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

*(a joint stock company incorporated in The People's Republic of China with limited liability)*

(Stock Code: 0038)

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**(Financial Highlights)**

<b>Total operating revenue</b>	<b>: RMB7,357,944,190.89</b>
<b>Net profit attributable to the equity holders of the parent company</b>	<b>: RMB56,514,222.97</b>
<b>Earnings per share attributable to the equity holders of the parent company</b>	<b>: RMB0.0572</b>

The board (the “**Board**”) of directors (the “**Directors**”) of First Tractor Company Limited (the “**Company**”) announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2017 (the “**Reporting Period**”), which have been prepared in accordance with the PRC Accounting Standards for Business Enterprises, together with comparative figures for the same period in 2016 are as follows (unless otherwise stated, the figures contained in this announcement are denominated in Renminbi).

## CONSOLIDATED BALANCE SHEET

December 31, 2017

Prepared by: First Tractor Company Limited

*Unit: Yuan    Currency: RMB*

<b>Item</b>	<i>Note</i>	<b>Ending balance</b>	Beginning balance
<b>Current assets:</b>			
Cash and cash equivalents	<i>Note 1</i>	<b>3,292,984,287.50</b>	3,261,735,812.98
Financial assets measured at fair value and its movement recorded through profit and loss		<b>40,478,838.50</b>	62,657,466.94
Derivative financial assets		<b>0.00</b>	14,833,000.00
Notes receivable		<b>531,530,154.03</b>	554,932,731.17
Accounts receivable	<i>Note 2</i>	<b>1,238,285,603.95</b>	674,313,323.03
Advances to suppliers		<b>233,704,609.47</b>	143,734,037.70
Interest receivable		<b>14,148,062.85</b>	12,027,545.45
Dividend receivable			
Other receivables		<b>123,425,502.13</b>	104,926,297.50
Financial assets purchased with agreement to re-sale		<b>80,207,776.70</b>	354,848,615.72
Inventories		<b>1,167,681,087.61</b>	1,014,713,967.01
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		<b>1,694,694,921.00</b>	1,412,930,377.64
<b>Total current assets</b>		<b><u>8,417,140,843.74</u></b>	<b><u>7,611,653,175.14</u></b>

<b>Item</b>	<i>Note</i>	<b>Ending balance</b>	Beginning balance
<b>Non-current assets:</b>			
Loans and advances to customers		<b>934,741,824.37</b>	748,364,409.66
Financial assets available-for-sale		<b>188,129,341.41</b>	235,733,900.15
Held-to-maturity investments		<b>58,344,519.48</b>	58,352,738.68
Long-term receivables			
Long-term equity investments		<b>141,468,273.42</b>	149,098,999.76
Investment properties			
Fixed assets		<b>3,030,222,384.21</b>	2,970,855,427.52
Construction in progress		<b>290,749,376.91</b>	376,823,261.61
Construction materials			
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		<b>859,721,089.66</b>	896,641,004.79
Research and development expenses			
Goodwill			
Long-term deferred expenses		<b>46,023,240.72</b>	40,223,194.44
Deferred income tax assets		<b>136,232,633.76</b>	122,767,169.68
Other non-current assets			
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b><u>5,685,632,683.94</u></b>	<b><u>5,598,860,106.29</u></b>
<b>Total assets</b>		<b><u>14,102,773,527.68</u></b>	<b><u>13,210,513,281.43</u></b>

Item	<i>Note</i>	Ending balance	Beginning balance
<b>Current liabilities:</b>			
Short-term loans		2,033,879,689.22	1,579,448,510.67
Receipts of deposits and deposits from other banks		780,195,528.74	588,286,840.09
Loans from other banks		300,000,000.00	250,000,000.00
Financial liabilities measured at fair value and its movement recorded through profit and loss			
Derivative financial liabilities		12,800,000.00	0.00
Notes payable		820,501,598.94	1,417,113,769.49
Accounts payable	<i>Note 3</i>	1,465,330,454.31	1,384,168,457.64
Advance from customers		236,220,968.60	199,663,201.54
Employee salary payable		123,521,513.29	105,911,905.79
Taxes payable		17,361,319.90	25,426,038.74
Interests payable		61,862,938.69	55,151,085.52
Dividends payable		55.83	0.00
Other payables		276,121,409.06	257,257,848.82
Liabilities classified as held for sale			
Non-current liabilities due within one year		1,522,040,174.73	34,422,532.04
Other current liabilities		97,842,469.33	93,369,345.75
<b>Total current liabilities</b>		<b><u>7,747,678,120.64</u></b>	<b><u>5,990,219,536.09</u></b>

