes	80,207,776.70	354,848,615.72
Domestic other financial institutes	0.00	0.00
Total	<u>80,207,776.70</u>	<u>354,848,615.72</u>

(2) Analysis according to the asset type

Item	Ending balance	Beginning balance
Bonds	80,207,776.70	354,848,615.72
Total	<u>80,207,776.70</u>	<u>354,848,615.72</u>

(3) Analysis according to the remaining days to the maturity

Item	Ending balance	Beginning balance
Due within one month	80,207,776.70	354,848,615.72
Total	<u>80,207,776.70</u>	<u>354,848,615.72</u>

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

January 1, 2017 to December 31, 2017 (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		Book balance	Provision	
		for impairment	Book value		for impairment	Book value
Raw materials	539,256,453.22	59,088,195.81	480,168,257.41	437,045,529.52	44,985,679.65	392,059,849.87
Work in progress	230,435,730.54	12,701,477.66	217,734,252.88	284,228,490.13	18,091,727.32	266,136,762.81
Finished goods	475,006,527.76	15,831,448.89	459,175,078.87	372,760,722.03	23,328,733.26	349,431,988.77
Turnover materials	13,575,785.59	2,972,287.14	10,603,498.45	10,208,021.04	3,122,655.48	7,085,365.56
Total	1,258,274,497.11	90,593,409.50	1,167,681,087.61	1,104,242,762.72	89,528,795.71	1,014,713,967.01

(2) Impairment provision for inventories

Item	Beginning balance	Increase in this year		Decrease in this year		Ending balance
		Provision	Others	Reversed	Other transfer out	
Raw materials	44,985,679.65	14,369,770.53	2,102,043.26	2,293,978.45	75,319.18	59,088,195.81
Work in progress	18,091,727.32	8,049,246.57	0.00	13,387,989.07	51,507.16	12,701,477.66
Finished goods	23,328,733.26	14,908,590.63	85,398.94	22,146,439.41	344,834.53	15,831,448.89
Turnover materials	3,122,655.48	284,268.10	91,227.46	525,863.90	0.00	2,972,287.14
Total	89,528,795.71	37,611,875.83	2,278,669.66	38,354,270.83	471,660.87	90,593,409.50

Explanation of impairment provision for inventories: The stock price drop is prepared for the expected price minus the expected cost.

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

January 1, 2017 to December 31, 2017 (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	232,033.19	2,558,317.81
Structured deposit <i>(Note 1 · 2 · 3)</i>	357,000,000.00	231,000,000.00
Prepaid enterprise income tax	49,316,297.26	20,288,679.64
Entrusted loans	17,000,000.00	0.00
Financial products <i>(Note 4 · 5 · 6)</i>	700,000,000.00	500,000,000.00
Value-added tax left for deduction	364,024,794.23	336,169,328.06
Restrictive collective asset management plan <i>(Note 7)</i>	206,000,000.00	308,000,000.00
Advance payment of value-added tax	1,120,830.32	14,914,052.13
Advance payment of other tax	966.00	0.00
Total	1,694,694,921.00	1,412,930,377.64

Explanation of other current assets :

- (1) On December 25, 2017, the Company and HSBC (China) Co., Ltd. signed the 'structured deposit contract', to purchase 'Libor hook interval accumulation of RMB investment products' at the amount of RMB100 million. The annual rate of return is 1.35%. The starting date to calculate the return is December 25, 2017 and the maturity date is June 25, 2018. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (2) On October 27, 2017, the Company and Luoyang Xiyuan Road Branch of China Everbright Bank signed the 'structured deposit contract', at the amount of RMB200 million. The annual rate of return is 4.3%. The starting date to calculate the return is October 27, 2017 and the maturity date is January 27, 2018. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (3) On December 22, 2017, the subsidiary of the Company, YTO (Luoyang) Fuel Injection Co., Ltd. and China Everbright Bank Luoyang Xiyuan Road Branch signed the 'Public structured deposit contract', to purchase the structured product with the contract number of '2107101047056' at the amount of RMB57 million. The annual rate of return is 4.55%. The starting date to calculate the return is December 22, 2017 and the maturity date is March 22, 2018. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (4) On December 5, 2017, the Company and Zhong Yuan Bank Limited Luoyang branch business department signed Comprehensive financial business agreement to purchase the 'Ding Sheng wealth Year 2017 No.177 of financial products' at the amount of RMB50 million, with the annual rate of return of 4.30%. The starting date to calculate the return is December 6, 2017 and the maturity date is March 8, 2018. The product is a Floating income type product. 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, 2017 to December 31, 2017 (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 September 29, 2017, the Company and Luoyang branch of China Communications Bank signed a series of contracts to purchase the “Yun Tong wealth – A long time pension – Monthly rich” at the amount of RMB600 million, with the annual rate of return of 4.40%. The starting date to calculate the return is September 30, 2017 and the maturity date is January 8, 2018. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (6) On December 4, 2017, the Company and Luoyang branch of China Communications Bank signed a series of contracts to purchase the “Yun Tong wealth – A long time pension – Monthly rich” at the amount of RMB50 million, with the annual rate of return of 4.70%. The starting date to calculate the return is December 5, 2017 and the maturity date is July 2, 2018. The product is a guaranteed income type product. The principal and return will be returned at one time at maturity.
- (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 RMB206,000,000.00 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 A0DY11	10,000,000.00	2017/10/25	2018/01/24
Ying Duo Duo A0DY16	10,000,000.00	2017/11/16	2018/05/16
Ying Duo Duo A0DY18	10,000,000.00	2017/11/15	2018/02/28
Ying Duo Duo A0DY23	50,000,000.00	2017/08/03	2018/01/31
Ying Duo Duo A0DY24	10,000,000.00	2017/11/22	2018/02/28
Ying Duo Duo A0DY26	10,000,000.00	2017/11/08	2018/02/07
Ying Duo Duo A0DY31	10,000,000.00	2017/11/23	2018/05/23
Ying Duo Duo A0DY41	10,000,000.00	2017/09/28	2018/03/28
Ying Duo Duo A0DY42	10,000,000.00	2017/11/09	2018/05/09
Ying Duo Duo A0DY45	10,000,000.00	2017/10/26	2018/04/25
Ying Duo Duo A0DY49	5,000,000.00	2017/09/21	2018/03/19
Ying Duo Duo A0DY50	10,000,000.00	2017/10/19	2018/04/18
Ying Duo Duo A0DY52	10,000,000.00	2017/09/21	2018/03/21
Ying Duo Duo A0DY56	5,000,000.00	2017/10/26	2018/04/23
Ying Duo Duo A0DY57	5,000,000.00	2017/10/11	2018/01/10
Ying Duo Duo A0DY61	10,000,000.00	2017/10/18	2018/01/17
Ying Duo Duo A0DY62	1,000,000.00	2017/10/19	2018/04/16
Ying Duo Duo A0DY69	10,000,000.00	2017/12/07	2018/06/06
Ying Duo Duo A0DY73	10,000,000.00	2017/12/06	2018/03/07
Total	<u>206,000,000.00</u>	–	–

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

12. Loans and advances to customers

(1) Distribution details by individual and corporate of loans and advances

Item	Ending balance	Beginning balance
Individual loans and advances	2,709,019.94	1,679,823.91
Property mortgages	61,719.94	97,823.91
Others	2,647,300.00	1,582,000.00
Corporate loans and advances	965,236,933.58	769,573,837.28
Loans	851,074,540.00	631,400,000.00
Discounting	114,162,393.58	138,173,837.28
Total loans and advances	967,945,953.52	771,253,661.19
Less: Impairment provision of loans	33,204,129.15	22,889,251.53
Including: Provision made on individual basis	0.00	0.00
Provision made on portfolio basis	33,204,129.15	22,889,251.53
Total carrying value of loans and advances	934,741,824.37	748,364,409.66

(2) Distribution details by industry sectors of loans and advances

Distribution of industry	Ending balance	Percentage (%)	Beginning balance	Percentage (%)
Machinery manufacturing	965,236,933.58	99.72	769,573,837.28	99.78
Individuals	2,709,019.94	0.28	1,679,823.91	0.22
Total loans and advances	967,945,953.52	100.00	771,253,661.19	100.00
Less: Impairment provision of loans	33,204,129.15	3.43	22,889,251.53	2.97
Including: Provision made on individual basis	0.00	0.00	0.00	0.00
Provision made on portfolio basis	33,204,129.15	3.43	22,889,251.53	2.97
Total carrying value of loans and advances	934,741,824.37	-	748,364,409.66	-

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

12. Loans and advances to customers (Continued)

(3) Distribution details by geographic location of loans and advances

Geographic distribution	Ending balance	Percentage (%)	Beginning balance	Percentage (%)
Northeast China	216,500,000.00	22.37	140,000,000.00	18.15
Central China	750,330,953.52	77.52	629,671,661.19	81.64
Northwest China	1,115,000.00	0.11	1,582,000.00	0.21
Total loans and advances	967,945,953.52	100.00	771,253,661.19	100.00
Less: Impairment provision of loans	33,204,129.15	3.43	22,889,251.53	2.97
Including: Provision made on individual basis	0.00	0.00	0.00	0.00
Provision made on portfolio basis	33,204,129.15	3.43	22,889,251.53	2.97
Total carrying value of loans and advances	934,741,824.37	-	748,364,409.66	-

(4) Distribution details by type of credit guarantee modes

Item	Ending balance	Beginning balance
Credit loans	246,000,000.00	275,400,000.00
Guaranteed loans	566,397,840.00	356,000,000.00
Loans secured by collateral	155,548,113.52	139,853,661.19
Including: mortgage loans	41,385,719.94	0.00
Pledged loans	114,162,393.58	139,853,661.19
Total loans and advances	967,945,953.52	771,253,661.19
Less: Impairment provision of loans	33,204,129.15	22,889,251.53
Including: Provision made on individual basis	0.00	0.00
Provision made on portfolio basis	33,204,129.15	22,889,251.53
Total carrying value of loans and advances	934,741,824.37	748,364,409.66

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

12. Loans and advances to customers (Continued)

(5) *Provision for losses on loans*

Item	Amount in this year		Amount in last year	
	Individual	Portfolio	Individual	Portfolio
Beginning balance	0.00	22,889,251.53	0.00	22,087,888.51
Current year provision	0.00	10,314,877.62	0.00	801,363.02
Ending balance	<u>0.00</u>	<u>33,204,129.15</u>	<u>0.00</u>	<u>22,889,251.53</u>

13. Financial assets available for sale

(1) *Details of financial assets available for sale*

Item	Ending balance			Beginning balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Equity instruments available for sale	0.00	0.00	0.00	47,604,558.74	0.00	47,604,558.74
Measured at fair value	0.00	0.00	0.00	47,604,558.74	0.00	47,604,558.74
Others	192,452,141.41	4,322,800.00	188,129,341.41	192,452,141.41	4,322,800.00	188,129,341.41
Measured at cost	<u>192,452,141.41</u>	<u>4,322,800.00</u>	<u>188,129,341.41</u>	<u>192,452,141.41</u>	<u>4,322,800.00</u>	<u>188,129,341.41</u>
Total	<u>192,452,141.41</u>	<u>4,322,800.00</u>	<u>188,129,341.41</u>	<u>240,056,700.15</u>	<u>4,322,800.00</u>	<u>235,733,900.15</u>

(2) *There are no financial assets available for sale measured at fair value at year end*

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

January 1, 2017 to December 31, 2017 (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)

(3) Financial assets available for sale measured at cost at year end

Invested company	Shareholding percentage in the invested company (%)	Book balance			Ending balance
		Beginning balance	Increase in this year	Decrease in this year	
Beijing Zhongnongwang Technology Co., Ltd. (Note 1)	15.00	2,122,800.00	0.00	0.00	2,122,800.00
Nanyang Xiangrui Agricultural Equipment Co., Ltd. (Note 2)	7.00	1,400,000.00	0.00	0.00	1,400,000.00
YTO (Luoyang) Dongfanghong Tire Company (Note 2)	3.11	800,000.00	0.00	0.00	800,000.00
Luoyin Financial Leasing Co., Ltd.	6.875	110,000,000.00	0.00	0.00	110,000,000.00
Bank of Luoyang Co., Ltd.	4.06	78,129,341.41	0.00	0.00	78,129,341.41
Total		192,452,141.41	0.00	0.00	192,452,141.41

Invested company	Impairment provision			Ending balance	Cash dividend in the year
	Beginning balance	Increase in this year	Decrease in this year		
Beijing Zhongnongwang Technology Co., Ltd.	2,122,800.00	0.00	0.00	2,122,800.00	0.00
Nanyang Xiangrui Agricultural Equipment Co., Ltd.	1,400,000.00	0.00	0.00	1,400,000.00	0.00
YTO (Luoyang) Dongfanghong Tire Company	800,000.00	0.00	0.00	800,000.00	0.00
Luoyin Financial Leasing Co., Ltd.	0.00	0.00	0.00	0.00	0.00
Bank of Luoyang Co., Ltd.	0.00	0.00	0.00	0.00	16,122,000
Total	4,322,800.00	0.00	0.00	4,322,800.00	16,122,000

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.

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

January 1, 2017 to December 31, 2017 (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) 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
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>

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	114,566,778.18	56,222,258.70	58,344,519.48	114,574,997.38	56,222,258.70	58,352,738.68
Total	<u>114,566,778.18</u>	<u>56,222,258.70</u>	<u>58,344,519.48</u>	<u>114,574,997.38</u>	<u>56,222,258.70</u>	<u>58,352,738.68</u>

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

January 1, 2017 to December 31, 2017 (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 (Continued)

(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%	2016/08/06
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%	2019/06/03
Total	<u>110,000,000.00</u>	<u>-</u>	<u>-</u>	-

(3) Other explanations on Held-to-maturity investments

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 in January 2016. 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.

In March 2017, the Company sued the Wuhan Guoyu Group Co. Ltd., asking them to pay the principal and interest of the bonds. October 2017, Hubei provincial senior person hair court issued civil mediation Letter (2017) EMINCHU No. 18. The Company’s subsidiary China YITUO Group Finance Company Limited and the issuer of Wuhan Guoyu Group Ltd. reached a settlement agreement that Wuhan Guoyu Group Co. repay the bond principal RMB90 million, interest RMB6 million 300 thousand, RMB13 million 71 thousand and 240 penalty in three periods. At the same time, the Company has applied for and frozen Wuhan Guoyu material Trade Co., Ltd. Wuhan Guoyu Group Limited and its holdings of Wuhan Jiangyu Shipping Development Co., Ltd. 98.6% stake.

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

January 1, 2017 to December 31, 2017 (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

Invested company	Beginning balance	Changes of increase/decrease in the year								Ending balance	Ending balance of impairment provision
		Additional investment	Investment reduced	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 other companies											
YTO (Shenyang) Co., Ltd. <i>(Note1)</i>	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
Subtotal	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											
ZF YTO (Luoyang) Drive Axle Co., Ltd.	148,051,770.93	0.00	0.00	-534,504.08	0.00	0.00	-7,056,000.00	0.00	0.00	140,461,266.85	0.00
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd.	956,769.56	0.00	0.00	-115,326.00	0.00	0.00	0.00	0.00	0.00	841,443.56	0.00
Luoyang Fusaite Auto Co., Ltd. <i>(Note2)</i>	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.	90,459.27	0.00	0.00	75,103.74	0.00	0.00	0.00	0.00	0.00	165,563.01	0.00
Subtotal	156,103,515.41	0.00	0.00	-574,726.34	0.00	0.00	-7,056,000.00	0.00	0.00	148,472,789.07	7,004,515.65
Total	172,303,515.41	0.00	0.00	-574,726.34	0.00	0.00	-7,056,000.00	0.00	0.00	164,672,789.07	23,204,515.65

Explanation of long term equity investments:

Note1: YTO (Shenyang) Co., Ltd. has been in the state of discontinued operations. The Group is no longer involved in the operation and liquidation of the company and drawn the related assigned staff back. Full impairment has been provided for investments in above companies. Therefore, it is no longer include the company in the consolidated financial statements of the Company.

Note2: Luoyang Fusaite Auto Co., Ltd. has been in the state of discontinued operations. The Group is no longer involved in the operation and liquidation of the company and drawn the related assigned staff back. Full impairment has been provided for investments in the company.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

16. Original value of fixed assets and accumulated depreciation

(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	7,547,924.40	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
2. Increase amount in this year	511,853.25	93,868,008.96	329,627,255.96	4,517,434.29	-33,189,363.16	-9,826,920.76	385,508,268.54
Reclassification	0.00	-14,929,785.96	63,618,588.56	51,792.42	-38,368,616.82	-10,371,978.20	0.00
Purchase	0.00	34,341.08	9,083,622.70	3,553,092.46	3,005,491.73	45,800.00	15,722,347.97
Transferred from construction in progress	0.00	108,631,962.69	253,832,548.43	912,549.41	2,159,522.57	311,356.79	365,847,939.89
Others	511,853.25	131,491.15	3,092,496.27	0.00	14,239.36	187,900.65	3,937,980.68
3. Decrease amount in this year	0.00	9,421,523.46	64,283,185.22	3,288,008.68	3,792,367.96	28,315.26	80,813,400.58
Disposal of scrapped	0.00	9,421,523.46	64,283,185.22	3,288,008.68	3,792,367.96	28,315.26	80,813,400.58
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	8,059,777.65	2,171,370,541.99	4,101,695,563.78	55,432,453.03	103,217,357.62	5,273,134.69	6,445,048,828.76
II. Accumulated depreciation							
1. Beginning balance		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
2. Increase amount in this year	0.00	59,956,854.33	238,560,818.13	4,474,539.71	538,871.04	-5,003,220.09	298,527,863.12
Reclassification	0.00	-2,935,820.37	15,491,542.81	68,660.54	-6,947,109.74	-5,677,273.24	0.00
Provision	0.00	62,868,004.32	221,548,299.90	4,405,879.17	7,478,175.99	567,765.44	296,868,124.82
Others	0.00	24,670.38	1,520,975.42	0.00	7,804.79	106,287.71	1,659,738.30
3. Decrease amount in this year	0.00	6,877,608.49	53,281,602.06	2,275,116.34	3,520,108.24	25,115.46	65,979,550.59
Disposal of scrapped	0.00	6,877,608.49	53,281,602.06	2,275,116.34	3,520,108.24	25,115.46	65,979,550.59
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	0.00	882,559,906.05	2,386,566,158.33	33,349,292.88	74,258,007.75	3,614,945.68	3,380,348,310.69
III. Impairment provision							
1. Beginning balance	0.00	1,469,889.40	19,787,168.81	155,400.88	0.00	286,076.03	21,698,535.12
2. Increase amount in this year	0.00	7,857,849.68	5,961,740.70	1,988,336.87	49,922.43	-207,849.68	15,650,000.00
Reclassification	0.00	207,849.68	-38,259.30	-11,663.13	49,922.43	-207,849.68	0.00
Provision	0.00	7,650,000.00	6,000,000.00	2,000,000.00	0.00	0.00	15,650,000.00
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Decrease amount in this year	0.00	0.00	2,870,401.26	0.00	0.00	0.00	2,870,401.26
Disposal of scrapped	0.00	0.00	2,870,401.26	0.00	0.00	0.00	2,870,401.26
Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Ending balance	0.00	9,327,739.08	22,878,508.25	2,143,737.75	49,922.43	78,226.35	34,478,133.86
IV. Book value							
1. Ending balance of book value	8,059,777.65	1,279,482,896.86	1,692,250,897.20	19,939,422.40	28,909,427.44	1,579,962.66	3,030,222,384.21
2. Beginning balance of book	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

Note : The Company has combed the classification of fixed assets in this year, so there is a situation in which the fixed assets are adjusted between different categories.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

16. Original value of fixed assets and accumulated depreciation (Continued)

(2) Fixed assets leased out by operating lease

Item	Book value
Houses and buildings	71,820,785.72
Machine and equipment	16,575,988.44
	88,396,774.16
Total	88,396,774.16

(3) Fixed assets with the property right certificate unprocessed yet

Item	Book value	Reason for property right certificate not yet processed
Main Factory house and office building of subsidiary Fulaige Zhengzhou Branch	12,841,174.21	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	14,932,078.14	The land was bought from Cijian Town People's Government Xin'an County in August 2004. According to the agreement signed by both two 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.

