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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

(Financial Highlights)

Total operating revenue:	**RMB7,582,476,787.76**
Net profit attributable to the equity holders of the parent company:	**RMB280,150,740.30**
Earnings per share attributable to the equity holders of the parent company:	**RMB0.2842**

The board (the "**Board**") of directors (the "**Directors**") of First Tractor Company Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 (the "**Reporting Period**"), which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises, together with comparative figures for the same period in 2019 are as follows (unless otherwise stated, the figures contained in this announcement are denominated in Renminbi (Unit: Yuan)).

CONSOLIDATED BALANCE SHEET

31 December 2020

Prepared by: First Tractor Company Limited

Unit: Yuan Currency: RMB

Item	Note	31 Dec 2020	31 Dec 2019
Current assets：			
Monetary Funds	*Note1*	**1,702,625,475.53**	1,401,027,992.74
Lendings to Banks and Other Financial Institutions		**40,000,000.00**	70,000,000.00
Trading financial assets		**1,306,381,357.98**	980,392,948.10
Derivative financial assets			
Notes receivable		**892,050,97**	352,201,737.77
Accounts receivable	*Note2*	**376,202,670.98**	406,586,834.70
Accounts receivable financing		**374,916,413.50**	
Advances to suppliers		**177,372,921.45**	175,282,225.34
Other receivables		**26,301,581.33**	38,657,541.73
Buying back the sale of financial assets		**1,561,721,065.92**	671,668,502.78
Inventories		**1,356,265,811.19**	1,001,785,770.20
Contract assets			
Assets classified as held for sale			
Non-current assets due within one year		**238,726,244.12**	250,465,409.57
Other current assets		**281,587,195.02**	1,067,152,153.18
Total current assets		**7,442,992,787.99**	6,415,221,116.11

Item	*Note*	**31 Dec 2020**	31 Dec 2019
Non-current assets			
Loans and advances to customers		**982,249,523.38**	959,950,968.59
Debt investment			
Other debt investment			
Long-term receivables		**132,870,486.03**	220,198,228.05
Long-term equity investments		**122,332,619.67**	119,753,172.07
Other equity instrument investment		**4,839,048.00**	3,871,238.40
Other non-current financial assets			
Investment properties			
Fixed assets		**2,617,726,435.41**	2,814,817,617.87
Construction in progress		**96,000,297.40**	128,990,466.09
Productive biological assets			
Oil and gas assets			
Right-to-use assets		**28,901,686.93**	18,945,867.20
Intangible assets		**766,872,164.74**	791,670,317.62
Research and development expenses			
Goodwill			
Long-term deferred expenses		**44,912,084.65**	44,118,542.74
Deferred income tax assets		**102,911,748.79**	111,484,850.77
Other non-current assets			
Total non-current assets		**4,899,616,095.00**	5,213,801,269.40
Total assets		**12,342,608,882.99**	11,629,022,385.51

Item	*Note*	**31 Dec 2020**	31 Dec 2019
Current liabilities:			
Short-term loans		**834,263,379.71**	1,419,528,065.30
Absorption of deposits and interbank deposits		**1,412,624,683.26**	1,137,277,294.54
Loans from banks and other financial institutes		**300,066,666.67**	
Trading financial liabilities			
Derivative financial liabilities			
Notes payable		**1,547,322,110.70**	1,004,008,951.30
Accounts payable	*Note 3*	**1,788,192,802.43**	1,252,450,248.58
Advance from customers			
Contract liabilities		**398,850,436.72**	177,743,289.89
Employee salary payable		**91,878,235.64**	104,615,621.71
Taxes payable		**23,075,553.98**	34,716,241.84
Other payables		**209,162,369.54**	302,747,490.57
Liabilities classified as held for sale			
Non-current liabilities due within one year		**14,142,498.21**	649,035,505.95
Other current liabilities		**255,104,052.55**	225,466,269.20
Total current liabilities		**6,874,682,789.41**	6,307,588,978.88
Non-current liabilities			
Long-term loans		**99,800,000.00**	139,077,500.00
Bonds payable			
Including: Preference shares			
Perpetual bond			
Lease liabilities		**14,850,790.14**	64,384.18
Long-term payables		**9,151,465.90**	8,933,931.06
Long-term employee salary payable		**78,569,914.36**	88,010,022.26
Special payables			
Estimated Liabilities		**2,652,542.65**	2,652,542.65
Deferred income		**142,638,278.14**	155,715,222.06
Deferred income tax liabilities		**144,741,265.28**	143,114,014.97
Other non-current liabilities			
Total non-current liabilities		**492,404,256.47**	537,567,617.18
Total liabilities		**7,367,087,045.88**	6,845,156,596.06

Item	*Note*	**31 Dec 2020**	31 Dec 2019
Shareholder's equity			
Share capital		**985,850,000.00**	985,850,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bond			
Capital reserves		**2,099,466,626.33**	2,099,466,626.33
Less: Treasury shares			
Other comprehensive income		**-26,960,733.16**	-14,198,180.13
Special reserves		**3,015,461.22**	2,230,000.31
Surplus reserves		**442,101,172.16**	442,101,172.16
General risk reserves		**39,642,392.38**	25,104,151.50
Retained earnings	*Note 4*	**795,064,178.33**	529,451,678.91
Total equity attributable to shareholders of the parent company		**4,338,179,097.26**	4,070,005,449.08
Minority interests		**637,342,739.85**	713,860,340.37
Total shareholder's equity		**4,975,521,837.11**	4,783,865,789.45
Total liabilities and shareholder's equity		**12,342,608,882.99**	11,629,022,385.51

CONSOLIDATED INCOME STATEMENT

For the Year of 2020

Prepared by: First Tractor Company Limited

Unit: Yuan Currency: RMB

Item			Note	Amount incurred in this period	Amount incurred in last period
1.	**Total operating revenue**			**7,582,476,787.76**	5,830,175,119.64
	Including:	Operating revenue		**7,480,729,879.48**	5,736,943,977.67
		Interest income		**96,516,346.86**	89,290,344.59
		Fees and commission income		**5,230,561.42**	3,940,797.38
2.	**Total cost of operation**			**7,193,597,535.06**	5,993,424,664.53
	Including:	Operating costs		**6,020,041,446.52**	4,808,281,175.55
		Interest expenses		**25,663,192.22**	33,252,713.00
		Fees and commission expense		**524,735.26**	490,425.90
		Taxes and surcharges		**43,690,562.82**	45,186,472.32
		Selling expenses		**358,190,492.96**	305,526,565.26
		Administrative expenses		**354,222,206.89**	382,371,302.74
		Research and development expenses		**339,036,171.41**	356,609,547.39
		Financial expenses		**52,228,726.98**	61,706,462.37
	Add:	Gain arising from the changes in fair value (Losses listed as "-")		**26,405,594.35**	85,687,735.18
		Investment income (Losses listed as "-")		**349,311,564.11**	242,395,344.85
		Including: income from investments in associates and joint ventures		**1,738,170.81**	-10,618,250.83
		Asset disposal income		**8,249,140.24**	797,468.07
		Other income		**105,122,597.68**	94,223,622.26
		Loss on impairment of assets (Losses listed as "-")		**-144,485,940.66**	-81,901,256.49
		Loss on impairment of credit (Losses listed as "-")		**-440,755,763.41**	-34,256,859.43

Item		Note	Amount incurred in this period	Amount incurred in last period
3.	**Operating profit**		**292,726,445.01**	143,696,509.55
	Add: Non-operating income		**27,927,444.96**	41,497,680.79
	Less: Non-operating expenses		**13,319,454.10**	2,570,351.43
4.	**Total profit**		**307,334,435.87**	182,623,838.91
	Less: Income tax expenses	*Note 6*	**26,372,185.09**	56,110,713.49
5.	**Net profit**		**280,962,250.78**	126,513,125.42
	Including: Net profit achieved by the merger of the merged party before the merger under the same control			
	(1) Classification according to the continuity of operation			
	Continuous operating net profit		**280,962,250.78**	126,513,125.42
	Termination of net profit			
	(2) Classification of ownership according to ownership			
	Net profit attributable to shareholders of the parent company		**280,150,740.30**	61,475,427.17
	Profit or loss attributable to minority interests		**811,510.48**	65,037,698.25
6.	**Net other comprehensive income after tax**		**-11,626,836.86**	2,282,095.72
	Net other comprehensive income after tax attributable to owners of the parent company		**-12,762,553.03**	2,665,396.05
	(1) Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
	1. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans			
	2. Share of other comprehensive income of investee that will not be subsequently reclassified to profit and loss under equity method			
	3. Changes in fair value of other equity instrument investments			
	4. Changes in fair value of credit risk due to enterprise itself			

Item		Note	Amount incurred in this period	Amount incurred in last period
	(2) Other comprehensive income that will be subsequently reclassified to profit and loss		**-12,762,553.03**	2,665,396.05
	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			
	3. Gains and losses from held-to-maturity investment reclassified as financial assets available-for-sale			
	4. Changes in fair value of other debt investment			
	5. Financial assets reclassified into other comprehensive income			
	6. Provision for credit impairment of other debt investment			
	7. Effective part of hedging gains and losses from cash flows			
	8. Cash flow hedging reserve			
	9. Exchange differences from translation of foreign currency financial statements		**-12,762,553.03**	2,665,396.05
	10. Others			
	Net other comprehensive income after tax attributable to minority interests		**1,135,716.17**	-383,300.33
7.	**Total comprehensive income**		**269,335,413.92**	128,795,221.14
	Total comprehensive income attributable to shareholders of the parent company		**267,388,187.27**	64,140,823.22
	Total comprehensive income attributable to minority interests		**1,947,226.65**	64,654,397.92
8.	**Earnings per share:**			
	(1) Basic earnings per share		**0.2842**	0.0624
	(2) Diluted earnings per share		**0.2842**	0.0624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. COMPANY INFORMATION

First Tractor Company Limited is a limited liability company registered and established in the People's Republic of China with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange since June 23, 1997 and August 8, 2012 respectively. The registered office and principal place of business of the Company is located at No. 154 Jian She Road, Luoyang, Henan Province, the People's Republic of China.

