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 stockbroker or other registered dealer 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 together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Chinese translation of this circular is for reference only and in case of inconsistency, the English version 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)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF TARGET ASSETS; (2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE IN SINOMACH FINANCE; (3) VOLUNTARY LIQUIDATION OF YTO FINANCE; (4) DISCLOSEABLE TRANSACTION IN RELATION TO THE DEPOSIT TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS; (5) INCREASE THE CAP AMOUNTS OF 2022 RELATED TRANSACTIONS BETWEEN THE COMPANY AND ZF AXLE COMPANY; AND (6) NOTICE OF EGM

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

Gram Capital Limited
嘉林資本有限公司

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 7 to 48 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on pages 49 to 50 of this circular. A letter of advice from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 51 to 74 of this circular.

A notice convening the EGM of the Company to be held at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC at 2:30 p.m. on Thursday, 16 June 2022 is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM or any adjournment thereof (as the case may be) is enclosed with this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The form of proxy shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company 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 form of proxy 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.

31 May 2022

CONTENTS

In this circular, unless the context otherwise requires, the following expressions 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
"associate(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Board"	the board of Directors
"Business Cessation Date"	30 June 2022, the date which YTO Finance proposed to cease new businesses, subject to the approval of the Independent Shareholders of the Disposal at the EGM. Part of the existing businesses of YTO Finance will be on-going, according to the remaining assets requirements and the actual work needs, until commencement of the Liquidation process
"Business Day	a day other than Saturday, Sunday and statutory holidays in the PRC
"Capital Increase"	the capital increase in Sinomach Finance by the Company pursuant to the terms of the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement)
"CBIRC"	China Banking and Insurance Regulatory Commission（中國銀行保險監督管理委員會）
"Company"	First Tractor Company Limited*（第一拖拉機股份有限公司）, a joint stock company with limited liability incorporated in PRC, the H Shares and A Shares of which are listed on the main board of the Hong Kong Stock Exchange (stock code: 0038) and the Shanghai Stock Exchange (stock code: 601038) respectively
"Continuing Connected Transactions"	collectively, the Exempt Continuing Connected Transactions and the Non-exempt Continuing Connected Transactions

"connected person(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"controlling shareholder"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Director(s)"	director(s) of the Company
"Disposal"	the proposed disposal of the Target Assets by YTO Finance to Sinomach Finance pursuant to the terms of the Disposal Agreement
"Disposal Agreement"	the agreement dated 29 March 2022 entered into between YTO Finance and Sinomach Finance relating to the Disposal
"Disposal Completion Date"	the date on which YTO Finance completes the transfer of the Target Assets to Sinomach Finance pursuant to the Disposal Agreement and signs a confirmation letter with Sinomach Finance, the date of completion of the Disposal is expected to be no later than 30 September 2022
"EGM"	the extraordinary general meeting of the Company to be convened at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC on Thursday, 16 June 2022 at 2:30 p.m. for the purpose of considering and, if thought fit, to approving the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement
"Exempt Continuing Connected Transactions"	the transactions in relation to the provision of loans and other financial services contemplated under the Financial Services Framework Agreement
"Financial Services Framework Agreement"	the agreement dated 29 March 2022 entered into between the Company and Sinomach Finance for the provision of the deposits, loans and other financial services by Sinomach Finance to the member companies of the Group

"Gram Capital" or "Independent Financial Adviser"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps)
"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 Hong Kong Stock Exchange
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including relevant annual caps)
"Independent Shareholder(s)"	Shareholders other than YTO and its associates
"Independent Valuer" or "China Enterprise"	China Enterprise Appraisals Consultation Co., Ltd., an independent PRC valuer engaged to conduct a valuation on each of the Target Assets and Sinomach Finance
"Investment Agreement"	the investment agreement dated 29 March 2022 entered into between the Company and Sinomach Finance in relation to the Capital Increase
"Latest Practicable Date"	27 May 2022, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information contained in this circular

"Licence and Technology Agreement"	the licence and technology agreement dated 18 July 2014 entered into between the Company and ZF China (as licensors) and ZF Axle Company (as licensee) relating to the licence and technology ownership between the parties including the supplemental agreement(s), if any, relating thereto
"Liquidation"	voluntary liquidation of YTO Finance
"Notice of EGM"	the notice for convening the EGM dated 31 May 2022, a copy of which can be downloaded from the Company's website (www.irasia.com/listco/hk/firsttractor) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk)
"Non-exempt Continuing Connected Transactions"	the transactions in relation to the deposit services contemplated under the Financial Services Framework Agreement
"PBOC"	The People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC"	the People's Republic of China which, for the purpose of this circular only, does not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Procurement Framework Agreement"	the procurement framework agreement dated 18 July 2014 entered into between the Company and ZF Axle Company relating to the purchase of the gears, drive shafts and other components for the production of drive axles by AF Axle Company from the Company including the supplemental agreement(s), if any, relating thereto
"Restructuring Framework Agreement"	a legally-binding framework agreement dated 29 March 2022 entered into amongst Sinomach, Sinomach Finance, the Company and YTO Finance in relation to the Restructuring Transactions
"Restructuring Transactions"	collectively, the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions
"RMB"	Renminbi, the lawful currency of the PRC

"Sales Framework Agreement"	the sales framework agreement dated 18 July 2014 entered into between the Company, ZF Axle Company and ZF Hangzhou relating to the sale of products (including drive axle products) manufactured by it to the Company and ZF Hangzhou including the supplemental agreement(s), if any, relating thereto
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Listing Rules"	Shanghai Stock Exchange Share Listing Rules
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	A Share(s) and H Share(s), collectively
"Sinomach"	China National Machinery Industry Corporation*（中國機械工業集團有限公司）, a limited liability company incorporated in the PRC and the controlling shareholder of YTO, holding approximately 87.90% equity interests in YTO
"Sinomach Finance"	Sinomach Finance Co., Ltd.*（國機財務有限責任公司）, a limited liability company approved to be established in the PRC by the CBIRC as a non-banking financial institution, and a 79.32%-owned owned subsidiary of Sinomach
"Sinomach Group"	Sinomach and its subsidiaries, excluding the Group
"Supplemental Investment Agreement"	the supplemental investment agreement dated 27 May 2022 entered into between the Company and Sinomach Finance in relation to the Capital Increase
"Target Assets"	the loans and advances to customers, non-current assets due within one (1) year and long term receivables held by YTO Finance with maturity date(s) after 30 September 2022, fixed assets and intangible assets that are directly attributable or related to the continuation of the business of YTO Finance, the value of which would have been appraised, to be disposed by YTO Finance to Sinomach Finance pursuant to the terms of the Disposal Agreement

"YTO"	YTO Group Corporation*(中國一拖集團有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company, holding approximately 48.81% equity interests in the Company
"YTO Finance"	China YTO Group Finance Company Limited*(中國一拖集團財務有限責任公司), a 99.40%-owned subsidiary of the Company
"YTO Group"	YTO and its subsidiaries, excluding the Group
"ZF China"	ZF (China) Investment Company Limited
"ZF Axle Company"	ZF YTO (Luoyang) Drive Axle Company Limited
"ZF Hangzhou"	ZF Drivetech (Hangzhou) Company Limited
"%"	per cent

** In this circular, the English names of certain PRC entities, departments and rules marked in asterisks are direct translations of their respective Chinese names and are included herein for identification purpose only. 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)

Executive Directors:
Mr. Liu Jiguo *(Chairman)*

Non-executive Directors:
Mr. Zhang Zhiyu
Mr. Fang Xianfa
Mr. Ma Zhihui

Independent non-executive Directors:
Mr. Edmund Sit
Mr. Wang Shumao
Mr. Xu Liyou

Registered office:
No. 154 Jianshe Road
Luoyang
Henan Province
the PRC

31 May 2022

To the Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF TARGET ASSETS;
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE IN SINOMACH FINANCE;
(3) VOLUNTARY LIQUIDATION OF YTO FINANCE;
(4) DISCLOSEABLE TRANSACTION IN RELATION TO THE DEPOSIT TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;
(5) INCREASE THE CAP AMOUNTS OF 2022 RELATED TRANSACTIONS BETWEEN THE COMPANY AND ZF AXLE COMPANY; AND
(6) NOTICE OF EGM

INTRODUCTION

The Restructuring Transactions

Reference is made to the announcements of the Company dated 29 March 2022 and 27 May 2022 in respect of the Restructuring Transactions.

On 29 March 2022 (after trading hours), Sinomach, Sinomach Finance, the Company and YTO Finance entered into the Restructuring Framework Agreement in relation to the Restructuring Transactions. The Restructuring Transactions comprised of the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions.

Pursuant to the Restructuring Framework Agreement, the relevant parties also on the same date entered into separate agreements, namely the Disposal Agreement, the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement to effect the Restructuring Transactions.

Under the Hong Kong Listing Rules, the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) shall require Independent Shareholders' approval. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions regarding the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) contemplated under each of the Disposal Agreement, the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement, respectively.

Under the Shanghai Listing Rules, each of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM. Accordingly, relevant information regarding each of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement has also been included in this circular so that Shareholders can have a full picture of the background regarding the resolutions to be proposed at the EGM.

Inter-conditionality of the Restructuring Transactions

Independent Shareholders are advised to read this circular carefully for details of the Restructuring Transactions and the Continuing Connected Transactions before making their decision as regards voting. The Disposal, the Capital Increase and the Liquidation as set out in ordinary resolutions no.1.01, no.1.02 and no.1.03 of the Notice of EGM are inter-conditional with each other. Accordingly, in the event that any of the resolution(s) is/are not approved by Independent Shareholders at the EGM, the Disposal, the Capital Increase and the Liquidation will not be carried out by the Company.

Furthermore, the transactions contemplated under the Financial Services Framework Agreement is conditional upon the Disposal, the Capital Increase and the Liquidation being approved at the EGM.

As the Restructuring Transactions are subject to, inter-alia the approval of the Independent Shareholders at the EGM and other conditions set out under the respective agreements, the Restructuring Transactions may or may not proceed. Shareholders are advised to exercise caution when dealing in the securities of the Company.

Related Transactions on Increase of the Annual Caps for each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement under the Shanghai Listing Rules

As disclosed in the announcement (by way of overseas regulatory announcement) of the Company dated 18 July 2014, the Company entered into, among others, the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement with ZF Axle Company.

The deputy general manager of the Company acts concurrently as the chairman of ZF Axle Company, in which the Company holds 49% equity interest whist ZF China holds the remaining 51% equity interest. ZF Axle Company is a related legal person of the Company under Rule 6.3.3 of the Shanghai Listing Rules. Accordingly, the transactions contemplated under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement constitute related transactions of the Company under the Shanghai Listing Rules, although those transactions do not constitute continuing connected transactions under the Hong Kong Listing Rules.

Due to actual business needs, the Company intends to increase the annual cap amounts under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement for 2022.

As the total amount of related transactions (including the estimated amount of the related transactions under the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement in 2022 after adjustments) between the Company and ZF Axle Company for 12 consecutive months exceeds 5% of the latest audited net assets of the Company, the relevant resolutions on the increase of caps of the related transactions between the Company and ZF Axle Company in 2022 (as set out in ordinary resolutions no.3.01, no.3.02 and no.3.03 of the Notice of EGM) are subject to the consideration at the EGM.

Purpose of this Circular

The purpose of this circular is to provide you with, among other things, (i) details of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement, and the related transactions on the increase of annual caps for each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement under the Shanghai Listing Rules; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps); (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps); (iv) summaries of the valuation reports on the Target Assets and Sinomach Finance; (v) the accountant's report of Sinomach Finance; (vi) the unaudited pro forma financial information of the Group upon completion of the Capital Increase; and (vii) the Notice of EGM.

I. THE RESTRUCTURING TRANSACTIONS

BACKGROUND

The Company and YTO Finance intend to undertake the restructuring of the relevant personnel, assets and businesses of YTO Finance and Sinomach Finance through a series of transaction arrangements including, among others, (i) the disposal of Target Assets by YTO Finance to Sinomach Finance; (ii) the capital increase in Sinomach Finance by the Company; (iii) the voluntary liquidation of YTO Finance; and (iv) the provision of financial services by Sinomach Finance to the Group. According to Rule 14 of the "Measures of China Banking and Insurance Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Non-banking Financial Institutions (CBIRC Order [2020] No.6)"*(中國銀保監會非銀行金融機構行政許可事項實施辦法(銀保監會令2020年第6號))("**Rule 14 Measures**") published by the CBIRC, a corporate group can only have one finance company within the same corporate group to provide financial services to companies within the same group. The Sinomach Group currently has two (2) finance companies under its group, namely (i) Sinomach Finance, which is a 79.32%-owned subsidiary of Sinomach; and (ii) YTO Finance which is a 99.40%-owned subsidiary of the Company. Sinomach is the ultimate controlling shareholder of the Company since it is a controlling shareholder of YTO, which in turn is the controlling shareholder of the Company. There is currently a clear delineation of financial services provided by YTO Finance and Sinomach Finance respectively, where YTO Finance shall only provide financial services to YTO and its member companies and Sinomach Finance shall only provide financial services to Sinomach and its member companies (excluding the member companies under YTO).

The main purpose of the Restructuring Transactions is, firstly, to fully comply with the relevant PRC regulations that require only one finance company within the same corporate group; secondly, after the integration of the two finance companies, Sinomach Finance will undertake and operate the business of YTO Finance and serve as an integrated financial services platform of the Sinomach Group, which will further enhance its capital base and ability in serving other member companies of the Group; and thirdly, the Company will be able to maintain and enhance its economic benefits by the Capital Increase. The Company can also leverage on the comprehensive and quality services, in-depth industry expertise and substantial financial resources of Sinomach Finance to provide good financial support, including the continued provision of high-quality financial service and products to the Group's customers, which is conductive to sustaining the operations and development of the Group.

1. RESTRUCTURING FRAMEWORK AGREEMENT

On 29 March 2022 (after trading hours), Sinomach, Sinomach Finance, the Company and YTO Finance entered into the Restructuring Framework Agreement, pursuant to which the parties agreed to implement the restructuring and integration, which is subject to the approval of the Independent Shareholders at the EGM and relevant regulatory authorities, as follows:

(1) in order to ensure a smooth transition of YTO Finance's existing business to Sinomach Finance in providing continuous and seamless services to the clients of the Group, YTO Finance proposed to dispose of the Target Assets to Sinomach Finance;

(2) the Company intends to undertake the Capital Increase via cash for the purpose of maintaining and enhancing its economic benefits and leveraging on Sinomach Finance's substantial financial resources to provide high-quality financial services to the Group;

(3) Sinomach Finance intends to, in accordance with the requirements the Group, provide financial services which are approved by the CBIRC, to the Group; and

(4) YTO Finance intends to cease its operation by voluntary liquidation via dissolution and deregistration. Thereafter Sinomach Finance intends to set up a branch office in the Henan Province.

The material terms stated in the Restructuring Framework Agreement in respect of the Restructuring Transactions are identical to the material terms stated in the Disposal Agreement, the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement, respectively.

2. THE DISPOSAL

On 29 March 2022 (after trading hours), YTO Finance entered into the Disposal Agreement with Sinomach Finance.

The Disposal Agreement

Material terms of the Disposal Agreement are set out below:

Date	:	29 March 2022
Vendor	:	YTO Finance
Purchaser	:	Sinomach Finance

Assets to be disposed of

Pursuant to the Disposal Agreement, YTO Finance has conditionally agreed to dispose of, and Sinomach Finance has conditionally agreed to purchase the Target Assets as at the Business Cessation Date.

The Target Assets comprised of loans and advances to customers, non-current assets due within one (1) year and long term receivables held by YTO Finance with maturity date(s) after 30 September 2022, fixed assets and intangible assets that are directly attributable or related to the continuation of the business of YTO Finance, the value of which would have been appraised.

Consideration

Basis of consideration

The final consideration will be based on the valuation of the Target Assets on the Business Cessation Date (i.e. 30 June 2022) to be conducted by the Independent Valuer, and after the valuation report has been filed with the relevant state-owned regulatory authorities (the "**Final Valuation**") and will not be subject to any adjustment. The Board expects the Final Consideration (as defined herein) will not exceed RMB1.8 billion.

As at 31 December 2021, the appraised value of the Target Assets based on the valuation report of the Independent Valuer was RMB1,047,263,700 (the "**Initial Valuation**") and the book value of the Target Assets was RMB1,025,844,400, respectively. The Initial Valuation was based on assets approach with reference to the book value of the Target Assets as at 31 December 2021. The date of 31 December 2021 has been agreed by both parties as the valuation date to conduct the Initial Valuation of the Target Assets, which can be used as a benchmark reference for the consideration for the Disposal.

The methodology of, and the bases and assumptions adopted for, the Initial Valuation are summarised in Appendix II to this circular. The Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) have reviewed and considered the valuation report, methodology, basis and assumptions of the Initial Valuation and are of the view that they are fair and reasonable.

During the restructuring process, YTO Finance will continue its operations until the Business Cessation Date. Accordingly it is expected that there will be changes to the value of the Target Assets. Therefore both parties agreed that the Business Cessation Date (i.e. 30 June 2022) will be the valuation date for the Final Valuation, in which the value stated in the valuation report that would have been filed with the relevant state-owned regulatory authorities (the "**Final Valuation Report**") will be taken as the final consideration for the Disposal (the "**Final Consideration**"). The assets type of the Target Assets and the valuation methodologies used in the Final Valuation will be similar to that adopted in the Initial Valuation. The work for the Final Valuation will commence two (2) Business Days after the Business Cessation Date.

Set out below is the summary of the Initial Valuation as at 31 December 2021:

	As at 31 December 2021	
		Appraised
	Book value	**value**
	RMB'000	*RMB'000*
Target Assets		
Loans and advances to customers	859,143.1	881,731.7
Long term receivables	161,347.7	161,384.4
Fixed assets	1,918.3	2,085.6
Intangible assets	3,248.2	1,874.9
Other assets	187.0	187.0
	1,025,844.4	1,047,263.7

Note: The figures are subject to rounding error and do not cast arithmetically.

In the event YTO Finance receives any principal repayment on the Target Assets between the Business Cessation Date and the Disposal Completion Date, such principal repayment amount will be deducted from the Final Consideration payable by Sinomach Finance to YTO Finance. However, any interests payments and handling fees relating to the Target Assets that is received by YTO Finance between the Business Cessation Date and the Disposal Completion Date belongs to YTO Finance and such amount will not be deducted from the Final Consideration payable.

Payment of consideration

Within five (5) Business Days upon completion of filing of the Final Valuation Report, YTO Finance will commence the transfer of the Target Assets to Sinomach Finance. Within two (2) Business Days upon the transfer of the Target Assets relating to credit assets of the member companies of the Group, Sinomach Finance will pay 90% of the Final Consideration in cash. The balance of the Final Consideration will be payable by Sinomach Finance in cash within two (2) Business Days upon the transfer of the Target Assets other than the credit assets of the member companies of the Group.

Effectiveness of the Disposal Agreement

The Disposal Agreement is established after being signed and affixed with the company chop by the parties, and will become effective upon the following conditions having been met:

(i) the passing of the relevant resolutions by the shareholders of Sinomach Finance approving the Disposal;

(ii) the passing of the relevant resolutions by the shareholders of YTO Finance approving the Disposal;

(iii) the approval of Sinomach on the Disposal; and

(iv) the passing of the relevant resolutions by the Independent Shareholders approving the Disposal, the Capital Increase and the Liquidation.

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

Completion of the Disposal

The completion of the Disposal will take place after the confirmation letter has been signed by both parties for the transfer of the Target Assets and full payment of the Final Consideration has been made by Sinomach Finance. In any event, the completion date of the Disposal shall not be later than 30 September 2022.

Upon completion of the Disposal, the remaining assets and liabilities of YTO Finance (including the proceeds of the Disposal which is estimated at RMB1,047 million) and their corresponding book values as at 31 December 2021 (for illustrative purpose) are set out below:

	RMB'000
Remaining assets of YTO Finance	
Cash balance as at central bank	250,164
Interbank deposits	3,590,051
Loans and advances to customers	961,861
Receivables	71,691
Buying back the sale of financial assets	360,643
Fixed assets	1,756
Intangible assets	405
Other assets	37,686
Total	5,274,257
Remaining liabilities of YTO Finance	
Deposits placed by customers	4,126,074
Deposits from banks and other financial institutions	200,050
Taxes payable	3,837
Other payables	48,706
Total	4,378,667

The remaining assets and liabilities disclosed above will be subject to liquidation. For illustrative purposes only, after the full repayment of the remaining liabilities of approximately RMB4,379 million with the remaining assets of approximately RMB5,274 million, the estimated balance available for distribution is approximately RMB895 million. Based on the 99.40% shareholding held by the Group in YTO Finance, the estimated distribution amount for the Group from the Liquidation is approximately RMB889 million.

Use of proceeds

YTO Finance intends to use the proceeds from the Disposal, together with monies to be received from the sale of its remaining assets pursuant to the Liquidation to settle the liabilities of YTO Finance in terms of deposits due to the customers and all other liabilities of YTO Finance.

3. THE CAPITAL INCREASE

On 29 March 2022 (after trading hours), the Company and Sinomach Finance entered into the Investment Agreement.

The Investment Agreement

Material terms of the Investment Agreement are set out below:

Date:	29 March 2022
Parties:	(1) the Company (2) Sinomach Finance
Capital Increase:	Pursuant to the Investment Agreement, the Company has conditionally agreed to make a capital increase in cash to Sinomach Finance of RMB558,168,900 to subscribe for additional registered capital of RMB250,000,000 in Sinomach Finance, representing approximately 14.29% of the enlarged share capital of Sinomach Finance after the Capital Increase. RMB250,000,000 will be credited as registered capital and RMB308,168,900 will be credited as contributed surplus in Sinomach Finance. In the event there are further changes to the Sinomach Valuation (as defined below) after the valuation report has been filed with the relevant state-owned regulatory authorities, the final contribution amount for the Capital Increase to be payable by the Company shall be adjusted accordingly, on condition that the Company's shareholding in Sinomach Finance remains unchanged at approximately 14.29% upon completion of the Capital Increase.
Other:	The Company shall be entitled to nominate one director candidate to the board of directors of Sinomach Finance. Subject to compliance with the qualification requirements under the relevant laws and regulations, Sinomach shall, and shall procure other shareholders of Sinomach Finance to take necessary action to, elect the director candidate nominated by the Company to become a director of Sinomach Finance.

The Supplemental Investment Agreement

On 27 May 2022 (after trading hours), the Company and Sinomach Finance entered into the Supplemental Investment Agreement to adjust the contribution amount for the Capital Increase as the filing process of the Sinomach Valuation (as defined below) with the relevant state-owned regulatory authorities has been completed (the "**Final Sinomach Valuation Report**").

Pursuant to the Supplemental Investment Agreement and the Final Sinomach Valuation Report as filed with the relevant state-owed regulatory authorities, both parties agreed and confirmed that the contribution amount shall be adjusted from RMB558,168,900 to RMB554,776,100, of which RMB250,000,000 will be credited as registered capital and RMB304,776,100 will be credited as contributed surplus in Sinomach Finance. The Company's shareholding in Sinomach Finance remains unchanged at approximately 14.29% upon completion of the Capital Increase.

Save as disclosed the above, all other terms and conditions of the Investment Agreement shall remain unchanged and continue to be in legal force and effect in all respects.

Contribution amount

The contribution amount for the Capital Increase shall be payable by the Company to Sinomach Finance within five (5) Business Days of the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) becoming effective and shall be settled fully in cash.

Following completion of the Capital Increase, the registered capital of Sinomach Finance will increase from RMB1,500,000,000 to RMB1,750,000,000.

The Capital Increase to be made by the Company will be financed by the distribution received from the Liquidation. The capital contributions are intended to be applied towards meeting Sinomach Finance's daily operational needs.

As at the Latest Practicable Date, the Company did not hold any interests in Sinomach Finance. Upon completion of the Capital Increase, the Company will hold approximately 14.29% equity interests in Sinomach Finance.

Basis of contribution amount

The contribution amount is determined based on the valuation of entire shareholders' equity of Sinomach Finance as at 31 December 2021 appraised by the Independent Valuer ("**Sinomach Valuation**").

Based on the appraised value of Sinomach Finance set out in Appendix III to this circular of RMB3,328,656,600, the contribution amount is adjusted to RMB554,776,100.

Valuation methodologies

The Independent Valuer used both market approach and income approach to conduct the valuation, and the valuation results from the market approach was used as the valuation conclusion. The valuation under income approach was not adopted since Sinomach Finance is a finance company substantially rely on the member companies of Sinomach Group and its future incomes are significantly affected by policies of its related members which subject to high uncertainties. As such, it imposes certain limitations for the Sinomach Valuation to adopt the income approach.

The audited net asset value of Sinomach Finance was RMB3,283,346,400 as at 31 December 2021.

As at 31 December 2021, being the valuation date, the appraised value of the Sinomach Valuation using market approach was RMB3,328,656,600, representing an appreciation of approximately 1.38% or RMB45,310,200. The appraised value using income approach was RMB3,321,360,000, representing an appreciation of approximately 1.16% or RMB38,013,600. The difference between the two (2) appraised values was RMB7,296,600 or approximately 0.22%.

The methodologies of, and the bases and assumptions adopted for, the Sinomach Valuation are summarised in Appendix III to this circular.

As stated in the valuation report of Sinomach Finance, China Enterprise has considered the market approach to derive the valuation of Sinomach Finance. The market approach determines the fair value of the assets by reference to the transaction prices, or "valuation multiples" implicit in the transaction prices, of identical or similar assets on the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar business enterprises by a financial parameter. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustments are required to be made to the transaction prices or valuation multiples to reflect the differentiating characteristics of the business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are known.

Under market approach, two methods are commonly used, namely comparable listed company analysis and comparable transaction analysis. Since there is no finance company similar to Sinomach Finance that is listed on the PRC stock exchange, China Enterprise has applied comparable transactions analysis in the Sinomach Valuation. Moreover, price multiples are the tools for conducting valuation. A valuation multiple is a ratio that relates share value to some economic measures of the companies of those comparable transactions. China Enterprise has adopted the price-to-book ratio because Sinomach Finance is a typical capital-driven enterprise which is similar to other financial institution and its asset size is relatively stable with macroeconomic policy and industry life cycle having little effect on its asset size.

Having considered the above factors, the Directors (including the independent non-executive Directors who have taken into account the advice of the Independent Financial Adviser) have reviewed and considered the valuation report, methodology, basis and assumptions of the Sinomach Valuation and are of the view that they are fair and reasonable.

Effective date of the Investment Agreement

The Investment Agreement is established after being signed and affixed with the company chop by the parties, and will become effective upon the following conditions having been met:

(i) the approval by Sinomach on the Capital Increase;

(ii) the passing of the relevant resolutions by the Independent Shareholders' approving the Capital Increase, the Disposal and the Liquidation;

(iii) the passing of the relevant resolutions by the shareholders of Sinomach Finance approving the Capital Increase and agreeing to waive their pre-emptive rights; and

(iv) the approval having been obtained from the Beijing Bureau of Banking and Insurance Regulatory Commission*（中國銀行保險監督管理委員會北京監管局） in relation to the Capital Increase.

As at the Latest Practicable Date, condition (i) has been fulfilled.

Effective date of the Supplemental Investment Agreement

The Supplemental Investment Agreement will become effective upon the following conditions having been met:

(i) the Supplemental Investment Agreement has been signed and affixed with the company chop by the parties; and

(ii) the conditions set out in the Investment Agreement have been fulfilled and the Investment Agreement becomes effective.

As at the Latest Practicable Date, condition (i) has been fulfilled.

Completion of the Capital Increase

The completion for the Capital Increase will take place upon:

(i) Sinomach Finance completes the procedures for changes and filing with the Administration of Industry and Commerce for the Capital Increase within 20 Business Days after the Company pays the contribution amount; and

(ii) Sinomach Finance provides the signed and stamped business license and register of shareholders of Sinomach Finance within 7 Business Days after the documents have been issued.

Background information of Sinomach Finance

Sinomach Finance is a non-banking financial institution established in 2003 approved by China Banking Regulatory Commission through restructuring the former China CAMC Trust Investment Co., Ltd.*(中工信託投資有限公司)by Sinomach. As at the Latest Practicable Date, Sinomach Finance is a 79.32%-owned subsidiary of Sinomach and the remaining interests are held by member companies within the Sinomach Group.

Sinomach Finance is principally engaged in the provision of financial services including deposits taking, provision of loans, underwriting of corporate bonds, as well as finance leasing, financial and financing consultation, credit certification and related consultation and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loans, handling bills acceptance and discounting, and other financial services that may be approved by the CBIRC, to member companies of the Sinomach Group.

Set out below is the financial information of Sinomach Finance as extracted from its audited financial statements prepared in accordance with accounting principles generally accepted in the PRC for the financial years ended 31 December 2020 and 2021:

	For the financial year ended 31 December	
	2020	**2021**
	RMB	*RMB*
Revenue	950,264,845	872,497,557
Profit before tax	395,284,389	400,589,607
Profit after tax	296,807,802	306,198,059

According to the audited financial information of Sinomach Finance as at 31 December 2021, the net assets of Sinomach Finance amounted to RMB3,283,346,400.

Shareholding structure of Sinomach Finance

	Immediately before the Capital Increase		Immediately upon completion of the Capital Increase	
Shareholders	**Capital contribution** *(RMB'000)*	**Shareholding percentage** *(approximate)* *(%)*	**Capital contribution** *(RMB'000)*	**Shareholding percentage** *(approximate)* *(%)*
Sinomach	306,000	20.40	306,000	17.49
The Company	–	–	250,000	14.29
Subsidiaries and associate companies of Sinomach (other than the Company):				
China Machinery Engineering Corporation* (中國機械設備工程股份有限公司)	234,440	15.63	234,440	13.40
China Automobile Trading Company Limited* (中國進口汽車貿易有限公司)	147,200	9.82	147,200	8.41
China National Machinery Industry Construction Group Inc.* (中國機械工業建設集團有限公司)	109,040	7.27	109,040	6.23
China National Electric Engineering Corporation* (中國電力工程有限公司)	95,410	6.36	95,410	5.45
SUMEC Group Corporation* (江蘇蘇美達集團有限公司)	81,780	5.44	81,780	4.67
Xi'an Heavy Machinery Research Institute Co., Ltd.* (西安重型機械研究所有限公司)	81,780	5.44	81,780	4.67
China Auto CAIEC Ltd.* (中國汽車工業進出口有限公司)	68,150	4.54	68,150	3.89
China IPPR International Engineering Co., Ltd* (中國中元國際工程有限公司)	54,520	3.63	54,520	3.11

Shareholders	Immediately before the Capital Increase		Immediately upon completion of the Capital Increase	
	Capital contribution	Shareholding percentage *(approximate)*	Capital contribution	Shareholding percentage *(approximate)*
	(RMB'000)	*(%)*	*(RMB'000)*	*(%)*
China United Engineering Corporation Limited* (中國聯合工程有限公司)	54,520	3.63	54,520	3.11
Guangzhou Mechanical Engineering Research Institute Co., Ltd.* (廣州機械科學研究院有限公司)	35,440	2.36	35,440	2.03
SIPPR Engineering Group Co., Ltd* (機械工業第六設計研究院有限公司)	32,720	2.18	32,720	1.87
China National Heavy Machinery Corporation* (中國重型機械有限公司)	27,260	1.82	27,260	1.56
China National Machinery Industry International Co., Ltd.* (中國機械工業國際合作有限公司)	27,260	1.82	27,260	1.56
China Foma (Group) Co. Ltd.* (中國福馬機械集團有限公司)	27,260	1.82	27,260	1.56
Scivic Engineering Corporation* (機械工業第四設計研究院有限公司)	16,360	1.09	16,360	0.93
China National Cable Engineering Corporation* (中國電纜工程有限公司)	13,630	0.91	13,630	0.78
Hefei General Machinery Research Institute Co., Ltd.* (合肥通用機械研究院有限公司)	13,630	0.91	13,630	0.78
China National Electric Apparatus Research Institute Co., Ltd.* (中國電器科學研究院股份有限公司)	13,630	0.91	13,630	0.78
Chengdu Tool Research Institute Co., Ltd.* (成都工具研究所有限公司)	13,630	0.91	13,630	0.78
Tianjin Research Institute of Electric Science Co., Ltd.* (天津電氣科學研究院有限公司)	10,900	0.73	10,900	0.62
Lanzhou Petroleum Machinery Research Institute Co., Ltd.* (蘭州石油機械研究所有限公司)	10,900	0.73	10,900	0.62
Shenyang Academy of Instrumentation Science Co., Ltd.* (瀋陽儀錶科學研究院有限公司)	8,180	0.55	8,180	0.47
Luoyang Bearing Research Institute Co., Ltd.* (洛陽軸承研究所有限公司)	8,180	0.55	8,180	0.47
Zhengzhou Research Institute For Abrasives and Grinding Co., Ltd.* (鄭州磨料磨具磨削研究所有限公司)	8,180	0.55	8,180	0.47
Total	**1,500,000**	**100.00**	**1,750,000**	**100.00**

Notes:

1. *Assuming there is no further change to the share capital of Sinomach Finance (other than the Capital Increase) from the Latest Practicable Date up to the completion of the Capital Increase.*

2. *The percentages are subject to rounding error, if any.*

4. THE LIQUIDATION

Background

YTO Finance is a non-banking financial institution established in 1992 with the approval of the PBOC. Sinomach Finance is a non-banking financial institution established in 2003 approved by China Banking Regulatory Commission through restructuring the former China CAMC Trust Investment Co., Ltd.*（中工信託投資有限公司）by Sinomach. Following the restructuring of Sinomach, with the merger of YTO (including YTO Finance) into the Sinomach Group in 2008, this has resulted in Sinomach controlling two (2) finance companies under the Sinomach Group.

In order to comply with the relevant regulations that require only one finance company within the same corporate group, YTO Finance will cease its operations by voluntary liquidation, subject to obtaining the Independent Shareholders' approval on the Liquidation, the Disposal and the Capital Increase at the EGM.

Subject to the approval of the CBIRC, the Liquidation represents the final step in the series of the Restructuring Transactions. The Liquidation is undertaken to fully comply with Rule 14 Measures and entails the distribution of all its equity to its shareholders based on the shareholding held.

Background information of YTO Finance

YTO Finance, a 99.40%-owned subsidiary owned subsidiary of the Company, is a non-banking financial institution approved and regulated by the CBIRC. The remaining 0.60% equity interest is held by YTO. Its principal activities include the provision of non-banking financial services to member companies of the Group as well as member companies of the YTO Group. It has a registered capital of RMB500 million.

Shareholding structure of YTO Finance is set out below:

Shareholders of YTO Finance	Capital Contribution (RMB)	Shareholding percentage (Approximate) (%)
The Company	473,000,000	94.6
YTO (Luoyang) Diesel Engine Co., Ltd.* *(Note)* （一拖（洛陽）柴油機有限公司）	21,000,000	4.2
YTO International Economic and Trade Co., Ltd.* *(Note)* （一拖國際經濟貿易有限公司）	3,000,000	0.6
YTO	3,000,000	0.6
Total	**500,000,000**	**100.0**

Note: YTO (Luoyang) Diesel Engine Co., Ltd.* is a non wholly-owned subsidiary of the Company, while YTO International Economic and Trade Co., Ltd.* is a wholly-owned subsidiary of the Company

YTO Finance is principally engaged in the provision of financial services including deposits taking, provision of loans, underwriting of corporate bonds, as well as finance leasing, financial and financing consultation, credit certification and related consultation and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loan, handling bills acceptance and discounting, and other financial services that may be approved by the CBIRC, to member companies of the YTO Group and the Group.

Set out below is the financial information of YTO Finance as extracted from its audited financial statements prepared in accordance with accounting principles generally accepted in the PRC for the financial years ended 31 December 2020 and 2021:

	For the financial year ended 31 December	
	2020	**2021**
	RMB	*RMB*
Revenue	57,392,205	73,384,310
Profit before tax	47,888,699	61,702,531
Profit after tax	29,981,061	42,448,609

According to the audited financial information of YTO Finance as at 31 December 2021, the net assets of YTO Finance amounted to RMB874,171,068.

5. FINANCIAL SERVICES FRAMEWORK AGREEMENT

On 29 March 2022, the Company and Sinomach Finance entered into the Financial Services Framework Agreement in respect of the provision of financial services by Sinomach Finance to the Group for a period up to 31 December 2024. Material terms of the Financial Services Framework Agreement are set out below:

Date	:	29 March 2022
Parties	:	(1) the Company, on behalf of the Group; and (2) Sinomach Finance
Services to be provided	:	The Group will from time to time, utilise the financial services available from Sinomach Finance on a non-exclusive basis as it deems necessary. Such services include: (a) deposit services, including but not limited to demand deposit, agreement deposit, call deposit and time deposit in both domestic currency and foreign currency; (b) provision of loans, including but not limited to working capital loans, fixed assets loan, buyer's credit, accounts receivable factoring, bill acceptance and discounting, letter of guarantees and letter of credit; and (c) provision of other financial services as approved by the CBIRC, including but not limited to domestic and foreign currency settlement and management services, entrusted loans, entrusted investment, underwriting, financial advisory, credit verification, consulting agency services and other businesses approved by the CBIRC. Sinomach Finance and the Group shall enter into separate agreements in relation to the provision of the financial services as stated above, which shall be subject to the terms and conditions under the Financial Services Framework Agreement.
Term	:	The transactions contemplated under the Financial Services Framework Agreement will become effective upon the condition precedent (as stated under paragraph headed "Effectiveness of the Financial Services Framework Agreement") being fulfilled. The Financial Services Framework Agreement will expire on 31 December 2024.

Fees and charges

Deposit services

The interest rate for the deposit of the member companies of the Group with Sinomach Finance shall be determined with reference to the benchmark interest rate for RMB deposit as published by PBOC provided that such rate shall be no less than the deposit rate for the same kind of deposits offered by other commercial banks in the PRC for the same period and no less than the deposit rate for the same kind of deposits provided to other member companies of Sinomach Group, whichever is higher.

Provision of loans

The interest rate for the loans to be provided by Sinomach Finance to the member companies of the Group shall be determined with reference to the self-regulated pricing system promulgated by PBOC from time to time and prevailing market rates. Such interest rate shall not exceed the interest rate for the same kind of loans offered by other financial institutions in the PRC for the same period and shall not exceed the interest rate for the same kind of loans provided to other member companies of Sinomach Group, whichever is lower.

Provision of other financial services

No service fees will be charged in respect of the settlement services.

The service fee for other financial services other than the deposit services and credit services shall comply with the fees standard promulgated by the PBOC or the CBIRC (if applicable), and the service fees for such other financial services shall not exceed the fees for the same kind of services offered by other commercial banks in the PRC and shall not exceed the fees for the same kind of services provided to other member companies of Sinomach Group by Sinomach Finance, whichever is lower.

Effectiveness of the Financial Services Framework Agreement

The Financial Services Framework Agreement is established after being signed and affixed with the company chop by the parties, and will become effective upon the following conditions having been met:

(i) the passing of the relevant resolution(s) by the respective board of directors, shareholders of Sinomach Finance and the Independent Shareholders, respectively approving the Continuing Connected Transactions under the Financial Services Framework Agreement; and

(ii) the passing of the relevant resolutions by the Independent Shareholders' approving the Disposal, the Capital Increase and the Liquidation at the EGM.

In the event the Continuing Connected Transactions under the Financial Services Framework Agreement are not approved by the Independent Shareholders at the EGM, both parties agree that, subject to the compliance with applicable laws and regulations, as well as the Shanghai Listing Rules and Hong Kong Listing Rules respectively, Sinomach Finance can still provide loan services to the Group, including but not limited to working capital loans, fixed assets loans, buyers' credit, accounts receivable factoring, bills acceptance, discounting, provision of guarantee, letter of guarantee and letter of credit etc., in which Sinomach Finance and the Company will enter into a separate agreement accordingly.

Undertaking by Sinomach Finance

Pursuant to the Financial Services Framework Agreement, Sinomach Finance undertakes that it will notify the Company within three (3) Business Days upon the occurrence of any of the following events:

(1) breach of Article 31, Article 32 or Article 33 of the Measures for the Administration of Finance Companies of Enterprise Groups*（企業集團財務公司管理辦法）("**Measures of Finance Companies**") by Sinomach Finance;

(2) any one of the financial indicators of Sinomach Finance does not comply with the requirements under Article 34 of the Measures of Finance Companies;

(3) material events such as a bank run, failure to pay debts when they fall due, large amount of overdue loans or guarantee advances, material failure of computer system, robbery or victim of fraud and serious disciplinary violations or criminal cases by directors and/or senior management of Sinomach Finance;

(4) major institutional changes, equity transactions or operational risks that may affect the normal operation of Sinomach Finance;

(5) the proportion of deposit balance of the Company (including its wholly-owned and controlled subsidiaries) in Sinomach Finance accounts for more than 30% of the deposit balance absorbed by Sinomach Finance;

(6) the liabilities of Sinomach Finance owed by the shareholders of Sinomach Finance are overdue for more than one (1) year;

(7) there is a serious payment crisis in Sinomach Finance;

(8) the loss for the year of Sinomach Finance exceeds 30% of its registered capital or the loss for three (3) consecutive years exceeds 10% of its registered capital;

(9) Sinomach Finance is subject to administrative penalties imposed by regulatory authorities such as the CBIRC due to violation of laws and regulations;

(10) the rectification order issued by the CBIRC against Sinomach Finance; and

(11) other matters that may cause potential safety hazards to the funds deposited by the Group.

Evaluation on Sinomach Finance

In assessing the services to be provided by Sinomach Finance under the Financial Services Framework Agreement, in particular the deposit services, the Directors have taken into account the following factors in relation to Sinomach Finance:

(i) based on the audited financial statements for the year ended 31 December 2021 of Sinomach Finance, the deposit balance in Sinomach Finance was approximately RMB42.0 billion. The maximum daily balance of deposit that can be placed by the Group with Sinomach Finance of RMB2 billion only accounts for not more than 5% of the total deposit balance in Sinomach Finance;

(ii) Sinomach Finance has no liabilities owed to its shareholders that are overdue for more than one (1) year during the past three (3) financial years; and

(iii) Sinomach Finance has not recorded any loss for the past three (3) financial years.

In accordance with the requirements of the Shanghai Listing Rules, as the Company will be placing deposit with Sinomach Finance pursuant to the Financial Services Framework Agreement, the Company is required to conduct a risk evaluation on the business operation and risk profile of Sinomach Finance. The risk evaluation report was published by way of the Company's oversea regulatory announcement dated 29 March 2022.

Based on the risk evaluation report on Sinomach Finance dated 29 March 2022, the Company noted the following:

(i) Sinomach Finance has legal and valid business license and financial permit;

(ii) Sinomach Finance has established a comprehensive and reasonable internal control system, which is able to control the risks better;

(iii) There were no findings of material changes, equity transactions and operating risks, which may affect the daily operation of Sinomach Finance;

(iv) There were no findings in which Sinomach Finance was not in compliance with the Measures of Finance Companies promulgated by the CBIRC;

(v) The capital adequacy level of Sinomach Finance fulfilled the requirements of Rule 34 of the Measures of Finance Companies; and

(vi) Sinomach Finance was in operation under strict compliance with the Measures of Finance Companies and there were no material defects in its risk management.

After taking into account the evaluation above, the Directors are of the view that Sinomach Finance is a sound and reliable non-banking financial institution and the risk of the Company in entering into transactions with Sinomach Finance is manageable.

Proposed annual caps and basis of determination

	For the period from date of the Financial Services Framework Agreement becoming effective to 31 December 2022	**For the year ending 31 December 2023**	**For the year ending 31 December 2024**
	(RMB million)	*(RMB million)*	*(RMB million)*
Maximum daily balance of deposits (including accrued interest thereon) placed by the Group with Sinomach Finance	2,000	2,000	2,000
Credit facility (including accrued interest thereon) granted by Sinomach Finance to the Group	2,400	2,400	2,400
Maximum fees and charges paid by the Group to Sinomach Finance for the other financial services	10	10	10

There is currently a clear delineation of financial services provided by YTO Finance and Sinomach Finance respectively under Sinomach Group, where YTO Finance shall only provide financial services to: (i) YTO and its subsidiaries; (ii) companies in which YTO and its subsidiaries hold more than 20% equity interests and Sinomach and its other subsidiaries have no interests or hold less than 20% equity interests; and (iii) companies in which YTO and its subsidiaries, separately or collectively hold no more than 20% equity interests but are the largest shareholder. Therefore, there are no historical transactions in relation to the financial services pursuant to the Financial Services Framework Agreement between the Company and Sinomach Finance.

The proposed annual caps for the Financial Services Framework Agreement are determined based on (i) the expected operating cash inflow and expected cash and cash equivalent of the Group; (ii) the expected capital needs and financing requirement of the Group; (iii) the historical transaction amounts between the Group and YTO Finance, and with other commercial banks in the PRC; and (iv) the financial resources of Sinomach Finance and the expected deposit and loan interest rates offered.

In respect of deposit services, the maximum daily balance of deposits placed by the Group with Sinomach Finance was determined after taking into account the following factors:

(i) the daily settlement needs of the Group which the daily balance of deposits is required to be maintained at approximately RMB1.4 billion based on the actual balance of deposits placed by the member companies of the Group in YTO Finance for settlement purpose (apart from the bill acceptance business purpose stated in (ii) below) in the past three years;

(ii) the highest historical bill acceptance transaction amounts between the Group and YTO Finance in the past two years were RMB1.65 billion and RMB1.8 billion respectively. It is expected that the scale of the Group's bill acceptance business in Sinomach Finance will maintain similar level as it was in YTO Finance in the next three years. Based on the past experience of the Group, the deposit required for the bill acceptance business will generally account for 30% of the transaction amounts. As such the maximum balance of deposits regarding the bill acceptances business is estimated at RMB510 million, RMB510 million and RMB540 million for the three years ending 31 December 2024; and

(iii) the expected deposit interest rates offered by Sinomach Finance.

Measures of internal control

The Financial Services Framework Agreement entered into between the Company and Sinomach Finance is on a non-exclusive basis. The Company has the right to decide and choose whether to procure the financial services from Sinomach Finance or other commercial banks based on its operating needs.

In order to ensure the continuing connected transactions are in compliance with the pricing terms agreed in the agreements and will not exceed the annual caps, the Company has formulated the following internal control measures, and the Finance department, the Office of the Board and the Internal Audit department of the Company shall be responsible for the implementation and supervision thereof:

(i) The Finance department of the Company is responsible for monitoring, collecting and evaluating the specific information of the daily connected transactions under the Financial Services Framework Agreement on a monthly basis, and reviewing whether the major terms and amounts of the specific agreement are in compliance with the Financial Services Framework Agreement;

(ii) The Finance department of the Company shall be responsible for performing periodic review on the approval procedures, in particular if there is a possibility that the transaction cap amount may be exceeded, the relevant approval process is carried out on a timely manner in accordance with the requirements to ensure the Continuing Connected Transactions are conducted in a compliant manner;

(iii) The auditors of the Company shall perform annual review on the pricing and annual cap amounts for the Continuing Connected Transactions in accordance with the requirements; and

(iv) The Internal Audit department of the Company shall perform regular supervision assessment of the internal controls in relation to connected transactions of the Company.

The Board is of the view that the above internal control measures can ensure that the transactions contemplated under the Financial Services Framework Agreement will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole.

Existing continuing connected transactions related to financial services entered between YTO Finance and YTO

Reference is made to the announcement of the Company dated 25 August 2021, where (i) YTO Finance has entered into several financial services agreement with YTO in the provision of loan services, bill discounting services, bill acceptance services and deposit services; and (ii) YTO Finance has entered into interbank business services agreement with Sinomach Finance in mutual provision of financing services, including but not limited to interbank deposit and lending. Upon completion of the Restructuring Transactions, it is the intention of YTO Finance to terminate the financial service agreements stated above with the relevant parties. As and when the relevant agreement(s) are executed, appropriate announcement(s) will be made.

REASONS FOR AND BENEFITS OF THE RESTRUCTURING TRANSACTIONS

The Disposal

In order to comply with the above-mentioned PRC regulations, the Disposal represents the first step that the Company must take to achieve the objectives. The Disposal represents a continuation of the finance company's business of YTO Finance that will be taken over by Sinomach Finance with the acquisition of the Target Assets, comprising loans receivable, customers' credit and finance leases that will subsist post 30 September 2022, as well as fixed assets and intangible assets that are related to its business. This will provide a smooth transition of YTO Finance's existing business and with Sinomach Finance providing continuous and seamless services to the clients of YTO Finance, this will facilitate more business opportunities for Sinomach Finance in the future. Furthermore, the Disposal will expedite the monetary realisation of the Target Assets which in turn will enhance the liquidity position of YTO Finance for distributing its equity to its shareholders for the Liquidation.

Although the Disposal is not conducted in the ordinary and usual course of business of the Group, the Board (including the independent non-executive Directors) is of the view that the terms of the Disposal Agreement are fair and reasonable, the transaction contemplated under the Disposal Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Capital Increase

YTO Finance, being a non-banking financial institution approved by the CBIRC, provides a full range of financial services, within the scope approved by the CBIRC, to provide financial support to the buyers of the Group in their credit and financing leasing businesses. Its aim is to promote the development of various businesses in the Group by adhering to the Group's objective in "serving the development of the Group through prevention and control of financial risks"(服務集團發展，防控金融風險).

The finance business of YTO Finance, being one of the principal businesses of the Group, has long been a major profit contributor to the Group, accounting for over 10% of the Group's operating profit. Upon completion of the Disposal and the eventual Liquidation, YTO Finance will cease to be a subsidiary of the Company and the results of its finance services business will no longer be consolidated into the Company's consolidated financial statements. Furthermore it will no longer be able to provide financial business services to YTO and its subsidiaries, which includes the Group.

Taking into consideration the Group and YTO Group will require financial services in their business operations, the Board has identified Sinomach Finance as a suitable investment for the Company to achieve the objective. With its strong capital base and comprehensive business operations, Sinomach Finance has long been the major integrated financial services platform of Sinomach Group, providing financial support to the business development of the member companies of the Sinomach Group. In addition, the capital base of Sinomach Finance and its ability to serve its member companies will be further enhanced after it takes over the related business and assets of YTO Finance. The Capital Increase will also boost enhance the economic returns of the Group from its investment. With the financial business services being centralised into Sinomach Finance, the Group will be able to better utilise the financial resources of Sinomach Finance to provide high quality financial services support to the Group, thereby maintain the sustainability and stable development of the Group's business activities.