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

January 1, 2017 to December 31, 2017 (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)

(3) Fixed assets with the property right certificate unprocessed yet (Continued)

Item	Book value	Reason for property right certificate not yet processed
The factory buildings of the 100 thousand light diesel engines of the subsidiary, Jiangyan Power	17,299,251.40	The property right of that real estate has not been completed
Heat treatment plant of branch company	7,749,845.09	New building. the property certificate is in the process of handling.
New cooling corridor factory building in a foundry	1,900,330.81	New building. the property certificate is in the process of handling.
Total	<u>54,722,679.65</u>	

(4) Other description of fixed assets:

The increase of depreciation in this year is RMB298,527,863.12.

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 RMB1,395,219,676.94.

Refer to the statement in the Note "VI.67" for detailed information about the ending balance of pledge on fixed assets.

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

January 1, 2017 to December 31, 2017 (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	721,164.55		721,164.55	14,342,024.77		14,342,024.77
Agricultural high-power diesel engine project	23,273,423.54		23,273,423.54	144,266,230.70		144,266,230.70
New giant parts workshop of No. 3 Assembling Factory	3,346,057.15		3,346,057.15	5,074,905.98		5,074,905.98
Cylinder old line reconstruction project				9,110,117.95		9,110,117.95
Forged crankshaft machining line project	2,283,995.61		2,283,995.61	4,401,730.99		4,401,730.99
Technical innovation project	15,855,194.00	9,273,284.29	6,581,909.71	23,738,898.21	9,273,284.29	14,465,613.92
Construction in progress in France	12,583,106.04	6,414,270.83	6,168,835.21	8,973,928.03	6,006,920.28	2,967,007.75
Technology improvement project to promote the qualities for P-type injector, P-type injector pump				5,657,198.48		5,657,198.48
Enhancement of the heat treatment 400 and LF904 fender welding automatic production line	70,447.95		70,447.95	191,501.32		191,501.32
Electrophoresis line	5,876,070.81		5,876,070.81	5,012,822.94		5,012,822.94
New model application project of new wheeled tractor intelligent manufacturing	4,571,112.96		4,571,112.96	4,571,112.96		4,571,112.96
Pouring machine	119,905,855.09		119,905,855.09	938,358.49		938,358.49
Core robot	5,976,068.55		5,976,068.55	1,792,820.60		1,792,820.60
Key product testing and testing platform project	3,230,769.23		3,230,769.23	1,536,752.14		1,536,752.14
Horizontal machining unit	13,083,571.33		13,083,571.33	2,170,584.86		2,170,584.86
Belarus staff quarters	6,764,957.27		6,764,957.27			
Dongchen mold equipment relocation project	5,002,498.63		5,002,498.63			
Plant foundation	3,342,444.67		3,342,444.67	739,204.79		739,204.79
Technical innovation project of the Company	2,206,437.39		2,206,437.39	2,206,437.39		2,206,437.39
Public rental housing project	20,386,283.41		20,386,283.41	44,291,032.24		44,291,032.24
Diesel engine upgrading project	46,237,350.29		46,237,350.29	46,237,350.29		46,237,350.29
Other	12,789,743.55		12,789,743.55	12,789,743.55		12,789,743.55
	45,846,575.51	678,845.21	45,167,730.30	54,806,316.75	745,607.25	54,060,709.50
Total	307,115,777.24	16,366,400.33	290,749,376.91	392,849,073.43	16,025,811.82	376,823,261.61

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

January 1, 2017 to December 31, 2017 (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	Beginning balance	Increase in this year	Transferred in this year fixed assets	Decrease in this year	Ending balance	Budget	Percentage of 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	14,342,024.77		12,259,668.92	1,361,191.30	721,164.55	596,300,000.00	95.00	100.00	-	-	-	Fund-raising
Agricultural high-power diesel engine project	144,266,230.70		114,739,468.77	6,233,338.39	23,273,423.54	199,000,000.00	93.00	98.00	12,829,031.02	-	4,404-6.9	Fund-raising
New giant parts workshop of No. 3												
Assembling factory	5,074,905.98	110,894.76	1,839,743.59		3,346,057.15	93,000,000.00	98.00	98.00	-	-	-	Self-raised
Cylinder old line reconstruction project	9,110,117.95		9,110,117.95			38,050,000.00	100.00	100.00	-	-	-	Self-raised
Forged crankshaft machining line project	4,401,730.99	195,561.36	2,313,296.74		2,283,995.61	58,000,000.00	98.00	100.00	819,901.92	-	4,404-6.9	Self-raised
Technical innovation project	23,738,893.21	4,533,166.83	11,836,775.66	500,035.38	15,855,194.00	44,168,540.00	63.60	63.60	-	-	-	Self-raised
Construction in progress in France	8,973,923.03	6,559,674.65	1,223,255.05	1,727,241.59	12,583,106.04	35,157,899.13	48.79	48.79	-	-	-	Self-raised
Technology improvement project to promote the qualities for P-type injector, P-type injector pump	5,667,199.48		5,667,198.48			126,000,000.00	80.20	100.00	-	-	-	Fund-raising
Enhancement of the heat treatment 400 and LF304-lender welding automatic production line	191,501.32			121,053.57	70,447.95	14,800,000.00	98.00	100.00	-	-	-	Self-raised
Electrohyress line	5,012,822.94	863,247.87			5,876,070.81	6,950,000.00	90.00	95.00	-	-	-	Self-raised
New model application project of new wheeled tractor intelligent manufacturing	4,571,112.96				4,571,112.96	4,900,000.00	53.29	53.29	-	-	-	Self-raised
Pouring machine	938,358.49	118,967,495.60			119,905,855.09	316,100,000.00	37.93	60.00	-	-	-	Self-raised
Core robot	1,732,820.60	4,183,247.95			5,916,068.55	7,990,000.00	75.08	75.08	-	-	-	Self-raised
Key product testing and testing platform project	1,536,752.14	2,617,094.02	923,076.93		3,230,769.23	14,000,000.00	55.74	70.00	-	-	-	Self-raised
Horizontal machining unit	2,170,594.86	11,759,140.32	846,153.85		13,083,571.33	53,810,000.00	90.00	90.00	-	-	-	Self-raised
Beianus staff quarters	6,764,957.27	5,002,498.63			6,764,957.27	9,000,000.00	75.17	75.17	-	-	-	Self-raised
Dongchen mold equipment relocation project	739,204.79	2,620,162.96	16,923.08		5,002,498.63	5,500,000.00	90.95	90.95	-	-	-	Self-raised
Plant foundation	2,206,437.39				3,242,444.67	8,370,400.00	75.00	75.00	-	-	-	Self-raised
Technical innovation project of the Company	44,291,032.24	48,507,660.89	66,091,929.77	720,479.95	2,206,437.39	602,106,067.34	48.65	48.65	-	-	-	Self-raised/ Fund-raising
Public rental housing project	46,237,350.29	23,205,088.92	69,442,439.21		20,386,283.41	90,000,000.00	98.00	100.00	-	-	-	Self-raised
Diesel engine upgrading project other	12,789,745.55				12,789,743.55	53,000,000.00	24.13	35.37	-	-	-	Self-raised
	54,806,316.75	71,646,826.58	68,947,891.89	11,758,675.93	45,846,575.51							
Total	392,849,073.43	302,556,719.61	365,847,939.89	22,442,075.91	307,115,777.24	2,379,440,896.47	-	-	13,648,932.94	-	-	-

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

January 1, 2017 to December 31, 2017 (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

(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	3,877,545.44	59,526,000.00	62,305,041.57	9,168,472.30	1,064,634,987.35
2. Increase amount in this year	2,416,460.87	348,112.73	0.00	5,941,332.28	1,688,801.47	10,394,707.35
Purchase	2,416,460.87	45,563.25	0.00	5,941,332.28	1,252,366.16	9,655,722.56
Others	0.00	302,549.48	0.00	0.00	436,435.31	738,984.79
3. Decrease amount in this year	21,250,084.00	0.00	0.00	291,800.00	0.00	21,541,884.00
Disposal	21,250,084.00	0.00	0.00	291,800.00	0.00	21,541,884.00
Others						
4. Ending balance	910,924,304.91	4,225,658.17	59,526,000.00	67,954,573.85	10,857,273.77	1,053,487,810.70
II. Accumulated amortization						
1. Beginning balance	121,174,748.09	3,111,866.96		41,656,468.26	2,050,899.25	167,993,982.56
2. Increase amount in this year	23,703,002.23	927,863.41		5,963,639.71	888,804.94	31,483,310.29
Provision	23,703,002.23	657,324.75		5,963,639.71	801,285.66	31,125,252.35
Others		270,538.66		-	87,519.28	358,057.94
3. Decrease amount in this year	5,418,771.81	0.00		291,800.00	0.00	5,710,571.81
Disposal	5,418,771.81			291,800.00	0.00	5,710,571.81
Others						
4. Ending balance	139,458,978.51	4,039,730.37		47,328,307.97	2,939,704.19	193,766,721.04
III. Impairment provision						
IV. Book value						
1. Ending balance of book value	771,465,326.40	185,927.80	59,526,000.00	20,626,265.88	7,917,569.58	859,721,089.66
2. Beginning 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

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

January 1, 2017 to December 31, 2017 (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) Explanation of intangible assets

- a. There are no intangible assets formed by the Company's internal research and development at the end of the report.
- b. 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 uses 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.
- c. There is no land use right without property right certificate at the end of the term.

19. Development expenditure

Item	Beginning balance	Increase in this year		Decrease in this year		Ending balance
		Internal development expenditure	Others	Transfer to current period profit or loss	Recognized as intangible assets	
Updates on accessories and R&D on other machinery products	0.00	43,346,195.13	0.00	43,346,195.13	0.00	0.00
Research and development for dynamical machinery products	0.00	104,847,256.90	0.00	104,847,256.90	0.00	0.00
Technological process research and development	0.00	54,220,191.22	0.00	54,220,191.22	0.00	0.00
Fundamental research	0.00	12,699,799.89	0.00	12,699,799.89	0.00	0.00
Research and development of tractor products	0.00	171,225,996.03	0.00	171,225,996.03	0.00	0.00
Total	0.00	386,339,439.17	0.00	386,339,439.17	0.00	0.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

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					14,297,893.81
Total	14,297,893.81					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					14,297,893.81
Total	14,297,893.81					14,297,893.81

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

January 1, 2017 to December 31, 2017 (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	60,541.30	0.00	21,367.52	0.00	39,173.78
Amortization of equipment relocation expenses	1,619,244.82	506,509.06	212,575.43	0.00	1,913,178.45
Mould amortization	29,840,966.28	15,594,336.46	10,739,472.80	213,675.21	34,482,154.73
Amortization of maintenance expenditure	8,112,995.95	3,127,894.11	2,440,898.53	0.00	8,799,991.53
Others	589,446.09	564,444.68	337,890.06	27,258.48	788,742.23
Total	<u>40,223,194.44</u>	<u>19,793,184.31</u>	<u>13,752,204.34</u>	<u>240,933.69</u>	<u>46,023,240.72</u>

Explanation of long-term deferred expenses: the reason for the mould amortization included in others is disposal of part of moulds. The reason for other decrease is that the amortization period is less than one year, so transfer it to other current assets.

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	42,871,642.47	7,234,185.49	36,818,261.38	5,862,971.13
Deductible losses	250,130,732.03	82,543,141.57	225,965,535.36	74,568,626.67
Termination welfare	9,870,196.45	1,612,564.25	15,432,209.99	2,418,617.23
Wages payable and accrued expense	120,829,754.03	25,751,177.53	109,768,630.32	22,461,383.54
Deferred revenue	127,277,099.43	19,091,564.92	114,226,151.87	17,455,571.11
Total	<u>550,979,424.41</u>	<u>136,232,633.76</u>	<u>502,210,788.92</u>	<u>122,767,169.68</u>

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

January 1, 2017 to December 31, 2017 (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	114,967,265.72	28,741,816.43	123,029,454.68	30,757,363.67
Fair value change of financial assets available-for-sale	-	-	18,189,507.08	3,370,863.13
Valuation of trading financial instruments	-	-	280,554.12	70,138.53
Total	<u>114,967,265.72</u>	<u>28,741,816.43</u>	<u>141,499,515.88</u>	<u>34,198,365.33</u>

(3) Deductible temporary difference that are not recognized as deferred tax assets

Item	Ending balance	Beginning balance
Provision for asset impairment	770,247,022.91	736,577,511.17
Deductible losses	496,827,421.43	421,088,769.87
Total	<u>1,267,074,444.34</u>	<u>1,157,666,281.04</u>

(4) Deductible losses unrecognized as deferred tax liabilities due in the following year

Year	Ending balance	Beginning balance
Year of 2017	0.00	20,324,715.49
Year of 2018	70,882,355.67	71,231,299.70
Year of 2019	92,771,757.23	92,771,757.23
Year of 2020	117,402,747.39	120,799,063.90
Year of 2021	112,109,886.57	115,961,933.55
Year of 2022	103,660,674.57	0.00
Total	<u>496,827,421.43</u>	<u>421,088,769.87</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

23. Short-term borrowings

(1) *Classification of borrowings*

Item	Ending balance	Beginning balance
Mortgaged loans	70,000,000.00	70,000,000.00
Guaranteed loans	0.00	105,948,600.00
Credit loans	1,963,879,689.22	1,403,499,910.67
Total	2,033,879,689.22	1,579,448,510.67

(2) *No short-term loans that have been overdue.*

(3) *Explanation of short-term 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 RMB82,900,010.90 and land use right as mortgages.

24. Absorption of deposits and interbank deposits

Item	Ending balance	Beginning balance
Demand deposit	229,663,863.41	482,814,340.94
Including: Corporate	229,478,533.87	482,513,395.98
Individuals	185,329.54	300,944.96
Time deposit (including notice deposit)	550,531,665.33	105,472,499.15
Including: Corporate	550,531,665.33	105,472,499.15
Individuals	0.00	0.00
Total	780,195,528.74	588,286,840.09

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

25. Deposits from banks and other financial institutes

Item	Ending balance	Beginning balance
Deposits from banks	0.00	0.00
Deposits from non-bank financial institutions	300,000,000.00	250,000,000.00
Total	<u>300,000,000.00</u>	<u>250,000,000.00</u>

26. Derivative financial liabilities

Item	Ending balance	Beginning balance
Currency forward and swap	12,800,000.00	-
Total	<u>12,800,000.00</u>	<u>-</u>

Note: Our company signed a working capital loan contract with Bank of Communications Ltd. Luoyang branch in September 28, 2017. Our company applied for a one-time 100-million-dollar loan amount to the lender. At the same time, the Company signed a swap agreement with the Bank of Communications Ltd. Luoyang branch. It agreed to buy 100 million dollars at the rate of 6.664806 yuan before September 28, 2017, and then repurchase the foreign exchange, so as to repay the loan mentioned above. According to the provisions of the accounting standards < Enterprises No. twenty-second – confirmation and measurement of financial instruments >, company should confirm a financial asset or financial liability when the Company becomes a part of financial instruments, so the Company will recognize the financial instrument as derivative financial liability.

27. Notes payable

Types of notes	Ending balance	Beginning balance
Bank acceptance notes	759,850,627.14	1,249,376,878.64
Commercial acceptance notes	60,650,971.80	167,736,890.85
Total	<u>820,501,598.94</u>	<u>1,417,113,769.49</u>

Note : At the end of the period, the total amount of the notes payable which were due but not paid was RMB1,677,165.00.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

28. Accounts payable

(1) Accounts payable

Item	Ending balance	Beginning balance
Purchase payable	1,353,217,785.45	1,308,157,751.41
Purchase of construction equipment payable	76,968,976.12	45,879,477.81
Service payment payable	21,953,786.89	19,757,726.67
Others	13,189,905.85	10,373,501.75
Total	<u>1,465,330,454.31</u>	<u>1,384,168,457.64</u>

(2) Aging analysis of accounts payable

Item	Ending balance	Beginning balance
Within 1 year	1,332,527,809.68	1,240,833,573.76
1-2 years	70,530,505.26	49,711,952.26
2-3 years	26,219,998.30	34,579,850.82
Over 3 years	36,052,141.07	59,043,080.80
Total	<u>1,465,330,454.31</u>	<u>1,384,168,457.64</u>

(3) Accounts payable with significant amount aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
Machinery Industry Fourth Design Research Institute Co., Ltd.	9,254,593.19	Unsettled
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd.	5,528,624.62	Unsettled
AZUIMPORT	3,136,416.00	Unsettled
GRUPO EMPRESARIAL DE LOGISTICA DEL MINAG	2,744,364.00	Unsettled
EMPRESA CUBANA EXPORTADORA E IMPORTADORA DE PRODUCTOS TECNICOS TECNOIMPORT	1,829,576.00	Unsettled
Total	<u>22,493,573.81</u>	/

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

29. Advance from customers

(1) Advance from customers

Item	Ending balance	Beginning balance
Within 1 year (including 1 year)	203,384,149.97	165,765,817.20
Over 1 year	32,836,818.63	33,897,384.34
Total	<u>236,220,968.60</u>	<u>199,663,201.54</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
Ningxia Boxin Hengtong Machinery Co. Ltd.	3,560,000.00	Unsettled
Shaanxi Lingfeng Engineering Machinery Co., Ltd.	2,383,299.70	Unsettled
Shanxi Fei Yu Da Construction Engineering Co., Ltd.	1,052,142.87	Unsettled
Total	<u>11,287,062.07</u>	/

30. 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	74,275,332.97	1,068,144,534.55	1,046,710,727.54	95,709,139.98
Post-employment welfare – Defined contribution plan	1,263,331.82	153,698,971.52	152,751,647.04	2,210,656.30
Termination welfare	30,373,241.00	29,768,651.92	34,540,175.91	25,601,717.01
Total	<u>105,911,905.79</u>	<u>1,251,612,157.99</u>	<u>1,234,002,550.49</u>	<u>123,521,513.29</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

30. 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	49,290,342.94	729,299,904.22	715,415,159.73	63,175,087.43
Staff welfare expense	4,225,324.43	78,838,497.32	78,945,679.10	4,118,142.65
Social insurance expense	148,553.53	70,780,848.82	70,416,207.33	513,195.02
Including : Medical insurance expense	148,553.53	61,657,457.10	61,352,673.77	453,336.86
Work-related injury insurance	0.00	5,973,417.98	5,934,938.07	38,479.91
Maternity insurance	0.00	3,149,973.74	3,128,595.49	21,378.25
Housing funds	753,089.46	62,790,993.65	60,870,715.30	2,673,367.81
Union & employee education funds	19,550,079.20	24,148,864.99	18,774,750.41	24,924,193.78
Others	307,943.41	102,285,425.55	102,288,215.67	305,153.29
Total	74,275,332.97	1,068,144,534.55	1,046,710,727.54	95,709,139.98

(3) Defined contribution plan

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Basic endowment insurance	318,077.28	125,027,541.69	124,113,260.23	1,232,358.74
Unemployment insurance premium	267.93	4,379,461.78	4,349,800.00	29,929.71
Enterprise annuity payment	944,986.61	24,291,968.05	24,288,586.81	948,367.85
Total	1,263,331.82	153,698,971.52	152,751,647.04	2,210,656.30

The explanation of 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 Group should pay RMB153,698,971.52 to the participated defined contribution plan (in 2016: RMB161,537,506.81). On December 31, 2017, the Group still had the expense payable which was due but not yet paid and which was used for the reporting period of RMB2,210,656.30 (on December 31, 2016: RMB1,263,331.82). The relevant expense payable has been paid after the reporting period.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

