THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in **FIRST TRACTOR COMPANY LIMITED**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSALS OF 100% EQUITY INTEREST OF TWO SUBSIDIARIES

Financial Adviser to the Company

Opus Capital Limited
創富融資有限公司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智 略 資 本

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those set out in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 1 to 15 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 16 to 17 of this circular. A letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 42 of this circular.

The EGM of the Company will be held as originally scheduled at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC at 2:30 p.m. on Friday, 29 November 2019. For details, please refer to the notice of the EGM dated 11 October 2019 published on the websites of the Stock Exchange and the Company.

A form of proxy for use at the EGM was despatched and also published on the website of the Stock Exchange (http://www.hkexnews.hk) on 11 October 2019. Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon. The proxy form shall be lodged with the Company's H Share registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, as soon as possible and in any event not less than 24 hours before the time scheduled for holding the EGM or any adjourned meeting (as the case may be). Completion and deposit of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

13 November 2019

* *For identification purposes only*

CONTENTS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

"A Share(s)"	the domestic ordinary share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and subscribed for and traded in RMB
"Agreement I"	the conditional agreement dated 11 October 2019 entered into between the Company and the Purchaser relating to the Xinjiang Disposal
"Agreement II"	the conditional agreement dated 11 October 2019 entered into between Luoyang Tractor and the Purchaser relating to the Luoyang Xiyuan Disposal
"Agreements"	collectively, Agreement I and Agreement II, and each an "Agreement"
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"China Machinery"	中國機械工業集團有限公司 (China National Machinery Industry Corporation*), a state-owned enterprise and the ultimate controlling shareholder of the Company and the controlling shareholder of the Purchaser. China Machinery is principally engaged in the manufacturing of large equipment, scientific research, project contractor, trading and financial investment business
"Company"	第一拖拉機股份有限公司 (First Tractor Company Limited*), a joint stock company with limited liability incorporated in the PRC, the H Shares and A Shares of which are listed on the main board of the Stock Exchange (Stock Code: 0038) and the Shanghai Stock Exchange (Stock Code: 601038) respectively
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the provisions of Agreement I or Agreement II (as the case may be)
"Completion Date"	the date on which Completion actually occurs

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Directors"	directors of the Company
"Disposals"	collectively, Xinjiang Disposal and Luoyang Xiyuan Disposal and "Disposal" means any of them and, in the context of Agreement I means Xinjiang Disposal and in the context of Agreement II means Luoyang Xiyuan Disposal
"Disposal Companies"	collectively, Luoyang Xiyuan and Xinjiang Equipment Company and each a "Disposal Company"
"Dividend Payment"	the dividend payment of RMB62 million expected to be payable by Luoyang Xiyuan to Luoyang Tractor in December 2019, pursuant to the declaration of dividends made by Luoyang Xiyuan to its shareholder in September 2019
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, to approve the Agreements and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas listed foreign share(s) having a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars, all of which are listed on the Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company whose members comprise all independent non-executive Directors to advise the Independent Shareholders on the Agreements and the transactions contemplated thereunder

"Independent Financial Adviser" or "Veda Capital"	Veda Capital Limited, a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Agreements and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than the Purchaser and its associate(s)
"Independent Valuer" or "China United"	China United Assets Appraisal Group Co., Ltd., an independent PRC valuer engaged to conduct a valuation on the Disposal Companies
"Latest Practicable Date"	7 November 2019, being the latest practicable date for ascertaining certain information included herein before the printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Luoyang Tractor"	洛陽拖拉機研究所有限公司 (Luoyang Tractor Research Institute Co., Ltd.*), a company established in the PRC with limited liability and a 51%-owned subsidiary of the Company
"Luoyang Xiyuan"	洛陽西苑車輛與動力檢驗所有限公司 (Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of Luoyang Tractor
"Luoyang Xiyuan Disposal"	the proposed disposal of Sale Shares II pursuant to Agreement II
"Opus Capital"	Opus Capital Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the financial adviser to the Company on the Disposals
"PRC"	the People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

"Purchaser" or "YTO"	中國一拖集團有限公司(YTO Group Corporation*), a company established in the PRC with limited liability and the controlling shareholder of the Company, holding approximately 41.66% equity interest in the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	collectively, Sale Shares I and Sale Shares II
"Sale Shares I"	representing the entire issued share capital of Xinjiang Equipment Company
"Sale Shares II"	representing the entire issued share capital of Luoyang Xiyuan
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Valuation Date"	31 July 2019, being the valuation reference date stated in the valuation reports of the Disposal Companies prepared by the Independent Valuer
"Xinjiang Disposal"	the proposed disposal of Sale Shares I pursuant to Agreement I
"Xinjiang Equipment Company"	一拖(新疆)東方紅裝備機械有限公司(YTO (Xinjiang) Dongfanghong Equipment Machinery Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"%"	per cent

* *The English names of the Chinese companies marked in asterisks are translation of their Chinese names and are included in this circular for identification purposes only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names shall prevail.*

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)

Board of Directors:
Mr. Li Xiaoyu *(Chairman)*
Mr. Cai Jibo *(Vice Chairman)*
Mr. Liu Jiguo
Mr. Li Hepeng
Mr. Xie Donggang
Mr. Zhou Honghai
Mr. Yu Zengbiao**
Ms. Yang Minli**
Ms. Wang Yuru**
Mr. Edmund Sit**

** *Independent non-executive Director*

Registered and principal office:
No.154 Jianshe Road
Luoyang, Henan Province
The People's Republic of China

13 November 2019

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSALS OF 100% EQUITY INTEREST OF TWO SUBSIDIARIES

INTRODUCTION

Reference is made to the announcements of the Company dated 11 and 15 October 2019 in respect of the Disposals.

On 11 October 2019 (after trading hours), the Company and Luoyang Tractor each entered into the Agreement I and Agreement II with the Purchaser for the Xinjiang Disposal and the Luoyang Xiyuan Disposal respectively.

The Disposals are not inter-conditional with each other. Upon completion of Disposals, the Group will cease to have any equity interest in the Disposal Companies.

The Disposals constitute discloseable and connected transactions for the Company under the Listing Rules and are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The purpose of this circular is to provide you with information regarding (i) further details of each of the Agreements; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the Disposals; (iii) a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Disposals; and (iv) summaries of the valuation reports on the Disposal Companies.

AGREEMENT I

Date:	11 October 2019
Vendor:	the Company
Purchaser:	中國一拖集團有限公司 (YTO Group Corporation*)

Asset to be disposed of

Pursuant to Agreement I, the Company agreed to sell and the Purchaser agreed to purchase Sale Shares I. Sale Shares I represent 100% of the issued share capital of Xinjiang Equipment Company.

Consideration

The consideration payable by the Purchaser to the Company for the Xinjiang Disposal is approximately RMB184.13 million with reference to the appraised value of Xinjiang Equipment Company as at the Valuation Date appraised by the Independent Valuer that was approved by China Machinery which is a state owned enterprise.

Basis of Consideration

The consideration of Xinjiang Equipment Company was arrived at after arm's length negotiations between the Company and the Purchaser on normal commercial terms and is referenced to the appraised value of Xinjiang Equipment Company as at the Valuation Date appraised by the Independent Valuer as set out in the valuation report which was approved by China Machinery on 8 November 2019.

The valuation of Xinjiang Equipment Company was performed using the asset-based approach. The methodology and the bases and assumptions adopted for the valuation of the 100% equity interest in Xinjiang Equipment Company are summarised in Appendix I to this circular.

AGREEMENT II

Date:	11 October 2019
Vendor:	Luoyang Tractor, a direct 51%-owned subsidiary of the Company
Purchaser:	中國一拖集團有限公司 (YTO Group Corporation*)

Asset to be disposed of

Pursuant to Agreement II, Luoyang Tractor agreed to sell and the Purchaser agreed to purchase Sale Shares II. Sale Shares II represent 100% of the issued share capital of Luoyang Xiyuan.

Consideration

Luoyang Xiyuan made a dividend declaration in September 2019 and the dividend payment due to Luoyang Tractor, its sole shareholder, amounted to RMB62 million. It is expected that the dividend will be paid in December 2019.

The consideration payable by the Purchaser to Luoyang Tractor for the Luoyang Xiyuan Disposal is approximately RMB234.93 million. Taking into account the Dividend Payment, the net consideration payable by the Purchaser to Luoyang Tractor is approximately RMB172.93 million.

The consideration payable by the Purchaser to Luoyang Tractor for the Luoyang Xiyuan Disposal is based on: (i) the appraised value using the income approach as set out in the valuation report on Luoyang Xiyuan as at the Valuation Date by the Independent Valuer that was approved by China Machinery; and (ii) the adjustment for the Dividend Payment.

Basis of Consideration

The consideration of Luoyang Xiyuan was arrived at after arm's length negotiations between Luoyang Tractor and the Purchaser on normal commercial terms and is referenced to the appraised value of Luoyang Xiyuan as at the Valuation Date appraised by the Independent Valuer as set out in the valuation report which was approved by China Machinery on 8 November 2019 after deduction of the Dividend Payment.

The valuation by of Luoyang Xiyuan was performed using the income approach. The methodology and the bases and assumptions adopted for the valuation of the 100% equity interest in Luoyang Xiyuan are summarised in Appendix II to this circular.

PAYMENT TERMS

The consideration for the Disposal will be payable by the Purchaser to the Company and Luoyang Tractor respectively within sixty (60) days of each of Agreement I and Agreement II becoming unconditional and shall be settled fully in cash. This clause was agreed upon by both parties in the Agreements through negotiation based on normal commercial terms, which is in line with normal commercial practice and is fair and reasonable.

According to the publicly available financial information of the Purchaser, the book value of its monetary funds amounted to approximately RMB1.8 billion as at 30 June 2019. The Purchaser has the capability to complete the transactions, and there is no significant risk of uncertainty in Completion performance. The Purchaser will complete the payments according to the Agreements once the Agreements become unconditional.

CONDITIONS PRECEDENT

Each Agreement is conditional upon fulfillment of the following conditions:

(i) the passing of the relevant resolutions by the Shareholders, other than those who are required by the Listing Rules to abstain from voting on the resolutions, approving the Disposal;

(ii) the passing of the relevant resolutions by the board of directors of the Purchaser approving the Disposal; and

(iii) the completion of the filing of the valuation report of the Disposal Company with China Machinery.

For Agreement II, the passing of the relevant resolutions by the shareholders of Luoyang Tractor approving the Luoyang Xiyuan Disposal is an additional condition to be fulfilled.

The Agreement I and Agreement II are not inter-conditional with each other.

As at the Latest Practicable Date, conditions (ii) and (iii) have been fulfilled.

COMPLETION

Each Agreement provides that Completion for the relevant Disposal will take place after the approval has been issued by the State Administration for Industry and Commerce of the PRC for the registration of the change in shareholder of the Sale Shares I or Sale Shares II (as the case may be) and full payment of the consideration for the relevant Disposal has been made.

TRANSITION PERIOD

The amount of profit or loss of the Disposal Companies during the transition period, commencing from the Valuation Date (excluding the date thereof) to the Completion Date (including the date thereof) shall be attributable to the Purchaser. The Group is obligated to manage the underlying assets of the Disposal Companies in a responsible manner. Upon Completion, the Purchaser will become the sole shareholder of the Disposal Companies and be entitled to the right of a shareholder, while bearing the corresponding obligation as a shareholder.

SELECTION OF VALUATION APPROACH

According to the requirements of assets valuation standards, three approaches can be adopted in the valuation of an enterprise, namely the income approach, market approach and asset-based approach. The income approach is the quantification and capitalisation of the expected profitability of the overall assets of the enterprise, emphasising the overall expected profitability of the enterprise. The market approach assesses the current fair market value of the valuation subject with reference to similar subjects in the market. The characteristic of this approach is that the valuation data is derived directly from the market and thus the valuation results are convincing. The asset-based approach refers to the practice of determining the value of the valuation subject based on the reasonable valuation of each of the assets and liabilities of the enterprise.

Xinjiang Equipment Company

From the perspective of the future business plan of Xinjiang Equipment Company, Xinjiang Equipment Company has decided to terminate its business of producing and sale of tractors entirely and its business scope is undergoing major changes. Therefore, the future business operation and revenue of Xinjiang Equipment Company cannot be estimated. As a result, it is not possible to make a reliable prediction of future income. Thus, it is not appropriate to adopt the income approach for the valuation.

The two methods commonly used in the market approach are listed-company comparison and transaction comparison. However, it is difficult to find enterprises or transactions similar to the appraised enterprise for reference in the current PRC capital market. As there is no pre-requisite for the adoption of the market approach, it is not suitable to adopt the market approach for the valuation.

Based on the above-mentioned reasons, the asset-based approach has been adopted for the valuation.

Luoyang Xiyuan

The main reason of using the income approach for the valuation of Luoyang Xiyuan is that its operation has been stable in recent years and it is expected that Luoyang Xiyuan will maintain its profitability. The valuation result reflects the intrinsic value of Luoyang Xiyuan which encompasses both its tangible assets and intangible assets as the numerous accredited qualifications, public service platform, industrial influence and customer resources of Luoyang Xiyuan have resulted in the appreciation in the value.

VALUATION REPORTS AND PROFIT FORECAST REQUIREMENTS UNDER THE LISTING RULES

China United was engaged to undertake a valuation of the Disposal Companies in respect of the Xinjiang Disposal and the Luoyang Xiyuan Disposal. The summaries of the valuation reports on Xinjiang Equipment Company and Luoyang Xiyuan prepared by China United are set out in Appendix I and Appendix II to this circular. The Directors have reviewed and considered the valuation reports, valuation methodologies, basis and assumptions used in the valuations and are of the view that they are fair and reasonable.

As disclosed above, the valuation of the equity interests of Luoyang Xiyuan was prepared by China United using the income approach. Therefore, the valuation of Luoyang Xiyuan shall be deemed as a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the Company is subject to the requirements under Rule 14.62 of the Listing Rules.

As stated in the valuation report prepared by China United, the major assumptions used as the basis for the profit forecast of Luoyang Xiyuan (including commercial assumptions) are set out as follows:

(I) General assumptions

1. Transaction assumption

Transaction assumption assumes that all assets to be valued are in the process of transaction, and the Independent Valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is a fundamental pre-requisite for the implementation of the asset valuation.

2. Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market have equal position and have the opportunity and time to access sufficient market information so as to make a rational judgment on the assets in terms of their function, intended purpose and transaction price. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. Assumption on continuing operation of assets

Assumption on continuing operation of assets assumes that the assets to be valued will be used continuously based on the current intended purpose, operation method, scale of operation, frequency and environmental conditions, etc., or will be used on the above-mentioned bases with changes. In this case, the valuation method, parametres and basis shall be determined accordingly.

(II) Special assumptions

1. There will be no material changes in the current national macro economic, financial and industrial policies;

2. There will be no material changes in the social and economic environment, taxation or tax rate policies applicable for Luoyang Xiyuan in the future operating period;

3. The management of Luoyang Xiyuan will act with due diligence in the future operating period and continue to operate under an operation and management model the same as that of the Valuation Date. The premises of Luoyang Xiyuan can be leased on a consistent basis;

4. The principal business, product structure, revenue and cost composition, sales strategy as well as cost control of Luoyang Xiyuan in the future operating period will maintain its current status in recent years without material changes. This does not take into consideration the profit and loss arising from changes concerning the scale and composition of assets, principal business and product structure which may be caused by future changes in the management, operating strategies and business environment;

5. There will be no material changes in the expenditure of Luoyang Xiyuan incurred in the future operating period on the current basis, such expenditure will change in accordance with the trend in recent years. Given that the monetary funds or bank deposits of Luoyang Xiyuan vary frequently in the course of production and operation, neither the interest income from deposits, nor other uncertain profits and losses including exchange gains and losses are taken into consideration in the valuation;

6. The assets under valuation are based on the actual inventory as at the Valuation Date, and the current market price of relevant assets is based on the effective domestic price as at the Valuation Date;

7. It is assumed that the basic information and financial information provided by the principal and Luoyang Xiyuan are true, accurate and complete;

8. The scope of the valuation is only based on the application form provided by the principal and Luoyang Xiyuan, taking no consideration of any possible contingent assets and contingent liabilities not included in the list provided by the principal and Luoyang Xiyuan;

9. Luoyang Xiyuan's existing testing qualification as a third party continues to be valid and will not be revoked or de-certificated;

10. Luoyang Xiyuan's existing capacity as the basic public service platform of industrial technology and national service platform for small and medium-sized enterprises under the Ministry of Industry and Information Technology accredited by the state continues to subsist as usual, and Luoyang Xiyuan measures up to all the criteria and competence required by such platform in the long term;

11. Luoyang Xiyuan will continue to use its office buildings, production venues and certain machinery and equipment by way of leasing in the future operating period, without consideration of the adjustments and changes to the operating strategies made by Luoyang Xiyuan and its substantial shareholders;

12. As at the Valuation Date, Luoyang Xiyuan has been recognised as a 高新技術企業 (High and New Technology Enterprise*) and is therefore entitled to the preferential tax rate of 15%. It is assumed that Luoyang Xiyuan will continue to enjoy such tax policy for High and New Technology Enterprise in the future forecast period and the research and development investment of Luoyang Xiyuan in the future forecast period meets the criteria of High and New Technology Enterprise in the valuation; and

13. It is assumed that Luoyang Xiyuan records net cash flows evenly during the year in the valuation.

Da Hua Certified Public Accountants, the reporting accountants of the Company, has reviewed the calculation of the relevant forecasts underlying the valuation. Opus Capital, as the financial adviser of the Company in relation to the Disposals, has confirmed that the profit forecast of Luoyang Xiyuan, including assumptions, contained in the valuation report has been made by the Board with due care and careful enquiry. Letters from Da Hua Certified Public Accountants and Opus Capital are enclosed herein as Appendix III and Appendix IV to this circular.