According to Rule 7 of the "Measures of China Banking and Insurance Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Non-bank Financial Institutions"*（中國銀保監會非銀行金融機構行政許可事項實施辦法）("**Rule 7 Measures**") published by CBIRC, the parent company of the corporate group shall be the single largest shareholder of its finance company. Therefore the Capital Increase with the ultimate shareholding of approximately 14.29% in Sinomach Finance was undertaken in cognizant of the requirements of the Rule 7 Measures. Upon completion of the Capital Increase, Sinomach still remains as the single largest shareholder of Sinomach Finance with a shareholding of approximately 17.49%. The Company, nonetheless is entitled to nominate a director into the board of Sinomach Finance which allows the Company to have certain degree of board influence over the operations of Sinomach Finance.

The Capital Increase is in line with the development needs of the Group. Based on preliminary calculation of the Company, the distribution monies from the Liquidation received by the Group is sufficient to cover the contribution amount of the Capital Increase. Therefore it will not have any adverse impact on the financial and operational aspects of the Group, neither will it be prejudicial to the interests of the Company and the Shareholders as a whole.

Accordingly the Capital Increase will enable the Group to leverage on the comprehensive financial business services provided by Sinomach Finance to continue serving its clientele whilst giving the opportunity for the Company to participate in the growth of Sinomach Finance and enjoy the returns of its investment.

Although the Capital Increase is not conducted in the ordinary and usual course of business of the Group, the Board (including the independent non-executive Directors who have taken into account the advice of Gram Capital) is of the view that the terms of the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) are fair and reasonable, the transaction contemplated under the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Liquidation

Subject to the approval of the CBIRC, the Liquidation represents the final step in the series of the Restructuring Transactions. The Liquidation is undertaken to fully comply with Rule 14 Measures and entails the distribution of all its equity to its shareholders based on the shareholding held.

The Company will fully comply with the requirements of the Hong Kong Listing Rules and shall keep the Shareholders informed of developments in relation to the Liquidation by way of announcement(s) as and when appropriate.

Continuing Connected Transactions

Sinomach Finance, being a non-banking financial institution established with the approval of the China Banking Regulatory Commission, possesses various qualifications for providing financial services to member companies of the Sinomach Group, with safe and stable operation and strong performance capability. As the internal settlement platform of the Sinomach Group, the service efficiency of Sinomach Finance is significantly better than that of commercial banks and other financial institutions. Upon completion of the Disposal and the Capital Increase, Sinomach Finance will provide the Group with convenient, comprehensive and high-quality financial services, which is conducive to maintaining the original efficient settlement and capital turnover within the Group, and is beneficial to the business development of the Group.

YTO Finance has a long established relationship with other member companies of the Group and is the key platform for providing financial services within the Group. Following the Business Cessation Date, YTO Finance can no longer provide financial services to the other member companies of the Group and the Group intends to procure the financial services from Sinomach Finance, which is the non-banking financial institution under the Sinomach Group that is regulated by the CBIRC. The Company is of the view that the Financial Services Framework Agreement could provide an effective framework to regulate the provision and receipt of financial services between the Group and/or its member companies and Sinomach Finance and ensure a smooth transition for the business operations of the Group.

In considering the reasons and benefits for entering into the Financial Services Framework Agreement between the Company and Sinomach Finance, the Board has also considered the following key factors:

(i) Sinomach Finance, a non-banking financial institution approved by the CBIRC, is capable of providing comprehensive financial services to member companies of the Sinomach Group and has safe and stable operation with strong performance capability;

(ii) As an intra-group service provider, Sinomach Finance generally has better and more efficient communication with the Group compared with the other independent commercial banks and financial institutions; and

(iii) Upon completion of the integration of YTO Finance and Sinomach Finance, the Company can leverage on the comprehensive and quality services, in-depth industry expertise and substantial financial resources of Sinomach Finance to provide good financial support, including the continued provision of high-quality financial service and products to the member companies of the Group, which is conductive to sustaining the operations and development of the Group.

Based on the above factors, the Board (including the independent non-executive Directors who have taken into account the advice of Gram Capital) is of the view that: (i) the continuing connected transactions contemplated under the Financial Services Framework Agreement will be carried out in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Financial Services Framework Agreement are on normal commercial terms or on terms not less favorable than those of similar transactions with independent third parties and are fair and reasonable; and (iii) the proposed annual caps of the transactions contemplated under the Financial Services Framework Agreement are fair and reasonable.

FINANCIAL EFFECTS OF THE RESTRUCTURING TRANSACTIONS

The Restructuring Transactions will not have a significant impact on the overall business development of the Company and are crucial for the implementation of the regulatory policies of the CBIRC. The Board noted that upon completion of the Restructuring Transactions, the Company will not have control over Sinomach Finance. Following completion of the Capital Increase, the Company will become a substantial shareholder of Sinomach Finance and shall be entitled to a board seat at the board of directors of Sinomach Finance. It is expected that the Company can share the profits from Sinomach Finance based on its 14.29% shareholding whilst the Company can remain to be vigilant over the operation and management of Sinomach Finance through its board seat at the level of the board of directors of Sinomach Finance and its voting rights as a substantial shareholder at the level of the shareholders' meetings of Sinomach Finance. However, pursuant to the Financial Services Framework Agreement, the Company is able to procure financial business services from Sinomach Finance on a non-exclusive basis for the business operations and financing needs of the Group. The Company also has the flexibility and capability to procure similar type of services from independent commercial banks or financial institutions if the terms offered are more favourable to the Company. As a non-banking financial institution, Sinomach Finance possesses various qualifications and strong capabilities to provide financial services to the Sinomach Group. The Restructuring Transactions will not affect the financing efficiency and capital management ability of the Company, nor will it affect the sustainability and stability in terms of the operations of the Group.

In terms of profitability, the Company will be entitled to record its share of the net profits of Sinomach Finance based on its 14.29% shareholding in its financial statements in the future. As Sinomach Finance has been operating steadily and recording profit growth over the years, the Board is of the view that the Capital Increase will bring positive financial impact to the Group which can compensate the impact of the Disposal and the Liquidation in terms of loss in profit contribution from YTO Finance whilst safeguarding the interests of the Company and the Shareholders as a whole.

The Disposal

It is estimated that the Company will record a gain of approximately RMB21,419,300 from the Disposal, after taking into account the appraised value and the book value of the Target Assets as at 31 December 2021 of approximately RMB1,047,263,700 and RMB1,025,844,400 respectively.

It should note that the actual gain to be recorded by the Company will depend on the Final Consideration and the book value of the Target Assets as at the Business Cessation Date.

The Capital Increase

Upon completion of the Capital Increase, the investment in Sinomach Finance will be classified as "long-term equity investment" and the financial results of Sinomach Finance will be accounted for using equity method in accordance with the relevant requirements of the Accounting Standards for Business Enterprise No.2 – Long-term Equity Investment in the consolidated financial statements of the Company.

As at 31 December 2021, the audited consolidated total assets and liabilities of the Group amounted to RMB12,339,594,556.58 and RMB6,357,371,409.91 respectively. Assuming completion of the Capital Increase had taken place on 31 December 2021, the unaudited pro forma consolidated total assets and liabilities of the Group would remain unchanged, as a result of the Capital Increase.

The unaudited pro forma financial information of the Group illustrating the financial impact of the Capital Increase is set out in Appendix VI to this circular.

The Liquidation

The Liquidation is an inevitable requirement for the implementation of the regulatory policies of the CBIRC. According to the preliminary assessment of the Company, the Company will not record a loss as a result of the Liquidation.

Upon completion of the Liquidation, YTO Finance will cease to be a subsidiary of the Company and the financial results and position of YTO Finance will be de-consolidated from that of the Group. The Board does not expect the Liquidation to have any material adverse impact on the financial position and business operations of the Group.

INFORMATION OF THE GROUP, YTO AND SINOMACH

The Group is principally engaged in the production and sale of agricultural machineries and power machineries. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and relevant parts and components.

YTO is the immediate controlling shareholder of the Company, holding 548,485,853 A Shares, representing approximately 48.81% of the issued share capital of the Company as at the Latest Practicable Date. It is principally engaged in the production of specific transport machinery, vehicle products and components.

Sinomach is the controlling shareholder of YTO, having 87.90% shareholding interest in YTO. The remaining 12.10% shareholding interest in YTO is held by Luoyang Guozi State-Owned Assets Management Co., Ltd.*(洛陽市國資國有資產經營有限公司), which in turn is indirectly wholly owned by Luoyang State-owned Assets Supervision and Administration Commission*(洛陽市人民政府國有資產監督管理委員會).

Sinomach is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy machineries and engineering projects domestically and internationally, sales of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business.

HONG KONG LISTING RULES IMPLICATIONS

Connected Persons

As at the Latest Practicable Date, YTO beneficially owns approximately 48.81% of the issued share capital of the Company and is the controlling shareholder of the Company. As Sinomach holds approximately 87.9% equity interests in YTO, Sinomach is a controlling shareholder of YTO. Therefore, Sinomach and its subsidiaries are regarded as connected persons of the Company according to the Hong Kong Listing Rules.

Sinomach Finance is 79.32%-owned subsidiary of Sinomach and the remaining interest are held by member companies within the Sinomach Group. Thus, Sinomach Finance is an associate of Sinomach and a connected person of the Company under the Hong Kong Listing Rules.

In respect of the Disposal and the Capital Increase

As Sinomach and Sinomach Finance are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules, the Disposal and the Capital Increase constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Disposal are more than 5% but less than 25%, the Disposal also constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. Accordingly the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapters 14 and 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Capital Increase (after taking into account the adjusted contribution amount) are more than 25% but less than 100%, the Capital Increase also constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. Accordingly the Capital Increase is subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapters 14 and 14A of the Hong Kong Listing Rules.

In respect of the Liquidation

In respect of the Liquidation, as one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) for YTO Finance for the year ended 31 December 2021 are 5% or more, Rule 13.25(1)(c) applies to YTO Finance according to Rule 13.25(2) of the Hong Kong Listing Rules in terms of making the appropriate announcement(s).

In respect of the Continuing Connected Transactions

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the Non-exempt Continuing Connected Transactions, on an annual basis, are more than 5%, the Non-exempt Continuing Connected Transactions (including relevant annual caps) constitute continuing connected transactions, and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules. The Non-exempt Continuing Connected Transactions also constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules and are subject the reporting and announcement requirements thereunder.

The continuing connected transactions in respect of the provision of loans under the Financial Services Framework Agreement are exempted from the reporting, announcement, annual review and Independent Shareholders' approval requirement as the provisions of such loans constitute a financial assistance received by the Group from a connected person, which is conducted on normal commercial terms or better and is not secured by the assets of the Group pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the provision of other financial services under the Financial Services Framework Agreement, on an annual basis, are more than 0.1% but less than 5%, the provision of other financial services under the Financial Services Framework Agreement constitute continuing connected transactions, and are subject to the reporting, annual review and announcement requirements, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

SHANGHAI LISTING RULES IMPLICATIONS

As the A Shares are listed on the Shanghai Stock Exchange, the Company is also required to comply with relevant requirements of the Shanghai Listing Rules. Pursuant to the relevant provisions of the Shanghai Listing Rules, each of the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM.

In respect of the Continuing Connected Transactions, since the maximum annual caps for the deposit services and the provision of other financial services, on an aggregate basis, are more than 5% of the latest audited net asset value of the Company, therefore the deposit services and the provision of other financial services contemplated under the Financial Services Framework Agreement are subject to the Independent Shareholders' approval at the EGM. The provision of loans under the Financial Services Framework Agreement are however exempted from reporting and Independent Shareholders' approval requirements.

II. RELATED TRANSACTIONS ON INCREASE OF THE ANNUAL CAPS FOR EACH OF THE PROCUREMENT FRAMEWORK AGREEMENT, THE SALES FRAMEWORK AGREEMENT AND THE LICENCE AND TECHNOLOGY AGREEMENT UNDER THE SHANGHAI LISTING RULES

Background of the Entering into of Related Party Transaction Agreements and Relationship with Related Parties

In July 2014, the Company and ZF China cooperated in the axle business and made joint investment to establish ZF Axle Company, in which the Company holds 49% equity interest and ZF China holds 51% equity interest. ZF Axle Company is not consolidated into the financial statement of the Company.

ZF China is a wholly foreign-owned limited liability company duly established and legally existing under the laws of the PRC, which is principally engaged in the business of investment, research and development of new products and high technology, and sale of products manufactured by enterprises invested in by it in accordance with the law in the fields where foreign investment is permitted by the state. As at the Latest Practicable Date, ZF Hangzhou is 100% owned by ZF China. With all reasonable enquiries made, ZF China and its ultimate shareholders are independent third parties independent of the Company and its connected persons (within the meaning of the Hong Kong Listing Rules).

On 18 July 2014, the Company and ZF Axle Company entered into agreements in respect of daily operations, such as technology license, premise leasing, procurement and sales, etc., which were considered and approved at the 14th meeting of the sixth session of the Board of the Company. According to the agreements entered into by both parties, the Procurement Framework Agreement, the Sales Framework Agreement and the License and Technology Agreement shall remain in effect for the duration of ZF Axle Company as a joint venture.

The deputy general manager of the Company acts concurrently as the chairman of ZF Axle Company, which is a related legal person of the Company under Rule 6.3.3 of the Shanghai Listing Rules. Accordingly, the transactions contemplated under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement constitute related transactions of the Company under the Shanghai Listing Rules, although those transactions do not constitute continuing connected transactions under the Hong Kong Listing Rules.

Main Content of Relevant Agreements

(A) Procurement Framework Agreement

1. Basic information

Purchaser: ZF Axle Company

Supplier: the Company

ZF Axle Company shall purchase the gears, drive shafts and other components for the production of drive axles from the Company.

2. Purchase price and settlement

(1) The purchase price of the components shall be determined by mutual agreement with reference to the prices in the previous years and the prevailing market price, and taking into account factors such as changes in raw material prices.

(2) ZF Axle Company shall make payment for the purchase of components in full within 50 days after the date of the invoice issued by the Company.

3. Term of the agreement and others

(1) Valid within the duration of ZF Axle Company as a joint venture.

(2) Both parties shall enter into a separate procurement agreement(s) for the procurement business, the content of which shall be consistent with the main content of the framework agreement.

(B) Sales Framework Agreement

1. Basic information

Party A: the Company

Party B: ZF Axle Company

Party C: ZF Hangzhou

ZF Axle Company shall sell products (including drive axle products) manufactured by it to the Company and ZF Hangzhou.

2. *Selling price and settlement*

(1) The selling price of the drive axle products shall be determined by mutual agreement with reference to the prices in the previous years and the prevailing market price, and taking into account factors such as changes in raw material prices.

(2) The price of products sold by ZF Axle Company to the Company or any branches and subsidiaries of the Company shall not be higher than the price of similar products sold by ZF Axle Company to ZF Hangzhou.

(3) The Company shall make payment for the goods in full on the 15th day of the month following the date of the invoice.

3. *Term of the agreement and others*

(1) Valid within the duration of ZF Axle Company as a joint venture.

(2) Both parties shall enter into a separate sales agreement for each order of the products, the content of which shall be consistent with the main content of the framework agreement.

(C) License and Technology Agreement

1. *Basic information*

Licensors: the Company and ZF China

Licensee: ZF Axle Company

The content and scope of the technology license:

(1) The Company and ZF China agree that ZF Axle Company shall use their respective relevant technologies to manufacture and assemble the existing products as well as the future products.

(2) The technology ownership of the products improved by ZF Axle Company using licensed technology shall belong to ZF Axle Company.

2. *Pricing and settlement of technology license fee*

   (1) ZF Axle Company shall make a one-off payment for the technology license fee of RMB2.2 million to the Company and ZF China, respectively (Note: the one-off payment for the technology license fee to the Company was completed in 2015); and shall pay a technology license fee of 0.3% of the sales of products manufactured using the licensed technology to the Company and ZF China, respectively ("**Technology License Fee based on Sales**").

   (2) The one-off technology license fee shall be paid on the date of mass production of the existing products; the Technology License Fee based on Sales for the previous year shall be paid by 31 March in the current year.

3. *Term of the agreement:* Valid within the duration of ZF Axle Company as a joint venture

Reasons for the Related Transactions

1. ZF Axle Company is mainly engaged in the research and development, application engineering, production, assembly and sales of drive axle products for agricultural machinery vehicles. Drive axle is an important component of tractor products, and the Company's demand for drive axle products for the production of tractors can be met through the Sales Framework Agreement.

2. The Company owns the capability to manufacture gears, castings and forgings and other components, and through the Procurement Framework Agreement, it can meet the demand for procurement of components for daily production of drive axle products of ZF Axle Company and provide it with reliable supply of components.

3. The Company and ZF China agree that ZF Axle Company shall use their respective relevant technologies to manufacture and assemble the existing products and the future products, and ZF Axle Company shall make a one-off payment for technology license fee of RMB2.2 million to the Company and ZF China, respectively (Note: the one-off payment for the technology license fee to the Company was completed in 2015); and shall pay a technology license fee of 0.3% of the sales of products manufactured using the licensed technology to the Company and ZF China, respectively.

Cap Amounts of the Related Transactions between the Company and ZF Axle Company in 2022

At the 34th meeting of the eighth session of the Board held on 24 December 2021, the resolution(s) on the cap amounts of the related transactions between the Company and ZF Axle Company in 2022 was/were considered and approved.

The estimated cap amounts of the related transactions of the Company in 2022 are mainly determined with reference to the historical transaction amounts in combination with the estimated business needs in 2022.

Category of related party transaction	**Estimated cap amount for 2022** *(RMB'000)*
Purchase of components from the Company by the related parties	38,000
Sales of axle products to the Company by the related parties	170,000
The Company's permission for the related parties to use its technologies	700

Increase of Cap Amounts of the Related Transactions between the Company and ZF Axle Company in 2022

Due to actual business needs, the Company intends to increase the cap amounts of the three related transactions under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement. At the 2nd meeting of the ninth session of the Board held on 27 April 2022, the resolution on the increase of caps of related transactions between the Company and ZF Axle Company in 2022 was considered and approved. The increases in the estimated amounts and types of the related party transactions under each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement in 2022 are as follows:

Content of transaction	Originally estimated cap amount for 2022 *(RMB'000)*	Actual transaction amount from January to March 2022 *(RMB'000)*	Transaction amount to be increased *(RMB'000)*	Adjusted cap amount for 2022 *(RMB'000)*
Purchase of components from the Company by the related parties	38,000	13,200	7,000	45,000
Sales of components to the Company by the related parties	170,000	79,740	60,000	230,000
The Company's permission for the related parties to use the relevant technologies	700	0 (Note)	150	850

Note: According to the License and Technology Agreement, the technology license fee is not due for payment.

Reasons for the Increase of Caps of the Related Transactions

1. Based on the actual production and operation needs of the Company, the demand for drive axle products from ZF Axle Company is expected to increase. At the same time, the purchase of relevant components from the Company by ZF Axle Company will also increase simultaneously.

2. As a result of the increase in sales volume of products manufactured by ZF Axle Company using the relevant technologies, the technology license fees paid by ZF Axle Company to the Company also increased accordingly.

The Directors are of the view that the increase of the cap amounts of the related transactions is in line with the normal operational needs of the Company; the relevant related transactions are necessary for the normal production and operation of the Company and the transactions are in normal commercial terms and will not have an adverse impact on the financial position and operating results of the Company and will not affect the independence of the Company.

Implications under the Shanghai Listing Rules

As the total amount of related transactions (including the estimated amount of related transactions under the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement in 2022 after adjustments) between the Company and ZF Axle Company for 12 consecutive months exceeds 5% of the latest audited net assets of the Company, the relevant resolutions on the increase of caps of related transactions between the Company and ZF Axle Company in 2022 (as set out in ordinary resolutions no.3.01, no.3.02 and no.3.03 of the Notice of EGM) are subject to the consideration at the EGM.

The relevant resolutions on the increase of caps of the related transactions between the Company and ZF Axle Company in 2022 are subject to the consideration and approval by the Shareholders at the EGM by way of ordinary resolution(s). According to the information currently available to the Company, no Shareholders are required to abstain from voting on any of the resolution(s) regarding the related transactions on the increase of the annual caps for each of the Procurement Framework Agreement, the Sales Framework Agreement and the Licence and Technology Agreement at the EGM.

III. GENERAL

YTO is an associate of Sinomach and save for YTO holding 548,485,853 A Shares, representing approximately 48.81% of the total issued share capital of the Company, to the best knowledge of the Directors, no other Shareholders has any material interest in the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions. YTO and its associates will abstain from voting at the EGM to be convened to consider, and if thought fit, to approve the Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement. 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 Disposal, the Capital Increase, the Liquidation and the Financial Services Framework Agreement at the EGM.

Mr. Li Xiaoyu, retiring chairman of the Company, is also the chairman of YTO. Mr. Liu Jiguo, an executive Director and chairman of the Company, general manager, is also a director of YTO. Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, who are retiring non-executive Directors, are also connected to YTO. Accordingly, since YTO is an associate of Sinomach, Mr. Li Xiaoyu, Mr. Liu Jiguo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai had all abstained from voting on the Board resolutions approving the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions. Save for the above, none of the other Directors has any material interest in the Disposal, the Capital Increase, the Liquidation and the Continuing Connected Transactions.

IV. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 49 and 50 of this circular and; (ii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders set out on pages 51 to 74 of this circular in connection with Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) and the principal factors and reasons considered by Gram Capital in arriving at such advice.

The Board is of the opinion that the terms of the Disposal Agreement, the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement are fair and reasonable. Although the Disposal Agreement and the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) are not entered into in the ordinary and usual course of business of the Group, the Disposal Agreement, the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement are on normal commercial terms and are in the interests of the Company and its Shareholders as a whole. The Board also considers that the Liquidation, which needs to be undertaken to fully comply with Rule 14 Measures, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board (including the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of all the ordinary resolutions set out in the Notice of EGM at the EGM.

V. EGM

The EGM of the Company will be held at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC on 16 June 2022 at 2:30 p.m., the notice of which is set out on pages EGM-1 to EGM-2 of this circular. The form of proxy for use at the EGM is enclosed.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The form of proxy shall be lodged with the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or at the registered address and principal place of business of the Company 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 form of proxy 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.

VI. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
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)

31 May 2022

To the Independent Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF TARGET ASSETS;
(2) MAJOR AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE IN SINOMACH FINANCE; AND
(3) DISCLOSEABLE TRANSACTION IN RELATION TO THE DEPOSIT TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 31 May 2022 issued by First Tractor Company Limited* to the Shareholders (the "**Circular**"), 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: (i) whether the terms of the Disposal Agreement, Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement are fair and reasonable; (ii) whether the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) are on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) whether the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) are in the interests of the Company and the Shareholders as a whole.

Gram Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including relevant annual caps). Details of the advice, together with principal factors and reasons considered in arriving at such advice are set out in the letter from Gram Capital as set out on pages 51 to 74 of the Circular.

You attention is also drawn to the Letter from the Board as set out on pages 7 to 48 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 Gram Capital:

(a) although the Disposal is not conducted in the ordinary and usual course of business of the Group, we are of the view that (i) the terms and conditions of the Disposal Agreement are fair and reasonable; and (ii) the Disposal is on normal commercial terms and are in the interests of the Company and its Shareholders as a whole and accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution on the Disposal at the EGM;

(b) although the Capital Increase is not conducted in the ordinary and usual course of business of the Group, we are of the view that (i) the terms and conditions of the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) are fair and reasonable; and (ii) the Capital Increase is on normal commercial terms and are in the interests of the Company and its Shareholders as a whole and accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution on the Capital Increase at the EGM; and

(c) we are of the view that (i) the Non-exempt Continuing Connected Transactions are on normal commercial terms and are entered into in the ordinary and usual course of business of the Group; (ii) the terms and conditions of the Financial Services Framework Agreement are fair and reasonable; and (iii) the Non-exempt Continuing Connected Transactions are in the interests of the Company and its Shareholders as a whole and accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution on the Non-exempt Continuing Connected Transactions at the EGM.

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

Mr. Edmund Sit **Mr. Wang Shumao** **Mr. Xu Liyou**

Independent non-executive Directors

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

31 May 2022

*To: The independent board committee and the independent shareholders of First Tractor Company Limited**

Dear Sir/Madam,

**(I) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF TARGET ASSETS;
(II) MAJOR AND CONNECTED TRANSACTION IN RELATION TO CAPITAL INCREASE IN SINOMACH FINANCE;
AND
(III) DISCLOSEABLE TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE DEPOSIT TRANSACTION**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 31 May 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 29 March 2022 (after trading hours), Sinomach, Sinomach Finance, the Company and YTO Finance entered into the Restructuring Framework Agreement in relation to the Restructuring Transactions. Pursuant to the Restructuring Framework Agreement, the relevant parties on the same date also entered into separate agreements, namely the Disposal Agreement, the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) and the Financial Services Framework Agreement to effect the Restructuring Transactions.

On 27 May 2022 (after trading hours), the Company and Sinomach Finance entered into the Supplemental Investment Agreement to adjust the contribution amount for the Capital Increase as the filing process of the Sinomach Valuation with the relevant state-owned regulatory authorities has been completed.

Pursuant to the Disposal Agreement, YTO Finance conditionally agreed to dispose of and Sinomach Finance conditionally agreed to purchase the Target Assets.

Pursuant to the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement), the Company conditionally agreed to make a capital increase in cash to Sinomach Finance. As at the Latest Practicable Date, the Company did not hold any interests in Sinomach Finance. Upon completion of the Capital Increase, the Company will hold approximately 14.29% equity interests in Sinomach Finance.

Pursuant to the Financial Services Framework Agreement, Sinomach Finance agreed to provide financial services (including the Non-exempt Continuing Connected Transactions) to the Group for a period up to 31 December 2024.

With reference to the Board Letter, (i) the Disposal constitutes a discloseable and connected transaction for the Company; (ii) the Capital Increase constitutes a major and connected transaction for the Company; and (iii) the Non-exempt Continuing Connected Transactions constitute a discloseable transaction and continuing connected transactions of the Company, and are therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Edmund Sit, Mr. Wang Shumao and Mr. Xu Liyou (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) are on normal commercial terms and are fair and reasonable; (ii) whether the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions (including the relevant annual caps) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of the discloseable and continuing connected transactions of the Company as set out in the Company's circular dated 12 October 2021. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationship or interest between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. 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 enquiry and careful consideration. We have no reason to suspect that any material facts or information have 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 Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or Sinomach Finance, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report in respect of the Initial Valuation of the Target Assets as at 31 December 2021 as prepared by the Independent Valuer (the "**Initial Assets Valuation Report**"), the summary of which is set out in Appendix II to the Circular, and the Final Sinomach Valuation Report in respect of the Sinomach Valuation as at 31 December 2021, the summary of which is set out in Appendix III to the Circular. Since we are not experts in the valuation of assets or business, we have relied solely upon the Initial Assets Valuation Report for the Initial Valuation of the Target Assets as at 31 December 2021 and the Final Sinomach Valuation Report for the Sinomach Valuation as at 31 December 2021.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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 the 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Sinomach, Sinomach Finance, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

INFORMATION OF THE GROUP

With reference to the Board Letter, the Group is principally engaged in the production and sale of agricultural machineries and power machineries. The principal products include tractors of hi-powered, mid-powered and low-powered, diesel engines and relevant parts and components.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**"):

	For the year ended 31 December 2021	**For the year ended 31 December 2020**	**Change from 2020 to 2021**
	RMB	*RMB*	*%*
Total operating revenue	9,333,808,881.54	7,582,476,787.76	23.10
Operating profit	426,898,016.57	292,726,445.01	45.84
Net profit attributable to shareholders of the parent company	438,209,215.31	280,150,740.30	56.42

As illustrated in the above table, the Group's total operating revenue was approximately RMB9.33 billion for the year ended 31 December 2021 ("**FY2021**"), representing an increase of approximately 23.10% as compared to that for the year ended 31 December 2020 ("**FY2020**"). During FY2021, the Group also recorded significant increases of approximately 45.84% and 56.42% in operating profit and net profit attributable to shareholders of the parent company respectively as compared to those for FY2020. With reference to the 2021 Annual Report, the aforesaid increase in revenue was mainly due to increase in sales volume of the Group's major products. In addition, during FY2021, the Company perfected the evaluation mechanism for cost control, strengthened the internal operation management, intensified cost control, capital control and quality control, which made the increase in operating costs lower than the increase in operating revenue, leading to increases in operating profit and net profit attributable to shareholders of the parent company.

With reference to the 2021 Annual Report, in 2022 (being the second year to implement the 14th Five-Year Plan of the PRC), the Company will adhere to the strategic development ideas of "seeking progress while maintaining stability" and "14th Five-Year Plan" to grasp the change trend of industry development and competition pattern. Centering on the business idea of "seizing opportunities, improving capabilities, adapting to the situation, and maintaining steady growth", the Company will accelerate scientific and technological research and development, innovation, breakthrough and upgrading of product technology, further integrating into the new development pattern and promoting steady operation and sustainable development of the Company.

INFORMATION ON YTO AND SINOMACH

Set out below is the information on YTO and Sinomach as extracted from the Board Letter:

YTO is the immediate controlling shareholder of the Company, holding 548,485,853 A Shares of the Company, representing approximately 48.81% of the issued share capital of the Company as at the date of this announcement. It is principally engaged in the production of specific transport machinery, vehicle products and components.

Sinomach is the controlling shareholder of YTO, having 87.90% shareholding interest in YTO. The remaining 12.10% shareholding interest in YTO is held by Luoyang Guozi State-Owned Assets Management Co., Ltd.*(洛陽市國資國有資產經營有限公司), which in turn is indirectly wholly owned by Luoyang State-owned Assets Supervision and Administration Commission*(洛陽市人民政府國有資產監督管理委員會).

Sinomach is principally engaged in the business of research and development and manufacturing of machinery equipment, heavy machineries and engineering projects domestically and internationally, sales of automotive and parts, contracting of international projects and tendering of domestic and international projects, and import and export business.

INFORMATION ON YTO FINANCE AND THE TARGET ASSETS

With reference to the Board Letter, YTO Finance, a 99.40%-owned subsidiary owned subsidiary of the Company, is a non-banking financial institution approved and regulated by the CBIRC. The remaining 0.60% equity interest is held by YTO. Its principal activities include the provision of non-banking financial services to members of the Group as well as members of YTO Group. It has a registered capital of RMB500 million.

YTO Finance is principally engaged in the provision of financial services including deposits taking, provision of loans, underwriting of corporate bonds, as well as finance leasing, financial and financing consultation, credit certification and related consultation and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loan, handling bills acceptance and discounting, and other financial services that may be approved by the CBIRC, to members of the YTO Group and the Group.

The Target Assets comprised of loans and advances to customers, non-current assets due within one year and long term receivables held by YTO Finance with maturity date(s) after 30 September 2022, fixed assets and intangible assets that are directly attributable or related to the continuation of the business of YTO Finance, the value of which would have been appraised.

INFORMATION ON SINOMACH FINANCE

With reference to the Board Letter, Sinomach Finance is a non-banking financial institution established in 2003 approved by China Banking Regulatory Commission through restructuring the former China CAMC Trust Investment Co., Ltd.*（中工信託投資有限公司）by Sinomach. As at the Latest Practicable Date, Sinomach Finance is a 79.32% owned subsidiary of Sinomach and the remaining interest are held by member companies within the Sinomach Group. Sinomach Finance is a connected person of the Company.

Sinomach Finance is principally engaged in the provision of financial services including deposits taking, provision of loans, underwriting of corporate bonds, as well as finance leasing, financial and financing consultation, credit certification and related consultation and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loans, handling bills acceptance and discounting, and other financial services that may be approved by the CBIRC, to members of the Sinomach Group.

Set out below is the audited financial information of Sinomach Finance for the two financial years ended 31 December 2021 as extracted from the Board Letter:

	For the year ended 31 December 2021	**For the year ended 31 December 2020**	**Change from 2020 to 2021**
	RMB	*RMB*	*%*
Revenue	872,497,557	950,264,845	(8.18)
Profit before tax	400,589,607	395,284,389	1.34
Profit after tax	306,198,059	296,807,802	3.16

As at 31 December 2021, the net assets of Sinomach Finance amounted to RMB3,283,346,400.

REASONS FOR AND BENEFITS OF THE DISPOSAL, THE CAPITAL INCREASE AND THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

With reference to the Board Letter, according to Rule 14 Measures published by the CBIRC, a corporate group can only have one finance company within the same corporate group to provide financial services to companies within the same group. The Sinomach Group currently has two finance companies under its group, namely (i) Sinomach Finance, which is a 79.32%-owned subsidiary of Sinomach; and (ii) YTO Finance which is a 99.40%-owned subsidiary of the Company.

The Disposal

In order to comply with Rule 14 Measures of the PRC regulations, the Disposal represents the first step that the Company must take to achieve the objective. The Disposal represents a continuation of the finance company's business of YTO Finance that will be taken over by Sinomach Finance with the acquisition of the Target Assets. This will provide a smooth transition of YTO Finance's existing business and with Sinomach Finance providing continuous and seamless services to the clients of YTO Finance, this will facilitate more business opportunities for Sinomach Finance in the future. Furthermore, the Disposal will expedite the monetary realisation of the Target Assets which in turn will enhance the liquidity position of YTO Finance for distributing its equity to its shareholders for the Liquidation.

The Group intends to use the proceeds from the Disposal, together with monies to be received from the sale of its remaining assets pursuant to the Liquidation to settle the liabilities of YTO Finance in terms of deposits due to customers and all other liabilities of YTO Finance.

The Capital Increase

With reference to the Board Letter, YTO Finance, being a non-banking financial institution approved by the CBIRC, provides a full range of financial services within the scope approved by the CBIRC, to give financial support to the buyers of the Group in their credit and financing leasing businesses. Its aim is to promote the development of various businesses in the Group by adhering to the Group's objective in "serving the development of the Group through prevention and control of financial risks"（服務集團發展，防控金融風險).

Upon completion of the Disposal and the eventual Liquidation, YTO Finance will cease to be a subsidiary of the Company and the results of its finance services business will no longer be consolidated into the Company's consolidated financial statements. Furthermore, it will no longer be able to provide financial business services to YTO and its subsidiaries, which includes the Group.

Taking into consideration that the Group and the YTO Group will require financial services in their business operations, the Board identified Sinomach Finance as a suitable investment for the Company to achieve the objective. With its strong capital base and comprehensive business operations, Sinomach Finance has long been the major integrated financial services platform of the Sinomach Group, providing financial support to the business development of the members of the Sinomach Group. In addition, the capital base of Sinomach Finance and its ability to serve its members companies will be further enhanced after it takes over the related business and assets of YTO Finance. The Capital Increase will also enhance the economic returns of the Group from its investment. With the financial business services being centralised into Sinomach Finance, the Group will be able to better utilise the financial resources of Sinomach Finance to provide high quality financial services support to the Group, thereby maintain the sustainability and stable development of the Group's business activities.

In addition, the Capital Increase will enable the Group to leverage on the comprehensive financial business services provided by Sinomach Finance to continue serving its clientele whilst giving the opportunity for the Company to participate in the growth of Sinomach Finance and enjoy the returns of its investment, thereby compensating the impact of the Liquidation on the Group's performance.

Continuing Connected Transactions (including the Non-exempt Continuing Connected Transactions)

With reference to the Board Letter, following the Business Cessation Date, YTO Finance can no longer provide financial services to the other member companies of the Group and the Group intends to procure the financial services from Sinomach Finance, which is the non-banking financial institution under the Sinomach Group that is regulated by the CBIRC. The Company is of the view that the Financial Services Framework Agreement could provide an effective framework to regulate the provision and receipt of financial services between the Group and/or its member companies and Sinomach Finance and ensure a smooth transition for the business operations of the Group.

In considering the reasons and benefits for entering into the Financial Services Framework Agreement between the Company and Sinomach Finance, the Board has also considered the following key factors:

(i) Sinomach Finance, a non-banking financial institution approved by the CBIRC, is capable of providing comprehensive financial services to member companies of the Sinomach Group and has safe and stable operation and strong performance capability;

(ii) as an intra-group service provider, Sinomach Finance generally has better and more efficient communication with the Group compared with the other independent commercial banks and financial institutions; and

(iii) Upon completion of the integration of YTO Finance and Sinomach Finance, the Company can leverage on the comprehensive and quality services, in-depth industry expertise and substantial financial resources of Sinomach Finance to provide good financial support, including the continued provision of high-quality financial service and products to the members companies of the Group, which is conductive to sustaining the operations and development of the Group.

Detailed reasons for the Disposal, the Capital Increase and the Continuing Connected Transactions (including the Non-exempt Continuing Connected Transactions) are set out under the section headed ''REASONS FOR AND BENEFITS OF THE RESTRUCTURING TRANSACTIONS'' of the Board Letter.

Having considered the above reasons for and benefits of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions, and the profitability of Sinomach Finance (recorded profit after tax of approximately RMB297 million for FY2020 and approximately RMB306 million for FY2021), we are of the view that (i) although the Disposal and the Capital Increase are not conducted in the ordinary and usual course of business of the Company, they are in the interests in the Company and the Shareholders as a whole; and (ii) the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and in the interests in the Company and the Shareholders as a whole.

PRINCIPAL TERMS OF THE DISPOSAL, THE CAPITAL INCREASE AND THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. THE DISPOSAL

Summarised below are the principal terms for the Disposal Agreement, details of which are set out under the section headed ''2. THE DISPOSAL'' of the Board Letter.

Date

29 March 2022

Parties

(1) YTO Finance as vendor; and

(2) Sinomach Finance as Purchaser

Assets to be disposed of

Pursuant to the Disposal Agreement, YTO Finance has conditionally agreed to dispose of and Sinomach Finance has conditionally agreed to purchase the Target Assets as at the Business Cessation Date.

The Target Assets comprised of loans and advances to customers, non-current assets due within one year and long term receivables held by YTO Finance with maturity date(s) after 30 September 2022, fixed assets and intangible assets that are directly attributable or related to the continuation of the business of YTO Finance, the value of which would have been appraised.

Consideration

The final consideration will be based on the valuation of the Target Assets on the Business Cessation Date (i.e., 30 June 2022) to be conducted by the Independent Valuer, and after the valuation report has been filed with the relevant state-owned regulatory authorities (i.e., the Final Valuation) and will not be subject to any adjustment. The Board expects the Final Consideration (as defined herein) will not exceed RMB1.8 billion (the "**Maximum Consideration**").

As at 31 December 2021, the appraised value of the Target Assets based on the Initial Assets Valuation Report was RMB1,047,263,700 (i.e., the Initial Valuation) and the book value of the Target Assets was RMB1,025,844,400, respectively. The Initial Valuation was based on assets approach with reference to the book value of the Target Assets as at 31 December 2021. The date of 31 December 2021 has been agreed by both parties as the valuation date to conduct the Initial Valuation of the Target Assets, which can be used as a benchmark reference for the consideration for the Disposal.

During the restructuring process, YTO Finance will continue its operations until the Business Cessation Date. Accordingly, it is expected that there will be changes to the value of the Target Assets. Therefore, both parties agreed that the Business Cessation Date (i.e., 30 June 2022) will be the valuation date for the Final Valuation, in which the value stated in the valuation report that would have been filed with the relevant state-owned regulatory authorities (i.e., the Final Valuation Report) will be taken as the final consideration for the Disposal (i.e., the Final Consideration). The assets type of the Target Assets and the valuation methodologies used in the Final Valuation will be similar to that adopted in the Initial Valuation. The work for the Final Valuation will commence two Business Days after the Business Cessation Date.

In the event YTO Finance receives any principal repayment on the Target Assets between the Business Cessation Date and the Disposal Completion Date, such principal repayment amount will be deducted from the Final Consideration payable by Sinomach Finance to YTO Finance. However, any interests payments and handling fees relating to the Target Assets that is received by YTO Finance between the Business Cessation Date and the Disposal Completion Date belongs to YTO Finance and such amount will not be deducted from the Final Consideration payable.

The Initial Assets Valuation Report

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Independent Valuer; (ii) the Independent Valuer's qualification in relation to the preparation of the Initial Assets Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Initial Assets Valuation Report. From the mandate letter and other relevant information provided by the Independent Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Independent Valuer as well as their qualification for preparation of the Initial Assets Valuation Report. The Independent Valuer also confirmed that they are independent to the Group and the Sinomach Group.

The Initial Assets Valuation Report was prepared by the Independent Valuer by way of assets approach. Upon our further enquiry with the Independent Valuer, we understood that (i) as there was no identifiable and separate cashflow associated with the Target Assets, income approach was impracticable for the Initial Valuation; (ii) as there was no comparable transaction for the Target Assets, market approach was impracticable for the Initial Valuation; and (iii) assets approach was adopted for the Initial Valuation as there were complete financial and management information regarding the Target Assets and their replacement cost and the conditions for applying assets approach were satisfied.

In respect of the valuation approach, we considered the followings:

(i) The Target Assets may generate economic benefits for an entity under its operation. Nevertheless, the Target Assets may not generate cashflow on their own (without business operation). It is reasonable that there was no identifiable and separate cashflow associated with the Target Assets on a separated basis.

(ii) Having considered the nature of the Target Assets, we do not doubt the Independent Valuer's view that there was no comparable transaction for the Target Assets.

(iii) We obtained certain information of the Target Assets (with supporting documents) as further explained below. Accordingly, we do not doubt the Independent Valuer's basis for adopting assets approach (i.e. there were complete financial and management information regarding the Target Assets and their replacement cost and the conditions for applying assets approach were satisfied).

Accordingly, we consider the adoption of assets approach for conducting the Initial Assets Valuation Report to be reasonable.

Having considered that the income approach and market approach were impracticable for the Initial Valuation and the appropriateness of the assets approach as mentioned above, we did not consider other approaches to assess the Initial Valuation.

We further reviewed and enquired into the Independent Valuer on the methodology adopted and the basis and assumptions adopted in the Initial Assets Valuation Report in order for us to understand the Initial Assets Valuation Report. We also discussed the key assumptions and parameters under the Initial Assets Valuation Report.

Under the Initial Assets Valuation Report, the Target Assets were categorised as (i) loans and advances to customers; (ii) long-term receivables; (iii) fixed assets; (iv) construction in progress; and (v) other intangible assets. We understood the followings from the Initial Assets Valuation Report:

(i) In respect of loans and advances to customers, (a) in accordance with the Measures for the Administration of Reserve Provision of Financial Enterprises (金融企業準備金計提管理辦法) formulated by the Ministry of Finance and the relevant rules of YTO Finance on provisions for impairment, it recognises and appraises loans risk losses on normal category and focused category based on risk classification for loans and advances to customers; and (b) other loans and advances to customers were classified into the subsequent three categories, namely secondary, suspicious and loss, and were considered as nonperforming assets and it recognises the appraised value after analysing the recoverable value of debts.

For our due diligence purpose, we obtained the calculation, detailed explanation and certain underlying documents (such as copies of loan agreements and repayment undertakings) for the aforesaid appraisals. Based on our observation and discussion with the Independent Valuer, we have no doubt on the aforesaid appraisals.

(ii) In respect of long-term receivables, (a) in accordance with the Measures for the Administration of Reserve Provision of Financial Enterprises (金融企業準備金計提管理辦法) formulated by the Ministry of Finance and the relevant rules of YTO Finance on provisions for impairment, it recognised and appraised risk losses on normal category and focused category based on risk classification for long-term receivables for the financial leasing business; and (b) other loans and advances to customers were classified into the subsequent three categories, namely secondary, suspicious and loss, and were considered as nonperforming assets and it recognises the appraised value after analysing the recoverable value of debts.

For our due diligence purpose, we obtained the calculation, detailed explanation and certain underlying documents (such as copies of financial lease agreements and repayment undertakings) for the aforesaid appraisals. Based on our observation and discussion with the Independent Valuer, we have no doubt on the aforesaid appraisals.

(iii) In respect of fixed assets, (a) certain fixed assets were valued by replacement cost times integrated newness rate; and (b) certain fixed assets were valued based on relevant prices in the second-hand market or rejected product prices.

For our due diligence purpose, we obtained the calculation, detailed explanation and certain underlying information (such as replacement costs, market prices and useful life of the fixed assets) for the aforesaid appraisals. Based on our observation and discussion with the Independent Valuer, we have no doubt on the aforesaid appraisals.

(iv) In respect of other intangible assets, they were valued after taking into account replacement cost and depreciation rate.

For our due diligence purpose, we obtained the calculation, detailed explanation and certain underlying information (such as replacement costs and useful life of the intangible assets) for the aforesaid appraisals. Based on our observation and discussion with the Independent Valuer, we have no doubt on the aforesaid appraisals.

(v) In respect of construction in progress, (a) for projects completed with construction costs settled or construction costs payable confirmed on the Valuation Date, they were appraised using the valuation approach for fixed assets; and (b) for construction in progress with the commencement date within half a year before the Valuation Date, the verified book value was adopted as the appraised value.

As confirmed by the Independent Valuer, only method (b) above was adopted as the commencement dates of all construction in progress under appraisal were within half a year before the Valuation Date. For our due diligence purpose, we obtained the detailed explanation and certain underlying information (such as book value of the other assets (construction in progress)) for the aforesaid appraisals. Based on our observation and discussion with the Independent Valuer, we have no doubt on the aforesaid appraisals.

We also obtained the detailed explanation of the Initial Assets Valuation Report from the Valuer and further understood the detailed workings in arriving the Initial Valuation.

During our discussion with the Independent Valuer and based on our understanding on the detailed workings in arriving the Initial Valuation, 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 Initial Assets Valuation Report.

Having considered our independent work performed on the Initial Assets Valuation Report and that (i) the value stated in the Final Valuation Report that would have been filed with the relevant state-owned regulatory authorities will be taken as the Final Consideration; and (ii) the assets type of the Target Assets and the valuation methodologies used in the Final Valuation will be similar to that adopted in the Initial Valuation, we are of the view that the Final Consideration is fair and reasonable.

Given that the Initial Valuation was approximately RMB1,047 million as at 31 December 2021, we consider that the Maximum Consideration of RMB1.8 billion to be justifiable as it implied sufficient buffer.

Payment of the consideration

Within five Business Days upon completion of filing of the Final Valuation Report, YTO Finance will commence the transfer of the Target Assets to Sinomach Finance. Within two Business Days upon the transfer of the Target Assets relating to credit assets of the members companies of the Group, Sinomach Finance will pay 90% of the Final Consideration. The balance of the Final Consideration will be payable by Sinomach Finance within two Business Days upon the transfer of the Target Assets other than the credit assets of the members companies of the Group.

Taking into account the principal terms of the Disposal as set out above, we consider that the terms of the Disposal are fair and reasonable.

Possible financial effects of the Disposal

With reference to the Board Letter, it is estimated that the Group will record a gain of RMB21,419,300 from the Disposal, after taking into account the appraised value and the book value of the Target Assets as at 31 December 2021 of approximately RMB1,047,263,700 and RMB1,025,844,400 respectively. It should be noted that the actual gain on the Disposal to be recorded by the Group will depend on the Final Consideration and the book value of the Target Assets as at the Business Cessation Date.

B. THE CAPITAL INCREASE

Summarised below are the principal terms for the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement), details of which are set out under the section headed "3. THE CAPITAL INCREASE" of the Board Letter.

Date

Investment Agreement: 29 March 2022

Supplemental Investment Agreement: 27 May 2022

Parties

(1) The Company; and

(2) Sinomach Finance

Capital Increase

Pursuant to the Investment Agreement, the Company has conditionally agreed to make a capital increase in cash to Sinomach Finance (the "**Contribution Amount**") of RMB558,168,900 to subscribe for additional registered capital of RMB250,000,000 in Sinomach Finance, representing approximately 14.29% of the enlarged share capital of Sinomach Finance after the Capital Increase. RMB250,000,000 will be credited as registered capital and RMB308,168,900 will be credited as contributed surplus in Sinomach Finance.

In the event there are further changes to the Sinomach Valuation after the valuation report has been filed with the relevant state-owned regulatory authorities, the final Contribution Amount for the Capital Increase to be payable by the Company shall be adjusted accordingly, on condition that the Company's shareholding in Sinomach Finance remains unchanged at approximately 14.29% upon completion of the Capital Increase.

With reference to the Board Letter, pursuant to the Supplemental Investment Agreement and the Final Sinomach Valuation Report as filed with the relevant state-owned regulatory authorities, both parties agreed and confirmed that the Contribution Amount was adjusted from RMB558,168,900 to RMB554,776,100, of which RMB250,000,000 will be credited as registered capital and RMB304,776,100 will be credited as contributed surplus in Sinomach Finance.

The Company shall be entitled to nominate one director candidate to the board of directors of Sinomach Finance. Subject to compliance with the qualification requirements under the relevant laws and regulations, Sinomach shall, and shall procure other shareholders of Sinomach Finance to take necessary action to, elect the director candidate nominated by the Company to become a director of Sinomach Finance.

Contribution amount

The Contribution Amount shall be payable by the Company to Sinomach Finance within five Business Days of the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement) becoming effective and shall be settled fully in cash. Following completion of the Capital Increase, the registered capital of Sinomach Finance will increase from RMB1,500,000,000 to RMB1,750,000,000.

The Contribution Amount is determined based on the valuation of entire shareholders' equity of Sinomach Finance as at 31 December 2021 appraised by the Independent Valuer (i.e., the Sinomach Valuation).

The Independent Valuer used both market approach and income approach to conduct the valuation, and the valuation results from the market approach was used as the valuation conclusion. As at 31 December 2021, being the valuation date, the appraised value of the Sinomach Valuation using market approach was RMB3,328,656,600.

The Final Sinomach Valuation Report

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Independent Valuer; (ii) the Independent Valuer's qualification in relation to the preparation of the Final Sinomach Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Final Sinomach Valuation Report. From the mandate letter and other relevant information provided by the Independent Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Independent Valuer as well as their qualification for preparation of the Final Sinomach Valuation Report. As aforementioned, the Independent Valuer also confirmed that they were independent to the Group and the Sinomach Group.