31. Taxes payable

Item	Ending balance	Beginning balance
Value-added tax (VAT)	2,285,941.96	3,805,459.33
Enterprise income tax	2,969,764.17	9,965,719.45
Individual income tax	4,856,580.72	4,038,209.68
Urban maintenance and construction tax	134,047.47	413,961.56
Property tax	4,508,683.32	4,343,139.14
Land use tax	1,697,953.13	1,597,460.36
Education surcharge	95,747.85	295,686.82
Other taxes	812,601.28	966,402.40
Total	17,361,319.90	25,426,038.74

32. Interests payable

Item	Ending balance	Beginning balance
Interest payable on corporate bonds	50,334,301.22	50,334,301.15
Interests payable on bank loans	3,078,130.20	4,475,913.57
Interests payable on deposits absorbed	8,450,507.27	340,870.80
Total	61,862,938.69	55,151,085.52

33. Dividends payable

Item	Ending balance	Beginning balance
Natural person shareholders	55.83	-
Total	55.83	-

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

34. Other payables

(1) Classification of other payables by nature

Nature of payment	Ending balance	Beginning balance
Receivables and payments between companies	86,468,102.96	76,273,526.26
Cash pledge and deposits	63,036,461.77	69,420,684.09
Expenses payable	77,300,212.31	74,305,168.25
Collection and payment on behalf of others	25,898,311.64	29,500,228.04
Others	23,418,320.38	7,758,242.18
Total	<u>276,121,409.06</u>	<u>257,257,848.82</u>

(2) Significant amount of other payables aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
YTO Group Corporation	51,464,222.65	Unsettled
Undertakings subsidy	8,518,160.00	Unsettled
Funds for housing construction and maintenance	2,590,304.90	Unsettled
Subsidies to the surviving defendants of workers injured on the job	1,769,776.95	Unsettled
Total	<u>64,342,464.50</u>	/

35. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term loans due within 1 year	9,752,875.00	18,267,000.00
Bonds payable due within 1 year	1,499,228,820.52	–
Deferred revenues due within 1 year	13,058,479.21	16,155,532.04
Total	<u>1,522,040,174.73</u>	<u>34,422,532.04</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

36. Other current liabilities

Item	Ending balance	Beginning balance
Discount and allowance	58,600,777.57	46,436,388.69
Warranty fee for 3 after sale services included	28,426,282.13	43,704,478.56
Agent service fees	1,716,981.13	2,100,000.00
Transportation fee	8,071,390.00	0.00
Others	1,027,038.50	1,128,478.50
Total	<u>97,842,469.33</u>	<u>93,369,345.75</u>

37. Long-term loans

(1) Classification of loans

Classification of loans	Ending balance	Beginning balance
Guarantee loan	39,011,500.00	0.00
Credit loans	659,752,875.00	27,400,500.00
Subtotal	698,764,375.00	27,400,500.00
Less: Due within 1 year	9,752,875.00	18,267,000.00
Including: Credit loans	9,752,875.00	18,267,000.00
Due after 1 year	<u>689,011,500.00</u>	<u>9,133,500.00</u>

Guarantee loan: YTO (France) agricultural equipment Co., Ltd., one subsidiary of our group, Ltd., is guaranteed by our company to obtain 5,000,000.00 euros from the Bank of China Construction Bank Corp Paris branch which is equivalent to RMB39,011,500.00.

(2) Due date analysis of long-term loans

Due date	Ending balance	Beginning balance
Over than 1 year after the balance sheet date, but not over than 2 years	60,000,000.00	9,133,500.00
Over than 2 years after the balance sheet date, but not over than 5 years	629,011,500.00	0.00
Over 5 years	0.00	0.00
Total	<u>689,011,500.00</u>	<u>9,133,500.00</u>

(3) At December 31, 2017, the Company do not have a loan that has expired and unpaid.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

38. Bonds payable

(1) Classification of bonds payable

Item	Ending balance	Beginning balance
12 YTO 01 Corporate bond	799,792,232.47	798,604,059.50
2 YTO 02 Corporate bond	699,436,588.05	698,090,936.56
Less: Bond payment listed under the item of current liabilities due within 1 year	1,499,228,820.52	0.00
Total	0.00	1,496,694,996.06

(2) Increase or decrease movements of bonds payable

Bond name	Total face value	Issue date	Term of bonds	Amount issued	Beginning balance
12 YTO 01 Corporate bond	800,000,000.00	2013/3/4	5 years	794,550,000.00	798,604,059.50
12 YTO 02 Corporate bond	700,000,000.00	2013/5/30	5 years	693,734,150.95	698,090,936.56
Total	1,500,000,000.00			1,488,284,150.95	1,496,694,996.06

Bond name	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	Other decrease	Ending balance
12 YTO 01 Corporate bond	0.00	0.00	1,188,172.97	0.00	-799,792,232.47	0.00
12 YTO 02 Corporate bond	0.00	0.00	1,345,651.49	0.00	-699,436,588.05	0.00
Total	0.00	0.00	2,533,824.46	0.00	-1,499,228,820.52	0.00

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 million 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).

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

38. Bonds payable (Continued)

(2) Increase or decrease movements of bonds payable (Continued)

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. At the end of third year of duration, the company chose not to raise the nominal interest rate, that is, the nominal interest rate of '12 YTO 01' for next 2 years is still 4.8%.

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%.

The above bonds will be reclassified into non-current liabilities due to maturity in one year on 2018

39. Estimated liabilities

Item	Ending balance	Beginning balance	Reason for occurring
Other	<u>13,699,471.42</u>	_____	Note 1
Total	<u><u>13,699,471.42</u></u>	=====	

Note 1: On year of 2017, the Company and the Luoyang Houhede real estate development company signed a contract of property right transaction contract. The contract stated that the equity of the Company YTO (Luoyang) forklift limited company which held by the Company transferred to Houhede real estate development company as RMB31 million. The two sides have signed a debt repayment agreement, which is RMB4,005,578.87 of non-related party debt which totally is RMB17,705,050.29 transfer to the Houhede real estate and the remaining RMB13,699,471.42 is still borne by the Company.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

40. Deferred revenue

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Reason
Government subsidies related assets	158,303,111.54	23,650,000.00	14,849,778.80	167,103,332.74	Refer to chart 1
Government subsidies related benefit	18,325,483.24	47,546,699.9	48,315,374.75	17,556,808.39	Refer to chart 1
Total	<u>176,628,594.78</u>	<u>71,196,699.90</u>	<u>63,165,153.55</u>	<u>184,660,141.13</u>	

(1) 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	45,945,454.54	0.00	0.00	4,836,363.64	41,109,090.90	Related to assets
Project of the energy saving and environmental protection diesel engine crankshaft machining production line	4,275,000.00	0.00	0.00	540,000.00	3,735,000.00	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	3,380,000.00	2,307,200.00	323,982.16	0.00	5,363,217.84	Related to income
Grants for C series government projects	2,864,000.00	0.00	0.00	716,000.00	2,148,000.00	Related to assets
Power shift heavy wheeled tractors with the annual output of 1,000 HP	2,375,000.00	0.00	0.00	250,000.00	2,125,000.00	Related to assets
Research and application of the key technology of the fully automatic intelligent precision forging demonstration line	2,000,000.00	500,000.00	2,500,000.00	0.00	0.00	Related to income
Technical transformation of wheeled tractors	1,384,000.00	0.00	0.00	1,384,000.00	0.00	Related to assets
Demonstration and verification of a new pattern of personalized rapid customization and intelligent manufacturing of equipment complex parts	1,000,000.00	0.00	581,135.77	0.00	418,864.23	Related to income
Henan Provincial Engineering Laboratory of rapid prototyping technology for agricultural machinery castings	150,000.00	0.00	150,000.00	0.00	0.00	Related to income
Others	132,402.41	0.00	0.00	0.00	132,402.41	Related to assets
New model application project of new wheeled tractor intelligent manufacturing	0.00	11,900,000.00	0.00	0.00	11,900,000.00	Related to assets

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

40. Deferred revenue (Continued)

(1) 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
Modern agricultural equipment intelligent cockpit digital chemical plant	0.00	7,000,000.00	0.00	0.00	7,000,000.00	Related to assets
Allocations transferred from the Department of environmental protection to the Finance Bureau	0.00	50,000.00	50,000.00	0.00	0.00	Related to income
Intelligent tractor positioning and remote monitoring system	0.00	950,000.00	0.00	0.00	950,000.00	Related to income
Research and system development of tractor Testing Technology	0.00	499,000.00	0.00	0.00	499,000.00	Related to income
Research on key technology and whole machine development of tractors in hilly and mountainous area	734,000.00	501,300.00	25,936.08	0.00	1,209,363.92	Related to income
Testing platform of key products	15,840,000.00	0.00	1,950,528.23	1,388,947.17	12,500,524.60	Related to assets
Promote independent research and development ability	14,647,254.59	0.00	0.00	1,295,939.76	13,351,314.83	Related to assets
Research and development, and the industrialization of LF series power shift tractors	3,000,000.00	0.00	3,000,000.00	0.00	0.00	Related to income
Special funds for urban affordable housing projects	8,640,000.00	0.00	0.00	288,000.00	8,352,000.00	Related to assets
Awards and grants for the science and technology research and development service platform of the 2015 provincial industrial agglomeration area	2,000,000.00	0.00	2,000,000.00	0.00	0.00	Related to income
Incentive funds for key state laboratories on tractor power system	1,000,000.00	0.00	1,000,000.00	0.00	0.00	Related to income
Development of key core components of new type energy saving and environmental protection agricultural diesel engines	1,355,000.00	1,438,100.00	619,877.08	515,000.00	1,658,222.92	Related to income
Research and system development of reliability testing technology for key parts of tractor	0.00	12,535,500.00	102,992.24	11,110,100.00	1,322,407.76	Related to income
Provincial key laboratory of the key tractor technologies	0.00	300,000.00	300,000.00	0.00	0.00	Related to income
Research project on pollution emission control technology and system of agricultural machinery	0.00	2,820,000.00	9,996.91	1,692,000.00	1,118,003.09	Related to income

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

40. Deferred revenue (Continued)

(1) 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
Research and development of agricultural machinery intelligent control technology and industrialization	0.00	2,040,000.00	0.00	0.00	2,040,000.00	Related to income
Research on the application of intelligent design platform in the research and development of high power tractors	0.00	1,987,400.00	50,645.14	1,005,000.00	931,754.86	Related to income
Research on the key technology of clean combustion for agricultural diesel engine	0.00	280,000.00	0.00	0.00	280,000.00	Related to income
Research on the control and OBD key technology of the exhaust post treatment system for agricultural machinery	0.00	705,000.00	0.00	0.00	705,000.00	Related to income
Development of intelligent electric tractors	190,000.00	130,000.00	3,105.50	0.00	316,894.50	Related to income
Research on field operation quality and performance test verification technology of tractor unit	0.00	1,813,100.00	6,720.73	1,162,300.00	644,079.27	Related to income
Traceability transmission of measurement value in machinery industry	0.00	4,750,000.00	0.00	0.00	4,750,000.00	Related to assets
"Capital Heluo craftsman" talent team construction	0.00	100,000.00	0.00	0.00	100,000.00	Related to income
Industrial revitalization and technological transformation	13,200,000.00	0.00	0.00	2,200,000.00	11,000,000.00	Related to assets
Construction project of Xinjiang agricultural equipment	3,216,483.24	0.00	3,216,483.24	0.00	0.00	Related to income
Funds for the collaborative development of Aid Xinjiang project by the Science and Technology Department	300,000.00	300,000.00	600,000.00	0.00	0.00	Related to income
Zombie enterprise subsidy	0.00	18,290,099.90	18,290,099.90	0.00	0.00	Related to income
Total	176,628,594.78	71,196,699.90	34,781,502.98	28,383,650.57	184,660,141.13	-

In the current period of the current profit and loss, the other income is RMB16,491,403.08 and the government subsidy of RMB18,290,099.90 is included in the non-operating income.

In other changes, the amount of non-current liabilities that is reclassified to one year is RMB12,899,250.57 and the amount of RMB15,484,400.00 is for the Company's external cooperation companies.

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

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

41. Share capital

Item	Beginning balance	Changes in current year (+ · -)				Subtotal	Ending balance
		Issue new stock	Bonus share	Equity fund transferred into shares	Others		
Total amount of shares	995,900,000.00	-	-	-	-10,050,000.00	-10,050,000.00	985,850,000.00

Note: other change is the cancellation for H-share repurchase.

42. Capital reserve

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Capital stock premium	1,878,901,351.02	0.00	27,052,975.46	1,851,848,375.56
Others capital reserve	247,784,237.55	0.00	0.00	247,784,237.55
Total	2,126,685,588.57	0.00	27,052,975.46	2,099,632,613.11

Note: The main reason for the loss of capital in this period is the cancellation of the share buyback of H shares, the difference between the stock market value and the face value to reduce the capital stock of RMB27,001,051.34. This period the Company from the acquisition of Belarus YITUO Group Technology Co., resulting in decrease of capital surplus RMB51,924.12.

43. Treasury stock

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Repurchase H shares	19,140,912.00	17,910,139.34	37,051,051.34	0.00
Total	19,140,912.00	17,910,139.34	37,051,051.34	0.00

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

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

44. 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	
Other comprehensive income that will be subsequently reclassified to profit and loss	-2,685,750.24	-4,296,067.32	11,059,890.91	-1,419,117.68	-13,582,334.26	-354,506.29	-16,268,084.50
Gains and losses from changes in fair value of available-for-sale financial assets	14,361,213.55	-5,177,870.73	11,059,890.91	-1,419,117.68	-14,361,213.55	-457,430.41	0.00
Exchange differences from retranslation of foreign currency financial statements	-17,046,963.79	881,803.41	0.00	0.00	778,879.29	102,924.12	-16,268,084.50
Total other comprehensive income	<u>-2,685,750.24</u>	<u>-4,296,067.32</u>	<u>11,059,890.91</u>	<u>-1,419,117.68</u>	<u>-13,582,334.26</u>	<u>-354,506.29</u>	<u>-16,268,084.50</u>

45. Special reserves

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Safety production expense	4,485,866.00	12,666,520.66	13,478,035.85	3,674,350.81
Total	<u>4,485,866.00</u>	<u>12,666,520.66</u>	<u>13,478,035.85</u>	<u>3,674,350.81</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

46. Surplus reserve

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
Statutory surplus reserve	423,136,788.34	14,534,131.33	0.00	437,670,919.67
Discretionary surplus reserve	771,431.00	0.00	0.00	771,431.00
Total	<u>423,908,219.34</u>	<u>14,534,131.33</u>	<u>0.00</u>	<u>438,442,350.67</u>

Note : The Group reserves for statutory surplus on 10% of the net profits.

47. General risk reserves

Item	Beginning balance	Increase in this year	Decrease in this year	Ending balance
General risk reserves	10,774,059.81	1,980,259.17	0.00	12,754,318.98

48. Retained earnings

Item	Current year	Last year	Percentage of accrual or distribution (%)
Ending balance of last year	1,289,413,464.37	1,142,994,139.49	-
Add: Adjustment on beginning balance of retained earnings	0.00	0.00	-
Beginning balance of this year	1,289,413,464.37	1,142,994,139.49	-
Add: Net profit for the year attributable to shareholders of the parent company	56,514,222.97	223,369,729.35	-
Less: Appropriation of the statutory surplus reserve	14,534,131.33	34,163,993.29	10% of current year net profits of the parent company
Provision of general risk reserves	1,980,259.17	1,954,511.18	-
Common stock dividends payable	56,193,450.00	40,831,900.00	-
Ending balance of this year	<u>1,273,219,846.84</u>	<u>1,289,413,464.37</u>	-

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

49. Operating revenue and operating costs

Item	Amount incurred in this year		Amount incurred in last year	
	Income	Cost	Income	Cost
Main business	7,151,937,360.11	6,002,833,313.88	8,309,722,844.86	6,736,305,725.14
Other business	67,373,026.00	33,171,317.99	377,779,382.55	352,477,346.70
Total	<u>7,219,310,386.11</u>	<u>6,036,004,631.87</u>	<u>8,687,502,227.41</u>	<u>7,088,783,071.84</u>

50. Net interest income

Item	Cumulative amount in this year	Cumulative amount in last year
Interest income	137,931,789.75	183,205,912.89
Including: From deposits in other banks	77,908,377.42	41,072,682.04
From deposits in central bank	4,556,068.60	4,340,716.55
Loans to others	9,622,388.79	13,141,666.79
Loans and advances granted	38,261,617.69	118,524,257.71
Including: Individual loans and advances	145,823.41	152,500.04
Corporate loans and advances	32,897,198.60	22,190,636.32
Notes discounting	5,218,595.68	96,181,121.35
Buying back the sale of financial assets	7,583,337.25	6,126,589.80
Interest expense	15,819,471.26	55,437,794.90
Including: From deposits in other banks	0.00	0.00
From deposits in central bank	0.00	0.00
Deposits from banks and other financial institutes	325,845.14	1,352,612.47
Deposits adsorption	15,493,626.12	5,700,240.08
Sale of repurchase financial assets	0.00	206,721.92
Others	0.00	48,178,220.43
Net interest income	<u>122,112,318.49</u>	<u>127,768,117.99</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

51. Fees and net commission income

Item	Amount in this year	Amount in last year
Fees and commission income	702,015.03	444,973.85
Clearing and settlement fees	36,372.05	163,326.96
Agent fees	152,169.83	65,471.69
Credit commitment fees and commissions	224,875.65	108,853.77
Others	288,597.50	107,321.43
Fees and commission expense	301,278.51	356,453.59
Service fee expense	301,278.51	356,453.59
Commission expense	0.00	0.00
Fees and net commission income	400,736.52	88,520.26

52. Taxes and surcharges

Item	Amount in this year	Amount in last year
Business tax	0.00	4,050,839.67
Urban maintenance and construction tax	4,900,431.24	6,820,935.42
Education surcharge	3,510,871.59	4,886,541.47
Property tax	19,995,191.73	13,405,590.52
Land use tax	10,092,454.96	7,957,767.71
Vehicle and vessel usage tax	146,691.95	146,624.82
Stamp duty	6,268,151.35	4,043,264.05
Others	804,909.49	3,214,200.02
Total	45,718,702.31	44,525,763.68

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

53. Selling expenses

Item	Amount in this year	Amount in last year
Transportation expenses	146,443,724.91	139,933,047.56
Sales service fees	116,930,251.91	139,681,341.11
Employee compensation	86,348,371.95	93,067,863.86
Advertising expenses	14,596,617.19	14,987,576.05
Packing expenses	9,312,494.82	9,358,401.48
Exhibition expenses	6,515,826.17	3,615,209.68
Depreciation expenses	665,667.19	1,139,861.46
Insurance expenses	4,565,268.14	873,896.35
Others	50,633,493.12	38,909,514.46
Total	436,011,715.40	441,566,712.01

54. Administrative expenses

Item	Amount in this year	Amount in last year
Research and development expenses	386,339,439.17	404,592,452.39
Employee compensation	240,225,721.98	237,705,946.20
Depreciation expenses	48,412,981.24	49,329,014.63
Repair expense	44,093,941.76	42,578,180.94
Amortization of intangible assets	25,689,581.10	29,358,764.17
Rent expense	15,978,164.47	23,498,782.97
Termination welfare	29,768,651.92	13,310,390.74
Taxes	0.00	12,318,599.89
Office expenses	8,649,982.18	7,007,095.36
Business entertainment expense	6,250,761.43	5,825,883.51
Conference expenses	7,627,279.11	5,485,795.09
Travelling expenses	4,999,441.87	5,185,910.39
Hiring agency fee	3,255,463.75	3,644,088.63
Litigation fee	2,619,045.82	2,943,290.52
Consulting fees	5,017,439.10	2,598,890.19
Insurance expenses	1,058,619.01	1,716,326.65
Others	59,674,273.42	66,776,926.63
Total	889,660,787.33	913,876,338.90

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

55. Finance expenses

Item	Amount in this year	Amount in last year
Interest expense	143,484,453.52	118,985,811.16
Less: Interest income	31,993,794.40	30,783,546.57
Add: Exchange loss	-12,702,901.28	9,334,554.45
Add: Other expense	-25,664,256.03	-11,463,147.72
	<u>73,123,501.81</u>	<u>86,073,671.32</u>
Total	<u>73,123,501.81</u>	<u>86,073,671.32</u>

56. Loss on impairment of assets

Item	Amount in this year	Amount in last year
Loss on bad debt	17,232,265.23	36,216,324.77
Impairment loss on inventories	-742,395.00	-10,692,829.71
Impairment loss on fixed assets	15,650,000.00	3,257,631.46
Impairment loss on construction in progress	0.00	1,484,914.34
Impairment loss on loans	10,314,877.62	801,363.02
Impairment provision for held to maturity investment	0.00	56,222,258.70
	<u>42,454,747.85</u>	<u>87,289,662.58</u>
Total	<u>42,454,747.85</u>	<u>87,289,662.58</u>

57. 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	2,185,068.18	410,438.25
Fair value gains arising from derivative financial instruments	-27,633,000.00	14,833,000.00
	<u>-25,447,931.82</u>	<u>15,243,438.25</u>
Total	<u>-25,447,931.82</u>	<u>15,243,438.25</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

58. Investment income

(1) Details of investment income

Item	Amount incurred in this year	Amount incurred in last year
Investment income from long-term equity investments by equity method	-460,927.51	8,712,098.59
Investment income from long-term equity investments by cost method	0.00	0.00
Investment income from disposal of long term equity investments	94,994,451.25	105,983.67
Investment income on financial assets measured at fair value and its movement recorded through profit and loss in the holding period	20,515,121.90	19,158,723.12
Investment income on disposal of financial assets measured at fair value and its movement recorded through profit and loss in the current period	1,967,668.52	11,541,062.87
Investment returns on held-to-maturity investment during the holding period through profit and loss in the current period	1,407,340.35	3,757,091.75
Investment returns on disposal of held-to-maturity investment during the holding period	0.00	-487,073.98
Investment returns on disposal of financial assets available-for-sale	17,685,729.82	19,248,190.39
Investment returns on disposal of financial assets available-for-sale	20,801,252.40	12,007,784.04
After the loss of control, gains from remeasuring the remaining equity at fair value	0.00	0.00
Others	0.00	192,000.00
Total	156,910,636.73	74,235,860.45

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

58. Investment income (Continued)

(2) Explanation of investment income

Compared with the previous period, the increase of investment income in this period which is RMB82,674,776.28 is mainly due to the disposal of the shares of the Luoyang truck forklift limited company in the current period. In addition, the bank's stock held by the Company disposed in the current period so that the investment income increased compared with the previous period.