INFORMATION OF THE DISPOSAL COMPANIES

Xinjiang Equipment Company

Xinjiang Equipment Company is a company established under the laws of the PRC with limited liability and is a wholly-owned subsidiary of the Company. It is principally engaged in: (i) the production and sale of agricultural machinery and equipment and their spare parts; (ii) warehousing services, freight forwarding, import and export of commodities and technology and acting as import and export agency; (iii) business information consulting services; (iv) maintenance and repair of machinery; (v) sale of construction machinery and spare parts; (vi) sale of agricultural vehicles, sanitation vehicles and automobile parts; and (vii) property leasing.

The summary of the audited financial information of Xinjiang Equipment Company for the two (2) years ended 31 December 2017 and 2018 and for seven months ended 31 July 2019, and unaudited accounts for seven months ended 31 July 2018 is as follows:

	For the seven months ended 31 July		**For the year ended 31 December**	
	2019	**2018**	**2018**	**2017**
	(Audited)	**(Unaudited)**	**(Audited)**	**(Audited)**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Loss before taxation	(11,045.7)	(492.8)	(2,985.1)	(3,991.2)
Loss after taxation	(11,194.4)	(97.0)	(2,650.1)	(4,746.8)

	Audited		
	As at 31 July	**As at 31 December**	
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Total asset value	140,694.4	151,478.0	155,516.1
Net assets	136,222.9	147,391.5	149,970.9

Luoyang Xiyuan

Luoyang Xiyuan, a company established under the laws of the PRC with limited liability, is principally engaged in: (i) the testing and inspection of tractors, three-wheeled vehicles, low-speed trucks, automobiles (including special-purpose vehicles), construction machineries, internal combustion engines, agricultural machineries, motorcycles, agricultural machineries, transformation machineries and its components for third parties; (ii) conducting security check on motor vehicles for third parties; (iii) development, production and sale of agricultural machinery equipment and test equipment, instruments, materials and related products; (iv) licensed sale of imported equipment and instruments; (v) development, consultation, transfer and service of technology; and (vi) soil testing.

The summary of the audited financial information of Luoyang Xiyuan for the two (2) years ended 31 December 2017 and 2018 and for seven months ended 31 July 2019, and unaudited accounts for seven months ended 31 July 2018 is as follows:

	For the seven months ended 31 July		**For the year ended 31 December**	
	2019	**2018**	**2018**	**2017**
	(Audited)	**(Unaudited)**	**(Audited)**	**(Audited)**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Profit before taxation	11,850.2	10,959.9	17,091.3	16,501.0
Profit after taxation	10,508.9	9,482.8	15,381.0	14,516.4

	Audited		
	As at 31 July	**As at 31 December**	
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Total assets	102,923.9	89,975.9	77,782.6
Net assets	91,096.1	80,587.1	66,206.1

Luoyang Xiyuan has been providing services in relation to testing and inspection of tractors, internal combustion engines and their components (the "**Luoyang Xiyuan Inspection Services**") to the Group in recent years. It contributed approximately 30% of the total revenue generated from the inspection services of the Group.

The Luoyang Xiyuan Disposal will not affect the operation of the Group since its business is not part of the Group's core business.

INFORMATION ABOUT THE PARTIES TO THE AGREEMENTS

(a) The Group

The Company is a company established in the PRC with limited liability, with its Shares listed on the Main Board of the Stock Exchange (stock code: 0038) and the Shanghai Stock Exchange (stock code: 601038) since 23 June 1997 and 8 August 2012 respectively. The Group is principally engaged in the manufacturing and sale of agricultural machinery. The main business activities of the Group in the PRC are: (i) manufacture and sale of agricultural machinery; (ii) manufacture and sale of power machinery; (iii) manufacture and sale of other machinery; and (iv) provision of funds settlement service, deposit-taking service, bills discounting and financing service for companies within the Group.

(b) Purchaser

The Purchaser is a company established under the laws of the PRC with limited liability and is the controlling shareholder of the Company, holding approximately 41.66% of total issued share capital of the Company. The controlling shareholder of the Purchaser is China Machinery, holding approximately 87.9% of total issued share capital of the Purchaser.

The Purchaser is a leading equipment manufacturing group in the PRC. The Purchaser group is principally engaged in the production and sale of transportation machinery, vehicle product, industrial equipment and components.

(c) Luoyang Tractor

Luoyang Tractor is a company established in the PRC with limited liability and is a 51%-owned subsidiary of the Company. It is principally engaged in the research and development of tractor products and agricultural machinery. As at the Latest Practicable Date, the Company and the Purchaser own 51% and 49% of the total issued share capital of Luoyang Tractor respectively.

FINANCIAL EFFECT OF THE DISPOSALS AND USE OF PROCEEDS

Upon completion of the Disposals, the Group will cease to hold any interest in the Disposal Companies. The Disposal Companies will cease to be subsidiaries of the Group and their financial results will no longer be consolidated into the financial statements of the Group.

Based on (i) the audited carrying value of Xinjiang Equipment Company and Luoyang Xiyuan of approximately RMB136.22 million and RMB91.10 million respectively as at 31 July 2019; (ii) the consideration of the Xinjiang Disposal and Luoyang Xiyuan Disposal (before deducting the related expenses and before adjustment for the Dividend Payment) of approximately RMB184.13 million and RMB234.93 million respectively; (iii) the estimated PRC enterprise income tax payable by Luoyang Tractor of approximately RMB22.89 million; and (iv) Luoyang Tractor's 51% shareholding in Luoyang Xiyuan, the net gain of the Xinjiang Disposal and the Luoyang Xiyuan Disposal are estimated to be approximately RMB47.91 million and RMB61.68 million respectively, the final figures of which are subject to the audited annual financial statements of the Company.

The aggregate gross proceeds from the Disposals is estimated to be approximately RMB357.06 million, comprising approximately RMB184.13 million for the Xinjiang Disposal and approximately RMB172.93 million from the Luoyang Xiyuan Disposal. The Group intends to apply the net proceeds to strengthen the development and research budgets for the Group's products and for general working capital of the Group.

Shareholders should note that the above figures are for illustrative purpose only. The actual gain on the Disposals and the actual effect on the assets and liabilities of the Group upon Completion may be different from the above and will depend on the PRC enterprise taxation payable on the Luoyang Xiyuan Disposal, the Group's carrying value of the Disposal Companies as at the Completion Date and the review by the Company's auditors after the Completion Date.

REASONS FOR AND BENEFITS OF THE DISPOSALS

After years of rapid growth, the tractor market has already attained a large ownership volume and the demand for new market is insufficient, with the tractor market shifting from an "incremental market" to an "inventory market". Affected by various factors such as increased ownership volume and decreased grain producing and operating income, market demand for products such as hi-powered and mid-powered tractors continued to be sluggish. In 2018, the industrial sales volume of hi-powered and mid-powered tractors decreases by 20.8% year-on-year. In view of the above, the Group aims to concentrate its resources on its core businesses, strengthen the agricultural machinery business, focus on comprehensive agricultural machinery development, meeting market demand by accelerating the transition of business and upgrade of products, increase market share and strengthen its competitiveness in its core businesses.

Due to the weak local demand in the tractor market in Xinjiang and the increasing operation costs, the business condition of Xinjiang Equipment Company has been in a decline. After taking into account its operations, Xinjiang Equipment Company has increased its income to maintain the operations by undertaking idle lands and properties leasing in recent years. Considering the loss-making position of Xinjiang Equipment Company in the previous years and the full cessation of its tractor manufacturing activities in the second quarter of 2019, the Board considers the Xinjiang Disposal is necessary to optimise resource allocation by monetising gains from the Group's investment and redeploying resources into its core profitable businesses, which is in line with the Company's need of development.

Luoyang Xiyuan is principally engaged in the testing and inspection of three-wheeled vehicles, low-speed trucks, automobiles (including special vehicles), electric vehicles, construction machinery, internal combustion engines, agricultural machinery and its components for third parties. Since the business in the inspection and vehicles testing of Luoyang Xiyuan is not related to the Company's core business, thus the Luoyang Xiyuan Disposal does not affect the core development and research capabilities of the Group and will allow the Company to redeploy its resources to Luoyang Tractor, which is principally focused on the development and research on self-manufactured tractors. Furthermore, the Company will be able to realise substantial gain from the Luoyang Xiyuan Disposal.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Agreements are fair and reasonable, the transactions contemplated under the Agreements are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Purchaser held 410,690,578 A Shares, representing approximately 41.66% of the total issued share capital of the Company and is a controlling shareholder of the Company within the meaning of the Listing Rules. Accordingly, the Purchaser is a connected person of the Company and the transactions under the Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the Disposals are required to be aggregated as the Agreements are entered into by the Company and Luoyang Tractor respectively with the same party, i.e. the Purchaser. As more than one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposals (on an aggregated basis) are more than 5% but less than 25%, the Disposals constitute discloseable and connected transactions for the Company under the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Save for the Purchaser holding 410,690,578 A Shares, representing approximately 41.66% of the total issued share capital of the Company as at the Latest Practicable Date, to the best knowledge of the Directors, no Shareholder has any material interest in the Agreements and the transactions contemplated thereunder. The Purchaser and its associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Agreements and the transactions contemplated thereunder. Save for the foregoing, to the best knowledge of the Directors, no other Shareholder will be required to abstain from voting on the resolutions in respect of the Agreements and the transactions contemplated thereunder at the EGM.

Mr. Li Xiaoyu, the Chairman of the Company, is also the chairman of the Purchaser. Mr. Cai Jibo, the vice Chairman of the Company, is also the vice-chairman of the Purchaser Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, who are non-executive Directors, are also directors of the Purchaser. Accordingly, Mr. Li Xiaoyu, Mr. Cai Jibo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai have all abstained from voting on the Board resolutions approving the Agreements and the transactions contemplated thereunder. Save for the above, none of the other Directors has any material interest in the Agreements or the transactions contemplated thereunder.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the Agreements and the transactions contemplated thereunder.

Veda Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder.

CONTINUING CONNECTED TRANSACTIONS UPON COMPLETION

It is the intention of the Group to engage Luoyang Xiyuan to provide the Luoyang Xiyuan Inspection Services to the Group upon Completion. The Purchaser is the controlling shareholder of the Company and is thus a connected person of the Company. Upon Completion, the Purchaser will become the sole shareholder of Luoyang Xiyuan. Accordingly, Luoyang Xiyuan is a connected person of the Company pursuant to the Listing Rules. Accordingly, the provision of the Luoyang Xiyuan Inspection Services by Luoyang Xiyuan to the Group will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Company will comply with the annual review, disclosure requirements and other connected transaction requirements in accordance with the Listing Rules as and when appropriate going forward.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 16 and 17 of this circular and; (ii) the letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders set out on pages 18 to 42 of this circular in connection with Agreements and the transactions contemplated thereunder and the principal factors and reasons considered by Veda Capital in arriving at such advice.

The Board is of the opinion that the terms of the Agreements are fair and reasonable. Although the Agreements and the transactions contemplated thereunder are not entered into in the ordinary and usual course of business of the Group, the Agreements and the transactions contemplated thereunder are on normal commercial terms and are in the interests of the Company and its Shareholders as a whole.

Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Agreements and the transactions contemplated thereunder at the EGM.

EGM

The EGM of the Company will be held as originally scheduled at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC at 2:30 p.m. on Friday, 29 November 2019 and the notice of the EGM was despatched to the Shareholders on 11 October 2019.

The reply slip and form of proxy for the EGM were despatched to the Shareholders in conjunction with the notice of the EGM. Such notice, reply slip and form of proxy are also published on the website of the Stock Exchange at www.hkexnews.com.hk. Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you as a Shareholder from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

For details of the eligibility and registration procedures for attending the EGM, the book closure and other matters in relation to the EGM, please refer to the notice of the EGM of the Company dated 11 October 2019.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the appendices to this circular.

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

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)

13 November 2019

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSALS OF 100% EQUITY INTEREST OF TWO SUBSIDIARIES

We refer to the circular dated 13 November 2019 issued by First Tractor Company Limited* to the Shareholders, of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as the members of the Independent Board Committee to advise you as to whether the terms of the Agreements are fair and reasonable, the Agreements and the transactions contemplated thereunder are on normal commercial terms or better and are in the interests of the Company and the Shareholders as a whole.

Veda Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in respect of the Disposals. Details of the advice, together with principal factors and reasons considered in arriving at such advice are set out in the letter from Veda Capital as set out on pages 18 to 42 of the Circular.

Your attention is also drawn to the letter from the Board as set out on pages 1 to 15 and the additional information as set out in the appendices to the circular.

Having considered the information as set out in the letter from the Board and the advice and recommendation from the Independent Financial Adviser, although the Agreements are not entered into in the ordinary and usual course of business of the Group, we are of the view that the terms and conditions of the Agreements and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Therefore, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions on the Agreements and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Yu Zengbiao **Ms. Yang Minli** **Ms. Wang Yuru** **Mr. Edmund Sit**
Independent non-executive Directors

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

VEDA | CAPITAL
智 略 資 本

Suites 1001–1002, 10/F, 299 QRC
299 Queen's Road Central
Hong Kong

13 November 2019

To: Independent Board Committee and the Independent Shareholders of
First Tractor Company Limited

Dear Sirs/Madams,

DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSALS OF 100% EQUITY INTEREST OF TWO SUBSIDIARIES

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder, details of which are set out in the circular to the Shareholders dated 13 November 2019 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise specifies.

On 11 October 2019 (after trading hours of the Stock Exchange), the Company and Luoyang Tractor each entered into the Agreement I and Agreement II with the Purchaser for the Xinjiang Disposal and the Luoyang Xiyuan Disposal respectively. Pursuant to Agreement I, the Company as the vendor agreed to sell and the Purchaser agreed to purchase Sale Shares I that represent 100% of the issued share capital of Xinjiang Equipment Company. Pursuant to Agreement II, Luoyang Tractor, a direct 51%-owned subsidiary of the Company and as the vendor, agreed to sell and the Purchaser agreed to purchase Sale Shares II that represent 100% of the issued share capital of Luoyang Xiyuan. The Disposals are not inter-conditional with each other.

As stated in the Letter from the Board (the "**Board Letter**") in the Circular, the Purchaser held approximately 41.66% of the total issued share capital of the Company as at the Latest Practicable Date and is a controlling shareholder. Accordingly, the Purchaser is a connected person of the Company and the transactions under the Agreements constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposals (on an aggregated basis pursuant to Rule 14A.81 of the Listing Rules) are more than 5% but less than 25%, the Disposals constitute discloseable and connected transactions for the Company under the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

The EGM will be convened, at which the relevant resolutions will be proposed to the Shareholders to consider and, if thought fit, to approve, by way of poll, the Agreements and the transactions contemplated thereunder. As at the Latest Practicable Date, to the best knowledge of the Directors, save for the Purchaser holding approximately 41.66% of the total issued share capital of the Company, no other Shareholders has any material interest in the Agreements and the transactions contemplated thereunder and are required to abstain from voting on the resolutions in respect of the Agreements and the transactions contemplated thereunder at the EGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Yu Zengbiao, Ms. Yang Minli, Ms Wang Yuru and Mr. Edmund Sit, has been established to advise the Independent Shareholders as to whether (i) the Agreements and the transactions contemplated thereunder were conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Agreements and the transactions contemplated thereunder are fair and reasonable and to make recommendation as to whether the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to consider, and if though fit, approve the Agreements and the transactions contemplated thereunder. We, Veda Capital, have been approved and appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

We are not associated with the Group and its associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for this appointment as the Independent Financial Adviser in respect of the Agreements and the transactions contemplated thereunder, there were no other engagements between us and the Group in the last two years. Apart from normal professional fees paid and payable to us in connection with this transaction, no other arrangement exists whereby we had received or would receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence; hence, we consider ourselves independent pursuant to Rule 13.84 of the Listing Rules.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our advice and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Company and the Directors, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. The Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading.