As aforementioned, the Independent Valuer used both market approach and income approach to conduct the Sinomach Valuation, and the valuation results from the market approach was used as the valuation conclusion. Upon our further enquiry with the Independent Valuer, we understood the followings:

(i) Asset-based approach cannot quantify the value of the brand in respect of the financial services of Sinomach Finance as a financial enterprise. The provisions made by the financial enterprise have significant impact on net assets while accounting standards only set out the scope and bottom-line requirements for the provisions without quantifying the specific proportions. Hence, the asset-based approach does not take into consideration the impact of the provisions for risks on valuation result.

(ii) As future cashflow can better reflect the value of Sinomach Finance's income, income approach was used to conduct the Sinomach Valuation. Nevertheless, the subject of valuation was a finance company of a group, serving members of the group and was heavily reliant on members of the group. Its development plans and operation budget were determined by related policies of the group and future incomes will be significantly affected by relevant factors with high uncertainties, which impose limitations on the application of the income approach.

(iii) Under market approach, the value of the valuation subject was appraised with reference to subjects in realistic market, which was characterised by direct valuation perspectives, visualised valuation processes, direct valuation data from the market, convincing valuation results and can objectively reflect the value of the valuation subject. Accordingly, market approach was adopted to conduct and conclude the Sinomach Valuation.

In respect of the valuation approach, we considered the followings:

(i) Asset-based approach, market approach and income approach are three most commonly used approaches for valuation.

(ii) Sinomach Finance recorded profit after tax of approximately RMB297 million for FY2020 and approximately RMB306 million for FY2021. In addition to the limitations of asset-based approach as stated above, asset-based approach may not reflect a company's potential in generating future revenue or income.

(iii) In light of Sinomach Finance's profitability as stated above, it is reasonable for the Independent Valuer to adopt income approach to reflect the value of Sinomach Finance's income. Nevertheless, there are limitations of income approach as stated above.

(iv) The market approach can objectively reflect the value of the valuation subject and there were comparable transactions available.

Accordingly, we consider that it is reasonable for the Independent Valuer to (i) adopt the market approach and income approach for conducting the Sinomach Valuation; and (ii) conclude the Sinomach Valuation with market approach.

We noticed that the Sinomach Valuation would be approximately 0.22% less should income approach were adopted instead of market approach. Given (i) that the Independent Valuer prepared the Final Sinomach Valuation Report by ways of two approaches (i.e. the market approach and income approach) which derived similar results; (ii) the disadvantage of the assets approach as mentioned above; and (iii) asset-based approach, market approach and income approach are three most commonly used approaches for valuation, we did not consider other approaches to be appropriate for assessing the Sinomach Valuation.

We further reviewed and enquired into the Independent Valuer on the methodology adopted and the basis and assumptions adopted in the Final Sinomach Valuation Report in order for us to understand the Final Sinomach Valuation Report. We also discussed the key assumptions and parameters under the Final Sinomach Valuation Report.

With reference to the Final Sinomach Valuation Report, transaction comparison was applied for the Sinomach Valuation and the Valuer selected comparable transactions with the following selection criteria:

(i) the period of the valuation date was from 1 January 2019 until present date;

(ii) parties to the transactions involved listed companies and the valuation reports were publicly published, (i.e. the relevant financial indicators of the target finance companies were publicly available); and

(iii) there was no special transaction background or abnormal operating conditions from publicly available information and it was believed that the transaction prices fully reflect the market-based results.

Based on the above criteria, the Independent Valuer selected three comparable transactions. As the selection criteria enable the Independent Valuer to identify transactions with target companies that mainly operates in the same activity (the provision of financial services) and geographical region (the PRC) as Sinomach Finance, with sufficient data publicly available for the Independent Valuer to conduct the valuation, we do not doubt the selection criteria adopted by the Independent Valuer in identifying the comparable transactions. Having also considered the information of the comparable transactions as contained under the Final Sinomach Valuation Report, we do not doubt the selection of the comparable transactions.

With reference to the Final Sinomach Valuation Report, finance company is a typical capital-driven enterprise, and is subject to restrictions imposed by regulatory authorities on capital. Therefore, net asset size is an important factor to the determination of the asset value and scale of income of finance company, and is relatively stable since it is less affected by macroeconomic policy and industry life cycle. Therefore, net asset size could better represent enterprise value of a finance company. In view of the above, price to book ("**P/B**") ratio was selected as the value ratio in the valuation, while adjustment coefficients included transaction date, asset size, profitability, growth ability, operation ability and other indicators. The Independent Valuer then adopted the average adjusted P/B ratio of the comparable transactions and multiply it by the net asset value of Sinomach Finance to arrive the Sinomach Valuation.

For our due diligence purpose, we obtained the calculation of the aforementioned P/B ratios, the average adjusted P/Bs (with details of the underlying adjustment coefficients) of the comparable transactions and the Sinomach Valuation. Based on our observation and discussion with the Independent Valuer, we have no doubt on the aforesaid appraisals.

We also obtained the detailed explanation of the Final Sinomach Valuation Report from the Valuer and further understood the detailed workings in arriving the Sinomach Valuation.

During our discussion with the Independent Valuer, 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 Final Sinomach Valuation Report.

Set out below is our quantitative assessment on the Contribution Amount:

Items	*RMB*
Sinomach Valuation as at 31 December 2021	3,328,656,600
Contribution Amount	554,776,100
Sum of Sinomach Valuation and Contribution Amount	3,883,432,700
14.29% of the sum of Sinomach Valuation and Contribution Amount	554,942,533

As illustrated in the above table, the Contribution Amount is slightly lower than 14.29% of the sum of Sinomach Valuation and Contribution Amount. Besides, based on the Sinomach Valuation of RMB3,328,656,600 as at 31 December 2021 and the existing registered capital of Sinomach Finance (i.e., RMB1,500,000,000), the appraised value per RMB1 registered capital of Sinomach Finance is approximately RMB2.2191, which is the same with the "price" per RMB1 registered capital increase in Sinomach Finance based on the Contribution Amount of RMB554,776,100, among which RMB250,000,000 will be credited as registered capital of Sinomach Finance.

Having considered the above and our independent work performed on the Final Sinomach Valuation Report and based on our understanding on the detailed workings in arriving the Sinomach Valuation, we are of the view that the Contribution Amount is fair and reasonable.

Taking into account the principal terms of the Capital Increase as set out above, we consider that the terms of the Capital Increase are fair and reasonable.

Possible financial effects of the Capital Increase

Based on the 2021 Annual Report, the audited consolidated total equity attributable to shareholders of the Company was approximately RMB5.4 billion as at 31 December 2021. The Directors expect that the Capital Increase would not have material impact on the NAV of the Group.

Based on the unaudited pro forma financial information of the Group as set out in Appendix IV to the Circular, the consolidated total equity attributable to shareholders of the Company would remain unchanged as if the Capital Increase had been completed on at 31 December 2021.

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 of the Capital Increase.

C. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Summarised below are the principal terms for the Financial Services Framework Agreement (including the Non-exempt Continuing Connected Transactions), details of which are set out under the section headed "5. FINANCIAL SERVICES FRAMEWORK AGREEMENT" of the Board Letter.

Date

29 March 2022

Parties

(1) The Company, on behalf of the Group; and

(2) Sinomach Finance

Services to be provided

The Group will from time to time, utilise the financial services available from Sinomach Finance on a non-exclusive basis as it deems necessary. Such services include, amongst others, deposit services (including but not limited to demand deposit, agreement deposit, call deposit and time deposit in both domestic currency and foreign currency) (i.e., the Non-exempt Continuing Connected Transactions).

Term

The transactions contemplated under the Financial Services Framework Agreement will become effective upon the conditions to the Financial Services Framework Agreement being fulfilled. The Financial Services Framework Agreement will expire on 31 December 2024.

Fees and charges

The interest rate for the deposit of the member companies of the Group with Sinomach Finance shall be determined with reference to the benchmark interest rate for RMB deposit as published by PBOC provided that such rate shall be no less than the deposit rate for the same kind of deposits offered by other commercial banks in the PRC for the same period and no less than the deposit rate for the same kind of deposits provided to other member companies of Sinomach Group, whichever is higher.

With reference to the Board Letter, the Financial Services Framework Agreement entered into between the Company and Sinomach Finance is on a non-exclusive basis. The Company has the right to decide and choose whether to procure the financial services from Sinomach Finance or other commercial banks based on its operating needs. In order to ensure the continuing connected transactions are in compliance with the pricing terms agreed in the Financial Services Framework Agreement and will not exceed the annual caps, the Company has formulated the internal control measures as set out under the section headed "Measure of internal control" of the Board Letter, and the Group's finance department, office of the Board and internal audit department shall be responsible for the implementation and supervision thereof.

We consider the effective implementation of the aforesaid internal control measures can ensure fair determination of the interest rate for the Non-exempt Continuing Connected Transactions.

Proposed annual caps

Set out below are the details of the maximum daily balance of deposits (including accrued interest thereon) placed by the Group with Sinomach Finance (the "**Annual Cap(s)**") for the period from the date of the Financial Services Framework Agreement becoming effective to 31 December 2024:

	For the period from date of the Financial Services Framework Agreement becoming effective to 31 December 2022	**For the year ending 31 December 2023**	**For the year ending 31 December 2024**
	RMB'million	*RMB'million*	*RMB'million*
Annual Cap(s)	2,000	2,000	2,000

With reference to the Board Letter, the maximum daily balance of deposits placed by the Group with Sinomach Finance (i.e. the Annual Caps) were determined after taking into account the following factors:

(i) the daily settlement needs of the Group which the daily balance of deposits is required to be maintained at approximately RMB1.4 billion based on the actual balance of deposits placed by member companies of the Group in YTO Finance for settlement purpose (apart from the bill acceptance business purpose stated in (ii) below) for the three years ended 31 December 2021;

(ii) the highest historical bill acceptance transaction amounts between the Group and YTO Finance for the two years ended 31 December 2021 were RMB1.65 billion and RMB1.8 billion respectively. It is expected that the scale of the Group's bill acceptance business in Sinomach Finance will maintain similar level as it was in YTO Finance for the three years ending 31 December 2024. Based on the Group's past experience, the deposit required for the bill acceptance business will generally account for 30% of the transaction amounts. As such the maximum balance of deposits regarding the bill acceptances business is estimated at RMB510 million, RMB510 million and RMB540 million for the three years ending 31 December 2024; and

(iii) the expected deposit interest rates offered by Sinomach Finance.

Given the above, we consider the Annual Cap of RMB2 billion is necessary to cover the Group's possible maximum deposit to be placed with Sinomach Finance, together with possible accrued interest (i.e. the sum of approximately RMB1.4 billion and RMB0.54 billion plus possible accrued interest).

In light of the above, we consider that the Annual Caps are fair and reasonable.

Shareholders should note that as the Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of amounts of the Group's deposit to be placed with Sinomach Finance. Consequently, we express no opinion as to how closely the actual amounts of the Group's deposit to be placed with Sinomach Finance will correspond with the Annual Caps.

Having considered the principal terms of the Non-exempt Continuing Connected Transactions as set out above, we are of the view that the terms of the Non-exempt Continuing Connected Transactions (including the Annual Caps) are on normal commercial terms and are fair and reasonable.

Hong Kong Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the Non-exempt Continuing Connected Transactions must be restricted by the Annual Caps; (ii) the terms of the Non-exempt Continuing Connected Transactions (including Annual Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Non-exempt Continuing Connected Transactions must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the Annual Caps. In the event that the total amounts of the Non-exempt Continuing Connected Transactions are anticipated to exceed the Annual Caps, or that there is any proposed material amendment to the terms of the Non-exempt Continuing Connected Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt Continuing Connected Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions are on normal commercial terms and are fair and reasonable; (ii) although the Disposal and the Capital Increase are not conducted in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole; and (iii) the Non-exempt Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Disposal, the Capital Increase and the Non-exempt Continuing Connected Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the following documents which have been published on the website of the Hong Kong Stock Exchange (http://www.hkex.com.hk) and the website of the Group (http://www.first-tractor.com.cn).

- The annual report of the Group for the year ended 31 December 2019 dated 23 April 2020 (pages 123 to 359);

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801040.pdf

- The annual report of the Group for the year ended 31 December 2020 dated 29 March 2021 (pages 118 to 331); and

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0422/2021042200929.pdf

- The annual report of the Group for the year ended 31 December 2021 dated 29 March 2022 (pages 116 to 360).

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0421/2022042102082.pdf

2. INDEBTEDNESS

At the close of business on 31 March 2022, being the latest practicable date for the purpose of this statement of indebtedness:

(i) the total amount of the outstanding loans of Group was RMB540,300,000.00, including credit loans of RMB470,300,000.00 and mortgage loans of RMB70,000,000.00;

(ii) the outstanding amount of notes payable by the Group was RMB1,137,064,054.65, which was secured by the Group's bank deposits of RMB32,429,953.61 and its bills receivables; and

(iii) the discounted amount of lease liabilities of the Group was RMB11,610,765.97, including the amount due within one year was RMB10,368,764.93, and the amount due in more than one year was RMB1,242,001.04.

Except for the above and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group or otherwise disclosed in this circular, the Group did not have, at the close of business on 31 March 2022, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or bonds, mortgages, loans or other similar indebtedness or commitments under finance leases, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits, guarantees or contingent liabilities.

3. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that the working capital available to the Group is sufficient for the Group's present requirements for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances after taking into account: (i) the internal resources of the Group; (ii) the available credit facilities of the Group; and (iii) the Restructuring Transactions.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

From the perspective of macro environment and strategic needs, the work on "Agriculture, Rural Areas and Rural Residents" will enter a new stage during the period of "14th Five-year Plan" when rural revitalisation will be comprehensively advanced and the modernisation of agricultural and rural areas will be accelerated, which will pose more urgent needs for the development of agricultural mechanisation and will also bring about new development opportunities for agricultural mechanisation.

During the period of the "14th Five-Year Plan", by closely focusing on the national strategies of rural revitalisation and food security, the Company will firmly seize the market opportunities brought about by construction of modernisation of agriculture and rural areas and transformation and upgrading of agricultural machinery and equipment industry. The Company will adhere to the development idea of "innovation-driven, optimize the structure, penetrate the market and seize the high-end", develop a platform for high-level innovation, steadily advance product technology upgrading and strengthening the leading role of technology. The Company will accelerate the disposal of inefficient and ineffective assets and optimize the asset structure. The Company will actively explore the international market while deeply cultivating the domestic market, strengthening its leading role in the market. Targeting modern agriculture, green agriculture and precision agriculture, the Company will accelerate the research and development and industrialisation of intelligent, new energy and other high-end equipment, and upgrade the industrial chain, to achieve high-quality development of the Company.

In the first year of the "14th Five-Year Plan" period, the Company had a head start by having against the backdrop of new changes in agricultural machinery industry, intensified market competition and rapid rise in raw material prices, the Company proceeded with the implementation of "expanding market, controlling costs, increasing efficiency and promoting development" and other key tasks, and a good momentum continued to be seen in the operation and development of the Company. During the financial year ended 31 December 2021, the Company recorded a total operating revenue of RMB9,334 million, representing a year-on-year increase of 23.10%; and the net profit attributable to the Shareholders was RMB438 million, representing a year-on-year increase of 56.42%.

In 2022, the Company will adhere to the strategic development ideas of "seeking progress while maintaining stability" and "14th Five-Year Plan", to grasp the change trend of industry development and competition pattern. Centering on the business idea of "seizing opportunities, improving capabilities, adapting to the situation, and maintaining steady growth", the Company will accelerate scientific and technological R&D and innovation and breakthrough and upgrading of product technology, further integrating into the new development pattern and promoting steady operation and sustainable development of the Company.

The following is a summary of the valuation report in connection with the valuation of the Target Assets as at 31 December 2021, which has been prepared for the purpose of inclusion in this circular.

Summary of Asset Valuation Report

China Enterprise Appraisals Consultation Co., Ltd. was jointly engaged by China National Machinery Industry Corporation*, First Tractor Company Limited*, Sinomach Finance Co,. Ltd.*, China YTO Group Finance Company Limited*. China Enterprise Appraisals Consultation Co., Ltd. has, in accordance with relevant laws, administrative regulations and asset valuation standards and in the principle of independence, objectivity and impartiality, followed the necessary valuation procedures to appraise the market value of the credit and information technology assets of China YTO Group Finance Company Limited* ("**YTO Finance**") on the valuation date of 31 December 2021 that are related to the proposed transfer of assets by YTO Finance. The summary of the Asset Valuation Report is as follows:

Purpose of valuation:	YTO Finance intends to transfer certain of its assets. In this regard, it is required to appraise the market value of the credit and information technology assets held by YTO Finance on the valuation date to provide a valuation reference for the transfer
Subject of valuation:	The market value of the credit and information technology assets of YTO Finance
Scope of valuation:	Loans, finance lease, buyer's credit and other credit businesses as well as fixed assets and intangible assets in relation to information technology of YTO Finance
Valuation Date:	31 December 2021
Type of value:	Market value
Valuation approach:	Asset-based approach

1. Subject and scope of valuation

(i) Subject of valuation

The subject of valuation is the market value of the credit and information technology assets of YTO Finance.

(ii) Scope of valuation

The scope of valuation covers the loans, finance lease, buyer's credit and other credit businesses as well as the fixed assets and intangible assets in relation to information technology of YTO Finance. The book value of the Target Assets to be transferred is RMB1,025,844,400.

Information of major assets within the scope of valuation is as follows:

1. Information of tangible assets declared by the enterprise:

   (a) Electronic equipment

   Electronic equipment mainly refers to office electronic equipment required for the operation of the enterprise, which mainly includes laptops, desktops, photocopiers, printers, servers, air conditioners and switches, routers and other network devices, which are currently operating under normal conditions.

   (b) Construction in progress

   Construction in progress under the scope of valuation refers to related modular projects under the management system of core projects that are customised by the enterprise. As at the Valuation Date, the construction in progress was progressing and was not subject to other restriction of rights under charge (pledge).

2. Information of intangible assets declared by the enterprise

Intangible assets under the scope of valuation declared by the enterprise include software and other intangible assets.

Other intangible assets under the scope of valuation declared by the enterprise include: the management system of core projects, the management system of finance lease items, regulatory filing of projects, Windows software and other office software. The abovementioned intangible assets are obtained by the proprietors through external purchase.

3. Information of other assets declared by the enterprise

Other assets declared by the enterprise include loans and advances, receivables from finance lease business with a term of over one year and receivables from finance lease business with a term of less than one year, namely credit loans, guarantee loans, mortgage loans and finance lease loans of YTO Finance to external parties.

4. Information of off-balance sheet assets declared by the enterprise

No off-balance sheet asset was declared by the enterprise.

2. Valuation approach

The valuation approach adopted in this valuation: asset-based approach.

The income approach refers to various evaluation methods to determine the value of the subject of valuation by capitalising or discounting its expected income. As the credit and information technology assets of YTO Finance under the scope of valuation have no independent and divisible cash flows, the income approach is not adopted.

The market approach refers to various evaluation methods to determine the value of the subject of valuation through comparing the subject of valuation with comparable reference objects with the market price of reference objects as the basis. As there are no comparable transactions in the market for the credit and information technology assets of YTO Finance under the scope of valuation, the market approach is not adopted.

The asset-based approach refers to an evaluation method to determine the value of the subject of valuation through appraising the value of all identifiable on- and off-balance sheet assets and liabilities with the balance sheet of the proprietors or operation entities on Valuation Date. At the same time, as the proprietors have complete financial information and asset management information available and a wide source of data and information related to the replacement costs of assets, it satisfies the conditions for adopting the asset-based approach. As a result, the asset-based approach is adopted for valuation purpose.

Asset-based approach

1. Loans and advances to customers

Valuation approaches for credit assets

As all types of loans of YTO Finance involve a number of accounts and various loans, it is not practical to adopt the valuation on a case-by-case basis. However, from a chronological order perspective, there are certain proportions of risk losses in all types of loans. The factors in appraising risk losses mainly include the historical loss in portfolios of similar risk characteristics, the time required between a loss occurring and that loss being identified, the current economic and credit environment and higher or lower loss level suggested by the management based on their experience.

In accordance with the document requirements of the Notice of China Banking Regulatory Commission for the Full Implementation of Five-category Classification Management on Asset Quality by Non-bank Financial Institutions（中國銀行業監督管

理委員會關於非銀行金融機構全面推行資產質量五級分類管理的通知)(Yin Jian Fa No. 4), the Guiding Principles on Risk Classification by Non-banking Financial Institutions (for Trial Implementation)(非銀行金融機構資產風險分類指導原則(試行)) and the relevant systems of YTO Finance, integrated with the characteristics of its businesses, the categories and characteristics of assets, the relevant risk classification and the management systems of YTO Finance, it conducts risk classification on loans and advances to customers. Meanwhile, as there are no historical data on actual losses, YTO Finance is unable to accurately estimate the proportion of provisions for the impairment of such assets based on the requirements of accounting standards. As a result, the valuation approaches are as follows:

① In accordance with the Measures for the Administration of Reserve Provision of Financial Enterprises (金融企業準備金計提管理辦法) formulated by the Ministry of Finance and the relevant rules of YTO Finance on provisions for impairment, it recognises and appraises loans risk losses on normal category and focused category based on risk classification for loans and advances to customers;

② Other loans and advances to customers are classified into the subsequent three categories, namely secondary, suspicious and loss, and are considered as non-performing assets and it recognises the appraised value after analysing the recoverable value of debts.

2. Long-term receivables

Long-term receivables refer to receivables with a term of over one year relating to the financial leasing business of the enterprise and the valuation approaches are as follows:

① In accordance with the Measures for the Administration of Reserve Provision of Financial Enterprises (金融企業準備金計提管理辦法) formulated by the Ministry of Finance and the relevant rules of YTO Finance on provisions for impairment, it recognises and appraises risk losses on normal category and focused category based on risk classification for long-term receivables for the financial leasing business;

② Other loans and advances to customers are classified into the subsequent three categories, namely secondary, suspicious and loss, and are considered as non-performing assets and it recognises the appraised value after analysing the recoverable value of debts.

3. *Fixed assets – electronic equipment*

The valuation mainly adopts the cost approach and partially adopts the market approach based on the features of the equipment, types of appraised value, information collection status and other relevant conditions.

(1) Cost approach

The formula of the cost approach is as follows:

Appraised value = replacement cost × integrated newness rate

① Determination of replacement cost

Electronic equipment mainly represents office equipment, such as computers, printers and air conditioners. The distributors of the electronic equipment undertake the delivery and installation of such equipment. Their replacement costs is valued by direct reference to their purchase price.

② Determination of integrated newness rate

The integrated newness rate of electronic equipment, air-conditioners and other small equipment is determined mainly according to their economic service life. For large electronic equipment, when determining their integrated newness rate, the appraisers also consider other factors including working environment surrounding the equipment and the operating conditions of the equipment. The formula is as follows:

Useful life approach newness rate = (economic useful life – used life)/ economic useful life × 100%

Integrated newness rate = useful life approach newness rate × adjustment coefficient

③ Determination of appraised value

Appraised value = full replacement cost × integrated newness rate

(2) Market approach

Certain electronic equipment and office furniture were valued based on the relevant prices in the second-hand market or rejected product prices as of the Valuation Date using market approach.

4. Construction in progress

According to the characteristics of construction in progress, the types of valuation value, the information collection status and other relevant conditions, the cost approach is adopted for valuation purpose.

① Completed projects

For projects completed with construction costs settled or construction costs payable confirmed on the Valuation Date, they are appraised using the valuation approach for fixed assets.

② Uncompleted projects

For construction in progress with the commencement date within half a year before the Valuation Date, the verified book value is adopted as the appraised value.

5. Other intangible assets

According to the characteristics of other intangible assets, the types of valuation value, the information collection status and other relevant conditions, the cost approach is adopted for valuation purpose.

The calculation formula is: Appraised value = replacement cost × (1 – depreciation rate)

The replacement cost mainly includes the purchase price and acquisition expenses after deducting the deductible VAT input.

The depreciation rate mainly refers to the functional and economic depreciation of intangible assets. It adopts the estimation on the remaining economic useful life in the calculation of the depreciation rate of intangible assets.

The calculation formula is:

Depreciation rate = used life/(used life + remaining used life) × 100%

3. Valuation assumptions

The following assumptions were used for the analysis and estimation in this valuation:

– It is assumed that all subjects of valuation are in the transaction process and professional appraisers will conduct the valuation with reference to a simulated market based on the transaction conditions of the assets appraised;

– It is assumed 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 and the transaction activities will be conducted on a voluntary and rational basis, so as to make a rational judgment on the assets in terms of their function, intended purpose and transaction price;

– It is assumed that the assets appraised will continue to be used based on their current purpose and operation method;

– It is assumed that there will be no material changes in the national laws, regulations and policies currently in force, macro-economic conditions of the nation and there will be no material changes in the political, economic and social environment of the area where all parties to the transaction are located;

– It is assumed that the enterprise will continue to operate as a going concern based on the actual conditions of the assets on the Valuation Date;

– It is assumed that there will be no material changes to the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the proprietors after the Valuation Date;

– It is assumed that the enterprise fully complies with all the relevant laws and regulations unless specified otherwise;

– It is assumed that there will be no force majeure and unforeseeable factors which may materially and adversely affect the proprietors after the Valuation Date;

– It is assumed that the accounting policies adopted by the proprietors after the Valuation Date are consistent with the accounting policies adopted when preparing this Asset Valuation Report in all material aspects;

– It is assumed that the bad debt level of the valued entity is consistent with the expected level and there will be no large-scale and concentrated outbreak of bad debts in the forecast period.

4. Valuation conclusion

The book value and appraised value of assets of YTO Finance amounted to RMB1,025,844,400 and RMB1,047,263,700 respectively on the Valuation Date, representing a valuation appreciation of RMB21,419,300 or 2.09%.

The valuation results adopting the asset-based approach are detailed in the following valuation summary:

Summary of assets valuation adopting the asset-based approach

Valuation Date: 31 December 2021 *Unit: RMB'000*

	Item	Notes	Book value	Appraised value	Appreciation or depreciation	Appreciation rate %
			A	B	C=B-A	D=C/A*100%
1	**Assets**					
2	Cash and balances with central bank		–	–	–	
3	Inter-bank deposits		–	–	–	
4	Precious metals		–	–	–	
5	Loans to banks and other financial institutions		–	–	–	
6	Trading financial assets		–	–	–	
7	Derivative financial assets		–	–	–	
8	Repurchase of resale financial assets		–	–	–	
9	Interest receivable		–	–	–	
10	Loans and advances to customers	*1*	859,143.1	881,731.7	22,588.6	2.63%
11	Available-for-sale financial assets		–	–	–	
12	Held-to-maturity investments		–	–	–	
13	Investments classified as receivables	*2*	161,347.7	161,384.4	36.7	0.02%
14	Long-term equity investments		–	–	–	
15	Investment properties		–	–	–	
16	Fixed assets	*3*	1,918.3	2,085.6	167.3	8.72%
17	Intangible assets	*4*	3,248.2	1,874.9	-1,373.3	-42.28%
18	Deferred income tax assets		–	–	–	
19	Other assets		187.0	187.0	–	0.00%
20	**Total assets**		**1,025,844.4**	**1,047,263.7**	**21,419.3**	**2.09%**
21	**Total liabilities**		**–**	**–**	**–**	
22	**Net assets**		**1,025,844.4**	**1,047,263.7**	**21,419.3**	**2.09%**

Notes:

1. The appreciation of 2.63% is mainly attributable to the fact that YTO has undertaken to repay the principal and interests of its loans from YTO Finance on time according to the loan agreements. In the event of loan defaults by member companies of the YTO Group, YTO will repurchase the entire remaining balance of the loans principal and interests in the year of default. As a result, the appraised risk loss of such assets is recognised as zero as compared to the book value which has factored in a general provision, hence this has resulted in valuation appreciation.

2. The appreciation of 0.02% is mainly attributable to the fact that YTO has undertaken that in the event of loan defaults by member companies of the YTO Group, YTO Group will repurchase the entire remaining balance of the loans principal and interests in the year of default. As a result, the appraised risk loss of such assets is recognised as zero as compared to the book value which has factored in a general provision, hence this has resulted in valuation appreciation.

3. Fixed assets refer to electronic equipment and the reduction in the appraised value as compared to the original purchase price is mainly due to the declining trend of the purchase price of the electronic equipment, the continuous decrease in purchase price of the same types of equipment and the adoption of the market approach in valuing certain old equipment. The appreciation of the appraised value as compared to the book value is mainly due to the longer economic service life of the equipment than the depreciable life applied by the enterprise. The combined effect is a net appreciation of 8.72%.

4. The valuation depreciation of 42.28% is mainly attributable to certain intangible assets which are exclusively related to the uniqueness of the software, in which it is of no value after the Disposal.

The following is a summary of the valuation report in connection with the valuation of the entire shareholders' equity of Sinomach Finance as at 31 December 2021, which has been prepared for the purpose of inclusion in this circular.

Summary of Asset Valuation Report

China Enterprise Appraisals Consultation Co., Ltd. was jointly engaged by China National Machinery Industry Corporation*, First Tractor Company Limited*, Sinomach Finance Co., Ltd.*, China YTO Group Finance Company Limited*. China Enterprise Appraisals Consultation Co., Ltd. has, in accordance with relevant laws, administrative regulations and asset valuation standards and in the principle of independence, objectivity and impartiality, followed the necessary valuation procedures to appraise the market value of the entire shareholders' equity of Sinomach Finance Co., Ltd.* ("**Sinomach Finance**") on the valuation date. The summary of the Asset Valuation Report is as follows:

Purpose of valuation:	Sinomach Finance intends to increase its capital and shares. In this regard, it is required to appraise the market value of the entire shareholders' equity of Sinomach Finance on Valuation Date to provide a valuation reference for the aforesaid economic activity.
Subject of valuation:	The entire shareholders' equity value of Sinomach Finance
Scope of valuation:	All the assets and liabilities of Sinomach Finance
Valuation Date:	31 December 2021
Type of value:	Market value
Valuation approaches:	Income approach, market approach
Valuation conclusion:	The valuation result under the market approach is adopted as the valuation conclusion in this Asset Valuation Report. The specific valuation conclusion is as follows:

As of the Valuation Date, the book value of total assets of Sinomach Finance was RMB45,527,281,600; the book value of total liabilities was RMB42,243,935,200; and the book value of net assets was RMB3,283,346,400.

The appraised value of the entire shareholders' equity of Sinomach Finance on the Valuation Date by using the market approach was RMB3,328,656,600 and the appreciation amount was RMB45,310,200, representing an appreciation rate of 1.38%.

1. Subject and scope of valuation

1. Subject of valuation

The subject of valuation is the entire shareholders' equity value of Sinomach Finance

2. Scope of valuation

The scope of valuation covers all assets and liabilities of Sinomach Finance. As of the Valuation Date, the assets under the scope of valuation included cash and balances with central bank, inter-bank deposits, loans to banks and other financial institutions, repurchase of resale financial assets, trading financial assets, debt investments, investment in other equity instruments, loans and advances to customers, fixed assets, intangible assets, deferred income tax assets and other assets. The book value of total assets was RMB45,527,281,600. The liabilities included deposits taking, taxes payables, estimated liabilities and other liabilities. The book value of total liabilities was RMB42,243,935,200. The book value of net assets was RMB3,283,346,400.

The subject and scope of valuation are in line with those involved in economic behaviour. As of the Valuation Date, the assets and liabilities within the above-stated scope of valuation were audited by Da Hua Certified Public Accountants (Special General Partnership) who issued an audited report with unqualified opinion.

Information of major assets within the scope of valuation is as follows:

1. Information of tangible assets declared by the enterprise:

Tangible assets within the scope of valuation declared by the enterprise mainly include buildings, vehicles and electronic equipment. The types and characteristics are as follows:

(1) Buildings

Buildings within the scope of this valuation are office buildings and ancillary machinery rooms located at 8/F, Building A, No. 3 Danleng Street, Haidian District. They were completed in 2004 with steel-mixed structure and a gross floor area of 2,484.04 metre square (m^2). The building ownership certificate for the aforementioned buildings have been obtained.

(2) Vehicles

A total of 5 official service vehicles have been included in the scope of this valuation, all of which were purchased in the period from December 2009 to October 2015. As of the Valuation Date, the above vehicles can be used normally.

(3) Electronic equipment

A total of 298 items of electronic and office equipment, purchased from 2003 to 2021, have been included in the scope of this valuation. They mainly include servers and firewalls established for carrying out network businesses, laptops, desktops, printers and office furniture for daily office use by employees of the enterprise. They are generally placed in the office and machinery rooms of Sinomach Finance. As of the Valuation Date, the above equipment can be used normally.

2. Information of intangible assets declared by the enterprise

Intangible assets under the scope of valuation declared by the enterprise include software and other intangible assets.

A total of 102 items of software and other intangible assets have been included in the scope of this valuation, which mainly include operating systems and software licenses purchased externally or self-developed during the daily operation of the enterprise.

3. Information of off-balance sheet assets declared by the enterprise

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

2. Valuation approach

The basic approaches for the valuation of an enterprise mainly include the income approach, the market approach and the asset-based approach.

The income approach determines the value of the subject of valuation by capitalising or discounting the expected income flows. The discounted dividend income method and the discounted cash flow method are two methods commonly used in the income approach.

The market approach determines the value of the subject of valuation through comparing the subject of valuation against comparable listed companies or comparable transactions. The two methods commonly used under the market approach are listed company comparison method and comparable transaction method.

The asset-based approach determines the value of the subject of valuation based on reasonable assessment on the enterprise's on-balance and off-balance sheet assets and liabilities as at the Valuation Date.

According to the requirements of Assets Valuation Standards – Enterprise Value, among the three fundamental valuation approaches, namely the income approach, market approach and asset-based approach, asset appraisers should select one or more appropriate valuation approaches taking into account relevant conditions including valuation purpose, subject of valuation, type of value and the information collection status when undertaking the valuation of an enterprise.

The asset-based approach cannot quantify the value of the brand in respect of the financial services of Sinomach Finance as a financial enterprise. The provisions made by the financial enterprise have significant impact on net assets while accounting standards only set out the scope and bottom line requirements for the provisions without quantifying the specific proportions. Hence, the asset-based approach does not take into consideration the impact of the provisions for risks on the valuation result.

The Asset Valuation Standards – Enterprise Value require that where there are assets or liabilities with significant effect on the subject of valuation and are difficult to identify and appraise, the suitability of the asset-based approach should be evaluated.

The income approach and the market approach have been adopted for this valuation after analysing the applicability of the three basic approaches based on relevant conditions including valuation purpose, subject of valuation, type of value and the information collection status.

(i) Introduction of income approach

The income approach is a method used to determine the value of the subject of valuation by capitalizing or discounting the expected income of the subject of valuation. As cash flows can more authentically and accurately reflect the operating income of an enterprise, it is more commonly used in the valuation practice as the income indicator to estimate the value of an enterprise.

Expected return is generally in the form of free cash flows or equity cash flows. The enterprise free cash flows include cash flows attributable to both shareholders and creditors, representing the overall enterprise value (including the value of interest-bearing debts); the equity cash flows refer to cash flows directly attributable to shareholders, representing the value of the entire shareholders' equity.

It is appropriate to adopt the equity cash flow model in the valuation on a financial enterprise instead of the free cash flow discounting model which is commonly used in the valuation on the enterprise value for the following main reasons: the financing decision of a financial enterprise is the key to obtain returns and net interest income is an integral part of its revenue. It cannot appraise the value of operating assets by deducting interest income and interest expenses from a non-financial enterprise during the valuation exercise.

The equity cash flow discounting model has been adopted in this valuation in order to predict the value of the entire shareholders' equity in two stages, namely, the definite forecast period and the going concern period, respectively, and is described below:

Value of the entire shareholders' equity = present value of equity in the definite forecast period + discounted value of equity at the end of the forecast period + other comprehensive returns

The formula of the cash flow model is as follows:

$$P = \sum \frac{FCFE_i}{(1+ke)^i} + \frac{FCFE_n(1+g)}{(ke-g)} / (1+ke)^n$$

In which,

P	the value of the entire shareholders' equity;
FCFEi	equity cash flows for the ith year in the definite forecast period;
g	going concern growth rate of equity cash flows after the definite forecast period;
n	number of definite forecast periods
ke	cost of equity capitals;
i	years for calculation in the definite forecast period. The valuation's definite forecast period is from 2021 to 2028.

The key parameters are arrived at based on the following methods:

1. Equity cash flows

   Equity cash flows refer to the net profit minus the equities retained by the enterprise. Its specific formula is as follows:

   Equity cash flows = net profit – increase in equity interest

The specific formula for net profit is as follows:

Net profit = net interest income + fees and commission income – operation taxes and surcharges – business and administrative expenses – losses on asset impairment – income tax expenses

Among the above items:

Net interest income refers to the net difference between interest income and interest expenses. Interest income includes loan interest income, interest income on amounts due from financial institutions, discount interest income on assets and interest income on finance lease assets. Interest expenses include deposit interest expenses, interest expenses on amounts due to financial institutions and discount interest expenses on expenses;

Fees and commission income mainly include advisory and consultation fees and net income from other intermediary businesses;

Losses on asset impairment mainly comprise of provisions for impairment of credit and investment assets.

2. Forecast period

As the appraised entity was operating normally on the Valuation Date, there are no definite restrictions on the term of operation. It is assumed that the appraised entity will operate on a going concern basis after the Valuation Date and the corresponding income period is indefinite. As the enterprise's short-term earnings can be forecast in a relatively fair manner while the future earnings is relatively harder to forecast reasonably, hence based on general practice, appraisers divided the income period of the enterprise into two stages, namely the forecast period and the post-forecast period.

3. Discount rate

As the basic principle for determining the discount rate is to match with the cash flows. As a result, the discount rate of equity cash flows adopts the equity capital cost (Ke).

The capital asset pricing model is commonly adopted in the estimation of the cost of equity capital. Its formula is as follows:

$Ke = rf+MRP\times\beta+rc$

In which,

rf:	risk-free interest rate;
MRP:	market risk premium;
β:	system risk factor of equity interest;
rc:	company-specific risk adjustment factor.

(ii) Introduction of market approach

Market approach refers to a valuation idea that the value of the subject of valuation is defined by comparing the subject of valuation with reference enterprises, enterprises in the market with similar transaction cases, shareholders' equities, securities and other equity assets. The two methods commonly used in the market approach are listed-company comparison and transaction comparison.

The transaction comparison aims to determine the value of the subject of valuation by obtaining and analyzing comparable enterprises' trading, acquisition and merger cases, calculating appropriate value ratio of comparable enterprises as reference to the subject of valuation. Impact on the valuation arising from the differences between the valuation target and transaction cases should be considered in the application of the transaction comparison.

The listed-company comparison aims to determine the value of the subject of valuation based on comparative analysis of appropriate value ratio of comparable listed enterprises calculated by analysing their operating and financial data with that of the subject of valuation. Comparable enterprises under the listed-company comparison shall be listed companies with shares normally traded in the public market.

Currently there is no independent finance company listed in the domestic capital market. With more capital increase transactions of finance companies in recent years and relevant indicators and data affecting transaction prices are available through various channels, which enables us to analyse the transaction values, hence the transaction comparison was applied in this valuation.

Set out below is the specific valuation process:

1. We confirmed the basic information of the appraised enterprise, including the conditions of the subject of valuation and its related equity, such as type of the enterprise, capital size, business scope, business size, market share and growth potential.

2. We selected transaction cases for comparative analysis with the appraised enterprise. We conducted detailed research and analysis on specifics of transaction cases, including main business scope, main target markets, income composition, company size and profitability, in selecting the comparable transaction cases.

3. We analysed the business and financial conditions of the selected transaction cases, compared and analysed with the conditions of the appraised enterprise, and made necessary adjustments.

4. We selected, calculated and adjusted value ratio. After analysing and adjusting the financial data of the reference enterprises, we selected appropriate value ratios, such as price-to-earnings ratio, price-to-book ratio ("**P/B ratio**"), price-to-sales ratio and other equity ratios, or enterprise value ratio, and analyse and adjust value ratios based on the above, where necessary.

   Similar to other financial institutions, finance company is a typical capital-driven enterprise, and is subject to restrictions imposed by regulatory authorities on capital. Therefore net asset size is an important factor to the determination of the asset value and scale of income of finance company, and is relatively stable since it is less affected by macroeconomic policy and industry life cycle. Therefore, net asset size could better represent enterprise value of a finance company. In view of the above, P/B ratio was selected as the value ratio in the valuation, while adjustment coefficients included transaction date, asset size, profitability, growth ability, operation ability and other indicators.

5. The valuation results were obtained by applying the value ratio. The equity value or enterprise value was calculated by multiplying the calculated and adjusted value ratio of the enterprise of transaction case by corresponding financial data or indicator of the subject of valuation.

The Independent Valuer analysed the asset size, business type, corporate nature and transaction background of the finance companies, conducted sufficient market surveys and made its selection based on public information available.

The specific steps are as follows: the comparable transactions adopted in this valuation are conducted through customer inquiry of WIND information and the selection criteria are as follows:

(i) The period of the valuation date is from 1 January 2019 until present date;

(ii) Parties to the transactions involved listed companies and the valuation reports are publicly published, i.e. the relevant financial indicators of the target finance companies are publicly available; and

(iii) There are no particular transaction background or abnormal operating conditions in the information that are publicly available and it is believed that the transaction prices fully reflect the market-based results.

There may be more transactions or capital increase activities among finance companies that actually occurred from 2019 to 2021. However, most of the information are not publicly available in obtaining the specific data required for assessment or the parameters are unusually specific due to the transaction background and operating conditions. The transactions selected for this valuation exercise meet the above selection criteria and have been adjusted after taking into account the time factor through period-date correction (bank index adjustment), making them comparable and reasonable.

Details of the comparable transactions are as follows:

Unit: RMB'000

Target companies	**China Energy Finance Co., Ltd.* (國家能源集團財務有限公司)**	**Shenergy Group Finance Co., Ltd.* (申能集團財務有限公司)**	**Huaibei Mining Group Finance Co., Ltd.* (淮北礦業集團財務有限公司)**
Date of valuation	31 May 2019	31 December 2019	30 September 2019
Net assets attributable to parent company	7,616,361.2	2,520,455.7	1,112,740.9
Overall appraised value	8,516,806.9	2,759,000.0	1,188,995.1
P/B ratio of appraised value	1.12	1.09	1.07

The main factors affecting the value multiples of comparable transactions include transaction date, asset size, profitability, growth capability and operational capability.

Using Sinomach Finance as a benchmark for comparison and adjustment purposes, each indicator coefficient of Sinomach Finance is set at 100. After comparing each indicator coefficient of the comparable companies with that of Sinomach Finance, the coefficients will be adjusted to be less than 100 if they are inferior to those of Sinomach Finance and greater than 100 if they are superior to those of Sinomach Finance.

The specific scoring rules are as follows: (1) extract every indicator of Sinomach Finance and the comparable companies; (2) measure the differences between the indicators of the comparable companies and Sinomach Finance; (3) measure the ratio of the difference of each comparable company to the larger difference of the total differences (taking into account certain adjustment coefficients); (4) determine the score of the comparable companies according to the ratio in step (3) and add on 100; (5) determine the adjustment coefficients of individual factors according to the ratio of the score of Sinomach Finance to that of the comparable companies.

P/B ratio corrected coefficient for comparable companies = $\prod$ adjustment coefficient of impact factors

Based on the above description of the adjustment factors and the method of determining the adjustment coefficients, the scoring of each influencing factor and the adjustment coefficients are listed in the following table.

Adjustment Factors		China Energy Finance Co., Ltd.*	Shenergy Group Finance Co., Ltd.*	Huaibei Mining Group Finance Co., Ltd.*
Scoring factors				
Transaction date		100	100	100
Asset size	Total assets	105	98	97
	Net assets	105	99	98
Profitability	Net profit	104	105	105
	Net asset yield	105	105	102
Growth capability	Revenue growth rate	96	95	97
	Net profit growth rate	105	101	105
Operating ratio	Total asset turnover ratio	101	103	105
Adjustment Coefficients				
Transaction date		1.00	1.00	1.00
Asset size		0.95	1.01	1.02
Profitability		0.95	0.95	0.96
Growth capability		1.01	1.03	1.01
Operating ratio		0.99	0.97	0.95
Consolidated adjustment coefficients		0.91	0.96	0.94
Original P/B ratio		1.12	1.09	1.07
Adjusted P/B ratio		1.0047	1.0387	0.9979
Average P/B ratio			1.0138	

By using the market approach, the value of shareholders' equity of Sinomach Finance was RMB3,328,656,600 (i.e. RMB3,283,346,400 x 1.0138).

3. Valuation assumptions

The following assumptions were used for the analysis and estimation in this Asset Valuation Report:

– It is assumed that all subjects of valuation are in the transaction process and professional appraisers will conduct the valuation with reference to a simulated market based on the transaction conditions of the assets appraised;

– It is assumed 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 and the transaction activities will be conducted on a voluntary and rational basis, so as to make a rational judgment on the assets in terms of their function, intended purpose and transaction price;

- It is assumed that there will be no material changes in the national laws, regulations and policies currently in force, macro-economic conditions of the nation and there will be no material changes in the political, economic and social environment of the area where all parties to the transaction are located;

- It is assumed that the enterprise will continue to operate as a going concern based on the actual conditions of the assets on the Valuation Date;

- It is assumed that there will be no material changes in the macro-economic policies, industrial policies and regional development policies of the nation after the Valuation Date;

- It is assumed that there will be no material changes to the exchange rates, tax bases, tax rates and policy-based levies related to the appraised entity after the Valuation Date;

- It is assumed that the management of the appraised entity is accountable, stable and competent to perform their duties after the Valuation Date;

- It is assumed that the company fully complies with all the relevant laws and regulations unless specified otherwise;

- It is assumed that there will be no force majeure or unforeseeable factors which may materially and adversely affect the appraised entity after the Valuation Date;

- It is assumed that the accounting policies adopted by the appraised entity after the Valuation Date are consistent with the accounting policies adopted when preparing this Asset Valuation Report in all material aspects;

- It is assumed that the scope of business and the mode of operation of the appraised entity after the Valuation Date are consistent with the current situation based on the existing management method and management level of the appraised entity;

- It is assumed that the appraised entity will have balance cash inflows and cash outflows after the Valuation Date;

- It is assumed that the appraised entity can fully achieve and maintain the expected capital constraint level;

- It is assumed that the bad debt level of the appraised entity is consistent with the expected level and there will be no large-scale and concentrated occurrence of bad debts in the forecast period;

– The valuation conclusion of this Asset Valuation Report is established on the Valuation Date based on the above assumptions. In the event of any material changes to the above assumptions, the signing asset appraisers and the valuation institution shall not be responsible for deducing different valuation conclusions due to any changes of the assumptions.

4. Valuation conclusion

(i) Valuation result using the income approach

Book value of total assets, total liabilities and net assets of Sinomach Finance as of the Valuation Date were RMB45,527,281,600, RMB42,243,935,200 and RMB3,283,346,400, respectively.

The valuation of the entire shareholders' equity value using the income approach was RMB3,321,360,000, with the appreciation amount of RMB38,013,600 and appreciation rate was 1.16%.

(ii) Valuation result using the market approach

Book value of total assets, total liabilities and net assets of Sinomach Finance as of the Valuation Date were RMB45,527,281,600, RMB42,243,935,200 and RMB3,283,346,400, respectively.

The valuation of the entire shareholders' equity value using the market approach was RMB3,328,656,600, with the appreciation amount of RMB45,310,200 and appreciation rate was 1.38%.

(iii) Valuation conclusion

Based on the valuation using the income approach, the value of the entire shareholders' equity was RMB3,321,360,000, while the value of the entire shareholders' equity was RMB3,328,656,600 using the market approach. The difference was RMB7,296,600, representing a difference rate of 0.22%.

The market approach and the income approach use different valuation methods. For the market approach, the value of the subject of valuation is appraised with reference to the subject of reference in a realistic market, which is characterised by direct valuation perspectives, visualised valuation processes, direct valuation data from the market, convincing valuation results and can objectively reflect the value of the subject of valuation. For the income approach, the estimated income of assets is considered as the value standard, to present the level of earning capacity of assets. The subject of valuation is a finance company of a group, serving members of the group and is heavily reliant on the members of the group. Its development plans and operation budget are determined by related policies of the group and future incomes are significantly affected by relevant factors with high uncertainties, which impose a certain limitation on the application of the income approach.

As analysed above, this Asset Valuation Report adopts the valuation results derived by using the market approach as the valuation conclusion. Accordingly the appraised value of the entire shareholders' equity of Sinomach Finance was RMB3,328,656,600 on the Valuation Date.

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INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF FIRST TRACTOR CO., LTD.*

We report on the historical financial information of 國機財務有限責任公司 (Sinomach Finance Co., Ltd.*, "**Sinomach Finance**") set out on pages IV-4 to IV-151, which comprises the balance sheets as at 31 December 2019, 31 December 2020 and 31 December 2021, the income statements, the cash flow statements and statements of changes in owners' equity for the three years ended 31 December 2021 (the "**Sinomach Finance Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Sinomach Finance Historical Financial Information**"). The Sinomach Finance Historical Financial Information set out on pages IV-4 to IV-151 forms an integral part of this report, which has been prepared for inclusion in the circular of 第一拖拉機股份有限公司 (First Tractor Company Limited*, the "**Company**") dated 31 May 2022 (the "**Circular**") in connection with major and connected transaction relating to the Capital Increase (as defined in the Circular) by the Company.

Directors' responsibility for the Sinomach Finance Historical Financial Information

The directors of Sinomach Finance are responsible for the preparation of Sinomach Finance Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 4 to the Sinomach Finance Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Sinomach Finance Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Sinomach Finance Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *"Accountants' Reports on Historical Financial Information in Investment Circulars"* issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Sinomach Finance Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Sinomach Finance Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Sinomach Finance Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Sinomach Finance Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 4 to the Sinomach Finance Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of Sinomach Finance, as well as evaluating the overall presentation of the Sinomach Finance Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Sinomach Finance Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of Sinomach Finance as at 31 December 2019, 31 December 2020 and 31 December 2021 and of its financial performance and cash flows for the Sinomach Finance Track Record Period in accordance with the basis of preparation and presentation set out in Note 4 to the Sinomach Finance Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Sinomach Finance Historical Financial Information no adjustments to the Sinomach Finance Underlying Financial Statements have been made.