59. Assets disposal income

Item	Amount incurred in this year	Amount incurred in last year
Profit or loss of the disposal of fixed assets	<u>2,318,017.87</u>	<u>-9,165,962.45</u>
Total	<u><u>2,318,017.87</u></u>	<u><u>-9,165,962.45</u></u>

60. Other income

(1) Details of other income

Item	Amount incurred in this year	Amount incurred in last year
Government grants	<u>55,890,931.87</u>	<u>-</u>
Total	<u><u>55,890,931.87</u></u>	<u><u>-</u></u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

60. Other income (Continued)

(2) Government grants included in other income

Item	Amount in this year	Amount in last year	Related to assets/related to income
Investment abroad in foreign investment projects	746,700.00		Related to income
Funds of the award for first set up major technical equipment products	10,000,000.00		Related to income
Research and development of agricultural machinery intelligent control technology and industrialization project	360,000.00		Related to income
Technical transformation of wheeled tractors	2,768,000.00		Related to assets
The forging and pressure line of diesel engine crankshafts	3,390,000.00		Related to assets
Grants for C series government projects	716,000.00		Related to assets
Project of the energy saving and environmental protection diesel engine crankshaft machining production line	540,000.00		Related to assets
Core ability promotion of new wheeled tractors	4,836,363.64		Related to assets
Power shift heavy wheeled tractors with the annual output of 1,000 HP	250,000.00		Related to assets
Research and application of key technology of automatic intelligent precision forging demonstration line	2,500,000.00		Related to income
Demonstration and verification of a new pattern of personalized rapid customization and intelligent manufacturing of equipment complex parts	581,135.77		Related to income
Henan Provincial Engineering Laboratory of rapid prototyping technology for agricultural machinery castings	150,000.00		Related to income
Key Laboratory for failure analysis of mechanical products	100,000.00		Related to income

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

60. Other income (Continued)

(2) Government grants included in other income (Continued)

Item	Amount in this year	Amount in last year	Related to assets/related to income
Research on key technology and whole machine development of tractors in hilly and mountainous area	25,936.08		Related to income
Integrated development and whole machine matching of medium-power agricultural diesel engine with energy conservation and environment protection	323,982.16		Related to income
Allocate funds transfer from Environmental protection department to the local bureau of finance	50,000.00		Related to income
Subsidy for post stabilization Beijing Commercial Commission subsidy	8,355,128.39		Related to income
Beijing Development Zone subsidy	89,512.00		Related to income
Beijing Development Zone subsidy Promote independent research and development ability	1,417,000.00		Related to income
Testing platform of key products	1,295,939.76		Related to assets
Awards and grants for the science and technology research and development service platform of the 2015 provincial industrial agglomeration area	1,950,528.23		Related to assets
Incentive funds for key state laboratories on tractor power system	2,000,000.00		Related to income
Provincial key laboratory of the key tractor technologies	1,000,000.00		Related to income
Research and development, and the industrialization of LF series power shift tractors	300,000.00		Related to income
Development of key core components of new type energy saving and environmental protection agricultural diesel engines	3,000,000.00		Related to income
	619,877.08		Related to income

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

60. Other income (Continued)

(2) Government grants included in other income (Continued)

Item	Amount in this year	Amount in last year	Related to assets/related to income
Research and system development of reliability testing technology for key parts of tractor	102,992.24		Related to income
Research project on pollution emission control technology and system of agricultural machinery	9,996.91		Related to income
Lift young talent youth project of China Science and Technology Association	78,385.00		Related to income
Research on the application of intelligent design platform in the research and development of high power tractors	50,645.14		Related to income
Cash from Luoyang innovation voucher	543,000.00		Related to income
Others	350,526.23		Related to income
Volatile organic matter control project	500,000.00		Related to income
Premium reward for major equipment	39,000.00		Related to income
The full reward for the part of value-added tax (VAT) paid retained by the local authority	833,800.00		Related to income
Industrial revitalization and technological transformation	2,200,000.00		Related to assets
Construction project of Xinjiang agricultural equipment	3,216,483.24		Related to income
Funds for the collaborative development of Aid Xinjiang project by the Science and Technology Department	600,000.00		Related to income
Total	55,890,931.87		

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

60. Other income (Continued)

(3) Explanation of other income

According to the accounting standards < Enterprise Accounting Standards No. sixteenth – government subsidy>, the Company listed the government subsidies related to daily activities in 2017 in other income, while 2016 in the non-operating income – government subsidies.

61. Government subsidies

(1) Classification of government subsidies

Projects of government subsidies	Amount in this year	Amount in last year	Note
Government subsidies included in deferred income	36,272,200.00	17,155,000.00	
Government subsidies included in other income	24,553,225.39	0.00	
Government subsidies included in non-operating income	36,761,645.78	17,452,514.74	
Total	<u>97,587,071.17</u>	<u>34,607,514.74</u>	

(2) There are no government subsidies which used to reduce the book value of the related assets.

(3) There are no government subsidies which used to reduce cost costs.

(4) No refunded government subsidies.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

62. Non-operating income

Item	Amount in this year	Amount in last year	Extraordinary gains and losses recognized in this year
Gain on debt restructuring	1,017,082.36	1,189,494.86	1,017,082.36
Donations accepted	0.00	0.00	0.00
Government grants	36,761,645.78	41,413,541.72	36,761,645.78
Others	32,800,436.85	8,152,479.34	32,800,436.85
Total	70,579,164.99	50,755,515.92	70,579,164.99

(1) Details of government grants

Item	Amount in this year	Amount in last year	Related to assets/ Related to income	Notes
Subsidized funds for the state import interest subsidy projects	-	10,225,000.00	Related to income	Luo Cai Yu [2016] No.398
The forging and pressure line of diesel engine crankshafts	-	3,390,000.00	Related to assets	Fa Gai Ban Gong Ye [2005] No.1392
Construction project of Xinjiang agricultural equipment	-	3,358,216.76	Related to income	Wu Jing Kai [2010] No.107
Comprehensive technical service platform for agricultural machinery equipment	-	3,000,000.00	Related to income	Luo Cai Yu [2015] No.770
Technical transformation of wheeled tractors	-	2,768,000.00	Related to assets	Fa Gai Ban Gong Ye [2005] No.279
Subsidy for post stabilization	-	2,618,987.00	Related to income	Yu Ren She [2015] No.3 and No.30
Core ability promotion of new wheeled tractors	-	2,418,181.82	Related to assets	Fa Gai Ban Chan Ye [2011] No.2128 & Fa Gai Tou Zi [2011] No.2053 & Guo Ji Ke [2011] No. 550
Industrial revitalization and technological transformation	-	2,200,000.00	Related to assets	Fa Gai Ban Chan Ye [2013] No.543
2014 industry support funds	-	2,000,000.00	Related to income	Jing Kai Cai Qi [2016] No.69
Promote independent research and development ability	-	1,295,168.40	Related to assets	Fa Gai Tou Zi [2012] No.2719
Subsidies for the technical transformation projects of the eighty thousand domestically made equipment	-	1,018,000.00	Related to assets	Fa Gai Tou Zi [2005] No.1858

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

62. Non-operating income (Continued)

(1) Details of government grants (Continued)

Item	Amount in this year	Amount in last year	Related to assets/ Related to income	Notes
The 2015 special expenditure for the production, construction and business development (waste sand management) of Luoyang Environmental Protection Bureau	-	1,000,000.00	Related to income	Luo Cai Yu [2015] No.17
Subsidy funds of export credit guarantee project	-	1,000,000.00	Related to income	Luo Cai Yu [2016] No.258
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	Related to income	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	Related to income	Yang Dong reorganization investment agreement · Jiang Zheng Fa [2012] No.178
Grants for C series government projects	-	716,000.00	Related to assets	Luo Fa Gai Gong Ye [2009] No.53
Project fund for the key laboratory of Henan Province in 2016	-	600,000.00	Related to income	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	Related to assets	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	Related to income	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	Related to income	Luo Cai Mao [2015] No.2
2014 industrial optimization project funds	-	150,000.00	Related to income	Luo Cai Yu [2016] No.111

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

62. Non-operating income (Continued)

(1) Details of government grants (Continued)

Item	Amount in this year	Amount in last year	Related to assets/ Related to income	Notes
Power shift heavy duty tractors with the annual output of 1,000 HP	-	125,000.00	Related to assets	Yu Gong Gao [2011] No.1
The reward of government supporting the enterprise development	-	105,000.00	Related to income	Luo Cai Yu [2016] No..77
Subsidy funds for elimination of Luoyang yellow label car in advance	14,600.00	-	Related to income	Notice of the implementation plan of the elimination work of the Yellow standard car in Luoyang in 2016- Luo Zheng [2016] No. 33
“Three for one industry” subsidy	13,791,858.49	-	Related to income	Cai Zi [2016] No.38/Guo Ji [2017] No.22
Cognizance reward or the first batch of high and new technology enterprise of Luoyang Finance Bureau in 2017	800,000.00	-	Related to income	Luo Zheng Ban [2017] No.50
Zombie enterprise subsidy	22,155,187.29	-	Related to income	Guo Ji Cai Zi Han [2017] No.14
Others		346,427.74		Other documents of government grants
Total	36,761,645.78	41,413,541.72		

63. Non-operating expenses

Item	Amount in this year	Amount in last year	Extraordinary gains and losses recognized in this year
Debt restructuring	2,108,448.75	517,651.67	2,108,448.75
Donations to outside party	0.00	222.80	0.00
Others	20,935,370.70	3,699,194.76	20,935,370.70
Total	23,043,819.45	4,217,069.23	23,043,819.45

Note : Of the other expenditures, there are RMB13,157,929.00 for the “Three for one industry” subsidy.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

64. Income tax expenses

(1) Chart of income tax expenses

Item	Amount in this year	Amount in last year
Current income tax expenses	28,571,204.59	67,198,052.97
Deferred income tax expense	-10,226,188.79	-12,987,863.75
Total	18,345,015.80	54,210,189.22

(2) Reconciliation process of accounting profit and income tax expenses

Item	Amount in this year
Total profit	56,056,354.74
Income tax expenses calculated according to the appropriate/applicable tax rates	14,014,088.69
The impact of subsidiaries applied for different tax rates	-17,907,893.26
The impact of adjustments on the income tax of prior period	-3,965,052.26
The impact of non-taxable income	-32,332,283.96
The impact of non-deductible costs, expenses and losses	13,025,077.18
The impact of using the deductible loss of the deferred tax assets unrecognized in the prior period	-6,214,364.61
The impact of the deductible temporary difference or the deductible loss of the deferred tax assets unrecognized in the current period	72,603,995.19
Deductions of research and development cost	-21,516,620.17
Others	638,069.01
Income tax expenses	18,345,015.80

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

65. 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	11,719,046.40	6,416,305.13
Cash receipts from other receivables	320,830,892.51	69,840,334.17
Total	332,549,938.91	76,256,639.30

(2) Cash payments to other operating activities

Item	Amount in this year	Amount in last year
Payment of selling and administrative expenses	546,068,001.86	504,739,612.36
Payment of other payables	5,016,259.98	17,776,135.36
Total	551,084,261.84	522,515,747.72

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

65. Notes to items of cash flow statement (Continued)

(3) Cash receipts from other investing activities

Item	Amount in this year	Amount in last year
Cash received from assets-related government grants	18,900,000.00	12,054,000.00
Total	18,900,000.00	12,054,000.00

(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
Total		200,000,000.00

(5) Other cash payments relating to financing activities

Item	Amount in this year	Amount in last year
Repurchase of H shares	17,925,712.05	19,140,912.00
Total	17,925,712.05	19,140,912.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

66. 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	37,711,338.94	225,885,239.05
Add : Provision for asset impairment	42,454,747.85	87,289,662.58
Depreciation of fixed asset	296,868,124.82	299,855,509.54
Amortization of intangible assets	31,125,252.35	32,749,677.64
Amortization of long-term deferred expenses	13,752,204.34	12,804,274.55
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain listed as "-")	-2,318,017.87	9,165,962.45
Loss on disposal of fixed assets (Gain listed as "-")		
Gain or loss from changes in fair value (Gain listed as "-")	25,447,931.82	-15,243,438.25
Financial expenses (Gain listed as "-")	88,873,792.10	93,426,832.66
Loss on investments (Gain listed as "-")	-156,910,636.73	-74,235,860.45
Decrease in deferred tax assets (Increase listed as "-")	-8,140,503.02	-4,786,418.47
Increase in deferred tax liabilities (Decrease listed as "-")	-2,015,547.24	-3,275,818.31
Decrease in inventories (Increase listed as "-")	-154,031,734.39	164,160,287.20
Decrease in operating receivables (Increase listed as "-")	-588,434,665.05	1,782,398,343.72
Increase in operating payables (Decrease listed as "-")	-180,696,219.81	-517,019,537.47
Others		
Net cash flow generated from operating activities	-556,313,931.89	2,093,174,716.44
2. Significant non-cash investing and financing activities		
Conversion of debts into capital		
Convertible bonds repayable within 1 year		
Fixed assets acquired under finance lease arrangement		
3. Net changes in cash and cash equivalents		
Ending balance of cash	2,946,734,827.85	2,894,305,807.48
Less: Beginning balance of cash	2,894,305,807.48	1,690,285,427.32
Add: Ending balance of cash equivalents		
Less: Beginning balances of cash equivalents		
Net increase in cash and cash equivalents	52,429,020.37	1,204,020,380.16

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

66. Supplementary information for consolidated cash flow statement (Continued)

(2) the net cash paid to gain the subsidiary company in this period

Item	Amount in this year
Cash or cash equivalents paid in this period due to enterprise merger Including: YTO Belarus Technology Co. Ltd.	5,283,896.52
Less: Cash and cash equivalents held by a subsidiary on purchase day Including: YTO Belarus Technology Co. Ltd.	5,283,896.52
The net cash paid to gain the subsidiary	<u>5,283,896.52</u>

(3) the net cash received due to disposal of the subsidiary company in this period

Item	Amount in this year
Cash or cash equivalents received due to disposal of the subsidiary company Including: YTO (Luoyang) forklift Co., Ltd.	31,000,000.00
Less: Cash and cash equivalents held by a subsidiary on the day of lost control Including: YTO (Luoyang) forklift Co., Ltd.	254,119.41
The net cash received due to disposal of the subsidiary company	<u>30,745,880.59</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

66. Supplementary information for consolidated cash flow statement (Continued)

(4) Cash and cash equivalents

Item	Ending balance	Beginning balance
1. Cash	2,946,734,827.85	2,894,305,807.48
Including : Cash on hand	814,564.53	875,133.16
Bank deposits ready for payment	2,945,846,039.79	2,878,741,014.81
Other monetary funds ready for payment	74,223.53	14,689,659.51
Deposit in the Central Bank ready for payment		
Interbank deposits		
Loans to other banks		
2. Cash equivalents		
Including : Bond investments due within 3 months		
3. Ending balance of cash and cash equivalents	2,946,734,827.85	2,894,305,807.48
Including : Cash and cash equivalents with restricted use of the parent company or the subsidiaries of the Group		

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

67. Assets with restricted ownership or right to use

Item	Ending balance of book value	Reason
Monetary funds	346,249,459.65	Bank acceptance bill deposits, letter of credit deposits, 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	18,795,582.05	Pledged
Fixed assets	65,781,510.74	Short-term loan mortgage guarantee
Intangible assets	17,118,500.16	Short-term loan mortgage guarantee
Total	<u>447,945,052.60</u>	

Note: In the monetary funds restricted by ownership, which is, the other monetary funds, the bank acceptance deposits are RMB59,188,686.97, the L/C Guarantee deposits RMB2,434,080.39, the guarantee deposits are RMB5,109,779.00, forward settlement money deposit of RMB67,000.00. Statutory deposit reserve in the central bank included in bank deposit is RMB279,449,913.29.