The Company is a company of manufacturing and sales of agricultural machinery. In the following, the Company and its affiliated companies are collectively referred to as the "Group". During the year, the main business operations of the Group in China are as follows：

- Manufacture and sale of agricultural machinery
- Manufacture and sale of power machinery
- Provision of loans, bills discounting and deposit-taking services

The directors of the Company believe that the immediate holding company is YTO Group Corporation Limited and the ultimate holding company is China National Machinery Industry Corporation. Both are companies registered and established in China.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Based on the going-concern assumption and transactions and events actually incurred, the financial statements 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 "4. Accounting policies".

3. STATEMENT OF COMPLIANCE OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (ASBEs), and present truly and completely the consolidated and the financial position of the Company as at December 31, 2020 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 Stock Exchange have both accepted financial statements prepared by 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 general 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.

4. ACCOUNTING POLICIES

(1) Accounting year

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

(2) Reporting currency

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

(3) The currency used by the Group at the time of the preparation of this financial statement is RMB.

(4) Accounting method for enterprise merger 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.

(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 or have consideration which need to confirm the estimated liabilities or assets, the difference between the estimated liabilities or the amount of assets and the subsequent or consideration price, we should adjust the capital surplus (capital premium or equity premium), and the capital surplus is insufficient, then 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, 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.

(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 is 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.

(5) 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 considers 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 the Group's consolidated financial statements and the subsidiaries are different, the transactions 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 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 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.

(6) Segment information

Segment information is presented according to the classification of business based on the major segment reporting mode by the Group. In terms of regional classification, the Group classifies revenue based on the locations of clients resided, and classifies assets based on the place of location. Because over than 90% of the revenue of the Group is from the clients in China, and over than 90% of the assets located in China, regional segment information is no longer presented.

For the needs of the management, the businesses of the Group are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the business types of the Group represents a strategic business unit that offers products. Each business unit must bear the risks and returns that are different from those of the other business segments. The three business segments are stated in summary as follows:

(a) The ‘agricultural machinery’ segment engages in the research and development, manufacture and sale of agricultural machinery, including tractors, relevant parts and component；

(b) The ‘power machinery’ segment engages in the manufacture and sale of diesel engines, fuel injection pumps and fuel jets；

(c) The ‘financial service’ segment engages in the provision of loans, bills discounting and deposit-taking services.

Segment revenue is eliminated on consolidation. Segment sales and transfers are transacted according to the relevant prevailing market prices.

Segment results are presented as profit of operating segments before income tax. Other information of each segment is also disclosed, including depreciation and amortization, item of income and expenses from headquarters, financial expenses, gain on disposal of subsidiaries, entitled share of profits or losses of associates, and income tax expenses. These are the methods reported to management, which, together with other reported data, serve to provide better perception to the management, and investors can also evaluate annual segment operating results from such information.

(7) Changes in accounting policies

(a) Changes in accounting policies

No accounting policies were changed during the reporting period.

(b) Changes in accounting estimates

No accounting estimates were changed during the reporting period.

5. NOTES TO MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Monetary funds

Item	Ending Balance	Opening Balance
Cash	**382,376.31**	994,815.11
Cash in bank	**1,664,011,936.27**	1,316,601,649.43
Other monetary funds	**38,231,162.95**	83,431,528.20
Total	**1,702,625,475.53**	1,401,027,992.74
Including: total amount deposited abroad	**58,500,849.52**	68,764,756.64

The details of the restricted monetary funds are as follows:

Item	Ending Balance	Opening Balance
Bank acceptance deposit	**22,041,438.35**	34,913,294.82
Other margin deposits	**4,030,411.98**	35,682,169.41
Reserve the legal deposit reserve of the central bank	**259,727,714.62**	210,312,078.88
Total	**285,799,564.95**	280,907,543.11

Note 2. Accounts receivables

1. Disclosure of accounts receivable

Item	Ending Balance				
	Book balance		Bad debt provision		
	Amount	Ratio (%)	Amount	Ratio (%)	Book value
Accounts receivable for anticipated credit losses on a portfolio basis	**766,295,683.73**	**100.00**	**390,093,012.75**	**50.91**	**376,202,670.98**
Including: Aging portfolio	**677,972,895.68**	**88.47**	**354,313,235.37**	**52.26**	**323,659,660.31**
Risk exposure portfolio such as collateral	**88,322,788.05**	**11.53**	**35,779,777.38**	**40.51**	**52,543,010.67**
Total	**766,295,683.73**	**100.00**	**390,093,012.75**	**50.91**	**376,202,670.98**

Item	Opening Balance				
	Book balance		Bad debt provision		
	Amount	Ratio (%)	Amount	Ratio (%)	Book value
Accounts receivable for anticipated credit losses on a portfolio basis	895,175,926.34	100.00	488,589,091.64	54.58	406,586,834.70
Including: Aging portfolio	786,100,488.44	87.82	450,127,545.78	57.26	335,972,942.66
Risk exposure portfolio such as collateral	109,075,437.90	12.18	38,461,545.86	35.26	70,613,892.04
Total	895,175,926.34	100.00	488,589,091.64	54.58	406,586,834.70

2. *Accounts receivable for which anticipated credit losses were provisioned on a portfolio basis*

(1) Aging portfolio

Aging	Ending Balance		
	Book Balance	Provision for bad debt	Accrual Ratio (%)
Within 1 year	**306,942,506.15**	**5,896,010.97**	**1.92**
1 to 2 yeas	**9,843,110.37**	**4,921,555.19**	**50.00**
2 to 3 yeas	**24,556,779.55**	**10,378,250.87**	**42.26**
Over 3 years	**336,630,499.61**	**333,117,418.34**	**98.96**
Total	**677,972,895.68**	**354,313,235.37**	**52.26**

(2) Risk exposure portfolio such as collateral

Name of portfolio	Book Balance	Provision for bad debt	Accrual Ratio (%)
Risk exposure portfolio such as collateral	**88,322,788.05**	**35,779,777.38**	**40.51**
Total	**88,322,788.05**	**35,779,777.38**	**40.51**

3. Age Disclosure of Accounts Receivable

Aging	Book Balance	Ending Balance Bad debt provision	Accrual Ratio (%)
Within 1 year	**355,619,302.12**	**6,270,019.31**	**1.76**
1 to 2 yeas	**20,238,834.27**	**11,077,056.05**	**54.73**
2 to 3 yeas	**38,739,020.72**	**24,560,492.04**	**63.40**
Over 3 years	**351,698,526.62**	**348,185,445.35**	**99.00**
Total	**766,295,683.73**	**390,093,012.75**	**50.91**

4. Provision for bad debts charged, recovered or returned in the current period

Item	Beginning balance	Changes in the current period **Increase: Provision**	**Decrease: roll-out**	**Decrease: Write off**	**Decrease: Other changes**	**Ending Balance**
Accounts receivable for anticipated credit losses on a portfolio basis	488,589,091.64	37,349,643.47	–	39,682,612.65	96,163,109.71	**390,093,012.75**
Including: Aging portfolio	450,127,545.78	34,080,825.57		39,682,612.65	90,212,523.33	**354,313,235.37**
Risk exposure portfolio such as collateral	38,461,545.86	3,268,817.90			5,950,586.38	**35,779,777.38**
Total	488,589,091.64	37,349,643.47	–	39,682,612.65	96,163,109.71	**390,093,012.75**

5. Accounts receivable write-off in current reporting period

Item	Amount of written off
Accounts receivable write-off	39,682,612.65

The important write off of accounts receivable is as follows:

Company	Nature	Amount of write off	Reason	Procedure	Related party transactions
Shandong Ninglian Machinery Manufacturing Co., Ltd	Sales receivables	15,796,531.26	Uncollectible	Company internal approval	No
Luoyang Yongcheng Agricultural Machinery Manufacturing Co., Ltd.	Sales receivables	4,842,368.04	Uncollectible	Company internal approval	No
Henan Lishen Machinery Co., Ltd.	Sales receivables	4,610,553.60	Uncollectible	Company internal approval	No
Zhang Yang	Sales receivables	3,588,467.27	Uncollectible	Company internal approval	No
Luoyang Yanlong Industry and Trade Co., Ltd.	Sales receivables	2,533,894.50	Uncollectible	Company internal approval	No
Luoyang Jiangyang Metal Components Co., Ltd.	Sales receivables	2,231,580.93	The other party is bankrupt	Company internal approval	No
Urumqi Xinyonghong Agricultural Machinery Co., Ltd.	Sales receivables	1,873,774.50	Termination of execution by court	Company internal approval	No
Heilongjiang Muling Fulin Machinery Manufacturing Co., Ltd.	Sales receivables	1,571,004.64	Uncollectible	Company internal approval	No
Others	Sales receivables	2,634,437.91	Uncollectible	Company internal approval	No
Total		39,682,612.65			

6. Details of Top Five Accounts Receivable with the Ending Balance Classified by the Borrowers

Company	Ending Balance	Percentage of ending balance of accounts receivable (%)	Bad debt provision
Liaoning Dongsheng Machinery Equipment Co., Ltd.	**81,470,181.00**	**10.64**	**81,470,181.00**
Urumqi Shifeng Agricultural Machinery Equipment Co., Ltd.	**62,183,376.45**	**8.11**	**62,183,376.45**
YTO (Luoyang) Material Equipment Co., Ltd.	**33,124,498.76**	**4.32**	**331,244.98**
YTO (Luoyang) Shentong Construction Machinery Co., Ltd.	**27,533,497.99**	**3.59**	**27,533,497.99**
Cuba TECNOIMPORT	**23,274,238.73**	**3.04**	**20,693,035.21**
Total	**227,585,792.93**	**29.70**	**192,211,335.63**

Note 3. Accounts payable

1. Classification of accounts payable by nature

Item	Ending Balance	Opening Balance
Purchase payment payable	**1,597,593,667.49**	1,160,059,432.13
Purchase of construction equipment payable	**39,640,607.32**	57,403,648.63
Service fee payable	**150,935,442.35**	33,058,216.05
Others	**23,085.27**	1,928,951.77
Total	**1,788,192,802.43**	1,252,450,248.58

2. Accounts payable with significant amount aged over 1 year

Company name	Ending balance	Reason for not paid or reversed
Hong Kong LLAF INTERNATIONAL CO., LTD	**25,182,368.13**	Unsettled
Total	**25,182,368.13**	