<b>Item</b>	<i>Note</i>	<b>Ending balance</b>	Beginning balance
<b>Non-current liabilities:</b>			
Long-term loans		<b>689,011,500.00</b>	9,133,500.00
Bonds payable		<b>0.00</b>	1,496,694,996.06
Including: Preference shares			
Perpetual bond			
Long-term payables			
Long-term employee salary payable			
Special payables			
Estimated Liabilities		<b>13,699,471.42</b>	0.00
Deferred income		<b>184,660,141.13</b>	176,628,594.78
Deferred income tax liabilities		<b>28,741,816.43</b>	34,198,365.33
Other non-current liabilities			
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b><u>916,112,928.98</u></b>	<b><u>1,716,655,456.17</u></b>
		<hr/>	<hr/>
<b>Total liabilities</b>		<b><u>8,663,791,049.62</u></b>	<b><u>7,706,874,992.26</u></b>
		<hr/>	<hr/>
<b>Shareholder's equity:</b>			
Share capital		<b>985,850,000.00</b>	995,900,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bond			
Capital reserves		<b>2,099,632,613.11</b>	2,126,685,588.57
Less: Treasury shares		<b>0.00</b>	19,140,912.00
Other comprehensive income		<b>-16,268,084.50</b>	-2,685,750.24
Special reserves		<b>3,674,350.81</b>	4,485,866.00
Surplus reserves		<b>438,442,350.67</b>	423,908,219.34
General risk reserves		<b>12,754,318.98</b>	10,774,059.81
Retained earnings	<i>Note 4</i>	<b><u>1,273,219,846.84</u></b>	<u>1,289,413,464.37</u>
Total equity attributable to shareholders of the parent company		<b><u>4,797,305,395.91</u></b>	<u>4,829,340,535.85</u>
Minority interests		<b><u>641,677,082.15</u></b>	<u>674,297,753.32</u>
		<hr/>	<hr/>
<b>Total shareholder's equity</b>		<b><u>5,438,982,478.06</u></b>	<b><u>5,503,638,289.17</u></b>
		<hr/>	<hr/>
<b>Total liabilities and shareholder's equity</b>		<b><u>14,102,773,527.68</u></b>	<b><u>13,210,513,281.43</u></b>

## CONSOLIDATED INCOME STATEMENT

For the Year of 2017

Prepared by: First Tractor Company Limited

Unit: Yuan Currency: RMB

Item	Note	This year	Last year
<b>1. Total operating revenue</b>		<b>7,357,944,190.89</b>	8,871,153,114.15
Including: Operating revenue		<b>7,219,310,386.11</b>	8,687,502,227.41
Interest income		<b>137,931,789.75</b>	183,205,912.89
Fees and commission income		<b>702,015.03</b>	444,973.85
<b>2. Total cost of operation</b>		<b>7,539,094,836.34</b>	8,717,909,468.82
Including: Cost of operation		<b>6,036,004,631.87</b>	7,088,783,071.84
Interest expenses		<b>15,819,471.26</b>	55,437,794.90
Fees and commission expense		<b>301,278.51</b>	356,453.59
Taxes and surcharges		<b>45,718,702.31</b>	44,525,763.68
Selling expenses		<b>436,011,715.40</b>	441,566,712.01
Administrative expenses		<b>889,660,787.33</b>	913,876,338.90
Financial expenses		<b>73,123,501.81</b>	86,073,671.32
Loss on impairment of assets		<b>42,454,747.85</b>	87,289,662.58
Add: Gain arising from the changes in fair value		<b>-25,447,931.82</b>	15,243,438.25
Investment income		<b>156,910,636.73</b>	74,235,860.45
Including: income from investments in associates and joint ventures		<b>-460,927.51</b>	8,712,098.59
Asset disposal income		<b>2,318,017.87</b>	-9,165,962.45
Other benefits		<b>55,890,931.87</b>	0.00
<b>3. Operating profit</b>		<b>8,521,009.20</b>	233,556,981.58
Add: Non-operating income		<b>70,579,164.99</b>	50,755,515.92
Less: Non-operating expenses		<b>23,043,819.45</b>	4,217,069.23
<b>4. Total profit</b>		<b>56,056,354.74</b>	280,095,428.27
Less: Income tax expenses	Note 6	<b>18,345,015.80</b>	54,210,189.22

<b>Item</b>	<i>Note</i>	<b>This year</b>	Last year
<b>5. Net profit</b>		<b>37,711,338.94</b>	225,885,239.05
Including: net profit achieved by the merger of the merged party before the merger under the same control		<b>-1,099,244.09</b>	0.00
(1) classification according to the continuity of operation			
Continuous operating net profit		<b>40,662,147.32</b>	232,239,265.95
Termination of net profit		<b>-2,950,808.38</b>	-6,354,026.90
(2) classification according to ownership			
Net profit attributable to shareholders of the parent company		<b>56,514,222.97</b>	223,369,729.35
Non-controlling interests		<b>-18,802,884.03</b>	2,515,509.70
<b>6. Net other comprehensive income after tax</b>		<b>-13,936,840.55</b>	-11,524,350.45
Net other comprehensive income after tax attributable to owners of the parent company		<b>-13,582,334.26</b>	-12,420,012.68
(1) Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
1. Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans			
2. Share of other comprehensive income of investee that will not be subsequently reclassified to profit and loss under equity method			
(2) Other comprehensive income that will be subsequently reclassified to profit and loss		<b>-13,582,334.26</b>	-12,420,012.68
1. Share of other comprehensive income of investee that will be subsequently reclassified to profit and loss under equity method			

Item	Note	This year	Last year
2. Gains and losses from changes in fair value of available-for-sale financial assets		-14,361,213.55	-15,369,818.14
3. Gains and losses from held-to-maturity investment reclassified as financial assets available-for-sale			
4. Effective part of hedging gains and losses from cash flows			
5. Exchange differences from retranslation of financial statements		778,879.29	2,949,805.46
6. The income of a package deal dealing with the investment of the subsidiary company before the loss of control			
7. Conversion of non investment real estate to investment real estate measured with fair value model			
Net other comprehensive income after tax attributable to minority interests		-354,506.29	895,662.23
<b>7. Total comprehensive income</b>		<b>23,774,498.39</b>	214,360,888.60
Total comprehensive income attributable to owner of the parent company		42,931,888.71	210,949,716.67
Total comprehensive income attributable to minority interests		-19,157,390.32	3,411,171.93
<b>8. Earnings per share:</b>			
(1) Basic earnings per share		0.0572	0.2245
(2) Diluted earnings per share		0.0572	0.2245



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **1. COMPANY INFORMATION**

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

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

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

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

### **2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

Based on the going-concern assumption and transactions and events actually incurred, the financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises and relevant stipulations (hereafter collectively referred as "ASBEs") by the Ministry of Finance of the PRC, No.15 Information Disclosures Regulations for Companies Offering Shares in Public – General Rules of Preparing Financial Reports (revised in 2014) issued by China Securities Regulatory Commission (CSRC), disclosure requirements by Rules Governing the Listing of Securities issued by Hong Kong Stock Exchange and Companies Ordinance, and based on the accounting policies stated in the Note "4. Accounting policies".