The amount of notes receivable 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 book value of RMB82,900,010.90 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, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

68. Net current assets

Item	Ending balance	Beginning balance
Current assets	8,417,140,843.74	7,611,653,175.14
Less: current liabilities	7,747,678,120.64	5,990,219,536.09
Net current assets	669,462,723.10	1,621,433,639.05

69. Total assets deduct current liabilities

Item	Ending balance	Beginning balance
Total assets	14,102,773,527.68	13,210,513,281.43
Less: current liabilities	7,747,678,120.64	5,990,219,536.09
Total assets deduct current liabilities	6,355,095,407.04	7,220,293,745.34

70. Loan

Item	Ending balance	Beginning balance
Short-term bank loan	1,333,879,689.22	879,448,510.67
Short-term entrustment loan	700,000,000.00	700,000,000.00
Long-term loans due in one year	9,752,875.00	18,267,000.00
Bonds payable within one year	1,499,228,820.52	0.00
Long-term loan	689,011,500.00	9,133,500.00
Bonds payable	0.00	1,496,694,996.06
Total	4,231,872,884.74	3,103,544,006.73

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

70. Loan (Continued)

(1) Analysis of loan

Item	Ending balance	Beginning balance
Bank loan		
Paid within one year	1,343,632,564.22	897,715,510.67
Paid after one year	689,011,500.00	9,133,500.00
Subtotal	<u>2,032,644,064.22</u>	<u>906,849,010.67</u>
Other loan		
Paid within one year	2,199,228,820.52	700,000,000.00
Paid after one year	0.00	1,496,694,996.06
Subtotal	<u>2,199,228,820.52</u>	<u>2,196,694,996.06</u>
Total	<u><u>4,231,872,884.74</u></u>	<u><u>3,103,544,006.73</u></u>

(2) Maturity date analysis of loan

Item	Ending balance	Beginning balance
Bank loan		
Within 1 year	1,343,632,564.22	897,715,510.67
1-2 years	60,000,000.00	9,133,500.00
2-5 years	629,011,500.00	
Over 5 years		
Subtotal	<u>2,032,644,064.22</u>	<u>906,849,010.67</u>
Other loan		
Within 1 year	2,199,228,820.52	700,000,000.00
1-2 years		1,496,694,996.06
2-5 years	-	-
Over 5 years	-	-
Subtotal	<u>2,199,228,820.52</u>	<u>2,196,694,996.06</u>
Total	<u><u>4,231,872,884.74</u></u>	<u><u>3,103,544,006.73</u></u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

71. Foreign currency monetary items

(1) Foreign currency monetary items

Item	Ending balance of foreign currency	Exchange rate	Ending balance converted into RMB
Monetary funds			
USD	14,225,165.48	6.53420	92,950,076.26
EUR	4,356,883.85	7.80230	33,993,714.86
HKD	41,920,573.51	0.83591	35,041,826.60
YEN	23,567,270.00	0.05788	1,364,144.29
AUD	51,673.72	5.09280	263,163.92
XOF	121,796,228.00	0.01189	1,448,157.15
ZAR	10,199,286.80	0.52770	5,382,163.65
BYR	6,519.17	3.31231	21,593.53
Accounts receivable			
USD	61,038,833.32	6.53420	398,839,944.76
EUR	2,484,049.90	7.80230	19,381,302.53
AUD	1,151,250.20	5.09280	5,863,087.02
XOF	205,228,297.20	0.01189	2,440,164.45
ZAR	26,326,112.64	0.52770	13,892,289.64
Other receivables			
EUR	2,435,062.82	7.80230	18,999,090.64
XOF	62,986,219.50	0.01189	748,906.15
ZAR	102,608.93	0.52770	54,146.73
Advances to suppliers			
USD	782,712.00	6.53420	5,114,396.75
EUR	629,962.55	7.80230	4,915,156.80
XOF	20,511,477.84	0.01189	243,881.47
Other current assets			
BYR	28,639.82	3.31231	94,864.05
Accounts payable			
USD	5,437,842.03	6.53420	35,531,947.39
EUR	1,314,149.28	7.80230	10,253,386.92
XOF	5,892,501.00	0.01189	70,061.84
ZAR	150,000.00	0.52770	79,155.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

71. Foreign currency monetary items (Continued)

(1) *Foreign currency monetary items (Continued)*

Item	Ending balance of foreign currency	Exchange rate	Ending balance converted into RMB
Other payables			
USD	3,437,472.96	6.53420	22,461,135.81
EUR	1,724,805.83	7.80230	13,457,452.53
HKD	13,998,524.72	0.83591	11,701,506.80
XOF	105,343,869.50	0.01189	1,252,538.61
ZAR	8,313.26	0.52770	4,386.91
Advance from customers			
USD	1,490,934.61	6.53420	9,742,064.93
EUR	7,848,632.07	7.80230	61,237,382.00
AUD	11,720.32	5.09280	59,689.25
XOF	31,175,639.76	0.01189	370,678.36
Short-term borrowings			
USD	100,000,000.00	6.53420	653,420,000.00
XOF	879,704,728.00	0.01189	10,459,689.22
Non-current liabilities due within one year			
EUR	1,250,000.00	7.80230	9,752,875.00
Long-term loans			
EUR	5,000,000.00	7.80230	39,011,500.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

71. 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
CADFUNDMCHINERY(SA) (PTY) LTD.	South Africa	ZAR	Business environment and the main settlement currency
YTOFRANCESAS	France	EUR	Business environment and the main settlement currency
YTO Belarus Technology Co. Ltd.	Russia	BYR	Business environment and the main settlement currency

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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

72. Depreciation and amortization

Item	Amount in this year	Amount in last year
Depreciation of fixed assets	296,868,124.82	299,855,509.54
Amortization of intangible assets	31,125,252.35	32,749,677.64
Total	327,993,377.17	332,605,187.18

73. Reserved funds

According to the applicable law of the Company's registered place of establishment which is in China, the distributable reserve of our company in December 31, 2017 was RMB1,273,219,846.84 and the capital surplus was RMB1,851,848,375.56.

VII. CHANGES IN SCOPE OF CONSOLIDATION

1. Business consolidation not under common control

No business consolidation not under common control in this year.



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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VII. CHANGES IN SCOPE OF CONSOLIDATION (CONTINUED)

2. Business consolidation under common control

(1) Business consolidation under common control in this year

The name of the merged party	The proportion of rights and interests obtained in the merger of enterprises (%)	Merger date	The income of the merged party from the beginning of the current period to the day of the merger	The net profit of the merged party from the beginning of the current period to the day of the merger	The income of the combined party during the period of comparison	Net profit of the combined party during the period of comparison	Note
YTO Belarus Technology Co. Ltd.	100.00	Dec 31, 2017		-1,099,244.09			

(1) Evidence of the basis of transaction constitutes an enterprise merger under the same control and the merger day

The stake of Belarus Technology Co. Ltd. Has been transferred from the China YTO Group Corporation to the Company. As China YTO Group Corporation is the controlling shareholder of the Company, it constitutes a merger of enterprises under the same control. YTO Belarus Technology Co. Ltd. Changed the business registration at the end of December 2017 and the equity transfer payment was paid at the end of December 2017, so the merger day was December 31, 2017.

(2) Combination costs

Combination costs

Cash
The book value of non-cash assets
The book value of a debt that is issued or undertaken
The value of the equity securities issued
contingent consideration
Total of combination costs

**YTO Belarus
Technology
Co. Ltd.**

5,283,896.52

5,283,896.52

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VII. CHANGES IN SCOPE OF CONSOLIDATION (CONTINUED)

2. Business consolidation under common control (Continued)

(3) The book value of the assets and liabilities of the merged party

Item	YTO Belarus Technology Co. Ltd.	
	Merger day	The end of the period
Monetary funds	25,289,657.07	
Other current assets	94,864.05	
inventories		
Fixed assets	340,521.25	
Construction in progress	5,002,498.63	
Intangible assets	3,986.30	
Less: loan		
Accounts payable	11,639.96	
Employees benefits payable	69,208.80	
Tax payable	5,237.13	
Other payables	11,513.10	
Net assets	30,633,928.31	
Less: minority equity		
Net assets gained	<u>5,283,896.52</u>	

Note: The Company increases the capitalisation of YTO Belarus Technology Co. Ltd. when the Company pay the payment of equity transfer so that the net assets of YTO Belarus Technology Co. Ltd. is greater than the carrying amount of the net assets acquired on the combining date.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VII. CHANGES IN SCOPE OF CONSOLIDATION (CONTINUED)

3. Disposal of subsidiary companies

(1) Single disposal to the subsidiary and the loss of control

Name of subsidiary company	Equity disposal price	Proportion of ownership disposal (%)	The way of ownership disposal	The time of loss of control	The basis for determining the time of loss of control power	The net assets of the difference between the disposal price and the disposal of the investment of the Company corresponding in the consolidated financial statements
YTO (Luoyang) Forklift Co., Ltd.	31,000,000.00	100.00	Equity transfer	Aug 31, 2017	Note	94,994,451.25

Name of subsidiary company	Proportion of remaining shares on the day of loss of control (%)	The book value of the surplus stock on the day of loss of control	The fair value of the surplus stock on the day of loss of control	The gains or losses arising from the remeasurement of the remaining shares based on the fair value	The determination method and main hypothesis of the fair value of the remaining stock right in the day of loss of control	The amount of investment gains and loss transfer from other comprehensive gains and loss which related to the stock investment of an atomic company
YTO (Luoyang) Forklift Co., Ltd.	0.00	0.00	0.00	0.00	0.00	0.00

Note: In July 2017, the Company signed the Property right transaction contract with Luoyang Hou He De Real Estate Development Co., Ltd., pursuant to which the Company transferred its 100% equity interests held in YTO (Luoyang) Forklift Truck Co., Ltd. to Luoyang Hou He De Real Estate Development Co., Ltd. at a price of RMB31 million. The Company received the payments of equity transfer and completed the asset transfer in August 2017. Since then, the Company lost the control over the subsidiary.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VII. CHANGES IN SCOPE OF CONSOLIDATION (CONTINUED)

4. Changes of scope of consolidation due to other reasons

According to the China National Machinery Industry Corporation in March 2017 [2017] No. 132 investment document, the Company merged with a subsidiary of the Company (Luoyang) axle Co. Ltd. After absorption and completion of YTO (Luoyang) vehicle bridge Co., Ltd. cancelled. The cancellation formalities of the subsidiary (Luoyang) vehicle bridge Co., Ltd. have been completed on Dec 22, 2017.

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	Shareholding percentage (%)		Acquisition method
				Direct	Indirect	
China-Africa Heavy Industry Investment Co., Ltd.	China	China	Sale of agricultural machinery	55.00		Establishment
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd.	China	China	Tractor manufacturing	33.33		Subsidiaries acquired through business combination not under common control
YTO Heilongjiang Agricultural Machinery Co., Ltd.	China	China	Tractor manufacturing	100.00		Establishment
Luoyang Tractor Research Institute Co., Ltd.	China	China	Others	51.00		Business combination under common control
YTO International Economic and Trade Co., Ltd.	China	China	Sale of agricultural machinery	100.00		Business combination under common control

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

January 1, 2017 to December 31, 2017 (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)

Name of the subsidiary	Main operating place	Registration place	Business nature	Shareholding percentage (%)		Acquisition method
				Direct	Indirect	
YTO (Luoyang) Flag Auto-Body Company Limited	China	China	Tractor manufacturing	100.00		Business combination under common control
YTO (Luoyang) Fuel Injection Co., Ltd.	China	China	Power machinery manufacturing	66.60	22.83	Business combination under common control
Huachen China Machinery Holding Co., Ltd.	China	Bermuda	Investment shareholding	90.10		Establishment
YTO (Shenyang) Co., Ltd.	China	China	Tractor manufacturing	60.00		Establishment
Luoyang Changxing Agricultural Machinery Co., Ltd.	China	China	Sale of agricultural machinery	70.00	30.00	Establishment
Luoyang Changhong Trading Co., Ltd.	China	China	Sale of agricultural machinery	100.00		Establishment
YTO (Luoyang) Shentong Construction Machinery Co., Ltd.	China	China	Other machinery manufacturing	100.00		Establishment
China YTO Group Finance Co., Ltd.	China	China	Finance	94.60	4.80	Establishment
YTO (Luoyang) Transportation Machinery Co., Ltd.	China	China	Other machinery manufacturing	93.39		Establishment
YTO (Luoyang) Diesel Engine Co., Ltd.	China	China	Power machinery manufacturing	67.94	19.45	Business combination under common control
YTO Shunxing (Luoyang) Spare Parts Co., Ltd.	China	China	Tractor manufacturing	100.00		Subsidiaries acquired through business combination not under common control
YTO (Luoyang) Foundry Company Limited	China	China	Tractor manufacturing	100.00		Business combination under common control
YTO (Xinjiang) Machinery Co., Ltd.	China	China	Tractor manufacturing	100.00		Establishment
YTOFRANCESAS	France	France	Tractor manufacturing	100.00		Establishment
YTO Belarus Technology Co. Ltd.	Russia	Russia	Research and development	100.00		Business combination under common control

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

January 1, 2017 to December 31, 2017 (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.

(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.	9.9	1,513,158.95	6,632,604.00	11,459,216.22
YTO (Luoyang) Transportation Machinery Co., Ltd.	6.61	-292,093.23		-649,824.34
YTO Group Finance Co., Ltd.	1.21	975,417.53		9,817,190.70
China-Africa Heavy Industry Investment Co., Ltd.	45.00	-89,627.16		46,976,779.42
Luoyang Tractor Research Institute Co., Ltd.	49.00	7,292,724.11		329,360,487.42
YTO (Luoyang) Diesel Engine Co., Ltd.	14.53	2,335,331.85	6,745,726.30	188,368,450.84
YTO (Luoyang) Fuel Injection Co., Ltd.	13.89	-3,470,322.50		27,675,503.49
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd.	66.67	-27,092,855.07		32,418,817.01

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

January 1, 2017 to December 31, 2017 (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

The main financial information of these subsidiaries is the amount before each company offset each other, but the adjustment of fair value and unified accounting policy is made after the merger day.

Item	Ending balance/Amount in this year							
	YTO (Luoyang) Transportation Machinery Co., Ltd.	Brilliance China Machinery Holdings Co., Ltd.	YTO Group Finance Co., Ltd.	China-Africa Heavy Industry Investment Co., Ltd.	Luoyang Tractor Research Institute Co., Ltd.	YTO (Luoyang) Diesel Engine Co., Ltd.	YTO (Luoyang) Fuel Injection Co., Ltd.	Chang Tuo Agricultural Machinery Equipment Group Co., Ltd.
Current assets	21,011,978.10	164,251,903.08	3,329,903,268.01	132,575,620.41	255,669,980.52	953,815,625.47	122,396,433.05	18,953,865.23
Non-current assets	23,562,809.77	9,801,300.00	2,002,273,902.56	2,428,418.11	520,054,526.43	763,843,079.72	116,409,891.79	168,461,700.74
Total assets	44,574,787.87	174,053,203.08	5,332,177,170.57	135,004,038.52	775,724,506.95	1,717,658,705.19	238,806,324.84	187,415,565.97
Current liabilities	54,296,567.48	60,808,299.38	4,527,452,697.96	32,588,130.94	55,590,045.07	648,384,374.71	42,263,205.27	131,088,906.33
Non-current liabilities	0.00	0.00	0.00	0.00	47,970,201.83	21,043,418.20	0.00	7,698,398.23
Total liabilities	54,296,567.48	60,808,299.38	4,527,452,697.96	32,588,130.94	103,560,246.90	669,427,792.91	42,263,205.27	138,787,304.56
Operating income	15,220,288.07	0.00	174,825,024.85	68,670,884.37	252,309,797.62	1,783,273,257.17	92,784,102.59	124,143.42
Net profit	-4,418,959.68	15,284,433.82	80,593,036.93	-239,249.52	14,883,110.43	16,379,353.24	-24,989,720.61	-40,639,262.28
Total comprehensive income	-4,418,959.68	10,330,646.93	75,774,758.88	437,887.91	14,883,110.43	16,379,353.24	-24,989,720.61	-40,639,262.28
Cash flow from operating activities	17,185,386.01	-465,746.57	180,355,941.49	6,566,487.50	59,519,702.46	-5,694,925.65	-16,408,363.25	-8,044,304.68

Item	Beginning balance/Amount in last year							
	YTO (Luoyang) Transportation Machinery Co., Ltd.	Brilliance China Machinery Holdings Co., Ltd.	YTO Group Finance Co., Ltd.	China-Africa Heavy Industry Investment Co., Ltd.	Luoyang Tractor Research Institute Co., Ltd.	YTO (Luoyang) Diesel Engine Co., Ltd.	YTO (Luoyang) Fuel Injection Co., Ltd.	Chang Tuo Agricultural Machinery Equipment 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	116,760,240.82
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		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

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

VIII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

(4) *major restrictions on the use of enterprise group assets and repayment of enterprise group debt*

N/A

(5) *Financial support or other support provided to the structured body that incorporates the scope of the consolidated financial statements*

N/A

2. Situation of which the portion of shareholders' equity in a subsidiary changed but still in control of the subsidiary

The Company does not have this transaction in this year.

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		Equity method
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd.	China	China	Tractor manufacturing	20.00		Equity method

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

January 1, 2017 to December 31, 2017 (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	
	YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd.	ZF YTO (Luoyang) Drive Axle Co., Ltd.
Current assets	3,059,751.35	142,549,605.68
Including: Cash and cash equivalents	77,765.14	87,831,907.99
Non-current assets	1,543,792.63	188,565,315.93
Total assets	4,603,543.98	331,114,921.61
Current liabilities	296,346.10	43,906,993.70
Non-current liabilities	100,000.00	
Total liabilities	396,346.10	43,906,993.70
Minority interests		
Equity attributable to the parent company shareholders	4,207,197.88	287,207,927.91
Share of net assets calculated by shareholding ratio	841,443.56	140,731,884.68
Adjusted matters		
– Goodwill		
– Unrealized profits from internal transactions		-270,617.83
– Others		
Book value of equity investments in joint ventures	841,443.56	140,461,266.85
Fair value of equity investments in joint ventures with public offer		
Operating income	1,347,761.18	216,532,958.84
Finance expenses	630.90	-1,430,537.59
Income tax expenses		
Net profit	-576,629.96	-1,194,145.28
Net profits of discontinuing operation		
Other comprehensive income		
Total comprehensive income	-576,629.96	-1,194,145.28
Dividends from joint ventures for current period		7,056,000.00

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

January 1, 2017 to December 31, 2017 (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 (Continued)

Item	Beginning balance/Amount incurred in last year	
	YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd.	ZF YTO (Luoyang) Drive Axle Co., Ltd.
Current assets	5,485,004.58	148,520,337.98
Including: Cash and cash equivalents	16,498.83	110,661,907.99
Non-current assets	1,593,764.62	197,525,341.29
Total assets	7,078,769.20	346,045,679.27
Current liabilities	2,294,921.38	43,723,102.06
Non-current liabilities		
Total liabilities	2,294,921.38	43,723,102.06
Minority interests		
Equity attributable to the parent company shareholders	4,783,847.82	302,322,577.21
Share of net assets calculated by shareholding ratio	956,769.56	148,138,062.83
Adjusted matters		-86,291.90
– Goodwill		
– Unrealized profits from internal transactions		-86,291.90
– Others		
Book value of equity investments in joint ventures	956,769.56	148,051,770.93
Fair value of equity investments in joint ventures with public offer		
Operating income	4,418,441.60	288,122,572.98
Finance expenses	461.75	-1,233,849.56
Income tax expenses		6,181,560.70
Net profit	-323,850.71	17,298,533.77
Net profits of discontinuing operation		
Other comprehensive income		
Total comprehensive income	-323,850.71	17,298,533.77
Dividends from joint ventures for current period	192,000.00	2,940,000.00

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

January 1, 2017 to December 31, 2017 (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	165,563.01	90,459.27
Total amount of the following items calculated by shareholding ratio	-	-
- Net profit	75,103.74	10,420.06
- Other comprehensive income		
- Total comprehensive income	75,103.74	10,420.06

(4) Significant restrictions of the ability to transfer funds from associates or joint ventures to the Company

None

(5) Excess loss incurred in associates or joint ventures

None

(6) Unconfirmed commitments related to investments in associates

None

(7) Contingent liabilities related to investments in associates or joint ventures

None

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

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 and the overall risk management plan aims at the unpredictability of the financial market and seeks to reduce the potential adverse effects on the Company's financial performance.

1. Credit risk

The group's credit risks are mainly from monetary funds, receivables, receivables, other receivables, and the sale of financial assets. Management has made appropriate credit policies and constantly monitors the exposure of these credit risks.

The currency funds held by the Company are mainly stored in the financial institutions such as state-owned banks and other large and medium-sized commercial banks. The management believes that these commercial banks have a higher reputation and assets, so there is no major credit risk and the Company would not have any significant losses which caused by the breach of contract by the institutions.

On December 31, 2017, 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. The Company evaluate the credit qualification of customers and set up corresponding credit period which are based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factor refer to current market conditions. The Company will conduct regular monitoring of customer credit records. As for bad credit customers, the Company will use the written reminders, shorten the credit period or cancel the credit period to ensure that the Company's overall credit risk in the controllable range. 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.

At the end of December 31, 2017, the accounts receivable of top five customers of the Company accounted for 32.10% of our company's total accounts receivable (2016: 37.22%), so the Company didn't have significant credit concentration risk.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Credit risk (Continued)

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.

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.

The maximum exposure to credit risk of the Company is represented by the carrying amount of each financial asset (including derivative financial instrument) in the balance sheet. Except for providing financial guarantees as set out in Note XIII, the Company does not provide any other guarantees which would expose the Company to credit risk.