Dividends

We refer to Section VII Note 27 to the Sinomach Finance Historical Financial Information which states that dividends have been paid by Sinomach Finance in respect of the Sinomach Finance Track Record Period.

Da Hua Certified Public Accountants (Special General Partnership)	China Certified Public Accountants:	Yang Weiguo
China, Beijing	China Certified Public Accountants:	Chen Wei

31 May 2022

HISTORICAL FINANCIAL INFORMATION OF THE SINOMACH FINANCE

Preparation of Sinomach Finance Historical Financial Information

Set out below is the Sinomach Finance Historical Financial Information which forms an integral part of this accountants' report.

The Sinomach Finance Historical Financial Information in this report is based on the accounting standards for business enterprises and relevant specific standards, application guidelines for accounting standards for business enterprises, interpretations of Chinese accounting standards for business enterprises and other Relevant regulations promulgated by the Ministry of Finance of the People's Republic of China and were audited by us in accordance with the Auditing Standards for Chinese Certified Public Accountants.

The Historical Financial Information is presented in Renminbi ("**RMB**"). Unless otherwise stated, the amounts included in this report are presented in RMB.

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

Unit: RMB

Items	*Note*	31/12/2021	31/12/2020	31/12/2019
Assets				
Cash and deposit in central bank	*1*	1,490,290,105.53	1,515,297,152.95	1,445,968,250.88
Monetary Funds		–	–	–
Clearing settlement fund		–	–	–
Interbank deposits	*2*	18,277,746,599.35	17,010,303,692.30	21,172,658,531.32
Precious metals		–	–	–
Lending to banks and other financial institutions	*3*	195,050,000.00	292,500,000.00	
Derivative financial assets		–	–	–
Accounts receivable		–	–	–
Contractual assets		–	–	–
Buying back the sale of financial assets	*4*	2,249,666,174.38	5,448,095,250.00	3,116,926,800.00
Interest receivables	*5*	–	55,692,306.48	39,946,197.51
Assets classified as held for sale		–	–	–
Loans and advances to customers	*6*	16,115,448,099.35	12,016,847,227.41	11,117,051,246.33
Financial assets classified as measured at fair value and its changes are accounted in profit and loss in current period	*7*	–	150,440,951.51	180,890,151.79
Trading financial assets	*8*	927,433,537.20	–	–
Debt investment	*9*	5,767,483,904.73	–	–
Financial assets held to maturity	*10*	–	1,145,954,745.66	1,018,605,680.39
Other debt investment		–	–	–
Investment in other equity instruments	*11*	389,160,179.83	–	–
Financial assets available for sale	*12*	–	551,512,705.69	563,508,130.73
Long-term equity investments		–	–	–
Investment properties		–	–	–
Fixed assets	*13*	13,522,244.55	13,821,332.66	16,962,030.65
Construction in progress		–	–	–
Intangible assets	*14*	5,798,908.78	5,080,479.82	6,264,689.00
Deferred income tax assets	*15*	83,508,011.92	111,824,192.83	102,721,851.95
Other assets	*16*	12,173,874.20	5,633,413.48	13,511,136.80
Total assets		45,527,281,639.82	38,323,003,450.79	38,795,014,697.35

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

Unit: RMB

Items	*Note*	31/12/2021	31/12/2020	31/12/2019
Liabilities				
Short-term loans		–	–	–
Borrowings from central bank		–	–	–
Deposit taking of interbank and other financing institution		–	–	–
Loans from other banks		–	–	–
Trading financial liabilities		–	–	–
Derivative financial liabilities		–	–	–
Funds incorporated into the sale of financial assets under a repurchase agreement		–	–	–
Deposits taking	*17*	42,081,637,129.95	35,004,383,851.17	35,502,876,933.70
Employee benefits payable	*18*	–	–	28,492,894.61
Taxes payables	*19*	11,565,360.87	39,396,877.05	34,816,594.09
Interests payable	*20*	–	52,467,031.43	88,781,395.78
Accounts payables		–	–	–
Contract liabilities		–	–	–
Liabilities classified as held for sale		–	–	–
Estimated liabilities	*21*	2,101,104.92	–	–
Long-term loans		–	–	–
Bonds payable		–	–	–
Including: Preference shares		–	–	–
Perpetual bond		–	–	–
Deferred tax liabilities		–	–	–
Other liabilities	*22*	148,631,651.71	149,487,415.16	309,298,779.74
Total liabilities		42,243,935,247.45	35,245,735,174.81	35,964,266,597.92

Items	*Note*	31/12/2021	31/12/2020	31/12/2019
Shareholder's equity				
Share capital	*23*	1,500,000,000.00	1,500,000,000.00	1,500,000,000.00
Other equity instruments		–	–	–
Including: Preference shares		–	–	–
Perpetual bond		–	–	–
Capital reserve	*24*	25,125,358.10	25,125,358.10	25,125,358.10
Less: Treasury shares		–	–	–
Other comprehensive income	*43*	-1,868,862.55	-39,959,882.86	-44,672,257.46
Surplus reserve	*25*	358,902,225.44	330,082,785.84	300,402,005.64
General risk reserves	*26*	669,418,256.90	566,470,410.73	566,470,410.73
Retained earnings	*27*	731,769,414.48	695,549,604.17	483,422,582.42
Total shareholders' equity		3,283,346,392.37	3,077,268,275.98	2,830,748,099.43
Total liabilities and shareholders' equity		45,527,281,639.82	38,323,003,450.79	38,795,014,697.35

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Unit: RMB

Items	*Note*	2021	2020	2019
1. Total operating revenue		**872,497,557.42**	**950,264,845.63**	**908,804,698.63**
Interest income	*28*	682,887,307.91	830,018,864.21	882,731,974.98
Fees and commission income	*29*	17,966,555.55	12,857,973.23	19,968,222.83
Investment income (Losses listed as "–")	*30*	150,073,069.99	115,124,572.03	3,148,355.72
Including: Income from investments in associates and joint ventures		–	–	–
Termination of recognized income of financial assets measured at amortised cost (Losses listed as "–")		3,647,269.38	–	–
Net open hedging income (Losses listed as "–")		–	–	–
Other income	*31*	520,591.62	54,866.78	–
Change in fair value (Losses listed as "–")	*32*	22,208,954.46	-103,010.97	95,855.97
Exchange gains (Losses listed as "–")	*33*	-1,158,922.11	-7,688,419.65	2,877,563.30
Other operating income		–	–	–
Asset disposal income (Losses listed as "–")	*34*	–	–	–17,274.17
2. Total operating expenses		**471,350,847.49**	**554,430,105.73**	**534,331,758.32**
Interest expenses	*35*	433,979,624.95	430,054,072.06	449,399,711.39
Fees and commission expense	*36*	6,268,718.70	6,476,546.12	5,879,256.05
Taxes and surcharges		4,996,952.00	4,114,640.14	4,400,206.11
Operating and management charges	*37*	50,856,774.20	14,358,215.77	41,510,756.11
Loss on impairment on credit	*38*	-24,751,222.36	–	–
Loss on impairment of other assets	*39*	–	99,426,631.64	33,141,828.66
Other operating cost		–	–	–

Items	Note	2021	2020	2019
3. Operating profit (Losses listed as "–")		**401,146,709.93**	**395,834,739.90**	**374,472,940.31**
Add: Non-operating income	*40*	2.41	250,371.65	84,905.66
Less: Non-operating expenses	*41*	557,105.48	800,722.25	280,000.00
4. Total profit (Total losses listed as "–")		400,589,606.86	395,284,389.30	374,277,845.97
Less: Income tax expenses	*42*	94,391,548.33	98,476,587.35	84,926,440.83
5. Net profit (Net losses listed as "–")		**306,198,058.53**	**296,807,801.95**	**289,351,405.14**
(1) Continuous operating net profit (Net losses listed as "–")		306,198,058.53	296,807,801.95	289,351,405.14
(2) Termination of net profit (Net losses listed as "–")		–	–	–
6. Net other comprehensive income after tax		**21,646,930.12**	**4,712,374.60**	**115,337,498.32**
(1) Other comprehensive income that cannot be reclassified to profit and loss		21,646,930.12	–	–
1. Re-measurement of benefit plan change		–	–	–
2. Other comprehensive income that cannot be reclassified to profit and loss under equity method		–	–	–
3. Changes in fair value of investment in other equity instruments		21,646,930.12	–	–
4. Fair value change of enterprise's credit risk		–	–	–

Items	*Note*	2021	2020	2019
(2) Other comprehensive income that will be subsequently reclassified to profit and loss		–	4,712,374.60	115,337,498.32
1. Other comprehensive income that will be reclassified to profit and loss under equity method		–	–	–
2. Changes in fair value of other creditor's rights investment		–	–	–
3. Financial assets reclassified under other comprehensive income		–	–	–
4. Credit impairment reserve for other creditor's rights investment		–	–	–
5. Cash flow hedging reserve		–	–	
6. The balance of conversion of foreign currency financial statements		–	–	–
7. Gains and losses from changes in fair value of financial assets available-for-sale		–	4,712,374.60	115,337,498.32
7. Total comprehensive income		**327,844,988.65**	**301,520,176.55**	**404,688,903.46**
8. Earnings per share:		–	–	–
(1) Basic earnings per share		–	–	–
(2) Diluted earnings per share		–	–	–

CONSOLIDATED STATEMENT OF CASH FLOWS

Unit: RMB

Items	2021	2020	2019
1. Cash flow from operating activities:			
Cash from sale and render service	–	–	–
Net increase of customer's deposit and deposit taking of interbank	7,043,968,554.67	-305,944,131.29	8,100,365,408.59
Net increase borrowings from central bank	–	–	–
Net increase borrowing funds to other financing institution	–	-2,690,942,000.00	68,610,000.00
Cash received from interest, handling charges and commissions	734,874,941.28	838,127,534.40	933,885,322.60
Net increase in borrowing funds	100,000,000.00	–	–
Net increase of repurchasing business funds	3,281,304,000.00	–	–
Refund of tax and levies	522,710.09	58,158.79	–
Cash relating to other operating activities	-4,645,708.81	-142,553,417.78	132,431,813.49
Sub-total of cash inflows from operating activities	**11,156,024,497.23**	**-2,301,253,855.88**	**9,235,292,544.68**
Net increase in loans and payments on behalf	4,158,111,726.52	933,829,110.47	935,914,216.91
Net increase in deposits with centre bank and interbank	-20,963,089.82	78,853,094.13	224,433,314.74
Net increase in financial assets held for trading purposes	–	–	–
Net increase in lendings to banks and other financial institutions	–	–	–
Net increase in resale of business funds	–	–	–
Cash payments to interests, handling charges and commissions	392,852,781.60	473,132,648.50	456,735,787.20
Cash payments to and on behalf of employees	36,435,570.95	30,710,779.05	30,198,975.13
Payments of all types of taxes	138,125,547.22	133,775,204.25	136,387,375.12
Other cash payments relating to operating activities	6,127,087.44	6,244,004.61	6,162,764.33
Sub-total of cash outflows from operating activities	**4,710,689,623.91**	**1,656,544,841.01**	**1,789,832,433.43**
Net cash flows from operating activities	**6,445,334,873.32**	**-3,957,798,696.89**	**7,445,460,111.25**

Items	2021	2020	2019
2. Cash flows from investing activities:			
Cash received from disposals and withdrawal on investment	4,157,030,230.88	3,524,937,332.76	1,577,938,420.73
Cash received from returns on investments	73,526,963.13	124,601,363.67	9,025,032.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	–	–	–
Other cash received relating to investing activities	–	–	1,705,621.98
Sub-total of cash inflows from investing activities	**4,230,557,194.01**	**3,649,538,696.43**	**1,588,669,074.71**
Cash payments to acquire investments	8,051,207,596.37	3,612,692,722.13	1,688,513,996.94
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets	6,962,665.95	3,077,246.24	6,209,254.96
Other cash payments relating to investing activities	–	–	–
Sub-total of cash outflows from investing activities	**8,058,170,262.32**	**3,615,769,968.37**	**1,694,723,251.90**
Net cash flows from investing activities	**-3,827,613,068.31**	**33,768,728.06**	**-106,054,177.19**
3. Cash flows from financing activities:			
Cash received from investors	–	–	–
Cash received from the loans	–	–	–
Cash received from the issue of bonds	–	–	–
Other cash received relating to financing activities	–	–	–
Sub-total of cash inflows from financing activities	–	–	–
Cash repayments of amounts borrowed	–	–	–
Cash payments for distribution of dividends or profits, or cash payments for interest expenses	120,207,300.00	55,000,000.00	55,000,000.00
Other cash payments relating to financing activities	–	–	–
Sub-total of cash outflows from financing activities	**120,207,300.00**	**55,000,000.00**	**55,000,000.00**
Net cash flows from financing activities	**-120,207,300.00**	**-55,000,000.00**	**-55,000,000.00**
4. Effect of foreign exchange rate changes on cash and cash equivalents	**-64,364,397.96**	**-183,372,895.45**	**33,289,286.22**
5. Net increase in cash and cash equivalents	**2,433,150,107.05**	**-4,162,402,864.28**	**7,317,695,220.28**
Plus: Balance of cash and cash equivalents at beginning of period	15,844,609,373.50	21,172,719,437.78	13,855,024,217.50
6. Balance of cash and cash equivalents at end of period	**18,277,759,480.55**	**17,010,316,573.50**	**21,172,719,437.78**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unit: RMB

Items	Year of 2021										
		Other equity instruments									
	Paid-in capital	Preference shares	Perpetual bond	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Surplus reserves	General risk reserves	Retained earnings	Total shareholders' equity
I. Closing balance of prior year	1,500,000,000.00	–	–	–	25,125,358.10	–	-39,959,882.86	330,082,785.84	566,470,410.73	695,549,604.17	3,077,268,275.98
Add: accounting policy changes	–	–	–	–	–	–	–	–	–	–	–
Prior errors' correction	–	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	16,444,090.19	-1,800,366.25	–	-16,203,296.20	-1,559,572.26
II. Balance at the beginning of current year	1,500,000,000.00	–	–	–	25,125,358.10	–	-23,515,792.67	328,282,419.59	566,470,410.73	679,346,307.97	3,075,708,703.72
III. Increases/decreases in current year (Decreases listed as "–")	–	–	–	–	–	–	21,646,930.12	30,619,805.85	102,947,846.17	52,423,106.51	207,637,688.65
(Ⅰ) Total comprehensive income	–	–	–	–	–	–	21,646,930.12	–	–	306,198,058.53	327,844,988.65
(Ⅱ) Capital contributed by owners and capital decreases	–	–	–	–	–	–	–	–	–	–	–
1. Ordinary share contributed by owner	–	–	–	–	–	–	–	–	–	–	–
2. Holders of other equity instruments invested capital	–	–	–	–	–	–	–	–	–	–	–
3. The amount of the shares paid into the shareholders' rights and interests	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–
(Ⅲ) Profit distribution	–	–	–	–	–	–	–	30,619,805.85	102,947,846.17	-253,774,952.02	-120,207,300.00
1. Appropriation of surplus reserves	–	–	–	–	–	–	–	30,619,805.85	–	-30,619,805.85	–
2. Extraction of general risk reserves	–	–	–	–	–	–	–	–	102,947,846.17	-102,947,846.17	–
3. Profit distributed to owners (or stockholders)	–	–	–	–	–	–	–	–	–	-120,207,300.00	-120,207,300.00
4. Others	–	–	–	–	–	–	–	–	–	–	–
(Ⅳ) Transfers within the owners' equity	–	–	–	–	–	–	–	–	–	–	–
1. Capital (or stock) transferred from capital reserves	–	–	–	–	–	–	–	–	–	–	–
2. Capital (or stock) transferred from surplus reserves	–	–	–	–	–	–	–	–	–	–	–
3. Recovery of losses by surplus reserves	–	–	–	–	–	–	–	–	–	–	–
4. Changes in defined benefit plans carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–
5. Other comprehensive income carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–
6. Others	–	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of current year	1,500,000,000.00	–	–	–	25,125,358.10	–	-1,868,862.55	358,902,225.44	669,418,256.90	731,769,414.48	3,283,346,392.37

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unit: RMB

	Year of 2020										
		Other equity instruments									
Items	Paid-in capital	Preference shares	Perpetual bond	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Surplus reserves	General risk reserves	Retained earnings	Total shareholders' equity
I. Closing balance of prior year	1,500,000,000.00	–	–	–	25,125,358.10	–	-44,672,257.46	300,402,005.64	566,470,410.73	483,422,582.42	2,830,748,099.43
Add: accounting policy changes	–	–	–	–	–	–	–	–	–	–	–
Prior errors' correction	–	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of current year	1,500,000,000.00	–	–	–	25,125,358.10	–	-44,672,257.46	300,402,005.64	566,470,410.73	483,422,582.42	2,830,748,099.43
III. Increases/decreases in current year (Decreases listed as "-")	–	–	–	–	–	–	4,712,374.60	29,680,780.20	–	212,127,021.75	246,520,176.55
(Ⅰ) Total comprehensive income	–	–	–	–	–	–	4,712,374.60	–	–	296,807,801.95	301,520,176.55
(Ⅱ) Capital contributed by owners and capital decreases	–	–	–	–	–	–	–	–	–	–	–
1. Ordinary share contributed by owner	–	–	–	–	–	–	–	–	–	–	–
2. Holders of other equity instruments invested capital	–	–	–	–	–	–	–	–	–	–	–
3. The amount of the shares paid into the shareholders' rights and interests	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–
(Ⅲ) Profit distribution	–	–	–	–	–	–	–	29,680,780.20	–	-84,680,780.20	-55,000,000.00
1. Appropriation of surplus reserves	–	–	–	–	–	–	–	29,680,780.20	–	-29,680,780.20	–
2. Extraction of general risk reserves	–	–	–	–	–	–	–	–	–	–	–
3. Profit distributed to owners (or stockholders)	–	–	–	–	–	–	–	–	–	-55,000,000.00	-55,000,000.00
4. Others	–	–	–	–	–	–	–	–	–	–	–
(Ⅳ) Transfers within the owners' equity	–	–	–	–	–	–	–	–	–	–	–
1. Capital (or stock) transferred from capital reserves	–	–	–	–	–	–	–	–	–	–	–
2. Capital (or stock) transferred from surplus reserves	–	–	–	–	–	–	–	–	–	–	–
3. Recovery of losses by surplus reserves	–	–	–	–	–	–	–	–	–	–	–
4. Changes in defined benefit plans carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–
5. Other comprehensive income carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–
6. Others	–	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of current year	1,500,000,000.00	–	–	–	25,125,358.10	–	-39,959,882.86	330,082,785.84	566,470,410.73	695,549,604.17	3,077,268,275.98

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unit: RMB

Items	Year of 2019										
			Other equity instruments								
	Paid-in capital	Preference shares	Perpetual bond	Others	Capital reserves	Less: Treasury shares	Other comprehensive income	Surplus reserves	General risk reserves	Retained earnings	Total shareholders' equity
I. Closing balance of prior year	1,500,000,000.00				25,125,358.10		-160,009,755.78	271,466,865.13	439,949,313.86	404,527,414.66	2,481,059,195.97
Add: accounting policy changes	–	–	–	–	–	–	–	–	–	–	–
Prior errors' correction	–	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–	–
II. Balance at the beginning of current year	1,500,000,000.00	–	–	–	25,125,358.10	–	-160,009,755.78	271,466,865.13	439,949,313.86	404,527,414.66	2,481,059,195.97
III. Increases/decreases in current year (Decreases listed as "-")	–	–	–	–	–	–	115,337,498.32	28,935,140.51	126,521,096.87	78,895,167.76	349,688,903.46
(Ⅰ) Total comprehensive income	–	–	–	–	–	–	115,337,498.32	–	–	289,351,405.14	404,688,903.46
(Ⅱ) Capital contributed by owners and capital decreases	–	–	–	–	–	–	–	–	–	–	–
1. Ordinary share contributed by owner	–	–	–	–	–	–	–	–	–	–	–
2. Holders of other equity instruments invested capital	–	–	–	–	–	–	–	–	–	–	–
3. The amount of the shares paid into the shareholders' rights and interests	–	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–	–
(Ⅲ) Profit distribution	–	–	–	–	–	–	–	28,935,140.51	126,521,096.87	-210,456,237.38	-55,000,000.00
1. Appropriation of surplus reserves	–	–	–	–	–	–	–	28,935,140.51	–	-28,935,140.51	–
2. Extraction of general risk reserves	–	–	–	–	–	–	–	–	126,521,096.87	-126,521,096.87	–
3. Profit distributed to owners (or stockholders)	–	–	–	–	–	–	–	–	–	-55,000,000.00	-55,000,000.00
4. Others	–	–	–	–	–	–	–	–	–	–	–
(Ⅳ) Transfers within the owners' equity	–	–	–	–	–	–	–	–	–	–	–
1. Capital (or stock) transferred from capital reserves	–	–	–	–	–	–	–	–	–	–	–
2. Capital (or stock) transferred from surplus reserves	–	–	–	–	–	–	–	–	–	–	–
3. Recovery of losses by surplus reserves	–	–	–	–	–	–	–	–	–	–	–
4. Changes in defined benefit plans carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–
5. Other comprehensive income carried forward to retained earnings	–	–	–	–	–	–	–	–	–	–	–
6. Others	–	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of current year	1,500,000,000.00	–	–	–	25,125,358.10	–	-44,672,257.46	300,402,005.64	566,470,410.73	483,422,582.42	2,830,748,099.43

Sinomach Finance Co., Ltd.
For the years ended 31 December 2019, 2020 and 2021

1. BASIC INFORMATION

(1) Place of registration, form of organisation and address of headquarters

Sinomach Finance Co., Ltd.*（國機財務有限責任公司）(hereinafter referred to as "**Sinomach Finance**") was established in 1989. It is formerly known as Hainan Machinery Trust and Investment Company*（海南機設信託投資公司）and changed its name to China CAMC Trust Investment Co., Ltd.*（中工信託投資公司）in February 1996. In 19 August 2003, under the guideline of the Zhongbanfa [1999] Document No. 1*（中辦發[1999]1號文件）, upon the approval by China Banking Regulatory Commission (hereinafter referred to as "**CBRC**") pursuant to Yinjianfu (2003) Document No. 23*（銀監複(2003)23號文件）, it was officially handed over to China National Machinery Industry Corporation*（中國機械工業集團有限公司）(hereinafter referred to as "**Sinomach**") and restructured it into Sinomach Finance. It is now affiliated to Sinomach. On 16 June 2017, Sinomach Finance obtained the replacement of the Business Licence for Legal Person, No. 9111010810001934XA issued by Beijing Administration for Industry and Commerce; with registered capital of RMB1,500,000,000.

The original registered capital of Sinomach Finance was RMB390.4306 million and its shareholders comprised of 21 entities, including Sinomach and its member companies. In September 2005, upon the approval by CBRC Beijing Bureau pursuant to Jingyinjianfu [2005] No. 464*（京銀監複[2005]464號）, the registered capital of Sinomach Finance was decreased from RMB390.4306 million to RMB190.6 million, and the number of shareholders was reduced to 20 entities.

In April 2006, according to the resolution of the 2nd general meeting in 2005, upon the approval by CBRC Beijing Bureau pursuant to the Jingyinjianfu [2006] No. 75*（京銀監複[2006]75號文）, Sinomach Finance increased its registered capital by RMB116 million and the number of shareholders increased to 24 entities. After the completion of the capital increase, the registered capital of Sinomach Finance was RMB306.6 million.

In December 2007, upon the approval by CBRC Beijing Bureau pursuant to Jingyinjianfu [2007] No. 671*(京銀監複[2007]671號文), Sinomach Finance increased its registered capital by RMB243.4 million and the number of shareholders increased to 28 entities. After the completion of the capital increase, the registered capital of Sinomach Finance was RMB550 million. The above original registered capital, decrease of registered capital and increase of registered capital of Sinomach Finance were verified by the capital verification reports issued by Beijing Zhongyi Certified Public Accountants Co., Ltd.(北京中逸會計師事務所有限公司) by issuing Zhongyi Yanzi (2003) No. 016, Beijing Zhonglihong Certified Public Accountants Co., Ltd.(北京中立鴻會計師事務所有限責任公司) by issuing Zhonglihong Yanzi (2005) No. 016, (2006) No. 016 and (2007) No. 038*(中立鴻驗字(2005) 016號、(2006) 016號、(2007) 038號), respectively.

In November 2009, according to the resolution of the 2nd general meeting in 2009, upon the approval by CBRC Beijing Bureau pursuant to Jingyinjianfu [2009] No. 657*(京銀監複[2009]657號文), China National Construction & Agricultural Machinery Import & Export Corporation*(中國工程與農業機械進出口總公司) transferred all its 80 million shares of Sinomach Finance to Sinomach. After the completion of the transfer, there were 27 shareholders and total registered capital remained unchanged.

In October 2011, according to the resolution of the 1st general meeting in 2011, upon the approval by CBRC Beijing Bureau pursuant to Jingyinjianfu [2011] No. 701*(京銀監複[2011]701號文), Sinomach Finance increased its registered capital by RMB550 million through converting the undistributed profits of Sinomach Finance to capital in the shareholders' shareholding proportion at 1:1 ratio. After the completion of the capital increase, the registered capital of Sinomach Finance was RMB1,100 million, of which: RMB224 million was contributed by Sinomach as to 20.37%; RMB172 million by China Machinery Engineering Corporation*(中國機械設備工程股份有限公司) as to 15.64%; RMB70 million by China National Electric Engineering Corporation*(中國電力工程有限公司) as to 6.36%; RMB40 million by China IPPR International Engineering Co., Ltd.*(中國中元國際工程公司) as to 3.63%; RMB20 million by China National Heavy Machinery Corporation*(中國重型機械總公司) as to 1.82%; RMB80 million by China CMIIC Engineering & Construction Corporation*(中國機械工業建設總公司) as to 7.27%, RMB40 million by China United Engineering Corporation*(中國聯合工程公司) as to 3.63%; RMB18 million by China National General Machinery Engineering Corporation*(中國通用機械工程總公司) as to 1.64%; RMB10 million by China National Electric Wire and Cable Import and Export Co., Ltd.*(中國電線電纜進出口有限公司) as to 0.91%; RMB 12 million by Scivic Engineering Corporation*(機械工業第四設計研究院) as to 1.09%; RMB40 million by Xi'an Heavy Machinery Research Institute Co., Ltd.*(西安重型機械研究所有限公司) as to 3.63%; RMB10 million by China National Electric Apparatus Research Institute Co., Ltd.*(中國電器科學研究院股份有限公司) as to 0.91%; RMB10 million by Hefei General Machinery Research Institute*(合肥通用機械研究院) as to 0.91%; RMB12 million by Jinan Foundry and Metalforming Machinery Research Institute Co., Ltd.*(濟南鑄造鍛壓機械研究所有限公司) as to 1.09%; RMB8 million by Tianjin Design & Research

Institute of Electric Drive*(天津電氣傳動設計研究所)as to 0.73%; RMB26 million by Guangzhou Mechanical Engineering Research Institute*(廣州機械科學研究院)as to 2.36%; RMB8 million by Lanzhou Petroleum Machinery Research Institute*(蘭州石油機械研究所)as to 0.73%; RMB6 million by Shenyang Academy of Instrumentation Science*(瀋陽儀錶科學研究院)as to 0.55%; RMB6 million by Luoyang Bearing Research Institute Co., Ltd.*(洛陽軸承研究所有限公司)as to 0.55%; RMB12 million by SIPPR Engineering Group Co., Ltd.*(機械工業第六設計研究院)as to 1.09%; RMB20 million by China National Machinery Industry International Co., Ltd.*(中國機械工業國際合作有限公司)as to 1.82%; RMB70 million by China Perfect Machinery Industry Corp., Ltd.*(中國浦發機械工業股份有限公司)as to 6.36%; RMB50 million by China Auto Caiec Ltd.*(中汽凱瑞貿易有限公司)as to 4.55%; RMB60 million by China Automobile Trading Sinomach Finance Limited*(中國進口汽車貿易有限公司)as to 5.45%; RMB60 million by SUMEC Group Corporation*(江蘇蘇美達集團公司)as to 5.45%; RMB10 million by Chengdu Tool Research Institute Co., Ltd.*(成都工具研究所有限公司)as to 0.91%; RMB6 million by Zhengzhou Research Institute For Abrasives and Grinding*(鄭州磨料磨具磨削研究所)as to 0.55%. The registered capital of RMB1,100 million has been verified by Beijing Zhonglihong Certified Public Accountants, which issued a capital verification report Zhonglihongyanzi [2011] No. 019*(中立鴻驗字[2011]019號).

In 2014, pursuant to the Reply in relation to the Approval by CBRC Beijing Bureau on the Change of Shareholding and Amendment to the Articles of Association of Sinomach Finance Co., Ltd. (Jingyinjianfu [2014] No. 899)*(京銀監複[2014]899號《北京銀監局關於國機財務有限責任公司變更股權及修改公司章程的批復》), the equity interest of RMB70 million held by China Perfect Machinery Industry Corp., Ltd.*(中國浦發機械工業股份有限公司)were transferred to Xi'an Heavy Machinery Research Institute Co., Ltd.*(西安重型機械研究所有限公司), China Automobile Trading Sinomach Finance Limited*(中國進口汽車貿易有限公司)and China Foma (Group) Co. Ltd.*(中國福馬機械集團有限公司)in the amounts of RMB20 million, RMB30 million and RMB20 million, respectively. After the completion of the equity transfer, the three transferees held 5.45%, 8.18% and 1.82% equity interest in Sinomach Finance, respectively.

On 18 May 2016, the Proposal on the Increase in Registered Capital with Undistributed Profits of RMB400 million*(《以未分配利潤4億元轉增註冊資本金的方案》) was reviewed and approved at the 1st general meeting of Sinomach Finance in 2016, pursuant to which, each shareholder contributed additional capital in the proportion of 36.30% of the equity interest held by them. The registered capital increased by a total of RMB399.3 million after rounding, and the difference of RMB700,000 was included in the capital contribution of Sinomach. After the completion of the capital increase, the registered capital of Sinomach Finance was RMB1,500 million. The Proposal came into effect upon the approval by CBRC Beijing Bureau (the Reply in relation to the Approval by CBRC Beijing Bureau on the Change of Registered Capital and Adjustment of Shareholding Structure of Sinomach Finance Co., Ltd. (Jingyinjianfu [2017] No. 125)*(京銀監複[2017]125號《北京銀監局關於國機財務有限責任公司變更註冊資本及調整股權結構的批復》)) in

March 2017. The capital increase has been verified by ShineWing Certified Public Accountants (Special General Partnership), which issued a capital verification report No. XYZH/2017BJA40395 on 22 March 2017.

The resolution on the Transfer of the Equity Interest of Sinomach Finance by Jinan Foundry and Metalforming Machinery Research Institute Co., Ltd. was reviewed and approved at the 1st general meeting of Sinomach Finance in 2017, pursuant to which it was agreed that Jinan Foundry and Metalforming Machinery Research Institute Co., Ltd. transferred its equity interest of RMB16.36 million (1.09% equity interest) in Sinomach Finance to SIPPR Engineering Group Co., Ltd.*（機械工業第六設計研究院有限公司）, the shareholder of Sinomach Finance. After the completion of the equity transfer, Jinan Foundry and Metalforming Machinery Research Institute Co., Ltd. ceased to hold the equity interest of Sinomach Finance. The contribution amount of SIPPR Engineering Group Co., Ltd. changed from RMB16.36 million to RMB32.72 million with contribution ratio changing from 1.09% to 2.18%. The number of shareholder changed from 27 to 26. On 15 May 2018, CBRC Beijing Bureau approved the amendment to the Articles of Association of Sinomach Finance (Jingyinjianfu [2018] No. 208)*（京銀監複[2018]208號）, and Sinomach Finance carried out the registration of industrial and commercial changes and property rights accordingly.

The Resolution on the Transfer of the Equity Interest of Sinomach Finance by China National General Machinery Engineering Corporation was reviewed and approved at the 2nd general meeting of Sinomach Finance in 2020, pursuant to which it was agreed that China National General Machinery Engineering Corporation transferred its equity interest of RMB24.53 million (1.64% equity interest) in Sinomach Finance to China Automobile Trading Sinomach Finance Limited*（中國進口汽車貿易有限公司）, the shareholder of Sinomach Finance. After the completion of the equity transfer, China National General Machinery Engineering Corporation*（中國通用機械工程總公司）ceased to hold the equity interest of Sinomach Finance. The contribution amount of China Automobile Trading Sinomach Finance Limited*（中國進口汽車貿易有限公司）changed from RMB122.67 million to RMB147.20 million with contribution ratio changing from 8.18% to 9.82%. The number of shareholders changed from 26 to 25. On 10 December 2020, CBRC Beijing Bureau approved the amendment to the Articles of Association of Sinomach Finance (Jingyinjianfu [2020] No. 898*（京銀監複[2020]898號）), and Sinomach Finance carried out the registration of industrial and commercial changes and property rights accordingly.

(II) Business nature and main operations of Sinomach Finance

Sinomach Finance operates in the financial industry, and its business scope includes: provision of financial and financing consulting, credit certification and related consultation and agency services to its member companies; provision of assistance to its member companies to facilitate the receipt and payment of transaction funds; provision of guarantees to its member companies; entrusted loans and entrusted investment among its member companies; handling bills acceptance and discounting for its member companies; handling internal transfer settlement among its member companies and design corresponding settlement and liquidation plans; deposits taking from its member companies; handling loans and finance lease for its member companies; interbank lending; underwriting of corporate bonds of its member companies; issuance of financial corporate bonds upon approval; equity investment in financial institutions; investment in negotiable securities; consumer credit, buyer's credit and finance lease of products of its member companies; insurance agency business. (Sinomach Finance shall select business items and carry out operating activities at its discretion in accordance with the laws; for items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by relevant authorities and to the extent authorised by such approval; it is not allowed to engage in operating activities prohibited or restricted by industrial policies of the city where it is located.)

(III) Name of parent of Sinomach Finance and group headquarters

The controlling shareholder of Sinomach Finance is Sinomach and the group headquarters of Sinomach Finance is Sinomach.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Based on the going-concern assumption and transactions and events actually incurred, Sinomach Finance recognised and measured in accordance with the Accounting Standards for Business Enterprises – Basic Standards and its relevant stipulations (hereafter collectively referred as "**ASBEs**") by the Ministry of Finance of the PRC, and based on the accounting policies stated in the Note 4. "Significant Accounting Policies and Accounting Estimates".

III. STATEMENT OF COMPLIANCE OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements of Sinomach Finance have been prepared in accordance with the ASBEs, which truly and completely present the financial position of Sinomach Finance during the Reporting Period (as defined below) and their financial performance and cash flows and other related information.

IV. EXPLANATION ON SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Accounting period

The accounting year is from 1 January to 31 December. The period covered in this report is from 1 January 2019 to 31 December 2021 (the "**Reporting Period**").

(II) Reporting currency

Renminbi ("**RMB**") is the currency in the primary economic environment in which Sinomach Finance operates. Sinomach Finance adopts RMB as its reporting currency. RMB is the functional currency adopted by Sinomach Finance in preparing these financial statements.

(III) Accounting basis and valuation principles

Sinomach Finance adopts the accrual basis for its accounting records. Sinomach Finance generally adopts historical cost method when measuring accounting elements. Sinomach Finance will provide special explanations for the measurement of other attributes such as replacement cost, net realisable value, present value or fair value according to the standards.

(IV) Classification of joint arrangement and accounting treatment for joint operation

1. Classification of joint arrangement

According to the structural and legal form of the joint arrangement, Sinomach Finance divides joint arrangements into joint operations, and joint ventures in the light of the terms agreed in the joint arrangement and other situations.

Joint arrangements which are reached without the involvement of separate vehicles are regarded as joint operation. Joint arrangements involving separate vehicles are regarded as joint ventures. However, there is concrete evidence showing that joint arrangements which meet any one of the following conditions and comply with laws and regulations are also regarded as joint operation:

(1) The legal form of the joint arrangement shows that parties to a joint arrangement shall enjoy the rights and assume the obligations in respect of the arrangement's assets and liabilities.

(2) The structural form of the joint arrangement shows that parties to a joint arrangement shall enjoy the rights and assume the obligations in respect of the assets and liabilities of the arrangement.

(3) Other facts and situations show that parties to a joint arrangement shall enjoy the rights and assume the obligations in respect of the assets and liabilities of the arrangement, such as the parties to a joint arrangement shall enjoy almost all the outputs related to the joint arrangement and the liabilities of the joint arrangement shall be paid off with the sustaining support of the parties.

2. Accounting treatment for joint operation

Sinomach Finance confirms the following items in its interest share of joint operation that relate to Sinomach Finance and will handle accounting treatment in accordance with the ASBEs:

(1) Confirming the assets owned privately and the assets shared in the joint operation according to its share;

(2) Confirming the liabilities undertook privately and the liabilities jointly assumed in the joint operation according to its share;

(3) Confirming the income achieved by selling the shared outputs of the joint operation;

(4) Confirming the income achieved in the joint operation by selling the outputs according to its share;

(5) Confirming the costs incurred privately and the costs incurred in the joint operation according to its share.

For injection to or disposal of assets of joint operations (other than those assets constituting business operation), the gain or loss arising from the transaction is only recognised to the extent that it is attributable to other parties to the joint operation before those assets are sold by joint operation to any third party. In case those assets injected to or disposed of satisfy the requirements for asset impairment loss under ASBEs No. 8 – Impairment of Assets, Sinomach Finance recognises the loss in full.

For the acquisition of assets from joint operations (other than those assets constituting business operation), the gain or loss arising from the transaction is only recognised to the extent that it is attributable to other parties to the joint operation before the relevant assets are sold to any third party. In case that the acquired assets satisfy the condition for asset impairment loss under ASBEs No. 8 – Impairment of Assets, Sinomach Finance recognises the relevant loss according to the proportion it assumes.

Sinomach Finance exercises no common control over joint operations. If Sinomach Finance is entitled to relevant assets of the joint operation and assumes relevant liabilities, it shall be accounted for under the above principle. Otherwise, it would be accounted for under the relevant business accounting principles.

(V) Cash and cash equivalents

When preparing a cash flow statement, treasury cash and deposits that are readily available for payment is regarded as cash. Cash equivalents are identified as investments that meet the four conditions of short maturity (generally maturing within 3 months from the date of acquisition), high liquidity, easy conversion to known amounts of cash, and minimal risk of changes in value.

(VI) Foreign currency business and foreign currency report conversion

1. Foreign currency business

On initial recognition, foreign currency business transactions are recorded in RMB using the spot exchange rate on the transaction date as the conversion rate.

Foreign currency monetary items are converted at the spot exchange rate on the balance sheet date. The resulting exchange differences are accounted for as current profit or loss, except for those arising from special borrowings in foreign currencies related to the acquisition of assets eligible for capitalisation, which are treated in accordance with the principle of capitalising borrowing costs. Non-monetary items in foreign currencies measured at historical cost are still converted at the spot exchange rate on the transaction date. The amount in the functional currency is not changed.

Foreign currency non-monetary items measured at fair value are converted using the spot exchange rates at the date when the fair value is determined. The resulting exchange differences are included in profit and loss for the current period as a gain or loss on changes in fair value. In the case of non-monetary items that are available for sale in foreign currencies, the resulting exchange differences are included in other comprehensive income.

2. Translation of foreign currency financial statements

The assets and liabilities items in the balance sheet are converted at the spot exchange rate on the balance sheet date. The owner's equity items except for the "undistributed profit" items are converted at the spot exchange rate at the time of occurrence. The income and expense items in the income statement are converted at the spot exchange rate on the transaction date. The conversion difference of the foreign currency financial statements generated in accordance with the above conversion is included in other comprehensive income.

When disposing of an overseas operation, the foreign currency financial statement translation difference relating to the overseas operation as shown in the other comprehensive income in the balance sheet shall be transferred from the other comprehensive income to the current profit and loss of disposal. In the disposal of part of the equity investment or other reasons which resulted the proportion of foreign business equity held is reduced, but the control over the foreign business is not lost, the foreign currency statement translation difference relating to the part of the foreign business disposal will be attributed to the minority shareholders' equity. It will not be transferred to the current profit and loss. When disposing of part of the equity of an overseas operation as an associate or joint venture, the conversion difference of the foreign currency statement relating to the overseas operation shall be transferred to the disposal of the current profit and loss according to the proportion of the disposal of the overseas operation.

(VII) Financial instruments (applicable before 1 January 2021)

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

1. Classification of financial assets

According to the contract terms of the financial instrument issued and the economic substance reflected by such instrument, which is not only defined in the form of law, with the purpose of acquiring and holding financial assets and assuming financial liabilities, the financial assets and liabilities are classified by the management upon initial recognition into different categories: financial assets (or financial liabilities) measured at fair value through current profit and loss; held-to-maturity investments; entrusted loans; receivables; available-for-sale financial assets; and other financial liabilities, etc.

2. Recognition basis and measurement method of financial instruments

(1) Financial assets (or financial liabilities) measured at fair value through current profit and loss

Financial assets or financial liabilities that measure their changes at fair value through current profit and loss include financial assets or financial liabilities classified as held for trading and financial assets or financial liabilities the changes of which are directly designated to be measured at fair value through current profit and loss.

Held for trading financial assets or financial liabilities are financial assets or financial liabilities that meet at least one of the following conditions:

1) The purpose of obtaining the financial assets or financial liabilities is to sell, buy-back or redeem in the short term;

2) It belongs to part of the combination of identifiable financial instruments under centralised management, and there is objective evidence that Sinomach Finance has recently adopted a short-term profit-making mode to manage the combination;

3) It belongs to derivative financial instruments, except for the derivative instruments that are designated as effective hedging instruments, the derivative instruments belonged to the financial guarantee contract, and the derivative instruments linked to the equity instrument but has no quotes in the active market whose fair value cannot be measured reliably and the settlement of which is conditional upon the delivery of the equity instrument.

Subject to the satisfaction of any one of the following conditions, financial assets or liabilities can be designated as financial assets or liabilities measured at fair value through profit and loss upon their initial recognition:

1) The designation can eliminate or substantially eliminate the inconsistency of profit or loss arising from the financial assets or liabilities under different measurement bases;

2) The formal written document of risk management or investment strategy specifies that the portfolio of financial assets, the portfolio of financial liabilities, or the portfolio of financial assets and liabilities are measured at fair value, and it is the basis to manage, evaluate and report to the key management personnel;

3) They include hybrid instruments that contain one or more embedded derivatives unless the embedded derivatives do not have a substantial change on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from the relevant hybrid instruments;

4) They include hybrid instruments containing embedded derivatives that should be split but cannot be measured separately when acquired or on the subsequent balance sheet date.

Financial assets and liabilities measured at fair value through current profit and loss are initially recognised at their fair value (after deducting cash dividends that have been declared but not distributed or bond interests that have matured but not been drawn) by Sinomach Finance and the transaction expenses shall be directly recorded into current profit and loss. Interest or cash dividend acquired during the holding period shall be recognised as investment income, and changes in fair value shall be included in current profit and loss at the end of the period. Upon disposal, the difference between the fair value and initial entry value shall be recognised as investment income, with the corresponding adjustment to profit and loss of changes in fair value.

(2) Accounts receivables

The receivable claims arising from the sale of goods or rendering of services and the claims of debt instruments, excluding those have no active quotes in the market, includes accounts receivables, other receivables, notes receivable, long-term receivables etc., should be measured upon the initial recognition based on the contracts of the buyers or the price agreed; if of financing nature, they shall be measured at present value upon initial recognition.

Upon the recovery or disposal, the difference between the proceeds obtained and the book value of accounts receivables shall be accounted for in current profit and loss.

(3) Entrusted loans

1) Valuation and income recognition method of entrusted loans: The actual amount of the entrusted loan from financial institution is recorded as the actual cost, and the accrued interest is calculated on an accrual basis. If the accrued interest cannot be collected on interest payment date, the accrual of interest ceases and the interest already accrued is reversed;

2) No provision for impairment of entrusted loans is made.

Valuation and income recognition method of entrusted loans: The actual amount of the entrusted loan from financial institution is recorded as the actual cost, and the accrued interest is calculated on an accrual basis. If the accrued interest cannot be collected on the interest payment date, the accrual of interest ceases and the interest already accrued is reversed.

As at the end of the period, the entrusted loan is measured at the lower of the book value and the recoverable amount:

1) Recognition criteria for the impairment provision of entrusted loans: the principal of entrusted loans is higher than the recoverable amount.

2) Provision method for the impairment of entrusted loans: As at the end of half a year or the end of the year, the impairment provision is stated as the recoverable amount of a single entrusted loan lower than its book value.

(4) Loans and receivables

Loans and receivables refer to non-derivative financial assets with fixed or determinable amounts receivable that are not quoted in an active market. Sinomach Finance shall recognise the funding or services as loans and receivables when Sinomach Finance provides funding or services to the debtor directly without the intention of selling the receivables. Loans and receivables are initially recognised based on the sum of the fair value at the time of acquisition and transaction costs.

In the comprehensive assessment of impairment, Sinomach Finance will group financial assets according to the similarity and correlation of credit risk characteristics. When the impairment test is carried out on a collective basis, the provision for impairment loss of loan is determined on the basis of the loan portfolio structure and similar credit risk characteristics, as well as historical loss experience, current economic conditions and estimated losses existed in the loan portfolio.

For asset impairment loss that has occurred for a single loan, Sinomach Finance shall recognise and measure the difference between the book balance of the asset and its recoverable amount, that is, the present value of the future cash flows (excluding future credit losses that have not yet occurred) discounted at the original effective interest rate of the asset. The original effective interest rate is the actual interest rate calculated and determined when the financial asset is initially recognised. Estimates of future cash flows exclude credit losses that have not yet occurred for the corresponding financial assets, but have taken into account the value of the relevant collateral and deducted the estimated costs of disposal.

(5) Held-to-maturity investment

Held-to-maturity investment refers to non-derivative financial assets with fixed maturity dates and fixed recoverable amounts, or determinable in which Sinomach Finance possesses with clear intention and ability to hold until maturity.

Held-to-maturity investments are initially recognised at the sum of the fair value (after deducting cash dividends that have been declared but not distributed and bond interests that have matured but not been drawn) and related transaction expenses upon acquisition. The interest income will be calculated and determined according to the amortised cost and effective interest rate during the holding period and included in investment income. The effective interest rate is determined upon acquisition and will remain unchanged during the expected renewal period, or a shorter period if applicable. The difference between the proceeds and book value of the investments shall be included in investment income upon the disposal of held-to-maturity investment.

If the amount of the held-to-maturity investment is disposed of or reclassified as other types of financial asset accounts for a large proportion in the total amount of the held-to-maturity investment prior to the disposal or reclassification, the remaining held-to-maturity investments shall be reclassified as available-for-sale financial assets immediately following such disposal or reclassification. On the reclassification date, the difference between the book value and fair value of the investment shall be included in other comprehensive income and transferred to current profit and loss when impairment or de-recognition of the available-for-sale financial assets occurred. However, the following circumstances can be excluded:

1) The date of disposal or reclassification is approaching the date of expiration or redemption of the investment (such as three months prior to expiration), and the change of market-rate has no material influence over the fair value of the investment.

2) Sinomach Finance has already recovered nearly all initial principal under the repayment means as agreed in the contract.

3) The disposal or reclassification is arising from separate matters that are out of Sinomach Finance's control, which are difficult to predict reasonably but not expected to occur repeatedly.

(6) Available-for-sale financial assets

Available-for-sale financial assets refer to the non-derivative financial assets designated as available for sale upon initial recognition, as well as other financial assets besides classification as other financial assets.

Available-for-sale financial assets are initially recorded at the sum of fair values (deducting cash dividends that have been declared but not distributed and bond interests that have matured but not been drawn) and relevant transaction costs upon acquisition. The interests or cash dividends to be obtained during the holding period are recognised as investment income. Gains or losses arising from the change in fair value of available-for-sale financial assets is directly included in other comprehensive income, except for impairment loss and exchange difference arising from monetary financial assets in foreign currency. In disposing of the available-for-sale financial assets, the difference between the proceeds and the book value of the financial assets is recognised as investment income. Meanwhile, the amount of disposal corresponding to the accumulated change in fair value, which is originally and directly included in other comprehensive income, shall be transferred out and recognised as investment income.

3. Recognition basis and measurement methods for transfer of financial assets

When the transfer of financial assets occur, the financial assets will be derecognised if substantially all the risks and rewards related to the ownership of the financial assets have been transferred to the transferee. They will not be derecognised if substantially all the risks and rewards related to the ownership of the financial assets have been retained.

The principle of substance over form is adopted to determine whether a financial asset meets the above de-recognition conditions for financial assets. Sinomach Finance divides the transfer of financial assets into overall transfer and partial transfer. Where the entire transfer of the financial asset meets the de-recognition conditions, the difference of the following two amounts will be included in current profit and loss:

(1) the book value of the transferred financial assets;

(2) the sum of the consideration received from the transfer and the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial assets involved in the transfer belong to available-for-sale financial assets).

If the partial transfer of the financial assets meets the de-recognition conditions, the entire book value of the transferred financial assets shall be split into the derecognised and recognised portions according to their respective fair value. The difference between the amounts of the following two items shall be included in current profit and loss:

(1) the book value of the derecognised portion;

(2) the sum of the consideration for the derecognised portion and the portion of de-recognition corresponding to the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial assets involved in the transfer belong to available-for-sale financial assets).

If the transfer of financial assets does not meet the de-recognition condition, the financial assets shall continue to be recognised, and the consideration received will be recognised as a financial liability.

4. De-recognition conditions for financial liabilities

The whole or partial financial liabilities, whose present obligations have been wholly or partially discharged, shall be de-recognised in full or partially. If Sinomach Finance signs an agreement with the creditor to replace the existing financial liabilities by means of assuming the new financial liabilities, of which the contract terms are different from those of the existing financial liabilities, the existing financial liabilities shall be derecognised, and the new financial liabilities shall be recognised.

If Sinomach Finance makes a substantial amendment to the whole or part of the contract terms of the existing financial liabilities, the existing financial liabilities shall be de-recognised in full or partially, and the financial liability of which the contract terms have been modified shall be recognised as a new financial liability.

When financial liabilities are derecognised in whole or in part, the difference between the book value of the financial liabilities derecognised and the consideration paid (including the non-cash assets transferred or new financial liabilities assumed) shall be recorded in current profit and loss.