### **3. STATEMENT OF COMPLIANCE OF ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES**

The 2017 financial statements of the Group have been prepared in accordance with the Accounting Standards for Business Enterprises (ASBEs), and present truly and completely the financial position of the Company as at December 31, 2017 and their financial performance and cash flows and other related information.

Given the fact that Chinese ASBEs are equivalent to Hong Kong Financial Reporting Standards (HKFRSs), the Hong Kong Securities and Futures Commission and the Hong Kong Stock Exchange have both accepted financial statements prepared by Hong Kong listed companies originally from mainland China in accordance to the Chinese ASBEs and audited by accounting firms based in mainland China with relevant qualifications. Approved by the 2014 second extraordinary Shareholders Meeting of the Company on October 31, 2014, the Group no longer prepares financial statements under both ASBEs and HKFRSs from the reporting year of 2014. Only the financial statements prepared in accordance to the Chinese ASBEs will be provided to shareholders of A shares and H shares of the Company.

#### **4. ACCOUNTING POLICIES**

##### **(1) Accounting year**

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

##### **(2) Recording currency**

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

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

##### **(4) Accounting method for Enterprise merger under the common control and not under the common control**

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

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

##### ***(b) Enterprise merger under common control***

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

If there is any contingent consideration required to be recognized as estimated obligations or assets, capital reserve (capital or share premium) is adjusted by the difference between the amount of such estimated obligations or assets and the amount of settlement of subsequent contingent consideration; where the capital reserve is insufficient, the retained earnings are adjusted.

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

**(c) *Enterprise merger not under common control***

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

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

Measurement of assets paid as consideration for enterprise merger and liabilities incurred or assumed by the Company on the purchase date is based upon the fair value, while differences between the fair value and the book value are included in the profit and loss of the current period after review.

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

**(d) *the costs of merger***

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

**(5) Preparation of consolidated financial statements**

**(a) *Scope of the merger***

The consolidation scope of the Company's consolidated financial statements is based upon its control over subsidiaries. All the subsidiaries (including individual entities under the Company's control) are included in the consolidated financial statements.

**(b) *Consolidated procedures***

Based on the financial statements of its own and each subsidiary, the Company prepares the consolidated financial statements based on other relevant information. The Company considers the entire enterprise group as an accounting entity when preparing the consolidated financial statements. In accordance with the recognition, measurement and reporting requirements of relevant accounting standards and unified accounting policies, overall financial status, operating results and cash flow of the Company were reflected.

The accounting policies and accounting period adopted by all subsidiaries included in the consolidated financial statements are consistent with those of the Company. When the accounting policies and accounting period adopted by the subsidiaries are inconsistent with the Company, necessary adjustments shall be made in accordance with the accounting policies and accounting period of the Company when preparing the consolidated financial statements.

The owners' equity, the minority interest on net profit or loss and comprehensive income for the period should be separately disclosed under owners' equity in the consolidated balance sheet, and net profit and comprehensive income in the consolidated income statement. The current share losses shared by minority shareholders exceed the balance formed by the minority shareholders' share of the opening balance of owner's equity, then deduct the difference between these two from minority shareholders' rights and interests.

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

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

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

**(6) Segment information**

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

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

- (a) The ‘agricultural machinery’ segment engages in the research and development, manufacture and sale of agricultural machinery, including tractors, relevant parts and component;
- (b) The ‘power machinery’ segment engages in the manufacture and sale of diesel engines, fuel injection pumps and fuel jets;
- (c) The ‘other machinery’ segment engages in the manufacture and sale of forklifts, mining trucks and other machinery;
- (d) The ‘financial service’ segment engages in the provision of loans, bills discounting and deposit-taking services.

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

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

**(7) Changes in accounting policies**

In May 10, 2017, the Ministry of Finance announced the revised “Enterprise Accounting Standards No. sixteenth: government subsidies” and the amendment shall come into force on June 12, 2017. Meanwhile, the government subsidies existed on 1 January 2017 are subject to prospective application method and the new government subsidies received between 1 January 2017 and the date of implementation of the standard will be adjusted pursuant to the revised standard.

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

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

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

## 5. NOTES TO MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Monetary funds

*Unit: Yuan Currency: RMB*

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

The details of the restricted monetary funds are as follows:

*Unit: Yuan Currency: RMB*

<b>Item</b>	<b>Ending Balance</b>	Opening Balance
Bank acceptance bill deposit	<b>59,188,686.97</b>	108,674,642.08
Other margin deposits	<b>7,610,859.39</b>	14,002,491.95
Deposited investment fund	<b>0.00</b>	203,572,792.66
Legal deposit reserve of the central bank	<b>279,449,913.29</b>	41,180,078.81
	<u><b>346,249,459.65</b></u>	<u>367,430,005.50</u>
Total	<b>346,249,459.65</b>	367,430,005.50

