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 to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

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) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES; (2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY YTO GROUP CORPORATION; AND (3) APPLICATION FOR WHITEWASH WAIVER

Independent Financial Adviser to the Independent Board Committee and Independent Shareholders

八方金融有限公司
OCTAL Capital Limited

Octal Capital Limited

A letter from the Board is set out on pages 1 to 22 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 23 to 24 of this circular. A letter from Octal Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 54 of this circular.

The General Meeting will be held at 2:15 p.m. on 24 July 2020 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China. Further details of the General Meeting are set out in the notice issued by the Company dated 5 June 2020, the supplemental announcement dated 7 July 2020 and the supplemental notice for the General Meeting which is set out on pages VII-1 to VII-7 of this circular.

The A Shares Class Meeting will be held on 24 July 2020 (Friday) immediately after the General Meeting convened and to be held on the same date and at the same place at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China. Further details of the A Shares Class Meeting are set out in the notice issued by the Company dated 5 June 2020 and the overseas regulatory announcement dated 7 July 2020.

The H Shares Class Meeting will be held on 24 July 2020 (Friday) at 3:30 p.m. or immediately after the class meeting for holders of A shares of the Company convened and to be held on the same date and at the same place at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China. Further details of the H Shares Class Meeting are set out in the notice issued by the Company dated 5 June 2020, the supplemental announcement dated 7 July 2020 and the supplemental notice for the H Shares Class Meeting which is set out on pages VIII-1 to VIII-5 of this circular.

The reply slips for use at the General Meeting and the H Shares Class Meeting have been despatched by the Company on 5 June 2020 and the revised proxy forms for use at the above meetings have been despatched on 8 July 2020. Whether or not you intend to attend the above meetings, you are requested to complete the revised form of proxy for use at the above meetings in accordance with the instructions printed thereon. The revised proxy form 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 (for the H Shareholders), or at the registered address of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC (for the A Shareholders), as soon as possible and in any event not less than 24 hours before the time scheduled for holding the meetings or any adjourned meetings thereof (as the case may be). Completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the meetings or any adjournment (as the case may be) should you so wish.

8 July 2020

CONTENTS

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

"Announcement"	the announcement issued by the Company dated 23 April 2020 in relation to, among other things, the Proposed A Shares Issue and the Whitewash Waiver
"A Shareholder(s)"	holders of A Shares
"A Share(s)"	ordinary shares of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange (stock code: 601038)
"A Shares Class Meeting"	the class meeting of A Shareholders
"A Shares Subscription Agreement"	the subscription agreement entered into between the Company and YTO Group Corporation dated 23 April 2020 in relation to the issue and subscription of 137,795,275 A Shares
"acting in concert"	has the meaning as defined in the Takeovers Code; and the term "concert parties" shall be construed accordingly
"Articles"	the articles of association of the Company, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors of the Company
"CSRC"	China Securities and Regulatory Commission
"Class Meetings"	A Shares Class Meeting and H Shares Class Meeting
"Company"	第一拖拉機股份有限公司(First Tractor Company Limited*), a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
"General Meeting"	a general meeting of the Company to be convened to consider, if thought fit, to approve, among others, the Proposed A Shares Issue and the Whitewash Waiver
"Group"	the Company and its subsidiaries
"H Shareholder(s)"	holders of H Shares
"H Share(s)"	overseas listed shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange (stock code: 0038)
"H Shares Class Meeting"	the class meeting of H Shareholders
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of the Company comprising Mr. Sit Lak Pun Edmund, Ms. Wang Yuru, and Ms. Yang Minli, being all the independent non-executive Directors, which is formed in accordance with the Listing Rules and the Takeovers Code to advise the Independent Shareholders on the Proposed A Shares Issue, the Specific Mandate and the Whitewash Waiver
"Independent Financial Adviser"	Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and the Whitewash Waiver

"Independent Shareholders"	the Shareholders other than (i) YTO Group Corporation and its associates and parties acting in concert with it; and (ii) the Shareholders who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver
"Issuance Date"	the date of issuance of A Shares to the target subscriber pursuant to the Proposed A Shares Issue
"Latest Practicable Date"	3 July 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Pricing Benchmark Date"	24 April 2020, being one day after the date on which the Board approved the Proposed A Shares Issue at the 17th meeting of the 8th session of the Board
"Proposed A Shares Issue"	the proposed non-public issuance of 137,795,275 A Shares to YTO Group Corporation
"Relevant Period"	the period commencing on 23 October 2019, being the date falling six months prior to the date of the Announcement, and ending on and including the Latest Practicable Date
"RMB"	renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"Share(s)"	A Shares and H Shares
"Shareholder(s)"	registered holder(s) of the Shares

"SINOMACH"	China National Machinery Industry Corporation Ltd. (中國機械工業集團有限公司), the controlling shareholder of YTO Group Corporation, which is 100% owned by State-owned Assets Supervision and Administration Commission of State Council (國務院國有資產監督管理委員會)
"Specific Mandate"	the specific mandate to be granted by the Shareholders to the Board in relation to the Proposed A Shares Issue
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of YTO Group Corporation to make a general offer for all Shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by YTO Group Corporation and its concert parties) as a result of the allotment and issue of the A Shares under the A Shares Subscription Agreement
"YTO Group Corporation"	中國一拖集團有限公司(YTO Group Corporation*), a company incorporated in the PRC and currently holding approximately 41.66% of the total number of Shares of the Company in issue as at the Latest Practicable Date
"%"	per cent

* *For identification purpose only.*

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

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

(Stock Code: 0038)

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

\# *Non-executive Director*
** *Independent non-executive Director*

Registered and principal office:
No. 154 Jianshe Road Luoyang,
Henan Province,
The PRC

8 July 2020

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES;
(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY YTO GROUP CORPORATION; AND
(3) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to (a) the announcement of the Company dated 23 April 2020 in relation to, among other things, the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver, and the proposed amendments to the Articles; and (b) the supplemental announcement of the Company dated 7 July 2020 in relation to, among other things, certain amendments to the proposal for the Proposed A Shares Issue.

The Board announces that on 23 April 2020, the Board resolved to propose a non-public issuance of A Shares, pursuant to which the Company will issue 137,795,275 A Shares (representing not more than 30% of the total existing number of Shares in issue) to YTO Group Corporation, and the total funds expected to be raised (before expenses) will amount to RMB700,000,000 (subject to regulatory approval).

As part of the Proposed A Shares Issue, the Company and YTO Group Corporation entered into the A Shares Subscription Agreement on 23 April 2020, pursuant to which the Company will, subject to the satisfaction of the conditions precedent as disclosed in the Announcement and below, issue 137,795,275 A Shares (representing not more than 30% of the total existing number of Shares in issue) to YTO Group Corporation for a cash issue price of RMB5.08 per A Share.

In order to facilitate the smooth implementation of the Proposed A Shares Issue, the proposal has been revised on 7 July 2020 to remove the automatic extension to the validity period of the resolutions regarding the Proposed A Shares Issue.

The purpose of this circular is to provide you with information regarding, among other things, (i) details of the Proposed A Shares Issue, the Specific Mandate, the Whitewash Waiver and the proposed amendments to the Articles; and (ii) a letter from the Independent Board Committee and a letter of advice from the Independent Financial Adviser.

PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER SPECIFIC MANDATE

Structure of the Proposed A Shares Issue

Class and par value of A Shares to be issued: A Shares with a par value of RMB1.00 each.

Number of A Shares to be issued: Subject to the satisfaction of the conditions precedent (as disclosed in the Announcement and below), 137,795,275 new A Shares will be issued under the Proposed A Shares Issue, which represents:

(i) approximately 23.20% of the existing number of A Shares in issue as at the Latest Practicable Date, and approximately 13.98% of the existing total number of Shares in issue as at the Latest Practicable Date; and

(ii) approximately 18.83% of the number of A Shares in issue and approximately 12.26% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon the completion of the Proposed A Shares Issue.