Note 4. Retained earnings

Item	Amount	Percentage of appropriation or distribution
Retained earnings at the end of last period before adjustment	529,451,678.91	–
Adjustment on beginning balance of retained earnings ("+" for add; "-" for less)		–
Beginning balance of retained earnings after adjustment	529,451,678.91	
Add: net profit for the current period attributable to shareholders of the parent company	280,150,740.30	–
Less: statutory surplus reserve		–
Discretionary surplus reserve		
Reserve fund		
Enterprise expansion fund		
Profit return for investments		
Employee benefits fund		
General risk reserves	14,538,240.88	–
Common stock dividends payable	–	
Ordinary shares dividends transferred to share capital		
Dividend on preferred shares		
Other distributions to shareholders		
Other profit distribution		
Add: Making up for losses with surplus reserve		
Changes carried forward upon remeasurement of net liabilities or net assets under defined benefit plan		
Other comprehensive income carried forward		
Others carried forward within shareholders' equity		
Ending balance of this year	795,064,178.33	

Note 5. Depreciation and amortization

Item	**Amount in this year**	Amount in last year
Depreciation of fixed assets	**294,961,584.18**	295,945,487.07
Amortization of intangible assets	**29,970,135.47**	30,649,531.90
Total	**324,931,719.65**	326,595,018.97

Note 6. Income tax expenses

1 · Income tax expenses

Item	**Amount in this year**	Amount in last year
Current income tax expenses	**16,149,697.91**	30,790,507.02
Deferred income tax expense	**10,222,487.18**	25,320,206.47
Others		
Total	**26,372,185.09**	56,110,713.49

2 · The Adjustment Process of Accounting Profit and Income Tax Expenses

Item	**Amount in this year**
Total profit	307,334,435.87
Income Tax Expenses at Statutory/Applicable Tax Rates	76,833,608.97
The Impact of Different Tax Rates on Subsidiaries	-42,353,240.63
The impact of income tax on the period before adjustment	-270,630.40
The impact of non-taxable income	-44,430,111.44
Non-deductible Cost, Expenses and Loss Impact	5,513,212.47
The impact of deductible loss on deferred income tax assets not recognized in the prior period of use	-62,189,105.29
The impact of deductible temporary differences or deductible losses on deferred income tax assets not recognized in the current period	129,924,185.12
Extra deductions for research and development expenses	-36,054,204.69
Others	-601,529.02
Income tax expenses	26,372,185.09

Note 7. Net current assets

Item	**Ending Balance**	Opening Balance
Current assets	**7,442,992,787.99**	6,415,221,116.11
Less: current liabilities	**6,874,682,789.41**	6,307,588,978.88
Net current assets	**568,309,998.58**	107,632,137.23

Note8. Total assets minus current liabilities

Item	**Ending Balance**	Opening Balance
Total assets	**12,342,608,882.99**	11,629,022,385.51
Less: current liabilities	**6,874,682,789.41**	6,307,588,978.88
Total assets minus current liabilities	**5,467,926,093.58**	5,321,433,406.63

Note 9. Segment information

1. Financial information of reporting segments

Item		Agricultural machinery	Power machinery	Finance service	Elimination among segments	Total
		Ending Balance/Amount in this year				
1.	Total operating revenue	6,789,281,161.83	1,906,233,445.95	150,719,605.55	-1,263,757,425.57	7,582,476,787.76
	Including： External transaction revenue	6,406,845,116.51	1,073,884,762.97	101,746,908.28	–	7,582,476,787.76
	Revenue between segments	382,436,045.32	832,348,682.98	48,972,697.27	-1,263,757,425.57	–
	Loss on impairment of assets	-142,099,347.30	-2,654,263.64	–	267,670.28	-144,485,940.66
	Loss on impairment of credit	-411,116,527.50	-1,310,854.28	-25,768,091.17	-2,560,290.46	-440,755,763.41
	Depreciation and amortization fee	305,220,667.53	58,540,680.13	996,546.06	–	364,757,893.72
2.	Total profit (Loss)	207,051,393.97	67,337,646.37	47,888,698.72	-14,943,303.19	307,334,435.87
3.	Income tax expenses	9,482,630.93	-1,043,549.96	17,907,637.45	25,466.67	26,372,185.09
4.	Net profit (Loss)	197,568,763.04	68,381,196.33	29,981,061.27	-14,968,769.86	280,962,250.78
5.	Total assets	8,364,456,033.64	2,755,143,442.62	5,221,635,970.40	-3,998,626,563.67	12,342,608,882.99
6.	Total liabilities	5,815,577,589.77	1,134,630,376.89	4,384,413,512.07	-3,967,534,432.85	7,367,087,045.88
7.	Other important non cash items	151,861,785.33	46,113,211.84	4,492,855.33		202,467,852.50
	1).Non-cash expenses other than depreciation and amortization	13,627,202.75	17,701,204.52	2,438,537.85		33,766,945.12
	2).Capital expenditure	138,234,582.58	28,412,007.32	2,054,317.48		168,700,907.38

Note 10. Net asset returns and Earnings per share

Project	Year of 2020
Net profit attributable to shareholders of parent company	280,150,740.30
Non recurring profit and loss attributable to the parent company	134,149,954.85
Net profit attributable to shareholders of parent company after deducting non recurring profit and loss	146,000,785.45
Weighted average number of common shares outstanding	985,850,000.00
Basic earnings per share (I) (before deducting non earnings)	0.2842
Basic earnings per share (II) (after deducting non earnings)	0.1481
Weighted average of net assets attributable to shareholders of parent company	4,204,092,273.17
Weighted average return on equity (I) (before deducting non earnings)	6.6638%
Weighted average return on equity (II) (after deducting non earnings)	3.4728%

Note 11. Dividends

The 2020 profit distribution plan: Based on the company’s fixed-increased total share capital of 1,123,645,275.00 as the base, a cash dividend of 0.075 yuan per share (tax included) will be distributed to all shareholders, totaling 84.2734 million. The above-mentioned profit distribution plan has been reviewed and approved by the company’s twenty-seventh sessions of the eighth board of directors, and must be implemented after the company’s shareholders meeting has reviewed and approved it.

THE BOARD'S DISCUSSION AND ANALYSIS ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD

I. Explanation on the Principal Businesses, Operation Modes and Industry of the Company during the Reporting Period

(1) Principal Businesses

Focusing on the manufacturing of advanced agricultural machinery and equipment, and insisting on the technological upgrading of industrial chain and structural optimisation over the years, the Company is committed to providing agricultural equipment with advanced technology and reliable quality for mechanization of the PRC agricultural industry. During the Reporting Period, there was no significant changes to the principal businesses of the Company.

Agricultural Machinery Business: the products include research and development, manufacturing and sales of the whole series of wheeled and crawler tractors adaptable to different working environments such as dry fields, paddy fields and orchards, and their key components including castings, forgings gears, gear boxes and cover that are used in agricultural production.

Power Machinery Business: the products include off-road diesel engines with displacement from 2L to 12L and power output from 10KW to 405KW along with their accessory parts including fuel injection pump and fuel injector. The products are mainly matching agricultural machinery, such as tractors and harvesters, 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 CBIRC. It provides members of the corporate group with services within the scope approved by the CBIRC, such as fund settlement, deposit and loan, bills, and conducts financial leasing business for the Company's product sales and investment businesses in compliance with the requirements of regulators.

(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 manufactories. The Company's research and development projects are divided into strategic planning type and market demand type. The headquarters research and development center focuses on the research and development of strategic planning type products and technologies, and the subsidiaries and manufactories focus on the research and development of market demand type products. Through the joint establishment of project teams, the Company promotes the integration of two-level research and development systems, which not only improves the research and development capability of market-oriented projects of subsidiaries and manufactories and the efficiency of solving field problems, but also improves the research and development quality of strategic planning projects of the research and development center of the headquarters.

Procurement Mode: The Company adopts a model combining centralized procurement and 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, centralized procurement would be adopted so as to take full advantage of economies of scale. On the other hand, decentralized procurement would be adopted for differentiated raw materials and components required by each operating unit based on its needs.

Production Mode: The Company manufactures and operates through mass production in assembly lines, 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 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 in domestic market by way of cash on delivery and general credit sales. For dealers which have long cooperative relationship with the Company and good credit, the Company will give a certain credit limit and make annual evaluation and adjustment according to the credit situation. Our PRC sales network currently covers all 31 provinces, autonomous regions and municipalities in the mainland China. 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. Currently, the overseas sales markets mainly include Asia areas, Russian-speaking areas, Central and Eastern Europe areas, Africa areas, and countries and regions along the Belt and Road. Overseas sales are mainly conducted through project sales such as government procurement, and by other local dealers. Power machinery products are mainly supplied to be accessory for main unit manufacturers, mostly by direct sale.

The buyer's credit business is categorized into loan financing business, i.e. a special loan business granted by YTO Finance to its customers purchasing the Company's products. The finance lease business is a type of lease financing business. At present, the finance lease businesses handled by YTO Finance are sale leasebacks, that is, a customer (lessee) who purchases the Company's products sells the same to YTO Finance (lessor), and then leases them back from YTO Finance (lessor). In this business, YTO Finance is both the lessor and the buyer, and the customer is both the lessee and the seller.

The buyer's credit business and finance lease business can provide capital support to customers who purchase the Company's products and facilitate sales of the Company's products. YTO Finance has set up risk management and control measures throughout the whole process of before, during and after the loan business, and currently, the business risks are controllable.

(III) Industry Development

In 2020, affected by the COVID-19 pandemic and restrictions on grain exports in certain countries, grain prices showed a continuous upward trend, the grain planting income increased year-on-year, farmers' enthusiasm for growing grain generally increased, the sales volume of agricultural machinery products represented by tractors increased significantly, and the comprehensive mechanization rates of farming, planting and harvesting increased continuously. With the adjustment of national agricultural production structure and the continuous expansion of farmers' business scale, the country has fully implemented grain security strategy, which puts forward higher requirements for the agricultural machinery industry to ensure stable grain production and efficiency improvement. At the same time, it has created basic conditions for the long-term stable development of China's agricultural machinery industry, and also provided more opportunities for the high-quality and rapid development of agricultural machinery.