When Sinomach Finance repurchases part of the financial liabilities, it will allocate the entire book value of the said financial liabilities on the repurchase date according to the relative fair value of the recognised part and the terminated part. The difference between the book value of the derecognised part and the consideration paid (including non-cash assets surrendered or new financial liabilities assumed) shall be included in current profit and loss.

5. Determination method for the fair value of financial assets and financial liabilities

Sinomach Finance measures its financial assets and financial liabilities at fair value. The fair value of a financial instrument having an active market is determined on the basis of quoted price in the active market. The market transaction prices shall be used to determine the fair values of the initial acquired or derivative financial assets or financial liabilities assumed. The fair value of financial assets or liabilities, for which there is no active market, is determined by using valuation techniques. At the time of valuation, Sinomach Finance adopts valuation techniques that are applicable in the current circumstances with sufficient supporting data and other information. The enter values selected shall be consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities and the use of the relevant observable input values shall be prioritised. Unobservable input values are used only when relevant observable input values are not available or getting such values is infeasible.

6. Provision for impairment of financial assets (excluding accounts receivables)

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of the balance sheet date. Allowance is provided when there is objective evidence of impairment of financial assets occurred.

According to the actual situation of Sinomach Finance, the identification criteria for the impairment of available-for-sale financial assets shall be clearly disclosed. In particular, as for equity instrument investments, the specific quantitative standard for judging a "significant" or "non-tentative" drop in fair value, calculation method for cost, method for the determination of year-end fair value, and the determination basis for the period of continuous drop shall also be clearly disclosed.

In using balance amortised cost to measure financial assets where there is impairment loss, the amount of the impairment loss recognised is the difference between the present value of the estimated future cash flows which is lower than the carrying amount, excluding the future credit losses that are yet to happen, and the impairment loss is provided. If there is objective evidence that the value of financial assets is recovered, and objectively it is related to an event occurring after the impairment losses, then the previously recognised impairment loss is reversed through current profit and loss.

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

7. *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset by each other. However, if the following conditions are met, the net amount offset by each other is listed in the balance sheet:

(1) Sinomach Finance has a statutory right to offset the recognised amount, and such legal right is currently enforceable;

(2) Sinomach Finance plans to settle in net amount or to realise the financial assets and liquidate the financial liabilities at the same time.

8. *Differentiation and the relevant treatment of financial liabilities and equity instruments*

In accordance with the provisions of the financial instruments standards, the financial instruments or its components issued by Sinomach Finance are classified into financial liabilities or equity instruments on the basis of the contractual arrangements of preferred shares, perpetual bonds and other financial instruments and its economic nature and not only its legal form, together with the definition of financial liabilities and equity instruments on initial recognition:

(1) Classify the financial instruments issued as financial liabilities when one of the following conditions is satisfied:

1) The contractual obligation to pay cash or deliver other financial assets to other parties;

2) The contractual obligation to exchange financial assets or financial liabilities with other parties under potentially unfavourable conditions;

3) The non-derivative instrument contract which must or may be settled through the enterprise's own equity instrument and based on which the enterprise will deliver a variable quantity of its own equity instruments;

4) The derivative instrument contract which must or may be settled through the enterprise's own equity instrument, except for the derivative instrument contract based on which the enterprise exchange fixed amount of its own equity instruments for fixed amount cash or other financial assets.

(2) Classify the financial instruments issued as equity instruments when all of the following conditions are satisfied:

1) The financial instruments have no contractual obligation to pay in cash or other financial assets to other parties nor to exchange financial assets or financial liabilities under potential adverse condition with other parties;

2) If the financial instrument will or may be settled in the entity's own equity instruments, it is a non-derivative instrument that includes no contractual obligations to deliver a variable number of its own equity instruments; or a derivative that will be settled only by enterprises exchanging a fixed amount of cash or other financial asset for a fixed number of its own equity instruments.

(3) Classification between financial liabilities and equity instruments

If Sinomach Finance cannot unconditionally avoid the performance of a contractual obligation by paying cash or delivering other financial assets, the contractual obligation meets the definition of financial liabilities. Where a financial instrument must or may be settled with Sinomach Finance's own equity instruments, if it is as a substitute for cash or other financial assets, then it is a financial liability. If it is for the purpose of enabling the holder of the instrument to be entitled to the remaining interest in the assets of the issuer after deducting all of its liabilities, then it is an equity instrument.

(4) Accounting treatment

Regarding financial instruments classified as equity instruments, their interest expense or dividend payout should be used for enterprise profit distribution and their repurchase and cancellation should be taken as equity change, while fees, commissions and other transaction fees are deducted from equity;

Regarding financial instruments classified as financial liabilities, their interest expense or dividend payout should be taken as borrowing cost and the gains or losses resulting from their repurchase or redemption should be stated as current profit and loss, while fees, commissions and other transaction fees are stated in the initial measurement amount of the issued instruments.

9. General risk reserves

Sinomach Finance's general risk reserve refers to the reserve that set aside from the net profit for the partial offset of unidentified possible losses by adopting the principle of dynamic provision and employing the standard method to calculate the estimated value of potential risks of risk assets, and deducting the provision for asset impairment that has been accrued. Sinomach Finance shall set aside the general reserves from net profit at the rate of not less than 1.5% of the year-end balance of credit assets, deducting the portion that has been included in the asset impairment reserves.

10. Transfer of financial assets with repurchase conditions

(1) Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the balance sheet. The cost (including interests) of purchasing such assets is presented under "financial assets held under resale agreements" in the balance sheet. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

(2) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at the agreed price on a specific future date are not derecognised in the balance sheet. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the balance sheet. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

(VIII) Financial Instruments (applicable after 1 January 2021)

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

1. Classification, recognition and measurement of financial assets

Sinomach Finance classifies financial assets into the following three categories based on the characteristics of business model of the financial assets under management and the contractual cash flow of financial assets management:

(i) Financial assets measured at amortised cost;

(ii) Financial assets measured at fair value and its changes are accounted for in other comprehensive income; and

(iii) Financial assets measured at fair value and its changes are accounted for in profit and loss in the current period.

Financial assets are measured at fair value at the time of initial recognition, but for accounts receivable or notes receivable that result from the sale of goods or the provision of services which do not have significant financing factor or do not take into account the financing factor for no more than one year, the initial measurement shall be made at the transaction price.

For financial assets measured at fair value that are accounted in profit and loss in the current period, the relevant transaction costs are directly accounted for in profit and loss, and the relevant transaction costs of other types of financial assets are accounted for in the initially recognised amount.

The subsequent measurement of financial assets depends on their classification. If and only if Sinomach Finance changes the business model of managing financial assets, all the affected related financial assets will be reclassified.

(1) Financial assets classified as measured at amortised cost

The contract terms of financial assets stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount, and the business mode of managing the financial assets is to collect the contract cash flow, then Sinomach Finance classifies the financial assets into financial assets measured at amortised cost. Sinomach Finance classified financial assets as financial assets classified as measured at amortised cost include monetary capital, lendings to banks and other financial institutions, buying back the sale of financial assets, loans and advances to customers, other receivables, debt investment, long-term receivables, and others.

Sinomach Finance adopts the effective interest rate method to recognise the interest income of such financial assets, and subsequent measurement are based on the amortised cost. The gains or losses from impairment or derecognition or modification are accounted for in the current profit and loss. Except for the following situations, Sinomach Finance calculates and determines the interest income based on the book balance of financial assets multiplied by the actual interest rate:

(i) For the financial assets that have credit impairment when purchased or originated, Sinomach Finance shall calculate and determine the interest income based on the amortised cost of the financial assets and the actual interest rate adjusted by credit as the initial recognition; and

(ii) For the financial assets that have no credit impairment when purchased or originated but have credit impairment in the subsequent period, Sinomach Finance will calculate and determine the interest income based on the amortised cost and actual interest rate of the financial assets in the subsequent period. If the financial instrument no longer has credit impairment due to the improvement of its credit risk in the subsequent period, Sinomach Finance will calculate and determine the interest income by multiplying the actual interest rate by the book balance of the financial asset.

(2) Financial assets classified as those measured at fair value and its changes are accounted for in other comprehensive income

The contract terms of financial assets stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount, and the business mode of managing the financial assets is to receive the contract cash flow and sell the financial assets, then Sinomach Finance classifies the financial assets as financial assets classified as those measured at fair value with changes and its changes are accounted for in other comprehensive income.

Sinomach Finance adopts the effective interest rate method to recognise the interest income of such financial assets. Except for interest income, impairment loss and exchange difference that are accounted for in profit and loss in current period, other changes in fair value are accounted for in other comprehensive income. When the financial asset is derecognised, the accumulated gains or losses previously accounted for in other comprehensive income are transferred out and accounted for in the current profit and loss.

Notes receivable and accounts receivable measured at fair value with changes accounted for in other comprehensive income are presented as receivables financing, and other financial assets are presented as other debt investment. Other debt investment due within one year from the balance sheet date is presented as non-current assets due within one year, and other debt investment originally due within one year is presented as other current assets.

(3) Financial assets designated to be measured at fair value and its changes are accounted for in other comprehensive income

At initial recognition, Sinomach Finance can irrevocably designate non tradable equity instrument investment as a financial asset designated to be measured at fair value and its changes are accounted for in other comprehensive income.

Changes in the fair value of this kind of financial assets are accounted for in other comprehensive income, and no provision for impairment is required. When the financial asset is derecognised, the accumulated gains or losses previously accounted for in other comprehensive income are transferred out and are accounted in retained earnings. During the period when Sinomach Finance holds the equity instrument investment and when Sinomach Finance's right to receive dividends has been established, the economic benefits related to dividends are likely to flow into Sinomach Finance, and the amount of dividends can be reliably measured. The dividend income shall be recognised and accounted for in profit and loss in current period. Sinomach Finance's investment in such financial assets are presented in other equity instruments.

(4) Financial assets classified as measured at fair value and its changes are accounted for in profit and loss in current period

An equity instrument investment that meets one of the following conditions is a financial asset measured at fair value and its changes are accounted for in profit and loss in current period: (i) The purpose of acquiring the financial assets is mainly to sell them in the short term; (ii) At the time of initial recognition, it is part of the identifiable financial asset portfolio under centralised management, and there is objective evidence that the enterprise recently adopts a short-term profit model; and (iii) it is a derivative instrument (excluding derivatives that meet the definition of financial guarantee contract and are designated as effective hedging instruments).

Financial assets that do not meet the conditions of being classified as financial assets measured at amortised cost or fair value and its changes are accounted for in other comprehensive income, or are not designated as financial assets measured at fair value and its changes are accounted for in other comprehensive income are classified as financial assets measured at fair value and its changes are accounted for in profit and loss in current period.

Sinomach Finance adopts fair value for subsequent measurement of such financial assets, and the gains or losses from changes in fair value and dividends and interest income related to such financial assets are accounted for in profit and loss in current period.

Sinomach Finance presents such financial assets in trading financial assets and other non-current financial assets based on their liquidity.

(5) Financial assets designated to be measured at fair value and its changes are accounted for in profit and loss in current period

At initial recognition, in order to eliminate or significantly reduce accounting mismatch, Sinomach Finance can irrevocably designate financial assets as financial assets designated to be measured at fair value and its changes are accounted for in profit and loss in current period.

If the mixed contract includes one or more embedded derivatives and its main contract does not belong to the above financial assets, Sinomach Finance can designate it as a financial assets designated to be measured at fair value and its changes are accounted for in profit and loss in current period. Except for:

(i) Embedded derivatives that will not significantly change the cash flow of mixed contracts; and

(ii) When determining whether a similar mixed contract needs to be split for the first time, the contract need not be split if the embedded derivatives can be identified. If the prepayment right of the embedded loan allows the holder to prepay the loan in an amount close to the amortised cost, the prepayment right does not need to be split.

Sinomach Finance adopts fair value for subsequent measurement of such financial assets, and the gains or losses from changes in fair value and dividends and interest income related to such financial assets are accounted for in profit and loss in current period.

Sinomach Finance presents such financial assets in trading financial assets and other non-current financial assets based on their liquidity.

2. Classification, recognition and measurement of financial liabilities

Sinomach Finance classifies the financial instrument or its components as financial liabilities or equity instruments at the initial recognition based on the contract terms of the issued financial instruments and the economic substance reflected, rather than in legal form only, in combination with the definition of financial liabilities and equity instruments. Financial liabilities are classified as financial liabilities measured at fair value and its changes are accounted for in profit and loss in current period, other financial liabilities, and derivatives designated as effective hedging instruments.

Financial liabilities are measured at fair value at initial recognition. For financial liabilities measured at fair value and its changes are accounted for in profit and loss in current period, relevant transaction costs are directly accounted for in current profit and loss. For other types of financial liabilities, relevant transaction costs are accounted for in the initially recognised amount.

Subsequent measurement of financial liabilities depends on their classification:

(1) Financial liabilities measured at fair value and its changes are accounted for in profit and loss in current period

Such financial liabilities include trading financial liabilities (including derivatives belonging to financial liabilities) and financial liabilities designated to be measured at fair value at the time of initial recognition and its changes are accounted for in profit and loss in current period.

If one of the following conditions is met, it belongs to trading financial liabilities:

I. The purpose of undertaking related financial liabilities is mainly to sell or repurchase in the short term.

II. It is part of the identifiable financial instrument portfolio under centralised management, and there is objective evidence that the enterprise recently adopts the short-term profit mode.

III. It is a derivative instrument, excluding derivatives that need the definition of financial guarantee contract and are designated as effective hedging instruments.

Trading financial liabilities (including derivatives belonging to financial liabilities) are subsequently measured at fair value. Except for those related to hedge accounting, all changes in fair value are accounted for in profit and loss in current period.

At initial recognition, in order to provide more relevant accounting information, Sinomach Finance irrevocably designates financial liabilities that meet one of the following conditions as financial liabilities measured at fair value and its changes are accounted for in profit and loss in current period:

(i) Can eliminate or significantly reduce accounting mismatches; and

(ii) According to the enterprise risk management or investment strategy stated in the formal written document, manage and evaluate the financial liabilities portfolio or financial assets and financial liabilities portfolio on the basis of fair value, and report to the key management personnel within the enterprise on this basis.

Sinomach Finance adopts fair value for subsequent measurement of such financial liabilities. Except for the changes in fair value caused by changes in Sinomach Finance's own credit risk, other changes in fair value are accounted for in profit and loss in current period. Unless changes in fair value caused by changes in Sinomach Finance's own credit risk are accounted for in other comprehensive income, which will cause or expand accounting mismatch in profit and loss, Sinomach Finance will account all changes in fair value (including the impact amount of changes in its own credit risk) in profit and loss in current period.

(2) Other financial liabilities

Except for the following items, Sinomach Finance classifies financial liabilities as financial liabilities measured at amortised cost. For such financial liabilities, the effective interest method is adopted, and subsequent measurement is carried out based on amortised cost. Gains or losses arising from derecognition or amortisation are accounted for in profit and loss in current period:

(i) Financial liabilities measured at fair value and its changes are accounted for in profit and loss in current period;

(ii) Financial liabilities formed by transfer of financial assets that do not meet the conditions for derecognition or continue to be involved in the transferred financial assets; and

(iii) Financial guarantee contracts that do not belong to (i) and (ii) above, and loan commitments that do not belong to (i) above with interest rates lower than the market interest rates.

Financial guarantee contract refers to a contract that requires the issuer to pay a specific amount to the contract holder who has suffered losses when a specific debtor fails to pay its debts in accordance with the terms of the original or modified debt instrument when contract due. Financial guarantee contracts that are not designated as financial liabilities measured at fair value and its changes are accounted for in profit and loss in current period shall be measured after initial recognition based on the higher of the amount of loss reserves and the balance of initially recognised amount after deducting the accumulated amortisation within the guarantee period.

3. Derecognition of financial assets and financial liabilities

(1) When a financial asset satisfies one of the following conditions, it shall be derecognised, i.e., it shall be written off from the accounts and balance sheets:

(i) Termination of the contractual right to collect cash flow from the financial asset; and

(ii) The financial assets have been transferred, meanwhile, the transfer satisfies the requirements of financial assets termination.

(2) Conditions for the derecognition of financial liabilities

If the current obligation of the financial liability (or part of it) has been discharged, the financial liability (or part of the financial liability) is derecognised.

If Sinomach Finance and the lender sign an agreement to replace the original financial liabilities with new financial liabilities, and the new financial liabilities are substantially different from the original financial liabilities or a substantial change is made to the contractual terms of the original financial liability (or part thereof), the original financial liabilities will be terminated and new financial liabilities will be confirmed, the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is accounted for in profit or loss in current period.

If Sinomach Finance repurchases part of the financial liabilities, the book value of the financial liabilities as a whole is allocated based on the proportion of the fair value of the continuing recognition portion and the derecognised portion on the repurchase date. The difference between the book value assigned to the derecognised portion and the consideration paid (including the transferred non-cash assets or liabilities assumed) shall be included in the current profit and loss.

4. Basis for recognition and measurement of financial assets transfer

When the financial assets transfer occurs, Sinomach Finance assesses the extent of the risks and rewards of retaining the ownership of financial assets, and handles the following situations:

(i) If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognised and the rights and obligations arising or retained in the transfer are separately recognised as assets or liabilities;

(ii) If almost all the risks and rewards of ownership of financial assets are retained, the financial assets will continue to be recognised; and

(iii) If there is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (i.e, other than paragraphs (i) and (ii)), then according to whether or not they retain control over financial assets, the following situations are dealt with respectively:

a. If the financial assets are not retained, the financial assets are derecognised and the rights and obligations arising or retained in the transfer are separately recognised as assets or liabilities; and

b. If the control of the financial assets is retained, the relevant financial assets shall continue to be recognised according to the extent to which they continue to be involved in the transferred financial assets, and the related liabilities are recognised accordingly. The extent of continuing involvement in the transferred financial assets refers to the extent to which the group assumes the risk or reward of changes in the value of the transferred financial assets.

When judging whether the transfer of financial assets meets the above conditions for derecognition of financial assets, the principle of substance over form is adopted. The company divides the transfer of financial assets into the overall transfer of financial assets and the partial transfer of financial assets.

(a) If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following two amounts is included in the current profit and loss:

I. The book value of the transferred financial assets on the date of derecognition.

II. The consideration received for the transfer of financial assets is the sum of the amount corresponding to the derecognition in the cumulative amount of changes in fair value that was originally recognised directly in other comprehensive income. (The financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income.)

(b) If part of the financial assets is transferred and the transferred part as a whole meets the conditions for derecognition, the book value of the financial assets as a whole will be transferred between the derecognised part and the continuation confirmation part in this case. The retained service assets shall be deemed to be part of the continuing recognition of the financial assets. They shall be apportioned according to their respective fair values on the transfer date, and the difference between the following two amounts shall be included in the current profit and loss:

I. The book value of the derecognised part on the date of derecognition.

II. The consideration received by the derecognised part is the sum of the amount corresponding to the derecognised part of the cumulative amount of changes in fair value previously included in other comprehensive income (the financial assets involved in the transfer are financial assets measured at fair value through other comprehensive income).

If the transfer of financial assets does not meet the conditions for derecognition, the financial assets are continually recognised and the consideration received is recognised as a financial liability.

5. The method of determining the fair value of financial assets and financial liabilities

Financial assets or financial liabilities in an active market are determined by quoted prices in active markets, unless the financial asset has a restricted period for the asset itself. For the financial assets limited to sale for the asset itself, the compensation amount required by the market participants for bearing the risk that the financial assets cannot be sold on the open market within the specified period shall be deducted from the quotation of the active market. Quoted prices in active markets include easy and regularly available from exchanges, dealers, brokers, industry groups, pricing agencies or regulatory agencies. Quotes for an asset and liability can be considered fair trade transactions which frequently and actually occurred on the basis of fair trade.

Financial assets initially acquired or derived or financial liabilities assumed are based on market transaction prices as the basis for determining their fair value.

If there is no active market for the financial assets or financial liabilities, valuation techniques are used to determine their fair value. At the time of valuation, the group adopts valuation techniques that are applicable in the current circumstances with sufficient supporting data and other information. The enter values selected shall be consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities and the use of the relevant observable input values shall be prioritised. Unobservable input values are used where the relevant observable input values are not available or are not practicable.

6. Provision for impairment of financial instruments

Based on the expected credit losses, Sinomach Finance conducts impairment accounting treatment in respect of the financial assets measured at amortised cost, monetary funds, lending to banks and other financial institutions, buying back for resale financial assets, loans and advances to customers, other receivables, debt investment, long-term receivables and financial guarantee contracts and recognises as loss provision.

Expected credit losses represent the weighted average of credit losses of financial instruments weighted by the risk of default. Credit losses represent the difference between all contractual cash flow receivables by Sinomach Finance under contract and all cash flows expected to be received and discounted at original effective interest rate, i.e. the present value of total cash shortfall. For the financial assets purchased or generated by Sinomach Finance with credit impairment, they shall be discounted according to the actual interest rate of the financial assets adjusted by credit.

For receivables, contract assets and lease receivables arising from transactions regulated by revenue standard, Sinomach Finance applies a simplified measurement method to measure the loss provision at an amount equivalent to the expected credit loss over the life of the transaction.

For purchased or generated financial assets that have suffered credit impairment, the cumulative change in expected credit losses over the entire duration of the initial recognition is recognised as provision for loss on the balance sheet date. On each balance sheet date, the amount of the change in expected credit losses over the entire life period is recognised in profit or loss as an impairment loss or gain. Even if the expected credit loss for the entire life period determined on the balance sheet date is less than the expected credit loss reflected in the estimated cash flow at the initial recognition, the expected change in credit loss is recognised as an impairment gain.

In addition to the above-mentioned simplified measurement methods and other financial assets purchased or originated that suffered from credit impairment, on each balance sheet date, the group assesses whether the credit risk of relevant financial instruments has increased significantly since initial recognition, and measure their provision for loss and recognise expected credit losses and their changes according to the following circumstances:

(i) If the credit risk of the financial instrument has not increased significantly since the initial recognition, it is in the first stage, and the provision for loss is measured at the amount equivalent to the expected credit loss of the financial instrument in the next 12 months, and the interest income is calculated according to the book balance and the actual interest rate;

(ii) If the credit risk of the financial instrument has increased significantly since the initial recognition, however, if credit impairment has not occurred, it is in the second stage, and the loss provision is measured at the amount equivalent to the expected credit loss throughout the useful time of the financial instrument, and the interest income is calculated according to the book balance and the actual interest rate; and

(iii) If the financial instrument has suffered credit impairment since its initial recognition, it is in the third stage. The company measures its loss provisions at an amount equivalent to the expected credit loss throughout the useful life of the financial instrument, and the interest income is calculated at amortised cost and actual interest rate.

The increase or reversal of the credit loss provision for financial instruments is included in the current profit and loss as an impairment loss or gain. Except for financial assets that are classified as measured at fair value through other comprehensive income, credit losses are provided to offset the book balance of financial assets. For financial assets classified as measured at fair value though other comprehensive income, Sinomach Finance recognises its credit loss provisions in other comprehensive income and does not reduce the book value of the financial asset listed in the balance sheet.

In the previous accounting period, Sinomach Finance has measured the loss provisions according to the amount of expected credit losses throughout the useful life of the financial instrument, but on the balance sheet date of the current period, for the financial instrument no longer has a significant increase in credit risk since initial recognition, Sinomach Finance measures the loss provisions of the financial instrument at the current balance sheet date according to the amount of expected credit losses in the next 12 months, and the resulting reversal amount of the loss provisions is included in the current profit and loss as an impairment gain.

(a) Credit risk increased significantly

Sinomach Finance uses the available, reasonable and evidence-based forward-looking information to compare the default risk of the financial instruments on the balance sheet date and the default risk of the financial instruments on the initial recognition date to determine whether the credit risk of the financial instrument has significantly increased since initial recognition. For financial guarantee contracts, when Sinomach Finance applies provisions of impairment of financial instrument, the day when Sinomach Finance becomes the party making the irrevocable commitment is used as the initial recognition date.

Sinomach Finance will consider the following factors when assessing whether the credit risk has increased significantly:

(i) Whether the actual or expected operating results of the debtor have changed significantly;

(ii) Whether the debtor's regulatory, economic or technological environment has undergone significant adverse changes;

(iii) Whether there has been a significant change in the value of the collateral used as debt collateral or the guarantee provided by a third party or the quality of credit enhancement, and these changes are expected to reduce the economic motivation of the debtor to repay the loan within the time limit specified in the contract or affect the probability of default;

(iv) Whether the debtor's expected performance and repayment behavior have changed significantly; and

(v) Whether Sinomach Finance's credit management methods for financial instruments have changed, etc.

On balance sheet date, if Sinomach Finance determines that a financial instrument has a relatively low credit risk, Sinomach Finance assumes that the credit risk of the financial instrument has not increased significantly since initial recognition. If the default risk of the financial instruments is low, the borrower has a strong ability to fulfil its contractual cash flow obligations in the short term, and even if there are adverse changes in the economic situation and operating environment in a longer period of time, it may not necessarily reduce the borrower's ability to fulfil the contractual cash flow obligation, the financial instrument is considered to have lower credit risk.

(b) The financial assets with credit impairment

When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a financial asset that has suffered a credit impairment. Evidence that credit impairment has occurred in financial assets includes the following observable information:

(i) The issuer or the debtor has significant financial difficulties;

(ii) The debtor breaches the contract, such as repayment of interest or principal default or overdue;

(iii) The creditor gives the debtor no concessions in any other circumstances for economic or contractual considerations relating to the financial difficulties of the debtor;

(iv) The debtor is likely to go bankrupt or carry out other financial restructurings;

(v) The financial difficulties of the issuer or the debtor cause the active market of the financial asset to disappear; and

(vi) Purchase or source a financial asset at a substantial discount, which reflects the fact that credit losses have occurred.

The credit impairment of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable events.

(c) Determination of expected credit losses

Sinomach Finance assesses the expected credit losses based on individual and collective basis. The company considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions when assessing expected credit losses.

Sinomach Finance divides financial instruments into different portfolio based on common credit risk characteristics. The common credit risk characteristics adopted by Sinomach Finance include types of financial instruments, credit risk ratings and the debtor's industry. For the individual evaluation criteria of the related financial instruments and the characteristics of the credit risk of portfolio, please refer to the accounting policies of the relevant financial instruments.

Sinomach Finance determines the expected credit losses of relevant financial instruments according to the following methods:

(i) For financial assets, the credit loss is the present value of the difference between the contractual cash flow that Sinomach Finance should receive and the expected cash flow;

(ii) For lease receivables, credit loss is the present value of difference between the contractual cash flows and the cash flows that Sinomach Finance expects to receive;

(iii) For financial guarantee contracts, the credit loss is the present value of the difference between the estimated payment to the contract holder by Sinomach Finance for the credit loss less the expected amount received by Sinomach Finance from the contract holder, debtor or any other party; and

(iv) For a financial asset that is credit-impaired at balance sheet date, but that is not a purchased or originated credit-impaired financial asset, the credit loss is the present value of the difference between the financial asset's book balance and the estimated future cash flow discounted at the original effective interest rate.

Sinomach Finance's method of measuring the expected credit loss of financial instruments reflects the following factors: the unbiased probability weighted average amount determined by evaluating a series of possible results; the time value of currency; the availability of reasonable and evidence-based information on the balance sheet date about past events, current conditions, and future economic conditions without spending unnecessary additional costs or efforts.

(d) Write-off of financial assets

When Sinomach Finance no longer reasonably expects that the contractual cash flow of financial assets can be fully or partially recovered, the book value of the financial asset is directly written off. Such write-off constitutes the derecognition of related financial assets.

7. Offset of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset with each other. However, if the following conditions are met, the net amount offset by each other is listed in the balance sheet:

(i) The group has a statutory right to offset the confirmed amount, and such legal right is currently enforceable; and

(ii) The group plans to settle the net assets or realise the financial assets and liquidate the financial liabilities at the same time.

(IX) Scope and method of provision for impairment of financial instruments (applicable before 1 January 2021)

1. Category of impairment reserves

Sinomach Finance makes provision for impairment of debt and equity assets that bear risks and losses, including provision for impairment of underlying assets. The provision for asset impairment is the provision for the part of the debt and equity assets whose estimated recoverable amount is lower than the book value, and is used to cover specific losses, including the provision for loan losses, provision for bad debts and provision for impairment of long-term investments. The provision ratio and method of the relevant bad debts shall be subject to approval by the board of directors of Sinomach Finance.

2. **Scope of the provision for impairment reserves**

The scope of the provision for impairment are the following assets that Sinomach Finance bears risks and losses: loans (including mortgages, pledges, guarantees and other loans), discounts, guaranteed advances, equity investments and debt investments (excluding securities investments whose period-end value is determined at the lower of cost and market value and investments in the purchase of the principal and interest of treasury bonds), borrowing (lending), inter-bank deposits, interest receivable (excluding loans and inter-bank interest receivable), dividends receivable, lease payments receivable, other receivables, etc.. For assets that Sinomach Finance bears no risks (such as: entrusted loans, etc.) shall be individually tested for impairment, and the reasons for and methods of separate provision for bad debts shall be disclosed. If there are objective evidences indicate that they are impaired, the impairment loss shall be recognised and included in current profit and loss.

3. Provision for and accounting method of Impairment Reserve

Sinomach Finance reviews debt and equity assets on a quarterly basis. In accordance with the principle of prudence, based on the results of the risk-based classification of above-mentioned assets (five-level classification), taking into account of the actual situation, such as comprehensive evaluation of the borrower's repayment ability, financial condition, adequacy of mortgage guarantee, etc., Sinomach Finance fully evaluates possible losses, and analyses and determines the total amount of provision for asset impairment that shall be made for debt and equity assets. The provision for impairment of assets is accounted for by the allowance method, and the provision for impairment is included in current profit and loss. When the quality of the assets for which impairment provision has been made improves, it shall be reversed to the extent of the provision for impairment and included in current profit and loss.

4. **Risk classification of loans and provisions for loan loss**

Pursuant to the Guidelines for the Risk-based Classification of Loan*（《貸款風險分類指導原則》)(Yinfa [2001] No. 416)*（銀發[2001]416號檔） by The People's Bank of China, the scope of provision for loss of loan of Sinomach Finance is those loans that bear risks and losses (including mortgages, pledges, guarantees and other loans), discounts, credit advances (including bank acceptance bill advances, letter of credit advances, guarantee advances, etc.). Sinomach Finance evaluates whether there is any impairment loss on loans on a quarterly basis based on objective evidence, and classifies loan assets into five risk categories, namely normal, special mention, substandard, doubtful and loss. Among them, loans classified as normal and special mention are qualified loans; loans classified as substandard, doubtful and loss are non-performing loans.

Category of assets	**General Criteria for Risk-based Classification of Loan**
Pass	The borrower is able to perform the contract, and there is no sufficient reason to cast doubt that the loan principal and interest cannot be repaid in full on a timely basis;
Special mention	The borrower is currently able to service its loans, although repayment may be adversely affected by specific factors;
Substandard	The borrower's ability to service its loans is in question as it cannot rely entirely on normal business revenues to repay the principal and interest in full, and losses may ensue even when collateral or guarantees are invoked;
Doubtful	The borrower cannot repay the principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked;
Loss	Only a minimal portion or no principal and interest could be recovered after all possible measures have been taken and all legal remedies have been exhausted.

Sinomach Finance classifies loans with reference to the above general classification criteria and other considerations such as number of days overdue, and makes provision for loan losses according to the degree of loan losses on the basis of classification. The ratios of provision for relevant loan loss are as follows:

Category of assets	**Ratio of provision for the losses**
Pass	2.5%
Special mention	5%
Substandard	25%
Doubtful	50%
Loss	100%

Note: Based on the consideration of prudence, for loans classified as normal based on five-level classification evaluation result that is normal, but the borrowing enterprise has suffered operating losses, the provision ratio is 0.5% higher than that of normal loans.

5. Risk-based classification of receivables and provision for bad debt

For receivables other than interest receivables, Sinomach Finance takes their ages as important reference standard for risk-based classification, taking into account the factors such as the actual financial conditions, repayment ability and repayment willingness of debtors, reasons thereof and actual use:

Category of assets	**Criteria of classification**
Pass	Account age is within 3 months
Special mention	Account age is from 3 to 6 months
Substandard	Account age is 6 months to 1 year
Doubtful	Account age is 1 to 2 years
Loss	Account age is over 2 years

Sinomach Finance determines the risk-based classification of receivables according to the individual identification results based on comprehensive factors, and makes provision for bad debts at the following ratios.

Category of assets	**Ratio of provision for the receivables**
Pass	0%
Special mention	2%
Substandard	25%
Doubtful	50%
Loss	100%

Sinomach Finance does not make any bad debts provision for the following amounts:

(1) Receivables with related parties;

(2) Unexpired forward receivables;

(3) Personal loans of employees; security deposits; reserve fund.

(X) Scope and method of provision for impairment of financial instruments (applicable on 1 January 2021 and after)

1. Scope of the provision for impairment of financial instruments

The scope of provision for impairment are the following assets that Sinomach Finance bears risks and losses: loans (including mortgages, pledges, guarantees and other loans), discounts, guaranteed advances, debt investments, borrowing (lending), inter-bank deposits, interest receivable (excluding loans and inter-bank interest receivable), dividends receivable, lease payments receivable, other receivables, etc.. Assets that Sinomach Finance bears no risks shall be individually tested for impairment, and the reasons for and methods of separate provision for bad debts shall be disclosed. If there are objective evidences indicate that they are impaired, the impairment loss shall be recognised and included in current profit and loss.

2. Provision for and accounting method of impairment of financial instruments

Sinomach Finance reviews financial instruments on a quarterly basis. In accordance with the principle of prudence and based on the results of the risk-based classification of above-mentioned assets (five-level classification), taking into account of the actual situation, such as comprehensive evaluation of the borrower's repayment ability, financial condition, adequacy of mortgage guarantee, etc., Sinomach Finance fully evaluates possible losses, and analyses and determines the total amount of provision for asset impairment that shall be made for financial instruments. The provision for impairment of assets is accounted for by the allowance method, and the provision for impairment is included in current profit and loss. When the quality of the assets for which impairment provision has been made improves, it shall be reversed to the extent of the provision for impairment and included in current profit and loss.

According to the new financial instrument standards, if Sinomach Finance is unable to obtain sufficient evidence of a significant increase in credit risk at a reasonable cost at the individual instrument level, it can assess changes in credit risk on a collective basis based on common risk characteristics. Sinomach Finance divides the financial instruments which are subject to expected credit losses into different groups, which are mainly divided into bonds, credit and financial guarantees.

According to the classification method of financial instruments risk assets, Sinomach Finance classifies financial instruments into three types: low credit risk, external rating classification and five-level classification.

Item	**Classification of risk asset**	**Expected credit loss rate**
I. Bonds		
Fixed term deposit of commercial banks (AAA) Interbank certificate of deposit of commercial banks (AAA) Bonds – Treasury Bonds Bonds-Bonds of policy banks	Low credit risk	Estimate the probability of default, the loss given default and calculate the expected loss rate with reference to experience of historical credit loss, the current situation and its forecast of the future economic condition

Item	Classification of risk asset	Expected credit loss rate
Fixed term deposit of commercial banks (Non-AAA) Inter-bank certificate of deposit of commercial banks (Non-AAA) Bonds – Bonds of commercial banks Bonds – Non-bank financial bonds Bonds – Corporate Bonds Bonds – Short-term financing bills of non-financial enterprises Bonds – Medium term notes Bonds – Perpetual bonds	External rating classification	According to the principle of "debt rating is prioritised followed by subject rating", estimate the probability of default and loss given default and calculate the expected credit loss rate based on the rating results
II. Credit		
Proprietary loan Discount Finance lease Buyer's credit Lending Financial assets held under resale agreements	Five-level classification	Estimate the probability of default and loss given default and calculate the expected credit loss rate based on the results of the five-level classification

Item	Classification of risk asset	Expected credit loss rate
III. Financial guarantees		
Financial bill acceptance Non-financing letter of guarantee Financing letter of guarantee Back-to-back letter of credit Issuing bank acceptance bills	Five-level classification	According to the five-level classification, first convert the credit coefficients, and then estimate the probability of default, the loss given default and calculate the expected credit loss rate based on the conversion results

3. Risk-based classification of receivables and provision for bad debt

For receivables other than interest receivables, Sinomach Finance takes their ages as an important reference standard for risk-based classification, taking into account factors such as the actual financial conditions, repayment ability and repayment willingness of debtors, reasons thereof and actual use:

Category of assets	Criteria of classification
Pass	Account age is within 3 months
Special mention	Account age is 3 to 6 months
Substandard	Account age is 6 months to 1 year
Doubtful	Account age is 1 to 2 years
Loss	Account age is over 2 years

Sinomach Finance determines the risk-based classification of receivables according to the individual identification results based on comprehensive factors, and makes provision for bad debt.

Sinomach Finance does not make any bad debts provision for the following amounts:

(1) Receivables with related parties;

(2) Unexpired forward receivables;

(3) Personal loans of employees, security deposit and reserve fund.

(XI) Hedging Instruments

On the basis of hedging relationship, Sinomach Finance classifies hedging into fair value hedge, cash flow hedge and hedges of net investment in foreign operation.

1. For hedging instruments satisfying all the following conditions will apply hedging accounting

(1) At the inception of a hedge relationship, Sinomach Finance formally designates the hedge relationship (i.e. the relationship between the hedging instrument and the hedged item) and documents the hedge relationship, the risk management objective and its strategy for undertaking the hedge;

(2) Such hedges are expected to be highly effective and comply with the risk management strategy set by Sinomach Finance for the hedge relationship at the inception;

(3) For cash flow hedges for expected transactions, such expected transactions will probably take place and must expose Sinomach Finance to risks of movement in cash flows that will eventually affect the profit or loss;

(4) The hedge effectiveness can be reliably measured;

(5) The hedge effectiveness is evaluated on an ongoing basis, ensuring the hedge is highly effective in the period in which the hedge relationship is designated.

When hedging also satisfies the following conditions, Sinomach Finance considers it to be highly effective: (1) the hedge is expected to be highly effective at offsetting changes in fair value or cash flows arising from the hedged risk during the specified period of the hedge, at the inception of the hedge and thereafter; (2) the actual offset result for this hedge is in the range of 80% to 125%.

2. *Fair Value Hedge Accounting*

(1) Basic Requirements

1) If the hedging instrument is a derivative, the gain or loss arising from the change in fair value is included in current profit and loss; if the hedging instrument is a non-derivative instrument, the gain or loss arising from the exchange rate change in the book value is included in current profit and loss.

2) The gain or loss of the hedged item arising from the risk hedged is included in current profit and loss, and the book value of the hedged item is adjusted at the same time. If the hedged items are inventories that are subsequently measured at the lower of cost and net realisable value, financial assets that are subsequently measured at amortised cost or available-for-sale financial assets, they are also dealt with in accordance with these provisions.

(2) Method for gains or losses on hedged projects

1) For the fair value hedge of interest rate risk of a part of a financial asset or financial liability portfolio, Sinomach Finance can deal with the gain or loss arising from the hedged item in the following ways:

① The hedged item classified as asset during the repricing period is shown as a separate item under the asset item in the balance sheet, and is written off upon derecognition;

② The hedged item classified as liability during the repricing period is shown as a separate item under the liability item in the balance sheet, and is written off upon derecognition.

2) If the hedged item is a financial instrument measured at amortised cost, the adjustment made to the book value of the hedged item shall be amortised from the adjustment date to the maturity date according to the effective interest rate recalculated on the adjustment date and included in current profit and loss.

For the fair value hedge of the interest rate risk portfolio, the relevant items listed separately in balance sheet are also amortised according to the effective interest rate recalculated on the adjustment date over the period from the adjustment date to the end date of the relevant repricing period. If it is impractical to use the effective interest rate method for amortisation, the straight-line method can be used for amortisation. The adjusted amount is amortised before the maturity date of the financial instrument. For the fair value hedge of the interest rate risk portfolio, the amortisation is completed before the end of the relevant repricing period.

3) If the hedged item is an unrecognised definite commitment, the cumulative amount of the fair value change caused by the hedged risk of the definite commitment is recognised as an asset or liability, and the relevant gain or loss is recorded in current profit and loss.

4) In the fair value hedge of a firm commitment to purchase an asset or assume a liability, the cumulative amount of the fair value change (recognised as an asset or liability) caused by the firm commitment due to the hedged risk is adjusted to the initial recognition amount of the assets or liability obtained by fulfilling the firm commitment.

(3) Conditions for discontinuing the application of fair value hedge accounting

The application of fair value hedge accounting is terminated when the hedge meets one of the following conditions:

1) The hedging instrument has expired, been sold, terminated or exercised.

2) When a hedging instrument is rolled over or replaced by another hedging instrument, the rollover or replacement is an integral part of the hedging strategy stated in the official written document of Sinomach Finance, and will not be treated as expired or contract termination.

3) The hedge no longer meets the conditions for applying the hedge accounting.

4) Sinomach Finance revoked the designation of the hedging relationship.

3. Cash flow hedges accounting

(1) Basic requirement

1) The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, and reflected in a separate item. The amount of the effective portion should be measured as the lower of the following two:

① the cumulative gain or loss on the hedging instrument from inception of the hedge;

② the present value of the cumulative change in the expected future cash flows of the hedged item from inception of the hedge.

2) Any gain or loss on the hedging instrument (other than the gain or loss recognised as owner's interest) is regarded as ineffective, and shall be recognised in current profit or loss.

3) In the formal written document of the risk management strategy, it is stated that when evaluating the effectiveness of the hedge, a certain part of the gain or loss of the hedging instrument or the impact of the relevant cash flow will be excluded, and the excluded part of the gain or loss shall apply "ASBEs No. 22 – Recognition and Measurement of Financial Instruments".

(2) Subsequent treatment of gains or losses on hedging instruments

1) If the hedged item is an expected transaction, and the expected transaction causes Sinomach Finance to recognise a financial asset or a financial liability subsequently, the relevant gain or loss originally recognised as owner's equity will be transferred at the same period when the financial asset or financial liability affect Sinomach Finance's profits and losses, and included in current profits and losses. However, when Sinomach Finance expects that all or part of the net loss directly recognised in the owner's equity cannot be recovered in future accounting period, the unrecoverable part will be transferred out and included in current profit and loss.

2) If the hedged item is an expected transaction, and the expected transaction causes Sinomach Finance to recognise a non-financial asset or a non-financial liability subsequently, the relevant gain or loss originally recognised as owner's equity will be transferred at the same period when the non-financial asset or non-financial liability affect Sinomach Finance's profits and losses, and included in current profits and losses. However, when Sinomach Finance expects that all or part of the net loss directly recognised in the owner's equity cannot be recovered in future accounting period, the unrecoverable part will be transferred out and included in current profit and loss.

3) In the cases other than those mentioned in 1) or 2) above, the gains or losses of hedging instruments that were originally included in the owner's equity are transferred out in the same period when the hedged expected transaction affects the profit and loss and included in current profit and loss.

(3) Conditions for discontinuing the use of cash flow hedge accounting

1) When the hedging instrument expires, sold, the contract is terminated or is exercised, the gain or loss of the hedging instrument that is directly included in the owner's equity during the effective period of the hedging will not be transferred out until the expected transaction actually occurs, then will be dealt with according to the relevant regulations.

2) When the hedge no longer meets the conditions for applying the hedge accounting method specified in the hedging standards, the gain or loss of the hedging instrument that is directly included in the owner's equity during the effective period of the hedging will not be transferred out until the expected transaction actually occurs, then it will be dealt with according to the relevant regulations.

3) When the anticipated transaction is not expected to occur, the gain or loss of the hedging instrument that is directly included in the owner's equity during the effective period of the hedging will be transferred out, and included in current profit and loss.

4) When Sinomach Finance revokes the designation of the hedging relationship, for the expected transaction hedging, the gain or loss of the hedging instrument directly included in the owner's equity during the effective period of the hedging will not be transferred out until the expected transaction actually occurs or is estimated not occurs. If the expected transaction actually occurs, it shall be dealt with in accordance with the relevant regulations; If the expected transaction is not expected to occur, the gain or loss of the hedging instrument originally included in the owner's equity is transferred out and included in current profit and loss.

4. Hedging of net investment in foreign operations

For hedging of net investment in foreign operations, Sinomach Finance shall handle it in a manner similar to the accounting for cash flow hedges:

(1) The part of the gain or loss formed by the hedging instrument that belongs to the effective hedging is directly recognised as the owner's equity and reflected in a separate item. When disposing of overseas operations, the above-mentioned gains or losses on hedging instruments reflected in a separate item in the owner's equity are transferred out and included in current profit and loss.

(2) The part of the gain or loss formed by the hedging instrument that belongs to the ineffective hedging shall be included in current profit and loss.

(XII) Types and Scope of Loans

1. Basis for classification of short-term loans and medium to long-term loans

Sinomach Finance's loans are classified as short-term loans and medium- and long-term loans according to the term of the loan. Loans with a contractual term of one year or less (including one year) are classified as short-term loans; loans with a contractual term of one to five years (including five years) are classified as medium-term loans; and loans with a contract term of over 5 years (excluding 5 years) are classified as long term loans.

2. Basis for overdue loans

Loans that are unable to be repaid by borrowers upon maturity (including maturity after extension) are classified as overdue loans. Passive advances arising from the maturity of discounted notes and notes acceptors not able to pay on time and there is insufficient deposit in the account of the discounted applicant. Passive advances arising from the maturity of notes accepted by Sinomach Finance and there is insufficient deposit in the account of the accepted applicant, etc. Advances under off-balance sheet business such as guarantees are classified as overdue loans commencing from the overdue date or the date of advance.

3. Basis for classification and accounting treatment of non-accrual loans

Non-accrual loans are loans, overdrafts and advances where the principal or interest of the loan is overdue for 90 days or more. No accrued interest is accrued for non-accrual loans. When an accrual loan is converted to a non-accrual loan, the recorded interest income and interest receivable are offset. When loan repayments are received subsequently, the amount received is first offset against the principal and then, when the principal is fully recovered, any further repayments received are recognised as interest income for the period.

4. Basis of differentiation between self-operating loans and entrusted loans

Self-operating loans are funds legally raised by Sinomach Finance and issue to members of the group with legal person qualifications, the risks and associated economic benefits of which are borne or enjoyed by Sinomach Finance. The loans of Sinomach Finance are recorded at the amount actually issued. Entrusted loans refer to loans that are entrusted to Sinomach Finance as provided customer (as principal) and Sinomach Finance (as trustee) acts as an agent to issue and monitor the usage of loans according to the target object, purpose, amount, term and interest rate determined by the principal and Sinomach Finance will assist in loan collection. The funds provided by the principal are included in the entrusted funds account according to the actual amount received by Sinomach Finance, and the actual amount issued or invested by Sinomach Finance in the entrusted loans account when Sinomach Finance issues the loans according to the principal's discretion. The company only charges a handling fee for the entrusted loan business and does not advance any funds or bear any credit risk. The handling fee charged is recognised according to the conditions for revenue recognition.

(XIII) Discount

Discounting is a way of finance whereby noteholders transfers the right of the notes to Sinomach Finance before maturity in order to obtain funds, and Sinomach Finance pays the balance of the note amount to noteholder at face value of the notes after deducting the discounted interest. The discount is measured at the face value of the discounted instrument and the discounted interest income is recognised according to the holding period.

(XIV) Interbank Lending

Inter-bank borrowing and lending (including inter-bank lending and inter-bank borrowing) is the over-the-counter transaction of Sinomach Finance in the national interbank borrowing market. Sinomach Finance uses online transactions to borrow/lend funds from/to financial institutions that have entered the national interbank borrowing market. The interest rate of the borrowing and lending funds is determined by negotiation between the borrowers/lenders and the market price of the funds.

Sinomach Finance classifies the risk of funds lent (inter-bank debts) on a quarterly basis and make provision for doubtful debts according to the classification results. The classification of funds lent is based on the creditworthiness, repayment ability, willingness to repay, litigation and enforcement of debtors, and the number of days overdue is the main factor for the classification. The classification criteria for inter-bank loans are as follows:

Classification	Classification factors
Normal	The counterparty is able to perform the contract normally.
Concerned	The counterparty is able to perform normally but the ability and willingness to repay are reducing.
Subordinated	The counterparty is unable to perform the contract on time and the number of days overdue is within 90 days; The creditor's right requires restructuring, i.e. where the financial position of the counterparty has deteriorated or is unable to repay and adjustments are made to the terms of the relevant agreement or contract.
Suspicious	The counterparty is unable to perform the contract on time and is overdue for over 90 days but within 180 days.

Loss	The counterparty has deregistered or become bankrupt;
	If the counterparty is still overdue or still unable to pay after restructuring;
	The counterparty is unable to perform the contract on time and is overdue for more than 180 days;
	The counterparty, although not deregistered or insolvent, has ceased to operate and subsists in name only and has no property to enforce.

The policy of provision for bad debts of inter-bank borrowing and lending is implemented with reference to the bad debt policy for loans.

(XV) Long-term Equity Investment

1. Accounting for long-term bond investment

(1) Valuation and income recognition method of long-term bond investment: The balance after deducting taxes, commission fees and other additional expenses from the actual payment, as well as the bond interest that has expired but not received in the actual payment, is recorded as the actual cost, and is calculated accrued interest on an accrual basis. The difference between the actual payment minus the relevant fees and the outstanding bond interest and the value of the bond shall be regarded as the bond premium or discount;

(2) Amortisation method of long-term bond investment premium and discount: Amortise by installments when interest is accrued in each period.

2. Accounting for long-term equity investment

Long-term equity investment valuation and income recognition method: Long-term equity investment includes stock investment and other equity investment. Long-term equity investment shall be recorded according to the price actually paid at the time of investment or the value confirmed by the investment parties, and shall be accounted for by the cost method.

3. No provision for impairment of long-term investments

1. Determination of investment costs

The initial investment cost of the long-term equity investment obtained by cash payment is the actual purchase price. The initial investment cost includes expenses directly related to the acquisition of long-term equity investments, taxes and other necessary expenses.

The initial investment cost of the long-term equity investment obtained by issuing equity securities is the fair value of the issued equity securities. The transaction cost incurred in the issuance or acquisition of equity instruments is deducted from equity if it is directly attributable to equity transactions.