The number of A Shares to be issued under the Proposed A Shares Issue (being 137,795,275 A Shares) is arrived at by dividing the total amount of funds to be raised by the Company thereunder (being RMB700,000,000) by the issue price per A Share to be determined based on the principles as set out in the paragraph headed "Issue price, Pricing Benchmark Date and pricing principles". Provided that such number of A Shares to be issued shall not be more than 30% of the total existing number of Shares in issue, the final number of A Shares to be issued under the Proposed A Shares Issue will be determined by negotiation between the Board and the sponsor (lead manager) in accordance with Detailed Implementation Rules for the Non-Public Offering of Stocks of Listed Companies (上市公司非公開發行股票實施細則) and based on the approval from the CSRC.

The number of A Shares to be issued under the Proposed A Shares issue will be adjusted if, during the period from the Pricing Benchmark Date to the Issuance Date, any event which may alter the total number of Shares of the Company occur, such as issue of bonus shares, conversion of capital reserve into share capital, or placings.

Target subscriber and method of subscription: The target subscriber is YTO Group Corporation, which will subscribe for all the A Shares to be issued under the Proposed A Shares Issue by way of cash in RMB.

Method and time of issue: The Proposed A Shares Issue will be carried out by way of non-public issuance of A Shares to YTO Group Corporation. Subject to the satisfaction of all the conditions precedent, the Company will complete the Proposed A Shares Issue after obtaining the approval from the CSRC within its validity period.

Issue price, Pricing Benchmark Date and pricing principles: In compliance with Measures for Administration of the Issuance of Securities by Listed Companies (revised 2020) (《上市公司證券發行管理辦法(2020修正)》) and the Implementation Rules for the Non-public Issuance of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), the issue price of the A Shares to be issued under the Proposed A Shares Issue shall not be less than 80% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date (i.e. 24 April 2020, being one day after the date on which the Board approved the Proposed A Shares Issue at the 17th meeting of the 8th session of the Board). The average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date divided by the total volume of A Shares traded in those 20 trading days.

The issue price of RMB5.08 per A Share represents:

(i) a discount of approximately 21.85% to the closing price of RMB6.50 per A Share as quoted on the Shanghai Stock Exchange on 22 April 2020, being the last trading day immediately preceding the date of the Announcement; and

(ii) a discount of approximately 20% to the average closing price of RMB6.3481 per A Share as quoted on the Shanghai Stock Exchange for the last 20 consecutive trading days up to 23 April 2020, being the trading day preceding the Pricing Benchmark Date.

If, during the period from the Pricing Benchmark Date to the Issuance Date, any ex-right and ex-dividend event such as cash distribution, issue of bonus shares or conversion of capital reserve into share capital occurs, the issue price shall be adjusted accordingly based on the following formula:

Cash distribution: $P_1 = P_0 - D$
Issue of bonus shares or conversion of capital reserve into share capital:
$P_1 = P_0/(1 + N)$
Cash distribution and Issue of bonus shares or conversion of capital reserve into share capital: $P_1 = (P_0 - D)/(1 + N)$
where:

(i) P_0 denotes the issue price before adjustment;

(ii) D denotes the amount of cash to be distributed per Share;

(iii) N denotes the number of Shares to be distributed as bonus or converted from the capital reserve per Share; and

(iv) P_1 denotes the new issue price after adjustment.

The above adjustment is made based on the requirement under Rule 12 of the "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公開發行股票實施細則》) promulgated by CSRC: The Board shall also resolve to determine whether the issue size shall be adjusted accordingly in case of ex-dividend or ex-rights activities in respect of the shares of the Company during the period from the date of resolution by the Board to the date of issuance. CSRC will consider and approve the above adjustment as a part of the proposal for Proposed A Shares Issue. In other words, CSRC will not consider and approve such adjustment on a standalone basis.

Conditions precedent for the A Shares Subscription Agreement to take effect:

The A Shares Subscription Agreement is conditional upon the following conditions and will take effect when all those conditions have been satisfied:

1. the approval from the Board for the Proposed A Shares Issue has been obtained;

2. the approval from the relevant state-owned assets supervision and administration authorities for the Proposed A Shares Issue has been obtained;

3. the passing of the requisite resolution by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting approving the Proposed A Shares Issue, the A Shares Subscription Agreement and all the related and ancillary resolutions;

4. the passing of the requisite resolution by at least 75% of the votes cast on a poll by the Independent Shareholders at the General Meeting approving the Whitewash Waiver and all the related and ancillary resolutions;

5. the passing of the requisite resolution by at least two-thirds of the votes cast on a poll by the Independent Shareholders at the General Meeting approving the waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue under the relevant laws and regulations in the PRC;

6. the approval from the CSRC for the Proposed A Shares Issue has been obtained; and

7. the grant of the Whitewash Waiver by the SFC in accordance with the Takeovers Code and such waiver has not been revoked prior to completion of the Proposed A Shares Issue.

All of the conditions precedent in items 1 to 7 above are non-waivable.

In relation to condition (5) above, the Proposed A Shares Issue complies with section 63 of the Measures for the Administration of the Takeover of Listed Companies《上市公司收購管理辦法》and the relevant rules regarding the exemptions from submitting a general offer waiver application to CSRC. Upon passing of the requisite resolution at the General Meeting approving the waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue, YTO Group Corporation is exempted from submitting an application for waiver from the general offer obligation to CSRC.

As at the Latest Practicable Date, the approval from the Board and the approval from the relevant state-owned assets supervision and administration authorities for the Proposed A Shares Issue have been obtained. All other conditions under the A Shares Subscription Agreement have not been fulfilled.

The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the General Meeting, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy at the General Meeting as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

Lock-up period:	YTO Group Corporation shall not transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue. The above lock-up arrangement shall also apply to Shares derived from the A Shares subscribed by YTO Group Corporation under the Proposed A Shares Issue due to distribution of bonus shares and conversion of capital reserves to share capital.
Total funds to be raised and used:	The total funds expected to be raised from the Proposed A Shares Issue (before issue expenses) will amount to RMB700,000,000 (subject to regulatory approval). The net issue price to the Company of each new A Share to be issued will be determined and disclosed upon completion of the Proposed A Shares Issue and the determination of relevant expenses incurred or to be incurred in relation to the Proposed A Shares Issue in accordance with the requirements of the Listing Rules. The proceeds from the Proposed A Shares Issue are all intended to be used to replenish the working capital of the Company, the specific purposes of which include but not limited to: 1. as to approximately RMB60,000,000 to RMB100,000,000 for the payment of employees' salaries: 2. as to approximately RMB440,000,000 to RMB540,000,000 for purchasing raw materials for production; and 3. as to approximately RMB100,000,000 to RMB200,000,000 for other necessary productive expenditures. The Company may make adjustments within the range of amounts specified above in accordance with its actual operating needs.
Termination of the A Shares Subscription Agreement:	The A Shares Subscription Agreement shall be terminated under one of the following circumstances: 1. both parties have performed their obligations under the A Shares Subscription Agreement; 2. both parties mutually agree to terminate the A Shares Subscription Agreement; 3. either party may terminate the A Shares Subscription Agreement due to force majeure;

	4. the Proposed A Shares Issue does not proceed to completion within the validity period of the approval issued by the CSRC.
Place of listing:	The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued pursuant to the Proposed A Shares Issue. The A Shares to be issued under the Proposed A Shares Issue can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.
Validity period of the resolution:	According to the window guidance on non-public offering by the CSRC, the resolution regarding the Proposed A Shares Issue shall be valid for 12 months from the date of the passing at the General Meeting and the Class Meetings.
Specific Mandate of the issuance of A Shares:	The Company will issue the A Shares under the Specific Mandate which is intended to be granted to the Board at the General Meeting and the Class Meetings.
Rights of the A Shares to be issued:	The A Shares to be issued pursuant to the Proposed A Shares Issue, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issue of such A Shares. YTO Group Corporation will be entitled to receive all dividends and distributions which may be declared, made or paid on or after the completion of the Proposed A Shares Issue.
Distribution of profit:	The retained profits prior to the Proposed A Shares Issue will be shared by the new and existing Shareholders in proportion to the number of Shares held upon completion of the Proposed A Shares Issue.