**Note 2. Accounts receivables****1. Classified disclosure of accounts receivable***Unit: Yuan Currency: RMB*

Item	Ending Balance		Provision for bad debt		book value
	Book balance Amount	Ratio (%)	Amount	Accrual Ratio (%)	
Accounts receivable with significant individual amount and individual provision for bad debt	943,046,246.11	53.69	364,304,623.02	38.63	578,741,623.09
Provided for bad debts on portfolio basis of credit risk characteristics	799,979,303.48	45.55	146,804,376.05	18.35	653,174,927.43
Individual amount of account receivable is not significant but for individual provision for bad debt	13,298,558.68	0.76	6,929,505.25	52.11	6,369,053.43
<b>Total</b>	<b>1,756,324,108.27</b>	<b>100.00</b>	<b>518,038,504.32</b>	<b>29.50</b>	<b>1,238,285,603.95</b>
Item	Opening Balance		Provision for bad debt		book value
	Book balance Amount	Ratio (%)	Amount	Accrual Ratio (%)	
Accounts receivable with significant individual amount and individual provision for bad debt	307,920,885.11	26.12	118,444,404.48	38.47	189,476,480.63
Provided for bad debts on portfolio basis of credit risk characteristics	859,356,940.82	72.88	378,542,660.99	44.05	480,814,279.83
Individual amount of account receivable is not significant but for individual provision for bad debt	11,809,889.89	1.00	7,787,327.32	65.94	4,022,562.57
<b>Total</b>	<b>1,179,087,715.82</b>	<b>100.00</b>	<b>504,774,392.79</b>	<b>42.81</b>	<b>674,313,323.03</b>

**2. Aging analysis of accounts receivable**

*Unit: Yuan Currency: RMB*

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

<b>Aging</b>	<b>Accounts receivable</b>	<b>Opening Balance Provision for bad debt</b>	<b>Net book value</b>
Within 1 year	468,756,694.06	9,512,009.26	459,244,684.80
1 to 2 yeas	240,714,753.00	35,978,273.62	204,736,479.38
2 to 3 yeas	118,699,764.48	118,699,764.48	0.00
3 years more	350,916,504.28	340,584,345.43	10,332,158.85
<b>Total</b>	<b><u>1,179,087,715.82</u></b>	<b><u>504,774,392.79</u></b>	<b><u>674,313,323.03</u></b>

**Note 3. Accounts payables**

**1. Accounts payable**

*Unit: Yuan Currency: RMB*

<b>Item</b>	<b>Ending Balance</b>	<b>Opening Balance</b>
Purchase payment payable	<b>1,353,217,785.45</b>	1,308,157,751.41
Purchase of construction equipment payable	<b>76,968,976.12</b>	45,879,477.81
Service fee payable	<b>21,953,786.89</b>	19,757,726.67
Others	<b>13,189,905.85</b>	10,373,501.75
<b>Total</b>	<b><u>1,465,330,454.31</u></b>	<b><u>1,384,168,457.64</u></b>



## 2. Aging analysis of accounts payable

	<i>Unit: Yuan    Currency: RMB</i>	
<b>Item</b>	<b>Ending Balance</b>	Opening Balance
Within 1 year	<b>1,332,527,809.68</b>	1,240,833,573.76
1 to 2 yeas	<b>70,530,505.26</b>	49,711,952.26
2 to 3 yeas	<b>26,219,998.30</b>	34,579,850.82
3 years more	<b>36,052,141.07</b>	59,043,080.80
	<hr/>	<hr/>
Total	<b><u>1,465,330,454.31</u></b>	<b><u>1,384,168,457.64</u></b>

## Note 4. Retained earnings

	<i>Unit: Yuan    Currency: RMB</i>		
<b>Item</b>	<b>This year</b>	Last year	Percentage of accrual or distribution
<b>Ending balance of last year</b>	<b>1,289,413,464.37</b>	1,142,994,139.49	–
Adjustment on beginning balance of retained earnings (increase +, decrease -)	<b>0.00</b>	0.00	–
<b>Beginning balance of the year after adjustments</b>	<b>1,289,413,464.37</b>	1,142,994,139.49	–
Add: net profit for the year attributable to owner of the parent company	<b>56,514,222.97</b>	223,369,729.35	–
Less: statutory surplus reserve	<b>14,534,131.33</b>	34,163,993.29	10% of current year net profits of the parent company
General risk reserves	<b>1,980,259.17</b>	1,954,511.18	–
Common stock dividends payable	<b>56,193,450.00</b>	40,831,900.00	–
	<hr/>	<hr/>	
<b>Ending balance of this year</b>	<b><u>1,273,219,846.84</u></b>	<b><u>1,289,413,464.37</u></b>	–

## Note 5. Depreciation and amortization

	<i>Unit: Yuan    Currency: RMB</i>	
<b>Item</b>	<b>Amount in this year</b>	Amount in last year
Depreciation of fixed assets	<b>296,868,124.82</b>	299,855,509.54
Amortization of intangible assets	<b>31,125,252.35</b>	32,749,677.64
	<hr/>	<hr/>
Total	<b><u>327,993,377.17</u></b>	<b><u>332,605,187.18</u></b>

**Note 6. Income tax expenses***Unit: Yuan Currency: RMB*

<b>Item</b>	<b>Amount in this year</b>	Amount in last year
Current income tax expenses	<b>28,571,204.59</b>	67,198,052.97
Deferred income tax expense	<b>-10,226,188.79</b>	-12,987,863.75
Total	<b>18,345,015.80</b>	54,210,189.22

The Company and the subsidiary companies which are YTO (Luoyang) Diesel Engine Co., Ltd., Luoyang Tractor Research Institute Co., Ltd., Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd., and YTO (Luoyang) Flag Auto-Body Company Limited are identified as High And New Technology Enterprises by the Provincial Science and Technology Department, the Finance Department, the State Administration of Taxation and the Local Tax Bureau. According to the provisions of the twenty-eighth article which is the Enterprise Income Tax Law of the People's Republic of China, the 15% income tax rate is applied.