Meanwhile, the current market characteristics of agricultural machinery industry dominated by stock renewal are still obvious, and the product homogenization competition is still serious. The downward adjustment of total subsidy funds and single subsidy amount in certain provinces, and the approaching of the switching emission standards for off-road National IV diesel engines also have brought certain uncertainties to market demand.

II. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

With the corporate vision of becoming an "outstanding agricultural equipment manufacturing service provider", leveraging on its more than 60 years' accumulation of product technology, manufacturing capacity, talents and marketing channels, the Company has become an enterprise with important influence in the agricultural machinery industry. With the country's deeper initiation of the agricultural modernization and the full implementation of the food security strategy and the rural revitalization strategy, the Company continuously accelerated upgrading of product technologies, improvement in manufacturing capacity, and innovation and reform on marketing and service models, which led to the continuous improvement of its core competitiveness and made it equipped with remarkable competitive advantages in the industry.

In respect of products and quality, the Company has a full range of wheeled tractors and crawler tractor products, as well as off-road power machinery products at high, medium and low horsepower. In adherence to the quality concept of "zero-defect quality and internationalized standards", the Company enabled technology strength of major products to be a leading position in the industry through the continuous implementation of high-quality projects and strengthening quality control. With outstanding performance, stable product quality, the Company's agricultural machinery, power machinery and other products have won satisfactory feedback from users.

In respect of production and manufacturing, the Company has the most comprehensive manufacturing systems for core spare parts in China's tractor industry and possesses the capabilities for manufacturing vehicle body, forged parts, castings, engines, gears and other key components of tractors, and has extensive capabilities of production and organisation under extreme conditions to ensure that the Company is the first in the industry to resume production and work after the COVID-19 pandemic has been effectively controlled. In 2020, the implementation of the intelligent and green upgrading and transformation projects for the Company's several key manufacturing processes, such as "Application of new model for intelligent manufacturing of new-type wheeled tractors", providing strong support to the Company's industrial transformation and upgrading. Based on the principle of "improving quality, increasing efficiency and reducing cost", the Company has intensified its research and development of key process projects, and promoted the application of lean production management model in a wider scope to improve the manufacturing level and reduce costs and expenses.

In terms of technical research and development, the Company is a domestic leader in terms of power-shift and variable transmission technology for tractors, intelligent driving technology as well as electronic control technology for whole machine and parts. In 2020, the Company's key products urgently needed in the market achieved commercialization. The variable transmission tractors have been put into the whole machine test stage. The localization of power-shift tractor and a full range of National IV tractors are undergoing market verification. The research and development of the National V new platform diesel engine and the Euro V diesel engine are progressing as planned.

In terms of market services, with the deep understanding of the agricultural machinery industry, the Company has constantly improved the after-sales service platform system for enterprises to serve users with "Golden Service" under the service concept of "thoughtful, fast, professional, and value-added". The Company took the lead in making a service promise of "Arriving within 6 hours and repairing within 12 hours" to consumers, effectively protecting the rights and interests of users. During the COVID-19 pandemic, the Company solved the problems for users through combining online guidance with on-site service, and met the market service demand of "preventing pandemic and guaranteeing spring farming".

III. DISCUSSION AND ANALYSIS ON THE OPERATION

In 2020, the severe impact brought by certain major emergency incidents including the COVID-19 pandemic and the floods highlighted the importance of the agricultural production and food security in China. A number of favorable factors, including the state's adherence to the red line for arable land and permanent basic farmland, maintaining and expansion of the grain planting areas and encouraging the development of various forms of moderate scale operations, and the expected rise in grain prices, has had a positive impact on China's agricultural machinery industry. In 2020, the agricultural machinery sector ranked high among the sub-industries of China's machinery industry as a whole in terms of growth rate, in particular, the tractor industry showed stable growth following nearly four years of downturn. According to the industry report statistics from China Agricultural Machinery Industry Association Enterprise Management Committee (中國農業機械工業協會企業管理委員會), in 2020, the core enterprises in the agricultural machinery industry sold a total of 253.8 thousand of hi-powered and mid-powered tractors, representing a year-on-year increase of 26.19%.

The Company understood and grasped the spirit of "overcome the difficulties, foster new opportunities amid challenges and make new advances amid changes". At the beginning of the year, the Company vigorously overcame difficulties such as obstructed industrial chains, impeded logistics and travelling restrictions in the resumption of work and production of industrial enterprises, and tried every possible means to "prevent pandemic and guarantee spring farming", and achieved production at full capacity upon the arrival of the peak season for spring ploughing. During the Reporting Period, the Company continued to do a good job in production and operation against the backdrop of the "normalisation" of the prevention of the pandemic, and formed an effective synergy of "fighting the pandemic, ensuring production, expanding market, focusing on management and promoting innovation" by virtue of its leading position in the industry. In the midst of the pandemic, the Company grasped market opportunities and strived for market share, and achieved steady improvement in its operation and growth in economic benefits. During the Reporting Period, total operating revenue of RMB7,582 million was realized, representing a year-on-year increase of 30.06%, and the net profit attributable to the shareholders of the Company was RMB280 million, representing a year-on-year increase of 355.71%.

(I) Seizing market opportunities, continuing to upgrade products, focusing on marketing strategy innovation, and achieving sales growth of leading products

As the tractor industry regained growth momentum, the Company sticked to the strategy of "be led by marketing, and be customer-oriented", promoted innovation in the marketing model in line with the changes in the situation, enhanced the operation awareness and market development capability of the frontline marketing team; increased the flexibility of its marketing work through collaboration with distributors, to effectively improve the operation quality and market contribution of the marketing channels. The Company accelerated the research and development of new technology and the application of new products, and enhanced its market competitiveness through diversifying its product portfolio. The Company launched the Dongfanghong LH/LN1804/2104 series tractors at appropriate time which were urgently needed in the market, and diversified the product portfolio of mid-powered wheeled tractors in response to the market demand for mid-powered wheeled tractors with power upward adjusted. The new models such as Dongfanghong ME704/ME804 tractors and MF904/1004 tractors were recognized in market. The Company gave full play to the role of financial instruments of its finance companies, to relieve the financial pressure of its dealers and users, which also provided active support for its product sale. The Company gave play to innovation in its user service work, and organized online training and video services; increased the on-site services for its key products, improved the timeliness and effectiveness of its services, and continued to guarantee the availability of its services. During the Reporting Period, progress was made in its expansion into key overseas markets, with its leading products achieving substantial sales growth in Asia and Russian-speaking markets. The Company implemented the special internationalization plan, and steadily promoted key international projects such as overseas product development and certification.

During the Reporting Period, the sales volume of hi-powered and mid-powered tractors of the Company was 53.6 thousand units, representing an increase of 28.04% year-on-year. Among them, the cumulative sales volume of tractors with horsepower of above 100 amounted to 18.1 thousand units, representing an increase of 46.06% year-on-year. The cumulative growth of sales volume of hi-powered and mid-powered tractors exceeded the growth of the industry, and the market share ranked in the leading position in the industry.

The Company coordinated and promoted the improvement in the reliability of National III product platform, and the product conversion on National IV product platform of diesel engines. In particular, the Company achieved a smooth conversion of the common-rail engines, which are the hot-selling model for customers in the key regions of National III products, and achieved a significant increase in the export volume of power generators; the work on market approval for all typical platforms of National IV diesel engines was on smooth progress, which got full ready for the conversion of National IV. Meanwhile, during the Reporting Period, the Company converted the deep understanding of the agricultural machinery industry by “Dongfanghong” diesel engines to the product auxiliary advantage, meeting the needs of different users of agricultural machinery and construction machinery for supporting products of diesel engines, and maintaining an increasing proportion of supporting products for key customers. In 2020, the sales volume of the Company’s diesel engine products was 116.4 thousand units, of which the supporting sales from the external market increased by 17.30% as compared with the corresponding period of last year.

(II) Implementing refined management, enhancing the profitability of the value chain, and effectively improving the quality of operations

The Company continuously improved, which increased the proportion of sales volume of high value-added hi-powered wheeled tractor products increased, the product structure was optimized, and the profitability of products was effectively enhanced. At the same time, the Company continued to improve its cost control capabilities, focused on key sections including procurement, manufacturing, labour, management and finance, and explored the space for cost reduction and improve the turnover rate of accounts receivable and inventories, which provided strong support for improving operating results. During the Reporting Period, the comprehensive gross profit margin of the major products of the Company reached 19.53%, representing an increase of 3.34 percentage points as compared with the corresponding period of last year.

During the Reporting Period, the Company actively innovated its product quality control mechanism, implemented the "high-quality projects", strengthened quality improvement and follow-up verification of the implementation results, effectively reducing product quality risks and building up quality and cost advantages.

(III) Striving to implement reforms and adjustments to promote the long-term sustainable development of the enterprise

The Company has advanced various reform measures to create favourable conditions for improving quality and efficiency. Firstly, it continued to strengthen the reform of target assessment and incentive mechanism, and deepened the assessment and incentive for the operation team, marketing team and key staff of the subordinate units, and thus the initiative at all levels was significantly improved. Secondly, the Company initiated the reform of the research and development innovation system, strengthened the awareness of responsibility and the evaluation on connection between the technology and the market to form a target system of research and development guided by demands of market and users, so as to realise the effective guidance of market and efficiency on product research and development. Thirdly, it continued to promote the disposal of inefficient and inefficacious assets and the management of loss-making enterprises, with results gradually emerging. Fourthly, the Company explored ways to enhance the service capacity of the entire agricultural industry chain, promoted the transformation of the business to a model of "manufacturing + service" by extending the business development chain, promoted the market application of advanced agricultural machinery equipment, and served the development of smart agriculture.

(IV) Strengthening control over high-risk areas and improving risk prevention and control capabilities

Faced with the constantly changing market environment, the Company implemented key controls on risk areas such as capital management, investment management, overseas business and credit management with focus on the internal control system and comprehensive risk management, and performed ongoing risk assessment and risk monitoring to actively prevent and resolve major operational risks.