Proposal in relation to the "Proposal for Non-public Issuance of A Shares"

The "Proposal for Non-public Issuance of A Shares (Revised)" was originally prepared in Chinese language. The full text of the English translation of the "Proposal for Non-public Issuance of A Shares (Revised)" is set out in Appendix I to this circular for reference only. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

Each of the following items in relation to the Proposed A Shares Issue will be considered and approved, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

(i) Class and par value of A Shares to be issued;

(ii) Method and time of issue;

(iii) Target subscriber and method of subscription;

(iv) Pricing Benchmark Date, issue price and pricing principles;

(v) Number of A Shares to be issued;

(vi) Amount and use of proceeds;

(vii) Lock-up period;

(viii) Place of listing;

(ix) Distribution of retained profit; and

(x) Validity period of the resolution.

The proposal in relation to the "Proposal for Non-public Issuance of A Shares" will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

Proposal in relation to the conditional A Share Subscription Agreement entered into between the Company and YTO Group Corporation

The proposal in relation to the A Shares Subscription Agreement entered into between the Company and YTO Group Corporation on 23 April 2020 (pursuant to which the Company has conditionally agreed to issue and YTO Group Corporation has agreed to subscribe for 137,795,275 A Shares under the Proposed A Shares Issue at a total subscription price of RMB700,000,000) and the transactions contemplated therein will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

Proposal in relation to "the Company's compliance with the conditions of the Proposed A Shares Issue"

Pursuant to laws, regulations and regulatory documents such as the Company Law of the PRC, the Securities Law of the PRC, the "Measures for Administration of the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》)and the Implementation Rules for the Non-public Issuance of Shares by Listed Companies(《上市公司非公開發行股票實施細則》), the Board considers that the Company complies with the conditions of non-public offering of A Shares for the Proposed A Shares Issue after detailed verification of the actual situation and relevant matters of the Company.

The proposal in relation to the Company's compliance with the conditions of the Proposed A Shares Issue will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the General Meeting.

Proposal in relation to the "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue"

The "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue (Revised)" was originally prepared in Chinese language. The full text of the English translation of the "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue (Revised)" is set out in Appendix II to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the "Feasibility analysis report on the use of proceeds from the Proposed A Shares Issue (Revised)" will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting.

Proposal in relation to the "the dilution of current return as a result of the Proposed A Shares Issue and the adoption of remedial measures"

According to the requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》), Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) and Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (Announcement No. 31 [2015] of the CSRC) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), to protect the interests of scattered investors, the Company has made careful analysis on the impact of dilution of current returns caused by the Proposed A Shares Issue and has formulated specific remedial measures for the diluted current returns. The relevant entities have made a commitment to ensure that the Company will earnestly implement the remedial measures for the current returns. Please refer to section VI of Appendix I to this circular for details of the main measures adopted by the Company for the dilution of current returns caused by Proposed A Shares Issue.

The proposal in relation to the "the dilution of current return as a result of the Proposed A Shares Issue and the adoption of remedial measures" will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the General Meeting.

Proposal in relation to "Undertakings by Directors, Senior Management, the Controlling Shareholder and the Actual Controller of the Company to the Implementation of the Remedial Measures"

Pursuant to relevant provision such as the "Guidance Opinion on Matters Pertaining to dilution of return for the Current Period Resulting from Initial Offering and Refinancing or Material Asset Reorganisation" (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), YTO Group Corporation and SINOMACH, the controlling shareholder and the actual controller of the Company, have made the undertakings to ensure the return remedial measures of the Company can be effectively performed. Please refer to section VI of Appendix I to this circular for details of commitment of the directors, senior management, the controlling shareholder and the actual controller of the Company on adopting remedial measures for the dilution of current returns caused by the Proposed A Shares Issue.

The proposal in relation to the "Undertakings by Directors, Senior Management, the Controlling Shareholder and the Actual Controller of the Company to the Implementation of the Remedial Measures" will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the General Meeting.

Proposal in relation to the "Shareholders' Return Plan for the Next Three Years of the Company"

According to the relevant provisions and requirements of the No. 3 Guideline for the Supervision of Listed Companies – Cash Dividend Distribution of Listed Companies(《上市公司監管指引第3號 – 上市公司現金分紅》) issued by the CSRC and the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司現金分紅指引》) issued by Shanghai Stock Exchange, the Company formulated the "Shareholders' Return Plan for the Next Three Years of the Company".

The "Shareholders' Return Plan for the Next Three Years of the Company" was originally prepared in Chinese language. The full text of the English translation of the "Shareholders' Return Plan for the Next Three Years of the Company" is set out in Appendix IV to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to "Shareholders' Return Plan for the Next Three Years of the Company" will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the General Meeting.

Proposal that the Company is not required to prepare the report on the use of the previous proceeds

The Provisions on the Report on Use of the Capital Raised in the Previous Time (No. 500 [2007] the China Securities Regulatory Commission) stipulates that "If a listed company applies for the issuance of securities, and there are less than five accounting years from the time when the capital raised in the previous time was transferred to the special account, the Board of Directors shall prepare a report on use of the capital raised in the previous time according to the present Provisions to explicitly introduce the particulars about actual use of the capital raised (at home or abroad) in the last time before the expiry day of the last audited financial report in the application documents for issuance of securities, make a resolution about the report on use of the capital raised in the previous time, and then submit the report to the General Meeting for approval".

In view of the fact that the Company has not raised capital in the last five accounting years through issuing any securities stipulated in the Administrative Measures for the Issuance of Securities by Listed Companies such as placement, offering and convertible bonds of the Company, and the last time of the Company's previous fund-raising was more than five accounting years ago, the Company does not need to prepare a report on the use of the previous proceeds.

The "Explanation that the Company is not required to prepare the report on the use of the previous proceeds" was originally prepared in Chinese language. The full text of the English translation of the "Explanation that the Company is not required to prepare the report on the use of the previous proceeds" is set out in Appendix III to this circular for reference. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal that the Company is not required to prepare the report on the use of the previous proceeds will be submitted, by way of ordinary resolution, for the Shareholders' consideration and approval at the General Meeting.

Proposal in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue

The proposal in relation to the Specific Mandate to the Board to deal with matters related to the Proposed A Shares Issue will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

Proposal in relation to the application of waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation

The Proposed A Shares Issue complies with section 63 of the Measures for the Administration of the Takeover of Listed Companies《上市公司收購管理辦法》and the relevant rules regarding the exemptions from submitting a general offer waiver application to CSRC. Upon passing of the requisite resolution at the General Meeting approving the waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue, YTO Group Corporation is exempted from submitting an application for waiver from the general offer obligation to CSRC.

The proposal in relation to the application of waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue under the relevant laws and regulations in the PRC will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting.

CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY YTO GROUP CORPORATION

As part of the Proposed A Shares Issue, the Company and YTO Group Corporation entered into the A Shares Subscription Agreement on 23 April 2020, pursuant to which the Company will, subject to the satisfaction of the conditions precedent as disclosed in the section headed "Structure of the Proposed A Shares Issue", issue 137,795,275 A Shares (representing not more than 30% of the total existing number of Shares in issue) to YTO Group Corporation for a cash issue price of RMB5.08 per A Share.

YTO Group Corporation is the controlling shareholder holding approximately 41.66% of the total number of Shares of the Company in issue as at the Latest Practicable Date, and therefore YTO Group Corporation is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and the relevant PRC laws and regulations.

The resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes a connected transaction of the Company will be submitted, by way of special resolution, for the Independent Shareholders' consideration and approval at the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed A Shares Issue (assuming no other change in the number of issued shares in the Company):

	As at Latest Practicable Date		**Immediately after completion of the Proposed A Shares Issue**	
	Number of Shares held	**Approximate percentage of the total number of Shares in issue**	**Number of Shares held**	**Approximate percentage of the total number of Shares in issue**
A Shares:				
YTO Group Corporation	410,690,578	41.66%	548,485,853	48.81%
Public Shareholders	183,219,422	18.58%	183,219,422	16.31%
Subtotal	593,910,000	60.24%	731,705,275	65.12%

	As at Latest Practicable Date		Immediately after completion of the Proposed A Shares Issue	
	Number of Shares held	Approximate percentage of the total number of Shares in issue	Number of Shares held	Approximate percentage of the total number of Shares in issue
H Shares:				
YTO Group Corporation	0	0	0	0
Public Shareholders	391,940,000	39.76%	391,940,000	34.88%
Subtotal	391,940,000	39.76%	391,940,000	34.88%
Total Issued Shares:				
YTO Group Corporation	410,690,578	41.66%	548,485,853	48.81%
Public Shareholders	575,159,422	58.34%	575,159,422	51.19%
	985,850,000	100%	1,123,645,275	100%

As shown in the above table, the total shareholding interest held by YTO Group Corporation in the Company immediately before and after the Proposed A Shares Issue are approximately 41.66% and approximately 48.81% respectively.

SECURITIES OF THE COMPANY

As at the Latest Practicable Date, the Company has 985,850,000 Shares in issue, comprising 593,910,000 A Shares and 391,940,000 H Shares. Save as aforesaid, the Company has no other outstanding shares, options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into Shares.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not carried out any fund raising exercises through issue of any equity securities during the 12 months immediately preceding the Latest Practicable Date.

REASONS FOR AND BENEFITS OF THE PROPOSED A SHARES ISSUE

Optimising the capital structure and improving the risk resistance capacity

As of 31 December 2019, the Company's gearing ratio was higher than the average level of that of other companies operating in similar agricultural machinery products manufacturing industry. The relatively higher gearing ratio increases the Company's potential financial risks and is not conducive to the Company's financing. By reducing its gearing ratio, the Proposed A Shares Issue will help the Company optimise its capital structure and reduce financial risks, thereby improving the Company's capacity to resist risks and the ability to obtain future financing.

Reducing financial expenses and improving financial stability

The agricultural machinery industry in which the Company is engaged is a capital and technology intensive industry, and there is a large demand for research & development, and capital investment in higher-end agricultural equipment to fulfil development of agricultural modernization in China. The Company's current interest-bearing liabilities level remains relatively high. The higher level of interest-bearing liabilities has resulted in the Company's long-term interest expense being at a relatively high level as well. The Proposed A Shares Issue will improve the Company's liquidity, ease its funding pressure, reduce the amount of short-term liabilities and reduce interest expenses.

Boosting market confidence

As the controlling shareholder of the Company, YTO Group Corporation's participation in the Proposed A Shares Issue demonstrates its support for the Company's development and its confidence in the Company's future prospects, which are conducive to maintaining market stability, protecting the interests of all shareholders and establishing a positive market image for the Company.

PROPOSED AMENDMENTS TO THE ARTICLES

In light of the Proposed A Shares Issue, the Articles of the Company will need to be amended in accordance with the relevant laws and regulations.

The Board proposes to seek from the Shareholders at the General Meeting their relevant authorisation to the Board to make corresponding adjustments and amendments to the Articles (including but not limited to adjustments and amendments to the wordings, sections, terms, conditions of effect and others) based on the results and the actual conditions of the Proposed A Shares Issue, and to make corresponding adjustments and amendments to the content of the Articles relating to registered capital and share capital structure upon completion of the Proposed A Shares Issue.

The proposal regarding the relevant authorisation to the amendments to the Articles will be submitted to the A Shares Class Meeting and the H Shares Class Meeting for consideration and approval by way of special resolution.

INTENTION OF YTO GROUP CORPORATION REGARDING THE COMPANY

YTO Group Corporation intends to continue with the existing business of the Company upon the completion of the Proposed A Shares Issue. YTO Group Corporation has no intention to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company). It is also the intention of YTO Group Corporation that the employment of the existing employees of the Group should be continued following completion of the Proposed A Shares Issue except for changes which may occur in the ordinary course of business.

IMPLICATIONS UNDER THE LISTING RULES

YTO Group Corporation is the controlling shareholder holding approximately 41.66% of the total number of Shares of the Company in issue as at the Latest Practicable Date, and therefore YTO Group Corporation is a connected person of the Company under the Listing Rules. The Proposed A Shares Issue constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Li Xiaoyu, Mr. Cai Jibo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, each being a Director, is a concert party of YTO Group Corporation, and is therefore considered to be materially interested in the relevant board resolutions to approve the Proposed A Shares Issue. Accordingly, Mr. Li Xiaoyu, Mr. Cai Jibo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai have abstained from voting on the Board resolutions to approve the Proposed A Shares Issue. Save and except for the aforesaid, none of the Directors has any material interest in any of the Proposed A Shares Issue and hence no other Director has abstained on voting such Board resolutions.

The Specific Mandate is sought from the shareholders of the Company as required under Rule 13.36 of the Listing Rules, as modified by Chapter 19A of the Listing Rules.

IMPLICATIONS UNDER THE TAKEOVERS CODE – APPLICATION FOR WHITEWASH WAIVER

Upon completion of the Proposed A Shares Issue, YTO Group Corporation's shareholding of the Company is expected to increase from approximately 41.66% to approximately 48.81%. In the absence of an applicable waiver, completion of the Proposed A Shares Issue will give rise to an obligation on the part of YTO Group Corporation to make a mandatory offer for all the Shares other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code. YTO Group Corporation has applied for the Whitewash Waiver from compliance with the obligation to make a mandatory offer under Rule 26.1 of the Takeovers Code. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the General Meeting, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the General Meeting as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the General Meeting and the Class Meetings or the Whitewash Waiver is not approved by the Independent Shareholders at the General Meeting.

As at the Latest Practicable Date, the Company does not believe that the Proposed A Shares Issue gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Proposed A Shares Issue does not comply with other applicable rules and regulations.

YTO Group Corporation and parties acting in concert with YTO Group Corporation and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver will abstain from voting in respect of the resolution(s) to approve the Proposed A Shares Issue, A Shares Subscription Agreement and the Whitewash Waiver at the General Meeting and the Class Meetings.

The Relevant Information (as defined in Appendix I below) constitutes profit forecast under Rule 10 of the Takeovers Code. Inclusion of the Relevant Information in the Proposal is required under relevant laws, rules and/or regulations in the PRC. Shareholders and other investors should note that the Relevant Information has not been prepared to a standard required under Rule 10 of the Takeovers Code and has not been reported on in accordance with Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting the Relevant Information and when assessing the merits or demerits of the Proposed A Shares Issue and dealing or investing in the Shares or other securities of the Company.

The Executive has granted a waiver to the Company from its obligation to comply with Rule 10 of the Takeovers Code in respect of the Relevant Information.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.8 of the Takeovers Code, members of the independent committee of the Board should comprise all non-executive Directors who have no interest in the Proposed A Shares Issue and Whitewash Waiver other than as a Shareholder.

The Independent Board Committee (comprising, Ms. Yang Minli, Ms. Wang Yuru and Mr. Edmund Sit, being all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules and Rule 2.8 of the Takeover Code to advise the Independent Shareholders on the Proposed A Shares Issue and Whitewash Waiver.

Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, each being a non-executive Director of the Company, is a party acting in concert with YTO Group Corporation and is therefore not considered as independent for the purpose of giving advice or recommendations to the Independent Shareholders. Accordingly, each of Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai has been excluded from membership of the Independent Board Committee.

Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed A Shares Issue and Whitewash Waiver.

GENERAL

Information on the Company

The Company's principal businesses include research and development, manufacturing and sales of agricultural machinery, power machinery and their spare parts.

Information about YTO Group Corporation

YTO Group Corporation, as the controlling shareholder of the Company, together with its subsidiaries, are principally engaged in the production and sales of tractors and other agricultural machinery, automobiles, engineering machinery, diesel engines, generators, forklifts, bicycles, fuel injection pumps and spare parts of the above products; manufacturing of coal mining machinery, tank trucks, moulds, machine tools, forging castings, clip aids and non-standard equipment; industrial gas; production and sale of oxygen, nitrogen, air; road transportation of general cargo and dangerous goods; import and export (according to qualification certificate); contracting overseas mechanical and electrical engineering and domestic and international bidding project; export of equipment and materials required for the above-mentioned overseas projects; dispatch of labour required for the implementation of the above-mentioned projects.