**Note 7. Net current assets***Unit: Yuan Currency: RMB*

<b>Item</b>	<b>Ending Balance</b>	Opening Balance
Current assets	<b>8,417,140,843.74</b>	7,611,653,175.14
Less: current liabilities	<b>7,747,678,120.64</b>	5,990,219,536.09
Net current assets	<b>669,462,723.10</b>	1,621,433,639.05

**Note 8. Total assets minus current liabilities***Unit: Yuan Currency: RMB*

<b>Item</b>	<b>Ending Balance</b>	Opening Balance
Total assets	<b>14,102,773,527.68</b>	13,210,513,281.43
Less: current liabilities	<b>7,747,678,120.64</b>	5,990,219,536.09
Total assets minus current liabilities	<b>6,355,095,407.04</b>	7,220,293,745.34

**Note 9. Segment information***Unit: Yuan Currency: RMB*

Item	Ending Balance/Amount in this year					Total
	Agricultural machinery	Power machinery	Other machinery	Finance service	Elimination among segments	
1. Total operating revenue	6,569,075,631.98	1,796,387,669.24	26,882,178.26	174,825,024.85	-1,209,226,313.44	7,357,944,190.89
Including: External transaction revenue	6,110,548,034.48	1,086,041,080.80	22,716,365.17	138,638,710.44	0.00	7,357,944,190.89
Revenue between segments	458,527,597.50	710,346,588.44	4,165,813.09	36,186,314.41	-1,209,226,313.44	0.00
Assets impairment loss	46,351,309.82	1,380,411.26	-15,754,877.41	10,477,904.18	0.00	42,454,747.85
Depreciation and amortization fee	286,101,861.70	52,686,485.90	2,091,059.08	866,174.83	0.00	341,745,581.51
2. Total profit (loss)	-16,181,684.92	-11,922,102.48	-22,816,707.02	103,861,463.12	3,115,386.04	56,056,354.74
3. Income tax costs	-1,673,623.42	-3,311,735.11	0.00	23,268,426.19	61,948.14	18,345,015.80
4. Net profit (loss)	-14,508,061.50	-8,610,367.37	-22,816,707.02	80,593,036.93	3,053,437.90	37,711,338.94
5. Total assets	11,677,624,450.48	1,948,550,152.22	64,534,274.68	5,332,177,170.57	-4,920,112,520.27	14,102,773,527.68
6. Total liabilities	8,061,888,687.33	702,319,992.07	366,989,409.60	4,527,452,697.96	-4,994,859,737.34	8,663,791,049.62
7. Other important non-cash items	-	-	-	-	-	-
(1) Non-cash expenses other than depreciation and amortization	29,814,188.16	11,558,118.93	5,292,816.65	12,213,988.56	0.00	58,879,112.30
(2) Capital expenditure	305,423,580.97	40,747,442.32	811,798.85	745,152.31	0.00	347,727,974.45

**Note 10. Net asset returns and Earnings per share***Unit: Yuan Currency: RMB*

Profit in reporting period	Weighted average rate of return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Consolidated net profit attributable to the ordinary shareholders of the company	1.1748	0.0572	0.0572
Consolidated net profit attributable to the ordinary shareholders of the company (after deducting extraordinary gains or losses)	<u>-2.5581</u>	<u>-0.1246</u>	<u>-0.1246</u>

**Note 11. Dividends**

The Company did not distribute dividends in this year. (2016: cash dividends of RMB0.57 (inclusive of tax) for every 10 Shares.)

## **TO THE SHAREHOLDERS:**

The Board is pleased to present the annual results announcement of the Group for the year ended 31 December 2017 to all the shareholders of the Company.

## **BUSINESS REVIEW**

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

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

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

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

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

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

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

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

## **PROSPECT**

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

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

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

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

Taking this opportunity, the Board of Directors expresses sincere respect and gratitude to all the shareholders of the Company, clients, other stakeholders and employees for their concern, support and hard work for the development of the Company.

## **THE BOARD’S DISCUSSION AND ANALYSIS ON THE COMPANY’S OPERATION DURING THE REPORTING PERIOD**

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

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

## **Tractor business**

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

## **Power machinery business**

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

## **Other business**

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

## ANALYSIS OF FINANCIAL RESULTS

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

*Unit: Yuan Currency: RMB*

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

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

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



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

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

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

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

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

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

## **2. Operating Revenue**

During the Reporting Period, the Company realized operating revenue of RMB7,219.31 million, which decreased by 16.90% as compared with the corresponding period of last year, mainly resulting from the decrease in sales of various products of the Company.

### 3. Costs

#### *Cost analysis*

#### *By industry*

*Unit: 0'000 Currency: RMB*

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

## By products

By products	Cost items	Changes in the amount for the Reporting Period as compared with the corresponding period of last year				
		Amount for the Reporting Period	Amount for the Reporting Period as a percentage of total costs (%)	Amount for the corresponding period of last year	Amount for the corresponding period of last year as a percentage of total costs (%)	Period as compared with the corresponding period of last year (%)
Agricultural machinery	Material	476,000	84.75	565,236	86.83	-15.79
Agricultural machinery	Labour	34,518	6.14	35,172	5.40	-1.86
Agricultural machinery	Production costs	51,156	9.11	50,539	7.77	1.22
Power machinery	Material	130,355	83.45	157,282	84.51	-17.12
Power machinery	Labour	11,469	7.34	12,446	6.69	-7.85
Power machinery	Production costs	14,390	9.21	16,387	8.80	-12.19
Other machinery	Material	2,662	88.26	4,520	82.84	-41.11
Other machinery	Labour	86	2.85	301	5.52	-71.43
Other machinery	Production costs	268	8.89	635	11.64	-57.80

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

### Explanation on other situations on cost analysis

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

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

**Other Machineries:** Affected by the Company's contraction of business control risks, relevant costs and expenses recorded a year-on-year decrease.