IV. THE COMPANY'S DISCUSSION AND ANALYSIS ON ITS FUTURE DEVELOPMENT

(I) Industry landscape and trend

In 2020, the agricultural machinery industry witnessed a significant growth given the great importance attached and emphasis put on agriculture production and food security in China, and the tractor industry also saw remarkable performance in both production and sales. However, the situation of large figure of tractor manufacturers and the overcapacity of homogenized products which highly fragmented had not significantly changed.

In the "14th Five-year Plan" for China's national economic and social development and the "No. 1 Central Policy Document" for 2021 by the Central Committee of the Communist Party of China, it is further specified that China will speed up the modernization of agriculture and rural areas, promote breakthrough in the development of key and core technologies in agriculture, improve the quality, economic returns and competitiveness of agriculture, increase the subsidies for purchase of agricultural machinery, offer subsidies for operation, accelerate the construction of modern agricultural operation system, and encourage the development of various forms of moderate-scale businesses. The agricultural machinery and equipment industry will play a more and more important role in supporting the development of Chinese modern agriculture, and the mechanization level in crop produce process is expected to be improved continuously. In addition, large and efficient, environment friendly and intelligent agricultural machinery and characteristic, professional and differentiated agricultural machinery which can meet different agricultural operation need will usher in broader development prospects.

Although the government has further improved and standardized subsidies granting for purchase of agricultural machineries, reduced the amount of subsidies for purchase of a single machine, despite of the switch to the National IV Standard and the increasing cost for users to purchase machinery which may bring certain uncertainties to the market for some time, with the continuous improvement of the technological level of agricultural machineries and the growing tendency for agricultural machinery industry to develop towards upsizing, intelligentization and energy conservation in China, the expectation on the technological research and development strength, integrated manufacturing capability and capital strength of agricultural machinery manufacturers will be rising, and the competitiveness of large-scale agricultural machinery manufacturers with advantages in scale, wide-ranging product categories and advanced technology may be further enhanced.

(II) Development strategy of the Company

During the period of the "14th Five-Year Plan", the Company will, by closely focusing on the national strategic tasks of "comprehensively boosting the rural revitalization and accelerating the agricultural and rural modernization", insist on the development idea of "innovation driver, optimizing the structure, deeply cultivating the market and seizing the high end", firmly capture the opportunities of agricultural mechanization and agricultural machinery industry upgrading in China, accelerate product technology innovation and upgrading and structural adjustment, and strengthen the leading role of science and technology to steadily promote the mechanism and system innovation. The Company will focus on the advanced equipment manufacturing and modern manufacturing services, and optimize the business structure and asset structure; and actively explore the international market while deeply cultivating the domestic market. Furthermore, by targeting modern agriculture, green agriculture and precision agriculture, the Company will accelerate the research and development and industrialization of intelligent, new energy and other high-end equipment, and upgrade the industrial chain to achieve high-quality development.

(III) Operation plan

2021 is the first year of the "14th Five-Year Plan", the Company will, by centering on serving the national "Rural Revitalization" and high-quality and efficient development of the agriculture, continue to carry forward the fighting spirit in the period of "preventing pandemic and guaranteeing spring farming". In addition, it will escalate the research and development and innovation and technological upgrading of products, strengthen market development and operational management, striving to maintain a sound momentum of corporate development.

Firstly, the Company will consolidate and enhance the domestic market share of its major products. The Company will further research and judge the impact of a new round of policy adjustment of agricultural machinery purchase subsidy on the development of the industry, conduct appropriate optimization, adjustment and upgrading of the product structure, give play to the corporate research and development and the market advantages, and enrich and improve the Company's product portfolio. Moreover, with high-quality products and efficient services, it will tap deeper into the traditional market and expand our market in the weakest areas to consolidate our leading position in the domestic tractor market.

Secondly, the Company will maintain the leading edge of its core technology. The Company will integrate and build a collaborative and efficient technology research and development platform, enhance the synergy between technology research and development and market demand, and accelerate the commercialization process of products in urgent need in the market and the transformation and application of technological innovation achievements. Moreover, in terms of tractor products, the Company will benchmark itself against world-class enterprises, focus on quality improvement projects, establish a mechanism for quality improvement driven by customer satisfaction, and further improve product reliability by perfecting product design, optimizing the supply chain and improving process quality assurance, so as to narrow the gap between itself and world-class enterprises, maintain its leading position in product quality in domestic market and reflect the strength of the "Dongfanghong" brand. The Company will also focus its efforts on meeting the needs of users and speed up the improvement and optimization of products or the development of new platforms for the operation of fields, paddy fields and forest and fruit sheds in different regions; it will accelerate the industrialization of large and efficient powershift and variable transmission products, enhance its competitiveness in high-end market and effectively replace imports; it will steadily promote the development of intelligentization and smart technology of agricultural machinery, establish interconnection and agricultural machinery data services through agricultural machinery automation and agricultural machinery IOT, and accelerate the marketization application of precise agriculture and smart agricultural technology, so as to maintain its leading technological advantages in the future journey of agricultural machinery and unmanned agriculture. At the same time, the Company will actively prepare for the switchover of the whole series of products to the National IV emission standards, complete the emission certification for Euro V diesel engines and promote the research and development of National V diesel engines as planned, so as to enhance the competitiveness of the power products of the Company.

Thirdly, the Company will continuously optimize the quality and efficiency of its operation. The Company will strengthen its internal operation management, improve the cost management system of the whole product chain, innovate the cost management and control methods by centering on the key links such as design cost reduction, procurement cost reduction and labour cost reduction, and enhance the quality management and control as well as the cost management and control, so as to improve the input-output efficiency and continuously improve the operation quality of the enterprise.

Fourthly, the Company will deepen reform in key areas. The Company will actively implement the spirit of the three-year action plan for the reform of state-owned enterprises, improve the incentive and restraint mechanism, continue to deepen the reform of the research and development and innovation system, and strengthen the establishment of marketing team, with a view to smoothing the connection among research and development, management, market and users. Moreover, it will actively implement the special plan for internationalization, optimize the international market entry mode, and create conditions for accelerating breakthroughs in key overseas markets.

Fifthly, the Company will ensure the full implementation the risk prevention measures. The Company will firmly establish the red-line awareness and bottom-line thinking, enhance the risk warning mechanism, strengthen the bottom line for major risk prevention, strictly control major investment risks, effectively conduct the pandemic prevention and control as well as the security and environmental protection, and prevent against the impact of various risk events on the operation of the enterprise.

(IV) Potential risks

1. *Market risk*

   In respect of domestic market, the Company encounters the risk of market demand change arising from the adjustment to policies on agricultural machinery purchase subsidy. "No. 1 Central Policy Document" for 2021 by the Central Committee of the Communist Party of China clearly advocates for increasing the subsidy for the purchase of agricultural machinery. However, the implementation of a new round of subsidy policies will reduce the amount of subsidy for the purchase of a single agricultural machinery, and will focus on supporting the weak links of agricultural mechanization, which may divert the subsidy funds for some traditional products such as tractors, and increase the purchase cost of tractor users. Therefore, it will have an impact on the purchase intention of some users, resulting in the risk of reduced demand growth in the tractor industry.

   In respect of international market, the COVID-19 pandemic has not been effectively controlled globally, and there is great uncertainty in the foreign trade export in 2021. Some key regional markets of the Company, such as the African market, are affected by COVID-19 pandemic and natural disasters, and the purchasing power of users has further declined, which has posed more difficulties for the Company's expansion into key overseas markets.

The Company will actively research and judge the overall trend of policy changes, user structure changes and market demand upgrading and take full advantages of the Company's technology research and development, core manufacturing and other strengths. Moreover, it will improve product cost performance and added value, and provide value-added benefits for users, so as to turn crisis into opportunities and consolidate and enhance the market share.

Meanwhile, the Company will actively implement the special internationalization plan. While cultivating the key markets, the Company will focus on optimizing the market layout, participate in global competition, and actively promote product certification to achieve breakthroughs in the market of developed countries as soon as possible.

2. *Operational risk*

China vigorously promotes the agricultural modernization and increases agricultural subsidies. A new round of development opportunities are emerging in agricultural equipment industry, which also attracts the attention of enterprises within and outside the industry to the agricultural equipment industry and increases investment in the agricultural equipment industry. Therefore, the industry is faced with a new round of competition and upgrading. The Company will take the advantages of its research and development and core manufacturing capabilities, accelerate the upgrading of its major products, enrich the product and business portfolio, actively promote the transformation of manufacturing service industry, and consolidate its dominant position in the new round of competition.

Risk relating to rising prices of raw material. Since the fourth quarter of 2020, the prices of steel, rubber and other bulk materials have continued to rise. However, due to the reduction of single machine subsidy, homogeneous competition and other factors, it is difficult to raise the prices of agricultural machinery products in the end market, which may affect the Company's profitability.

In the reforming adjustment, the Company intends to intensify the disposal of some subsidiaries and low efficient assets, and the disposal of low efficient assets and the bankruptcy of subsidiaries may have certain adverse impact on the earnings of the Company for the current period.

Through strengthening the investment management, risk management, cost and expense management and reform of the incentive mechanism, the Company improves the quality of its economic operations, eliminates the impact of disposal of inefficient assets on the operation, optimizes the business and asset structure, consolidates its development base and improves the operational efficiency.

3. *Risk relating to technology upgrade*

With the deepening of agricultural modernization and the continuous application of information technology, the demand for intelligent agricultural machinery products is increasing. Meanwhile, China accelerates to promote the conversion and upgrading of off-road diesel engine emission standards as environmental policies are fully implemented, which requires a higher standard for the product research and development, manufacturing skills and overall upgrade of the supplying chain of the agriculture machinery manufacturing enterprises. In addition, the technical barriers due to Euro V emission regulations have increased the difficulty for entering the EU market. The Company will give full play to its advantages in product research and development, and effectively implement the key research and development projects and the industrialization of products. At the same time, it will strengthen the research on and investment in precision agriculture and intelligent agriculture, implement a sound forward-looking layout, and firmly grasp the opportunities arising from the new round of industry upgrading.