The shares in YTO Group Corporation are owned:

(i) as to 87.9% by SINOMACH, which in turn is 100% owned by State-owned Assets Supervision and Administration Commission of State Council (國務院國有資產監督管理委員會); and

(ii) as to 12.1% 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).

GENERAL MEETING AND CLASS MEETINGS

The General Meeting will be convened at 2:15 p.m. on 24 July 2020 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, The People's Republic of China to consider and, if thought fit, approve resolutions relating to, among others, (i) the Proposed A Shares Issue; (ii) the Specific Mandate; (iii) the Whitewash Waiver and (iv) the authorisation to the amendments to the Articles.

The A Shares Class Meeting will be held on 24 July 2020 (Friday) immediately after the General Meeting to be held on the same date and the H Shares Class Meeting will be convened at 3:30 p.m. on 24 July 2020 (Friday) to consider and, if thought fit, approve resolutions relating to (i) the Proposed A Shares Issue; (ii) the A Shares Subscription Agreement and (iii) the Specific Mandate.

YTO Group Corporation and its associates, parties acting in concert with it, and those who are involved in or interested in the Proposed A Shares Issue and/or the Whitewash Waiver will be required to abstain from voting on the corresponding resolutions to be proposed at the General Meeting and/or the Class Meetings.

The voting in relation to the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate, and the Whitewash Waiver will be conducted by way of poll.

The reply slips for use at the General Meeting and the H Shares Class Meeting have been despatched by the Company on 5 June 2020 and the revised proxy forms for use at the above meetings have been despatched on 8 July 2020. Shareholders should note that the proxy form for attendance at the General Meeting and/or the H Shares Class Meeting issued by the Company on 5 June 2020 (the "**Original Proxy Forms**") will be revoked and the purported proxy so appointed or to be appointed (if applicable) by the Original Proxy Forms will not be counted in any poll which will be taken on a proposed resolution. Accordingly, Shareholders are requested to complete the revised forms of proxy. Whether or not you intend to attend the above meetings, you are requested to complete the revised form of proxy for use at the above meetings in accordance with the instructions printed thereon. The revised proxy form 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 (for the H Shareholders), or at the registered address of the Company at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC (for the A Shareholders), as soon as possible and in any event not less than 24 hours before the time scheduled for holding the meetings or any adjourned meetings thereof (as the case may be). Completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the meetings or any adjournment (as the case may be) should you so wish.

RECOMMENDATION

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from Octal Capital Limited" in this circular below, the Independent Board Committee concurs with the view of the Independent Financial Adviser and consider that the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all the resolutions to be proposed at the General Meeting and the Class Meetings.

The independent non-executive Directors believe that:

1. the Proposed A Shares Issue complies with relevant laws, rules and other regulations such as the "Company Law of the People's Republic of China" (《中華人民共和國公司法》), "Securities Law of the People's Republic of China"(《中華人民共和國證券法》), "Administrative Measures for the Issuance of Securities by Listed Companies"(《上市公司證券發行管理辦法》) and "Implementation Rules for Non-public Issuance of Shares by Listed Companies" (《上市公司非公開發行股票實施細則》). The Proposed A Shares Issue is acceptable and feasible, and is in line with the Company's long-term development plan and in the interests of Shareholders as a whole, and there are no circumstances which may harm the interests of the Company and its Shareholders;

2. the reasons for the Proposed A Shares Issue are valid and sufficient, the pricing principles and methods are appropriate and acceptable, and all necessary internal decision-making procedures for the Proposed A Shares Issue will be complied with. The Proposed A Shares Issue does not violate the principles of openness, impartiality and equality, and there are no circumstances which may harm the interests of the Company and its Shareholders, in particular the minority Shareholders; and

3. the terms and signing procedures of the A Shares Subscription Agreement comply with the laws, rules and other regulatory documents, and there are no circumstances which may harm the interests of the Company and its Shareholders as a whole.

The Directors are of the view that the resolutions to be proposed at the General Meeting and the Class Meetings are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all the Shareholders to vote in favour of all the resolutions to be proposed at the General Meeting and the Class Meetings.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 23 to 24 of this circular; (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 25 to 54 of this circular; and (iii) the appendices to this circular.

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

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

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

(Stock Code: 0038)

8 July 2020

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES;
(2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY YTO GROUP CORPORATION; AND
(3) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 8 July 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Proposed A Shares Issue, the A Shares Subscription Agreement, the Specific Mandate and the Whitewash Waiver, details of which are set out in the "Letter from the Board" in the Circular. Octal Capital Limited has been appointed as the Independent Financial Adviser with our approval to advise the Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the "Letter from the Board" set out on pages 1 to 22 of the Circular and the "Letter from Octal Capital Limited" set out on pages 25 to 54 of the Circular and the additional information set out in the appendices of this Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the "Letter from Octal Capital Limited" in the Circular, we concur with the view of the Independent Financial Adviser and consider that:

(a) although the entering into of the A Shares Subscription Agreement is not in the ordinary and usual course of business of the Company, the terms of the Proposed A Shares Issue, the A Shares Subscription Agreement and the Specific Mandate (i) are fair and reasonable, (ii) are on normal commercial terms and (iii) are in the interests of the Company and the Shareholders as a whole; and

(b) the terms of the Proposed A Shares Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend you to vote in favour of all the resolutions to be proposed at the General Meeting and the Class Meetings.

Yours faithfully,
Independent Board Committee

Wang Yuru **Yang Minli** **Edmund Sit**
Independent non-executive Directors

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Proposed Subscription of A Shares by YTO Group Corporation prepared for the purpose of inclusion in this circular.

八方金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801–805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

8 July 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs/Madams,

(1) PROPOSED NON-PUBLIC ISSUANCE OF NEW A SHARES; (2) CONNECTED TRANSACTION – PROPOSED SUBSCRIPTION OF A SHARES BY YTO GROUP CORPORATION; AND (3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed A Shares Issue, the terms of the A Shares Subscription Agreement and the Whitewash Waiver, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular to the Shareholders dated 8 July 2020 (the "**Circular**") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As set out in the Letter from the Board, on 23 April 2020, the Board approved a proposed non-public issuance of A Shares, and the Company entered into the A Shares Subscription Agreement with YTO Group Corporation, pursuant to which the Company will, subject to the satisfaction of the conditions precedent as disclosed below, issue 137,795,275 A Shares (representing not more than 30% of the total existing number of Shares in issue) to YTO Group Corporation for a cash issue price of RMB5.08 (the "**Issue Price**") per A Share. The total funds expected to be raised (before expenses) will amount to RMB700,000,000 (subject to regulatory approval).

In order to facilitate the smooth implementation of the Proposed A Shares Issue, the proposal has been revised on 7 July 2020 to remove the automatic extension to the validity period of the resolutions regarding the Proposed A Shares Issue.

The Issue Price of the A Shares to be issued under the Proposed A Shares Issue of RMB5.08 is not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date (i.e. 24 April 2020, being one day after the date on which the Board approved the Proposed A Shares Issue at the 17th meeting of the 8th session of the Board). The average trading price of the A Shares in the 20 trading days preceding the Pricing Benchmark Date equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date, divided by the total volume of A Shares traded in those 20 trading days.

The number of A Shares to be issued under the Proposed A Shares Issue, being 137,795,275 A Shares, represents (i) approximately 23.20% of the existing number of A Shares in issue as at the Latest Practicable Date, and approximately 13.98% of the existing total number of Shares in issue as at the Latest Practicable Date; and (ii) approximately 18.83% of the number of A Shares in issue and approximately 12.26% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon completion of the Proposed A Shares Issue.