Under the premise that the non-monetary asset exchange has the commercial substance and the fair value of the assets received or surrendered can be reliably measured, the initial investment cost of the long-term equity investment exchanged for non-monetary assets is determined based on the fair value of the assets exchanged and relevant taxes payable, unless there is conclusive evidence that the fair value of the assets transferred is more reliable. For the exchange of non-monetary asset that do not meet the above premise, the initial investment cost of long-term equity investment is the carrying amount of the assets exchanged and the related taxes and fees payable.

The initial investment cost of long-term equity investments acquired through debt restructuring is determined based on fair value.

2. Subsequent measurement and profit and loss recognition

a) Cost method

The long-term equity investment that Sinomach Finance is able to control with the invested entities shall be measured based on the cost method. If there are additional investments or disinvestments, the cost of the long-term equity investment shall be adjusted based on the initial investment cost.

Sinomach Finance shall recognise investment income in the light of the attributable share of the profits or cash dividends declared to distribute by the invested entity except for money paid actually or cash dividends or profit that have been declared but not yet distributed included in consideration when obtaining investment.

b) Equity method

The long-term equity investment of joint ventures and affiliated companies shall be measured by the equity method. Some of the equity investments for affiliated companies held indirectly by venture capital institution, mutual funds, trust companies, or similar entity including VUL, shall be measured by means of fair value and of which changes are recorded in profit or loss.

If the initial investment cost of a long-term equity investment is more than the investing enterprise's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the initial cost of the long-term equity investment may not be adjusted. If the initial cost of a long-term equity investment is less than the investing enterprise's attributable share of the fair value of the invested entity's identifiable net assets for the investment, the difference shall be included in the current profits and losses.

After Sinomach Finance obtains a long-term equity investment, it shall, in accordance with the attributable share of the net profits or losses of invested equity, recognise the investment income and expenses and other comprehensive income, meanwhile adjust the book value of long-term equity investment. Sinomach Finance shall, in the light of the profits or cash dividends declared to distribute by the invested entity, calculate the proportion it shall enjoy and reduce the book value of the long-term investment correspondingly. Where any change is made to the owner's equity other than the net profits and losses, other comprehensive income, and profit distribution of the invested entity, the book value of the long-term equity investment shall be adjusted and be included in the owner's equity.

Sinomach Finance shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognise the attributable share of the net profits and losses of the invested entity after adjusting the net profits of the invested entity. Profit and loss from the unrealised internal transactions between joint ventures, affiliated enterprises, and Sinomach Finance are calculated according to the proportion of which is entitled by Sinomach Finance shall be offset and recognised as investment income or expenses.

Sinomach Finance shall handle the net losses of the invested enterprise recognised by it: firstly, offset book value of long-term equity investment; secondly, if the book value of long-term equity investment is insufficient to dilute, investment loss shall be recognised based on the book value of other long-term interests which substantially form the net investment made to the invested entity, to offset book value of long-term receivables items; lastly, through the above treatment, where Sinomach Finance still has an obligation to undertake extra losses as per investment contracts or agreements, the obligation that is expected to undertake shall be recognised the project liabilities, and recorded into losses on investment of the current period.

If the invested entity realises any profits later, Sinomach Finance shall, after deducting the amount of its attributable share of the unrecognised losses, treat it based on reverse order, and write down the book balance of projected liabilities recognised, resume the book value of other long-term interests which substantially form the net investment made to the invested entity and long-term equity investment, and recognise investment income simultaneously.

3. *Basis for determining control, joint control, or significant influence over an investee*

Sinomach Finance is considered to control an investee if it has the authority over the investee, entitles variable returns through participation in the investee's related activities, and has the ability to use its authority over the investee to influence the amount of its returns.

If Sinomach Finance collectively controls an arrangement in accordance with the relevant agreement, and the activity decision that has a significant impact on the return of the arrangement needs to be agreed upon by the parties sharing the control, it is considered that Sinomach Finance and other parties jointly control an arrangement, which is a joint arrangement.

If the joint arrangement is reached through a separate entity and it determines that Sinomach Finance has rights to the net assets of the separate entity in accordance with the relevant agreement, the separate entity is regarded as a joint venture and is accounted for using the equity method. If it is judged according to the relevant agreement that Sinomach Finance does not have rights to the net assets of the separate entity, the separate entity acts as a joint operation, and Sinomach Finance recognises the items related to the share of the common operating interests and conducts accounting treatment in accordance with the relevant ASBEs.

Significant impact refers to the investor's authority to participate in the decision-making of the financial and operating policies of the investee, but it cannot control or jointly control the formulation of these policies with other parties. Sinomach Finance has a significant impact on the investee under one or more of the following situations and taking into account all facts and circumstances: (1) representatives on the board of directors or similar authorities of the investee; (2) involves in the formulation of financial and business policy of the investee; (3) has important transactions with the investee; (4) dispatches management personnel to the investee; (5) provides key technical information to the investee.

4. *Conversion of accounting methods of long-term equity investment*

(1) From fair value measurement to equity method accounting

The equity investment originally held by Sinomach Finance that does not have control, joint control or significant influence on the investee, which is accounted for according to the recognition and measurement criteria of financial instruments, can exert significant influence on the investee or jointly control but does not constitute control due to additional investment and otherwise, its initial investment cost shall be the fair value of the original equity investment held in accordance with the "ASBEs No. 22 – Recognition and Measurement of Financial Instruments" and the sum of new investment cost.

If the previously held equity investment is classified as an available-for-sale financial asset, the difference between the fair value and the carrying amount, and the accumulated fair value changes previously recognised in other comprehensive income are transferred to the current gain or loss.

If the initial investment cost calculated by the equity method is less than the fair value share of the identifiable net assets of the investee on the additional investment date determined by the new shareholding ratio after the additional investment, the carrying amount of the long-term equity investment is adjusted and included in the current non-operating income.

(2) From fair value measurement or equity method measurement to cost method measurement

The equity investment originally held by Sinomach Finance that does not have control, joint control or significant influence on the investee and which is accounted for in accordance with the financial instrument recognition and measurement criteria, or the long-term equity investment originally held in associates or joint venture, can exercise control over the investee not under common control due to additional investment or otherwise, in the preparation of individual financial statements, the sum of the carrying amount of the equity investment originally held plus the new investment cost shall be regarded as the initial investment cost under cost method.

The other comprehensive income recognised by the equity method in respect of the equity investment originally held before the purchase date is accounted for on the same basis as the investee directly disposes of the relevant assets or liabilities when the investment is disposed of.

If the equity investment held before the purchase date is accounted for in accordance with the relevant provisions of the "ASBEs No. 22 – Recognition and Measurement of Financial Instruments", the cumulative fair value change originally included in other comprehensive income is transferred to current profit or loss when the cost method is adopted.

(3) From equity method measurement to fair value measurement

If Sinomach Finance loses joint control or significant influence on the investee due to the disposal of part of the equity investment or otherwise, the remaining equity after disposal shall be calculated according to the "ASBEs No. 22 – Recognition and Measurement of Financial Instruments". The difference between the fair value and the carrying amount on the date of loss joint control or significant impact is recognised in current profit or loss.

The other comprehensive income recognised in respect of the original equity investment using the equity method is accounted for on the same basis as the investee directly disposes of the relevant assets or liabilities when the equity method is terminated.

(4) From cost method to equity method

If Sinomach Finance loses control over the investee due to the disposal of part of the equity investment, etc., in the preparation of individual financial statements, if the remaining equity after disposal can exercise joint control or exert significant influence on the investee, equity method is adopted for accounting, and the remaining equity is treated as an adjustment to the equity method when it is acquired.

(5) From cost method to fair value measurement

If Sinomach Finance loses control over the investee due to the disposal of part of the equity investment, etc., in the preparation of individual financial statements, if the remaining equity after disposal cannot jointly control or exert significant influence on the investee, the relevant provisions of the "ASBEs No. 22 – Recognition and Measurement of Financial Instruments" are adopted. The difference between the fair value and the carrying amount on the date of loss of control is recognised in current profit or loss.

5. Disposal of long-term equity investments

For the disposal of long-term equity investment, the difference between the carrying amount and the actual purchase price shall be included in current profit or loss. For the long-term equity investment accounted for using the equity method, when the investment is disposed of, the part that is originally included in the other comprehensive income is accounted for in the same proportion based on the same basis as the investee directly disposes of the relevant assets or liabilities.

If the terms, conditions and economic impact of each transaction dealing with the equity investment of the subsidiary satisfy one or more of the following cases, the multiple transactions are treated as a package transaction:

(1) The transactions are made simultaneously or with consideration of each other's influence;

(2) The transactions as a whole can achieve a complete business outcome;

(3) The occurrence of a transaction depends on the occurrence of at least one other transaction;

(4) A transaction is uneconomical on a standalone basis, but it is economical when considered together with other transactions.

If an enterprise loses control of its original subsidiary due to the disposal of part of its equity investment or for other reasons, it should distinguish between the individual financial statements and the consolidated financial statements for the relevant accounting treatment if it does not constitute a package transaction:

(1) In the individual financial statements, the difference between the carrying amount of the equity that disposed of and the actual purchase price is included in current profit or loss. If the remaining equity after disposal can exert joint control or significant influence on the investee, it shall be accounted for under the equity method, and the residual equity shall be deemed to be adjusted by equity method when it is acquired. If the remaining equity after disposal shall not exert joint control or significant influence over the investee, it shall be measured by the relevant provisions of the "ASBEs No. 22 – Recognition and Measurement of Financial Instruments", and the difference between the fair value and the carrying amount on the date of loss of control is included in current profit or loss.

(2) In the consolidated financial statements, for each transaction before the loss of control over the subsidiary, capital reserve (share premium) is adjusted for the difference between the disposal price and the share of the net assets that the subsidiary has continuously calculated from the date of purchase or the merger date. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. When the control of the subsidiary is lost, the remaining equity shall be re-measured according to its fair value on the date of loss of control. The sum of the consideration for the disposal of the equity and the fair value of the remaining equity, less the share of the net assets that have been continuously calculated from the date of purchase calculated based on the original shareholding, are included in the investment income for the period of loss of control, while reducing goodwill. Other comprehensive income related to the original subsidiary's equity investment will be converted into current investment income when control is lost.

If each transaction on disposal of the equity investment in a subsidiary until the loss of control is a package transaction, each transaction is accounting for as a transaction to dispose of the equity investment of the subsidiary and losing control, which is distinguished between individual financial statements and consolidated financial statements:

(1) In individual financial statements, the difference between the disposal price and the carrying amount of the long-term equity investment corresponding to the disposed equity before the loss of control is recognised as other comprehensive income, and when the control is lost, it is transferred to current profit or loss for the period of the loss of control.

(2) In the consolidated financial statements, the difference between each disposal price and the disposal investment that has the share of the net assets of the subsidiary before the loss of control is recognised as other comprehensive income, and transferred to current profit or loss for the period of the loss of control.

6. Impairment test method and method of impairment provision

On the balance sheet date, if the book value of the long-term equity investment is greater than the share of the book value of the owner's equity of the invested entity, etc., the long-term equity investment shall be deducted in accordance with the "ASBEs No. 8 – Assets Impairment". If the recoverable amount is lower than the book value of the long-term equity investment, provision for impairment shall be made. The recoverable amount of the long-term equity investment is determined according to the higher of the fair value of the single long-term equity investment minus the disposal cost and the present value of the expected future cash flow of the long-term equity investment. When the recoverable amount of the long-term equity investment in current period is lower than the book value, the book value of the asset shall be written down to the recoverable amount, and the written-down amount shall be recognised as the asset impairment loss, which shall be included in current profit and loss, and the corresponding asset impairment shall be accrued at the same time.

Once the impairment loss of long-term equity investment is confirmed, it will not be reversed.

(XVI) Fixed Assets

1. The criteria for fixed assets are tangible assets with a useful life of more than one accounting year. Fixed assets are recognised only when it is probable that the economic benefits associated with them will flow into Sinomach Finance and their cost can be measured reliably. Fixed assets are initially measured at cost, taking into account the effect of expected disposal costs.

2. Valuation of fixed assets: purchased or constructed are valued at cost.

1. Recognition conditions of fixed assets

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

(1) Fixed asset is recognised when it is probable that future economic benefits associated with the item will flow to the group;

(2) The cost of the item can be measured reliably.

2. Initial measurement of fixed assets

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

(1) Purchased fixed assets cost including purchase price, import tariffs and other related taxes and fees, as well as the fixed asset for its intended use before the other expenses are directly attributable to the asset.

(2) The cost of building a fixed asset by itself is made up of the necessary expenditure until the construction of the assets has reached the desired state of use.

(3) The fixed assets invested by investors shall be accounted for the value stipulated in the investment contract or agreement. However, if the value of the contract or agreement is not fair, count the fair value.

(4) The cost of fixed assets is based on the present value of purchase price when the purchase price of fixed assets exceeds the normal credit condition which substantially has the nature of financing. The difference between the actual payment and the present value of the purchase price, in addition to the capitalisation, is included in the current profit and loss in the credit period.

3. *Subsequent measurement and disposal of fixed assets*

(1) Depreciation for fixed assets

Except for fully depreciated property and equipment that are still in use and land that is separately recorded in the accounts, depreciation of fixed assets is provided using the method over the estimated useful lives of the property and equipment, and the depreciation rate is determined based on the type of fixed assets, estimated useful life and estimated net residual value.

Sinomach Finance determines the service life and estimated net residual value of fixed assets based on the nature and use of fixed assets. At the end of the year, the service life of the fixed assets, the estimated net residual value and the depreciation method are reviewed. If there is a difference from the original estimate, corresponding adjustments are made.

The depreciation period and annual depreciation rate of various fixed assets are as follows:

Categories	**Depreciation Period (year)**	**Residual rate (%)**	**Annual depreciation rate (%)**
Houses and buildings	20	5	4.75
Transportation equipment	4	5	23.75
Office electronic equipment	3	5	31.67
Office furniture and others	5	5	19.00

(2) Subsequent expenditure on fixed assets

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

(3) Disposal of fixed assets

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

4. Impairment test method of fixed assets and accrual method of impairment provision

At the end of each period, Sinomach Finance assesses whether the fixed assets may show signs of impairment.

If there are signs of impairment of fixed assets, the recoverable amount should be estimated. The recoverable amount is determined based on the higher one between the net amount of the fair value of the fixed assets minus the disposal expenses and the current value of the estimated future cash flow of the fixed assets.

When the recoverable amount of a fixed asset is lower than its book value, the book value of the fixed asset is written down to the recoverable amount. The amount of write-down is recognised as impairment loss of fixed assets and recorded in the current profit and loss, and meanwhile accrue impairment of assets.

After the impairment loss of fixed assets is confirmed, the depreciation of the impaired fixed assets shall be adjusted accordingly in the future period so that the book value of the adjusted fixed assets (after deducting the estimated net residual value) will be systematically amortised over the remaining useful life of the fixed assets.

Once the impairment loss of fixed assets is confirmed, it will not be reversed in subsequent accounting periods.

Where there are indications that a fixed asset may be impaired, the enterprise estimates the recoverable amount based on a single fixed asset. Where it is difficult for an enterprise to estimate the recoverable amount of a single fixed asset, the recoverable amount of the asset group is determined on the basis of the asset group to which the fixed asset belongs.

5. Recognition basis, valuation method and depreciation method of financial leased fixed assets

When Sinomach Finance's leased fixed assets meet one or more of the following criteria, it is recognised as finance leased fixed assets:

(1) At the expiration of the lease term, the ownership of the leased assets is transferred to Sinomach Finance.

(2) Sinomach Finance has the option to purchase leased assets. The purchase price entered into is expected to be much lower than the fair value of the leased asset when the option is exercised. Therefore, it can be reasonably determined on the lease start date that Sinomach Finance will exercise this option.

(3) Even if the ownership of the asset is not transferred, the lease term accounts for most of the useful life of the leased asset.

(4) The present value of Sinomach Finance's minimum lease payments on the lease start date is almost equivalent to the fair value of the leased assets on the lease start date.

(5) The leased assets are of special nature, and only Sinomach Finance can use them if they are not remodeled.

For fixed assets leased by finance leases, the lower of the fair value of the leased assets on the lease start date and the present value of the minimum lease payment shall be the entry value. The minimum lease payment is taken as the entry value of the long-term payable, and the difference is taken as the unrecognised financing expense. In the process of lease negotiation and signing of the lease contract, the initial direct expenses such as handling fees, legal fees, travelling expenses, stamp duty, etc. That can be attributed to the lease item are included in the value of the leased asset. The unrecognised financing costs shall be amortised by the effective interest method during each period of the lease term.

Sinomach Finance adopts a depreciation policy consistent with that of its own fixed assets to provide the depreciation of fixed assets acquired by financing leases. If it can be reasonably determined that the ownership of the leased asset will be obtained at the expiration of the lease term, depreciation shall be accrued during the useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased asset can be obtained at the expiration of the lease term, depreciation shall be accrued during the shorter of the lease term and the useful life of the leased asset.

(XVII) Construction in Progress

The construction is accounted for at actual cost and is transferred to fixed assets after it is put into use. For projects that are subject to final accounting procedures and have been delivered for use but have not yet been finalised, they are first valued and recorded in the accounts, and then adjusted to their original estimated values after completion and acceptance and final accounting procedures.

1. Type of construction in progress

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

2. Criteria for and time point of construction in progress to convert into fixed asset

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

3. Impairment test method and accrual method for impairment preparation of construction in progress

At the end of each period, Sinomach Finance judges whether there is any indication that the construction in progress may be impaired.

Where it is difficult for an enterprise to estimate the recoverable amount of a single construction in progress, the recoverable amount of the asset group is determined on the basis of the asset group to which the construction in progress belongs. The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the construction in progress minus the disposal expenses and the current value of the expected future cash flow of the construction in progress.

When the recoverable amount of the construction in progress is lower than its book value, the book value of the construction in progress is written down to the recoverable amount, and the amount of the write-down is recognised as the impairment loss of the construction in progress and is included in current profit and loss. Meanwhile, impairment provisions for construction in progress should be accrued. Once the depreciation loss of the construction in progress is confirmed, it will not be reversed in the subsequent accounting period.

(XVIII) Borrowing Cost

1. Interest incurred before the fixed assets have been delivered for use or before the completion of the final settlement is included in the construction cost of the fixed assets.

2. Interest expenses and foreign currency translation differences incurred after the completion of the final settlement within the prescribed repayment period are included in current profit and loss.

1. Recognition principle of capitalisation of borrowing costs

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

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

Borrowing costs will begin to be capitalised when the following conditions are met:

(1) Assets expenditure has occurred, including expenditure incurred in the form of cash, transfer of non-cash assets or interest-bearing debt for the acquisition or construction of assets eligible for capitalisation.

(2) Borrowing costs have already occurred.

(3) The purchase and construction or production activities necessary for the asset to reach the intended use or saleable status.

2. Capitalisation period of borrowing costs

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

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

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

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

3. Suspension of capitalisation period

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

4. Calculation for capitalisation of borrowing costs

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

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

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

(XIX) Intangible Assets

Purchases or acquisitions made in accordance with the legal procedures are recorded at the actual expenses incurred at the time of purchase or acquisition in accordance with the legal procedures. Contributions from investors are recorded at the assessed value; and amortised over the benefit period on a straight-line basis.

Intangible assets refer to the identifiable non-monetary assets owned or controlled by Sinomach Finance which have no physical form, including software.

1. Initial measurement of intangible assets

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

For the intangible assets obtained by debt restructuring for debt repayment, the cost should be determined as the fair value of the intangible assets. The difference between the book value of the restructured debt and the fair value of the intangible asset should be counted into the profit or loss in the current period.

On the premise that the exchange of non-monetary assets possesses commercial essence and the fair value of assets exchanged or converted can be reliably measured, the intangible assets exchanged for non-monetary assets shall determine their entry value on the basis of the fair value of assets exchanged, unless there is conclusive evidence that the fair value of the converted assets is more reliable. Exchange of non-monetary assets that do not satisfy the preconditions mentioned above shall take the book value of the assets exchanged and the relevant taxes and fees payable as the cost of converting into intangible assets, and shall not recognise profits and losses.

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

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

2. Subsequent measurement of intangible assets

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

(1) Intangible asset with a limited life

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

Item	**Useful life**
Software	3 years

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

After reviewing, the life and amortisation methods of intangible assets are no different from previous estimates.

3. Provision for impairment of intangible assets

For intangible assets with a certain useful life, if there is any sign of significant impairment, an impairment test will be conducted at the end of the period.

For intangible assets with indefinite useful lives, impairment tests are conducted at the end of each period.

Impairment tests are performed on intangible assets to estimate their recoverable amount. The recoverable amount is determined based on the higher one between the net amount of the fair value of intangible assets minus the disposal expenses and the present value of the estimated future cash flow of the intangible assets.

When the recoverable amount of an intangible asset is lower than its book value, the book value of the intangible asset is written down to the recoverable amount. The write down amount is recognised as impairment loss of intangible assets, and is included in current profit and loss, meanwhile, intangible assets are accrued impairment of assets.

After the impairment loss of intangible assets is confirmed, the depreciation or amortisation cost of the impairment of intangible assets will be adjusted accordingly in future period so that the intangible assets can be systematically amortised with the adjusted book value of intangible assets (net of estimated net residual value).

Once the impairment loss of intangible assets is confirmed, it will not be reversed in subsequent accounting periods.

If there is any indication that an intangible asset may be impaired, Sinomach Finance estimates its recoverable amount on the basis of a single intangible asset. Where it is difficult for Sinomach Finance to estimate the recoverable amount of a single asset, the recoverable amount of the intangible asset group is determined on the basis of the asset group to which the intangible asset belongs.

4. Specific basis for determining the research stage and development stage of internal research and development projects of Sinomach Finance

Research stage: A stage of scheduled innovation and research activities for the acquisition and understanding of new scientific or technical knowledge.

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

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

5. Specific standard for capitalisation of expenditure in the development stage

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

(1) Complete the intangible asset so that it can be used or sold in technical feasibility;

(2) The intention to complete the intangible asset and to use or sell it;

(3) Intangible assets to generate economic benefits, including the ability to prove the existence of the products using the intangible assets market or the market of intangible assets, intangible assets will be used internally, to prove its usefulness;

(4) Having sufficient technical, financial resources and other resource support to complete the development of the intangible asset and have the ability to use or sell the intangible asset;

(5) Expenditures attributable to the development stage of the intangible asset can be reliably measured.

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

(XX) Long-term Deferred Expenses

Sinomach Finance's long-term deferred expenses refer to the expenses that have been paid, but the amortisation period should be borne by the current and subsequent periods for more than 1 year (excluding 1 year). Such expenses are amortised evenly during the benefit period. If the long-term deferred expense item cannot benefit the future accounting period, the amortised value of the item that has not been amortised will be transferred to current profit and loss.

(XXI) Assets Used to Set Off Debts

Assets used to set off debts refer to the physical assets or property rights of the debtor, guarantor or a third party that Sinomach Finance exercises the creditor's rights or security rights in accordance with the law.

1. The valuation method when the assets used to set off debts are acquired

When the assets used to set off debts are acquired, it shall be recorded as the recorded value of assets used to set off debts after deducting the corresponding loan loss provision from the loan principal of the actual portion to set off debts and the confirmed interest on the balance sheet. The taxes owed by Sinomach Finance for obtaining the assets used to set off debts, the litigation expenses paid in advance and the relevant taxes paid for the acquisition of the assets used to set off debts are included in the value of the assets used to set off debts. If a premium is charged to the debtor in the process of obtaining the assets used to set off debts, the value of the assets used to set off debts shall be recorded, based on the loan principal and on-balance sheet interest of the actual part to set off debts minus the premium charged, as the value of the assets used to set off debts; If a court judgment, an arbitration or an agreement stipulates that Sinomach Finance must pay a premium, the value of the assets used to set off debts shall be recorded, based on the loan principal, on-balance sheet interest of the actual part to set off debts plus the expected premium payable, as the value of the assets used to set off debts. The part of to set off debts amount that exceeds the loan principal and on-balance sheet interest will not be recognised as interest income for the time being when cash is not actually recovered. After assets used to set off debts are disposed of and realised, the off-balance-sheet interest that can actually be offset will be recognised as interest income.

Sinomach Finance takes the date on which the assets used to set off debts are obtained as the interest suspension date for the repaid loan.

2. End-of-period valuation of the assets used to set off debts and withdrawal of impairment provision

The assets used to set off debts are measured at the lower of the book value and the recoverable amount at the end of the period. At the end of each quarter, Sinomach Finance checks the assets used to set off debts item by item, and makes provision for impairment of the estimated recoverable amount that is lower than its book value. The recoverable amount of the assets used to set off debts refers to the net amount after deducting the cost of disposal of the assets from the expected disposal price.

If the value of the assets used to set off debts for which the impairment provision has been made is recovered, it will be reversed within the scope of the provision for impairment, and the current profit and loss will be increased. When disposing of the assets used to set off debts, the accrued provision for impairment of the assets used to set off debts shall be carried forward to profit and loss.

3. Disposal of the assets used to set off debts

The immovable property and equity interests acquired by Sinomach Finance for debt repayment shall be disposed of within 2 years from the date of acquisition; Rights other than equity shall be disposed of within 2 years from the date of acquisition; movable property shall be disposed of within 1 year from the date of acquisition. When disposing of, according to the actual situation of the assets, adopt methods such as auction, agreement disposal, bidding disposal, package sale, entrusted sale, etc. The difference between the actual disposal income and the net value of the assets used to set off debts, realisable taxes and fees, and off-balance sheet interest that can be recognised as interest income. When the difference is positive, it is included in non-operating income, and when the difference is negative, it is included in non-operating expenses.

(XXII) Impairment of Long-term Non-financial Assets

Long-term equity investments, fixed assets, construction in progress, intangible assets with limited useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. For goodwill and intangible assets with uncertain service life, impairment tests shall be conducted at the end of each year regardless of whether there is any indication of impairment. If it is difficult to test the recoverable amount of a single asset, the test shall be based on the asset group or combination of the asset group to which the asset belongs.

If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognised in accordance with the difference. The provision for the aforesaid assets is recognised, it shall not be reversed in subsequent accounting periods. The recoverable amount of an asset is the higher between the net value of the fair value of the asset minus the disposal expense and the present value of the expected future cash flow of the asset.

The signs of impairment are as follows:

1. The market price of assets has fallen sharply in the current period, and the decline is significantly higher than the expected decline due to the passage of time or normal use;

2. There is adverse impact of Sinomach Finance, because of the changing of the economic, technological, legal environment which enterprise operates and the market in;

3. The market interest rate or other market investment return rate has increased in the current period, which affects the discount rate of the enterprise to calculate the present value of the expected future cash flow of the asset, and resulting in a substantial reduction in the asset's recoverable amount;

4. There is evidence that the asset has become obsolete or its entity has been damaged;

5. Assets have been or will be idled, terminated, or planned for disposal in advance;

6. The evidence in the internal report of Sinomach Finance indicates that the economic performance of the asset has been lower or will be lower than expected, such as the net cash flow created by the asset or the realised operating profit (or loss) is much lower (or higher) than the expected;

7. Other signs that assets may have been impaired.

(XXIII) Deposit-taking

Sinomach Finance takes the deposits from members of the group. The types of deposits include demand deposits, time deposits, negotiated deposits, etc.

Interest is payable for time deposits during the deposit period at the time deposit rate quoted on the date of deposit, and interest will not be calculated and charged accordingly if there is interest rate adjustment. If a time deposit is not withdrawn at maturity, interest will be payable on the portion not withdrawn at the interest rate for demand deposits as quoted on the date of withdrawal. Interest on demand deposits will be charged at the interest rate of demand deposits as quoted on closing date, and will not be calculated and charged accordingly if there is interest rate adjustment.

(XXIV)) Employee Remuneration

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

1. Short-term remuneration

Short-term remuneration refers to the employee compensation other than post-employment benefits and termination benefits, which are required to be fully paid by Sinomach Finance within 12 months after the end of the financial period in which the employees rendered relevant services. During the financial period in which the employees render services, Sinomach Finance recognises the short-term remuneration payable as liabilities and includes them into relevant asset costs or expenses according to the object which benefits from the services rendered by employees.

2. Post-employment benefits

Post-employment benefits refer to all employee benefits provided by Sinomach Finance except for short-term remuneration and termination benefits, includes long-term paid absence, long-term disability benefit and long-term profit-sharing plan, etc. Post-employment benefits include pensions, annuities, unemployment insurance, internal retirement benefits, and other post-employment benefits.

Sinomach Finance classifies post-employment benefit plans as defined contribution plans. A post-employment benefit plan is an agreement between Sinomach Finance and an employee regarding post-employment benefits, or a regulation or method established by Sinomach Finance to provide post-employment benefits to an employee. Of which, a defined contribution plan is a post-employment benefit plan under which Sinomach Finance is not obligated to make further payments after making a fixed contribution to a separate fund.

The defined contribution plan of Sinomach Finance refers to the contributions to basic pension insurance, unemployment insurance and enterprise annuity for employees in accordance with the relevant regulations of the local government and Sinomach. During the financial period in which the employees provide services to Sinomach Finance, the amount payable is calculated based on the contribution base and ratio prescribed by the local government or Sinomach, recognised as a liability, and included in current profit or loss or cost of related assets.

Sinomach Finance establishes an enterprise annuity, which is jointly contributed by Sinomach Finance and the individual. Sinomach Finance's contribution shall be 5% of the previous year's total wages and shall be charged to costs of Sinomach Finance, while the individual contribution shall be 2% of the employee's previous year wages and shall be paid by Sinomach Finance on behalf of the employee through deduction from the employee's wages.

3. Termination benefits

Termination benefits refer to the compensation paid when Sinomach Finance terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. Where Sinomach Finance provides termination benefits to employees, Sinomach Finance recognises the liabilities of employee benefits payable generated from the termination benefits at the earlier of the following: 1) when Sinomach Finance cannot reverse the termination benefits due to the plan of cancelling the labour relationship or the termination benefits provided by the advice of reducing staff; and 2) the group recognises the cost or expense relative to the payment of termination benefits of restructuring into the current profit or loss.

Sinomach Finance provides retirement benefits to employees who accept internal retirement arrangements. The internal retirement benefits refer to the remuneration and the social insurance premiums paid to the employees who have not reached the retirement age set by the state, and voluntarily withdrew from the job after approval of Sinomach Finance's management. Sinomach Finance pays internal retired benefits to internal retired employees from the day the internal retirement arrangement begins to the employee reaches the normal retirement age. For internal retirement benefits, Sinomach Finance conducts accounting treatment in contrast to the termination benefits. When the related conditions of termination benefits are met, Sinomach Finance will confirm the remuneration and the social insurance premiums of the internal retired employee to be paid during the period between the employee's termination of service and retirement date. Those are classified as liabilities and included the amount in the current profit or loss in one time. Changes in actuarial assumptions of internal retirement benefits and differences arising from the adjustment of welfare standards are included in current profit or loss when incurred.

4. Other long-term employment benefit

Other long-term employee benefits represent all employee compensation other than short-term compensation, post-employment benefits and termination benefits, including long-term paid absences, long-term disability benefits and long-term profit-sharing plans.

Other long-term employee benefits provided by Sinomach Finance to its employees that meet the criteria for a defined contribution plan are accounted for in accordance with the provisions of the defined contribution plan. If other long-term employee benefits provided by Sinomach Finance to employees meet the conditions of a defined benefit plan, Sinomach Finance recognises and measures the net liability or net asset of other long-term employee benefits in accordance with the provisions of the defined benefit plan. At the end of the reporting period, Sinomach Finance recognises employee compensation cost arising from other long-term employee benefits as the following components: service cost; net interest on net liabilities or net assets for other long-term employee benefits; and changes resulting from the remeasurement of net liabilities or net assets for other long-term employee benefits. The total net amount is included in profit or loss for the period or in the cost of related assets.

(XXV) Share-based Payment

1. Category of share-based payment

Sinomach Finance's share-based payments included equity-settled share-based payments and cash-settled share-based payments.

2. Recognition method of fair value of equity instrument

For the existence of an active market for options and other equity instruments granted by Sinomach Finance, the fair value is determined at the active market quotations. For options and other equity instruments with no active market, option pricing model shall be used to estimate the fair value of the equity instruments. The factors shall be taken into account using option pricing models are: (1) the exercise price of the option; (2) the validity of the option; (3) the current price of the share; (4) the expected volatility of the share price; (5) predicted dividend of the share; (6) risk-free rate of the option within the validity period.

In determining the fair value at the date of grant of the equity instruments, Sinomach Finance shall consider the impact of market conditions in the vesting conditions and non-vesting conditions stated in the share-based payment agreement. If there are no vesting conditions in the share-based payments, as long as the employees or other aspects satisfy the non-market conditions in all the vesting conditions (such as term of service), Sinomach Finance shall recognise the services rendered as an expense accordingly.

3. Recognition basis for the best estimate of exercisable equity instruments

On each balance sheet date within the vesting period, the estimated number of exercisable equity instruments is amended based on the best estimate made by Sinomach Finance according to the latest available subsequent information as to changes in the number of employees with exercisable rights. As at the exercise date, the final estimated number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

4. Accounting treatment for implementation, amendment and termination of share-based payments

Equity-settled share-based payment is measured at the fair value of the equity instruments granted to employees. For the shares exercise immediately after the grant, the fair value of equity instrument at the grant date included in the relevant costs or expenses and increase in capital reserve accordingly. Within the vesting period, it will recognise the service-related costs or expense and capital reserves for each reporting date based on the best estimate of the number of vested equity instruments on the grant date of the equity instruments value. After the vesting period, relevant costs or expenses and total shareholders' equity has been confirmed and will not be adjusted.

Cash-settled share-based payment is calculated by the fair value of liabilities assumed in accordance with Sinomach Finance's shares or other equity instruments. For those exercised immediately after the grant, the fair value of the liability included in the relevant costs or expenses cause a corresponding increase in liabilities. For each reporting date in the vesting period, the fair value of the costs or expenses and the corresponding liabilities is best estimated according to the vesting conditions. At each reporting date and the settlement date prior to the settlement of liabilities, the fair value of the liability is re-measured through profit or loss.

5. Revision and relevant accounting treatment during the current period for the case of revising clauses and conditions

During the vesting period, if the equity instruments granted are cancelled, Sinomach Finance will treat the cancelled equity instruments granted as accelerated vesting, and the amount within the remaining period should be recognised immediately in profit or loss while recognising the capital reverses. If employees or other parties can meet non-vesting conditions but do not meet within the vesting period, Sinomach Finance will treat it as cancelled equity instruments granted.

(XXVI) Bond payable

1. General corporate bonds

Bond payable that is measured at fair value and whose changes are included into the current profit or loss takes their fair value as the initial amount, and the related transaction costs are directly included into the current profit and loss, and subsequent measured at fair value.

For other types of bond payable, the sum of their fair value and related transaction costs is used as the initial amount, and the amortised cost is used for subsequent measurement. The premium or discount is an adjustment to the interest expense during the duration of the bond payable and is amortised using the effective interest rate method during the duration of the bond.

2. Convertible corporate bonds

The convertible corporate bonds issued by Sinomach Finance are divided into the liability component and equity component at the initial recognition, the liability component is recognised as a bond payable, and the equity component is recognised as capital reserve. During the spin-off, the future cash flow of the liability component is discounted to determine the initial recognition amount of the liability component, and then the initial recognition amount of the equity component is determined by the amount of the total issue price after deducting the initial recognition amount of the liability component. Transaction costs incurred in the issuance of convertible corporate bonds are allocated between the liability component and the equity component according to their respective fair values.

(XXVII) Expected Liabilities

1. Criteria for expected liabilities

The group shall recognise expected liabilities if the contingent matters meet the following requirements:

– The assumed responsibilities are current liability;

– The fulfillment of obligations will cause the outflow of economic benefit from Sinomach Finance; and

– The amount of liabilities can be measured reliably.

2. Measurement method of expected liabilities

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

When determining the best estimates, Sinomach Finance considers the risks, uncertainties and time value of the currency. If the time value of money has a great influence, Sinomach Finance determines the best estimate by discounting the related future cash outflows.

The best estimates are measured in different situation as follow:

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

If the required expenditure does not exist a continuous range (or interval) or exist a continuous range with a range of different possibility of a variety of results or the contingencies of individual project involves, the best estimate is most likely to occur in accordance with the amount determined. If contingencies involve a number of projects, the best estimate is based on various possible results and related probability calculation.

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

(XXVIII) Revenue

The operating revenue of Sinomach Finance mainly comprises interest income, handling fees and commission income and other operating income, and the principles of revenue recognition are as follows:

1. Interest income

Interest income recognised by Sinomach Finance includes interest income from various types of loans, discounted and rediscounted lending finance, etc., and interest income realised from fund transactions with other financial institutions (the central bank, counterparties, etc.) and buying back for resale of financial assets. Interest income is accrued at the end of the period on an accrual basis.

2. Handling fees and commission income

Sinomach Finance recognises handling fees and commission income, including those derived from clearing business, advisory business, guarantee business and agency business as well as those from entrusted loans and investment business, such as income from advisory services, guarantee income, entrusted loan fee income, and fees and commission income from other related services, etc., which are received and recognised as income according to contractual agreements.

3. Other business income

It includes income from housing leases, etc., where payments are received and income is recognised according to contractual agreements.

(XXIX) Government Subsidies

1. Classification

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

As for government subsidies that have not been explicitly subsidised in government documents, the group classifies government subsidies as grants pertinent to assets and grants pertinent to incomes, relevant judgement is stated which can refer to note 31 "Other Items".

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

2. Recognition of government subsidies

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

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

3. Accounting treatment

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

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

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

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

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

(XXX) Deferred Tax Assets and Deferred Tax Liabilities

1. Criteria for recognition of deferred income tax assets

Sinomach Finance recognises deferred income tax assets arising from deductible temporary differences to the extent that it is probable that the deductible temporary differences can be utilised to offset against available taxable income.

2. Criteria for recognition of deferred income tax liabilities

Sinomach Finance recognises deferred income tax liabilities for unpaid taxable temporary differences between the current and prior periods. However, temporary differences arising from goodwill, non-business combination transactions that do not affect either accounting profit nor taxable income at the time the transactions occurred are excluded.

3. When the following conditions are satisfied, deferred income tax assets and deferred income tax liabilities shall be presented on a net basis

(1) An enterprise has the statutory right to settle the current income tax assets and current income tax liabilities at their net amounts; and

(2) The deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

In general, current income tax assets and liabilities and deferred income tax assets and deferred income tax liabilities are presented on a net basis after offsetting in the individual financial statements. For the companies which are included in the merger, current income tax assets or deferred income tax assets of one party and current income tax liabilities or deferred income tax liabilities of another party are generally not to offset in the consolidated financial statements unless the companies involved has the statutory right to settle on a net basis and intends to settle on a net basis.

(XXXI) Leases (applicable before 1 January 2021)

Sinomach Finance classifies leases as finance leases and operating leases at the inception date of the lease term. Leases that transfer substantially all the risks and rewards associated with ownership of the assets are classified as finance leases. Leases other than finance leases are operating leases.

1. Sinomach Finance recorded operating leases as lessee

The rents of operating leases shall be recorded by the lessee in the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred by a lessee shall be recognised as the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

2. Sinomach Finance recorded operating leases as lessor

The rents from operating leases shall be recorded in the profits and losses of the current period by using the straight-line method over each period of the lease term. Initial direct costs of a larger amount are capitalised as incurred and are credited to current profit or loss on the same basis as rental income is recognised over the lease term; other initial direct costs of a smaller amount are credited to current profit or loss as incurred. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

3. Sinomach Finance recorded finance leases as lessee

On the lease inception date, a lessee shall record the fair value of the leased asset and the present value of the minimum lease payments, whichever is lower, on lease inception date as the entering value in an account, recognise the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognised financing charges. In addition, the negotiation and signing of the lease occurs during the lease contract may be attributable to the leased items are also included in the initial direct costs of leased assets.

The lessee shall adopt the effective interest rate method to calculate and recognise the finance charge in the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise. The minimum lease payments, net of unrecognised finance charge, are presented as long-term liabilities and long-term liabilities due within one year, respectively.

4. Sinomach Finance recorded finance lease business as lessor

The difference between the sum of the finance lease receivable, the non-guaranteed residual value and their present value is recognised as unrealised finance income at the inception date of the lease term and as lease income in each future period when the lease payments are received. The initial direct costs incurred upon leasing are included in the initial measurement of the finance lease receivable and are reduced by the amount of revenue recognised over the lease term.

Unrealised finance income is recognised over the lease term using the effective interest rate method to calculate the lease income for the period.

In the event of a decrease in the non-guaranteed balance and a recovery of the non-guaranteed balance for which a loss has been recognised, the embedded interest rate of the lease is recalculated and the lease income to be recognised in subsequent periods is determined based on the revised net lease investment and the recalculated embedded interest rate of the lease. No adjustment is made when the non-guaranteed residual value increases.

(XXXII) Lease (Applicable on and after 1 January 2021)

On the commencement date of the contract, Sinomach Finance evaluates whether the contract is a lease or includes a lease. If one party in a contract gives up the right to control the use of one or more identifiable assets for a period of time in exchange for consideration, the contract is a lease or includes a lease.

1. Spin off of lease contracts

When the contract contains a number of separate leases, Sinomach Finance will split the contract and separate leases for accounting.

When the contract contains both leasing and non-leasing parts, Sinomach Finance will split the leasing and non-leasing parts. The leasing part shall be accounted for in accordance with the leasing standards, and the non-leasing part shall be accounted for in accordance with other applicable ASBEs.

2. Consolidation of lease contracts

When two or more lease-containing contracts concluded by Sinomach Finance with the same trader or its related parties at the same time or at a similar time meet one of the following conditions, Sinomach Finance shall merge them into one contract for accounting:

(1) The two or more contracts are concluded for general commercial purposes and constitute a package of transactions. If these are not considered as a whole, these overall commercial purposes cannot be recognised.

(2) The amount of consideration for a contract in two or more contracts depends on the pricing or performance of other contracts.

(3) The right-to-use assets transferred by the two or more contracts together constitutes a separate lease.

3. Accounting treatment for Sinomach Finance **as lessee**

On the commencement date of leasing, Sinomach Finance recognises the right-of-use assets and lease liabilities for lease.

4. Accounting treatment for Sinomach Finance **as lessor**

(1) Classification of leases

Sinomach Finance divides the lease into financing lease and operating lease on the start date of the lease. Financial lease refers to a lease that essentially transfers almost all the risks and rewards related to the ownership of leased assets. Its ownership may or may not be transferred eventually. Operational lease refers to leases other than financial leases.

If a lease has one or more of the following characteristics, Sinomach Finance usually classifies it as a finance lease:

1) At the end of the lease term, the ownership of the leased assets is transferred to the lessee.

2) The lessee has the option to purchase the leased assets, and the purchase price set by the lessee is low enough compared with the expected fair value of the leased assets when exercising the option. Therefore, it can be reasonably determined on the lease start date that the lessee will exercise the option.

3) Although the ownership of the assets is not changed, the lease period accounts for the majority of the life of the leased assets.

4) At the beginning of the lease, the present value of the rental fee is almost equal to the fair value of the leased assets.

5) he nature of leased assets is special. If there is no major transformation, only the lessee can use them.

If one or more of the following conditions exist in a lease, Sinomach Finance may also be classified as a finance lease:

1) If the lessee cancels the lease, the lessee shall bear the losses caused by the cancellation of the lease to the lessor.

2) The profits or losses caused by the fluctuation of the fair value of the balance of assets belong to the lessee.

3) The lessee can continue to lease far below the market level for the next period.

(2) Accounting treatment for finance lease

At the beginning of the lease term, Sinomach Finance confirms the financial lease receivable on the financial lease and terminates the recognition of the financial lease assets.

When the initial measurement of the financial lease receivable is made, the present value of the financial lease receivable is the sum of the unsecured balance and the amount of the lease receivable that has not yet been received at the beginning of the lease term and the present value discounted at the interest rate included in the lease. The amount of rental receipts includes:

1) Fixed payment and substantive fixed payment after deducting the relevant amount of lease incentive.

2) Variable rental payments depending on index or ratio.

3) In the case of reasonably determining that the lessee will perform the right of purchase option, the amount of rental receipt includes the right price of purchase option.

4) The lease term reflects that the lessee will perform the option to terminate the lease. The lease receipt includes the amount to be paid by the lessee in exercising the option to terminate the lease.

5) Guarantee residual value provided by the lessee to the lessor, the party concerned with the lessee and an independent third party with financial capacity to fulfil the guarantee obligation.

Sinomach Finance calculates and confirms the interest income for each period of the lease period abased on the fixed rental interest rate, and the variable rental payments which are not included in the net rental investment amount are included in the profits and losses of the current period when they actually occur.

(3) Accounting for operating leases

Sinomach Finance adopts the straight line method or other systematic and reasonable method to recognise the rental receipts from operating leases as rental income during each period of the lease period. Capitalisation of the initial direct expenses incurred in connection with operating leases shall be apportioned on the same basis as the recognition of rental income during the lease period, and shall be recorded in the profits and losses of the current period. Variable rental payments obtained in connection with operating leases that are not incorporated in the rental receipts shall be incorporated in the profits and losses of the current period when they actually occur.

(XXXIII) Held-for-sale assets

1. Criteria for Held-for-sale asset

The group determines non-current assets or disposal teams that simultaneously meet the following requirements as assets classified as held for sale:

(1) In accordance with the practice of selling such assets or disposal teams in similar transactions, they can be sold immediately in the current circumstances.

(2) The sale is very likely occurring, that is, the group has made a resolution on a sale plan, has been approved by the regulatory authorities (if applicable), and has obtained a firm commitment to purchase which the sale is expected to be completed within one year.

Purchase commitment is determined which means a legally binding purchase agreement signed by the group with other parties. The agreement contains important terms such as transaction price, time and severe penalties for breach of contract that major adjustments or revocations to agreements is unlikely to happen.

2. Accounting measurement for Held-for-sale asset

Where the group holds non-current assets or disposal teams for sale without depreciation or amortisation and their book value is higher than the net amount of fair value minus the selling expenses, the book value shall be written down to the net amount after the fair value minus the selling expenses. The amount written down shall be recognised as the loss of impairment of assets and shall be recorded in the profits and losses of the current period. At the same time, provision for impairment of assets classified as held for sale is made.

For the non-current assets or disposal groups are classified as holding for sale on acquisition days, the amount of initial measurement is the lower between the initial measurement amount when these are not classified as holding for sale and fair value minus the net sale cost.

The above principles apply to all non-current assets, but not investment real estate which applying fair value model for follow-up measurement, biological assets Measured by net value minus sale cost, assets formed by employees' compensation, deferred tax assets, financial assets standardised by Financial Instruments-Related Accounting Standards, rights arising from insurance contracts regulated by relevant accounting standards for insurance contracts.

(XXXIV) Fair Value Measurement

Sinomach Finance's financial assets and liabilities measured at fair value mainly consist of financial assets held for trading and investments in other equity instruments.

Sinomach Finance measures the relevant assets or liabilities at fair value using valuation techniques that are applicable in the current circumstances and supported by sufficient available data and other information. The valuation techniques used mainly include the market approach, the income approach and the cost approach, and in applying the valuation techniques, priority is given to the use of relevant observable inputs and unobservable inputs are used only when relevant observable inputs are not available or impracticable to obtain.

The overall classification of fair value categorised as three levels and is based on the lowest of the three levels which each significant input used in the fair value measurement belongs. The three levels are defined as follows:

Level 1: Unadjusted quotations for identical assets or liabilities that can be obtained on the measurement date in an active market;

Level 2: Input value that is directly or indirectly observable for underlying assets or liabilities other than the input value of the Level 1;

Input values of level 2 includes: 1) quotations for similar assets or liabilities in an active market; 2) quotations for identical or similar assets or liabilities in an inactive market; 3) other observable inputs other than quotations, including observable interest rate and yield curves, implied volatility and credit spreads during normal quotations interval; 4) market-proven input values, etc.

Level 3: Unobservable input value of underlying assets or liabilities.

V. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF MAJOR PREVIOUS ERRORS

(I) Changes in accounting policies

Since 1 January 2021, Sinomach Finance adopted the ASBEs No. 22 – Recognition and Measurement of Financial Instruments, ASBEs No. 23 – Transfer of Financial Assets, Enterprise Accounting Standards No. 24 – Hedge Accounting and ASBEs No. 37 – Presentation of Financial Instruments revised by the Ministry of Finance in 2017.

Since 1 January 2021, Sinomach Finance adopted the ASBEs No. 14 – Revenue revised by the Ministry of Finance in 2017.

Since 1 January 2021, Sinomach Finance adopted the ASBEs No. 21 – Leases revised by the Ministry of Finance on 7 December 2018.

Sinomach Finance has made adjustments in accordance with the adoption of the new accounting policies. The company made no adjustment to the information of comparable period regarding the inconsistencies between the figures stated in the previous financial statements and figures after adopting the new accounting policies. The difference between the original book value and the new book value on the effective date of the new accounting policies is included in retained earnings or other comprehensive income as at 1 January 2021.

The effect of adopting new accounting policies on the financial statements as at 1 January 2021 are as follows:

Item	31 December 2020	Cumulative impact on amount	1 January 2021
Interbank deposits	17,010,303,692.30	-1,165,707,200.00	15,844,596,492.30
Lendings to banks and other financial institutions	292,500,000.00	66,666.67	292,566,666.67
Financial assets measured at fair value and its changes are accounted for in the profit and loss of the current period	150,440,951.51	-150,440,951.51	–
Buying back the sale of financial assets	5,448,095,250.00	1,137,153.76	5,449,232,403.76
Interest receivable	55,692,306.48	-55,692,306.48	–
Loans and advances to customers	12,016,847,227.41	11,258,908.84	12,028,106,136.25
Trading financial assets	–	171,372,550.00	171,372,550.00
Debt investment	–	2,675,406,383.99	2,675,406,383.99
Investment in other equity instruments	–	190,297,606.34	190,297,606.34
Financial assets available for sales	551,512,705.69	-551,512,705.69	–
Financial assets held to maturity	1,145,954,745.66	-1,145,954,745.66	–
Deferred income tax assets	111,824,192.83	519,857.41	112,344,050.24
Other assets	5,633,413.48	19,485,138.88	25,118,552.36
Total assets	38,323,003,450.79	236,356.55	38,323,239,807.34
Deposits taking	35,004,383,851.17	52,467,031.43	35,056,850,882.60
Interest payable	52,467,031.43	-52,467,031.43	–
Estimated liabilities	–	1,795,928.81	1,795,928.81
Total liabilities	35,245,735,174.81	1,795,928.81	35,247,531,103.62
Other comprehensive income	-39,959,882.86	16,444,090.19	-23,515,792.67
Surplus reserves	330,082,785.84	-1,800,366.25	328,282,419.59
Retained earning	695,549,604.17	-16,203,296.20	679,346,307.97
Total shareholder's equity	3,077,268,275.98	-1,559,572.26	3,075,708,703.72

(II) Change in accounting estimates

Nil

(III) Important corrections of prior period errors

There was no important correction of prior period errors during the reporting period.