2. Liquidity risk

Liquidity risk is the risk that the Company is unable to obtain sufficient funds in time to meet the needs of business development or to pay due debt and other payment obligations.

The financial department of the Company continues monitor the short-term and long-term financial needs of the Company to ensure sufficient cash reserves to be maintained. At the same time, continuous monitoring is in line with the provisions of the loan agreement. The sufficient reserve funds which provided by the main financial institutions are used to meet short-term and long-term capital needs.

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 (if applicable) 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 RMB2,946,734,827.85 (RMB2,894,305,807.48 on December 31, 2016) (Note VI. 66), accounts receivable and notes receivable of approximate RMB2,287,854,262.30 (RMB1,734,020,446.99 on December 31, 2016) (Note VI 4, 5). Cash flow is expected to real-timely generated to manage the liquidity risk.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. 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, 2017:

Item	Ending balance					
	Net book vale	The original book value	Within 1 year or on demand	1-2 years	2-5 years	Over 5 years
Monetary funds	3,292,984,287.50	3,292,984,287.50	3,292,984,287.50			
Financial assets measured at fair value and whose changes are recorded in the profits or losses of the current period	40,478,838.50	40,478,838.50	40,478,838.50			
Derivative financial assets						
Notes receivable	531,530,154.03	531,530,154.03	531,530,154.03			
Accounts receivable	1,238,285,603.95	1,756,324,108.27	1,756,324,108.27			
Advances to suppliers	233,704,609.47	233,704,609.47	233,704,609.47			
Interests receivable	14,148,062.85	14,148,062.85	14,148,062.85			
Other receivables	123,425,502.13	143,939,584.58	143,939,584.58			
Financial assets available for sale-stock	188,129,341.41	192,452,141.41	192,452,141.41			
Held-to-maturity investments	58,344,519.48	114,566,778.18	114,566,778.18			
Loans and advances granting	934,741,824.37	934,741,824.37	934,741,824.37			
Total financial assets	6,655,772,743.69	7,254,870,389.16	7,254,870,389.16			
Short-term borrowings	2,033,879,689.22	2,033,879,689.22	2,033,879,689.22			
Absorption of deposits and Interbank deposits	780,195,528.74	780,195,528.74	780,195,528.74			
Deposits from banks and other financial institutes	300,000,000.00	300,000,000.00	300,000,000.00			
Derivative financial liabilities	12,800,000.00	12,800,000.00	12,800,000.00			
Notes payable	820,501,598.94	820,501,598.94	820,501,598.94			
Accounts payable	1,465,330,454.31	1,465,330,454.31	1,465,330,454.31			
Other payables	276,121,409.06	276,042,179.23	276,042,179.23			
Interests payable	61,862,938.69	61,862,938.69	61,862,938.69			
Non-current liabilities due within one year-loan	1,508,981,695.52	1,508,981,695.52	1,508,981,695.52			
Long-term loans	689,011,500.00	689,011,500.00		60,000,000.00	629,011,500.00	
Total financial liabilities	7,948,684,814.48	7,948,605,584.65	7,259,594,084.65	60,000,000.00	629,011,500.00	

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Liquidity risk (Continued)

Item	Net book value	Beginning balance				
		The original book value	Within 1 year or on demand	1-2 years	2-5 years	Over 5 years
Monetary funds	3,261,735,812.98	3,261,735,812.98	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	62,657,466.94	62,657,466.94			
Derivative financial assets	14,833,000.00	14,833,000.00	14,833,000.00			
Notes receivable	554,932,731.17	554,932,731.17	554,932,731.17			
Accounts receivable	674,313,323.03	1,179,087,715.82	1,179,087,715.82			
Advances to suppliers	143,734,037.70	145,822,237.87	145,822,237.87			
Interests receivable	12,027,545.45	12,027,545.45	12,027,545.45			
Other receivables	104,926,297.50	123,269,614.75	123,269,614.75			
Financial assets available for sale-stock	47,604,558.74	47,604,558.74	47,604,558.74			
Held-to-maturity investments	114,574,997.38	114,574,997.38	114,574,997.38			
Loans and advances granting	771,253,661.19	771,253,661.19	770,763,837.28	489,823.91		
Total financial assets	5,762,593,432.08	6,287,799,342.29	6,287,309,518.38	489,823.91		
Short-term borrowings	1,579,448,510.67	1,579,448,510.67	1,579,448,510.67			
Absorption of deposits and						
Interbank deposits	588,286,840.09	588,286,840.09	588,286,840.09			
Deposits from banks and other financial institutes	250,000,000.00	250,000,000.00	250,000,000.00			
Notes payable	1,417,113,769.49	1,417,113,769.49	1,417,113,769.49			
Accounts payable	1,384,168,457.64	1,384,168,457.64	1,384,168,457.64			
Other payables	257,257,848.82	257,257,848.82	257,257,848.82			
Interests payable	55,151,085.52	55,151,085.52	55,151,085.52			
Non-current liabilities due within one year-loan	18,267,000.00	18,267,000.00	18,267,000.00			
Long-term loans	9,133,500.00	9,133,500.00		9,133,500.00		
Bonds payable	1,496,694,996.06	1,496,694,996.06		1,496,694,996.06		
Total financial liabilities	7,055,522,008.29	7,055,522,008.29	5,549,693,512.23	1,505,828,496.06		

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk

(1) Exchange rate risk

The main business of our company is in China, and the main business is settled in RMB. The Company has confirmed that the foreign currency assets and liabilities and future transactions in foreign currency still exists the risk of exchange rate (the currency for foreign currency assets and liabilities and foreign transactions mainly are US dollar, Hongkong dollar, Euro, Yen, Australian dollar West African francs and Rand). The financial department of the Company is responsible for monitoring the scale of foreign currency transactions and foreign currency assets and liabilities of the Company to minimize the risk of exchange rate so that the Company may achieve the purpose of avoiding the exchange rate risk by signing forward foreign exchange contracts.

- a. The term of forward foreign exchange contract or currency swap contract signed by the Company in this year is as follows:

Our company signed a working capital loan contract with Bank of Communications Ltd. Luoyang branch in September 28, 2017 to apply for a one-time 100-million-dollar loan. At the same time, the Company signed a swap agreement with the Bank of Communications Ltd. Luoyang branch. It agreed to buy 100 million dollars at the rate of 6.664806 yuan before September 28, 2017, and then repurchase the foreign exchange which used to repay the loan mentioned above.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (Continued)

(1) Exchange rate risk (Continued)

- b. By the end of December 31, 2017, the amount of foreign currency financial assets and foreign currency financial liabilities converted into RMB is listed below:

Item	Ending balance		Beginning balance	
	Original currency	Converted into RMB	Original currency	Converted into RMB
Foreign currency of financial assets				
Monetary funds		170,464,840.26	–	149,466,905.81
USD	14,225,165.48	92,950,076.26	12,078,789.57	83,790,563.25
EUR	4,356,883.85	33,993,714.86	1,448,466.46	10,583,654.74
HKD	41,920,573.51	35,041,826.60	47,736,737.64	42,700,989.18
YEN	23,567,270.00	1,364,144.29	72.00	4.29
AUD	51,673.72	263,163.92	69,648.73	349,337.14
XOF	121,796,228.00	1,448,157.15	215,934,709.00	2,396,875.27
ZAR	10,199,286.80	5,382,163.65	18,962,939.48	9,638,862.14
GBP			777.94	6,619.80
BYR	6,519.17	21,593.53		
Accounts receivable		440,416,788.40	–	241,287,147.95
USD	61,038,833.32	398,839,944.76	30,583,308.84	212,156,413.42
EUR	2,484,049.90	19,381,302.53	1,569,471.51	11,467,814.43
AUD	1,151,250.20	5,863,087.02	839,307.20	4,209,713.12
XOF	205,228,297.20	2,440,164.45	350,615,838.22	3,891,835.80
ZAR	26,326,112.64	13,892,289.64	18,810,488.25	9,561,371.18
Other receivables		19,802,143.52	–	11,558,020.31
XOF	62,986,219.50	748,906.15	12,807,389.50	142,162.02
ZAR	102,608.93	54,146.73	71,156.19	36,168.69
EUR	2,435,062.82	18,999,090.64	1,557,410.85	11,379,689.60
Advances to suppliers		10,273,435.02	–	65,400,293.75
USD	782,712.00	5,114,396.75	100,514.56	697,269.50
EUR	629,962.55	4,915,156.80	8,780,622.36	64,158,251.46
XOF	20,511,477.84	243,881.47	48,203,598.97	535,059.95
ZAR			19,108.48	9,712.84

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (Continued)

(1) Exchange rate risk (Continued)

- b. By the end of December 31, 2017, the amount of foreign currency financial assets and foreign currency financial liabilities converted into RMB is listed below: (Continued)

Item	Ending balance		Beginning balance	
	Original currency	Converted into RMB	Original currency	Converted into RMB
Accounts payable		45,934,551.15	–	30,288,783.60
USD	5,437,842.03	35,531,947.39	2,957,060.96	20,513,131.88
EUR	1,314,149.28	10,253,386.92	1,116,506.66	8,158,090.86
XOF	5,892,501.00	70,061.84	138,903,077.44	1,541,824.16
ZAR	150,000.00	79,155.00	149,000.00	75,736.70
Other payables		48,877,020.66	–	13,895,177.16
USD	3,437,472.96	22,461,135.81	510,564.91	3,541,788.78
EUR	1,724,805.83	13,457,452.53	1,274,095.54	9,309,561.29
HKD	13,998,524.72	11,701,506.80		
XOF	105,343,869.50	1,252,538.61	93,286,251.34	1,035,477.39
ZAR	8,313.26	4,386.91	16,426.72	8,349.70
Advances from customers		71,409,814.54	–	109,142,998.61
USD	1,490,934.61	9,742,064.93	1,005,676.42	6,976,377.33
EUR	7,848,632.07	61,237,382.00	13,897,210.08	101,544,134.61
AUD	11,720.32	59,689.25	0.00	0.00
XOF	31,175,639.76	370,678.36	56,079,879.76	622,486.67
ZAR			0.00	0.00
Short-term borrowings		663,879,689.22	–	809,448,510.67
USD	100,000,000.00	653,420,000.00	100,000,000.00	693,700,000.00
EUR			14,500,000.00	105,948,600.00
XOF	879,704,728.00	10,459,689.22	882,874,835.00	9,799,910.67
Non-current liabilities due within one year		9,752,875.00	–	18,267,000.00
EUR	1,250,000.00	9,752,875.00	2,500,000.00	18,267,000.00
Long-term loans		39,011,500.00	–	9,133,500.00
EUR	5,000,000.00	39,011,500.00	1,250,000.00	9,133,500.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (Continued)

(1) Exchange rate risk (Continued)

c. Sensitivity analysis

By the end of December 31, 2017, as for the Company of foreign currency of financial assets and financial liabilities, if the RMB against the US dollar and euro currency appreciation or depreciation of 5% and other factors remain unchanged, the Company will reduce or increase the tax net profit of about RMB11,890,668.98 (about RMB23,936,044.90 in 2016).

(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.

On December 31, 2017, interest-bearing debts of the Group are mainly borrowing contracts in RMB and 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 RMB1,298,764,375.00 (RMB133,349,100.00 on December 31, 2016 in EUR). The total amount of contracts with fixed interest rates is RMB2,933,108,509.74 (RMB2,970,194,906.73 on December 31, 2016).

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

IX. RISK RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Market risk (Continued)

(2) Interest rate risk (Continued)

Sensitivity analysis:

By the end of December 31, 2017, if the interest rate calculated at floating interest rate has increased or decreased by 1%, while other factors remain unchanged, the Company's pre-tax profit will decrease or increase by about RMB12,987,643.75 (606,274.22 in the year 2016).

The above sensitivity analysis assumption of interest rate changes has taken place on the balance sheet date and have been applied to all loans obtained by our company at floating interest rates.

(3) Price risk

The price risk generated by our financial instruments mainly refers to the risk that the fair value of equity securities decreases due to the change of stock index level and the value of individual securities

X. DISCLOSURE OF FAIR VALUE

1. Financial instruments measured at fair value

In December 31, 2017, the Company expose the book value of financial asset instruments measured at fair value at three levels which is based on the lowest level of the three levels of the important input values used in the measurement of fair value. The three levels are defined as following:

First level: Unadjusted quotations of the same assets or liabilities that can be obtained on the day of measurement in the active market.

Second level: An input value directly or indirectly observable except for the first level of input value.

Input values in second level included: 1) Quotations similar to assets or liabilities in active markets. 2) Quotations of the same or similar assets or liabilities in an inactive market. 3) Other observable input values other than quotations, such as: The interest rate and yield curve, implied volatility and credit margin that can be observed during the normal quotation interval. 4) Input value of market verification.

Third level: The unobservable input value of the related assets or liabilities.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

X. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Ending fair value

(1) continuous 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	
Subtotal of trading financial assets	13,478,838.50			13,478,838.50
Investments on debt instrument				
Investments on equity instrument	13,478,838.50			13,478,838.50
Derivative financial assets				
Others				
Subtotal of designated as financial assets measured at fair value and its movement recorded through profit and loss	27,000,000.00			27,000,000.00
Investments on debt instrument				
Investments on equity instrument				
Trust products	27,000,000.00			27,000,000.00
Total assets	40,478,838.50			40,478,838.50
Subtotal of trading financial liabilities				
Issued trading bonds				
Derivative financial liabilities				
Designated as financial liabilities measured at fair value and its movement recorded through profit and loss				
Derivative financial liabilities	12,800,000.00			12,800,000.00
Total liabilities	12,800,000.00			12,800,000.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

X. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. 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).

4. 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 (if any) 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, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

X. DISCLOSURE OF FAIR VALUE (CONTINUED)

5. 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.

6. The continuous fair value measurement project, the reason why there is transformation or no transformation between different levels in this period, the reasons for the conversion and the policy of determining the time point of conversion

The above continuous fair value measurement project of the Company has not changed between different levels in this year.

7. The changes in the valuation technology and the cause of the change in this period

The fair value valuation technology of the Company's financial instruments has not changed in this year.

8. The fair value of financial assets and financial liabilities that are not measured at fair value

Financial assets and liabilities that are not measured at fair value are mainly including: accounts receivable, short-term loans, accounts payables, non-current liabilities and long-term loans due within one year and an equity tool that is not quoted in an active market and its fair value is not reliably measured.

There is little difference between the book value and the fair value of the financial assets and liabilities that are not measured at fair value.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION

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 <i>RMB 0'000</i>	Percentage of shareholding of the parent company in the Company <i>(%)</i>	Percentage of voting right of the parent company in the Company <i>(%)</i>
YTO Group Corporation	Henan	Production and sales of large and small tractors, construction machinery, diesel engines, etc.	302,374.96	41.66	41.66

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 of the Group is RMB16,800,000,000.00.

(2) Registered capital of the controlling shareholders and the movements (RMB 0'000)

Controlling shareholder	Beginning balance	Increase in this year	Decrease in this year	Ending balance
YTO Group Corporation	302,374.96	0.00	0.00	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	41,069.06	41.66	41.24

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

2. Subsidiaries

Please refer to the related content in the Note "VIII 1.(1) Interests in subsidiaries" for details of the subsidiaries.

3. Joint ventures and associates

Please refer to "Note VIII 3 (1) Significant joint ventures or associates" for details.

There are 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.

Other associated party names	Relationship to other related parties	Note
YTO (Luoyang) Fuel Injection Co., Ltd.	The Company's subsidiary and the joint venture of the controlling shareholder of the Company	The company hold shareholding 10.57%
Luoyang Tractor Research Institute Co., Ltd.	The Company's subsidiary and the joint venture of the controlling shareholder of the Company	Direct shareholding 49% of the company
Luoyang towing Engineering Vehicle Technology Co., Ltd.	The Company's subsidiary and the joint venture of the controlling shareholder of the Company	The subsidiary of Luoyang Tractor Research Institute Co., Ltd.
Luoyang Xiyuan Vehicle And Power Inspection Institute Co., Ltd.	The Company's subsidiary and the joint venture of the controlling shareholder of the Company	The subsidiary of Luoyang Tractor Research Institute Co., Ltd.
YTO (Luoyang) Rico Automobile Co. Ltd.	The joint venture of the controlling shareholder of the Company	The company hold shareholding 45%

Note: According to the board rules of the Hongkong stock exchange, the company holding a share of 10% or more of the holding shareholders of the company is a joint venture of the controlling shareholder of the company.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

4. Other related parties

Name of other related parties	Relationship to the Company
YTO (Luoyang) Special Purpose Vehicle Co., Ltd.	Under common control
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	Under common control
YTO (Luoyang) Tobacco Machinery Co., Ltd.	Under common control
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd.	Under common control
YTO (Luoyang) Logistics Co., Ltd.	Under common control
YTO (Luoyang) Lubricants Co., Ltd.	Under common control
YTO (Luoyang) Kintra Equipment Science & Technology 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
Luoyang Zhongshou Machinery & Equipment Co., Ltd.	Under common control
YTO Luoyang Motor Vehicle Driver Training Schools Co., Ltd.	Under common control
Luoyang Tianhui Energy Engineering Co., Ltd.	Under common control
Luoyang Fossett auto incorporate company	Under common control
Luoyang Duoan Advertising Co., Ltd.	Under common control
Dongfanghong (Luoyang) Culture Communication Centre	Under common control
Beijing Heavy Transport Machinery Design Research Institute	Same ultimate control
Changlin Company Ltd.	Same ultimate control
China Erzhong Group (Deyang) Heavy Industry Co., Ltd.	Same ultimate control
Fuyang Bearing Co., Ltd.	Same ultimate control
Guangzhou Jisheng Lubrication Technology Co., Ltd.	Same ultimate control
Guangzhou Qingtian Mstar Technology Ltd.	Same ultimate control
Guangzhou Qingtian Environmental Technology Co. Ltd.	Same ultimate control
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd.	Same ultimate control
SINOMACH-HI (Luoyang) Co., Ltd.	Same ultimate control
The Sixth Design Institute Co., Ltd. of the Ministry of Machinery Industry	Same ultimate control
The Fourth 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
Jiangsu sumeida Electromechanical Technology Co., Ltd.	Same ultimate control
Luoyang Bearing Research Institute Co., Ltd.	Same ultimate control
Luoyang Bearing Science & Technology 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 SINOMACH Heavy Industry Corporation	Same ultimate control
China Machine Tool Corporation	Same ultimate control
The Fourth Construction of China Machinery Industry Co., Ltd.	Same ultimate control
China Mechanical Industry Machinery Engineering Co., Ltd.	Same ultimate control
China Machinery Industry Construction Group Inc.	Same ultimate control
China Academy of Agricultural Mechanization Services	Same ultimate control
China Automobile Industry Engineering Co., Ltd.	Same ultimate control
China Heavy Machinery Research Institute stock company	Same ultimate control
China (Tianjin) Automotive Equipment Co., Ltd.	Same ultimate control

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions

(1) The transactions between subsidiaries that have control relations and have been incorporated into the Company's consolidated financial statements and parent company have been offset.