SUPPLEMENTAL INFORMATION ON FINANCE BUSINESS

I. BASIC INFORMATION

China YTO Group Finance Company Limited 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. As at the end of the Reporting Period, the Company directly held 94.6% of equity interest in YTO Finance. YTO Finance is principally engaged in business including handling of internal transfer settlement between member companies; assisting member companies in receipt and payment of transaction amount; collecting the deposit of member companies; providing loans, finance lease, bill acceptance and discounting, entrusting loans and investments to member companies, and equity investment and portfolio investment in financial institutions as approved; and consumer credit service, buyer's credit and finance lease for products of member companies and inter-bank borrowing and lending.

II. INFORMATION ABOUT BUSINESS OPERATION OF YTO FINANCE

(I) Information about business operation

Focusing on the major task of "serving group development through prevention and control of financial risks", YTO Finance gave full play to its financial functions, actively implemented buyer's credit and financial leasing business, and strived to conduct the debt collection. It conscientiously implemented the establishment of internal control system and comprehensive risk management, and comprehensively promoted the development of various businesses and the effective implementation of key work of YTO Finance, helping the enterprise to achieve better results.

As at the end of the Reporting Period, YTO Finance had total assets of RMB5,221.6360 million, representing an increase of RMB1,021.9859 million or 24.34% from the beginning of the year; its total liabilities amounted to RMB4,384.4135 million, representing an increase of RMB1,010.5274 million or 29.95% from the beginning of the year and its owner's equity amounted to RMB837.2225 million, representing an increase of RMB11.4586 million or 1.39% from the beginning of the year. In 2020, it realized total profit of RMB47.8887 million, representing an increase of RMB5.3133 million or 12.48% from the previous year.

YTO Finance operated in strict compliance with relevant provisions under national financial laws, regulations, ordinance and rules, with sound asset quality and financial conditions and controllable overall risks. As at the end of the Reporting Period, YTO Finance had a capital adequacy ratio of 16.90%, a liquidity ratio of 91.57%, a non-performing loan ratio of 0.02%, a non-performing asset ratio of 1.46%, an allowance-to-loan ratio of 2.63%. The various regulatory indicators were in line with the regulatory requirements.

(II) Explanations on connected transactions

During the Reporting Period, connected transactions conducted by YTO Finance complied with the terms of financial service agreement and the approved caps thereunder, with related party customer loans lower than related party deposits.

Unit: Ten thousand Yuan Currency: RMB

Item	Cap of related party transaction amount in 2020	Maximum amount in 2020
Loan business	130,000	95,324
Discounting business	30,000	840
Acceptance business	37,600	14,229
Interbank business	100,000	60,000

III. RISK CONTROL

YTO Finance always insists on consolidating the main responsibility of risk prevention, constantly strengthening the identification, analysis, early warning and prevention of various risks, and improving the risk management of credit, liquidity and bills to continuously enhance the ability of risk management and control.

1. Enhancing credit risk management and control

YTO Finance strengthened the whole management process of credit risk, and implemented risk management and control measures from the aspects of risk identification, monitoring, control and measurement to prevent the occurrence of credit risk. It standardized the risk management and control measures starting from the unification of the credit granting standards, and implemented the management and control measures throughout the whole management process of before, during and after the loans.

2. Improving liquidity risk management

YTO Finance formulated the feasible liquidity contingency plan and the acceptance risk contingency plan in bill business to ensure timely and effective response when risks occur. In addition, it strengthened the daily index monitoring to meet the regulatory requirements, enhanced the position management and formulated the capital plan to ensure sufficient liquidity.

3. Strengthening bill risk management

YTO Finance improved the system process, continued to optimize the bill business management. It strengthened the verification of real trade background, paid attention to the management of acceptance business quota, consolidated the management of bill margin, and conducted the liquidity management of bill acceptance. In addition, it emphasized the business skill training and compliance awareness education of the staff to improve bill risk management and response ability, which promoted the healthy development of bill business.

4. Strictly preventing external risk transmission

YTO Finance insisted on the basic functional orientation, strictly controlled the scale of non-group liabilities of YTO Finance. Moreover, it had no business contact with third-party financing institutions to prevent the invasion of external risks.

ANALYSIS OF FINANCIAL RESULTS

1. Analysis on Changes in Items of Income Statement and Cash Flows Statement

Unit: Yuan Currency: RMB

Items	For the Reporting Period	For the corresponding period of last year	Changes (%)
Operating revenue	**7,480,729,879.48**	5,736,943,977.67	30.40
Operating costs	**6,020,041,446.52**	4,808,281,175.55	25.20
Selling expenses	**358,190,492.96**	305,526,565.26	17.24
Administrative expenses	**354,222,206.89**	382,371,302.74	-7.36
Research and development expenses	**339,036,171.41**	356,609,547.39	-4.93
Finance expenses	**52,228,726.98**	61,706,462.37	-15.36
Investment income (Losses listed as "-")	**349,311,564.11**	242,395,344.85	44.11
Gain arising from changes in fair value (Losses listed as "-")	**26,405,594.35**	85,687,735.18	-69.18
Loss on impairment of assets (Losses listed as "-")	**-144,485,940.66**	-81,901,256.49	N/A
Loss on impairment of credit (Losses listed as "-")	**-440,755,763.41**	-34,256,859.43	N/A
Non-operating income	**27,927,444.96**	41,497,680.79	-32.70
Non-operating expenses	**13,319,454.10**	2,570,351.43	418.20
Income tax expenses	**26,372,185.09**	56,110,713.49	-53.00
Net cash flow from operating activities	**1,248,778,258.13**	330,731,669.68	277.58
Net cash flow from investing activities	**479,943,520.74**	1,193,116,999.96	-59.77
Net cash flow from financing activities	**-1,417,014,045.77**	-1,686,589,779.50	N/A

Operating revenue and operating costs: increased by 30.40% and 25.20% as compared with the corresponding period of last year, respectively, mainly due to the year-on-year increase in sales volume of the Company's major products during the Reporting Period, and operating revenue and operating costs increased year-on-year, but the increase in operating costs was lower than the increase in operating revenue which was attributable to the Company's continuous promotion of procurement cost control and enhancement of management and control of the costs.

Selling expenses: increased by RMB52.66 million as compared with the corresponding period of last year, representing an increase of 17.24% year-on-year, mainly due to the increase in the sales volume, resulting in the increase in the transportation fee and the selling service fee for the Reporting Period.

Administrative expenses: decreased by RMB28.15 million as compared with the corresponding period of last year, representing a decrease of 7.36% year-on-year, mainly due to the policy of social security relief, resulting in a year-on-year decrease in employee benefits for the Reporting Period.

Finance expenses: decreased by RMB9.48 million as compared with the corresponding period of last year, representing a decrease of 15.36% year-on-year, mainly due to the decrease in the size of loans of the Company and a year-on-year decrease in interest expenses during the Reporting Period.

Investment income: increased by RMB106.92 million as compared with the corresponding period of last year, representing an increase of 44.11% year-on-year, mainly due to the impact of the Company's reversal to the previous excess loss as YTO Shentong was no longer included into the scope of consolidation due to its liquidation during the Reporting Period.

Gain arising from changes in fair value: decreased by RMB59.28 million as compared with the corresponding period of last year, representing a decrease of 69.18% year-on-year, mainly due to the year-on-year decrease in gain arising from changes in fair value of the trading financial assets held by the Company.

Loss on impairment of assets: increased by RMB62.58 million as compared with the corresponding period of last year, mainly due to the increase in provision for impairment of fixed assets during the Reporting Period. In addition, the Company made a provision for impairment of its long-term equity investments due to the bankruptcy and liquidation of YTO Shentong.

Loss on impairment of credit: increased by RMB406.50 million as compared with the corresponding period of last year, mainly due to a provision for credit impairment of overseas business made by YTO International Trade during the Reporting Period. In addition, due to the bankruptcy and liquidation of YTO Shentong, the Company made a provision for impairment of its entrusted loan and accounts receivable.

Consolidated investment income and impairment loss: the bankruptcy and liquidation of YTO Shentong had minor impact on the Company's profit or loss for the period.

Non-operating income: decreased by RMB13.57 million as compared with the corresponding period of last year, representing a decrease of 32.70% year-on-year, mainly due to the decrease in write-off of accounts unpayable as compared with the corresponding period of last year during the Reporting Period.

Non-operating expenses: increased by RMB10.75 million as compared with the corresponding period of last year, mainly due to the increase in environmental management and personnel costs assumed by YTO France in accordance with local laws during the Reporting Period.

Income tax expenses: decreased by 53.00% as compared with the corresponding period of last year, which was due to, on one hand, the increase in income tax expenses driven by the investment income resulting from the disposal of equity interests in subsidiaries for the corresponding period of last year, however, there was no such event during the Reporting Period; and on the other hand, due to a year-on-year decrease in income from changes in fair value of financial assets held for trading, resulting in the decrease in deferred income tax expenses for the Reporting Period.

2. Operating Revenue

During the Reporting Period, the Company realized an operating revenue of RMB7.481 billion, representing an increase of 30.40% as compared with the corresponding period of last year, mainly due to a year-on-year increase in the sales volume of major products during the Reporting Period.

3. Costs

Cost analysis

(a) By industry

Unit: Ten thousand Yuan Currency: RMB

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 *(%)*	**Year-on-year change** *(%)*
Equipment manufacturing industry	Materials	631,664	87.31	484,591	84.68	30.35
Equipment manufacturing industry	Labour	33,641	4.65	32,456	5.67	3.65
Equipment manufacturing industry	Production costs	58,177	8.04	55,211	9.65	5.37

(b) By product

Unit: Ten thousand Yuan Currency: RMB

By product	**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 (%)	**Year-on-year change** (%)
Agricultural machinery	Materials	487,949	87.46	379,935	84.85	28.43
Agricultural machinery	Labour	25,260	4.53	25,316	5.65	-0.22
Agricultural machinery	Production costs	44,705	8.01	42,515	9.49	5.15
Power machinery	Materials	143,715	86.80	104,291	84.02	37.80
Power machinery	Labour	8,381	5.06	7,137	5.75	17.43
Power machinery	Production costs	13,472	8.14	12,693	10.23	6.14
Other machinery	Materials	0	0.00	364	98.75	-100.00
Other machinery	Labour	0	0.00	2	0.52	-100.00
Other machinery	Production costs	0	0.00	3	0.73	-100.00

Note: The data set out above are figures before inter-segment elimination.