As at the Latest Practicable Date, YTO Group Corporation holds 410,690,578 A Shares, representing approximately 41.66% of the total issued share capital of the Company. Upon completion of the Proposed A Shares Issue, YTO Group Corporation's shareholding in the Company is expected to increase from approximately 41.66% to approximately 48.81%. In the absence of an applicable waiver, the Proposed A Shares Issue will give rise to an obligation on the part of YTO Group Corporation to make a mandatory offer for all the Shares in issue other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

YTO Group Corporation has made an application for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code to the Executive. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the General Meeting, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy at the General Meeting as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the General Meeting and the Class Meetings, or if the Whitewash Waiver is not approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the General Meeting.

The Independent Board Committee has been formed in accordance with Chapter 14A of the Listing Rules and Rule 2.8 of the Takeover Code to advise the Independent Shareholders on the Proposed A Shares Issue and Whitewash Waiver.

We, Octal Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed A Shares Issue and the Whitewash Waiver in this regard. We are not connected with the directors, chief executive or substantial shareholders of the Company or YTO Group Corporation or any of their respective subsidiaries or their respective associates and do 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 and therefore are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no engagement between us and the Company, YTO Group Corporation or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or YTO Group Corporation or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group, the Proposed A Shares Issue and the Whitewash Waiver, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, YTO Group Corporation and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have considered the following principal factors and reasons:

1. Background of and reasons for the Proposed A Shares Issue and use of proceeds

1.1 Principal business of the Company

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The principal activities of the Group include research and development, manufacturing and sales of agricultural machinery, power machinery and their spare parts.

1.2 Financial information of the Company

Set out below is a summary of the consolidated financial information of the Company for the two years ended 31 December 2018 ("**FY2018**") and 2019 ("**FY2019**") as extracted from the Company's annual report for FY2018 (the "**2018 Annual Report**") and FY2019 (the "**2019 Annual Report**"):

	FY2019	**FY2018**
	audited	**audited**
	RMB'000	*RMB'000*
Total operating revenue	5,830,175	5,681,548
Net profit/(loss) attributable to the shareholders of the parent company	61,475	(1,300,109)

	As at 31 December	
	2019	**2018**
	audited	**audited**
	RMB'000	*RMB'000*
Non-current assets	5,213,801	5,608,310
Current assets	6,415,221	7,532,432
Total assets	11,629,022	13,140,742
Non-current liabilities	537,568	1,301,486
Current liabilities	6,307,589	7,183,180
Total liabilities	6,845,157	8,484,666
Net current assets	107,632	349,252
Net assets	4,783,865	4,656,076
Gearing ratio	58.9%	64.7%

As noted from above, the total operating revenue of the Group amounted to approximately RMB5,830.2 million for the year ended 31 December 2019, representing a year-on-year increase of approximately 2.6% when compared to the year 2018. The increase was mainly due to increase in sales volume of all products of the Group during the year ended 31 December 2019. The Group has recorded a net profit attributable to the shareholders of the parent company of approximately RMB61.5 million for the year ended 31 December 2019, represent an increase of approximately RMB1,361.6 million from a net loss attributable to the shareholders of the parent company of approximately RMB1,300.1 million for the year ended 31 December 2018. The turnaround from net loss to net profit was mainly due to the decrease in selling expenses, administrative expenses and loss on impairment of assets and the increase in investment income from disposal of assets.

As regards to the financial position of the Group, the total assets of the Group decreased from approximately RMB13,140.7 million as at 31 December 2018 to approximately RMB11,629.0 million as at 31 December 2019. Such decrease was mainly attributable to the (i) the decrease in lendings to banks and other financial institutions from a subsidiary of the Group; (ii) the decrease in notes receivable as a result of the decrease in bills settlement; and (iii) the decrease in the other current assets as a result of the decrease in financial products, which was partially offset by (i) the increase in financial assets purchased under resale agreements; (ii) the increase in non-current assets due within one year as a result of the increase in long-term receivables due within one year; and (iii) the increase in advances to suppliers as a result of the increase in prepayments for purchases. The total liabilities of the Group decreased from approximately RMB8,484.7 million as at 31 December 2018 to approximately RMB6,845.2 million as at 31 December 2019. Such decrease was mainly attributable to (i) the decrease in short-term loans as a result of the partial repayment of short term borrowings; and (ii) the decrease in contract liabilities as a result of fulfillment and delivery of some orders, which was partially offset by (i) the increase in non-current liabilities due within one year; and (ii) the increase in taxes payable as a result of the increase in profits of subsidiaries.

As a result of the increase in non-current liabilities due within one year, the Group's net current assets deteriorated from approximately RMB349.3 million as at 31 December 2018 to approximately RMB107.6 million as at 31 December 2019, representing a decrease of approximately 69.2% when compared to the year 2018. The Group's gearing ratio, which is equivalent to total liabilities divided by total assets was approximately 64.7% as at 31 December 2018 and approximately 58.9% as at 31 December 2019. The decreased in gearing ratio was mainly due to decrease in the financing scale of the Company.

1.3 Background of and Reasons for the Proposed A Shares Issue

On 23 April 2020, the Board approved the Proposed A Shares Issue and the Company entered into the A Shares Subscription Agreement with YTO Group Corporation, pursuant to which the Company will, subject to the satisfaction of the conditions precedent, issue 137,795,275 A Shares (representing approximately 13.98% of the total existing number of Shares in issue and not more than 30% of the total existing number of Shares in issue) to YTO Group Corporation for the Issue Price of RMB5.08 per A Share. The total funds expected to be raised (before expenses) will amount to RMB700,000,000 (subject to regulatory approval).

As stated in the Letter from the Board, proceeds from the Proposed A Shares Issue will be used for general working capital. The Proposed A Shares Issue will optimise the Company's capital structure, improve the risk resistance capacity, reduce financial expenses, improve financial stability and boost market confidence in the Company's future prospects, and therefore, is in the interest of the Company and all Shareholders as a whole.

As disclosed in the 2019 Annual Report, the Group will continue to implement a series of measures to maintain sustainable growth and healthy development of the Group, mainly including (i) facilitating market-oriented development and enhancing the market competitiveness of leading products; (ii) implementing special international plan and making breakthroughs in international markets; and (iii) improving quality and efficiency and maintaining stable operation and healthy development. We also noted from the 2019 Annual Report that, as at 31 December 2019, the monetary funds of the Group amounted to approximately RMB1,401.0 million. On the other hand, the aggregate amount of the Group's short term loan and non-current liabilities due within one year was approximately RMB2,068.6 million as at 31 December 2019. Having considered not only the Group's future developments and liquidity position, but also the uncertainties surrounding the global economy and novel coronavirus situation, we concur with the Directors that the Group has an ongoing financing needs to satisfy its funding requirements for implementation of above measures and maintain sufficient liquidity cushion to support its working capital requirements for daily operation.

As agricultural machinery industry is a capital and technology intensive industry, it has a large demand in capital investment. The Group has been working to reduce the scale of debt and the gearing ratio and enhancing the liquidity of the Group in the past few years. As at 31 December 2019, the gearing ratio of the Group was 58.9%, representing a decrease of approximately 5.8% when compared to that as at 31 December 2018, mainly as a result of the decrease in the financing scale of the Company. However, the Group's gearing ratio remains at a high level when compared to that of its peers which are principally engaged-in manufacturing and sales of the Special Purpose Machinery Vehicles (as defined below) in the PRC and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. For details, please refer to section headed "Comparison with Industry Comparables" in this letter. Moreover, there was an increase in non-current liabilities due within one year by approximately RMB572.4 million or 746.6% from approximately RMB76.7 million as at 31 December 2018 to RMB649.0 million as at 31 December 2019. Such increase was mainly due to the increase in long term borrowings due within one year. After the completion of the Proposed A Shares Issue, the company's gearing position and liquidity position will be improved, which will in turn provide a good environment for the development and operation of the Group, enhance the competitiveness and achieve sustainable development.