(2) Significant transactions with SINOMACH and its subsidiaries

Item	Amount in this year	Amount in last year
Sales of raw materials and components	15,873,901.60	34,937,396.97
Purchase of raw materials and components	117,594,799.38	30,022,208.05
Interest income	6,868,164.32	4,806,719.90
Pay clients' deposit interest	592,832.41	201,149.86
Commission income	144,123.95	

(3) 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	312,295,650.77	302,954,989.99
Purchase of raw materials and components	420,601,443.94	239,454,338.84
Payment and payable of power expense	154,475,758.31	169,926,016.44
Payment and payable of comprehensive services and transportation fees	171,253,417.11	156,794,875.33
Payment and payable of land rental expenses	12,666,716.00	12,632,186.69
Payment and payable of buildings rental expenses	9,328,322.82	7,803,612.78
Payment and payable of equipment rental expenses	4,297,625.48	151,214.17
Rental income of leasing buildings and equipment	2,118,989.73	2,030,833.51
Land lease income	1,413,977.50	1,260,608.00
Trademark use income	215,435.85	138,404.53
Purchase of plant and equipment	14,333,749.47	18,304,956.57
Interest income	30,371,954.53	22,410,596.28
Pay clients' deposit interest	11,735,405.23	3,088,724.40
Commission income	213,590.73	
Payment received of research and development expense	2,941,919.53	1,088,346.85

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

**(4) 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	71,110,925.96	83,993,446.32
Rental income	7,632,698.54	7,978,757.33
Pay clients' deposit interest	338,959,061.56	391,335,146.83
Pay clients' deposit interest	981.52	612.63
Payment of research and development costs	109,880,275.47	100,255,283.06
Providing technology and testing services	371,990.64	125,008.19
	371,990.64	125,008.19

(5) Borrowing and lending between related parties

Item	Amount in this year	Amount in last year
Loans granting (including Notes discounted)	680,218,298.92	630,198,377.50
Absorption of deposits and interbank deposits	732,664,836.45	566,396,274.17
	732,664,836.45	566,396,274.17

(6) Related party assets transfer and debt restructuring

N/A

(7) Remuneration of key management personnel (Unit: RMB0'000)

Item	Amount incurred in this year	Amount incurred in last year
Fees	45.66	51.48
Salaries and other benefits	1,004.33	872.47
Retirement benefits scheme contribution	47.44	36.15
	1,097.43	960.10
Total remuneration	1,097.43	960.10

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(7) Remuneration of key management personnel (Unit: RMB0'000) (Continued)

Analysis of key management personnel remuneration (Unit: RMB0'000):

Personnel and duties	Amount in this year			Total
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
Executive directors				
Zhao, Yanshui		88.74	3.45	92.19
Wang, Erlong		89.29	6.04	95.33
Wu, Yong		103.57	3.45	107.02
Non-executive directors				
Li, Hepeng	0.46			0.46
Xie, Donggang	0.57			0.57
Li, Kai	0.59			0.59
Independent non-executive directors				
Xing, Min	7.73			7.73
Wu, Delong	7.94			7.94
Yu, Zengbiao	8.18			8.18
Yang, Minli	7.83			7.83
Supervisors				
Li, Ping'an		52.58	3.45	56.03
Wang, Jianjun		32.98	3.45	36.43
Zhao, Guozhong		27.97	3.45	31.42
Wang, Yong	5.95			5.95
Huang, Ping	6.41			6.41

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(7) Remuneration of key management personnel (Unit: RMB0'000) (Continued)

Analysis of key management personnel remuneration (Unit: RMB0'000): (Continued)

Personnel and duties	Amount in this year			Total
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
Key management personnel				
Wang, Kejun (<i>Deputy general manager</i>)		69.79	3.45	73.24
Liu, Jiguo (<i>Deputy general manager</i>)		77.58	3.45	81.03
Zhu, Weijiang (<i>Deputy general manager</i>)		93.58	3.45	97.03
Su, Wensheng (<i>Deputy general manager</i>)		92.72	3.45	96.17
Song, Yuping (<i>Deputy general manager</i>)		91.13	3.45	94.58
Other key management personnel				
Yao, Weidong (<i>Chief financial officer</i>)		91.59	3.45	95.04
Yu, Li'na (<i>Deputy general manager and secretary of the board of directors</i>)		92.81	3.45	96.26
Total	45.66	1004.33	47.44	1097.43

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(7) Remuneration of key management personnel (Unit: RMB0'000) (Continued)

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		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
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
Supervisors				
Li, Ping'an		52.81	2.62	55.43
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

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(7) Remuneration of key management personnel (Unit: RMB0'000) (Continued)

Analysis of key management personnel remuneration (Unit: RMB0'000): (Continued)

Personnel and duties	Amount in last year			Total
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	
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
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

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, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties

a. Accounts receivable

Related parties	Ending balance	Beginning balance
(1) Accounts receivable between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)		
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd.	2,561,496.51	1,582,834.15
China SINOMACH Heavy Industry Corporation	1,277,692.82	1,306,332.30
China (Tianjin) Automotive Equipment Co., Ltd.	483,600.00	
YTO (Luoyang) Engineering Machinery Co., Ltd.	340,000.00	
The Fourth Design Institute of the Ministry of Machinery Industry	191,329.60	137,716.15
Luoyang Bearing Research Institute Co., Ltd.	135,800.00	
Beijing heavy transport machinery design research institute	81,234.09	
Changlin Company Ltd.	51,840.00	90,885.70
China Mechanical Engineering Machinery Engineering Co., Ltd.		47,900.00
(2) Accounts receivable between the Group and the majority shareholder		
YTO Group Corporation	89,516,635.22	47,571,196.27
	89,516,635.22	47,571,196.27

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

a. Accounts receivable (Continued)

Related parties	Ending balance	Beginning balance
(3) Accounts receivable between the Group and YTO Group and its subsidiaries	26,770,567.97	26,871,192.05
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd.	12,104,272.34	7,560,631.76
Luoyang Zhongshou Machinery & Equipment Co., Ltd.	3,950,365.42	11,032,086.99
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	3,449,655.96	799,053.42
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd.	5,922,226.02	2,733,091.00
YTO (Luoyang) Special Purpose Vehicle Co., Ltd.	874,763.21	1,974,057.59
YTO (Heilongjiang) Dongfanghong Industrial Park Co., Ltd.	417,887.57	603,675.20
YTO (Luoyang) Lubricants Co., Ltd.	35,097.45	0.00
YTO (Luoyang) Logistics Co., Ltd.	16,300.00	26,600.88
YTO (Luoyang) Huide Tooling Co., Ltd.	0.00	2,141,995.21
(4) Accounts receivable between the group and other parties	2,999,292.96	1,988,600.42
ZF YTO (Luoyang) axle Co. Ltd.	2,765,798.25	1,553,996.53
YTO (Luoyang) Rico Automobile Co. Ltd.	233,494.71	434,603.89
Total balance	121,847,992.66	78,013,822.89
Less: bad debt provision	1,997,872.25	1,380,774.77
Total	119,850,120.41	76,633,048.12

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

b. Advance to suppliers

Related parties	Ending balance	Beginning balance
(1) Advance to suppliers between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)	1,723,900.00	0.00
China Erzhong Group (Deyang) Heavy Industry Co., Ltd.	1,499,700.00	0.00
China Heavy Machinery Research Institute stock company	224,200.00	0.00
(2) Advance to suppliers between the Group and the majority shareholder	1,223,271.70	24,116.00
YTO Group Corporation	1,223,271.70	24,116.00
(3) Advance to suppliers between the Group and YTO Group and its subsidiaries	5,037,441.64	668,550.75
Luoyang Zhongshou Machinery & Equipment Co., Ltd.	3,029,281.94	0.00
YTO (Luoyang) Huide Tooling Co., Ltd.	1,500,000.00	0.00
Luoyang Fossett auto incorporate company	312,330.00	0.00
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	156,711.90	0.00
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd.	20,077.20	144,000.00
YTO (Luoyang) Dongchen Mold Technology Co., Ltd.	19,040.60	524,550.75
Total	7,984,613.34	692,666.75

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

c. Other receivables

Related parties	Ending balance	Beginning balance
(1) Other receivables between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)	2,783,473.91	180,207.00
China National Machinery Industry Corporation	2,603,266.91	0.00
YTO (Luoyang) Engineering Machinery Co., Ltd.	96,314.00	96,314.00
YTO (Luoyang) Construction Machinery Co., Ltd.	83,893.00	83,893.00
(2) Other receivables between the Group and the majority shareholder	11,562,324.51	46,858,196.24
YTO Group Corporation	11,562,324.51	46,858,196.24
(3) Other receivables between the Group and YTO Group and its subsidiaries	3,625,743.21	7,009.79
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	3,586,331.70	0.00
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd.	32,401.72	0.00
Luoyang Zhongshou Machinery & Equipment Co., Ltd.	7,009.79	7,009.79
(4) Other receivables between the group and other parties	659,003.26	888,849.62
ZF YTO (Luoyang) axle Co. Ltd.	659,003.26	888,849.62
Total balance	18,630,544.89	47,934,262.65
Less: bad debt provision	1,817,988.00	1,256,496.42
Total	16,812,556.89	46,677,766.23

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

d. Short-term borrowings

Related parties	Ending balance	Beginning balance
YTO Group Corporation	700,000,000.00	700,000,000.00
Total	700,000,000.00	700,000,000.00

e. Accounts payable

Related parties	Ending balance	Beginning balance
(1) Accounts payables between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)		
The Fourth Design Institute of the Ministry of Machinery Industry	20,606,731.90	20,839,540.53
China Automobile Industry Engineering Co., Ltd.	9,434,656.00	17,073,476.85
China Erzhong Group (Deyang) Heavy Industry Co., Ltd.	7,040,950.00	0.00
Changsha Gas-electric Auto Parts Co., Ltd.	1,647,000.00	68,800.00
Fuyang Bearing Co., Ltd.	1,249,474.67	2,914,168.98
The Sixth Design Institute Co., Ltd. of the Ministry of Machinery Industry	600,713.57	0.00
The Fifth Design Institute of the Ministry of Machinery Industry	299,310.00	400,410.00
China Machine Tool Corporation	161,600.04	161,600.04
YTO (Luoyang) Engineering Machinery Co., Ltd.	99,492.94	166,254.98
The Fourth Construction of China Machinery Industry Co., Ltd.	70,705.00	52,000.00
	2,829.68	2,829.68

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

e. Accounts payable (Continued)

Related parties	Ending balance	Beginning balance
(2) Accounts payable between the Group and the majority shareholder	3,003,054.78	1,025,644.26
YTO Group Corporation	3,003,054.78	1,025,644.26
(3) Accounts payable between the Group and YTO Group and its subsidiaries	54,892,238.34	47,746,129.05
YTO (Luoyang) Logistics Co., Ltd.	26,420,573.38	11,476,017.24
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	9,960,679.25	1,869,434.71
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd.	7,560,663.99	24,064,106.88
Luoyang Tianhui Energy Engineering Co., Ltd.	3,902,605.40	1,964,020.84
YTO (Luoyang) Huide Tooling Co., Ltd.	2,772,531.98	384,057.35
YTO (Luoyang) Lubricants Co., Ltd.	2,688,107.91	1,218,587.75
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd.	674,709.89	5,874,760.18
YTO (Luoyang) Special Purpose Vehicle Co., Ltd.	518,847.54	569,319.52
Luoyang Duoan Advertising Co., Ltd.	187,711.00	2,090.00
Dongfanghong (Luoyang) Culture Communication Centre	119,240.00	74,352.88
YTO (Luoyang) Special Purpose Vehicle Co., Ltd.	73,840.00	72,520.00
Luoyang Fossett Auto Incorporate Company	12,728.00	0.00
YTO (Luoyang) Dongchen Mold Technology Co., Ltd.	0.00	176,861.70
(4) Accounts payable between the group and other parties	21,454,363.25	2,059,525.37
ZF YTO (Luoyang) axle Co. Ltd.	20,668,234.14	461,013.59
YTO (Luoyang) Rico Automobile Co. Ltd.	786,129.11	1,598,511.78
Total	99,956,388.27	71,670,839.21

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

f. Advance from customers

Related parties	Ending balance	Beginning balance
(1) Advance from customers between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)	489,132.59	323,003.41
SINOMACH-HI (Luoyang) Co., Ltd.	489,132.59	0.00
SINOMACH-HI (Luoyang) Building Machinery Co., Ltd.	0.00	78,000.00
China (Tianjin) Automotive Equipment Co., Ltd.	0.00	245,000.00
Jiangsu sumeida Electromechanical Technology Co., Ltd.	0.00	3.41
(2) between the Group and the majority shareholder	6,209,652.14	0.00
YTO Group Corporation	6,209,652.14	0.00
(3) Advance from customers between the Group and YTO Group and its subsidiaries	79,585.00	128,600.00
Luoyang Fossett auto incorporate company	66,000.00	0.00
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	13,585.00	48,000.00
YTO (Luoyang) Special Purpose Vehicle Co., Ltd.	0.00	40,000.00
YTO (Luoyang) Tobacco Machinery Co., Ltd.	0.00	40,600.00
(4) Advance from customers between the group and other parties	1,627,931.90	43,000.00
ZF YTO (Luoyang) axle Co. Ltd.	1,627,931.90	0.00
YTO Sichuan Agricultural Equipment Co., Ltd.	0.00	43,000.00
Total	8,406,301.63	494,603.41

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XI. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (CONTINUED)

5. Related party transactions (Continued)

(8) Accounts receivable and payable with related parties (Continued)

g. Other payables

Related parties	Ending balance	Beginning balance
(1) Other payables between the Group and SINOMACH and its subsidiaries (excluding YTO Group and its subsidiaries)		
	204,000.00	0.00
Fuyang Bearing Co., Ltd.	150,000.00	0.00
Guangzhou Qingtian Mstar Technology Ltd.	50,000.00	0.00
The Sixth Design Institute Co., Ltd. of the Ministry of Machinery Industry	4,000.00	0.00
(2) Other payables between the Group and the majority shareholder		
	52,582,810.71	52,152,817.30
YTO Group Corporation	52,582,810.71	52,152,817.30
(3) Other payables between the Group and YTO Group and its subsidiaries		
	904,287.00	891,444.00
YTO (Luoyang) Logistics Co., Ltd.	621,628.00	593,500.00
Luoyang Duoen Advertising Co., Ltd.	177,969.00	227,164.00
Dongfanghong (Luoyang) Culture Communication Centre	36,390.00	39,780.00
Luoyang Tianhui Energy Engineering Co., Ltd.	35,300.00	26,000.00
YTO (Luoyang) Xinnuo Materials Trading Co., Ltd.	20,000.00	0.00
YTO (Luoyang) Kintra Equipment Science & Technology Co., Ltd.	8,000.00	5,000.00
YTO (Luoyang) Huide Tooling Co., Ltd.	5,000.00	0.00
Total	53,691,097.71	53,044,261.30

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XII. SHARE PAYMENT

The Group does not pay shares.

XIII. COMMITMENT AND CONTINGENCIES

1. Commitment

- (1) *Foreign investment contracts and related financial expenditures that have not yet been fulfilled or not fully fulfilled*

N/A

- (2) *Outsourcing contract with significant amount that was signed and performing or commencing to perform and its financial impacts*

N/A

- (3) *Leased agreement that was signed and performing or commencing to perform and its financial impact*

On December 31, 2017, the minimum future payments of irrevocable operating lease on rental items, assumed by the Group as the lessee, for buildings, machineries, and equipment are as the following :

Period	Amount in this year	Amount in last year
Within 1 year	5,586,360.57	647,360.83
1-2 years	425,600.00	1,749,000.00
2-3 years	0.00	563,000.00
After 3 years	0.00	563,000.00
Total	6,011,960.57	3,522,360.83

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIII. COMMITMENT AND CONTINGENCIES (CONTINUED)

1. Commitment (Continued)

(3) Leased agreement that was signed and performing or commencing to perform and its financial impact (Continued)

On December 31, 2017, 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	18,207,622.59	11,494,693.24
1-2 years	7,604,324.38	3,785,472.27
2-3 years	7,471,214.47	3,463,988.00
After 3 years	22,391,573.14	1,975,177.00
Total	<u>55,674,734.58</u>	<u>20,719,330.51</u>

Note : On January 2018 and ZF YTO (Luoyang) axle Co. Ltd. signed a five-year lease contract, rent is 7460724.38 yuan per year contract agreement.

(4) A merger agreement that has been signed or prepared to perform

N/A

(5) A reorganization plan that has been signed or prepared to perform

N/A

Except for the above, the Group has no other significant commitments as at December 31, 2017.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIII. COMMITMENT AND CONTINGENCIES (CONTINUED)

2. Important contingencies existed on the balance sheet date

(1) Pending proceeding or arbitration of contingencies and their financial implications

By the end of December 31, 2017, the company has no pending proceedings or arbitrations or matters.

(2) Contingencies resulted from external guarantees provided

As at December 31, 2017, details of the guarantees provided by the Group to other parties are as followings :

Entity guaranteed	Guarantee matters	Amount	Time period	Note
Distributors of Dianpiaotong Business	Buy farm machinery products	160,768,000.00	2017/6/13–2018/6/13	Note
Customers of buyer's credit	Buy farm machinery products	16,097,840.00	2017/8/16–2018/6/30	Note
Total		<u>176,865,840.00</u>		

Note: In 2017, the Group signed a trade finance agreement with its subsidiary, China YTO Group Finance Co., Ltd. (hereinafter referred to as "YTO Financial company") and launched trade finance cooperation. According to the agreement, YTO Financial company agreed to provide the group with a total amount of trade financing of RMB280 million. The above trade financing quota is specially applied to the dealers recommended by the group or its authorized enterprises to apply for the opening of a bank acceptance bill to the YTO Financial company to purchase agricultural machinery products from the group or its authorized enterprises. Therefore, the group provides a guarantee in the form of a letter of commitment or agreement.

In 2017, the subsidiary Luoyang Changxing Agricultural Machinery Co., Ltd. signed a cooperation agreement on the product of buyer's credit business with China YTO Group Finance Co., Ltd. According to the agreement, China YTO Group Finance Co., Ltd. agreed to check and ratify the credit line of the product of buyer's credit business about RMB200 million for Luoyang Changxing Agricultural Machinery Co., Ltd. The above credit line is specially used for the Changxin company to recommend its customers to transact the product of buyer's credit business within the credit period. Luoyang Changxing Agricultural Machinery Co., Ltd. is partly responsible for financing risk exposure.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XIII. COMMITMENT AND CONTINGENCIES (CONTINUED)

2. Important contingencies existed on the balance sheet date (Continued)

(3) Letter of guarantee and letter of credit

Opening bank	Beneficiary	Amount	Beginning date	Ending date
Industrial & Commercial Bank of China Huashan Road Branch	HORIBA., Ltd.	1,634,686.47	2016/6/30	2018/3/30
China Everbright Bank Incorporated Company Beijing Tianning Temple Branch	China Medium Light International Holding Company	74,750.00	2017/05/16	2018/09/15
China Everbright Bank Incorporated Company Beijing Tianning Temple Branch	Anhui Nongken agricultural investment and Development Co., Ltd.	7,000.00	2017/11/16	2018/1/25
China Everbright Bank Incorporated Company Beijing Tianning Temple Branch	China Aviation Technology International Holding Co., Ltd.	220,000.00	2017/12/12	2018/1/31
Total		1,936,436.47		

Note: All the proportion of deposit of letter of credit are above 100%

Except for the above, the Group did not have any other significant contingent matters as at December 31, 2017.

XIV. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

By the end of the approval of the financial statements date, the Group has no other significant subsequent events to disclose.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. OTHER SIGNIFICANT MATTERS

1. Correction of early accounting errors

(1) *Retrospective restatement*

No early accounting errors in the use of retrospective restatement are found in this reporting period.

(2) *Prospective approach*

No early accounting errors in the use of prospective approach are found in this reporting period.

2. Debt restructuring

N/A

3. Asset swap

N/A

4. 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, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. OTHER SIGNIFICANT MATTERS (CONTINUED)

5. Discontinued operation

Item	Discontinued operation project of YTO (Luoyang) forklift Co., Ltd.	
	Amount in this year	Amount in last year
Discontinued operation income	856,403.03	1,887,597.44
Discontinued operation expenses	3,807,211.41	8,241,624.34
Discontinued operation total profit	-2,950,808.38	-6,354,026.90
Discontinued operation income tax expenses		
Discontinued operation net profit	-2,950,808.38	-6,354,026.90
Including: Discontinued operation profit attributable to the owner of a parent company	-2,950,808.38	-6,354,026.90
Discontinued operation the disposal of total profit and loss	94,994,451.25	-6,354,026.90
Discontinued operation income tax expenses (income)		
Discontinued operation the disposal of profit and loss	94,994,451.25	-6,354,026.90
Including: Discontinued operation of net profit and loss attributable to the owner of a parent company	94,994,451.25	-6,354,026.90
Discontinued operation net cash flow	142,407.96	-959,253.55
Including: Net cash flow from operating activities	-1,234,028.22	-1,818,782.36
Net cash flow from investing activities		511,084.11
Net cash flow from financing activities	1,376,436.18	348,444.70

6. Segment information

1. The basis for the determination of the segment report and the accounting policy

The Company is based on internal organizational structure, management requirements, and internal reporting system as the basis for determining the operating segment. The business branch of the Company refers to a component that meets the following conditions at the same time:

- (1) This component can generate income and cost in daily activities.
- (2) The management can regularly evaluate the operating results of the component in order to determine the allocation of resources to it and evaluate its performance.
- (3) The accounting information, such as the financial situation, the operating results and the cash flow of the component, can be obtained.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. OTHER SIGNIFICANT MATTERS (CONTINUED)

6. Segment information (Continued)

1. *The basis for the determination of the segment report and the accounting policy (Continued)*

The Company determines the segment report on the basis of the operating segments, and the operating segments, which meets the following conditions, is determined to be a segment report:

- (1) The operating segments accounts for 10% or more of the total income of the division.
- (2) The absolute profit of the segment profit of the segment accounts for 10% or more of the total amount of the total profits of all profit segments or the total amount of all deficit segment losses.