We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Directors, which have been provided to us. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not, carried out any independent verification of the information provided by the Directors, nor have conducted any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

The Directors have collectively and individually accepted full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirmed that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters of facts the omission of which would make any statement herein or the Circular misleading. This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Agreements and the transactions contemplated thereunder, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendations to the Independent Board Committee and the Independent Shareholders in relation to the Agreements and the transactions contemplated thereunder, we have taken into the consideration the following principal factors and reasons:

1. Background information

Information of the Group

The Group is principally engaged in the manufacturing and sale of agricultural machineries. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and other accessories of tractors. The businesses of the Group are structured into four principal business segments as stated below and each segment is managed separately according to the nature of their operations and the products and services each provided.

(1) The "*agricultural machinery*" segment engages in the research and development, manufacture and sales of the whole series of wheeled and crawler tractors adaptable to different working environments and their key components that are used in agricultural productions;

(2) The "*power machinery*" segment engages in the manufacture and sales of off-road diesel engines, and their parts including fuel injection pump and fuel injector, and are mainly supporting off-road machinery, such as tractors and harvesters;

(3) The "*other machinery*" segment engages in the manufacture and sales of other machinery; and

(4) The "*financial services*" segment engages in fund settlement service, deposit-taking service, bills discounting and financing services for companies within the Group.

We have set out certain key financial information of the Group for the two financial years ended 31 December 2018 and for the six months ended 30 June 2019 respectively.

	For the six months ended 30 June 2019	For the years ended 31 December 2018	2017
	RMB'000	*RMB'000*	RMB'000
Revenue	3,425,973	5,681,548	7,357,944
Profit/(Loss) attributable to owners of the Company	19,613	(1,300,109)	56,514

	As at 30 June	As at 31 December	
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	13,015,259	13,140,742	14,102,774
Total liabilities	8,346,047	8,484,666	8,663,791
Net assets	4,669,212	4,656,076	5,438,982

For six months ended 30 June 2019

The Group recorded a revenue for the six months ended 30 June 2019 in the amount of approximately RMB3,426.0 million, representing a decrease of approximately 4.3% as compared to that of for the six months ended 30 June 2018 in the amount of approximately RMB3,581.4 million. Despite the sales volume of the Company's major product during the period increased, the revenue decreased slightly year-on-year under the influence of the product structure of the Group.

The Group recorded a profit attributable to owners of the Company for the six months ended 30 June 2019 in the amount of approximately RMB19.6 million from a loss attributable to owners of the Company for the six months ended 30 June 2018 in the amount of approximately RMB145.0 million. As advised by the Company, having proactively taken measures of enhancing efforts on market sales and strengthening operational cost control, the Company has turnaround from loss to profit attributable to owners of the Company for the six months ended 30 June 2019.

The Group's unaudited total assets and total liabilities as at 30 June 2019 amounted to approximately RMB13,015.3 million and approximately RMB8,346.0 million respectively. The Group's unaudited net assets value increased by approximately 0.3% to approximately RMB4,669.2 million as at 30 June 2019 from approximately RMB4,656.1 million as at 31 December 2018.

For FY 2018 and FY 2017

The Group recorded a revenue for the year ended 31 December 2018 ("**FY 2018**") in the amount of approximately RMB5,681.5 million, representing a decrease of approximately 22.8% as compared to that of for the year ended 31 December 2017 (the "**FY 2017**") in the amount of approximately RMB7,357.9 million. The decrease in revenue was mainly due to the decrease in the sales of tractor, diesel engine and other mechanical products of the Group.

The Group recorded a loss attributable to the owners of the Company for FY 2018 in the amount of approximately RMB1,300.1 million from a profit attributable to the owners of the Company for FY 2017 in the amount of approximately RMB56.5 million. The loss was mainly contributed from the agricultural machinery business that was resulted from (i) the decrease in the sales volume of its core products; (ii) the overall high materials costs; and (iii) accounting impairment in the inventory of the Company and increased expenses in employees pensions for FY 2018.

The Group's audited total assets and total liabilities as at 31 December 2018 amounted to approximately RMB13,140.7 million and approximately RMB8,484.7 million respectively. The Group's audited net assets value decreased by approximately 14.4% to approximately RMB4,656.1 million as at 31 December 2018 from approximately RMB5,439.0 million as at 31 December 2017.

We noted that (i) the Group has long history and is the industry leader in operating the agricultural machinery businesses in the PRC; and (ii) the agricultural machinery segment contributed approximately 85.8% and approximately 84.1% to the total revenue of the Group for each of the six months ended 30 June 2019 and for FY 2018.

Information of Luoyang Tractor

Luoyang Tractor is a company established in the PRC with limited liability and is a 51%-owned subsidiary of the Company. It is principally engaged in the research and development of tractor products and other agricultural machineries. As at the Latest Practicable Date, the Company and the Purchaser own 51% and 49% of the total issued share capital of Luoyang Tractor respectively.

Information of the Purchaser

The Purchaser is a company established under the laws of the PRC with limited liability and is the controlling shareholder of the Company, holding approximately 41.66% of total issued share capital of the Company. The controlling shareholder of the Purchaser is China Machinery, holding approximately 87.9% of total issued share capital of the Purchaser.

In addition, the Purchaser, and its subsidiaries (the "**Purchaser Group**") is a leading equipment manufacturing corporation group in the PRC. The Purchaser Group is principally engaged in the production and sale of transportation machinery, vehicle product, industrial equipment and components.

Information of the Disposal Companies

1. Xinjiang Equipment Company

Xinjiang Equipment Company is a company established under the laws of the PRC with limited liability and is a wholly-owned subsidiary of the Company. It is principally engaged in (i) the production and sale of agricultural machinery and equipment and their spare parts; (ii) warehousing services, freight forwarding, import and export of commodities and technology and acting as import and export agency; (iii) business information consulting services; (iv) maintenance and repair of machinery; (v) sale of construction machinery and spare parts; (vi) sale of agricultural vehicles, sanitation vehicles and automobile parts; and (vii) property leasing.

As advised by the Company, as the tractor business operations of Xinjiang Equipment Company has been underperforming due to the weak local demand in the tractor market in Xinjiang, the PRC and that the tractor business operation of Xinjiang Equipment Company has been underperforming, Xinjiang Equipment Company has discontinued its tractor business operation in the second quarter of 2019.

The summary of the audited financial information of Xinjiang Equipment Company for the two years ended 31 December 2017 and 2018 and for the seven months ended 31 July 2019 and unaudited accounts for the seven months ended 31 July 2018 is as follows:

	For the seven months ended 31 July		**For the years ended 31 December**	
	2019	**2018**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loss before taxation	(11,045.7)	(492.8)	(2,985.1)	(3,991.2)
Loss after taxation	(11,194.4)	(97.0)	(2,650.1)	(4,746.8)

	As at 31 July	**As at 31 December**	
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Total asset	140,694.4	151,478.0	155,516.1
Net assets	136,222.9	147,391.5	149,970.9

Xinjiang Equipment Company recorded a loss before taxation and a loss after taxation for FY 2018 in the amount of approximately RMB3.0 million and approximately RMB2.7 million respectively from a loss before taxation and a loss after taxation for FY 2017 in the amount of approximately RMB4.0 million and approximately RMB4.7 million respectively.

The audited total assets and net assets of Xinjiang Equipment Company as at 31 July 2019 amounted to approximately RMB140.7 million and approximately RMB136.2 million respectively.

2. Luoyang Xiyuan

Luoyang Xiyuan, a company established under the laws of the PRC with limited liability, is principally engaged in (i) the testing and inspection of tractors, three-wheeled vehicles, low-speed trucks, automobiles (including special-purpose vehicles), construction machineries, internal combustion engines, agricultural machineries, motorcycles, transformation machineries and its components for third parties; (ii) conducting security check on motor vehicles for third parties; (iii) development, production and sale of agricultural machinery equipment and test equipment, instruments, materials and related products; (iv) licensed sale of imported equipment and instruments; (v) development, consultation, transfer and service of technology; and (vi) soil testing.

The summary of the audited financial information of Luoyang Xiyuan for the two years ended 31 December 2017 and 2018 and for the seven months ended 31 July 2019 and unaudited accounts for the seven months ended 31 July 2018 is as follows:

	For the seven months ended 31 July		**For the years ended 31 December**	
	2019	**2018**	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit before taxation	11,850.2	10,959.9	17,091.3	16,501.0
Profit after taxation	10,508.9	9,482.8	15,381.0	14,516.4

	As at 31 July	**As at 31 December**	
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
Total asset	102,923.9	89,975.9	77,782.6
Net assets	91,096.1	80,587.1	66,206.1

Luoyang Xiyuan recorded a profit before taxation and a profit after taxation for FY 2018 in the amount of approximately RMB17.1 million and approximately RMB15.4 million respectively from a profit before taxation and a profit after taxation for FY 2017 in the amount of approximately RMB16.5 million and approximately RMB14.5 million respectively.

The audited total assets and net assets of Luoyang Xiyuan as at 31 July 2019 amounted to approximately RMB102.9 million and approximately RMB91.1 million respectively.

2. Reasons for and benefits of the Disposals

We noted from the Board Letter, having evaluated the prospect of the tractor market in the PRC, the Group aims to concentrate its resources on its core businesses, strengthen the agricultural machinery business, focus on comprehensive agricultural machinery development, meeting market demand by accelerating the transition of business and upgrade of products, increase market share and strengthen its competitiveness in its core businesses.

We noted from the interim report of the Company for the six months ended 30 June 2019, as the agricultural machinery industry continued to underperform, the Company has been carrying out works with a focus on channel optimization, market share expansion and product sales improvement while also carrying out cost reduction and efficiency enhancement measures including but not limited to, taking remedial actions towards its loss-making enterprises to contain the declining trend of its business operations. Having implemented the said strategies, the Company has resulted in a year-on-year increase of approximately 13.1% in the sales volume of its hi-powered and mid-powered tractors for the year 2019.

As advised by the Company, the Board believes China attaches great importance to the development of "agriculture, farmers and rural areas" and promotes the transformation and upgrade of the agricultural machinery and equipment industry. The Company is expected to strengthen the synergy mechanism of research, production and sales and improve the ability to cope with market changes in the industry. Focusing on the current reforming structure of the supplying of agricultural products in the PRC, the Company will expand its development into applicable agricultural machinery products that cope with different market demands, and actively promote the development model of "Full Mechanization + Integrated Agricultural Service Center" for smart efficient and environmental agricultural machinery.

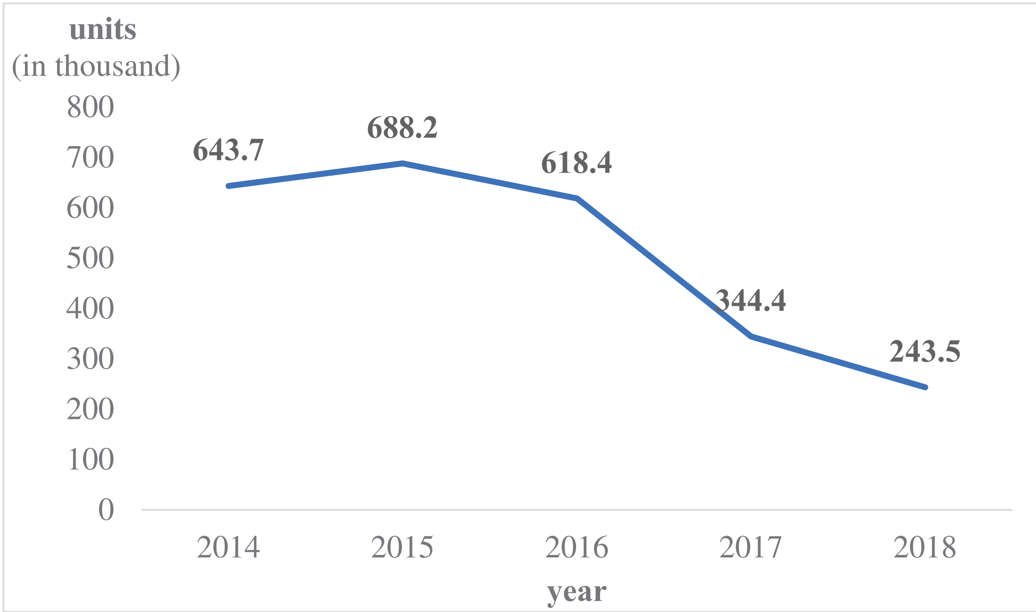
As mentioned in the Board Letter, taking into account of the weak local demand in the tractor market in Xinjiang and the increasing operation costs, the business condition of Xinjiang Equipment Company has been in a decline. Xinjiang Equipment Company has undertaken to lease its properties (i.e. idle lands and buildings) to increase its source of income to cover its basic operational cost in the recent years. On account of Xinjiang Equipment Company discontinued its tractor business in the second quarter of 2019, the Board considers the Xinjiang Disposal is necessary to optimise resource allocation by redeploying the Group's resources into its core businesses, which is in line with the Company's corporate development intention.

In respect of the Xinjiang Disposal, which is not in the ordinary and usual course of business of the Group, but having considered that (i) the tractor-related businesses and services of Xinjiang Equipment Company, being one of the core businesses of the Group, has already fully ceased; (ii) the existing property leasing and property management business of Xinjiang Equipment Company is different than the principal business of the Group; (iii) the increasing operation costs of and the historical loss-making performance by Xinjiang Equipment Company negatively affecting the financial performance of the Group; and (iv) the Company's corporate strategy as stated in the above to, among other matters, redeploy its resources into its core businesses, we are of the view that, it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Luoyang Xiyuan is principally engaged in the testing and inspection of three-wheeled vehicles, low-speed trucks, automobiles (including special vehicles), electric vehicles, construction machinery, internal combustion engines, agricultural machinery and its components for third parties. Since the business development in the inspection and vehicles testing of Luoyang Xiyuan is not the Company's core business, thus the Luoyang Xiyuan Disposal does not affect the core development and research capabilities of the Group and will allow the Company to redeploy its resources to Luoyang Tractor, which is principally focused on the development and research on self-manufactured tractors.

As the traditional agricultural machinery market in the PRC becomes more stagnant which was possibly due to the combination results of, among other reasons, market saturation, demands for differentiation in product structures and other macro-economic reasons, the total production of traditional agricultural machineries in the PRC has dropped. According to the National Bureau of Statistics of China, as illustrative in the figure below, the production of hi-powered and mid-powered tractors are experiencing a substantial decreasing trend since 2015. Total production of hi-powered and mid-powered tractors from approximately 688,200 units in 2015 to approximately 243,500 units in 2018 and representing a decrease of approximately 29.3% as compared to that of the production in 2017.

Figure 1



Source: National Bureau of Statistics of China

In respect of the Luoyang Xiyuan Disposal, which is not in the ordinary and usual course of business of the Group, but having considered that (i) the decrease in the total tractors productions in the PRC in the recent years; (ii) the business development in the inspection and vehicles testing of Luoyang Xiyuan does not considered to be the core businesses of the Group; (iii) the Company's corporate strategy as stated in the above to, among other matters, to concentrate its resources on its core businesses to strengthen and streamline tractor business, promote the development for smart efficient and environmental products to cope with market changes; (iv) the Company is expected to realise a substantial gain from the Luoyang Xiyuan Disposal; and (v) it is reasonable for the Group to focus on its business expertise as it has been one of leaders in agricultural machinery in the PRC, we are of the view that, it is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

3. Principal terms of the Agreement I

Date: 11 October 2019 (after trading hours)

Parties

Vendor:	the Company
Purchaser:	中國一拖集團有限公司(YTO Group Corporation*)

Assets to be disposed of

Sale Shares I represents 100% of the total issued share capital of Xinjiang Equipment Company.

Consideration

The consideration for the Xinjiang Disposal in the amount of approximately RMB184.13 million will be payable by the Purchaser to the Company within sixty (60) days of the Agreement I becoming unconditional and shall be settled fully in cash.

The consideration of Xinjiang Equipment Company was arrived at after arm's length negotiations between the Company and the Purchaser on normal commercial terms with reference to the appraised value of Xinjiang Equipment Company, using the asset-based approach, as at the Valuation Date (the "**XJ Valuation**") by the Independent Valuer (the "**Xinjiang Valuation Report**") approved by China Machinery, a state-owned enterprise.

Evaluation of the consideration for the Xinjiang Disposal

The Xinjiang Valuation Report

According to the Xinjiang Valuation Report, the XJ Valuation as at 31 July 2019 was RMB184,128,300. In preparing the Xinjiang Valuation Report, the Independent Valuer selected asset-based approach to conclude the XJ Valuation. The consideration for the Xinjiang Disposal is about equivalent to the XJ Valuation. Please also refer to the Appendix I of the Circular for more information on the Xinjiang Valuation Report.