According to the Notice of the State-owned Assets Supervision and Administration Commission of the Ministry of Finance on Issuing the 2014 Central State-owned Capital Operating Budget (Fund Allocation) of China National Machinery Industry Corporation Ltd. 《財政部國資委關於下達中國機械工業集團有限公司2014年中央國有資本經營預算(撥款)通知》 issued by Ministry of Finance in 2014, the Company was allocated RMB700 million (the "**Operating Budget Fund**") through a entrusted loan (the "**Entrusted Loan**") from YTO Group Corporation to enhance its products innovation and competitiveness. The Group had obtained the funding from the Entrusted Loan since July 2015 and renewed the Entrusted Loan annually until July 2019. The Entrusted Loan was unsecured and carried interest at a fixed rate ranging from 3.915% to 4.365% per annum during the period form July 2015 to July 2019. The term of the Entrusted Loan was 12-month and renewable upon expiry. For details of the Entrusted Loan, please refer to the announcements of the Company dated 6 July 2015, 8 July 2016, 11 July 2017 and 13 July 2018 published on the website of the Shanghai Stock Exchange. Pursuant to the requirements in the Temporary Regulations on Enhancing the Management of Financial Information of Enterprise《加強企業財務信息管理暫行規定》(the "**Temporary Regulations**") issued by the Ministry of Finance in 2012, capital financial funds received from the state may temporarily be treated as entrusted loan and shall be converted to share equity held by the state when there is a capital increase exercise or other exercises such as listing. As advised by the management of the Group, apart from the Proposed A Shares Issue, they would consider renewing the Entrusted Loan. As compared to renewing the Entrusted Loan, the Directors consider that the Proposed A Shares Issue would be more appropriate for the Group to finance the funding needs in the form of equity which would not worsen the Group's gearing position and increase the Group's financial burden, whereas the Temporary Regulations stipulated that the capital financial fund shall be injected as registered capital when there is capital increase exercise. Therefore, we concur with the management that the Proposed A Shares Issue would enable the Company to obtain the Operating Budget Fund in complying with the Temporary Regulations and fulfil the Company's obligations in connection with the management of stated-owned assets.

As advised by the management of the Group, they considered other sources of financing, including debt financings and other equity financings apart from the Proposed A Shares Issue. As compared to the Proposed A Shares Issue, the Directors consider that further debt financing will result in additional interest burden and higher gearing ratio of the Group. In respect of other equity financings, including open offer and rights issue, the Directors consider that, taking into account the dual listing status of the Company, these financing methods are generally time-consuming in administrative and reviewing procedures. In contrast, the Proposed A Shares Issue is a more desirable solution for the Group to improve financial position and enlarge its capital base for business development.

As the controlling shareholder of the Company, the intended subscription for A Shares under the Proposed A Shares Issue indicates its confidence in the Company's future and support for the development of the Company, which is beneficial for the Company to optimise its capital structure, reduce the financial risks and enhance the core competitiveness of its main business. We are of the view that the participation of YTO Group Corporation in the Proposed A Shares Issue may boost confidence of external investors and facilitate the completion of the Proposed A Shares Issue.

Having considered the above, we are of the view that there is a strong commercial rationale for the Proposed A Shares Issue and the Proposed A Shares Issue are in the interests of the Company and Shareholders as a whole.

2. Principal terms of the Proposed A Shares Issue

The major terms and conditions of the Proposed A Shares Issue are set out as follows:

Class and par value of A Shares to be issued:	A Shares with a par value of RMB1.00 each.
Number of A Shares to be issued:	Subject to the satisfaction of the conditions precedent (as disclosed below), 137,795,275 new A Shares will be issued under the Proposed A Shares Issue, which represents: (i) approximately 23.20% of the existing number of A Shares in issue as at the Latest Practicable Date, and approximately 13.98% of the existing total number of Shares in issue as at the Latest Practicable Date; and

(ii) approximately 18.83% of the number of A Shares in issue and approximately 12.26% of the total number of Shares in issue, in each case as enlarged by the number of A Shares to be issued upon the completion of the Proposed A Shares Issue.

The number of A Shares to be issued under the Proposed A Shares Issue (being 137,795,275 A Shares) is arrived at by dividing the total amount of funds to be raised by the Company thereunder (being RMB700,000,000) by the issue price per A Share to be determined based on the principles as set out in the paragraph headed "Issue Price, Pricing Benchmark Date and pricing principles". Provided that such number of A Shares to be issued shall not be more than 30% of the total existing number of Shares in issue, the final number of A Shares to be issued under the Proposed A Shares Issue will be determined by negotiation between the Board and the sponsor (lead manager) in accordance with "Implementation Rules for the Non-public Issuance of Shares of Listed Companies" (《上市公司非公開發行股票實施細則》) (the "**Implementation Rules**") and based on the approval from the CSRC.

The number of A Shares to be issued under the Proposed A Shares issue will be adjusted if, during the period from the Pricing Benchmark Date to the Issuance Date, any event which may alter the total number of Shares of the Company occur, such as issue of bonus shares, conversion of capital reserve into share capital, or placings.

Target subscriber and method of subscription: The target subscriber is YTO Group Corporation, which will subscribe for all the A Shares to be issued under the Proposed A Shares Issue by way of cash in RMB.

Method and time of issue: The Proposed A Shares Issue will be carried out by way of non-public issuance of A Shares to YTO Group Corporation. Subject to the satisfaction of all the conditions precedent, the Company will complete the Proposed A Shares Issue after obtaining the approval from the CSRC within its validity period.

Issue Price, Pricing Benchmark Date and pricing principles:

In compliance with Measures for Administration of the Issuance of Securities by Listed Companies (revised 2020)(《上市公司證券發行管理辦法(2020修正)》) (the "**Measures**") and the Implementation Rules, the Issue Price of the A Shares to be issued under the Proposed A Shares Issue shall not be less than 80% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date (i.e. 24 April 2020, being one day after the date on which the Board approved the Proposed A Shares Issue at the 17th meeting of the 8th session of the Board). The average trading price of the A Shares during 20 trading days preceding the Pricing Benchmark Date equals to the total trading amount of A Shares traded in the 20 trading days preceding the Pricing Benchmark Date divided by the total volume of A Shares traded in those 20 trading days.

The Issue Price of RMB5.08 per A Share represents:

(i) a discount of approximately 21.85% to the closing price of RMB6.50 per A Share as quoted on the Shanghai Stock Exchange on 22 April 2020, being the last trading day immediately preceding the date of the Announcement; and

(ii) a discount of approximately 20% to the average closing price of RMB6.3481 per A Share as quoted on the Shanghai Stock Exchange for the last 20 consecutive trading days up to 23 April 2020, being the trading day preceding the Pricing Benchmark Date.

If, during the period from the Pricing Benchmark Date to the Issuance Date, any ex-right and ex-dividend event such as cash distribution, issue of bonus shares or conversion of capital reserve into share capital occurs, the Issue Price shall be adjusted accordingly based on the following formula:

Cash distribution: $P_1 = P_0 - D$

Issue of bonus shares or conversion of capital reserve into share capital: $P_1 = P_0/(1 + N)$

Cash distribution and Issue of bonus shares or conversion of capital reserve into share capital: $P_1 = (P_0 - D)/(1 + N)$

where:

(i) P_0 denotes the Issue Price before adjustment;

(ii) D denotes the amount of cash to be distributed per Share;

(iii) N denotes the number of Shares to be distributed as bonus or converted from the capital reserve per Share; and

(iv) P_1 denotes the new issue price after adjustment.

The above adjustment is made based on the requirement under Rule 12 of the Implementation Rules promulgated by CSRC: The Board shall also resolve to determine whether the issue size shall be adjusted accordingly in case of ex-dividend or ex-rights activities in respect of the shares of the Company during the period from the date of resolution by the Board to the date of issuance. CSRC will consider and approve the above adjustment as a part of the proposal for Proposed A Shares Issue. In other words, CSRC will not consider and approve such adjustment on a standalone basis.