#### 4. Expenses

Unit: Yuan Currency: RMB

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Change in amounts	Change (%)
Selling expenses	<b>436,011,715.40</b>	441,566,712.01	-5,554,996.61	-1.26
Administrative expenses	<b>889,660,787.33</b>	913,876,338.90	-24,215,551.57	-2.65
Finance expenses	<b>73,123,501.81</b>	86,073,671.32	-12,950,169.51	-15.05

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

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

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

#### 5. Research and development investment

##### *Research and development investment table*

Unit: Yuan Currency: RMB

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

## Explanation:

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

## 6. Cash Flow

*Unit: Yuan Currency: RMB*

Items	Amount for the Reporting Period	Amount for the corresponding period of last year	Change in amounts	Change (%)
Net cash flow from operating activities	<b>-556,313,931.89</b>	2,093,174,716.44	-2,649,488,648.33	-126.58
Net cash flow from investment activities	<b>-308,423,718.05</b>	-679,988,523.01	371,564,804.96	N/A
Net cash flow from financing activities	<b>918,985,309.04</b>	-221,524,088.51	1,140,509,397.55	N/A

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

Net cash flow from investment activities amounted to RMB-308.4237 million during the current year, representing a decrease in outflow of RMB371.56 million as compared with the corresponding period of last year, mainly due to the successive expiry and redemption of wealth management products and structured deposits during the current period.

Net cash flow from financing activities amounted to RMB918.9853 million during the current year, representing an increase in inflow of RMB1,140.51 million as compared with the corresponding period of last year, mainly due to early deployment of financing arrangements and an increase in long and short term borrowings.

## ANALYSIS ON OPERATION BY INDUSTRY, PRODUCTS OR REGION

### Principal Businesses by Industry, by Products and by Region

Unit: 0'000 Currency: RMB

#### Principal businesses by industry

By industry	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year
Equipment manufacturing industry	721,931	603,600	16.39	-16.90	-14.85	Decreased by 2.01 percentage point

#### Principal businesses by products

By products	Operating revenue	Operating cost	Gross profit margin (%)	Increase/decrease in operating revenue as compared with last year (%)	Increase/decrease in operating cost as compared with last year (%)	Increase/decrease in gross profit margin as compared with last year
Agricultural machinery	656,908	561,674	14.50	-14.34	-13.71	Decreased by 0.62 percentage point
Power machinery	179,639	156,214	13.04	-22.30	-16.07	Decreased by 6.46 percentage point
Other machinery	2,688	3,016	-12.20	-37.45	-44.70	Increased by 14.72 percentage point
Inter-segment elimination	-117,304	-117,304	/	/	/	/
Total	721,931	603,600	16.39	-16.90	-14.85	Decreased by 2.01 percentage point

*Principal businesses by region*

<b>By region</b>	<b>Operating revenue</b>	<b>Operating cost</b>	<b>Gross profit margin (%)</b>	<b>Increase/decrease in operating revenue as compared with last year (%)</b>	<b>Increase/decrease in operating cost as compared with last year (%)</b>	<b>Increase/decrease in gross profit margin as compared with last year</b>
In the PRC	661,209	553,060	16.36	-20.34	-18.52	Decreased by 1.87 percentage point
Outside the PRC	60,722	50,540	16.77	57.04	67.79	Decreased by 5.33 percentage point

**ANALYSIS ON ASSETS AND LIABILITIES**

*Unit: Yuan    Currency: RMB*

<b>Items</b>	<b>Balance as at the end of the Reporting Period</b>	<b>Balance as at the end of the Reporting Period as a percentage of total assets (%)</b>	<b>Balance as at the end of the corresponding period of last year</b>	<b>Balance as at the end of the corresponding period of last year as a percentage of total assets (%)</b>	<b>Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)</b>	<b>Explanation</b>
Financial assets measured at fair value and its movement recorded through profit and loss	<b>40,478,838.50</b>	<b>0.29</b>	62,657,466.94	0.47	-35.40	Decrease in trust products held by YTO Finance
Derivative financial assets	<b>0.00</b>	<b>0.00</b>	14,833,000.00	0.11	-100.00	Maturity of foreign exchange swap settlement contract during the Reporting Period

Items	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Accounts receivable	1,238,285,603.95	8.78	674,313,323.03	5.10	83.64	The Company has enhanced credit sales and the expansion of international market as a result of agricultural machinery market downturn
Advances to suppliers	233,704,609.47	1.66	143,734,037.70	1.09	62.60	An increased level of inventory during the Reporting Period in order to cope with rising raw material prices
Financial assets purchased with agreement to re-sale	80,207,776.70	0.57	354,848,615.72	2.69	-77.40	Decrease in financial assets purchased with agreement to re-sale of YTO Finance
Receipts of deposits and deposits from other banks	780,195,528.74	5.53	588,286,840.09	4.45	32.62	A decrease in receipts of deposits of YTO Finance as compared with corresponding period of last year
Derivative financial liabilities	12,800,000.00	0.09	0.00	0.00	N/A	Exchange rate of USD dropped during the Reporting Period and recognition of foreign exchange swap settlement contracts as liabilities at the end of the year
Notes payable	820,501,598.94	5.82	1,417,113,769.49	10.73	-42.10	Due and payment of acceptance notes issued during prior periods
Taxes payable	17,361,319.90	0.12	25,426,038.74	0.19	-31.72	A decrease in value-added tax and income tax payable but unpaid at the end of the Reporting Period
Non-current liabilities due within one year	1,522,040,174.73	10.79	34,422,532.04	0.26	4,321.64	Transfer of corporate bonds and long-term loans due within one year during the Reporting Period