We have reviewed the Xinjiang Valuation Report, sent out information request lists and held telephone interviews with the Independent Valuer to enquire into the methodology adopted for and the basis and assumptions used in the XJ Valuation. For our due diligence purpose, we have also reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Xinjiang Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer to arrive at the XJ Valuation. From the mandate letter and other relevant information provided by the Independent Valuer and based on our telephone interviews with them, we are satisfied with the terms of engagement of the Independent Valuer as well as their qualification and experience for preparation of the Xinjiang Valuation Report. The Independent Valuer also confirmed that they are independent to the Company, the Disposal Companies and the Purchaser and their respective associates.

In the course of our discussion with the Independent Valuer, we understand that there are three commonly adopted valuation approaches for assets valuation, namely market approach, income approach and asset-based approach. We noted from the Independent Valuer that given (i) the loss-making performances of and that the tractor business operation of Xinjiang Equipment Company has been ceased; and (ii) the lack of similar market transaction comparables, income approach and market approach were not used for the XJ Valuation. The Independent Valuer adopted asset-based approach, which values the fair market value of assets from the replacement cost perspective, can reflect the intrinsic value of the enterprises' assets. The asset-based approach is one of the commonly adopted approaches for concluding valuation of companies and is also consistent with normal market practice. Considering that Xinjiang Equipment Company assets and liabilities, mainly including property, plant and equipment, inventory, intangible assets, cash and cash equivalents, receivables and payables are clearly identifiable, the Independent Valuer can value each of the assets and liabilities in the balance sheet of Xinjiang Equipment Company as at the Valuation Date by appropriate valuation methodologies under the adoption of asset-based approach.

In assessing the appraised value of Xinjiang Equipment Company, the Independent Valuer obtained Xinjiang Equipment Company's detailed audited balanced sheet related information and collected the relevant information which fulfills the asset-based approach requirement to comprehensively assess the market value of Xinjiang Equipment Company's assets and liabilities as at the Valuation Date. For the property, plant and equipment, as they mainly include buildings and equipment, the Independent Valuer considered that it is appropriate to adopt the replacement cost method in the absence of a known market of comparable sales transactions. For the intangible asset, as it mainly includes the land use rights on a land parcel in Urumqi, Xinjiang Province, the Independent Valuer adopted the land datum value method and market comparable approach in assessing its value. As discussed with the Independent Valuer, we understand that the land datum value method is commonly used in the land valuation in the PRC. The land datum value method refers to an approach to arrive at the land value of valuation subject by determining the correction coefficient and correcting land value based on the benchmark land price published by a local government, with reference to the correction standard to make adjustments on the value of the land to be evaluated based on its conditions such as development, land usage, tenure, plot ratio, etc. We noted that the Independent Valuer has made reference to recent comparable land transactions in terms of, among other factors, usage, proximity and date. The market value of the land parcels is estimated by referencing three relevant land transactions of general land in the locality used for industrial purposes. For the other assets and liabilities, mainly including cash and cash equivalent, other receivables, accounts payable, advanced payment and borrowings, the Independent Valuer has taken into consideration their existence, ownership and recoverability and hence adopted their book value in the audited accounts as the Valuation Date.

Based on the above, as the Independent Valuer has considered different nature of the assets and liabilities of Xinjiang Equipment Company and adopted appropriate valuation methodologies and assumptions in assessing their fair values under the asset-based approach, we are of the view that the adoption of asset-based approach to determine the XJ Valuation are reasonable. Based on our review and analysis of the Xinjiang Valuation Report, having considered that the competence of the Independent Valuer and the reasonable of the valuation approaches, basis and assumptions being adopted, we are of the view that the consideration for the Xinjiang Disposal is fair and reasonable.

Comparing with comparable companies

Additionally, we have performed a trading multiples analysis using the price-to-book ratio (the "**P/B Ratio**"), which is one of the most commonly used benchmark, and compare the P/B Ratio of Xinjiang Equipment Company, after considering its main and complementary operations scope including (i) the manufacturing and sales of agricultural machinery products primarily including tractors and their spare parts (the "**MV Business**") as the MV Business being its main operation in overall throughout the last three years until mid-2019; and (ii) in the property investment leasing (the "**PI Business**") in the PRC as the PI Business is the current operation of Xinjiang Equipment Company after it discontinued its MV Business, with the P/B Ratios of other companies principally engaged in the MV Business and the PI Business respectively, given that a price-to-earnings ratio is not applicable due to the loss-making of Xinjiang Equipment Company for FY 2018. Having considered the operational situation of Xinjiang Equipment Company as described above, we are in the view that conducting two sets of business comparables (i) may provide additional frame of references for the Independent Shareholders; and (ii) are appropriate and reasonable in assessing the consideration for the Xinjiang Disposal so far as the Independent Shareholders are concerned.

(A) The MV Business comparables

As advised by the Company, the MV Business has been viewed as the main operation of Xinjiang Equipment Company comprising of the manufacturing and sales of machineries and vehicles which is primarily consisting of different types and sizes tractors for operational revenue. Based on criteria (i) the companies are listed on the Stock Exchange; and (ii) principally engaged in the MV Business in the PRC, 8 companies are selected, which are exhaustive and on best effort basis (the "**MV Comparables**"). We consider that the MV Comparables are fair and representative samples for comparison since the primary source of income, the operation nature in manufacturing and sales of commercial machinery, equipment and vehicles (including but not limited to, farming and harvesting machinery, heavy-duty trucks, coal-mining equipment, lifting and road construction equipment such as loaders, excavators, forklifts and road rollers, semi-trailers and truck bodies and non-automotive engines) and the location of each of the MV Comparables which is principally conducted in the PRC is similar to that of the principal businesses of Xinjiang Equipment Company. Details of our analysis are set out in the following table:

	Company (stock code)	Market Capitalisation *(HK$' million)* *(note 1)*	P/B Ratio *(times)* *(note 2)*
1	Tak Lee Machinery Holdings Limited (8142)	270	0.77
2	CIMC Vehicles (Group) Co., Ltd. (1839)	2,706	0.98
3	Zoomlion Heavy Industry Science and Technology Co., Ltd. (1157)	8,135	1.12
4	Lonking Holdings Limited (3339)	9,545	1.03
5	Sany Heavy Equipment International Holdings Company Limited (631)	10,938	1.46
6	China International Marine Containers (Group) Co., Ltd. (2039)	14,337	0.59
7	Weichai Power Co., Ltd. (2338)	23,006	2.00
8	Sinotruk (Hong Kong) Limited (3808)	31,751	1.09
		Minimum:	**0.59**
		Maximum:	**2.00**
		Average:	**1.13**
		Median:	**1.06**
	Xinjiang Equipment Company		**1.35**

Source: The Stock Exchange

Notes:

1. The exchange rates of RMB1 = HK$1.100 was applied respectively.

2. These P/B Ratios are calculated with reference to the closing prices as quoted on the Stock Exchange on the date of the Agreement I (i.e. 11 October 2019) and the equity attributable to owners is extracted from the latest relevant financial reports/results of the Comparables prior to the date of the Agreement I.

3. The P/B Ratio of Xinjiang Equipment Company is calculated based on the consideration for the Xinjiang Disposal of RMB184,130,000 divided by the unaudited net asset value of Xinjiang Equipment Company as at 31 July 2019 of approximately RMB136,222,900.

As shown in the table above, the P/B Ratios of the MV Comparables ranges from approximately 0.59 times to approximately 2.00 times with an average and median of approximately 1.13 times and 1.06 times respectively. We noted that the implied P/B Ratio for Xinjiang Equipment Company of approximately 1.35 times (the "**Implied P/B Ratio**") is higher than the average, median and lies within the range of the P/B Ratios of the MV Comparables.

(B) The PI Business comparables

As advised by the Company, the PI Business has been viewed as the complementary operation of Xinjiang Equipment Company mainly including the leasing of its unutilized land and buildings (that was originally used for the production of agricultural machinery) for additional rental revenue. Based on criteria (i) the companies are listed on the Stock Exchange; (ii) principally engaged in the PI Business in the PRC; and (iii) a market capitalisation capped under HK$300 million as the types of properties of the companies with larger market capitalisations may be more characteristically different than those of Xinjiang Equipment Company and inappropriate to be made compared with, 9 companies are selected, which are exhaustive and on best effort basis (the "**PI Comparables**"). We consider that the PI Comparables are fair and representative samples for comparison, since the primary source of income, the operation scale, nature and location of each of the PI Comparables is similar to that of the complementary business operations of Xinjiang Equipment Company. Details of our analysis are set out in the following table:

	Company (stock code)	**Market Capitalisation** ***(HK$' million)*** *(note 1)*	**P/B Ratio** ***(times)*** *(note 2)*
1	Zhong Hua International Holdings Limited (1064)	104	0.12
2	Master Glory Group Limited (275)	134	0.03
3	Deson Development International Holdings Limited (262)	150	0.09
4	Sky Chinafortune Holdings Group Limited (141)	204	0.34
5	Kingwell Group Limited (1195)	231	1.47
6	Everbright Grand China Assets Limited (3699)	243	0.27
7	Oriental University City Holdings (H.K.) Limited (8067)	268	0.21
8	Grand Field Group Holdings Limited (115)	277	0.23
9	Qingdao Holdings International Limited (499)	290	1.14
		Minimum:	**0.03**
		Maximum:	**1.47**
		Average:	**0.43**
		Median:	**0.23**
	Xinjiang Equipment Company *(note 3)*		**1.35**

Source: The Stock Exchange

Notes:

1. The exchange rates of RMB1 = HK$1.100 was applied respectively

2. These P/B Ratios are calculated with reference to the closing prices as quoted on the Stock Exchange on the date of the Agreement I (i.e. 11 October 2019) and the equity attributable to owners is extracted from the latest relevant financial reports/results of the Comparables prior to the date of the Agreement I.

3. The P/B Ratio of Xinjiang Equipment Company is calculated based on the consideration for the Xinjiang Disposal of approximately RMB184,130,000 divided by the unaudited net asset value of Xinjiang Equipment Company as at 31 July 2019 of approximately RMB136,222,900.

As shown in the table above, the P/B Ratios of the PI Comparables ranges from approximately 0.03 times to approximately 1.47 times with an average and median of approximately 0.43 times and 0.23 times respectively. We noted that the Implied P/B Ratio of approximately 1.35 times is higher than the average, median and lies within the range of the P/B Ratios of the PI Comparables.

Having considered the above, in particular (i) given the operation uncertainty in Xinjiang Equipment Company, the methodology adopted in the XJ Valuation should have appropriately reflected the value of its assets as discussed; (ii) the two business comparables discussed above covered the original and latest operations of Xinjiang Equipment Company and provided additional frame of references on the consideration for Xinjiang Disposal analysis for the Independent Shareholders; and (iii) the Implied P/B Ratio is higher than the average, median and lies within the ranges of the P/B Ratios of the MV Comparables as well as the PI Comparables, we are of the view that the consideration for the Xinjiang Disposal is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4. Principal terms of the Agreement II

Date: 11 October 2019 (after trading hours)

Parties

Vendor:	Luoyang Tractor, a direct 51%-owned subsidiary of the Company
Purchaser:	中國一拖集團有限公司(YTO Group Corporation*)

Assets to be disposed of

Sale Shares II represents 100% of the issued share capital of Luoyang Xiyuan.

Consideration

As mentioned in the Board Letter, Luoyang Xiyuan declared the Dividend Payment to, its sole shareholder, Luoyang Tractor in the amount of RMB62 million. Having taking account of the adjustment of the Dividend Payment, the net consideration for the Luoyang Xiyuan Disposal in the amount of approximately RMB172.93 million will be payable by the Purchaser to Luoyang Tractor within sixty (60) days of the Agreement II becoming unconditional and shall be settled fully in cash.

The consideration of Luoyang Xiyuan was arrived at after arm's length negotiations between Luoyang Tractor and the Purchaser on normal commercial terms with reference to the appraised value of Luoyang Xiyuan (the "**LY Valuation**"), using the income approach, as at the Valuation Date by the Independent Valuer (the "**Luoyang Valuation Report**") approved by China Machinery, a state-owned enterprise, after deduction of the Dividend Payment.

Evaluation of the consideration for the Luoyang Xiyuan Disposal

The Luoyang Valuation Report

According to the Luoyang Valuation Report, the LY Valuation as at 31 July 2019 was approximately RMB234,925,900. In preparing the Luoyang Valuation Report, the Independent Valuer selected the discounted cash flow method (the "**DCF Method**") under the income approach to conclude the LY Valuation. The consideration for the Luoyang Xiyuan Disposal (without the adjustment of the Dividend Payment) is about equivalent to the LY Valuation. Please also refer to the Appendix II of the Circular for more information on the Luoyang Valuation Report.

We have reviewed the Luoyang Valuation Report, sent out information request lists and held telephone interviews with the Independent Valuer to enquire into the methodology adopted for and the basis and assumptions used in the LY Valuation. For our due diligence purpose, we have also reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Luoyang Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer to arrive at the LY Valuation. From the mandate letter and other relevant information provided by the Independent Valuer and based on our telephone interviews with them, we are satisfied with the terms of engagement of the Independent Valuer as well as their qualification and experience for preparation of the Luoyang Valuation Report. The Independent Valuer also confirmed that they are independent to the Company, the Disposal Companies and the Purchaser and their respective associates.

In the course of our discussions with the Independent Valuer, we understand that there are three commonly adopted valuation approaches for assets valuation, namely market approach, income approach and asset-based approach. We noted from the Independent Valuer that the transactions of companies with comparable characteristics are limited so the market approach was not appropriate. When comparing the income approach and the asset-based approach, the Independent Valuer considered that the asset-based approach may only reflects the intrinsic value of assets of Luoyang Xiyuan and fails to fully demonstrate the comprehensive profitability of various assets, future growth and overall enterprise value of Luoyang Xiyuan. Accordingly, the Independent Valuer adopted the income approach in the LY Valuation. As confirmed by the Independent Valuer, the income approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice. We have reviewed and enquired into the Independent Valuer on the basis and assumptions adopted in arriving the LY Valuation in order for us to understand the Luoyang Valuation Report. The assumptions in the Luoyang Valuation Report were stated out under the sub-sections "(I) General assumptions" and "(II) Special assumptions" in Appendix II of the Circular.

We have also obtained and discussed the supporting calculation and documents for the key assumptions and parameters (e.g. revenue and costs, capital expenditure, weighted average cost of capital) under the Luoyang Valuation Report. In the process, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Luoyang Valuation Report. The Independent Valuer has derived the forecasted revenue of Luoyang Xiyuan based on five sub-segments of the inspection business namely (i) agricultural machinery products business; (ii) internal combustion engine and its parts business; (iii) automobile and its parts business; (iv) equipment development business; and (v) other inspection businesses. In determining the forecasted revenue of Luoyang Xiyuan, we noted that the Independent Valuer has considered various factors, among others, as summarised below:

- The State Council of the PRC (中華人民共和國國務院*) published Made in China 2025 (中國制造2025*) in May 2015, a ten years strategic action plan that promotes the emphasizes on, including but not limited to, (i) innovative capacity; (ii) quality and efficiency; (iii) integration; and (iv) environmental development, in May 2015 including the agricultural machinery industry to be one of their key focuses which shall maintain and/or improve the growth of the agricultural machinery equipment product inspection business of Luoyang Xiyuan in the upcoming years.

- The Ministry of Ecological Environment of the PRC (中華人民共和國環境保護部*) announced the Technology Policies on Non-road Mobile Machinery Pollution Control (非道路移動機械污染防治技術政策*) (the "**Technology Policy**") in August 2018 to restrict the pollution of a variety of newly produced non-road mobile machineries that are powered by, including but not limited to, diesel engines, small spark ignition engine (i.e. small engines, small gasoline engines and gas fuel engines), and large spark ignition engines. The guidelines and restrictions imposed under the Technology Policy shall also increase the internal combustion engines inspection business of Luoyang Xiyuan.

- The General Office of Ministry of Transport of the PRC (中華人民共和國交通運輸部*) issued the Notice of Cancellation of Road Transport Certificate and Driver's Qualification Certificate for General Freight Vehicles with gross vehicle mass of 4.5 Tonnes and Below(交通運輸部辦公廳關於取消總質量4.5噸及以下普通貨運車輛道路運輸證和駕駛員從業資格證的通知*), pursuant to which all local transportation administration departments will no longer issue road transport certificates to general freight vehicles with gross vehicle mass of 4.5 tonnes and below effective from 1 January 2019. Luoyang Xiyuan was recognised by the Ministry of Transport of the PRC for the inspection standards for 68 road transport vehicles and the inspection ability for the relevant testing methods in March 2019. As confirmed by the Company, positive progress has also been made in the application for the inspection qualification on 3C certification of special vehicles, providing certain support to expanding the market of vehicle inspection services and optimising the business structure. Accordingly, the above described qualifications shall be considered and reflected positive impact on the automobile and parts inspection and testing business of Luoyang Xiyuan.