Explanation on other situations on cost analysis

During the Reporting Period, the input of raw materials increased due to the growth of sales volume of major products. In addition, the Company continued to reinforce cost management and control, resulting in the decrease in the unit labor cost and manufacturing cost, whose share in total cost declined.

4. Expenses

Unit: Yuan Currency: RMB

Item	**Amount for the Reporting Period**	Amount for the corresponding period of last year	**Change in amounts**	**Change** (%)
Selling expenses	358,190,492.96	305,526,565.26	52,663,927.70	17.24
Administrative expenses	354,222,206.89	382,371,302.74	-28,149,095.85	-7.36
Research and development expenses	339,036,171.41	356,609,547.39	-17,573,375.98	-4.93
Financial expenses	52,228,726.98	61,706,462.37	-9,477,735.39	-15.36

During the Reporting Period, the total expenses of the Company amounted to RMB1,103.68 million, representing a year-on-year decrease of RMB2.54 million, or 0.23%.

For the reasons for such changes, please see: 1. Analysis on Changes in Items of Income Statement and Cash Flows Statement

5. Research and development investment

Analysis on research and development investment

Unit: Yuan Currency: RMB

Research and development investment expensed for the Reporting Period	339,036,171.41
Research and development investment capitalized for the Reporting Period	0.00
Total research and development investment	339,036,171.41
Total research and development investment as a percentage of operating revenue *(%)*	4.53
Number of research and development personnel of the Company	1,193
Number of research and development personnel as a percentage of total staff of the Company *(%)*	15.89
Ratio of research and development investment capitalized *(%)*	0.00

6. Cash Flow

Unit: Yuan Currency: RMB

Item	**Amount for the Reporting Period**	Amount for the correspond in period of last year	**Change in amounts**	**Change** *(%)*
Net cash flow from operating activities	1,248,778,258.13	330,731,669.68	918,046,588.45	277.58
Net cash flow from investing activities	479,943,520.74	1,193,116,999.96	-713,173,479.22	-59.77
Net cash flow from financing activities	-1,417,014,045.77	-1,686,589,779.50	269,575,733.73	N/A

Net cash flow from operating activities: the inflow increased by RMB918.05 million as compared with the corresponding period of last year, mainly due to the increase in sales volume of the Company's products and satisfactory collection of payments, resulting in a year-on-year increase in net flow generated from the sales of goods during the Reporting Period.

Net cash flow from investing activities: the inflow decreased by RMB713.17 million as compared with the corresponding period of last year, which was, on one hand, due to a year-on-year decrease in the invested and matured structured deposits of the Company, resulting in a year-on-year decrease in the net inflow of cash during the Reporting Period; on the other hand, due to the cash inflow resulting from disposal of subsidiaries in the corresponding period of last year, however, there was no such event during the Reporting Period.

Net cash flow from financing activities: the outflow decreased by RMB269.58 million as compared with the corresponding period of last year, mainly due to the Company maintained good financial position and the size of its bank loans was reduced, resulting to a year-on-year decrease in cash outflow from debt servicing during the Reporting Period.

7. Analysis on Operation by Industry, Product or Region

Principal Businesses by Industry, by Product and by Region

Unit: Ten thousand Yuan Currency: RMB

Principal businesses by industry

By industry	Operating revenue	Operating cost	Gross profit margin *(%)*	Increase/ decrease in operating revenue year-on-year *(%)*	Increase/ decrease in operating cost year-on-year *(%)*	Increase/ decrease in gross profit margin year-on-year *(%)*
Equipment manufacturing industry	748,073	602,004	19.53	30.40	25.20	Increased by 3.34 percentage points

Principal businesses by product

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	678,928	557,914	17.82	29.16	24.60	Increased by 3 percentage points
Power machinery	190,623	165,568	13.14	37.05	33.39	Increased by 2.37 percentage points
Other machinery	0	0	0	-100.00	-100.00	N/A
Inter-segment elimination	-121,478	-121,478	–	–	–	–
Total	748,073	602,004	19.53	30.40	25.20	Increased by 3.34 percentage points

Principal businesses by region

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 *(%)*
In the PRC	715,459	574,239	19.74	31.43	25.95	Increased by 3.49 percentage points
Outside the PRC	32,614	27,765	14.87	11.22	11.50	Decreased by 0.21 percentage point

Explanation on principal businesses by industry, product and region

The comprehensive gross profit margin of the equipment manufacturing business during the Reporting Period was 19.53%, representing an increase of 3.34 percentage points as compared with the corresponding period of last year, which was mainly due to the year-on-year increase in sales volume of the Company's principal products and the optimization of its product structure, as well as the effective quality and efficiency improvement as well as cost management and control during the Reporting Period.

The gross profit margin of the Company's agricultural machinery business was 17.82%, representing a year-on-year increase of 3 percentage points, which was mainly attributable to the following reasons: Firstly, as the sales volume of the Company's tractor products increased year-on-year. In addition, the sales structure of the products was optimized, and the proportion of hi-powered wheeled tractor products with high profitability increased. Secondly, the manufacturing cost in production link decreased year-on-year through the implementation of lean production and target cost management.

The gross profit margin of the Company's power machinery business was 13.14%, representing a year-on-year increase of 2.37 percentage points, which was mainly due to the year-on-year increase in sales volume of the diesel engine and the increase in the proportion of large displacement diesel engine products with high profitability. In addition, the cost management and control in the production process was strengthened, and the average labor and manufacturing costs of a single machine decreased year-on-year.

8. Analysis on assets and liabilities

Unit: Yuan Currency: RMB

Item	**Balance at the end of the Reporting Period**	**Balance at the end of the Reporting Period as a percentage of total assets** *(%)*	Balance at the end of the corresponding period of last year	Balance at the end of the corresponding period of last year as a percentage of total assets *(%)*	**Year-on-year Change** *(%)*	**Reasons for the changes**
Lendings to banks and other financial institutions	40,000,000.00	0.32	70,000,000.00	0.60	-42.86	Increase in the provision for impairment of lendings to banks and other financial institutions made by YTO Finance, resulting in the decrease in the book value of lendings to banks and other financial institutions

Item	Balance at the end of the Reporting Period	Balance at the end of the Reporting Period as a percentage of total assets *(%)*	Balance at the end of the corresponding period of last year	Balance at the end of the corresponding period of last year as a percentage of total assets *(%)*	Year-on-year Change *(%)*	Reasons for the changes
Trading financial assets	1,306,381,357.98	10.58	980,392,948.10	8.43	33.25	The structured deposit was classified into trading financial assets
Notes receivable	892,050.97	0.01	352,201,737.77	3.03	–99.75	Bank acceptance was classified into accounts receivable financing
Accounts receivable financing	374,916,413.50	3.04	0.00	0.00	N/A	Bank acceptance was classified into accounts receivable financing
Other receivables	26,301,581.33	0.21	38,657,541.73	0.33	-31.96	Partial recovery of receivables
Buying back the sale of financial assets	1,561,721,065.92	12.65	671,668,502.78	5.78	132.51	Increase in the scale of purchase of financial assets at points of time by YTO Finance
Inventories	1,356,265,811.19	10.99	1,001,785,770.20	8.61	35.38	According to the expectation of the market demand for agricultural machinery in 2021, in order to cope with the market demand in Spring, constructive reserves have been made at the end of the year
Other current assets	281,587,195.02	2.28	1,067,152,153.18	9.18	-73.61	The size of structured deposits was declined, which were reclassified into trading financial assets at the end of the Reporting Period
Long-term receivables	132,870,486.03	1.08	220,198,228.05	1.89	-39.66	Due to the reclassification into non-current assets due within one year
Right-to-use assets	28,901,686.93	0.23	18,945,867.20	0.16	52.55	Increase in the right-of-use assets recognized by the Company as lessee
Short-term loans	834,263,379.71	6.76	1,419,528,065.30	12.21	-41.23	Partial repayment of short-term loans
Loans from banks and other financial institutes	300,066,666.67	2.43	0.00	0.00	N/A	YTO Finance needed loans from banks and other financial institutes at points of time

Item	Balance at the end of the Reporting Period	Balance at the end of the Reporting Period as a percentage of total assets (%)	Balance at the end of the corresponding period of last year	Balance at the end of the corresponding period of last year as a percentage of total assets (%)	Year-on-year Change (%)	Reasons for the changes
Notes payable	1,547,322,110.70	12.54	1,004,008,951.30	8.63	54.11	Increase in purchase and the notes payable had not been due for payment
Accounts payable	1,788,192,802.43	14.49	1,252,450,248.58	10.77	42.78	Increase in purchase and the accounts payable that had not been due for payment
Contract liabilities	398,850,436.72	3.23	177,743,289.89	1.53	124.40	Increase in the advances received from customers with contracts
Taxes payables	23,075,553.98	0.19	34,716,241.84	0.30	-33.53	Year-on-year decrease in profits of subsidiaries, and the decrease in deferred income tax expense recognized, resulting in the decrease in the enterprise income tax payable
Other payables	209,162,369.54	1.69	302,747,490.57	2.60	-30.91	The service fee in other payables was reclassified into accounts payable during the Reporting Period
Non-current liabilities due within one year	14,142,498.21	0.11	649,035,505.95	5.58	-97.82	Repayment of long-term loans due within one year
Lease liabilities	14,850,790.14	0.12	64,384.18	0.00	22,965.90	Increase in the lease liabilities recognized by the Company as lessee
Other comprehensive income	-26,960,733.16	-0.22	-14,198,180.13	-0.12	N/A	Change in the exchange differences on translation of foreign currency statements due to the changes in exchange rate
Special reserves	3,015,461.22	0.02	2,230,000.31	0.02	35.22	Increase in the provision for safety production expenses during the Reporting Period
General risk reserves	39,642,392.38	0.32	25,104,151.50	0.22	57.91	Increase in the asset scale of YTO Finance, resulting in the corresponding increase in appropriation to general risk reserves
Retained earnings	795,064,178.33	6.44	529,451,678.91	4.55	50.17	Profits in the current period

(1) Key financial ratios

Item	As at the end of the Reporting Period	As at the beginning of the Year	Year-on-year change
Gearing ratio *(%)*	59.69	58.86	Increased by 0.83 percentage point
Current ratio	1.08	1.02	Increased by 0.06
Quick ratio	0.89	0.86	Increased by 0.03

(2) Bank loans

Bank loans of the Company are mainly denominated in RMB. As at the end of the Reporting Period, bank loans (principal) of the Company due within one year amounted to RMB833.4339 million, of which loans (principal) in foreign currency amounted to RMB3.4339 million (loans denominated in Euro); and bank loans (principal) due over one year amounted to RMB99.80 million.