Items	Balance as at the end of the Reporting Period	Balance as at the end of the Reporting Period as a percentage of total assets (%)	Balance as at the end of the corresponding period of last year	Balance as at the end of the corresponding period of last year as a percentage of total assets (%)	Change in balance as at the end of the Reporting Period as compared with balance as at the end of the corresponding period of last year (%)	Explanation
Long-term loans	689,011,500.00	4.89	9,133,500.00	0.07	7,443.78	New long-term bank loans incurred during the Reporting Period
Bonds payable	0.00	0.00	1,496,694,996.06	11.33	-100.00	Transfer of corporate bonds due within one year to non-current liabilities due within one year
Treasury shares	0.00	0.00	19,140,912.00	0.14	-100.00	Cancellation of H shares repurchased during the Reporting Period
Other comprehensive income	-16,268,084.50	-0.12	-2,685,750.24	-0.02	505.72	Disposal of certain available-for-sale financial assets during the Reporting Period

### (1) Key financial ratios

Items	As at the end of the Reporting Period	As at the beginning of the Reporting Period	Year-on-year change
Gearing ratio (%)	<b>61.43</b>	58.34	Increased by 3.09 percentage point
Current ratio	<b>1.09</b>	1.27	Decreased by 0.18
Quick ratio	<b>0.94</b>	1.10	Decreased by 0.16

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

## **(2) Bank loans**

Bank loans of the Group are mainly in the currency units of RMB, USD and Euro. As at the end of the Reporting Period, bank loans of the Group due within one year amounted to RMB2.0436326 billion, of which loans in foreign currency amounted to RMB673.6326 million (mainly consisting of loans denominated in USD); bank loans due over one year amounted to RMB689.0115 million; and bank loans with fixed interest rate amounted to RMB1.4234200 billion. The Company has a good bank credit rating and financing ability in the PRC and overseas.

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

As at the end of the Reporting Period, the Group's cash and cash equivalents with restrictions on any rights amounted to RMB346,249,459.65, including guarantee letter deposits of RMB5,109,779.00, bank's acceptance bill deposits of RMB59,188,686.97, letter of credit deposits of RMB2,434,080.39, forward settlements on foreign exchange margin of RMB67,000.00, and the central bank's legal deposit reserves of RMB279,449,913.29.

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

As at the end of the Reporting Period, the Group's original value of fixed assets and intangible assets with restrictions on any rights amounted to a total of RMB100,098,120.94, and the net value amounted to a total of RMB82,900,010.90, which were buildings and land mortgaged to the bank for short-term loans to the Group during the Reporting Period.

### **FOREIGN EXCHANGE RISK**

The business of the Company is mainly situated in the PRC and most of the transactions are settled in RMB. However, as the Company has loans denominated in foreign currencies and its export transactions are settled in foreign currencies (mainly in USD, HKD, Euro, Japanese Yen, AUD, XOF and ZAR), exchange rate fluctuations may affect the operating results of the Company to a certain extent.

### **PRINCIPAL SOURCES AND USE OF FUNDS**

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

## REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company convened the 2015 Annual General Meeting, the 2016 First A Share Class Meeting and the 2016 First H Share Class Meeting on 27 May 2016, which considered and approved the “Company’s Resolution on the General Mandate to Repurchase H Shares” respectively, pursuant to which the validity period of the general mandate shall commence from 27 May 2016 and end on 26 May 2017. The Company started to implement the repurchase of H Shares since July 2016 under such general mandate and as at 26 May 2017, a total of 10,050,000 H Shares had been repurchased on the Stock Exchange for a total accumulated consideration of HK\$41,944,440 (excluding commission and other expenses). As at 18 July 2017, the repurchased H Shares had been cancelled and the change of business registration procedure in respect of registered capital reduction of the Company had been completed. After the capital reduction, the total number of the shares of the Company was 985,850,000 shares, and its registered capital was RMB985,850,000.

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

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

Save as disclosed above, neither the Company nor its subsidiaries repurchased, sold or redeemed any of the Company’s listed securities during the Reporting Period.

## CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company strictly abided by the principles and most code provisions under the “Corporate Governance Code” and “Corporate Governance Report” (the “Code”) as set out in Appendix 14 to the Listing Rules of the Stock Exchange. The Company deviated from Code provision A.6.7 which requires that independent non-executive directors and other non-executive directors attend general meetings and develop a balanced understanding of the views of the shareholders of the Company.

Due to other business engagements, Mr. Wu Tak Lung, Mr. Yu Zengbiao, Ms. Yang Minli, independent non-executive Directors and Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Yin Dongfang, non-executive Directors, did not attend the general meeting of the Company held on 3 March 2017; Mr. Wu Tak Lung, Mr. Yu Zengbiao

and Mr. Xing Min, independent non-executive Directors and Mr. Li Hepeng and Mr. Li Kai, non-executive Directors, did not attend the general meeting of the Company, the 2017 First A Share Class Meeting and the 2017 First H Share Class meeting held on 13 June 2017; and Mr. Xing Min, Mr. Wu Tak Lung, Mr. Yu Zengbiao and Ms. Yang Minli, independent non-executive Directors, and Mr. Li Hepeng, Mr. Xie Donggang and Mr. Li Kai, non-executive Directors, did not attend the general meeting of the Company held on 15 November 2017. Other non-executive Directors and independent non-executive Directors were present at all respective general meetings, the 2017 First A Share Class Meeting and the 2017 First H Share Class Meeting, and the Company has informed all Directors of the opinions expressed by the shareholders of the Company contained in the minutes of the general meeting, to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) in Appendix 10 to the Listing Rules of the Stock Exchange as its own code of conduct regarding securities transactions by the Directors. After making enquiries to, and as confirmed by all the Directors of the Company, Mr. Wu Tak Lung, an independent non-executive Director of the Company, held 10,000 H Shares of the Company during the Reporting Period. During the Reporting Period, all the Directors of the Company had strictly abided by the code of conduct in relation to the securities transactions by the Directors under the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules of the Stock Exchange.