Determined according to the above accounting policy report segment operating division of foreign trade total revenue accounted for the proportion of the total income of the merger does not reach 75%, increase the number of segment reporting, according to the following provisions will not report as Division operating segments into reportable range, until the proportion reached 75%:

- (1) The management department considers that the management division that discloses the management branch information to the users of the accounting information is determined to be the reporting branch.
- (2) Merge the business segment with one or more other business segments which have similar economic characteristics and meet the merger conditions of business segments as a reporting segment.

Interdivisional transfer price is determined by market price, and the assets and related expenses shared by different branches are distributed among different segments according to the proportion of income.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XV. OTHER SIGNIFICANT MATTERS (CONTINUED)

6. Segment information (Continued)

2. *The factors for segments' classification and the types of products and services of a segment*

Each segment is a business unit that provides different products and services. Because various business needs different technology and market strategy, the Company independently manages the production and operation activities of each report branch, evaluates its operation result separately, decides to allocate resources to it, evaluates its performance.

The Company has four reporting divisions: Agricultural Machinery, Power Machinery, Finance, and Other Machinery. The Agricultural Machinery Division is responsible for the production and sale of agricultural tractors, harvesters, etc. The power machinery division is mainly responsible for producing and selling diesel engines. The financial branch mainly for the Company subsidiary China group finance limited company, the main business is to handle the member units between the entrusted loans and investment, internal transfer settlement, absorption of member units deposits and other business.

3. *Reporting segment for the year of 2017*

Item	Ending Balance/Amount in this year					Total
	Agricultural machinery	Power machinery	Other machinery	Finance service	Elimination among segments	
Total operating revenue	6,569,075,631.98	1,796,387,669.24	26,882,178.26	174,825,024.85	-1,209,226,313.44	7,357,944,190.89
Including: External transaction revenue	6,110,548,034.48	1,086,041,080.80	22,716,365.17	138,638,710.44	-	7,357,944,190.89
Revenue between segments	458,527,597.50	710,346,588.44	4,165,813.09	36,186,314.41	-1,209,226,313.44	-
Assets impairment loss	46,351,309.82	1,380,411.26	-15,754,877.41	10,477,904.18	-	42,454,747.85
Depreciation and amortization fee	286,101,861.70	52,686,485.90	2,091,059.08	866,174.83	-	341,745,581.51
Total profit	-16,181,684.92	-11,922,102.48	-22,816,707.02	103,861,463.12	3,115,386.04	56,056,354.74
Income tax costs	-1,673,623.42	-3,311,735.11	-	23,268,426.19	61,948.14	18,345,015.80
Net profit	-14,508,061.50	-8,610,367.37	-22,816,707.02	80,593,036.93	3,053,437.90	37,711,338.94
Total assets	11,677,624,450.48	1,948,550,152.22	64,534,274.68	5,332,177,170.57	-4,920,112,520.27	14,102,773,527.68
Total liabilities	8,061,888,687.33	702,319,992.07	366,989,409.60	4,527,452,697.96	-4,994,859,737.34	8,663,791,049.62
Other important non-cash items	-	-	-	-	-	-
(1) Non-cash expenses other than depreciation and amortization	29,814,188.16	11,558,118.93	5,292,816.65	12,213,988.56	-	58,879,112.30
(2) Capital expenditure	305,423,580.97	40,747,442.32	811,798.85	745,152.31	-	347,727,974.45

The accounting policies of the business branches of our company are the same as those described in the 'important accounting policies and the accounting estimates'.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Accounts receivable

(1) Category of accounts receivable

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					
Provided for bad debts on portfolio basis of credit risk characteristics	1,371,346,705.85	99.95	175,339,558.33	12.79	1,196,007,147.52
Individually insignificant but provided for bad debts on individual basis	673,892.52	0.05	336,946.26	50.00	336,946.26
Total	1,372,020,598.37	-	175,676,504.59	-	1,196,344,093.78

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					
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					
Total	814,695,197.78	-	166,822,587.70	-	647,872,610.08

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

1. Accounts receivable (Continued)

(1) Category of accounts receivable (Continued)

Explanation of category of accounts receivable:

- a. No accounts receivable that are individually significant and provided for bad debts on individual basis at the end of the year
- b. Within the portfolio, accounts receivable of which bad debt allowances are made by aging analysis

Aging	Ending balance		
	Accounts receivable	Bad debt allowance	Accrual percentage (%)
Within 1 year	1,217,854,164.08	23,678,917.05	1.94
1-2 years	3,663,800.97	1,831,900.48	50.00
2-3 years	11,839,956.68	11,839,956.68	100.00
Over 3 years	137,988,784.12	137,988,784.12	100.00
Total	<u>1,371,346,705.85</u>	<u>175,339,558.33</u>	<u>12.79</u>

Aging	Beginning 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>

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

The amount of bad debt allowance accrued in this period is RMB3,085,822.01. there is no reversed bad debt allowance in this period.

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

1. Accounts receivable (Continued)

(3) *No accounts receivable actually written off during the year*

(4) *Details of top five accounts receivable with the ending balance classified by the borrowers*

Company name	Ending balance	Proportion to the ending balance of accounts receivable (%)	Accrual of bad debt provision
Luoyang Changxing Agricultural Machinery Co., Ltd.	740,910,795.45	54.00	14,818,215.91
YTO International Economic and Trade Co., Ltd.	221,201,304.66	16.12	1,585,316.70
YTO (Luoyang) harvester Machinery Co., Ltd.	76,463,968.33	5.57	76,463,968.33
YTO (Luoyang) Diesel Engine Co., Ltd.	50,208,397.98	3.66	501,327.29
Changtuo Agricultural Machinery Equipment Group Company Limited	38,132,408.91	2.78	38,132,408.91
Total	1,126,916,875.33	82.13	131,501,237.14

(5) *No accounts receivable that have been terminated due to the transfer of financial assets*

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

2. Other receivables

(1) Category of other receivables

Category	Ending balance				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Other receivables that are individually significant and are provided for bad debts on individual basis					
Other receivables that are provided for bad debts on portfolio basis of credit risk characteristics	64,593,342.83	100.00	17,787,405.61	27.54	46,805,937.22
Other receivables that are individually insignificant but are individually provided for bad debts					
Total	<u>64,593,342.83</u>	<u>-</u>	<u>17,787,405.61</u>	<u>-</u>	<u>46,805,937.22</u>

Category	Beginning balance				
	Book balance		Bad debt allowance		Book value
	Amount	Percentage (%)	Amount	Accrual percentage (%)	
Other receivables that are individually significant and are provided for bad debts on individual basis					
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					
Total	<u>39,236,422.14</u>	<u>-</u>	<u>29,522,308.78</u>	<u>-</u>	<u>9,714,113.36</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

2. Other receivables (Continued)

(1) Category of other receivables (Continued)

Explanation of other receivables:

- a. No other receivables that are individually significant and are provided for bad debts on individual basis in this year
- b. 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	17,492,425.97	848,291.93	4.85
1-2 years	472,509.69	236,254.85	50.00
2-3 years	734,602.47	734,602.47	100.00
Over 3 years	15,968,256.36	15,968,256.36	100.00
Total	<u>34,667,794.49</u>	<u>17,787,405.61</u>	<u>51.31</u>

Aging	Beginning 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>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

2. Other receivables (Continued)

(1) Category of other receivables (Continued)

- c. Within the portfolios, other receivables on which bad debt allowances are accrued by other methods

Portfolio name	Ending balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Low risk portfolio of deposits and petty cash	29,925,548.34		
Total	<u>29,925,548.34</u>		

Portfolio name	Beginning balance		
	Other receivables	Bad debt allowance	Accrual percentage (%)
Low risk portfolio of deposits and petty cash	7,416,313.26		
Total	<u>7,416,313.26</u>		

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

The amount of bad debt allowance accrued in this period is RMB -11,690,419.33. There is no bad debt allowance is reserved in this year.

(3) Other receivables actually written off during the year

Item	Amount
Other receivables that are actually written off	<u>44,568.96</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

2. Other receivables (Continued)

(4) Classification of other receivables by nature

Item	Ending book balance	Beginning book balance
Receivables and payments between companies	29,377,216.43	5,522,995.62
Deposits and petty cash	2,199,159.83	2,063,942.73
Collection and payment of social insurance withheld	830,473.20	1,787,851.97
Receivables from government subsidies	10,000,000.00	0.00
Others	4,399,087.76	339,323.04
Total	46,805,937.22	9,714,113.36

(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
Luoyang Houhede real estate development Co., Ltd.	Payment and receivables on current accounts	24,160,451.39	Within 1 year	37.40	241,604.51
Henan provincial industry and Information Committee	Receivables from government subsidies	10,000,000.00	Within 1 year	15.48	
YTO (Luoyang) Zhongcheng Machinery Co., Ltd.	Payment and receivables on current accounts	3,586,331.70	Within 1 year	5.55	537,949.76
Jiangsu Qingjiang tractor Co., Ltd.	Payment and receivables on current accounts	3,315,484.00	over 3 years	5.13	3,315,484.00
China Yto Group Corporation	Payment and receivables on current accounts	1,226,874.74	Within 1 year RMB150,800.00, 1-2years RMB16,200.00, over 3 years RMB1,059,874.74	1.90	1,059,874.74
Total		42,289,141.83		65.46	5,154,913.01

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

2. Other receivables (Continued)

(6) Other receivables involving government subsidies

Company name	Name of government subsidy project	Ending balance	Aging	The time, amount and basis expected to be collected
Henan Provincial Industry And Information Committee	The first (set) major technical equipment award and premium subsidy of Henan Province	10,000,000.00	Within 1 year	The results of the review of the first (set) major technical equipment award and premium subsidy funds in Henan stated that it is expected to be collected in 2018.
Total	/	<u>10,000,000.00</u>	/	/

(7) No other receivables that have been terminated due to the transfer of financial assets

(8) There is no assets and liabilities formed by no transfer of other receivables and continued involvement

3. Long-term equity investments

Nature of investments	Ending balance			Beginning balance		
	Book balance	Impairment	Book value	Book balance	Impairment	Book value
Subsidiaries	2,842,043,824.4	2,750,000	2,839,293,824.40	2,662,037,023.62	2,750,000	2,659,287,023.62
Joint venture or associates	147,826,932.92	7,004,515.65	140,822,417.27	155,368,337.06	7,004,515.65	148,363,821.41
Other companies	16,200,000.00	16,200,000.00		16,200,000.00	16,200,000.00	
Total	<u>3,006,070,757.32</u>	<u>25,954,515.65</u>	<u>2,980,116,241.67</u>	<u>2,833,605,360.68</u>	<u>25,954,515.65</u>	<u>2,807,650,845.03</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

3. Long-term equity investments (Continued)

(1) Investments in subsidiaries

Name of the subsidiary	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Provision for impairment	Provision for impairment ending balance
YTO France SAS	300,737,040.00	195,536,428.97		496,273,468.97		
Luoyang Changhong Trading Co., Ltd.	2,750,001.00			2,750,001.00		2,750,000.00
YTO (Luoyang) Shentong Construction Machinery Co., Ltd.	46,500,046.00			46,500,046.00		
YTO (Xinjiang) Machinery Co., Ltd.	160,000,000.00			160,000,000.00		
YTO Heilongjiang Agricultural Machinery Co., Ltd.	100,000,000.00			100,000,000.00		
Luoyang Changxing Agricultural Machinery Co., Ltd.	2,100,000.00			2,100,000.00		
YTO (Jiangyan) Power Machinery Co., Ltd.	76,000,000.00			76,000,000.00		
YTO (Luoyang) Transportation Machinery Co., Ltd.	52,018,586.00			52,018,586.00		
Huachen China Machinery Holding Co., Ltd.	27,869,301.63			27,869,301.63		
YTO Group Finance Co., Ltd.	485,040,302.00			485,040,302.00		
China-Africa Heavy Industry Investment Co., Ltd.	55,022,000.00			55,022,000.00		
Luoyang Tractor Research Institute Co., Ltd.	281,414,966.36			281,414,966.36		

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

3. Long-term equity investments (Continued)

(1) Investments in subsidiaries (Continued)

Name of the subsidiary	Beginning balance	Increase in this year	Decrease in this year	Ending balance	Provision for impairment	Provision for impairment ending balance
YTO (Luoyang) Forklift Truck Co., Ltd.	14,022,957.36		14,022,957.36	0.00		
YTO (Luoyang) Diesel Engine Co., Ltd.	392,257,881.14			392,257,881.14		
YTO (Luoyang) Car Bridge Co., Ltd.	32,140,599.14		32,140,599.14	0.00		
YTO (Luoyang) Flag Auto-Body Company Limited	77,192,767.62			77,192,767.62		
YTO (Luoyang) Fuel Injection Co., Ltd.	152,989,481.32			152,989,481.32		
YTO (Luoyang) Foundry Company Limited	200,391,996.60			200,391,996.60		
YTO International Economic and Trade Co., Ltd.	75,668,335.13			75,668,335.13		
Chang Tuo Agricultural Machinery Equipment Group Co., Ltd.	94,250,000.00			94,250,000.00		
YTO Shunxing (Luoyang) Spare Parts Co., Ltd.	33,670,762.32			33,670,762.32		
YTO Belarus Technology Co. Ltd.		30,633,928.31		30,633,928.31		
Total	2,662,037,023.62	226,170,357.28	46,163,556.50	2,842,043,824.40		2,750,000.00

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

3. Long-term equity investments (Continued)

(2) Investments in joint venture and associates

Invested company	Beginning balance	Changes in this year			Adjusted other comprehensive income
		Additional investment	Reduce investment	Profit and loss on investments by rights and interests law	
Associates					
YTO Sichuan Agricultural Equipment Co., Ltd.	956,769.56			-115,326.00	
ZF YTO (Luoyang) Axle Co. Ltd.	147,407,051.85			-370,078.14	
Luoyang Fossett Auto Limited By Share Ltd.	<u>7,004,515.65</u>				
Total	<u>155,368,337.06</u>			<u>-485,404.14</u>	

Invested company	Changes in other interests	Changes in this year			Ending balance	Provision for impairment ending balance
		Declaration of cash dividends or profits	Provision for impairment	Others		
Associates						
YTO Chuanlong Sichuan Agricultural Equipment Co., Ltd.					841,443.56	
ZF YTO (Luoyang) axle Co. Ltd.		7,056,000.00			139,980,973.71	
Luoyang Fossett auto Limited by Share Ltd.					<u>7,004,515.65</u>	<u>7,004,515.65</u>
Total		<u>7,056,000.00</u>			<u>147,826,932.92</u>	<u>7,004,515.65</u>

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

3. Long-term equity investments (Continued)

(3) Investments in other companies

Invested company	Original investment cost	Beginning balance	Increased	Decreased	Ending balance	Provision for impairment	Provision for impairment ending balance
YTO Shenyang tractor Co., Ltd.	16,200,000.00	16,200,000.00			16,200,000.00	16,200,000.00	
Total	16,200,000.00	16,200,000.00			16,200,000.00	16,200,000.00	

Note: YTO Shenyang tractor 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.

4. Operating revenue and operating costs

(1) Operating revenue and operating costs

Item	Amount incurred in this year		Amount incurred in last year	
	Income	Cost	Income	Cost
Main business	5,234,075,054.70	4,616,304,758.22	6,041,776,512.20	5,237,620,346.37
Other business	74,650,940.15	6,935,976.64	389,027,501.07	328,274,847.78
Total	5,308,725,994.85	4,623,240,734.86	6,430,804,013.27	5,565,895,194.15

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVI. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (CONTINUED)

5. Investment income

Item	Amount incurred in this year	Amount incurred in last year
Long term equity investment earnings calculated by cost method	111,902,501.47	96,264,295.70
Investment income from long-term equity investments by equity method	-485,404.14	8,772,257.32
Investment income from disposal of long term equity investments	-11,642,031.37	0.00
Investment income on financial assets available-for-sale during the holding period	800,925.00	1,606,500.00
Investment returns on disposal of financial assets available-for-sale	12,648,442.97	11,990,996.07
Others	0.00	192,000.00
Total	113,224,433.93	118,826,049.09

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVII. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

1. Schedule of gain or loss from extraordinary items in this year

Item	Amount in this year	Explanation
Gain or loss on disposal of non-current assets	2,318,017.87	
Unauthorized or informal approval documents or one-off tax returns and exemptions on tax		
Government subsidy recognized in current profit or loss (except for government subsidies which related to company business that are fixed or quantified based on the national standard)	92,652,577.65	
Capital occupation fees charged to non-financial enterprises in current profit or loss		
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		
Gain or loss from transferring of non-monetary assets		
Gain or loss from investments under entrust by others or assets under management by others		
Provisions of impairment of assets due to force majeure such as nature disasters		
Gain or loss on debt restructuring	-1,091,366.39	
Gain or loss on corporation restructuring, such as expenditures on staff placement and integration costs		
Profit or loss in excess of the portion of the fair value generated from transactions of which the transactional price is obviously unfair		

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

January 1, 2017 to December 31, 2017 (Amounts in these notes are presented in Renminbi unless otherwise stated)

XVII. SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Schedule of gain or loss from extraordinary items in this year (Continued)

Item	Amount in this year	Explanation
Current net profit and loss of the subsidiary under the common control from the beginning date to the consolidated date	-1,099,244.09	
Gain or loss from non-related business operations or contingencies		
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	-1,878,085.90	
Reversal of impairment of receivables on individually impairment test		
Gain or loss from entrusted loans to outside parties		
Gain or loss from changes in the fair value of investment properties using the fair value model as a subsequent measurement		
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		
Custody income earned from entrusted operation		
Other non-operating income and expenses except for mentioned above	11,865,066.15	
Gain or loss from other extraordinary items	94,994,451.25	Investment income from disposal of subsidiaries
Effects on income tax	-9,485,382.10	
Effects on non-controlling interests	-8,699,457.27	
Total	<u>179,576,577.17</u>	

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

January 1, 2017 to December 31, 2017 (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
Net profit attributable to common shareholders of the Company	1.1748	0.0572	0.0572
Net profit attributable to common shareholders of the Company after non-operating profit or loss	-2.5581	-0.1246	-0.1246

3. The difference of net profit and net assets in the financial reports disclosed by Hongkong accounting standards and China's accounting standards

Item	Net profit attributable to the parent company		Net assets	
	Amount in this year	Amount in last year	Ending balance	Beginning balance
PRC GAAP	56,514,222.97	223,369,729.35	5,438,982,478.06	5,503,638,289.17
HKFRS	56,514,222.97	223,369,729.35	5,438,982,478.06	5,503,638,289.17

4. Others

N/A

First Tractor Company Limited

March 29, 2018

DOCUMENTS AVAILABLE FOR INSPECTION

Document available for inspection	The 2017 Annual Report signed by the legal representative of the Company and affixed with the Company seal
Document available for inspection	The 2017 Audited Financial Statement of the Company issued by the accountants
Document available for inspection	The written confirmation and opinion on the 2017 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 29, 2018