RESTRICTIONS ON MAIN ASSETS AS AT THE END OF THE REPORTING PERIOD

As at the end of the Reporting Period, the Company's restricted cash and cash equivalents amounted to RMB285.7996 million, including bank's acceptance bill deposits of RMB22.0414 million, the statutory deposit reserve with central bank of RMB259.7277 million, and other guarantee deposits of RMB4.0305 million.

As at the end of the Reporting Period, the Company's notes receivable of restricted ownership amounted to RMB22.588 million, which were notes receivable pledged with the bank during the Reporting Period.

As at the end of the Reporting Period, the original value of Company's fixed assets and intangible assets of restricted ownership amounted to a total of RMB100.0981 million, and the net value amounted to a total of RMB59.8355 million, which were buildings and land mortgaged to the banks for short-term loans granted to the Company during the Reporting Period.

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.

PRINCIPAL SOURCES AND USE OF FUNDS

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

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company strictly abided by the principles and the code provisions under the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules of the Stock Exchange.

REQUIREMENTS OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

In 2020, the Company completed the preparation of the Environmental, Social and Governance Report in accordance with the requirements of the Environmental, Social and Governance Reporting Guide. The Company's Environmental, Social and Governance Report for 2020 will be published on the websites of the Company and the Stock Exchange in April 2021.

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 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, no Director held shares of the Company. During the Reporting Period, all directors of the Company strictly complied with the code of conduct in relation to the securities transactions by the Directors under the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules of the Stock Exchange.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

On 28 May 2020, the term of office of Mr. Yu Zengbiao expired and he ceased to be an independent Director and resigned from the positions in relevant special committees of the Board of the Company. (For details, please refer to the Announcement on Expiry of Term of Office and Resignation of Independent Directors of First Tractor Company Limited published by the Company on the website of the Shanghai Stock

Exchange on 29 May 2020 and the Announcement on the (1) Expiry of Term of Office of Independent Non-executive Director, Member of Audit Committee and Chairman of Remuneration Committee and (2) Appointment of Member of Audit Committee, Member of Remuneration Committee and Chairman of Remuneration Committee and (3) Change in Composition of Independent Board Committee published by the Company on the website of the Stock Exchange on 28 May 2020.)

On 15 October 2020, Ms. Zhao Junfen resigned as the Financial Controller of the Company due to job arrangement. The resignation took effect from the date of delivery to the Board. On 19 October 2020, the 21st meeting of the eighth session of the Board of the Company was convened, at which, Mr. Su Ye was appointed as the Financial Controller of the Company with a term of office from the date of appointment by the Board to the expiry date of the eighth session of the Board. (For details, please refer to the Announcement of First Tractor Company Limited on the Resignation of Financial Controller and Appointment of Financial Controller issued by the Company on the website of the Shanghai Stock Exchange on 20 October 2020, and the Announcement on the Resignation of Financial Controller and Appointment of Financial Controller published on the website of the Stock Exchange on 19 October 2020.)

On 4 December 2020, Mr. Zhang Hongsheng resigned as the Chairman of the Board of Supervisors of the Company due to job arrangement. (For details, please refer to the Announcement of First Tractor Company Limited in relation to the Resignation of the Chairman of the Board of Supervisors and the By-election of Supervisors published by the Company on the website of the Shanghai Stock Exchange on 5 December 2020, and the Announcement on the Change in Supervisors published by the Company on the website of the Stock Exchange on 4 December 2020.)

EVENTS AFTER THE REPORTING PERIOD

On 23 April 2020, as considered and approved at the 17th meeting of the eighth session of the Board of the Company, the Company entered into the Share Subscription Agreement in relation to the Non-public Issuance of A Shares with China YTO for the non-public issuance of 137,795,275 RMB-denominated ordinary shares (A Shares) with a par value of RMB1 per share at an issue price of RMB5.08 per share. The procedures for registration and depository in relation to the newly shares issued under the issuance have been completed with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited on 9 February 2021. Upon completion of the issuance, the total share capital of the Company increased to 1,123,645,275 shares. (For details, please refer to the Announcement on Issue Results of Non-public Issuance of A Shares and Changes in Share Capital of First Tractor published by the Company on the website of the Shanghai Stock Exchange on 19 February 2021, and the overseas regulatory announcement published by the Company on the website of the Stock Exchange on 18 February 2021.)

DIVIDEND

In accordance with the profit distribution policy of the Articles of Association of the Company, the Board recommends the following profit distribution proposal for 2020: a cash dividend of RMB0.75 (tax inclusive) for every ten Shares on the basis of the current total share capital of 1,123,645,275 Shares of the Company, totaling RMB84,273,395.63. There will be no capitalization from capital reserves for the year. The proposal is still subject to the approval of the shareholders in the 2020 annual general meeting of the Company. Subject as aforesaid, the Company expects to pay the dividend on or before 31 August 2021.

As the date of the 2020 annual general meeting of the Company has not been determined, the relevant record date will be announced later. If the aforesaid proposal is approved by the shareholders of the Company, then pursuant to the "Corporate Income Tax Law of the PRC" and its implementing regulations and other relevant rules, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the dividend to non-resident enterprise (as defined in the "Corporate Income Tax Law of the PRC") shareholders whose names appear on the H Share register of members of the Company. Any H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders, thus, the Company will distribute the dividend to such non-individual shareholders after withholding the 10% corporate income tax. The individual income tax will not be withheld by the Company from the dividend payable to any natural person shareholders whose names appear on the H Share register of members of the Company.

OPERATION OF THE AUDIT COMMITTEE

During the Reporting Period, the Audit Committee under the Board convened six meetings, with all members attending all meetings and fully expressing their opinions. Details are set out below:

Session of meeting	Date	Resolutions	Results
First meeting in 2020	2020.1.21	1. Preliminary results and the proposed results announcement of the Company in 2019	All were passed
Second meeting in 2020	2020.2.28	1. Report on the postponement of the disclosure of the 2019 annual report of the Company and the progress of the financial audit of the Company in 2019	
Third meeting in 2020	2020.3.24	1. The annual results announcement and preliminary report of the Company in 2019 2. The execution report on continuing connected transactions of the Company for 2019 3. Resolution on determination of auditor's remuneration in 2019 and the appointment of the financial advisor and internal control auditor of the Company in 2020	

Session of meeting	Date	Resolutions	Results
Fourth Meeting in 2020	2020.4.20	1. The audited financial report of the Company in 2019 2. The annual report of the Company in 2019 3. The annual internal control evaluation report of the Company in 2019 4. performance report of the Audit Committee under the Board in 2019 5. The first quarter report of the Company in 2020 6. Resolution on the proposal in respect of the non-public issuance of A Shares by the Company 7. Resolution on the feasibility report on the use of proceeds from the non-public issuance of A Shares 8. Resolution on the connected transaction contemplated under the non-public issuance of A Shares 9. Resolution on the dilution of current returns by the non-public issuance of A shares and the remedial measures of the Company 10. Resolution on the shareholders' return plan of the Company for the next three years (2020–2022)	All were passed
Fifth meeting in 2020	2020.8.25	1. The Interim Report of the Company in 2020 2. The execution report on connected transactions of the Company for the first half of 2020	
Sixth meeting in 2020	2020.10.27	1. The third quarterly report of the Company in 2020 2. Work proposal for preparation of annual internal control evaluation of the Company in 2020	

As at the date hereof, the Audit Committee under the eighth session of the Board of the Company has reviewed the financial report of the Company in 2020 prepared in accordance with the PRC Accounting Standards for Business Enterprises and the internal control evaluation report of the Company in 2020 in accordance with the requirements of the Stock Exchange and the Shanghai Stock Exchange.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT

The auditor of the Company, Da Hua Certified Public Accountants (Special General Partnership), agreed with the figures in this preliminary announcement of the results of the Group for the year ended 31 December 2020, which are consistent with the amounts that will be contained in the 2020 Annual Report of the Company. The unqualified auditor's report will also be included in the 2020 Annual Report of the Company.

DEFINITIONS

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

Agricultural machinery	various machinery used in the crop farming and animal husbandry production, and the primary processing of agricultural and animal products
auditor	the financial report auditor appointed by the Company, Da Hua Certified Public Accountants (Special General Partnership) as the Company's auditor for the year of 2020
CBIRC	China Banking and Insurance Regulatory Commission
Company	First Tractor Company Limited (第一拖拉機股份有限公司)
controlled subsidiary	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
crawler tractor	tractor with crawler as walking device
CSRC	China Securities Regulatory Commission
diesel engine	internal combustion engine that uses diesel as fuel
Group	the Company and its controlled subsidiaries
H Shares	ordinary shares 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
hi-powered wheeled tractor	wheeled tractor with a power of 100 (inclusive) horsepower or above
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Listing Rules of the Stock Exchange	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
low-powered wheeled tractor	wheeled tractor with a power of less than 25 horsepower

mid-powered wheeled tractor	wheeled tractor with a power of 25 (inclusive) to 100 horsepower
power machinery	products including diesel engine and fuel injection pump
PRC	the People's Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
Stock Exchange	The Stock Exchange of Hong Kong Limited
subsidiary(ies)	a subsidiary as defined under the Listing Rules of the Stock Exchange
YTO	YTO Group Corporation (中國一拖集團有限公司), the controlling shareholder of the Company
YTO Finance	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
YTO France	YTO France SAS (一拖法國農業裝備有限公司), a wholly-owned subsidiary of the Company
YTO International Trade	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
YTO Shentong	YTO (Luoyang) Shentong Construction Machinery Company Limited (一拖(洛陽)神通工程機械有限公司))（has gone into bankruptcy and liquidation）

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

Luoyang, the PRC
29 March 2021

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

* *For identification purposes only*