- Increasing intensified competition in the quality of agricultural machinery products results in the increase in the need for online and rapid quality inspection and equipment testing business of Luoyang Xiyuan.

- Luoyang Xiyuan also obtained the qualification for calibration laboratories from China National Accreditation Service for Conformity Assessment (CNAS) (中國合格評定國家認可委員會*), the national accreditation body of China unitarily responsible for the accreditation of certification bodies, laboratories and inspection bodies, in 2014 ensuring and increasing reliability of the inspection of its measurement and calibration services.

- Luoyang Xiyuan is an official testing station for tractors and related safety and protective devices in the PRC designated by The Organization for Economic Co-operation and Development (OECD). With the improvement in the technology and quality of tractors production in the PRC taking into account of the mandatory implementation of the emission standards on non-road diesel engines, export of qualified tractors will continue and shall provide positive impact to the international accreditation services business of the Luoyang Xiyuan.

Furthermore, we also enquired with the Independent Valuer on the basis in estimating the operating costs of principal business of Luoyang Xiyuan and we are given to understand that (i) Luoyang Xiyuan accounts for all fixed costs in the administrative expenses; (ii) all operating costs of principal business are variable costs and do not include staff salaries; and (iii) the operating costs of principal business account for by Luoyang Xiyuan is basically linear with the operating revenue of principal business as a result. Therefore, the Independent Valuer measures the operating costs of principal business of Luoyang Xiyuan in the future forecast period based on the ratio of costs to revenue for the previous years and we consider it to be an appropriate approach.

In estimating the discount rate and cost of equity for the LY Valuation, the Independent Valuer has adopted the weighted average cost of capital ("**WACC**") model and the capital asset pricing model ("**CAPM**") respectively. We understand from the Independent Valuer that the WACC is used to determine the discount rate in the LY Valuation by taking into account the capital structure of Luoyang Xiyuan, and that the CAPM is a commonly used model to compute the cost of equity, which is then used to determine the WACC.

The equation of the WACC model is as follows:

$$r = r_d \times w_d + r_e \times w_e$$

In which,
W_d: represents the debt ratio of the valuation target;

$$w_d = \frac{D}{(E + D)}$$

W_e: represents the equity ratio of the valuation target;

$$w_e = \frac{E}{(E + D)}$$

r_d: Interest rate applicable to interest-bearing debts after income tax;
r_e: Cost of Equity Capital. The cost of equity capital r_e is determined using the CAPM;

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon$$

In which,
r_f: represents risk-free return rate;
r_m: represents the expected market rate of return;
ε : represents the characteristic risk adjustment coefficient of the valuation target;
β_e: represents the expected market risk coefficient of equity capital of the valuation target;

$$\beta_e = \beta_u \times (1 + (1 - t) \times \frac{D}{E})$$

β_u: represents the expected leverage-free market risk coefficient of comparable company;

$$\beta_u = \frac{\beta_t}{1 + (1 - t)\frac{D_i}{E_i}}$$

β_t: represents the expected average market risk coefficient of the stocks (assets) of comparable company;

$$\beta_t = 34\%K + 66\%\beta_x$$

In which,
K: represents the average risk level expected for future stock market, generally assuming K=1;
β_x: represents the average historical market risk coefficient of stock (assets) of comparable company;
D_i and E_i: represents the bearing-interest debts and equity capital of comparable company respectively.

We further understand from the Independent Valuer about the following:

- risk-free return rate r_f: the approximate value of risk-free return rate rf was determined based on the average interest rate of treasury bond with a term of over ten years with reference to the average interest rate of mid- and long-term treasury bond issued by the Chinese state in recent five years. As a result, a list of 43 treasury bonds were selected and risk-free return rate was arrived, i.e. r_f =3.79%.

- expected rate of market return r_m: it is generally believed that the fluctuation in the stock index would reflect the overall fluctuation in the market and the average long-term return rate of index may reflect the average expected rate of market return. The approximate value of expected rate of market return was derived by estimating the average return rate of index from 21 May 1992 when the stock price of SSE Composite Index was fully liberalised and free bidding trading was implemented up to 31 July 2019, i.e. r_m=10.05%.

- D and W_d: Luoyang Xiyuan has no debt as at 31 July 2019. Therefore, D=0 and W_d=0.

- β_e: it is derived on the basis of the average historical market risk coefficient (estimated by using the market prices for the three years between July 2016 to July 2019) of comparable companies, which shall be selected from comparable listed companies on Shanghai and Shenzhen Stock Exchanges with core businesses in the sector of third party testing. While those under certain circumstances shall be excluded, including those with negative return on net assets in the past three years, the listed companies recently planning significant restructure on the valuation benchmark date, those lately listed on stock exchange, B share companies, those with material deviation in historical beta value and those with large difference in core businesses. By estimating with the market prices for the 150 weeks from July 2016 to July 2019, the historical market risk coefficient of the shares of comparable companies was arrived at β_x= 1.0800. Using the above formulas and the calculated values above, the following values are derived: β_t=1.0528, β_u=0.9959 and β_e=0.9959.

- Cost of equity capital r_e: Luoyang Xiyuan has taken into consideration the specific individual risk that may arise due to the difference between the financing conditions, liquidity, governance structure and other relevant aspects of the valuation target and those of the comparable listed companies in this valuation, where the specific risk adjustment coefficient of the Company being ε = 0.02; and the cost of equity capital r_e of the valuation target ultimately arrived at by using the above formulas, i.e. r_e=12.02%.

- Ultimately, based on all the above calculations, the WACC discount rate adopted by the Independent Valuer is 12.02%.

As such, the appraised value of the Luoyang Xiyuan as at 31 July 2019 was RMB234,925,000.

As the Independent Valuer adopted the discounted cash flow approach to appraise market value of Luoyang Xiyuan, in such case, it is stipulated under Rule 14.62 of the Listing Rules that the Company is required to obtain (i) a letter from its reporting accountants confirming that they have reviewed the calculations for the forecast and containing their report; and (ii) a report from its financial adviser confirming that they are satisfied that the forecasts in such valuation have been made by the Directors after due and careful enquiry. We consider that the above stipulation of the Listing Rules could safeguard the interest of the Shareholders and we noted that the Company has complied with the said requirements.

Having considered the above, (i) with the methodology adopted in the LY Valuation should have appropriately included the growth and future profitability of Luoyang Xiyuan; (ii) reasonable assumptions that were made in the LY Valuation; and (iii) that there will be a gain as a result of the premium of consideration for the Luoyang Xiyuan Disposal over the net assets of Luoyang Xiyuan after the Dividend Payment, we are of the view that the basis of the consideration for the Luoyang Xiyuan Disposal, and after the Dividend Payment, is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5. Financial effects of the Disposals and use of proceeds

Upon completion of the Disposals, the Group will cease to hold any interest in the Disposal Companies. The Disposal Companies will cease to be subsidiaries of the Group and their financial results will no longer be consolidated into the financial statements of the Group.

Based on (i) the audited carrying value of Xinjiang Equipment Company and Luoyang Xiyuan of approximately RMB136.22 million and approximately RMB91.10 million respectively as at 31 July 2019; (ii) the estimated consideration of the Xinjiang Disposal and Luoyang Xiyuan Disposal (before deducting the related expenses and before adjustment for the Dividend Payment) of approximately RMB184.13 million and approximately RMB234.93 million respectively; (iii) the estimated PRC enterprise income tax payable by Luoyang Tractor of approximately RMB22.89 million; and (iv) Luoyang Tractor's 51% shareholding in Luoyang Xiyuan, the net gain of the Xinjiang Disposal and the Luoyang Xiyuan Disposal are estimated to be approximately RMB47.91 million and approximately RMB61.68 million respectively. The final figures are subject to the audited annual financial statements of the Company.

The aggregate gross proceeds from the Disposals is estimated to be approximately RMB357.06 million, comprising approximately RMB184.13 million for the Xinjiang Disposal and approximately RMB172.93 million from the Luoyang Xiyuan Disposal. The Group intends to apply the net proceeds to strengthen the development and research budgets for the Group's products and for general working capital of the Group.

Based on the aforementioned financial effects of the Disposals, we are of the view that the Disposals will have an overall positive financial effect on the Group and be in the interests of the Group and the Shareholders as a whole.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

RECOMMENDATION

In conclusion, the Disposals allow the Group to redeploy its resources and focus on one of its core businesses in the manufacture and sales of machineries in particular in the agricultural segment that is in line with its corporate strategies as stated in its latest published financial reports with expected substantial improvement on its financial position from the Disposals. Based on the factors and reasons we discussed in this letter, we consider that although the Disposals are not in the ordinary course of businesses of the Group, the terms of the Agreements and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders as concerned and the Disposals are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend Independent Shareholders, to vote in favour of the relevant resolution(s) for approving of the Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Julisa Fong
Managing Director

Ms. Julisa Fong is a licensed person registered with the SFC and a responsible officer of Veda Capital Limited which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity and has over 23 years of experience in corporate finance industry.

The following is a summary of the valuation report in connection with the valuation as at 31 July 2019 of 100% equity interest of Xinjiang Equipment Company, which has been prepared for the purpose of inclusion in this circular.

Asset Valuation Report

in respect of

Proposed transfer of all the equity interests held by First Tractor Company Limited* in YTO (Xinjiang) Dongfanghong Equipment Machinery Co., Ltd.* to YTO Group Corporation*

Zhong Lian Ping Bao Zi [2019] No. 1540

Summary

China United Assets Appraisal Group Co., Ltd. was engaged by YTO Group Corporation* to appraise the market value of 100% equity interest of YTO (Xinjiang) Dongfanghong Equipment Machinery Co., Ltd.* ("**Xinjiang Equipment Company**") as at 31 July 2019, which is involved in the economic behaviour whereby First Tractor Company Limited* proposes to transfer all the equity interest held by it in Xinjiang Equipment Company to YTO Group Corporation*.

The subject of valuation is the 100% equity interest of Xinjiang Equipment Company and the scope of valuation covers all assets and relevant liabilities of Xinjiang Equipment Company including current assets, non-current assets and relevant liabilities.

The valuation date is 31 July 2019.

The type of value of the valuation is market value.

This valuation has been conducted in compliance with the laws, regulations and valuation criteria relating to asset valuation in the PRC, under the principles of independence, objectivity and fairness, taking into account the actual condition of the assets to be valued, market transaction information and current market price, and with reference to the historical cost of the assets. On the basis of continued use and open market, asset-based approach has been adopted for the overall valuation of Xinjiang Equipment Company.

The Independent Valuer has relied on the following valuation assumptions in this valuation:

1. Transaction assumption

Transaction assumption assumes that all assets to be valued are in the process of transaction, and the Independent Valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is a fundamental pre-requisite for the implementation of the asset valuation.

2. Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market have equal position and have the opportunity and time to access sufficient market information so as to make a rational judgment on the assets in terms of their function, intended purpose and transaction price. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. Assumption on continuing operation of assets

Assumption on continuing operation of assets assumes that the assets to be valued will be used continuously based on the current intended purpose, operation method, scale of operation, frequency and environmental conditions, etc., or will be used on the above-mentioned bases with changes. The valuation method, parametres and basis shall be determined accordingly.

The relevant details of the valuation of Xinjiang Equipment Company by the Independent Valuer are as follows:

I. OVERVIEW OF THE SUBJECT AND SCOPE OF VALUATION

The subject of valuation is the entire shareholders' equity of Xinjiang Equipment Company. The scope of valuation covers all assets and relevant liabilities of Xinjiang Equipment Company as at the Valuation Date. Total book value of assets amounted to approximately RMB140.6944 million, liabilities amounted to approximately RMB4.4715 million and net assets amounted to approximately RMB136.2229 million, which included specifically, current assets of approximately RMB38.9132 million, non-current assets of approximately RMB101.7812 million and current liabilities of approximately RMB4.4715 million.

The above-mentioned information of assets and liabilities was extracted from the audited balance sheet of Xinjiang Equipment Company as of 31 July 2019 (audited by Da Hua Certified Public Accountants (Special General Partnership)). The valuation was conducted in accordance with the audited results of the enterprise.

The subject and scope of valuation are in line with those involved in economic behaviour. The principal has confirmed the off-balance sheet assets and liabilities within the scope of valuation and issued a statement verifying the consistency between the scope and the purpose of valuation.

(I) Condition of major assets valued

The major assets within the scope of valuation included current assets, fixed assets, intangible assets and deferred income tax assets.

(II) Distribution and characteristics of tangible assets

The book value of tangible assets within the scope of valuation amounted to approximately RMB87.0329 million, representing approximately 61.86% of the total assets within the scope of valuation. Tangible assets primarily include inventories and fixed assets. Such assets have the following characteristics:

1. Tangible assets are mainly located in the Manufacturing and Office Area of Xinjiang Equipment Company at No. 665 Lushan Street, Urumqi Economic and Technological Development Zone.

2. Inventories include raw materials and finished products. There are various types of raw materials and they are stored in large quantities in raw material warehouses. Finished products comprise mainly of various models of tractors.

3. Buildings and structural assets

Buildings and structural assets within the scope of this valuation are mainly located in the Manufacturing and Office Area of Xinjiang Equipment Company.

Building and structural assets include buildings, structures and pipes grooves. There are 17 buildings, with gross floor area of 41,554.15 square metres ("**m^2**") which have not received building ownership certificate and comprise mainly of steel-mixed and brick-concrete structures. There are a total of 10 structures and 11 pipes grooves, which are mainly arts and crafts auxiliary facilities.

4. Equipment assets include machinery and equipment, vehicles and electronic equipment, of which:

(1) Machinery and equipment: there are a total of 63 items of machinery and equipment included in the scope of this valuation, which can be divided into special-purpose equipment and general equipment. The special-purpose equipment is mainly fixed on the assembly line and on-line equipment, including: large and medium wheel tractors assembly line, small wheel tractors assembly rail, gearbox oil filling machine, anti-freeze filling machine, wheel and tire bolt tightening machine, hydraulic output rate test bench, etc.. General equipment mainly include: electric single girder cranes, forklifts and lifts, etc. At present, all the above equipment are functioning properly. According to the overall plan for the future business of the enterprise, both the chemical spray machine product business and the medium to large wheel tractors business will be discontinued by the end of 2020 as the enterprise withdraws from the said business. Therefore, all the special purpose equipment involved in manufacturing for Xinjiang Equipment Company will be scrapped in advance.

(2) Electronic equipment: a total of 82 items of electronic equipment have been included in the scope of this valuation, which mainly include office equipment such as computers, air conditioners, kitchen utensils and monitoring equipment.

(3) Vehicles: a total of 3 vehicles have been included in the scope of this valuation, all of which are motor vehicles and are running properly.

(III) The intangible assets recorded in or off the book of the enterprise

The intangible assets reported by the enterprise is a land use right recorded in the books. The land use right is categorised as a transfer and the land is for industrial use. The licensed holder is Xinjiang Equipment Company. Particulars are shown in the table as follows:

Table 1: Condition of land use right

Reference Number	Name	Location	Nature	Use of land	Area *(m^2)*	Book value *(RMB)*
National use for the 12th Division of the Regiment (2010) No. 12800043	Land of the plant area of Xinjiang Equipment Company	No. 665 Lushan Street, Urumqi Economic and Technological Development Zone	Transfer	Industrial	147,068.00	21,543,251.86

(IV) Type and quantities of off-balance sheet assets of the enterprise

There are no off-balance sheet assets reported by the enterprise.

(V) The conclusion drawn from the reports issued by other entities in relation to the type, quantities and carrying amount of assets

The book value of assets and liabilities as at the Valuation Date in the valuation report are the audited results stated in the standard unqualified opinion of the "Audit Report" issued by Da Hua Certified Public Accountants (Special General Partnership) (Da Hua Fan Zi (2019) No. 0010326).

II. VALUATION APPROACH

(I) Selection of valuation approach

According to the requirements of assets valuation standards, three approaches can be adopted in the valuation of an enterprise, namely the income approach, market approach and asset-based approach. The income approach is the quantification and capitalisation of the expected profitability of the overall assets of the enterprise, emphasising the overall expected profitability of the enterprise. The market approach assesses the current fair market value of the valuation target with reference to similar targets in the market. The characteristic of this approach is that the valuation data is derived directly from the market and thus the valuation results are convincing. The asset-based approach refers to the practice of determining the value of the valuation target based on the reasonable valuation of each of the assets and liabilities of the enterprise.