VI. TAXATION

The major tax payable of Sinomach Finance and its subsidiaries are listed as follows:

(I) Turnover tax and surcharges

Category	Tax basis	Tax rate
Value added tax	Interest income, commission income, income from transferring financial product and interest income from finance lease	6%, 13%
City construction tax	Payment of the turnover tax	7%
Education surcharges	Payment of the turnover tax	3%
Local education surcharge	Payment of the turnover tax	2%

(II) Corporate income tax

The corporate income tax rate of Sinomach Finance is 25%.

VII DESCRIPTION OF SIGNIFICANT ITEMS IN THE FINANCIAL STATEMENTS

(The following monetary units are all in RMB unless otherwise specified)

Note 1 Cash and deposit in central bank

Item	31 December 2021	31 December 2020	31 December 2019
Cash on hand	–	–	48,025.26
Reserve requirement for central banks	1,490,277,224.33	1,515,284,271.75	1,445,907,344.42
Excess reserve in central bank	12,881.20	12,881.20	12,881.20
Other monetary funds	–	–	–
Total	1,490,290,105.53	1,515,297,152.95	1,445,968,250.88
Including: Total amount deposited abroad			

The restricted monetary funds are as follows:

Item	31 December 2021	31 December 2020	31 December 2019
Reserve requirement for central banks	1,490,277,224.33	1,515,284,271.75	1,445,907,344.42
Total	1,490,277,224.33	1,515,284,271.75	1,445,907,344.42

Note: As at the end of this period, in respect of the ratio of Sinomach Finance's statutory reserve requirement deposited at the People's Bank of China (hereinafter referred to as the central bank), the statutory reserve in RMB is set at a rate of not less than 5% of the arithmetic average of the monthly end-of-day balances of general deposits and the statutory reserve in foreign currency is set at a rate of not less than 9% of the balances of all types of deposits in the previous month. The above deposit reserve requirement for central banks are restricted funds.

Note 2 Interbank deposits

Item	31 December 2021	31 December 2020	31 December 2019
Domestic interbank deposits	18,277,746,599.35	17,010,303,692.30	21,172,658,531.32
Total	18,277,746,599.35	17,010,303,692.30	21,172,658,531.32

Note 3 Lending to banks and other financial institutions

Item	31 December 2021	31 December 2020	31 December 2019
Loans to domestic banks	200,000,000.00	300,000,000.00	–
Add: Interest accrued	50,000.00	–	–
Less: Bad debt allowance	5,000,000.00	7,500,000.00	–
Total	195,050,000.00	292,500,000.00	–

Note 4 Buying back the sale of financial assets

Item	31 December 2021	31 December 2020	31 December 2019
Securities	–	2,780,145,000.00	–
Others	2,306,486,000.00	2,807,645,000.00	3,196,848,000.00
Add: Interest accrued	842,324.38	–	–
Less: Bad debt allowance	57,662,150.00	139,694,750.00	79,921,200.00
Total	2,249,666,174.38	5,448,095,250.00	3,116,926,800.00

Note 5 Interests receivables

Item	31 December 2021	31 December 2020	31 December 2019
Time deposit	–	19,485,138.88	2,738,888.89
Loans and advances	–	11,258,908.84	11,115,595.94
Bond investments	–	21,683,506.83	22,101,023.10
Interest on loans to other banks	–	66,666.67	–
Interest on buying back the sale of financial assets	–	1,137,153.76	1,929,758.08
Interest on available-for-sale financial assets	–	2,060,931.50	2,060,931.50
Total	–	55,692,306.48	39,946,197.51

Note 6 Loans and advances to customers

Item	31 December 2021	31 December 2020	31 December 2019
Corporate loans and advances:	16,511,816,755.83	12,349,026,848.94	11,421,226,354.60
– Loans	15,735,386,119.11	11,397,570,235.82	9,563,025,030.83
– Discounting	508,854,057.42	560,445,415.00	1,331,297,403.86
– Financial leasing	267,576,579.30	391,011,198.12	526,903,919.91
Add: Interest accrued	19,229,065.93	–	–
Less: Impairment provision of loans	415,597,722.41	332,179,621.53	304,175,108.27
Including: Provision made on individual basis	–	–	–
Provision made on portfolio basis	415,597,722.41	332,179,621.53	304,175,108.27
Total carrying value of loans and advances	16,115,448,099.35	12,016,847,227.41	11,117,051,246.33

1. *Loans*

(1) Distribution details by maturity of loans

Item	31 December 2021	31 December 2020	31 December 2019
Short-term loans	11,335,881,335.22	7,299,198,297.05	7,744,849,966.00
Medium to long-term loans	4,399,504,783.89	4,098,371,938.77	1,818,175,064.83
Overdue loans	–	–	–
Total loans	15,735,386,119.11	11,397,570,235.82	9,563,025,030.83
Add: Interest accrued	18,619,906.02	–	–
Less: Impairment provision of loans	395,912,962.64	307,131,531.32	253,486,141.72
Net loans	15,358,093,062.49	11,090,438,704.50	9,309,538,889.11

(2) Distribution details by type of credit guarantee modes

Item	31 December 2021	31 December 2020	31 December 2019
Credit loans	11,343,351,787.57	8,028,815,150.54	7,367,503,466.00
Guaranteed loans	1,533,431,120.00	949,300,000.00	1,188,500,000.00
Loans secured by collateral	2,858,603,211.54	2,419,455,085.28	1,007,021,564.83
Including: Mortgage loans	2,563,152,706.54	2,264,455,085.28	757,575,064.83
Pledged loans	295,450,505.00	155,000,000.00	249,446,500.00
Total loans	15,735,386,119.11	11,397,570,235.82	9,563,025,030.83
Add: Interest accrued	18,619,906.02	–	–
Less: Impairment provision of loans	395,912,962.64	307,131,531.32	253,486,141.72
Including: Provision made on individual basis	–	–	–
Provision made on portfolio basis	395,912,962.64	307,131,531.32	253,486,141.72
Total carrying value of loans	15,358,093,062.49	11,090,438,704.50	9,309,538,889.11

(3) *Distribution details by unit nature of loans*

Item	**31 December 2021**	**31 December 2020**	**31 December 2019**
Group Parent	4,288,600,000.00	288,600,000.00	288,600,000.00
Listed companies	1,560,000,000.00	2,530,000,000.00	1,743,446,500.00
Other member companies	9,886,786,119.11	8,578,970,235.82	7,508,006,655.83
Extra-group units and individuals	–	–	22,971,875.00
Total loans	15,735,386,119.11	11,397,570,235.82	9,563,025,030.83
Add: Interest accrued	18,619,906.02	–	–
Less: Impairment provision of loans	395,912,962.64	307,131,531.32	253,486,141.72
Including: Provision made on individual basis	–	–	–
Provision made on portfolio basis	395,912,962.64	307,131,531.32	253,486,141.72
Total carrying value of loans	15,358,093,062.49	11,090,438,704.50	9,309,538,889.11

(4) *Five levels of loan classification*

Item	**31 December 2021**	**31 December 2020**	**31 December 2019**
Normal	15,634,253,732.22	11,397,570,235.82	9,563,025,030.83
Concerned	101,132,386.89	–	–
Add: Interest accrued	18,619,906.02	–	–
Less: Impairment provision of loans	395,912,962.64	307,131,531.32	253,486,141.72
Total carrying value of loans	15,358,093,062.49	11,090,438,704.50	9,309,538,889.11

(5) Impairment provision of loans

Item	1 January 2021	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2021
Impairment provision of loans	307,131,531.32	88,781,431.32	–	–	–	395,912,962.64
Total	307,131,531.32	88,781,431.32	–	–	–	395,912,962.64

Continued:

Item	31 December 2019	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2020
Impairment provision of loans	253,486,141.72	53,645,389.60	–	–	–	307,131,531.32
Total	253,486,141.72	53,645,389.60	–	–	–	307,131,531.32

Continued:

Item	31 December 2018	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2019
Impairment provision of loans	236,001,828.38	17,484,313.34	–	–	–	253,486,141.72
Total	236,001,828.38	17,484,313.34	–	–	–	253,486,141.72

2. *Discounting*

(1) *Distribution details by nature of notes*

Item	31 December 2021	31 December 2020	31 December 2019
Bank acceptance bill	63,937,163.87	19,435,093.70	39,538,760.84
Commercial acceptance notes	444,916,893.55	541,010,321.30	1,291,758,643.02
Transfer discount	–	–	–
Total discounting	508,854,057.42	560,445,415.00	1,331,297,403.86
Add: Interest accrued	–	–	–
Less: Impairment provision of loans	12,721,351.44	14,647,550.13	36,696,714.72
Net discounting	496,132,705.98	545,797,864.87	1,294,600,689.14

(2) *Distribution details by unit nature*

Item	31 December 2021	31 December 2020	31 December 2019
Group parent	–	–	–
Listed companies	–	1,350,000.00	796,695.00
Other member companies	419,805,572.91	559,095,415.00	1,330,500,708.86
Extra-group units and individuals	89,048,484.51	–	–
Total discounting	508,854,057.42	560,445,415.00	1,331,297,403.86
Add: Interest accrued	–	–	–
Less: Impairment provision of loans	12,721,351.44	14,647,550.13	36,696,714.72
Total carrying value of discounting	496,132,705.98	545,797,864.87	1,294,600,689.14

(3) *Five levels of discounting classification*

Item	31 December 2021	31 December 2020	31 December 2019
Normal	508,854,057.42	560,445,415.00	1,331,297,403.86
Add: Interest accrued	–	–	–
Less: Impairment provision of loans	12,721,351.44	14,647,550.13	36,696,714.72
Total carrying value of discounting	496,132,705.98	545,797,864.87	1,294,600,689.14

(4) Discounted impairment provision of loans

Item	1 January 2021	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2021
Discounted impairment provision of loans	14,647,550.13	-1,926,198.69	–	–	–	12,721,351.44
Total	14,647,550.13	-1,926,198.69	–	–	–	12,721,351.44

Continued:

Item	31 December 2019	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2020
Discounted impairment provision of loans	36,696,714.72	-22,049,164.59	–	–	–	14,647,550.13
Total	36,696,714.72	-22,049,164.59	–	–	–	14,647,550.13

Continued:

Item	31 December 2018	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2019
Discounted impairment provision of loans	32,532,928.79	4,163,785.93	–	–	–	36,696,714.72
Total	32,532,928.79	4,163,785.93	–	–	–	36,696,714.72

3. *Financial leasing*

(1) Composition of financial leasing

Item	31 December 2021	31 December 2020	31 December 2019
Financial leasing receivables	284,568,596.07	419,939,001.50	579,937,602.63
Financial leasing assets	–	–	–
Unconfirmed financing gains	-16,992,016.77	-28,927,803.38	-53,033,682.72
Total financial leasing	267,576,579.30	391,011,198.12	526,903,919.91
Add: Interest accrued	609,159.91	–	–
Less: Provision for losses	6,963,408.33	10,400,540.08	13,992,251.83
Total carrying value	261,222,330.88	380,610,658.04	512,911,668.08

(2) Five levels of financial leasing classification

Item	31 December 2021	31 December 2020	31 December 2019
Normal	267,576,579.30	391,011,198.12	526,903,919.91
Add: Interest accrued	609,159.91	–	–
Less: Impairment provision of loans	6,963,408.33	10,400,540.08	13,992,251.83
Total carrying value of financial leasing	261,222,330.88	380,610,658.04	512,911,668.08

(3) Impairment provision for financial leasing loans

Item	1 January 2021	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2021
Impairment provision for financial leasing loans	10,400,540.08	-3,437,131.75	–	–	–	6,963,408.33
Total	10,400,540.08	-3,437,131.75	–	–	–	6,963,408.33

Continued:

Item	31 December 2019	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2020
Impairment provision for financial leasing loans	13,992,251.83	-3,591,711.75	–	–	–	10,400,540.08
Total	13,992,251.83	–3,591,711.75	–	–	–	10,400,540.08

Continued:

Item	31 December 2018	Provision	Changes in the current period roll-out	Write off	Other changes	31 December 2019
Impairment provision for financial leasing loans	9,797,013.68	4,195,238.15	–	–	–	13,992,251.83
Total	9,797,013.68	4,195,238.15	–	–	–	13,992,251.83

Note 7. Financial assets classified as measured at fair value and its changes are accounted in loss and profit in current period

Item	31 December 2021	31 December 2020	31 December 2019
Trading financial assets	–	150,440,951.51	180,890,151.79
Including: Debt instrument investment	–	–	625,128.00
Equity instrument investment	–	–	17,730.10
Others (funds, trust investments)	–	150,440,951.51	180,247,293.69
Subtotal of designated as financial assets measured at fair value and its changes are accounted in current profits and losses	–	–	–
Including: Debt instrument investment	–	–	–
Equity instrument investment	–	–	–
Total	–	150,440,951.51	180,890,151.79

Note 8. Trading financial assets

Item	31 December 2021	31 December 2020	31 December 2019
Classified as financial assets measured at fair value and its changes are accounted in current profits and losses	927,433,537.20	–	–
Including: Debt instrument investment	–	–	–
Equity instrument investment	–	–	–
Funds	927,433,537.20	–	–
Total	927,433,537.20	–	–

Note 9. Debt investment

	31 December 2021		
Item	Book balance	Provision for impairment	Book value
Debt securities issued by policy banks			
Other financial bonds	250,000,000.00	6,250,000.00	243,750,000.00
Corporate bonds	160,000,000.00	4,000,000.00	156,000,000.00
Government bonds	572,950,354.06	–	572,950,354.06
Perpetual bond	50,000,000.00	1,250,000.00	48,750,000.00
Interbank certificate of deposit	4,731,678,249.28	–	4,731,678,249.28
Add: Interest accrued	14,355,301.39	–	14,355,301.39
Total	5,778,983,904.73	11,500,000.00	5,767,483,904.73

1. *Important bond investments at end of the period*

Bond project	Book value	Coupon rate	Actual interest rate	Maturity date
20 interest-bearing government bond 13A	30,000,000.00	3.02%	2.84%	22 October 2025
21 interest-bearing government bond 02A	30,000,000.00	3.03%	2.84%	11 March 2026
21 interest-bearing government bond 04A	30,000,000.00	2.84%	2.68%	8 April 2024
19 interest-bearing government bond 13A	20,000,000.00	2.94%	2.75%	17 October 2024
16 interest-bearing government bond 10A	30,000,000.00	2.90%	2.90%	5 May 2026
21 interest-bearing government bond 04B	30,000,000.00	2.84%	2.51%	8 April 2024
21 interest-bearing government bond 08A	20,000,000.00	2.57%	2.45%	20 May 2023
21 interest-bearing government bond 04C	20,000,000.00	2.84%	2.51%	8 April 2024
20 interest-bearing government bond 09A	50,000,000.00	2.36%	2.46%	2 July 2023
20 interest-bearing government bond 14A	50,000,000.00	2.88%	2.48%	5 November 2023
19 interest-bearing government bond 13B	30,000,000.00	2.94%	2.58%	17 October 2024
20 interest-bearing government bond 05A	50,000,000.00	1.99%	2.69%	9 April 2025
21 interest-bearing government bond 08B	30,000,000.00	2.57%	2.50%	20 May 2023
21 interest-bearing government bond 08C	40,000,000.00	2.57%	2.58%	20 May 2023
20 interest-bearing government bond 14B	30,000,000.00	2.88%	2.62%	5 November 2023
18 interest-bearing government bond 20A	10,000,000.00	3.60%	2.62%	6 September 2025
05 government bond 04A	30,000,000.00	4.11%	2.40%	15 May 2025
20 interest-bearing government bond 13B	20,000,000.00	3.02%	2.79%	22 October 2025
19 interest-bearing government bond 13C	20,000,000.00	2.94%	2.68%	17 October 2024
20 Sinomach 01	50,000,000.00	3.02%	3.02%	3 March 2025
20 Sinomach 02	10,000,000.00	2.67%	2.67%	15 April 2025
21 Sinomach 01	100,000,000.00	3.14%	3.14%	8 November 2024
19 Founder F1	30,000,000.00	4.71%	4.71%	27 February 2022
20 CS 16	20,000,000.00	3.55%	3.55%	7 August 2023
20 CICC 07	50,000,000.00	3.78%	3.78%	10 September 2025
20 China Merchants Securities G4	20,000,000.00	3.55%	3.55%	21 September 2022
20 China Merchants Securities G5	30,000,000.00	3.78%	3.78%	21 September 2023
20 ShenZheng 10	20,000,000.00	3.68%	3.68%	26 October 2023
20 CICC 13	30,000,000.00	3.48%	3.48%	28 October 2022
20 CSC Financial C1	30,000,000.00	3.90%	3.90%	24 February 2022
20 China Merchants Securities C1	20,000,000.00	4.38%	4.38%	3 June 2023
17 China Merchants Securities Y4	50,000,000.00	5.58%	5.58%	19 June 2022
Total	1,030,000,000.00			

Note 10. Financial assets held to maturity

	31 December 2021			31 December 2020		
Item	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Bond investments	–	–	–	1,181,396,645.01	35,441,899.35	1,145,954,745.66
Total	–	–	–	1,181,396,645.01	35,441,899.35	1,145,954,745.66

Continued:

	31 December 2019		
Item	Book balance	Provision for impairment	Book value
Bond investments	1,050,108,948.86	31,503,268.47	1,018,605,680.39
Total	1,050,108,948.86	31,503,268.47	1,018,605,680.39

Note 11. Others equity instrument investment

1. Category of other equity instruments investment

Item	31 December 2021
SUMEC Co. Ltd.	197,285,064.48
Industrial and Commercial Bank of China Limited	10,054,850.00
SUMEC Group Corporation	160,002,560.00
Guoren Property and Casualty Insurance Co. Ltd.	21,817,705.35
Total	389,160,179.83

2. *Category of non-tradable equity instruments investment*

Item	Cost	Ending balance Fair value	Changes in fair value accumulated in other comprehensive income
SUMEC Co. Ltd.	199,999,996.56	-2,714,932.08	-2,036,199.06
Industrial and Commercial Bank of China Limited	10,000,000.00	54,850.00	41,137.50
SUMEC Group Corporation	160,000,000.00	2,560.00	1,920.00
Guoren Property and Casualty Insurance Co. Ltd.	21,652,000.00	165,705.35	124,279.01
Total	391,651,996.56	-2,491,816.73	-1,868,862.55

Note 12. Financial assets available for sale

	31 December 2021			31 December 2020		
Item	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Available-for-sale debt instrument	–	–	–	–	–	–
Available-for-sale equity instrument	–	–	–	551,512,705.69	–	551,512,705.69
Including: measured at fair value	–	–	–	529,860,705.69	–	529,860,705.69
Including: measured at cost	–	–	–	21,652,000.00	–	21,652,000.00
Total	–	–	–	551,512,705.69	–	551,512,705.69

Continued:

	31 December 2019		
Item	Book balance	Provision for impairment	Book value
Available-for-sale debt instrument	–	–	–
Available-for-sale equity instrument	563,508,130.73	–	563,508,130.73
Including: measured at fair value	541,856,130.73	–	541,856,130.73
Including: measured at cost	21,652,000.00	–	21,652,000.00
Total	563,508,130.73	–	563,508,130.73

Note 13. **Fixed assets**

Item	31 December 2021	31 December 2020	31 December 2019
Fixed assets	13,522,244.55	13,821,332.66	16,962,030.65
Disposal of fixed assets	–	–	–
Total	13,522,244.55	13,821,332.66	16,962,030.65

1. *Original Value and Accumulated Depreciation of Fixed Assets*

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
I. Total original book balance	51,294,157.66	3,204,129.16	–	54,498,286.82
Including: Buildings	33,814,793.55	–	–	33,814,793.55
Transportation equipment	1,533,540.02	–	–	1,533,540.02
Electronic and office equipment	14,945,184.99	3,202,270.75	–	18,147,455.74
Office furniture and others	1,000,639.10	1,858.41	–	1,002,497.51
II. Total accumulated depreciation	37,472,825.00	3,503,217.27	–	40,976,042.27
Including: Buildings	23,194,766.61	1,642,263.07	–	24,837,029.68
Transportation equipment	1,456,863.02	–	–	1,456,863.02
Electronic and office equipment	11,913,011.83	1,843,489.18	–	13,756,501.01
Office furniture and others	908,183.54	17,465.02	–	925,648.56
III. Total net book value	13,821,332.66	–	–	13,522,244.55
Including: Buildings	10,620,026.94	–	–	8,977,763.87
Transportation equipment	76,677.00	–	–	76,677.00
Electronic and office equipment	3,032,173.16	–	–	4,390,954.73
Office furniture and others	92,455.56	–	–	76,848.95
IV. Total provision for impairment	–	–	–	–
Including: Buildings	–	–	–	–
Transportation equipment	–	–	–	–
Electronic and office equipment	–	–	–	–
Office furniture and others	–	–	–	–
V. Total carrying value	13,821,332.66	–	–	13,522,244.55
Including: Buildings	10,620,026.94	–	–	8,977,763.87
Transportation equipment	76,677.00	–	–	76,677.00
Electronic and office equipment	3,032,173.16	–	–	4,390,954.73
Office furniture and others	92,455.56	–	–	76,848.95

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
I. Total original book balance	50,892,286.58	401,871.08	–	51,294,157.66
Including: Buildings	33,814,793.55	–	–	33,814,793.55
Transportation equipment	1,533,540.02	–	–	1,533,540.02
Electronic and office equipment	14,560,998.94	384,186.05	–	14,945,184.99
Office furniture and others	982,954.07	17,685.03	–	1,000,639.10
II. Total accumulated depreciation	33,930,255.93	3,542,569.07	–	37,472,825.00
Including: Buildings	21,552,503.54	1,642,263.07	–	23,194,766.61
Transportation equipment	1,456,863.02	–	–	1,456,863.02
Electronic and office equipment	10,066,577.39	1,846,434.44	–	11,913,011.83
Office furniture and others	854,311.98	53,871.56	–	908,183.54
III. Total net book value	16,962,030.65	–	–	13,821,332.66
Including: Buildings	12,262,290.01	–	–	10,620,026.94
Transportation equipment	76,677.00	–	–	76,677.00
Electronic and office equipment	4,494,421.55	–	–	3,032,173.16
Office furniture and others	128,642.09	–	–	92,455.56
IV. Total provision for impairment	–	–	–	–
Including: Buildings	–	–	–	–
Transportation equipment	–	–	–	–
Electronic and office equipment	–	–	–	–
Office furniture and others	–	–	–	–
V. Total carrying value	16,962,030.65	–	–	13,821,332.66
Including: Buildings	12,262,290.01	–	–	10,620,026.94
Transportation equipment	76,677.00	–	–	76,677.00
Electronic and office equipment	4,494,421.55	–	–	3,032,173.16
Office furniture and others	128,642.09	–	–	92,455.56

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
I. Total original book balance	49,280,773.99	2,172,638.59	561,126.00	50,892,286.58
Including: Buildings	33,814,793.55	–	–	33,814,793.55
Transportation equipment	1,533,540.02	–	–	1,533,540.02
Electronic and office equipment	12,963,811.87	2,158,313.07	561,126.00	14,560,998.94
Office furniture and others	968,628.55	14,325.52	–	982,954.07
II. Total accumulated depreciation	30,796,974.85	3,666,350.79	533,069.71	33,930,255.93
Including: Buildings	19,910,240.47	1,642,263.07	–	21,552,503.54
Transportation equipment	1,387,996.31	68,866.71	–	1,456,863.02
Electronic and office equipment	8,731,298.47	1,868,348.63	533,069.71	10,066,577.39
Office furniture and others	767,439.60	86,872.38	–	854,311.98
III. Total net book value	18,483,799.14	–	–	16,962,030.65
Including: Buildings	13,904,553.08	–	–	12,262,290.01
Transportation equipment	145,543.71	–	–	76,677.00
Electronic and office equipment	4,232,513.40	–	–	4,494,421.55
Office furniture and others	201,188.95	–	–	128,642.09
IV. Total provision for impairment	–	–	–	–
Including: Buildings	–	–	–	–
Transportation equipment	–	–	–	–
Electronic and office equipment	–	–	–	–
Office furniture and others	–	–	–	–
V. Total carrying value	18,483,799.14	–	–	16,962,030.65
Including: Buildings	13,904,553.08	–	–	12,262,290.01
Transportation equipment	145,543.71	–	–	76,677.00
Electronic and office equipment	4,232,513.40	–	–	4,494,421.55
Office furniture and others	201,188.95	–	–	128,642.09

Note 14. **Intangible assets**

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
I. Total original price	17,136,532.47	4,052,657.37	–	21,189,189.84
Including: Software	17,136,532.47	4,052,657.37	–	21,189,189.84
II. Total accumulated amortisation	12,056,052.65	3,334,228.41	–	15,390,281.06
Including: Software	12,056,052.65	3,334,228.41	–	15,390,281.06
III. Total impairment provision	–	–	–	–
Including: Software	–	–	–	–
IV. Total book value	5,080,479.82	–	–	5,798,908.78
Including: Software	5,080,479.82	–	–	5,798,908.78

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
I. Total original price	15,375,759.41	1,760,773.06	–	17,136,532.47
Including: Software	15,375,759.41	1,760,773.06	–	17,136,532.47
II. Total accumulated amortisation	9,111,070.41	2,944,982.24	–	12,056,052.65
Including: Software	9,111,070.41	2,944,982.24	–	12,056,052.65
III. Total impairment provision	–	–	–	–
Including: Software	–	–	–	–
IV. Total book value	6,264,689.00	–	–	5,080,479.82
Including: Software	6,264,689.00	–	–	5,080,479.82

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
I. Total original price	10,303,489.74	5,072,269.67	–	15,375,759.41
Including: Software	10,303,489.74	5,072,269.67	–	15,375,759.41
II. Total accumulated amortisation	6,857,810.77	2,253,259.64	–	9,111,070.41
Including: Software	6,857,810.77	2,253,259.64	–	9,111,070.41
III. Total impairment provision	–	–	–	–
Including: Software	–	–	–	–
IV. Total book value	3,445,678.97	–	–	6,264,689.00
Including: Software	3,445,678.97	–	–	6,264,689.00

Note 15. **Deferred income tax assets and deferred income tax liabilities**

1. Deferred income tax assets and deferred income tax liabilities are not presented on a net basis after offsetting

Item	31 December 2021		31 December 2020	
	Deferred income tax assets or liabilities	Deductible or taxable temporary difference	Deferred income tax assets or liabilities	Deductible or taxable temporary difference
I. Deferred income tax assets	83,508,011.92	334,032,047.64	111,824,192.83	447,296,771.26
Provision for asset impairment	81,158,303.07	324,633,212.24	97,042,405.77	388,169,623.05
Changes in fair value of financial assets available-for-sale	–	–	13,319,960.96	53,279,843.82
Accrual adjusted discount interest	1,604,254.67	6,417,018.67	1,357,576.10	5,430,304.39
Working funds of party development works	122,500.00	490,000.00	104,250.00	417,000.00
Changes in fair value of other financial assets accounted in other comprehensive income (applicable to new standards)	622,954.18	2,491,816.73	–	–

Continued:

Item	31 December 2019	
	Deferred income tax assets or liabilities	Deductible or taxable temporary difference
I. Deferred income tax assets	102,721,851.95	410,887,407.75
Provision for asset impairment	75,301,811.26	301,207,245.01
Withholding performance pay	7,123,223.65	28,492,894.61
Changes in fair value of financial assets held for trading	-25,752.75	-103,010.97
Changes in fair value of financial assets available-for-sale	14,890,752.50	59,563,009.96
Accrual adjusted discount interest	5,356,433.50	21,425,734.00
Working funds of party development works	75,383.79	301,535.14

Note 16. Other assets

Item	31 December 2021	31 December 2020	31 December 2019
Other receivables	4,590,074.76	1,096,798.20	952,966.89
Income tax prepayments	2,575,482.70	–	–
Credit tax pending verification	315,400.08	5,407.08	–
Outstanding VAT credit	–	4,531,208.20	12,558,169.91
Interest on time deposit	4,692,916.66	–	–
Total	12,173,874.20	5,633,413.48	13,511,136.80

Breakdown of other receivables by aging is as follows:

Aging	31 December 2021			31 December 2020		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	*Ratio (%)*		*Amount*	*Ratio (%)*	
Within 1 year (including 1 year)	4,562,257.56	99.39	–	919,602.27	83.84	–
1-2 years (including 2 years)	12,432.60	0.27	–	161,811.33	14.75	–
2-3 years (including 3 years)	–	–	–	–	–	–
Over 3 years	15,384.60	0.34	–	15,384.60	1.41	–
Total	4,590,074.76	100.00	–	1,096,798.20	100.00	–

Continued:

Aging	31 December 2019		
	Book balance		Bad debt provision
	Amount	*Ratio (%)*	
Within 1 year (including 1 year)	937,582.29	98.39	–
1-2 years (including 2 years)	–	–	–
2-3 years (including 3 years)	2,883.51	0.30	–
Over 3 years	12,501.09	1.31	–
Total	952,966.89	100.00	–

Note: Other receivables mainly include receivables and payments between related companies, petty cash to employees and advances for development of intangible assets etc. No bad debt provision is made for the above other receivables.

Note 17. **Deposits taking**

Item	31 December 2021	31 December 2020	31 December 2019
Deposit of member companies	41,981,741,090.73	35,004,383,851.17	35,502,876,933.70
Including: demand deposit	29,267,019,587.32	24,035,406,086.01	22,357,176,800.38
Time deposit (including notice deposit)	12,714,721,503.41	10,968,977,765.16	13,145,700,133.32
Other deposits (including inward and outward remittances, etc.)	–	–	–
Add: Interest accrued	99,896,039.22	–	–
Total	42,081,637,129.95	35,004,383,851.17	35,502,876,933.70

Note 18. **Employee benefits payable**

1. Presentation of employee benefits payable

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
Short-term remuneration	–	32,474,200.66	32,474,200.66	–
Post-employment welfare – Defined contribution plan	–	4,332,555.99	4,332,555.99	–
Total	–	36,806,756.65	36,806,756.65	–

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
Short-term remuneration	28,492,894.61	343,606.71	28,836,501.32	–
Post-employment welfare – Defined contribution plan	–	2,062,859.90	2,062,859.90	–
Total	28,492,894.61	2,406,466.61	30,899,361.22	–

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
Short-term remuneration	28,492,894.61	25,142,265.73	25,142,265.73	28,492,894.61
Post-employment welfare – Defined contribution plan	–	4,433,453.90	4,433,453.90	–
Total	28,492,894.61	29,575,719.63	29,575,719.63	28,492,894.61

2. *Presentation of short-term remuneration*

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
Wages or salaries, bonuses, allowances and subsidies	–	26,939,337.31	26,939,337.31	–
Staff welfare expense	–	1,270,849.33	1,270,849.33	–
Social insurance expense	–	1,653,958.20	1,653,958.20	–
Including: Basic medical insurance expense	–	1,493,536.86	1,493,536.86	–
Supplementary medical insurance	–	–	–	–
Work-related injury insurance expense	–	27,357.04	27,357.04	–
Birth insurance expense	–	133,064.30	133,064.30	–
Housing funds	–	1,960,923.00	1,960,923.00	–
Union & employee education funds	–	626,951.21	626,951.21	–
Other short-term remuneration – labour dispatch	–	22,181.61	22,181.61	–
Total	–	32,474,200.66	32,474,200.66	–

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
Wages or salaries, bonuses, allowances and subsidies	28,492,894.61	-3,976,217.69	24,516,676.92	–
Staff welfare expense	–	684,558.43	684,558.43	–
Social insurance expense	–	1,275,097.69	1,275,097.69	–
Including: Basic medical insurance expense	–	1,176,024.80	1,176,024.80	–
Supplementary medical insurance	–	–	–	
Work-related injury insurance expense	–	4,367.95	4,367.95	–
Birth insurance expense	–	94,704.94	94,704.94	–
Housing funds	–	1,735,323.00	1,735,323.00	–
Union & employee education funds	–	539,523.04	539,523.04	–
Other short-term remuneration – labour dispatch	–	85,322.24	85,322.24	–
Total	28,492,894.61	343,606.71	28,836,501.32	–

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
Wages or salaries, bonuses, allowances and subsidies	28,492,894.61	20,851,376.91	20,851,376.91	28,492,894.61
Staff welfare expense	–	581,780.91	581,780.91	–
Social insurance expense	–	1,512,838.26	1,512,838.26	–
Including: Basic medical insurance expense	–	1,285,083.30	1,285,083.30	–
Supplementary medical insurance	–	100,455.93	100,455.93	–
Work-related injury insurance expense	–	24,491.55	24,491.55	–
Birth insurance expense	–	102,807.48	102,807.48	–
Housing funds	–	1,555,600.00	1,555,600.00	–
Union & employee education funds	–	519,521.13	519,521.13	–
Other short-term remuneration – labour dispatch	–	121,148.52	121,148.52	–
Total	28,492,894.61	25,142,265.73	25,142,265.73	28,492,894.61

3. *Presentation of defined contribution plan*

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
Basic endowment insurance	–	2,356,702.60	2,356,702.60	–
Unemployment insurance premium	–	88,938.62	88,938.62	–
Enterprise annuity payment	–	1,886,914.77	1,886,914.77	–
Total	–	4,332,555.99	4,332,555.99	–

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
Basic endowment insurance	–	349,085.60	349,085.60	–
Unemployment insurance premium	–	17,454.30	17,454.30	–
Enterprise annuity payment	–	1,696,320.00	1,696,320.00	–
Total	–	2,062,859.90	2,062,859.90	–

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
Basic endowment insurance	–	2,108,440.35	2,108,440.35	–
Unemployment insurance premium	–	97,830.05	97,830.05	–
Enterprise annuity payment	–	2,227,183.50	2,227,183.50	–
Total	–	4,433,453.90	4,433,453.90	–

Note 19. Taxes payables

Item	31 December 2020	Payable for the period	Paid for the period	31 December 2021
Value-added tax (VAT)	3,537,978.89	30,176,654.15	24,478,186.84	9,236,446.20
Enterprise income tax	33,987,588.37	75,346,636.08	109,334,224.45	–
Urban maintenance and construction tax	247,658.52	2,112,365.79	1,713,473.08	646,551.23
Property tax	–	284,044.26	284,044.26	–
Land use tax	–	2,175.84	2,175.84	–
Individual income tax	1,446,752.32	2,302,447.59	2,528,658.78	1,220,541.13
Education surcharge (including local education surcharge)	176,898.95	1,508,832.71	1,223,909.35	461,822.31
Other taxes	–	1,089,533.40	1,089,533.40	–
Total	39,396,877.05	112,822,689.82	140,654,206.00	11,565,360.87

Continued:

Item	31 December 2019	Payable for the period	Paid for the period	31 December 2020
Value-added tax (VAT)	6,452,823.63	25,000,386.92	27,915,231.66	3,537,978.89
Enterprise income tax	26,233,419.69	109,149,719.77	101,395,551.09	33,987,588.37
Urban maintenance and construction tax	451,697.65	1,750,027.09	1,954,066.22	247,658.52
Property tax	–	284,044.26	284,044.26	–
Land use tax	–	2,175.84	2,175.84	–
Individual income tax	1,356,011.94	1,962,058.00	1,871,317.62	1,446,752.32
Education surcharge (including local education surcharge)	322,641.18	1,250,019.35	1,395,761.58	176,898.95
Other taxes	–	828,373.60	828,373.60	–
Total	34,816,594.09	140,226,804.83	135,646,521.87	39,396,877.05

Continued:

Item	31 December 2018	Payable for the period	Paid for the period	31 December 2019
Value-added tax (VAT)	5,488,043.11	26,863,174.30	25,898,393.78	6,452,823.63
Enterprise income tax	27,994,357.83	104,443,610.75	106,204,548.89	26,233,419.69
Urban maintenance and construction tax	384,163.02	1,880,422.20	1,812,887.57	451,697.65
Property tax	–	284,044.26	284,044.26	–
Land use tax	–	2,175.84	2,175.84	–
Individual income tax	2,100,415.96	2,163,535.40	2,907,939.42	1,356,011.94
Education surcharge (including local education surcharge)	274,402.15	1,343,158.71	1,294,919.68	322,641.18
Other taxes	–	890,405.10	890,405.10	–
Total	36,241,382.07	137,870,526.56	139,295,314.54	34,816,594.09

Note 20. **Interests payable**

Item	31 December 2021	31 December 2020	31 December 2019
Interest payable on time deposits	–	43,117,849.04	81,381,653.16
Interest payable on call deposits	–	5,053,239.20	3,222,968.57
Interest payable on demand deposits	–	4,295,943.19	4,176,774.05
Interest payable on repurchase of financial assets sold	–	–	–
Total	–	52,467,031.43	88,781,395.78

Note 21. **Estimated liabilities**

	31 December 2021
Expected credit losses on off -balance sheet items	2,101,104.92
Total	2,101,104.92

Note 22. **Other liabilities**

Item	31 December 2021	31 December 2020	31 December 2019
Agent liabilities	1.72	1.72	1.72
Guarantee deposits	128,713,425.23	135,249,518.40	276,763,338.46
Other payables	19,918,224.76	14,237,895.04	32,535,439.56
Total	148,631,651.71	149,487,415.16	309,298,779.74

Note: The book value of Sinomach Finance's agent business at the beginning of the year and the ending book value for the period are shown as the difference between the assets and liabilities of the agent business in other liabilities item.

Breakdown of other payables by aging is as follows:

Item	31 December 2021	31 December 2020	31 December 2019
Within 1 year (including 1 year)	14,179,431.72	9,077,683.60	27,836,426.92
1-2 years (including 2 year)	578,581.60	461,198.80	487,023.00
2-3 years (including 3 year)	461,198.80	487,023.00	–
Over 3 years	4,699,012.64	4,211,989.64	4,211,989.64
Total	19,918,224.76	14,237,895.04	32,535,439.56

Note 23. Share capital

Name of Investor	31 December 2020 Amount of investment	Percentage (%)	Increase in this period	Decrease in this period	31 December 2021 Amount of investment	Percentage (%)
China National Machinery Industry Corporation	306,000,000.00	20.40	–	–	306,000,000.00	20.40
China Machinery Engineering Corporation	234,440,000.00	15.63	–	–	234,440,000.00	15.63
China Automobile Trading Company Limited	147,200,000.00	9.82	–	–	147,200,000.00	9.82
China National Machinery Industry Construction Group Inc.	109,040,000.00	7.27	–	–	109,040,000.00	7.27
China National Electric Engineering Co., Ltd.	95,410,000.00	6.36	–	–	95,410,000.00	6.36
Xi'an Heavy Machinery Research Institute Co., Ltd.	81,780,000.00	5.44	–	–	81,780,000.00	5.44
SUMEC Group Corporation	81,780,000.00	5.44	–	–	81,780,000.00	5.44
China Auto CAIEC Ltd.	68,150,000.00	4.54	–	–	68,150,000.00	4.54
China IPPR International Engineering Co., Ltd.	54,520,000.00	3.63	–	–	54,520,000.00	3.63
China United Engineering Corporation Limited	54,520,000.00	3.63	–	–	54,520,000.00	3.63
Guangzhou Mechanical Engineering Research Institute Co., Ltd.	35,440,000.00	2.36	–	–	35,440,000.00	2.36
China National Heavy Machinery Corporation	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China National Machinery Industry International Cooperation Co., Ltd.	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China Foma (Group) Co., Ltd.	27,260,000.00	1.82	–	–	27,260,000.00	1.82
Machinery Industry Fourth Design & Research Institute Co., Ltd.	16,360,000.00	1.09	–	–	16,360,000.00	1.09
Machinery Industry Sixth Design and Research Institute Co., Ltd.	32,720,000.00	2.18	–	–	32,720,000.00	2.18
China National Cable Engineering Corporation	13,630,000.00	0.91	–	–	13,630,000.00	0.91
China National Electrical Equipment Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Hefei General Machinery Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Chengdu Tool Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Tianjin Research Institute of Electric Science Co., Ltd.	10,900,000.00	0.73	–	–	10,900,000.00	0.73
Lanzhou Petroleum Machinery Research Institute Co., Ltd.	10,900,000.00	0.73	–	–	10,900,000.00	0.73
Shenyang Academy of Instrumentation Science Co., Ltd	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Luoyang Bearing Research Institute Co., Ltd.	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Zhengzhou Research Institute for Abrasives & Grinding Co., Ltd.	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Total	1,500,000,000.00	100.00	–	–	1,500,000,000.00	100.00

Continued:

Name of Investor	31 December 2019 Amount of investment	31 December 2019 Percentage (%)	Increase in this period	Decrease in this period	31 December 2020 Amount of investment	31 December 2020 Percentage (%)
China National Machinery Industry Corporation	306,000,000.00	20.40	–	–	306,000,000.00	20.40
China Machinery Engineering Corporation	234,440,000.00	15.63	–	–	234,440,000.00	15.63
China Automobile Trading Company Limited	122,670,000.00	8.18	24,530,000.00	–	147,200,000.00	9.82
China National Machinery Industry Construction Group Inc.	109,040,000.00	7.27	–	–	109,040,000.00	7.27
China National Electric Engineering Co., Ltd.	95,410,000.00	6.36	–	–	95,410,000.00	6.36
Xi'an Heavy Machinery Research Institute Co., Ltd.	81,780,000.00	5.44	–	–	81,780,000.00	5.44
SUMEC Group Corporation	81,780,000.00	5.44	–	–	81,780,000.00	5.44
China Auto CAIEC Ltd.	68,150,000.00	4.54	–	–	68,150,000.00	4.54
China IPPR International Engineering Co., Ltd.	54,520,000.00	3.63	–	–	54,520,000.00	3.63
China United Engineering Corporation Limited	54,520,000.00	3.63	–	–	54,520,000.00	3.63
Guangzhou Mechanical Engineering Research Institute Co., Ltd.	35,440,000.00	2.36	–	–	35,440,000.00	2.36
China National Heavy Machinery Corporation	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China National Machinery Industry International Cooperation Co., Ltd.	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China Foma (Group) Co., Ltd.	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China National General Machinery Engineering Corporation	24,530,000.00	1.64	–	24,530,000.00		
Machinery Industry Fourth Design & Research Institute Co., Ltd.	16,360,000.00	1.09	–	–	16,360,000.00	1.09
Machinery Industry Sixth Design and Research Institute Co., Ltd.	32,720,000.00	2.18	–	–	32,720,000.00	2.18
China National Cable Engineering Corporation	13,630,000.00	0.91	–	–	13,630,000.00	0.91
China National Electrical Equipment Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Hefei General Machinery Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Chengdu Tool Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Tianjin Research Institute of Electric Science Co., Ltd.	10,900,000.00	0.73	–	–	10,900,000.00	0.73
Lanzhou Petroleum Machinery Research Institute Co., Ltd.	10,900,000.00	0.73	–	–	10,900,000.00	0.73
Shenyang Academy of Instrumentation Science Co., Ltd	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Luoyang Bearing Research Institute Co., Ltd.	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Zhengzhou Research Institute for Abrasives & Grinding Co., Ltd.	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Total	1,500,000,000.00	100.00	24,530,000.00	24,530,000.00	1,500,000,000.00	100.00

Continued:

Name of Investor	31 December 2018 Amount of investment	31 December 2018 Percentage (%)	Increase in this period	Decrease in this period	31 December 2019 Amount of investment	31 December 2019 Percentage (%)
China National Machinery Industry Corporation	306,000,000.00	20.40	–	–	306,000,000.00	20.40
China Machinery Engineering Corporation	234,440,000.00	15.63	–	–	234,440,000.00	15.63
China Automobile Trading Company Limited	122,670,000.00	8.18	–	–	122,670,000.00	8.18
China National Machinery Industry Construction Group Inc.	109,040,000.00	7.27	–	–	109,040,000.00	7.27
China National Electric Engineering Co., Ltd.	95,410,000.00	6.36	–	–	95,410,000.00	6.36
Xi'an Heavy Machinery Research Institute Co., Ltd.	81,780,000.00	5.44	–	–	81,780,000.00	5.44
SUMEC Group Corporation	81,780,000.00	5.44	–	–	81,780,000.00	5.44
China Auto CAIEC Ltd.	68,150,000.00	4.54	–	–	68,150,000.00	4.54
China IPPR International Engineering Co., Ltd.	54,520,000.00	3.63	–	–	54,520,000.00	3.63
China United Engineering Corporation Limited	54,520,000.00	3.63	–	–	54,520,000.00	3.63
Guangzhou Mechanical Engineering Research Institute Co., Ltd.	35,440,000.00	2.36	–	–	35,440,000.00	2.36
China National Heavy Machinery Corporation	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China National Machinery Industry International Cooperation Co., Ltd.	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China Foma (Group) Co., Ltd.	27,260,000.00	1.82	–	–	27,260,000.00	1.82
China National General Machinery Engineering Corporation	24,530,000.00	1.64	–	–	24,530,000.00	1.64
Machinery Industry Fourth Design & Research Institute Co., Ltd.	16,360,000.00	1.09	–	–	16,360,000.00	1.09
Machinery Industry Sixth Design and Research Institute Co., Ltd.	32,720,000.00	2.18	–	–	32,720,000.00	2.18
China National Cable Engineering Corporation	13,630,000.00	0.91	–	–	13,630,000.00	0.91
China National Electrical Equipment Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Hefei General Machinery Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Chengdu Tool Research Institute Co., Ltd.	13,630,000.00	0.91	–	–	13,630,000.00	0.91
Tianjin Research Institute of Electric Science Co., Ltd.	10,900,000.00	0.73	–	–	10,900,000.00	0.73
Lanzhou Petroleum Machinery Research Institute Co., Ltd.	10,900,000.00	0.73	–	–	10,900,000.00	0.73
Shenyang Academy of Instrumentation Science Co., Ltd	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Luoyang Bearing Research Institute Co., Ltd.	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Zhengzhou Research Institute for Abrasives & Grinding Co., Ltd.	8,180,000.00	0.55	–	–	8,180,000.00	0.55
Total	1,500,000,000.00	100.00	–	–	1,500,000,000.00	100.00

Note 24. Capital reserve

1. Information on capital reserve

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
I. Capital stock premium	24,340,000.00	–	–	24,340,000.00
II. Other capital reserve	785,358.10	–	–	785,358.10
Total	25,125,358.10	–	–	25,125,358.10

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
III. Capital stock premium	24,340,000.00	–	–	24,340,000.00
IV. Other capital reserve	785,358.10	–	–	785,358.10
Total	25,125,358.10	–	–	25,125,358.10

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
V. Capital stock premium	24,340,000.00	–	–	24,340,000.00
VI. Other capital reserve	785,358.10	–	–	785,358.10
Total	25,125,358.10	–	–	25,125,358.10

Note 25. Surplus reserve

Item	1 January 2021	Increase in this period	Decrease in this period	31 December 2021
Statutory surplus reserve	325,741,913.17	30,619,805.85	–	356,361,719.02
Discretionary surplus reserve	2,540,506.42	–	–	2,540,506.42
Total	328,282,419.59	30,619,805.85	–	358,902,225.44

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
Statutory surplus reserve	297,861,499.22	29,680,780.20	–	327,542,279.42
Discretionary surplus reserve	2,540,506.42	–	–	2,540,506.42
Total	300,402,005.64	29,680,780.20	–	330,082,785.84

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
Statutory surplus reserve	268,926,358.71	28,935,140.51	–	297,861,499.22
Discretionary surplus reserve	2,540,506.42	–	–	2,540,506.42
Total	271,466,865.13	28,935,140.51	–	300,402,005.64

Explanation on the increase or decrease in surplus reserve: the increase in surplus reserve in this period refers to the statutory surplus reserve drawn by Sinomach Finance based on 10% of the net profit of this period.