## **DIVIDEND**

The company did not distribute dividends in this year. (2016: cash dividends of RMB0.57 (inclusive of tax) for every 10 Shares.)

## OPERATION OF THE AUDIT COMMITTEE

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

Session of meeting	Date	Resolutions	Results
First meeting in 2017	2017.1.9	<ol style="list-style-type: none"> <li>1. Plan for preparation and disclosure of annual report of the Company in 2016</li> <li>2. Plan for preparation of auditing of annual financial report of the Company in 2016</li> <li>3. Work proposal for preparation of annual internal control evaluation of the Company in 2016</li> </ol>	
Second meeting in 2017	2017.2.23	Resolution on the increase of cap amounts for continuing connected transactions in relation to procurement of goods, sale of goods and composite services in 2017 and 2018	
Third meeting in 2017	2017.3.24	<ol style="list-style-type: none"> <li>1. The audited financial report of the Company in 2016</li> <li>2. The annual internal control evaluation report of the Company in 2016</li> <li>3. Recommendations on the appointment of the financial advisor and internal control auditor of the Company in 2017</li> <li>4. The performance report of the Audit Committee under the Board in 2016</li> </ol>	All were passed
Fourth meeting in 2017	2017.4.21	The first quarterly report of the Company in 2017	
Fifth meeting in 2017	2017.8.18	<ol style="list-style-type: none"> <li>1. The interim report of the Company in 2017</li> <li>2. The execution report on connected transactions of the Company for the first half of 2017</li> </ol>	
Sixth meeting in 2017	2017.9.26	<ol style="list-style-type: none"> <li>1. Resolution on the change of the financial advisor and internal control auditor of the Company in 2017</li> <li>2. Resolution on the cap amounts for continuing connected transactions between ZF YTO Drive Axle and the Company from 2018 to 2020</li> </ol>	
Seventh meeting in 2017	2017.10.23	The third quarterly report of the Company in 2017	

As at the date hereof, the Audit Committee under the seventh session of the Board of the Company has reviewed the financial report of the Company in 2017 prepared in accordance with the PRC Accounting Standards for Business Enterprises and the internal control evaluation report of the Company in 2017 in accordance with the requirements of the Stock Exchange.

## REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT

The auditor of the Company, Da Hua Certified Public Accountants (Special General Partnership), agreed with the figures in this preliminary announcement of the results of the Group for the year ended 31 December 2017, which are consistent with the amounts that will be contained in the 2017 Annual Report of the Company. The unqualified auditor's report will also be included in the 2017 Annual Report of the Company.

## DEFINITIONS

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

agricultural machinery	means	various machinery used in the crop farming and animal husbandry, and the primary processing of agricultural and animal products
auditor	means	the financial report auditor appointed by the Company, Da Hua Certified Public Accountants (Special General Partnership), as the Company's auditor for the year of 2017
CBRC	means	China Banking Regulatory Commission
Company	means	First Tractor Company Limited (第一拖拉機股份有限公司)
controlled subsidiary	means	a company held as to more than 50% shares or equity interest by the Company, or a company actually controlled by the Company through agreement and arrangement
CSRC	means	China Securities Regulatory Commission
diesel engine	means	internal combustion engine that uses diesel as fuel
Group	means	the Company and its controlled subsidiaries
H Shares	means	ordinary shares as approved by the CSRC which are issued to foreign investors, and listed with the approval of the Stock Exchange, denominated in RMB, subscribed for and traded in Hong Kong dollars

hi-powered wheeled tractor	means	wheeled tractor with a power of 70 (inclusive) horsepower or above
Hong Kong	means	the Hong Kong Special Administrative Region of the PRC
Listing Rules of the Stock Exchange	means	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
low-powered wheeled tractor	means	wheeled tractor with a power of less than 25 horsepower
mid-powered wheeled tractor	means	wheeled tractor with a power of 25 (inclusive) to 70 horsepower power
power machinery	means	products including diesel engine and fuel injection pump
PRC	means	the People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
Stock Exchange	means	The Stock Exchange of Hong Kong Limited
subsidiary	means	a subsidiary as defined under the Listing Rules of the Stock Exchange
YTO	means	YTO Group Corporation (中國一拖集團有限公司), the controlling shareholder of the Company
YTO Belarus Technology	means	YTO Belarus Technology Company Limited (一拖白俄技術有限公司), a wholly-owned subsidiary of the Company
YTO Finance	means	China YTO Group Finance Company Limited (中國一拖集團財務有限責任公司), a controlled subsidiary of the Company

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

Luoyang, the PRC  
29 March 2018

*As at the date of this announcement, the Board comprises Mr. Zhao Yanshui (Chairman), Mr. Wang Erlong (vice Chairman) and Mr. Wu Yong as executive Directors; Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai and Mr. Yin Dongfang as non-executive Directors; and Ms. Yang Minli, Mr. Xing Min, Mr. Wu Tak Lung and Mr. Yu Zengbiao as independent non-executive Directors.*

*\* For identification purposes only*