The asset-based approach can reflect the replacement value of the valuation target as at the Valuation Date, since information of the assets and liabilities of the valuation target are available. As the pre-requisite for the valuation by the asset-based approach have been met, the asset-based approach has therefore been adopted for the valuation.

From the perspective of operating conditions, Xinjiang Equipment Company has been suffering from losses in recent years, and the enterprise is in a semi-discontinued state as of the Valuation Date. From the perspective of First Tractor Company Limited* on the future business plan of Xinjiang Equipment Company, the manufacturing and sale of the large and medium wheel tractors primarily engaged by Xinjiang Equipment Company are expected to be discontinued in 2020, and the scope of its operations will undergo significant changes. As a result, it is not possible for the enterprise to make effective estimation of its future operations, nor is it in the position to make a reliable prediction of its future income. Therefore, it is not appropriate to adopt the income approach for the valuation.

The two methods commonly used in the market approach are listed-company comparison and transaction comparison. However, it is difficult to find enterprises or transactions similar to the appraised enterprise for reference in the current PRC capital market. As there is no pre-requisite for the adoption of the market approach, it is not suitable to adopt the market approach for the valuation.

In view of the foregoing, the asset-based approach has been adopted for the valuation.

(II) Introduction of Asset-based Approach

Asset-based approach is a type of valuation that determines the value of valuation target based on reasonable valuation of assets and liabilities.

Set out below are valuation approaches for each type of asset and liability:

1. Current assets

(1) Monetary capital: including cash and bank deposit.

Monetary capital is denominated in RMB and verified book value is determined as appraised value.

(2) Notes receivables

All notes receivables are not interest-bearing and verified book value is determined as appraised value of bank acceptance.

(3) Accounts receivables

The Independent Valuer, based on verification of error-free accounts receivables, implemented specific analysis of the amount, duration and reasons for arrearage, accounts recovery, current financial, credit position and operation management of the debtors, with reference to historical and current information obtained from investigation, and estimated appraisal risk loss by means of specific identification and aging analysis. Appraisal risk loss is determined as zero if there is every reason to believe that all accounts can be recovered; appraisal risk loss rate is determined as 100% if there is unambiguous evidence showing that accounts cannot be recovered or of a long overdue period; and where part of accounts is unlikely to be recovered and the amount of irrecoverable accounts cannot be determined, appraisal risk loss is estimated according to aging and historical collection analysis, with reference to the approach applied for calculating provision for bad debts in financial accounts.

Appraised value is determined as the amount comprising of the sum of accounts receivables less appraisal risk loss determined according to the above criteria. Provision for bad debts is appraised as zero according to relevant valuation rules.

(4) Prepayment

For prepayment, which mainly includes the prepayment made by the enterprise for materials and services, the Independent Valuer, based on verification of error-free prepayment, implemented specific analysis of the amount and reasons, status of prepayment, current financial, credit position and operation management of the payees, with reference to historical and current information obtained from investigation, and identified no circumstances where the supplier went bankrupt, cancelled supply or failed to supply on schedule as agreed in contract. Verified book value is determined as appraised value.

(5) Inventory

For inventory, which includes raw materials and finished products, the Independent Valuer tested the internal control system on inventory, spot checked significant amounts and original documents, procurement and sales contracts with major clients, receipt and delivery records, daily production reports, and verified the composition of book value, the truthfulness and completeness of cost accounting method; checked intertemporal matters in relation to receipt, delivery and carry-over of inventory, and confirmed the ownership; understand about the accounting system for receipt, delivery and storage of inventory, and spot checked and took stock of inventory; checked inventory for defects, damages, overstock, scrapping, etc.; gathered information on market reference price and product sales price for inventory as the basis of reference for pricing, and determined the appraised value through comprehensive analysis based on market inquiries.

5.1) Raw materials

Raw materials mainly include accessories, structural assembly and spare parts of tractors required for production. Book value of raw materials comprises acquisition price and reasonable expense. As raw materials valued were procured recently, the raw materials including structures and spare parts are subject to little fluctuation in price, the book unit price is close to market price on the Valuation Date and include reasonable expense, hence verified book value is determined as the appraised value.

5.2) Finished products

Finished products mainly include various models of tractors and pesticide sprayers.

The Independent Valuer, through investigation and analysis based on the information provided by the enterprise, determined the appraised value of finished products by deducting sales expense, all taxes and certain profits on sales of products from tax-exclusive sale price.

Appraised value = actual quantity × tax-exclusive sale price ×(1 – product sales tax and surcharge rate – sales expense rate – operating profit margin × income tax rate – operating profit margin ×(1 – income tax rate)×r)

(a) Tax-exclusive sale price: tax-exclusive sale price is determined according to the market prices before and after the Valuation Date;

(b) Product tax and surcharge rate mainly include city construction tax and education surcharge calculated and paid based on the value-added tax paid. For the purpose of the valuation, industry-average tax and surcharge rate have been taken into account;

(c) Sales expense rate is calculated based on the average ratio of sales expense to sales income. For the purpose of the valuation, industry-average sales expense rate has been taken into account;

(d) Operating profit margin = profit from principal business ÷ operating revenue. For the purpose of the valuation, industry-average operating profit margin has been taken into account;

(e) Income tax rate represents the actual tax rate executed by the enterprise;

r – represents a certain rate. As future sales of finished products are subject to certain market risks and therefore some uncertainties, the risk is determined based on investigation results on the Valuation Date and actual sales after the valuation date. Where, r is zero for highly marketable products, 50% for marketable products, and 100% for barely marketable products.

2. Non-current assets

(1) Fixed assets – housing and building assets

For valuation of buildings, replacement price of buildings is calculated based on existing quota criteria, construction fees, loan interest rate by building and quantities according to construction works data and final accounting data or comparable construction cost index data, the newness rate is determined according to the service life of buildings and on-site survey of buildings, and net appraised value of buildings is further calculated.

Appraised value of buildings = replacement price (tax exclusive) × newness rate

① Replacement price

Replacement price comprises three parts, namely, building erection cost (tax exclusive), preliminary and other expense (tax exclusive) and capital cost.

A. Determination of building erection cost

Building erection cost refers to the total price of civil works, decoration and fitting works, water supply and sewerage works, electrical works, firefighting and auxiliary information system works. Integrated building erection cost of large, high-value and important buildings (structures) is determined by budget and final account adjustment method, i.e., the Independent Valuer adjusted the work quantities set out in the final account of subject buildings (structures) to a current integrated building erection cost in accordance with the Construction Consumption Quota of Xinjiang Uygur Autonomous Region 2010 (Substantial Items), the Construction Consumption Quota of Xinjiang Uygur Autonomous Region 2010 (Measure Items), the National Uniform Building Decoration and Fitting Consumption Quota (GYD-901–20), the Building Erection Cost Quota of Xinjiang Uygur Autonomous Region 2010, the Summary Sheet of Unit Valuation of Building Erection and Decoration Works of Urumqi 2010, and material price difference executed according to the engineering information price difference adjustment document for July 2019 of Urumqi.

Integrated building erection cost of buildings (structures) of low value and simple structure is determined by unilateral cost method. Unilateral cost criterion is finalised by determining benchmark unilateral cost according to normal construction level, quality and general decoration standards in the local place on the Valuation Date based on different types of structures and different use functions, and adjusting benchmark unilateral cost according to the features of buildings (structures) (such as different storey height, span, decoration, and degree of difficulty in construction), as the integrated building erection cost.

According to the Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Cai Shui (2016) No. 36) and the Notice of the General Office of the Ministry of Housing and Urban-Rural Development of the People's Republic of China on Properly Preparing for Adjustment of Basis of Pricing for Construction Works after Replacing Business Tax with Value-Added Tax in Building Industry (Jian Ban Biao (2016) No. 4), pilots for replacing business tax with value-added tax were implemented in all-round manner across the country since 1 May 2016, and business tax was replaced with value added tax in building industry.

B. Determination of preliminary and other expense

Preliminary and other expense (tax exclusive) comprises two parts, namely, construction fees required and charged by local government and other expense other than construction cost input by construction unit for construction works.

C. Determination of capital cost

Capital cost represents the loan interests on the capital input for construction works during the construction period. The interest rate is calculated according to the standard set out by the People's Bank of China on the Valuation Date, and construction period is calculated on a normal basis, both of which are taken into account evenly:

Capital cost = (Building erection cost(tax inclusive) + preliminary and other expense(tax inclusive)) × reasonable construction period × loan interest rate ×50%

② Newness rate

For the purpose of the valuation, the newness rate of buildings is evaluated comprehensively by determining the remaining service life of buildings based on actual service conditions of the foundation, bearing structures (beams, slabs and pillars), walls, floors, windows and doors, rendering on interior and exterior walls, ceilings, water and sanitary facilities, electric and lighting facilities of buildings (structures).

Computational formula:

Newness rate = remaining service life/ (practical serviced life + remaining service life) × 100%

③ Determination of the appraised value

Appraised value = replacement price × newness rate

(2) *Fixed assets – equipment assets*

For the purpose of the valuation, following the principle of continuance and based on market price, replacement cost method is principally applied for the valuation in the light of the features of the equipment entrusted for valuation and the information gathered.

Appraised value = replacement price × newness rate

A. Determination of replacement price

1) Replacement price of machinery equipment

Replacement price of equipment is comprehensively determined based on the acquisition price of the equipment taking into account of various expenses required for making the equipment available for normal use (including acquisition price, freight and miscellaneous expense, installation and commissioning expense, other expense for construction and capital cost:

Replacement price = acquisition price of equipment (tax inclusive) + freight and miscellaneous expense (tax inclusive) + installation and commissioning expense (tax inclusive) + other expense for construction(tax inclusive) + capital cost – deductible input tax

① Acquisition price

Acquisition price of domestic equipment is principally determined by making an inquiry to the manufacturer or trading company, or with reference to price information such as 2019 Mechanical & Electrical Product Price Handbook as well as recent contract prices of similar equipment. For equipment of which acquisition price is unavailable through inquiry, its acquisition price is calculated and determined based on rate of change in prices of equipment of the same era and same type.

② Freight and miscellaneous expense

Freight and miscellaneous expense is calculated and determined at different freight and miscellaneous expense rates based on tax-inclusive acquisition price, according to the handling, transport, storage, insurance and other relevant expenses incurred between the places where the manufacturer and the equipment are located, respectively. Meanwhile, deductible value-added tax is deducted at the value-added tax deduction rate of 9%. Freight and miscellaneous expense is not calculated and determined where freight is included in acquisition price.

③ Installation and commissioning expense

Installation and commissioning expense is calculated and determined at different installation expense rates based on tax-inclusive acquisition price, according to the features, weight, ease of or difficulty in installation.

Installation and commissioning expense is not calculated for small equipment requiring no installation.

④ Other expense

Other expense includes administrative fee, survey and design expense, construction supervision fee, tendering agency service fee and environmental assessment fee depending on other expense criteria for construction works in the place where the equipment is located.

⑤ Capital cost

Capital cost represents the interests on or opportunity cost of the capital used in the process of construction and is calculated at the bank loan interest rate during the same period, based on even input during construction period. Interest rate is subject to the loan interest rate published by the People's Bank of China on the Valuation Date.

Capital cost = (building erection cost + preliminary and other expense for construction works) × loan interest rate × construction period × 1/2

⑥ Determination of deductible amount of value-added tax

Deductible amount of value-added tax = acquisition price/1.13×13% + freight and miscellaneous expense/1.09×9% + installation expense/1.09×9% + deductible amount of other expense

2) Determination of replacement price of vehicles

Replacement price of vehicles is determined by the price of transport vehicles on the Valuation Date according to information on recent market prices of vehicles, and taking into account of vehicle acquisition tax, license fee for new vehicles, deductible value-added tax, etc. according to the Interim Regulation on the Vehicle Acquisition Tax of the People's Republic of China and relevant local regulations:

Replacement price = current tax-inclusive acquisition price + vehicle acquisition tax + license fee for new vehicles – deductible value-added tax.

① Current acquisition price is principally derived from current quotes in local automobile market or refers to online quotes;

② vehicle acquisition tax is calculated and determined according to relevant national regulations；

③ License fee for new vehicles is calculated and determined as required by local transport agency.

3) Determination of replacement price of electronic devices

Replacement price of electronic devices is determined based on market acquisition price. For an ordinary value added tax (VAT) payer, corresponding VAT input tax should be deducted from replacement price.

Appraised value of electronic devices produced a long time ago without similar type and model available is determined with reference to recent quotations in second-hand vehicle market.

B. Determination of newness rate

① Newness rate of machinery equipment

Remaining service life of non-production equipment and general equipment is comprehensively determined with reference to the economic service life of the equipment, through survey on components of the equipment by on-site survey on present condition of the equipment and reviewing operation, repair and management records of the equipment.

Newness rate, N, is calculated as described above, i.e.:

N = remaining service life /(practical serviced life + remaining service life) × 100%

② Newness rate of transport vehicles is taken as the smallest amount of the newness rates which is determined as follows, in accordance with the Standard for Compulsory Scrapping of Motor Vehicles (No. 12 Order in 2012) jointly released by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security, and the Ministry of Ecology and Environment, i.e.,

Newness rate of service life = (1 − serviced life/specified or economic service life) × 100%

Newness rate of mileage = (1 − travelled mileage/specified mileage) × 100%

Newness rate = Min(newness rate of service life, newness rate of mileage)

Meanwhile, necessary survey and evaluation are conducted for subject vehicles. Where survey and evaluation result shows great difference from the newness rates determined above, appropriate adjustment should be made; where the two are equivalent to each other, no adjustment is required.

③ Newness rate of service life of electronic devices is mainly determined according to economic service life. Computational formula is as follows:

Newness rate = remaining service life/(serviced life + remaining service life) × 100%

C. Determination of appraised value

Appraised value = replacement price × newness rate

In addition, as arranged by the company, the enterprise is progressively shifting from tractor business, and its special production equipment will be gradually scrapped by 2020 in advance. For the purpose of the valuation, the appraised value of such equipment is determined at the realisable value in second-hand market.

(3) Intangible assets – land use right

Based on site survey results and pursuant to the "Regulations for Appraisal of Urban Land", the Independent Valuer has examined such land valuation approaches as the market comparison approach, the capitalisation of income approach, the residual approach (hypothetical development approach), the cost approximation approach and the benchmark land price coefficient correction approach, etc. The selection of valuation approach should be conducted based on the characteristics and specific conditions of the valuation target, as well as the actual status of the project, and also taking into consideration the land market condition of the area the valuation target is located in and relevant information compiled by the Independent Valuer, so as to analyze and select the appropriate valuation approach for the cost of land use right of the valuation target. The land use right assessed separately within the scope of valuation is for industrial use, through comprehensive analysis, the valuation staffs have determined to adopt the benchmark land price coefficient correction approach and the market comparison approach for the land at No. 665 Lushan Street, Urumqi Economic and Technological Development Zone, the reasons are as follows:

a) Since the land within the scope of valuation is for industrial use, a mature lease market for industrial land is absent in the local area, hence it is difficult to produce an accurate estimation of an unbiased land revenue for a land parcel to be valued, and therefore it is not appropriate to adopt the capitalisation of income approach for the valuation;

b) Since industrial land does not fall within real estate development project and there are seldom rent and sale cases involving similar type of industrial real estate within the same supply and demand scope as subject land, it is difficult to accurately estimate the total price of real estate upon completion of development and hypothetical development method (residual method) is not applicable to the valuation;

c) Benchmark land price coefficient correction approach is applied as there is established benchmark land price and corresponding correction system in downtown area of Urumchi;

d) Cost approach is not applicable as there is great difference between the land price calculated based on cost data including acquisition fee and land development fee in the place where the industrial land is located which are available from investigation and the transaction prices in surrounding regions;

e) Market approach is applicable to the valuation of the industrial land parcel as there are quite many transaction cases involving land for similar use in surrounding regions.

A. Benchmark land price coefficient correction approach

Benchmark land price coefficient correction approach aims to estimate an objective price of subject land parcel by correcting benchmark land prices for similar use or in the same region published by cities and towns using the land price correction coefficient of the land parcel through analysis of influence factors to the land price of subject land parcel. Its basic formula is as follows:

Land price of the land parcel ＝[benchmark land price × K1 × (1+ΣK)] × K2+ corrected development level

Where： K1 – land price correction coefficient

ΣK – sum of correction coefficients of regional factors and individual factors influencing land price

K2 – land use term correction coefficient

B. Market comparison approach

Market comparison approach aims to identify the land price of the land parcel on the Valuation Date by comparing subject land parcel with recent transaction cases involving land for similar use following the substitution principle, and correcting the known price of the latter with reference to differences of the land such as transaction condition, date, regional or individual factors. Its basic formula is as follows:

Land price of the land parcel $= VB \times A \times B \times D \times E$

Where：

VB： land price in comparable case;

A：subject land parcel condition index/land parcel condition index in comparable case = normal condition index/land parcel condition index in comparable case

B：land price index of subject land parcel on the valuation date/land price index of land parcel in comparable case on transaction date

D： regional factor condition index of subject land parcel/regional factor condition index of land parcel in comparable case

E：individual factor condition index of subject land parcel/individual factor condition index of land parcel in comparable case

i.e., appraised land price = result by market comparison approach $\times$50%+ result by benchmark land price coefficient correction approach $\times$50%

For the purpose of the valuation, book values of land deed tax and other expense of intangible assets-land are retained.