Note 26. General risk reserves

Item	31 December 2020	Increase in this period	Decrease in this period	31 December 2021
General risk reserves	566,470,410.73	102,947,846.17	–	669,418,256.90

Continued:

Item	31 December 2019	Increase in this period	Decrease in this period	31 December 2020
General risk reserves	566,470,410.73	–	–	566,470,410.73

Continued:

Item	31 December 2018	Increase in this period	Decrease in this period	31 December 2019
General risk reserves	439,949,313.86	126,521,096.87	–	566,470,410.73

Note 27. Retained earnings

Item	2021	2020	2019
Opening balance of this period	695,549,604.17	483,422,582.42	404,527,414.66
Adjusted amount at beginning of the period	-16,203,296.20		
Increase in this period	306,198,058.53	296,807,801.95	289,351,405.14
Including: Net profit transferred in this period	306,198,058.53	296,807,801.95	289,351,405.14
Other adjustment factors			
Decrease in this period	253,774,952.02	84,680,780.20	210,456,237.38
Including: Surplus reserves drawn in this period	30,619,805.85	29,680,780.20	28,935,140.51
General risk reserves drawn in this period	102,947,846.17	–	126,521,096.87
Cash dividend distributed in this period	120,207,300.00	55,000,000.00	55,000,000.00
Capital transferred	–	–	–
Other decreases	–	–	–
Ending balance of this period	731,769,414.48	695,549,604.17	483,422,582.42

Note 28. Interest income

Item	2021	2020	2019
1. From deposits in other banks	183,411,652.76	330,717,745.93	407,665,077.15
2. From deposits in central bank	20,232,988.78	22,700,919.53	20,816,806.14
3. Lending funds	100,000.00	153,333.34	–
4. Loans and advances granted	460,059,825.42	423,566,001.90	445,547,402.17
Including: Corporate loans and advances	446,408,077.23	383,879,748.98	383,848,349.61
Notes discounting	13,651,748.19	39,686,252.92	61,699,052.56
5. Buying back the sale of financial assets	19,078,064.79	18,553,626.87	8,686,578.33
6. Interest income from interbank depository receipts held	–	34,324,000.00	–
7. Others	4,776.16	3,236.64	16,111.19
Including: interest income on impaired financial assets	–	–	–
Total	682,887,307.91	830,018,864.21	882,731,974.98

Note 29. **Fees and commission income**

Item	2021	2020	2019
1. Agent fees	10,522,948.86	3,230,926.50	11,572,134.39
2. Credit commitment fees and commissions	7,095,870.85	9,073,660.06	7,963,329.75
3. Others	347,735.84	553,386.67	432,758.69
Total	17,966,555.55	12,857,973.23	19,968,222.83

Note 30. **Investment income**

Sources of investment income	2021	2020	2019
Investment income from holding of trading financial assets	10,969,623.62	–	–
Investment income from disposal of trading financial assets	-20,010,851.19	–	–
Investment income from holding of debt investments	147,895,384.27	–	–
Investment income from disposal of debt investments	3,647,269.38	–	–
Investment income from holding of investments on other equity instrument	7,571,643.91	–	–
Investment income from holding of financial assets measured at fair value and its changes are accounted in loss and profit in current period	–	10,329,624.97	4,258,766.52
Investment income from disposal of financial assets measured at fair value and its changes are accounted in loss and profit in current period	–	39,231,900.97	5,478,160.12
Investment income from holding of held-to-maturity investments	–	40,139,064.41	39,805,389.83
Investment income from disposal of held-to-maturity investments	–	600,874.51	425826.08
Investment income from available-for-sale financial assets	–	24,019,611.10	25,772,288.94
Investment income from disposal of available-for-sale financial assets	–	803,496.07	–72,592,075.77
Total	150,073,069.99	115,124,572.03	3,148,355.72

Note 31. Other income

Item	2021	2020	2019
Government grants	485,283.74	–	–
Others	35,307.88	54,866.78	–
Total	520,591.62	54,866.78	–

Note 32. Income of the fair value change

Sources of income of the fair value change	2021	2020	2019
Trading financial assets	22,208,954.46	–	–
Financial assets classified as measured at fair value and its changes are accounted for in profit and loss in current period	–	-103,010.97	95,855.97
Total	22,208,954.46	-103,010.97	95,855.97

Note 33. Exchange gains

Item	2021	2020	2019
Net income from translation of foreign currency monetary assets and liabilities	-1,781,050.46	-3,982,582.47	888,367.07
Net income from foreign exchange settlement and sale, foreign exchange trading and other foreign exchange business	622,128.35	-3,705,837.18	1,989,196.23
Total	-1,158,922.11	-7,688,419.65	2,877,563.30

Note 34. Assets disposal income

Item	2021	2020	2019
Profit or loss of the disposal of fixed assets	–	–	-17,274.17
Total	–	–	-17,274.17

Note 35. Interest expenses

Item	2021	2020	2019
Deposits from banks and other financial institutes	4,682,894.45	1,995,694.45	14,516,659.19
Deposits taking	404,033,801.12	420,326,354.53	427,794,594.27
Sale of repurchase financial assets	25,262,929.38	7,732,023.08	7,088,457.93
Total	433,979,624.95	430,054,072.06	449,399,711.39

Note 36. Fees and commission expense

Item	2021	2020	2019
Service fee expense	6,268,718.70	6,476,546.12	5,879,256.05
Total	6,268,718.70	6,476,546.12	5,879,256.05

Note 37. Operating and management charges

Item	2021	2020	2019
Employee compensation	36,784,575.04	2,321,144.37	29,454,571.11
Labour costs (labour secondment)	200,461.61	111,972.24	138,398.52
Labour outsourcing expense	651,570.14	648,548.34	649,020.22
Travel expenses	128,876.95	150,298.81	445,318.22
Office fee	214,313.31	180,514.65	394,102.93
Conference fee	39,126.17	10,012.42	47,305.75
Insurance fee	–	2,001.98	14,406.01
Repair expense	24,526.15	8,352.22	58,384.50
Depreciation and amortisation	6,837,445.68	6,487,551.31	5,919,610.43
Energy costs	269,994.83	275,034.22	278,633.93
Business entertainment expense	52,206.33	77,844.20	158,018.37
Communication network fee	488,858.81	598,292.09	721,743.54
Vehicle usage fee	35,401.61	31,276.10	4,912.13
City transportation	28,988.18	33,610.26	52,498.48
Rent fee	247,091.72	170,941.72	88,608.00
Agency fee	1,940,423.70	2,330,324.06	2,040,018.38
Non-deductible input tax	191,119.58	346,481.25	356,619.56
Funding for special projects	231,459.74	134,054.24	216,727.88
Association fees	260,683.02	309,000.00	315,000.00
Administrative fees	147,383.34	130,961.29	156,858.15
Litigation costs	100.00	–	–
Business promotion expense	49,623.08	–	–
Supervision fees	2,032,545.21	–	–
Total	50,856,774.20	14,358,215.77	41,510,756.11

Note 38. Loss on impairment on credit

Item	2021	2020	2019
Lending to banks and other financial institutions	-2,500,000.00	–	–
Buying back the sale of financial assets	-82,032,600.00	–	–
Loans and advances to customers	83,418,100.88	–	–
Debt investment	-23,941,899.35	–	–
Other debt investment	–	–	–
Expected credit losses on off balance sheet items	305,176.11	–	–
Others	–	–	–
Total	-24,751,222.36	–	–

Note 39. Impairment loss of other assets

Item	2021	2020	2019
Impairment loss of held-to-maturity investments	–	3,938,630.88	9,013,741.24
Lending to banks and other financial institutions	–	7,500,000.00	–
Impairment loss of buying back the sale of financial assets	–	59,773,550.00	–1,715,250.00
Impairment loss of loans and advances to customers	–	28,004,513.26	25,843,337.42
Others	–	209,937.50	–
Total	–	99,426,631.64	33,141,828.66

Note 40. Non-operating income

Item	2021	2020	2019
Others	2.41	250,371.65	84,905.66
Total	2.41	250,371.65	84,905.66

Note 41. Non-operating expenses

Item	2021	2020	2019
Donations to outside party	500,000.00	800,000.00	280,000.00
Forfeiture and late payment expenses	57,105.48	722.25	–
Total	557,105.48	800,722.25	280,000.00

Note 42. Income tax expenses

Item	2021	2020	2019
Current income tax expenses	72,771,153.38	109,149,719.77	104,443,610.75
Deferred income tax adjustment	21,620,394.95	–10,673,132.42	–19,517,169.92
Total	94,391,548.33	98,476,587.35	84,926,440.83

The adjustment process of accounting profit and income tax expenses:

Item	2021	2020	2019
Total profit	400,589,606.86	395,284,389.30	374,277,845.97
Income tax expenses at statutory/ applicable tax rates	100,147,401.72	98,821,097.33	93,569,461.49
The impact of non-taxable income	-5,917,980.14	-1,411,371.91	-1,938,973.61
Non-deductible cost, cost and loss impact	162,126.75	1,066,861.93	-6,704,047.05
Income tax expenses	94,391,548.33	98,476,587.35	84,926,440.83

Note 43. Other comprehensive income

1. *Items of other comprehensive income and its impact on income tax and transfers to profit or loss*

		2021	
Item	Amount before tax	Income tax	Net after tax
Changes in fair value of investment in other equity instruments	28,862,573.49	7,215,643.37	21,646,930.12
Sub-total	28,862,573.49	7,215,643.37	21,646,930.12
Total other comprehensive income	28,862,573.49	7,215,643.37	21,646,930.12

Continued:

Item	Amount before tax	2020 Income tax	Net after tax
Gains or losses arising from changes in fair value of financial assets available for sale	595,141.55	148,785.39	446,356.16
Less: Transfer to other comprehensive income in prior period and transfer to profit or loss in this period	-5,688,024.59	-1,422,006.15	-4,266,018.44
Sub-total	6,283,166.14	1,570,791.54	4,712,374.60
Total other comprehensive income	6,283,166.14	1,570,791.54	4,712,374.60

Continued:

Item	Amount before tax	2019 Income tax	Net after tax
Gains or losses arising from changes in fair value of financial assets available for sale	76,224,563.16	19,056,140.79	57,168,422.37
Less: Transfer to other comprehensive income in prior period and transfer to profit or loss in this period	-77,558,767.93	-19,389,691.98	-58,169,075.95
Sub-total	153,783,331.09	38,445,832.77	115,337,498.32
Total other comprehensive income	153,783,331.09	38,445,832.77	115,337,498.32

2. *Reconciliation of items of other comprehensive income*

Item	Gains or losses arising from changes in fair value of financial assets available for sale	Total other comprehensive income
I. Balance as at 31 December 2020	-39,959,882.86	-39,959,882.86
II. Adjusted amount as at 1 January 2021	16,444,090.19	16,444,090.19
III. Balance as at 1 January 2021	-23,515,792.67	-23,515,792.67
IV. Increase or decrease in 2021	21,646,930.12	21,646,930.12
V. Balance as at 31 December 2021	-1,868,862.55	-1,868,862.55

Continued:

Item	Gains or losses arising from changes in fair value of financial assets available for sale	Total other comprehensive income
I. Balance as at 1 January 2019	-160,009,755.78	-160,009,755.78
II. Increase or decrease in 2019	115,337,498.32	115,337,498.32
III. Balance as at 1 January 2020	-44,672,257.46	-44,672,257.46
IV. Increase or decrease in 2020	4,712,374.60	4,712,374.60
V. Balance as at 31 December 2020	-39,959,882.86	-39,959,882.86

Continued:

Item	Gains or losses arising from changes in fair value of financial assets available for sale	Total other comprehensive income
I. Balance as at 1 January 2018	-43,491,230.33	-43,491,230.33
II. Increase or decrease in 2018	-116,518,525.45	-116,518,525.45
III. Balance as at 1 January 2019	-160,009,755.78	-160,009,755.78
IV. Increase or decrease in 2019	115,337,498.32	115,337,498.32
V. Balance as at 31 December 2019	-44,672,257.46	-44,672,257.46

Note 44. **Statement of Cash Flows**

1. Reconciliation of net profit to cash flows from operating activities

Item	2021	2020	2019
1. Reconciliation of net profit to cash flows from operating activities:			
Net profit	306,198,058.53	296,807,801.95	289,351,405.14
Add: Provision for asset impairment	–	99,426,631.64	33,141,828.66
Credit impairment loss (applicable to new standards)	-24,751,222.36	–	–
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	3,503,217.27	3,542,569.07	3,666,350.79
Amortization of intangible assets	3,334,228.41	2,944,982.24	2,253,259.64
Amortization of long-term deferred expenses	–	–	–
Loss on disposal of fixed assets, intangible assets and other long-term assets (Gain listed as "-")	–	–	17,274.17
Loss on disposal of fixed assets (Gain listed as "-")	–	–	–
Gain or loss from changes in fair value (Gain listed as "-")	-22,208,954.46	103,010.97	–95,855.97
Financial expenses (Gain listed as "-")	–	–	–

Item	2021	2020	2019
Loss on investments (Gain listed as "-")	-150,073,069.99	-115,124,572.03	-3,148,355.72
Decrease in deferred tax assets (Increase listed as "-")	21,620,394.95	-10,673,132.42	-19,517,169.92
Increase in deferred tax liabilities (Decrease listed as "-")	–	–	–
Decrease in contract assets (Increase listed as "-")	–	–	–
Decrease in inventories (Increase listed as "-")	–	–	–
Decrease in operating receivables (Increase listed as "-")	-753,133,404.23	-3,516,294,565.20	-1,114,651,682.22
Increase in operating payables (Decrease listed as "-")	7,060,845,625.20	-718,531,423.11	8,254,443,056.68
Others	–	–	–
Net cash flow generated from operating activities	6,445,334,873.32	-3,957,798,696.89	7,445,460,111.25
2. Significant non-cash investing and financing activities:	–	–	–
Conversion of debts into capital			
Convertible bonds repayable within 1 year	–	–	–
Fixed assets acquired under financial leasing arrangement	–	–	–
3. Net changes in cash and cash equivalents:			
Ending balance of cash	18,277,759,480.55	17,010,316,573.50	21,172,719,437.78
Less：Beginning balance of cash	15,844,609,373.50	21,172,719,437.78	13,855,024,217.50
Add：Ending balance of cash equivalents	–	–	–
Less：Beginning balance of cash equivalents	–	–	–
Net increase in cash and cash equivalents	2,433,150,107.05	-4,162,402,864.28	7,317,695,220.28

2. *Cash and cash equivalents*

Item	2021	2020	2019
I. Cash	18,277,759,480.55	17,010,316,573.50	21,172,719,437.78
Including: Cash on hand	–	–	48,025.26
Bank deposits ready for payment	1,514,515.55	3,445,475.88	1,637,141.38
Other monetary funds ready for payment			
Deposit in the Central Bank ready for payment	12,881.20	12,881.20	12,881.20
Interbank deposits	18,276,232,083.80	17,006,858,216.42	21,171,021,389.94
Loans to other banks			
II. Cash equivalents	–	–	–
Including: Bond investments due within 3 months	–	–	–
III. Ending balance of cash and cash equivalents	18,277,759,480.55	17,010,316,573.50	21,172,719,437.78

Note 45. Foreign currency monetary items

Item	Balance of foreign currency as at 31 December 2021	Exchange rate	Balance converted into RMB as at 31 December 2021
Cash and amount deposited in the central bank	–	–	170,233,885.40
Including: US$ (United States dollar)	25,822,000.00	6.375700	164,633,325.40
EUR (Euro)	–	7.219700	–
HK$ (Hong Kong Dollar)	6,850,000.00	0.817600	5,600,560.00
JPY (Japanese Yen)	–	0.055415	–
Interbank deposits	–	–	3,038,352,237.15
Including: US$	395,327,668.15	6.375700	2,520,490,613.82
EUR	63,792,179.74	7.219700	460,560,400.07
HK$	70,062,406.33	0.817600	57,283,023.42
JPY	328,428.00	0.055415	18,199.84
Loans	–	–	103,761,329.65
Including: US$	16,274,500.00	6.375700	103,761,329.65
EUR	–	7.219700	–
HK$	–	0.817600	–
JPY	–	0.055415	–
Deposits taking	–	–	3,233,907,676.97
Including: US$	425,398,846.25	6.375700	2,712,215,424.04
EUR	63,632,781.99	7.219700	459,409,596.13
HK$	76,177,417.81	0.817600	62,282,656.80
JPY	–	0.055415	–

Continued:

Item	Balance of foreign currency as at 31 December 2020	Exchange rate	Balance converted into RMB as at 31 December 2020
Cash and amount deposited in the central bank	–	–	176,131,336.60
Including: US$	26,550,000.00	6.524900	173,236,095.00
EUR	–	8.025000	–
HK$	3,440,000.00	0.841640	2,895,241.60
JPY	–	0.063236	–
Interbank deposits	–	–	2,189,049,882.45
Including: US$	299,515,012.31	6.524900	1,954,305,503.82
EUR	22,513,748.91	8.025000	180,672,835.00
HK$	64,220,777.47	0.841640	54,050,775.15
JPY	328,428.00	0.063236	20,768.48
Deposits taking	–	–	2,291,158,954.04
Including: US$	315,000,838.07	6.524900	2,055,348,968.32
EUR	22,353,996.57	8.025000	179,390,822.47
HK$	67,034,790.48	0.841640	56,419,161.06
JPY	34.56	0.063236	2.19
Interest payable	–	–	160,608.87
Including: US$	15,640.07	6.524900	102,049.89
EUR	0.62	8.025000	4.98
HK$	69,571.31	0.841640	58,554.00
JPY	–	0.063236	–

Continued:

Item	Balance of foreign currency as at 31 December 2019	Exchange rate	Balance converted into RMB as at 31 December 2019
Cash and amount deposited in the central bank	–	–	146,666,987.80
Including: US$	20,622,000.00	6.9762	143,863,196.40
EUR	–	7.8155	–
HK$	3,130,000.00	0.89578	2,803,791.40
JPY	–	0.064086	–
Interbank deposits	–	–	3,178,359,435.48
Including: US$	413,483,241.18	6.9762	2,884,541,787.12
EUR	30,719,219.96	7.8155	240,086,063.60
HK$	59,959,518.10	0.89578	53,710,537.12
JPY	328,428.00	0.064086	21,047.64
Loans	–	–	162,970,500.00
Including: US$	20,000,000.00	6.9762	139,524,000.00
EUR	3,000,000.00	7.8155	23,446,500.00
HK$	–	0.89578	–
JPY	–	0.064086	–
Interest receivable	–	–	139,924.45
Including: US$	19,833.34	6.9762	138,361.35
EUR	200.00	7.8155	1,563.10
HK$	–	0.89578	–
JPY	–	0.064086	–
Deposits taking	–	–	3,351,267,355.15
Including: US$	434,719,070.02	6.9762	3,032,687,176.27
EUR	33,576,387.66	7.8155	262,416,257.76
HK$	62,698,339.89	0.89578	56,163,918.91
JPY	34.56	0.064086	2.21
Interest payable	–	–	342,603.31
Including: US$	26,697.20	6.9762	186,245.00
EUR	0.92	7.8155	7.19
HK$	174,541.87	0.89578	156,351.12
JPY	–	–	–

Note 46. Assets with limited ownership or use rights

Item	31 December 2021	31 December 2020	31 December 2019
Statutory reserve deposited in the central bank	1,490,277,224.33	1,515,284,271.75	1,445,907,344.42

VIII EXPLANATION ON CONTINGENCIES

(I) Contingent Liabilities

1. Loan commitment

Item	Contract amount as at 31 December 2021	Contract amount as at 31 December 2020	Contract amount as at 31 December 2019
Loan commitment	67,005,989,759.44	31,768,925,544.59	21,337,916,543.49
Including: originally due within 1 year	–	–	–
originally due over 1 year (inclusive)	67,005,989,759.44	31,768,925,544.59	21,337,916,543.49
Issuance of letter of credit	223,830,369.88	617,188.79	98,889,599.43
Issuance of letter of guarantee	1,149,660,411.06	1,760,988,377.74	1,887,078,348.76
Bank acceptance notes	1,302,444,341.33	906,777,434.05	1,028,195,334.30
Others	–	8,040,000.00	329,769,372.71
Total	69,681,924,881.71	34,445,348,545.17	24,681,849,198.69

2. Except for the above contingencies, as of 31 December 2021, Sinomach Finance has no other outstanding major contingencies that is required to be disclosed.

IX. POST-BALANCE SHEET EVENTS

As of the date on which the financial report is approved, Sinomach Finance has no outstanding material post-balance sheet event which is required to be disclosed.

X RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

(I) Relationships with Related Parties

1. Controlling shareholder and ultimate controller

Name of the parent company	Registered address	Business nature	Registered capital *(RMB'0,000)*	Shareholding *(%)*	Proportion of voting rights *(%)*
Sinomach	No. 3 Danling Street, Haidian District, Beijing	Contracting of heavy machineries and engineering projects, etc.	2,600,000.00	20.40	20.40

(II) Transactions with Related Parties

According to Sinomach Finance's authorised business scope, except for investment business and inter-bank business, all other businesses and related income of Sinomach Finance are related-party transactions between the parent company, Sinomach, and its member companies.

(III) Balance of Amounts due from and to Related Parties

1. Amounts due to related parties

Item	Related Parties	31 December 2021	31 December 2020	31 December 2019
Other payables	Sinomach	5,699,013.04	5,699,013.04	5,160,211.44

XI. MISCELLANEOUS

China YTO Group Finance Company Limited* ("**YTO Finance**"), a controlled subsidiary of First Tractor Company Limited* ("**First Tractor**"), intends to implement the restructuring with Sinomach Finance, a controlled subsidiary of Sinomach. The primary purpose of this restructuring is to implement the financial regulatory requirements under the Implementing Measures of the China Banking Regulatory Commission for Administrative Licensing Matters relating to Non-banking Financial Institutions (Order of CBRC 2020 No.6) which only require one finance company within the same corporate group, (1) YTO Finance intends to cease the operation, dissolve and cancel. After the cancellation of YTO Finance, Sinomach Finance will become the only financial company under Sinomach; (2) to properly handle the impact of the dissolution and cancellation of YTO Finance, and to ensure the smooth connection of Sinomach Finance's financial services to First Tractor, Sinomach Finance intends to acquire some of its assets, and provide non-exclusive financial services to First Tractor after obtaining the approval at the general meeting of First Tractor, and also set up a branch company in Henan; (3) First Tractor intends to increase its capital contribution to Sinomach Finance in cash to obtain certain return on investment and leverage Sinomach Finance's financial resources to provide financial service support for sustainable and stable development of the company. The pricing basis for the capital increase by First Tractor: the valuation of the entire equity interests of Sinomach Finance's shareholders as recognised in the asset valuation report issued by the valuer with 31 December 2021 as the reference date and filed with the state-owned assets regulatory authority shall be used as the pricing basis for this capital increase.

Sinomach Finance Co., Ltd.
31 May 2022

I. BASIC BUSINESS INFORMATION

Sinomach Finance is jointly invested and established by Sinomach and its 25 member companies. The company was duly established in September 2003 with a registered capital of RMB1.5 billion under the approval of the CBIRC. Sinomach Finance is a non-banking financial institution with the objective of enhancing the centralised management of the group's capital and improving the efficiency of the group's capital utilisation, and its daily business operations are subject to the supervision of the CBIRC.

The scope of business of Sinomach Finance, as approved by the CBIRC, includes the provision of deposits taking, loans and underwriting of corporate bonds to the member companies of Sinomach Group, as well as providing financial services such as financial leasing, financial and financing consultancy, credit authentication and relevant consulting and agency services, settlement services, provision of letters of guarantee and letters of credit, entrusted loans, and acceptance and discounting of bills. Sinomach Finance has always adhered to the basic objective of "relying on the resources of the group to serve the development of the group" and the business philosophy of marketisation and professionalism, and continued to leverage the functions of the four platforms of "Fund Collection, Fund Settlement, Fund Monitoring and Financial Services", so as to provide important financial support for the business development of the Sinomach Group.

II. OPERATIONS OF SINOMACH FINANCE

(A) Key items in Income Statement

For the financial years ended 31 December 2019, 2020 and 2021, the profitability of Sinomach Finance increased steadily, with profit before tax amounted to RMB374,277,800, RMB395,284,400 and RMB400,589,600 respectively. The net profit amounted to RMB289,351,400, RMB296,807,800 and RMB306,198,100 respectively.

1. Total operating revenue

For the financial years ended 31 December 2019, 2020 and 2021, the total operating revenue of Sinomach Finance were RMB908,804,700, RMB950,264,800 and RMB872,497,600 respectively. It mainly comprised the following:

(1) Interest income

For the financial years ended 31 December 2019, 2020 and 2021, interest income of Sinomach Finance were RMB882,732,000, RMB830,018,900 and RMB682,887,300 respectively (see the table below for the interest income breakdown). The decrease in interest income in 2021 was mainly due to: (i) the year-on-year decrease in the average daily balance of interbank deposits and the average interest rate; and (ii) the reclassification of inter-bank certificates of deposit in 2021 in accordance with the new standards, and the income generated therefrom was accounted for as investment income, and no longer recognised as interest income.

Item name	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Deposits in central bank	20,816.80	22,700.90	20,233.00
Deposits in other banks	407,665.10	330,717.70	183,411.70
Inter-bank certificates of deposit	–	34,324.00	–
Lending funds	–	153.30	100.00
Loans and advances granted	345,240.90	360,281.00	430,285.00
Financial leasing	34,963.50	23,007.40	16,123.00
Buyer's credit	3,643.90	591.50	–
Notes discounting	61,699.10	39,686.30	13,651.70
Buying back the sale of financial assets	8,686.60	18,553.60	19,078.10
Others	16.10	3.20	4.80
Total	**882,732.00**	**830,018.90**	**682,887.30**

(2) Other revenue

Other revenue mainly included fees and commission income, investment income, income from changes in fair value, exchange gain and asset disposal income. For the financial years ended 31 December 2019, 2020 and 2021, other revenue of Sinomach Finance amounted to RMB26,072,800, RMB120,246,100 and RMB189,610,400 respectively. In 2019, in light of the overall downturn in the capital market, Sinomach Finance reduced the scale of investment to prevent and control risks, and investment income decreased accordingly. In 2021, owing to the reclassification of gains from interbank certificates of deposit to other income in accordance with the new standards and the impact of changes in the fair value of financial assets available-for-sale, the income increased accordingly.

Item	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Fees and commission income	19,968.20	12,858.00	17,966.60
Investment income	3,148.40	115,124.60	150,073.10
Income from changes in fair value	95.90	(103.00)	22,209.00
Exchange gain	2,877.60	(7,688.40)	(1,158.90)
Losses on disposal of assets	(17.30)	–	–
Other income	–	54.90	520.60
Total	**26,072.80**	**120,246.10**	**189,610.40**

2. Total operating expenses

For the financial years ended 31 December 2019, 2020 and 2021, total operating expenses of Sinomach Finance were RMB534,331,800, RMB554,430,100 and RMB471,350,800 respectively. It mainly comprised of the following:

(1) Interest expense

For the financial years ended 31 December 2019, 2020 and 2021, the interest expense of Sinomach Finance were RMB449,399,700, RMB430,054,100 and RMB433,979,600 respectively (see the table below for the interest expense breakdown).

Item name	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
Loans from other banks	14,516.70	1,995.70	4,682.90
Sale of repurchase financial assets	6,429.70	7,503.50	25,059.80
Discounting liabilities	658.70	228.50	203.10
Deposits taking	427,794.60	420,326.40	404,033.80
	449,399.70	**430,054.10**	**433,979.60**

(2) Business and administrative expenses

For the financial years ended 31 December 2019, 2020 and 2021, business and administrative expenses of Sinomach Finance were RMB41,510,800, RMB14,358,200 and RMB50,856,800, respectively, of which, labour costs were RMB29,593,000, RMB2,433,100 and RMB36,985,000, respectively.

In 2020, the significant decrease in labour costs of Sinomach Finance was attributable to the one-time offsetting of the total historical balance of wages against the labour costs in that period in accordance with the policies of that year. In 2021, the increase in administrative expenses of Sinomach Finance was mainly due to the expiry of the regulatory fee waiver policy that was enjoyed in the previous period and the payment of regulatory fees of over RMB2 million in that year. At the same time, Sinomach Finance fortified its investments in software and hardware equipments to improve service capability and upgrade customer experience, resulting in a corresponding increase in the depreciation of fixed assets and amortisation of intangible assets.

(3) Credit impairment loss

For the financial years ended 31 December 2019, 2020 and 2021, the credit impairment losses of Sinomach Finance were RMB33,141,800, RMB99,426,600 and -RMB24,751,200 respectively. In 2021, the negative credit impairment loss of Sinomach Finance was mainly due to the reversal of credit impairment loss provision resulting from the decrease in carrying amount for the credit risk assets held by it.

(4) Other expenses

Other expenses mainly included fee and commission expenses, operating taxes and surcharges. For the financial years ended 31 December 2019, 2020 and 2021, the other businesses of Sinomach Finance were relatively stable and other expenses were RMB10,279,500, RMB10,591,200 and RMB11,265,700 respectively, which remained relatively stable.

(B) Key Items in Balance Sheet

As at 31 December 2019, 2020 and 2021, total assets of Sinomach Finance were RMB38,795 million, RMB38,323 million and RMB45,527 million respectively, and its total liabilities were RMB35,964 million, RMB35,246 million and RMB42,244 million respectively.

1. Assets

(1) Cash and deposits in central bank

As at 31 December 2019, 2020 and 2021, the balances of cash and deposits in central bank amounted to RMB1,446 million, RMB1,515 million and RMB1,490 million respectively. The cash and deposits in central bank of Sinomach Finance mainly represented the deposit reserves maintained by Sinomach Finance in accordance with the relevant regulations of the PBOC (the legal reserve ratio as at 31 December 2021 was 5% of the arithmetic average of the end-of-day balance of monthly general deposits, and 6% at the end of 2019 and 2020).

(2) Interbank deposits

As at 31 December 2019, 2020 and 2021, the balances of interbank deposits of Sinomach Finance were RMB21,173 million, RMB17,010 million and RMB18,278 million respectively.

(3) Loans and advances to customers

As at 31 December 2019, 2020 and 2021, the balances of loans and advances by Sinomach Finance to customers were RMB11,117 million, RMB12,017 million and RMB16,115 million respectively.

(4) Buying back the sale of financial assets

As at 31 December 2019, 2020 and 2021, the balances of buying back the sale of financial assets by Sinomach Finance were RMB3,117 million, RMB5,449 million and RMB2,250 million respectively.

(5) Financial investments

The financial investments of Sinomach Finance were mainly financial products with low risk and good liquidity, such as policy bank bonds, monetary funds and government bonds purchased by Sinomach Finance to enhance the level of capital utilisation. As at 31 December 2019, 2020 and 2021, the investment balances were RMB1,763 million, RMB1,848 million and RMB7,084 million respectively.

(6) Lending to banks and other financial institutions

Lending to banks and other financial institutions were short-term funds lent by Sinomach Finance to licensed financial institutions, with a maximum period of not more than 7 days. As at 31 December 2019, 2020 and 2021, the balances of lending funds of Sinomach Finance were nil, RMB293 million and RMB195 million respectively.

(7) Others

Other assets mainly included fixed assets such as office premises and equipment, intangible assets (e.g. information technology software) and deferred income tax assets, etc. As at 31 December 2019, 2020 and 2021, the balances of others assets of Sinomach Finance were RMB139 million, RMB136 million and RMB115 million respectively.

2. Liabilities

(1) Deposits taking

Deposits taking represented deposits taken from all member companies of the Sinomach Group. As at 31 December 2019, 2020 and 2021, the balances of deposits taking of Sinomach Finance were RMB35,503 million, RMB35,004 million and RMB42,082 million respectively, of which demand deposit amounted to RMB22,357 million, RMB24,035 million and RMB29,267 million and time deposit amounted to RMB13,146 million, RMB10,969 million and RMB12,715 million respectively.

(2) Other liabilities

Other liabilities of Sinomach Finance were mainly deposits made by member companies for letters of credit, letters of guarantee and bank acceptance bills, etc. As at 31 December 2019, 2020 and 2021, the balances of other liabilities of Sinomach Finance were RMB309 million, RMB149 million and RMB149 million respectively.

(III) Business Segments

The main businesses of Sinomach Finance mainly include liability-related business and asset-related business.

Liability-related business mainly includes deposit taking business and interbank borrowing business. Specifically, for the financial years ended 31 December 2019, 2020 and 2021, the average daily deposit taking size of Sinomach Finance were RMB22.3 billion, RMB26.0 billion and RMB23.6 billion respectively. For detailed financial information, please see (A) 2.(1) Interest expense, and (B) 2.(1) Deposit taking.

Asset-related business mainly includes credit business, inter-bank business and investment business. Specifically, for the financial years ended 31 December 2019, 2020 and 2021, the average daily credit size of Sinomach Finance were RMB10.0 billion, RMB10.8 billion and RMB12.8 billion respectively. For detailed financial information, please see (A) 1.(1) Interest income, (A) 1.(2) Other revenue, (B) 1.(1) Cash and deposits in central bank, (B) 1.(2) Deposits in other banks, (B) 1.(3) loans and advances to customers, (B) 1.(4) Buying back the sale of financial assets, (B) 1.(5) Financial investments, (B) 1.(6) Lending funds.

(IV) Others

1. Source and Application of Funds

Deposits from member companies of the Sinomach Group are the main source of funds for Sinomach Finance, which are mainly used for granting loans to member companies of the Sinomach Group, buying back the sale of financial assets, interbank deposit and financial investments.

2. Gearing ratio

As at 31 December 2019, 2020 and 2021, the gearing ratios (i.e. the ratio of total liabilities to total assets at the end of each year) of Sinomach Finance were 92.70%, 91.97% and 92.79% respectively. As an enterprise group finance company, Sinomach Finance is a non-banking financial institution, and with its nature similar to banks, therefore it has a relatively high gearing ratio.

3. Cash and cash equivalents

As at 31 December 2019, 2020 and 2021, the balances of cash and cash equivalents of Sinomach Finance were RMB21,173 million, RMB17,010 million and RMB18,278 million.

4. *Foreign currency monetary item*

The foreign currencies currently held by Sinomach Finance are mainly United States dollars (US$), Euro (EUR), Japanese Yen (JPY) and Hong Kong dollars (HK$), and the breakdown are as follows:

Unit: '000 in original currency

Item		2019	2020	2021
Cash and deposits in central bank				
Including	US$	20,622.00	26,550.00	25,822.00
	HK$	3,130.00	3,440.00	6,850.00
Deposits in other banks				
Including	US$	413,483.20	299,515.00	395,327.70
	EUR	30,719.20	22,513.70	63,792.20
	HK$	59,959.50	64,220.80	70,062.40
	JPY	328.40	328.40	328.40
Loans				
Including	US$	20,000.00	315,000.80	16,274.50
	EUR	3,000.00	22,354.00	–
	HK$	–	67,034.80	–
Deposits taking				
Including	US$	434,719.10	–	425,398.80
	EUR	33,576.40	–	63,632.80
	HK$	62,698.30	–	76,177.40

5. *Assets with limited ownership or rights of use*

The assets with limited ownership or rights of use of Sinomach Finance are statutory reserves of deposit placed with the PBOC and Sinomach Finance has no other charges on its assets.

6. Contingent liabilities

The contingent liabilities of Sinomach Finance mainly comprise loan undertakings, transfer letters of credit, letters of guarantee and bank acceptance bills. As at 31 December 2019, 2020 and 2021, the contingent liabilities of Sinomach Finance were RMB24,682 million, RMB34,445 million and RMB69,682 million respectively, which was mainly the unused amount from the credit limit granted to the member companies.

7. Foreign exchange risk

The principal operation of Sinomach Finance is mainly situated in the PRC and most of the transactions are settled in RMB. However, as the customers of Sinomach Finance include member companies of the Sinomach Group with operations outside the PRC, it can provide two types of business, namely the centralised operation of foreign exchange funds and spot settlement and sale of foreign exchange for these member companies according to the approval of CBIRC. The exchange rate fluctuations may affect the operating results of Sinomach Finance to a certain extent.

Sinomach Finance manages its exchange rate risk prudently, makes fully leverage on its consolidated foreign currency positions and closes them as and when appropriate to minimise its exposure to foreign exchange risk. No relevant hedging operations against exchange rate fluctuations have been undertaken by Sinomach Finance.

8. Significant investments, major acquisitions and disposals

For the financial years ended 31 December 2019, 2020 and 2021, Sinomach Finance had no significant investment, major acquisition and disposal that represented 5% or more of the total assets of Sinomach Finance.

10. Borrowings and financial instruments used for hedging purposes

As at 31 December 2019, 2020 and 2021, there was no borrowings by Sinomach Finance. There was no hedging operation using financial instruments.

11. Employees and remuneration policy

According to the requirements of reform and development, Sinomach Finance has perfected the compensation and assessment system of "determining positions based on merit", "determining compensation based on positions" and "different compensation for one position". Adhering to the philosophy of achieving balance between creation of value and maintenance of fairness, it optimised the deployment of compensation resources and enhanced Sinomach Finance's capabilities in high-quality development.

While emphasising the orientation of performance and strengthening positive incentives, it pays great attention to risk control and implement measures such as deferred payment system for the performance-based compensation of Sinomach Finance's senior management, to promote stable operation and sustainable development. In addition to basic social insurance, it implemented supplementary welfare systems such as supplementary medical care and enterprise annuity.

As at 31 December 2019, 2020 and 2021, Sinomach Finance has 53, 59 and 60 employees respectively. The total remuneration paid to employees was RMB29,575,700, RMB30,899,400 and RMB36,806,800 respectively.

12. Future plans for significant investments or capital assets

As at 31 December 2021, Sinomach Finance had no significant investment or future plans for its capital assets.

III. BUSINESS OUTLOOK

Sinomach Finance is in a period of significant strategic development opportunities. As a leading enterprise in China's machinery industry, the Sinomach Group has been operating steadily. It is a leading company in the fields of heavy equipment, agricultural and forestry equipment, and textile equipment, etc. in China, and has also been identified by the State-owned Assets Supervision and Administration Commission ("**SASAC**") as a state-owned capital investment company, which puts forward higher requirements for strengthening capital control and risk management. The function and position of Sinomach Finance in the strategy of the Sinomach Group will be strengthened continuously; the SASAC promotes the construction of treasury system, which will further enhance the important position of finance companies in the modern financial management system of the Sinomach Group; with the completion of the integration of finance companies, the capital strength of Sinomach Finance will be enhanced continuously, and its anti-risk capability and risk prevention and control capacity will be further improved, which will become an important platform for the capital collection and control of the Sinomach Group.

2022 marks an extraordinary year to establish the new pattern of future development for Sinomach Finance. Sinomach Finance will adhere to the general keynote of maintaining stability first and seeking progress in the midst of stability, adhere to the bottom line of risk, follow the strategies of the Sinomach Group and its affiliated enterprises actively, meet the needs of member enterprises actively, explore existing business and innovate services regarding favourable industries of the Sinomach Group. It will push forward the implementation of products such as research project loans, and steadily implement credit support; enhance its ability to serve its members, stabilise and continuously increase the scale of deposit-taking; continuously increase its settlement coverage, and give full play to the function of capital financing while serving its members; fully utilise its resource advantages, optimise its asset allocation strategy, expand the cooperation area of inter-bank business, and steadily implement low risk investments while strictly controlling risks, so as to improve the efficiency and income of asset allocation.

(A) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Introduction

The following unaudited pro forma statement of assets and liabilities of the Company and its subsidiaries (collectively referred to as the "**Group**") ("**Unaudited Pro Forma Financial Information**"), is prepared by the Directors to illustrate the effect of the Capital Increase as if the Capital Increase had been completed on 31 December 2021. Details of the Capital Increase are set out in the section headed "Letter from the Board" contained in this circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules, for the purpose of illustrating the effect of the Capital Increase pursuant to the terms of the Investment Agreement (as revised and supplemented by the Supplemental Investment Agreement).

The Unaudited Pro Forma Financial Information is prepared based on the information on the audited consolidated statement of financial position of the Group as at 31 December 2021, which has been extracted from the published annual report of the Company for the financial year ended 31 December 2021 and after making pro forma adjustments relating to the Capital Increase that are (i) directly attributable to the Capital Increase; and (ii) factually supportable, as if the Capital Increase had been completed on 31 December 2021. The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Capital Increase been completed as at 31 December 2021 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction of the historical financial information of the Group, as set out in the published annual report of the Company for the financial year ended 31 December 2021, and other financial information included elsewhere in the circular.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

	The Group as at 31 December 2021	Pro forma Adjustments	Unaudited pro forma total for the Group
	RMB	*RMB*	*RMB*
Current assets:			
Monetary Funds	3,243,399,611.65	(554,776,100.00)	2,688,623,511.65
Lendings to Banks and Other Financial Institutions	23,320,000.00		23,320,000.00
Trading financial assets	1,038,970,988.74		1,038,970,988.74
Derivative financial assets			
Notes receivable	62,757,621.58		62,757,621.58
Accounts receivable	301,661,736.48		301,661,736.48
Accounts receivable financing	216,495,094.89		216,495,094.89
Advances to suppliers	242,712,324.09		242,712,324.09
Other receivables	24,247,156.19		24,247,156.19
Buying back the sale of financial assets	360,643,454.77		360,643,454.77
Inventories	1,674,008,933.28		1,674,008,933.28
Contractual assets			
Assets classified as held for sale			
Non-current assets due within one year	188,189,353.75		188,189,353.75
Other current assets	319,494,747.99		319,494,747.99
Total current assets	7,695,901,023.41	(554,776,100.00)	7,147,124,923.41

	The Group as at 31 December 2021	Pro forma Adjustments	Unaudited pro forma total for the Group
	RMB	*RMB*	*RMB*
Non-current assets:			
Loans and advances to customers	891,754,953.83		891,754,953.83
Debt investment			
Other debt investment			
Long-term receivables	147,379,925.56		147,379,925.56
Long-term equity investments	126,970,546.37	554,776,100.00	681,746,646.37
Other equity instrument investment	4,839,048.00		4,839,048.00
Other non-current financial assets			
Investment properties			
Fixed assets	2,465,981,510.01		2,465,981,510.01
Construction in progress	79,246,144.63		79,246,144.63
Productive biological assets			
Oil and gas assets			
Right-to-use assets	15,044,288.50		15,044,288.50
Intangible assets	750,855,986.17		750,855,986.17
Research and development expenses			
Goodwill			
Long-term deferred expenses	61,059,040.71		61,059,040.71
Deferred income tax assets	100,562,089.39		100,562,089.39
Other non-current assets			
Total non-current assets	4,643,693,533.17	554,776,100.00	5,198,469,633.17
Total assets	12,339,594,556.58		12,339,594,556.58

	The Group as at 31 December 2021 *RMB*	Pro forma Adjustments *RMB*	Unaudited pro forma total for the Group *RMB*
Current liabilities:			
Short-term loans	270,183,333.34		270,183,333.34
Absorption of deposits and interbank deposits	741,565,080.73		741,565,080.73
Loans from banks and other financial institutes	200,050,000.00		200,050,000.00
Trading financial liabilities			
Derivative financial liabilities			
Notes payable	1,429,974,406.92		1,429,974,406.92
Accounts payable	2,005,338,697.27		2,005,338,697.27
Funds from sales of financial assets with repurchasement agreement	11,759,888.55		11,759,888.55
Advance from customers	198,307.51		198,307.51
Contract liabilities	580,385,482.01		580,385,482.01
Employee salary payable	94,183,174.20		94,183,174.20
Taxes payable	16,547,128.41		16,547,128.41
Other payables	264,862,718.59		264,862,718.59
Liabilities classified as held for sale			
Non-current liabilities due within one year	13,333,158.50		13,333,158.50
Other current liabilities	262,766,044.87		262,766,044.87
Total current liabilities	5,891,147,420.90		5,891,147,420.90

	The Group as at 31 December 2021 *RMB*	Pro forma Adjustments *RMB*	Unaudited pro forma total for the Group *RMB*
Non-current liabilities:			
Long-term loans	110,000,000.00		110,000,000.00
Bonds payable			
Including: Preference shares			
Perpetual bond			
Lease liabilities	1,853,079.74		1,853,079.74
Long-term payables	8,251,321.72		8,251,321.72
Long-term employee salary payable	57,802,347.71		57,802,347.71
Special payables			
Estimated Liabilities	1,962,613.99		1,962,613.99
Deferred income	138,045,711.55		138,045,711.55
Deferred income tax liabilities	148,308,914.30		148,308,914.30
Other non-current liabilities			
Total non-current liabilities	466,223,989.01		466,223,989.01
Total liabilities	6,357,371,409.91		6,357,371,409.91

	The Group as at 31 December 2021	Pro forma Adjustments	Unaudited pro forma total for the Group
	RMB	*RMB*	*RMB*
Shareholder's equity:			
Share capital	1,123,645,275.00		1,123,645,275.00
Other equity instruments			
Including: Preferred shares			
Perpetual bond			
Capital reserves	2,655,849,996.00		2,655,849,996.00
Less: Treasury shares			
Other comprehensive income	(11,710,421.44)		(11,710,421.44)
Special reserves	3,465,767.12		3,465,767.12
Surplus reserves	501,495,783.59		442,101,172.16
General risk reserves	43,263,387.54		43,263,387.54
Retained earnings	1,086,069,085.52		1,145,463,696.95
Total equity attributable to shareholders of the parent company	5,402,078,873.33		5,402,078,873.33
Minority interests	580,144,273.34		580,144,273.34
Total shareholder's equity	5,982,223,146.67		5,982,223,146.67
Total liabilities and shareholders' equity	12,339,594,556.58		12,339,594.556.58

Note: The adjustment represents the Company has completed a capital increase in cash to Sinomach Finance of RMB554,776,100 at 31 December 2021.

(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of the independent reporting accountants' assurance report received from Da Hua Certified Public Accountants (Special General Partnership), the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Group prepared for the purpose of inclusion in this circular.

Report on the Compilation of Unaudited Pro Forma Financial Information
DHHZ [2022] No.003272

To the Board of Directors of First Tractor Company Limited*

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of First Tractor Company Limited* (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2021 and related notes as set out on pages VI-1 to VI-6 of the circular issued by the Company dated 31 May 2022 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages VI-1 to VI-6 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the major transaction in relation to the Company making a capital increase in Sinomach Finance Co., Ltd.* (the "**Capital Increase**") on the Group's financial position as at 31 December 2021 as if the Capital Increase had taken place as at 31 December 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 December 2021, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Professional Ethics for Chinese Certified Public Accountants (2020)" issued by the Chinese Institute of Certified Public Accountants (the "**CICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies "Quality Management Standards for Accounting Firms No. 5101 – Business Quality Management" issued by the CICPA 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.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Hong Kong Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the

Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Hong Kong Listing Rules.

DaHua Certified Public Accountants
(Special General Partnership)
Beijing, China, 31 May 2022

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong 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

(a) Interests of Directors, Supervisors and Chief Executive of the Company

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive 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 (a) was required to be notified to the Company and the Hong Kong 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 (b) was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Hong Kong Listing Rules.

(b) Interests of 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 Hong Kong 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	548,485,853 (L)	74.96	48.81	A Share

Notes:

1. (L) – Long position

2. Sinomach is the controlling shareholder of YTO. Sinomach is deemed to have the same interest in the Company as those owned by YTO by virtue of the SFO, holding 548,485,853 A Shares.

Save as disclosed above, to the best of the knowledge of the Directors, there is no other person who, as at the 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 2021, 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 2021, 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. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) have been entered into by the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

(i) the tripartite custody agreement entered into between the Company, CITIC Securities Co., Ltd. (being the sponsor to the issue and subscription of 137,795,275 A Shares between the Company and YTO ("**A Share Issue**")) and China Everbright Bank Company Limited Zhengzhou Branch on 26 January 2021 relating to funds raised from the A Share Issue;

(ii) the Restructuring Framework Agreement;

(iii) the Disposal Agreement;

(iv) the Investment Agreement; and

(v) the Supplemental Investment Agreement.

7. 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 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. EXPERTS 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 Enterprise	a qualified PRC valuer licensed to undertake assets appraisal business by the Ministry of Finance of the PRC
Da Hua Certified Public Accountants (Special General Partnership)	Certified Public Accountants
Gram Capital	a licensed corporation 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 2021 (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.

9. MISCELLANEOUS

(a) The registered office of the Company is at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC.

(b) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Ms. Yu Lina.

(d) The English translation of those entities whose name is marked with an asterisk (*) is for identification purpose only

10. DOCUMENTS ON DISPLAY

Copies of the following documents are published on the Hong Kong Stock Exchange's website and the Company's own website for a period of 14 days from the date of this circular:

(a) the material contracts referred to in the section headed "Material Contracts" in this Appendix;

(b) the Financial Services Framework Agreement;

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

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

(e) the valuation report with respect to The Target Assets prepared by the Independent Valuer, the summary of which is set out in Appendix II to this circular;

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

(g) the accountant's report from Da Hua Certified Public Accountants in respect of the financial information of Sinomach Finance, the text of which is set out in Appendix IV to this circular;

(h) the letter from Da Hua Certified Public Accountants relating to the proforma balance sheet, the text of which is set out in Appendix VI to this circular; and

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

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)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of First Tractor Company Limited* (the "**Company**") will be held at 2:30 p.m. on 16 June 2022, Thursday, at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**"), for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 31 May 2022.

ORDINARY RESOLUTIONS

"1.00 To consider and approve the Restructuring Transactions of the Company;

1.01 Subject to the passing of resolutions numbered 1.02 and 1.03 as set out in the notice of this meeting, resolution regarding the Disposal and the disposal agreement entered into between YTO Finance and Sinomach Finance dated 29 March 2022;

1.02 Subject to the passing of resolutions numbered 1.01 and 1.03 as set out in the notice of this meeting, resolution regarding the Capital Increase and the investment agreement entered into between the Company and Sinomach Finance dated 29 March 2022 (as revised and supplemented by the supplemental investment agreement entered into between the same parties on 27 May 2022);

1.03 Subject to the passing of resolutions numbered 1.01 and 1.02 as set out in the notice of this meeting, resolution regarding the voluntary liquidation of YTO Finance;

2.00 Subject to the passing of resolutions numbered 1.01, 1.02 and 1.03 as set out in the notice of this meeting, resolution regarding the financial services framework agreement entered into between the Company and Sinomach Finance dated 29 March 2022;

3.00 To consider and approve the resolution regarding the increase in the cap amount of the 2022 ordinary related transactions between the Company and ZF YTO (Luoyang) Drive Axle Company Limited;

3.01 The increase in cap amount of the 2022 related transaction under the Sales Framework Agreement;

3.02 The increase in cap amount of the 2022 related transaction under the Procurement Framework Agreement; and

3.03 The increase in cap amount of the 2022 related transaction under the Licence and Technology Agreement."

By Order of the Board
First Tractor Company Limited*
Yu Lina
Company Secretary

Luoyang, the PRC

31 May 2022

As at the date of this notice, the Board comprises Mr. Liu Jiguo (Chairman) as executive Director; Mr. Zhang Zhiyu, Mr. Fang Xianfa, Mr. Ma Zhihui as non-executive Directors; and Mr. Edmund Sit, Mr. Wang Shumao and Mr. Xu Liyou as independent non-executive Directors.

Notes:

1. The register of members of the Company will be temporarily closed from 13 June 2022 to 16 June 2022 (both days inclusive) during which no transfer of Shares will be registered in order to determine the list of Shareholders for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 10 June 2022 at Hong Kong Registrars Limited by or before 4:00 p.m. The Shareholders or their proxies being registered before the close of business on 10 June 2022 are entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Share registrar of the Company, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. Each Shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the proxy form enclosed). The proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the proxy form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC, or the Company's H Share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.

4. Shareholders or their proxies shall present proofs of their identities upon attending the EGM.

5. The EGM is expected to last for less than one day. The Shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.

6. The Company's registered address:
   No. 154 Jianshe Road, Luoyang, Henan Province, the PRC
   Postal code: 471000
   Telephone: (86-379) 6496 7038
   Facsimile: (86-379) 6496 7438
   Email: msc0038@ytogroup.com

* *For identification purposes only*