Total appraised price = appraised land price + land deed tax + other expense

3. Liabilities

Through examination and verification of actual debtors and amount of liabilities upon achievement of the purpose of the valuation, appraised value is determined based on actual liabilities and the amount thereof to be assumed by property owner upon achievement of the purpose of the valuation.

III. CONCLUSION OF THE VALUATION

The conclusion of the valuation on all assets and liabilities of Xinjiang Equipment Company via asset-based approach on the Valuation Date (i.e., 31 July 2019) are as follows:

Book value and appraised value of assets amounted to RMB140,694,400 and RMB188,599,800, representing a valuation appreciation of RMB47,905,400 or 34.05%.

Book value and appraised value of liabilities amounted to RMB4,471,500 and RMB4,471,500. No valuation appreciation or depreciation was recorded.

Book value and appraised value of net assets amounted to RMB136,222,900 and RMB184,128,300, representing a valuation appreciation of RMB47,905,400 or approximately 35.17%.

The details are set out below:

Summary of assets valuation results

Appraised unit: Xinjiang Equipment Company Valuation Date: 31 July 2019

Unit: RMB'0,000

	Item	Book value B	Appraised value C	Appreciation or Depreciation D=C-B	Appreciation Rate % E=D/B×100%
1	Current assets	3,891.32	3,923.33	32.01	0.82
2	Non-current assets	10,178.12	14,936.65	4,758.53	46.75
3	Including: Long-term equity investment		–	–	–
4	Investment properties		–	–	–
5	Fixed assets	8,020.81	8,764.39	743.58	9.27
6	Construction in progress		–	–	–
7	Intangible assets	2,154.33	6,169.27	4,014.94	186.37
8	Including: land use rights	2,154.33	6,169.27	4,014.94	186.37
9	Other non-current assets		–	–	–
10	Total assets	14,069.44	18,859.98	4,790.54	34.05
11	Current liabilities	447.15	447.15	–	–
12	Non-current liabilities	–		–	–
13	Total liabilities	447.15	447.15	–	–
14	Net assets (shareholders' equity)	13,622.29	18,412.83	4,790.54	35.17

For details of the conclusion of the valuation, please see the valuation schedule.

In view of the above, the appraised value of the entire shareholders' equity of Xinjiang Equipment Company was RMB184,128,300 on the Valuation Date.

IV. ANALYSIS OF VALUATION RESULTS

According to the conclusion of the valuation, changes in appraised value as compared with book value are as follows:

1. Appraised value of current assets was higher than the book value by RMB320,100, which was solely attributable to the appreciation of inventory.

According to the conclusion of valuation on inventory, appreciation of inventory is mainly attributable to: (1) slight appreciation of finished products as a result of the fact that book cost of finished products only reflects variable costs including material acquisition cost of finished products, and book value of inventory does not reflect fixed costs; and (2) appreciation in valuation as a result of the fact that the enterprise made provision for inventory impairment according to current net realisable value of inventory, taking into no account of the circumstance where current market price of part of inventory is higher than the book value.

2. Appraised value of current assets was higher than the book value by RMB47,585,300, of which, fixed assets appreciated by RMB7,435,800 and intangible assets appreciated by RMB40,149,400.

Appreciation of fixed assets is mainly attributable to the appreciation in valuation as a result of the fact that the enterprise made provision for impairment of fixed assets according to the difference of recoverable amount of fixed assets lower than book value, taking into no account of the part where book value was higher than the recoverable amount.

Intangible assets represent land use rights owned by Xinjiang Equipment Company. Higher appraised value as compared to the book value was mainly attributable to the rise in market price of land in the place where Xinjiang Equipment Company is located in recent years.

The valuation approach used in the valuation was in compliance with relevant requirements of the Basic Standards for Assets Appraisal, the Code of Practice on Assets Appraisal and the Guidelines for State-owned Assets Appraisal Report of Enterprises as published by China Appraisal Society, and selection of valuation parameters was in line with industry practice.

The following is a summary of the valuation report in connection with the valuation as at 31 July 2019 of the 100% equity interest of Luoyang Xiyuan, which has been prepared for the purpose of inclusion in this circular.

Asset Valuation Report

in respect of

Proposed acquisition of all the equity interests held by Luoyang Tractor Research Institute Co., Ltd.* in Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* by YTO Group Corporation*

Zhong Lian Ping Bao Zi [2019] No. 1497

Summary

China United Assets Appraisal Group Co., Ltd. was engaged by YTO Group Corporation* to appraise the market value of 100% equity interest of Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* ("**Luoyang Xiyuan**") as at the 31 July 2019, which is involved in the economic behaviour whereby YTO Group Corporation* proposes to acquire all the equity interests of Luoyang Xiyuan held by Luoyang Tractor Research Institute Co., Ltd.*.

The subject of valuation is 100% equity interest of Luoyang Xiyuan and the scope of valuation covers all assets and relevant liabilities of Luoyang Xiyuan including current assets, non-current assets and the corresponding liabilities.

The valuation date is 31 July 2019 ("**Valuation Date**").

The type of value of the valuation is market value.

This valuation has been conducted on the basis of continued use and open market. After comprehensively considering all kinds of factors that may affect the valuation in light of the actual conditions of the valuation subject, asset-based approach and income approach have been adopted for the overall valuation of Luoyang Xiyuan before checking and comparison. Upon considering the premises of these two approaches and whether they satisfy the purpose of this valuation, the valuation results obtained by adopting the income approach were selected as the final conclusion of this valuation.

The Independent Valuer has relied on the following valuation assumptions in this valuation:

(I) General assumptions

1. Transaction assumption

Transaction assumption assumes that all assets to be valued are in the process of transaction, and the Independent Valuer will conduct the valuation with reference to a simulated market based on the transaction conditions of assets to be valued. The transaction assumption is a fundamental pre-requisite for the implementation of the asset valuation.

2. Open market assumption

Open market assumption assumes that both parties to the assets transaction or the proposed assets transaction in the market have equal position and have the opportunity and time to access sufficient market information so as to make a rational judgment on the assets in terms of their function, intended purpose and transaction price. The open market assumption is made on the basis that the assets are available for trading openly in the market.

3. Assumption on continuing operation of assets

Assumption on continuing operation of assets assumes that the assets to be valued will be used continuously based on the current intended purpose, operation method, scale of operation, frequency and environmental conditions, etc., or will be used on the above-mentioned bases with changes. The valuation method, parametres and basis shall be determined accordingly.

(II) Special assumptions

1. There will be no material changes in the current national macro-economic, financial and industrial policies.

2. There will be no material changes in the social and economic environment, taxation or tax rate policies applicable for the appraised entity in the future operating period.

3. The management of the appraised entity will act with due diligence in the future operating period and continue to operate under an operation and management model the same as that of the Valuation Date. The premises of the appraised entity can be leased on a consistent basis.

4. The principal business, product structure, revenue and cost composition, sales strategy as well as cost control of the appraised entity in the future operating period will maintain its current status in recent years without material changes. This does not take into consideration the profit and loss arising from changes concerning the scale and composition of assets, principal business and product structure which may be caused by future changes in the management, operating strategies and business environment.

5. There will be no material changes in the expenditure of the appraised entity incurred in the future operating period on the current basis, such expenditure will change in accordance with the trend in recent years. Given that the monetary funds or bank deposits of the enterprise vary frequently in the course of production and operation, neither the interest income from deposits, nor other uncertain profits and losses including exchange gains and losses are taken into consideration in the valuation.

6. The assets under valuation are based on the actual inventory as at the Valuation Date, and the current market price of relevant assets is based on the effective domestic price as at the Valuation Date.

7. It is assumed that the basic information and financial information provided by the principal and the appraised entity are true, accurate and complete.

8. The scope of the valuation is only based on the application form provided by the principal and the appraised entity, taking no consideration of any possible contingent assets and contingent liabilities not included in the list provided by the principal and the appraised entity.

9. The enterprise's existing testing qualification as a third party continues to be valid and will not be revoked or de-certificated.

10. The enterprise's existing capacity as the basic public service platform of industrial technology and national service platform for small and medium-sized enterprises under the Ministry of Industry and Information Technology accredited by the state continues to subsist as usual, and the enterprise measures up to all the criteria and competence required by such platform in the long term.

11. The appraised entity will continue to use office buildings, production venues and certain machinery and equipment by way of leasing in the future operating period, without consideration of adjustments and changes to the operating strategies made by the appraised enterprise and its substantial shareholders.

12. As at the Valuation Date, Luoyang Xiyuan has been recognised as a 高新技術企業 (High and New Technology Enterprise*), and is therefore entitled to the preferential tax rate of 15%. It is assumed that the appraised entity will continue to enjoy such tax policy for High and New Technology Enterprises in the future forecast period and the research and development investment of Luoyang Xiyuan in the future forecast period meets the criteria of High and New Technology Enterprises in the valuation.

13. It is assumed that the enterprise records net cash flows evenly during the year in the valuation.

The Independent Valuer adopted the income approach to perform the valuation of Luoyang Xiyuan.

I. DESCRIPTION OF VALUATION APPROACH

According to the relevant provisions stipulated by the state administration authorities and the Assets Appraisal Practicing Standards – Enterprise Value, and the international and domestic appraisal practice on similar transactions, the Independent Valuer decided to appraise the equity capital value of the appraised entity by using the discounted cash flow method (the "**DCF method**") based on the income approach.

The DCF method is a method of appraising the asset value by discounting the expected future net cash flows of the enterprise into present value. The basic concept is that the appraised value is obtained by converting the future expected net cash flow into the present value at an appropriate discount rate. The basic conditions of application are: the enterprise has the foundation and conditions for continuous operation, there is stable relationship between the operation and the income, and the future income and risks can be forecasted and quantified. The difficulty of using the DCF method lies on the forecast of expected future cash flows, the objectivity and reliability of data collection and processing. When there is relatively objective forecast on the expected future cash flows and a reasonable discount rate, the appraisal result will be more objective.

(i) Valuation Considerations

According to the due diligence results and the composition of assets and features of principal business of Luoyang Xiyuan, the valuation of the equity capital value of Luoyang Xiyuan is based on its financial statements. The basic appraisal considerations of the valuation are as follows:

1. For the assets and principal business included into the financial statements, the value of operational assets is derived, on a discounted basis, from the estimation of the expected income (net cash flow) based on the changes and trend in the historical operation in recent years and the types of business;

2. For current assets (liabilities), such as dividend receivables or payables, included into the financial statements as at the Valuation Date, but not considered in estimating the expected income (net cash flow); for non-current assets (liabilities) including idle equipment, real estates or works in process which the income was not realised, they are defined as surplus or non-operational assets (liabilities) as at the Valuation Date, and such values should be measured and calculated separately;

3. The enterprise value of Luoyang Xiyuan is obtained by summing up the values of above assets and liabilities, the entire shareholders' equity value in Luoyang Xiyuan is calculated by deducting the value of interest-bearing debts.

(ii) Model of Valuation

1. Fundamental model

The fundamental model used for the valuation is:

$$E = B - D$$

In which:

E: represent the entire shareholders' equity (net assets) value in Luoyang Xiyuan;

B: represents the enterprise value of Luoyang Xiyuan;

$$B = P + C + I$$

P: represents the operational assets value of Luoyang Xiyuan:

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n}$$

In which:

Ri: represents the expected income (free cash flow) to be obtained in Year i in the future of Luoyang Xiyuan;

r: represents discount rate;

n: represents the future operating period of Luoyang Xiyuan;

C: represents the value of surplus or non-operational assets (liabilities) of Luoyang Xiyuan as at the Valuation Date:

$$C = C_1 + C_2$$

C_1: represents the value of current surplus or non-operational assets (liabilities) of Luoyang Xiyuan as at the Valuation Date;

C_2: represents the value of non-current surplus or non-operational assets (liabilities) of Luoyang Xiyuan as at the Valuation Date;

I: represents the long-term investments' value of Luoyang Xiyuan as at the Valuation Date;

D: represents the interest-bearing debts' value of Luoyang Xiyuan.

2. Income indicator

For this valuation, the free cash flow of the enterprise is treated as the income indicator of operational assets of Luoyang Xiyuan, which is basically defined as:

R = Net profit + Depreciation Amortisation + Interest on interest-bearing debts after tax – Additional Capital

The free cash flow generated during future operating term is estimated according to the operational history of Luoyang Xiyuan and future market development. Discount and sum up the free cash flows during the future operating term to obtain the value of operational assets of the enterprise.

3. Discount Rate

This valuation adopted the weighted average cost of capital (WACC) model to determine the discount rate r:

$$r = r_d \times w_d + r_e \times w_e$$

In which,

W_d: represents the debt ratio of Luoyang Xiyuan;

$$w_d = \frac{D}{(E+D)}$$

W_e: represents the equity ratio of Luoyang Xiyuan;

$$w_e = \frac{E}{(E+D)}$$

r_d: Interest rate applicable to interest-bearing debts after income tax;

r_e: Cost of Equity Capital. The cost of equity capital r_e is determined using the capital asset pricing model (CAPM):

$$r_e = r_f + \beta_e \times (r_m - r_f) + \varepsilon$$

In which,

r_f: represents risk-free return rate;

r_m: represents the expected market return rate;

ε : represents the characteristic risk adjustment coefficient of Luoyang Xiyuan;

β_e: represents the expected market risk coefficient of equity capital of Luoyang Xiyuan;

$$\beta_e = \beta_u \times (1 + (1-t) \times \frac{D}{E})$$

β_u: represents the expected unleveraged market risk coefficient of comparable company;

$$\beta_u = \frac{\beta_t}{1 + (1 - t)\frac{D_i}{E_i}}$$

β_t: represents the coefficient of expected average market risk of the stocks (assets) of comparable company;

$$\beta_t = 34\%K + 66\%\beta_x$$

In which,

K: represents the expected average risk level for future stock market, generally assuming K=1;

β_x: represents the average historical market risk coefficient of stock (assets) of comparable company;

D_i and E_i: represents the bearing-interest debts and equity capital of comparable company respectively.

II. EXPLANATION ON RELEVANT PARAMETERS IN VALUATION

(i) Explanation on Period of Income

The two-stage model was adopted in this valuation, which means that the period from August to December 2019 up to 2024 is the observation period. In this period, the profit forecast on Luoyang Xiyuan is calculated based on the macro-economic environment, industrial development and the expectation on the operation of the enterprise. The income of Luoyang Xiyuan will become stable after 2024 and thus it is expected to enter the perpetual period in 2025.

(ii) Forecast on Net Cash Flow

1. Forecast on operating income and cost

The operating income of Luoyang Xiyuan is mainly attributable to inspection business, research and development, production and sale of non-standard equipment and other businesses, among which the inspection business includes tractor and its spare parts business, internal combustion engine and its spare parts business and motor vehicle and its spare parts business.

(1) Income forecast on main products

2.1) Agricultural machinery products inspection business

As a key development area under the "Made in China 2025", the agricultural machinery equipment inspection business, such as the inspection on the type and reliability of newly developed products and major ancillary components, has a significant growth potential. The agricultural machinery equipment product inspection business will maintain stable growth in the coming three years. The company has relatively fewer harvesting machinery inspection businesses. With the acceleration in the advancing of the national inspection agency marketization, cross-functional barriers will gradually eliminate. Relying on the comparative advantages of the "National Tractor Quality Supervision and Testing Center" in resources, inspection ability, service quality, timeliness and other aspects, the harvesting machinery inspection business enjoys great improvement potential.

2.2) Internal combustion engine inspection business

The Ministry of Ecology and Environment issued the announcement on "Technical Policies on Prevention of Pollution from Non-road Mobile Machinery" (the "**Technical Policies**"). The Technical Policies proposed the control target of pollutants emission from newly produced non-road mobile machinery in the following 5–10 years. It is expected that the internal combustion engine inspection business will record an increase of approximately 20% in 2020 and an annual increase of approximately 5% from 2021 to 2023. It will gradually stabilise in the following years.

2.3) Automobile and parts inspection and testing business

In December 2018, the General Office of Ministry of Transport issued the notice on Cancellation of Road Transport Certificate and Driver's Qualification Certificate for General Freight Vehicles with gross vehicle mass of 4.5 Tonnes and Below (《關於取消總質量4.5噸及以下普通貨運車輛道路運輸證和駕駛員從業資格證》), pursuant to which all local transportation administration departments would no longer issue road transport certificates to general freight vehicles with gross vehicle mass of 4.5 tonnes and below from 1 January 2019. As a result, it is expected that the revenue from automobile and parts inspection and testing business in 2019 will be lower than that in 2018, which is estimated to be approximately RMB20 million. However, in March 2019, Luoyang Xiyuan was newly recognised by the Ministry of Transport for the inspection standards for 68 road transport vehicles and the inspection ability for relevant testing methods. Besides, positive progress has been made in the application for the inspection qualification on 3C certification of special vehicles, providing certain support to expanding the market of vehicle inspection services and optimising the business structure. It is expected to be reflected in the operating revenue in 2020 with an expected increase of 10% from 2020 to 2021.

2.4) Inspection and testing equipment development business

The increasingly intensified competition in the quality of agricultural machinery products further boosts the demand for online and rapid inspection and testing equipment. The development of inspection and testing equipment for agricultural machinery products will grow fast at first and then slow down in the next four years. It is expected to maintain stably at a growth rate between 5% -15%.

2.5) Other inspection businesses

2.5.1) Measurement and calibration services

The company obtained the qualification for calibration laboratories from China National Accreditation Service for Conformity Assessment (CNAS) in 2014 and will maintain stable growth in the future forecast period.

2.5.2) International accreditation services

The company is an official testing platform for tractors and related safety and protective devices in China designated by The Organization for Economic Co-operation and Development (OECD). With the improvement in the technology and quality of tractors in China as well as the mandatory implementation of the National 3 and National 4 emission standards on non-road diesel engines, the export of tractors will continue to grow in the future. The business segment is expected to grow steadily in the future forecast period.

Revenue from other businesses will maintain a growth rate of 10% in the forecast period.

(2) Forecast of operating costs of principal business

Through the understanding of cost accounting, the enterprise accounts for all fixed costs in the administrative expenses. All operating costs of principal business are variable costs and do not include staff salaries. Therefore, the operating costs of principal business accounted for by the enterprise is basically linear with the operating revenue of principal business. Therefore, the operating costs of principal business in the future forecast period are measured based on the historical ratio of costs to revenue.

2. Forecast of taxes and surcharges

As disclosed in the accountants' report, the taxes of Luoyang Xiyuan mainly include value-added tax, urban construction tax, education surcharge, local education surcharge, property tax, urban land use tax, stamp duty and vehicle and vessel tax.

3. Forecast on expenses incurred in the period

(1) Estimates of operating expenses

As disclosed in the audited financial statements, the operating expenses of Luoyang Xiyuan for the two years ended 31 December 2017 and 2018 and seven months ended 31 July 2019 were RMB45,100, RMB12,000 and RMB26,200, respectively, all of which were advertising fees.

(2) Estimates of administrative expenses and research and development expenditures

As disclosed in the audited financial statements, the administrative expenses and research and development expenditures of Luoyang Xiyuan for the two years ended 31 December 2017 and 2018 and seven months ended 31 July 2019 mainly were salaries and statutory insurances and housing provident funds, technical development cost, rental, office expenses and travel expenditures, etc. During the period for the two years ended 31 December 2017 and 2018 and seven months ended 31 July 2019, the proportion of administrative expenses in the operating revenue was 43.65%, 40.21% and 44.53%, respectively. The valuation was appraised based on the ratio of various expenses in the operating revenue and its trend of changes with reference to the level of various expenses in the historical period.

4. Forecast of income tax

The Enterprise Income Tax Law of the People's Republic of China provides the income tax rate of high technology enterprises is 15%. Luoyang Xiyuan applies an income tax rate of 15%.

5. Depreciation forecast

The fixed assets of Luoyang Xiyuan primarily consist of transportation equipment and other equipment. The pricing of the fixed assets shall be based on the actual costs at the time of acquisition. During the valuation, the amount of depreciation for the following operating period was estimated based on the audited original book value, estimated service life and weighted depreciation rate of the fixed assets as at the Valuation Date in accordance with the policy on the depreciation of fixed assets adopted by the enterprise and taking into account the amount of depreciation of the additional capacities upon their transfer into fixed assets in the future.

6. Additional capital forecast

Additional capital refers to the working capital replenished for the enterprise to continue as a going concern and long-term capital investment over a year, such as the capital investment required for the business expansion (acquisition of fixed assets or other non-current assets), the necessary additional working capital and the assets renewal required for continuous operation on the premises that the current operating conditions of the enterprise remain unchanged.

Additional capital = Capital expenses + Assets renewal + Additional working capital

(III) Determination of Discount Rate

1. In terms of risk-free return rate r_f: it was determined based on the average interest rate of treasury bond with a term of over ten years with reference to the average interest rate of mid- and long- term treasury bond issued by the state in recent five years.

2. Expected rate of market return r_m

   In terms of expected rate of market return r_m, it is generally believed that the fluctuation in stock index would reflect the overall fluctuation in the market and the average long-term return rate of index may reflect the average expected rate of market return. It was derived by estimating the average return rate of index from 21 May 1992 when the stock price of SSE Composite Index was fully liberalised and free bidding trading was implemented up to 31 July 2019.

3. For the value of β_e, it is derived on the basis of the average historical market risk coefficient (estimated by using the market prices for the three years between July 2016 to July 2019) of comparable companies, which shall be selected from comparable listed companies (in the category of Shenyin & Wanguo) on Shanghai and Shenzhen Stock Exchanges with core businesses in the sector of third party testing. While those under certain circumstances shall be excluded, including those with negative return on net assets in the past three years, the listed companies recently planning significant restructure on the Valuation Date, those lately listed on stock exchange, B share companies, those with material deviation in historical beta value and those with large difference in core businesses.

4. Cost of equity capital r_e: the Company has taken into consideration the specific individual risk that may arise due to the difference between the financing conditions, liquidity, governance structure and other relevant aspects of Luoyang Xiyuan and those of the comparable listed companies in this valuation.

5. Applicable tax rates: 15%.

6. The debt ratio W_d and equity ratio W_e are arrived at by using the formulas.

7. The ratio of interest-bearing debts r_d after taxation is determined based on the actual situation of enterprise.

8. The discount rate r is derived by applying each of the abovementioned values in the formula.

The value of the operating assets of the appraised unit of RMB171,675,100 is derived by applying the expected cash flow in the formula.

(IV) Surplus or Non-operating Assets

In the course of investigation, it is found that the value of the assets (liabilities) of Luoyang Xiyuan was not considered in the estimation of the net cash flow on the Valuation Date, namely 31 July 2019, which shall be surplus or non-operating assets (liabilities) other than the cash flow derived in this estimation:

The value of the surplus or non-operating assets after the valuation was RMB63,250,800.

IV. DETERMINATION OF THE VALUE OF EQUITY CAPITALS

After substituting the above parameters into the formula, it is deduced that the value of operating assets P=RMB171,675,100; the value of surplus or non-operating assets on the Valuation Date C=RMB63,250,800; and the value of the enterprise is RMB234,925,900.

The corporate value of Luoyang Xiyuan B=RMB234,925,900 and the value of interest-bearing debts D=RMB0. Therefore, the value of the equity capitals of Luoyang Xiyuan is RMB234,925,900.

Upon conducting the valuation procedures such as examination and verification, site inspection, market survey and confirmation, and determination of valuation, the valuation conclusion for the entire shareholders' equity of Luoyang Xiyuan as at the Valuation Date, i.e. 31 July 2019, was arrived at as follows:

The appraised value of the entire equity interest of Luoyang Xiyuan was RMB234,925,900, representing a valuation appreciation of RMB143,829,800 or approximately 157.89% as compared with its carrying value of RMB91,096,100.

Reasons for valuation appreciation: income approach is adopted as the conclusion of this valuation, and the appraised value reflects the intrinsic value of Luoyang Xiyuan which encompasses both tangible assets and intangible assets as numerous accredited qualifications, public service platform, industrial influence and customer resources of Luoyang Xiyuan, resulting in the appreciation of this valuation.

The following is the text of a letter issued by Da Hua Certified Public Accountants in respect of the profit forecast of Luoyang Xiyuan for the purpose of inclusion in this circular.

The Board of Directors
First Tractor Company Limited
No. 154 Jianshe Road, Luoyang, Henan Province, the PRC

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN LUOYANG XIYUAN

To: the Board of Directors of
First Tractor Company Limited

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation prepared by China United Assets Appraisal Group Co., Ltd. in respect of 洛陽西苑車輛與動力檢驗所有限公司(Luoyang Xiyuan Vehicle and Power Inspection Institute Co.,Ltd.*) ("**Luoyang Xiyuan**") as at 31 July 2019 (the "**Valuation**") is based. The valuation is set out in the circular of First Tractor Company Limited (the "**Company**") dated 13 November 2019 (the "**Circular**") in connection with the proposed disposal of the entire issued share capital of Luoyang Xiyuan. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

1. The management's responsibility for the Forecast

The management of the Company (the "**Management**") are responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Management. This responsibility includes carrying out appropriate procedures relevant to the preparation of the Forecast for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

2. Our Independence and Quality Control

We have complied with the Code of Professional Ethics for China Certified Public Accountants as well as the relevant professional ethics. Meanwhile, we strictly abide by the principles of integrity, objectivity, and maintain professional competence and due care.

Our firm applies Quality Control Standards No.5101 – "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

3. Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Valuation does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Other Standards for Assurance Engagements of China Certified Public Accountants No.3101 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Management have properly compiled the Forecast in accordance with the Assumptions adopted by the Management. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Management. Our work is substantially less in scope than an audit conducted in accordance with Auditing Standards for China Certified Public Accountants. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose.

4. Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculation of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Management.

DaHua Certified Public Accountants
(Special General Partnership)

Beijing, China

13 November 2019

The following is the text of a letter from Opus Capital in respect of the profit forecast of Luoyang Xiyuan for the purpose of inclusion in this circular.

Opus Capital Limited
創富融資有限公司

18th Floor, Fung House
19–20 Connaught Road Central
Central, Hong Kong

First Tractor Company Limited
154 Jian She Road
Luoyang
Henan Province
PRC

13 November 2019

To the Board of Directors of First Tractor Company Limited:

Re: Profit Forecast – Letter of Confirmation under Rule14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")

Dear Sirs,

We refer to the circular of First Tractor Company Limited* (the "**Company**") dated 13 November 2019 (the "**Circular**") in relation to the Company's disposal (the "**Disposal**") of 100% equity interest in 洛陽西苑車輛與動力檢驗所有限公司 (Luoyang Xiyuan Vehicle and Power Inspection Institute Co.,Ltd.*) ("**Luoyang Xiyuan**") which constitutes a discloseable transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the discounted cash flow forecast (the "**Forecast**") underlying the business valuation (the "**Valuation**") prepared by China United Assets Appraisal Group Co., Ltd. (the "**Independent Valuer**") in relation to the appraisal of the fair value of 100% equity interest in Luoyang Xiyuan as at 31 July 2019. The Forecast upon which the Valuation has been made is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The principal assumptions (the "**Assumptions**") upon which the Forecast is based are included in the letter from the board (the "**Letter from the Board**") of the Circular. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have undertaken reasonableness checks to assess the relevant experience and expertise of the Independent Valuer and are satisfied that reliance could fairly be placed on the Independent Valuer's work.

We have reviewed the Forecast upon which the Valuation has been made and have discussed with the Board and the Independent Valuer the qualifications, bases and assumptions upon which the Forecast have been prepared by the Independent Valuer. We have also considered the letter from Da Hua Certified Public Accountants dated 13 November 2019 addressed to the Board as set out in Appendix III to the Circular regarding the calculations upon which the Forecast have been made. We have noted that Da Hua Certified Public Accountants concluded in its letter that the Forecast, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions as set out in the Letter from the Board and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Company.

Our work in connection with the Forecast has been undertaken solely for the purpose of complying with the relevant requirements under Rule 14.62(3) of the Listing Rules. Based on the foregoing and on the basis that (i) the qualification, bases and assumptions adopted by the Independent Valuer in respect of the Forecast have been reviewed by the Directors; and (ii) the Directors are satisfied that no further matters should be brought to our attention, we are satisfied that (i) the Forecast underlying the Valuation, for which the Directors are solely responsible, have been made by the Directors after due and careful enquiry; and (ii) the qualifications, bases and assumptions adopted by the Independent Valuer have been made with due care and objectivity, and on a reasonable basis. However, we express no opinion as to how closely the actual cash flow will eventually correlate with the Forecast.

We have not independently verified the computations leading to the Independent Valuer's determination of the fair value and market value of Luoyang Xiyuan. We have had no role or involvement and have not provided and will not provide any assessment of the appraised value of Luoyang Xiyuan. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the appraised value of Luoyang Xiyuan as determined by the Independent Valuer and set out in the valuation report issued by the Independent Valuer or otherwise. We furthers confirm that the assessment, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that we have, in arriving at our views, relied on information and materials supplied to us by the Independent Valuer, the Group and Luoyang Xiyuan and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and Luoyang Xiyuan. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Circular, for which the Directors are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations.

Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review. Further, while the qualifications, bases and assumptions adopted by the Independent Valuer are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Independent Valuer.

We are acting as the financial adviser to the Company in reviewing the Forecast and will receive fees for such advice. We, our directors and affiliates will, neither jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the review of the Forecast, nor will we, our directors or affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

Nothing in this letter should be construed as an opinion or view as to the fair value, market value or any other value of Luoyang Xiyuan or as an opinion or recommendation to any person as to whether they should acquire the shares of the Company. Shareholders are recommended to read the Circular with care.

A copy of this letter in its entirety may be reproduced in the Circular on the basis that none of the Company, the Independent Valuer or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

* *For illustration purposes only*

Yours faithfully,
For and on behalf of
Opus Capital Limited
Koh Kwai Yim
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of the Directors, supervisors and Chief Executive of the Company

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest or short position in any shares, underlying shares and/or debentures (as the case may be) of the Company or any associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisors or chief executive was taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

(ii) Interests of Substantial Shareholders and other Shareholders

Save as disclosed below, as at the Latest Practicable Date, the Directors were not aware of any person who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were required to be notified to the Company and the Stock Exchange pursuant to section 324 of the SFO, or who was, directly or indirectly, interested in

10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity	Number of shares interested[1]	Approximate percentage of the relevant class of issued share capital of the Company (%)	Approximate percentage of the total issued share capital of the Company (%)	Class of shares
YTO	Beneficial owner	410,690,578(L)	69.15	41.66	A Share

Notes:

1. (L) – Long position, (S) – Short position

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

Save as disclosed above, there are no other persons (other than the Directors, supervisors or chief executives of the Company) who, as at Latest Practicable Date, had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

3. DISCLOSURE OF OTHER INTERESTS OF THE DIRECTORS

(a) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up.

(c) Interests in competing business

As at the Latest Practicable Date, none of the Directors or any of their respective associates of the Company were interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the Company's business.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group, and no Director was interested in any assets which had been acquired or disposed of by or leased to (or are proposed to be acquired or disposed of by or leased to) any member of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up.

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited accounts of the Group were made up.

6. EXPERT AND CONSENTS

The following are the qualifications of the experts who have given an opinion or advice to the Company which is contained in this circular:

Name	Qualification
China United	a qualified PRC valuer licensed to undertake assets appraisal business by the Ministry of Finance of the PRC
Da Hua Certified Public Accountants	Certified Public Accountants

Name	Qualification
Opus Capital	a licensed corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Veda Capital	a licensed corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of the experts had given and had not withdrawn its written consent to the issue of this circular, with the inclusion of its letter or report and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the experts did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the experts had no direct or indirect interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the office of Messrs. Li & Partners at 22nd Floor, World Wide House, Central, Hong Kong for a period of 14 days from the date of this circular:

(a) Agreement I;

(b) Agreement II;

(c) the letter from the Independent Board Committee, the text of which is set out in this circular;

(d) the letter from Veda Capital, the text of which is set out in this circular;

(e) the valuation report with respect to Xinjiang Equipment Company prepared by the Independent Valuer, the summary of which is set out in Appendix I to this circular;

(f) the valuation report with respect to Luoyang Xiyuan prepared by the Independent Valuer, the summary of which is set out in Appendix II to this circular;

(g) the letter from Da Hua Certified Public Accountants relating to the profit forecast of Luoyang Xiyuan, the text of which is set out in Appendix III to this circular;

(h) the letter from Opus Capital relating to the profit forecast of Luoyang Xiyuan, the text of which is set out in Appendix IV to this circular; and

(i) the written consents of China United, Da Hua Certified Public Accountants, Opus Capital and Veda Capital as referred to in this appendix.

8. GENERAL

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language.