Conditions precedent for the A Shares Subscription Agreement to take effect:

The A Shares Subscription Agreement is conditional upon the following conditions and will take effect when all those conditions have been satisfied:

1. the approval from the Board for the Proposed A Shares Issue has been obtained;

2. the approval from the relevant state-owned assets supervision and administration authorities for the Proposed A Shares Issue has been obtained;

3. the passing of the requisite resolution by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting approving the Proposed A Shares Issue, the A Shares Subscription Agreement and all the related and ancillary resolutions;

4. the passing of the requisite resolution by at least 75% of the votes cast on a poll by the Independent Shareholders at the General Meeting approving the Whitewash Waiver and all the related and ancillary resolutions;

5. the passing of the requisite resolution by at least two-thirds of the votes cast on a poll by the Independent Shareholders at the General Meeting approving the waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue under the relevant laws and regulations in the PRC;

6. the approval from the CSRC for the Proposed A Shares Issue has been obtained; and

7. the grant of the Whitewash Waiver by the SFC in accordance with the Takeovers Code and such waiver has not been revoked prior to completion of the Proposed A Shares Issue.

All of the conditions precedent in items 1 to 7 above are non-waivable.

In relation to condition (5) above, the Proposed A Shares Issue complies with section 63 of the Measures and the relevant rules regarding the exemptions from submitting a general offer waiver application to CSRC. Upon passing of the requisite resolution at the General Meeting approving the waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue, YTO Group Corporation is exempted from submitting an application for waiver from the general offer obligation to CSRC.

As at the Latest Practicable Date, the approval from the Board and the relevant state-owned assets supervision and administration authorities for the Proposed A Shares Issue have been obtained. All other conditions under the A Shares Subscription Agreement have not been fulfilled.

The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the General Meeting, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy at the General Meeting as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting.

Lock-up period:

YTO Group Corporation shall not transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue.

The above lock-up arrangement shall also apply to Shares derived from the A Shares subscribed by YTO Group Corporation under the Proposed A Shares Issue due to distribution of bonus shares and conversion of capital reserves to share capital.

Total funds to be raised and used:

The total funds expected to be raised from the Proposed A Shares Issue (before issue expenses) will amount to RMB700,000,000 (subject to regulatory approval).

The net issue price to the Company of each new A Share to be issued will be determined and disclosed upon completion of the Proposed A Shares Issue and the determination of relevant expenses incurred or to be incurred in relation to the Proposed A Shares Issue in accordance with the requirements of the Listing Rules.

The proceeds from the Proposed A Shares Issue are all intended to be used to replenish the working capital of the Company, the specific purposes of which include but not limited to:

1. as to approximately RMB60,000,000 to RMB100,000,000 for the payment of employees' salaries:

2. as to approximately RMB440,000,000 to RMB540,000,000 for purchasing raw materials for production; and

3. as to approximately RMB100,000,000 to RMB200,000,000 for other necessary productive expenditures.

The Company may make adjustments within the range of amounts specified above in accordance with its actual operating needs.

Termination of the A Shares Subscription Agreement: The A Shares Subscription Agreement shall be terminated under one of the following circumstances:

1. both parties have performed their obligations under the A Shares Subscription Agreement;

2. both parties mutually agree to terminate the A Shares Subscription Agreement;

3. either party may terminate the A Shares Subscription Agreement due to force majeure;

4. the Proposed A Shares Issue does not proceed to completion within the validity period of the approval issued by the CSRC.

Place of listing: The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the A Shares to be issued pursuant to the Proposed A Shares Issue.

The A Shares to be issued under the Proposed A Shares Issue can be traded on the Shanghai Stock Exchange upon the expiration of the lock-up period.

Validity period of the resolution:	According to the window guidance on non-public offering by the CSRC, the resolution regarding the Proposed A Shares Issue shall be valid for 12 months from the date of the passing at the General Meeting and the Class Meetings.
Specific Mandate of the issuance of A Shares:	The Company will issue the A Shares under the Specific Mandate which is intended to be granted to the Board at the General Meeting and the Class Meetings.
Rights of the A Shares to be issued:	The A Shares to be issued pursuant to the Proposed A Shares Issue, when fully paid and issued, will rank pari passu in all respects amongst themselves and with the A Shares in issue at the time of the issue of such A Shares. YTO Group Corporation will be entitled to receive all dividends and distributions which may be declared, made or paid on or after the completion of the Proposed A Shares Issue.
Distribution of profit:	The retained profits prior to the Proposed A Shares Issue will be shared by the new and existing Shareholders in proportion to the number of Shares held upon completion of the Proposed A Shares Issue.

Issue Price

As mentioned above, the Issue Price of the A Shares to be issued under the Proposed A Shares Issue is not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the Pricing Benchmark Date (i.e. 24 April 2020, being one day after the date on which the Board approved the Proposed A Shares Issue at the 17th meeting of the 8th session of the Board), which is RMB5.08 per A Share. Such pricing mechanism (the "**Pricing Mechanism**") is in compliance to the Implementation Rules based on the New Decisions (as defined below).

The Issue Price of RMB5.08 per A Share represents:

(i) a discount of approximately 48.6% over the closing price of RMB9.89 per A Share as quoted on the Shanghai Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 27.3% over the closing price of RMB6.99 per A Share as quoted on the Shanghai Stock Exchange on the Pricing Benchmark Date;

(iii) a discount of approximately 19.9% over the average closing price of RMB6.34 per A Share as quoted on the Shanghai Stock Exchange for the last five consecutive trading days immediately prior to Pricing Benchmark Date;

(iv) a discount of approximately 19.3% over the average closing price of RMB6.30 per A Share as quoted on the Shanghai Stock Exchange for the last ten consecutive trading days immediately prior to Pricing Benchmark Date;

(v) a discount of approximately 19.2% over the average closing price of RMB6.28 per A Share as quoted on the Shanghai Stock Exchange for the last 20 consecutive trading days immediately prior to Pricing Benchmark Date; and

(vi) a premium of approximately 23.0% over the net asset value attributable to shareholders of the parent company (the "**NAV per Share**") of RMB4.13 per Share as at 31 December 2019.

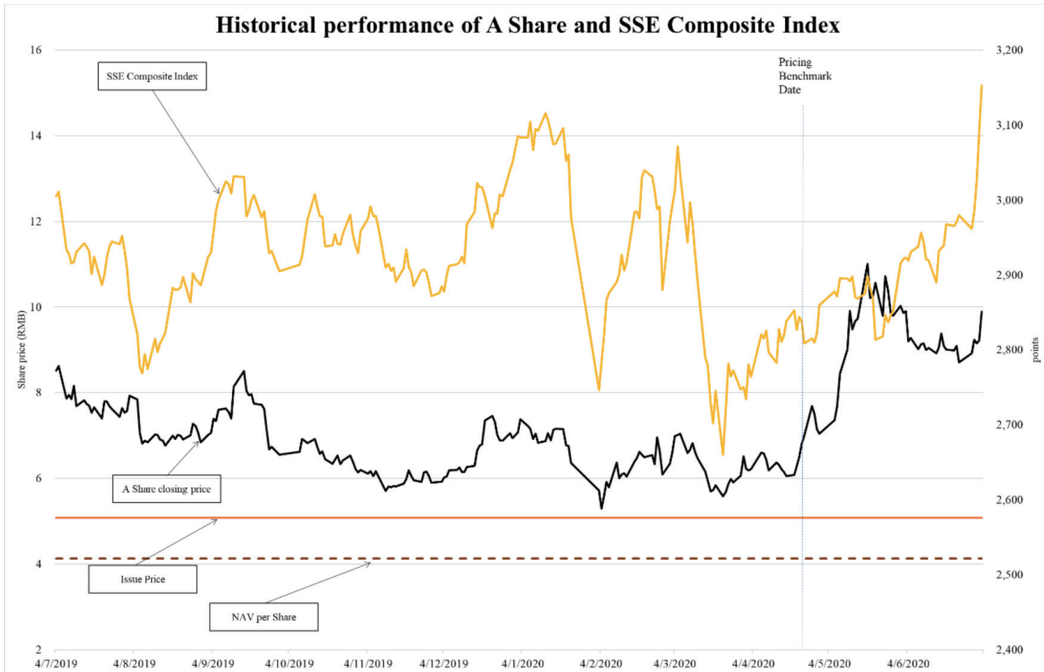
Pursuant to the A Share Subscription Agreement, the A Shares to be subscribed by YTO Group Corporation shall not be transferred within 36 months from the date of completion of the Proposed A Shares Issue (the "**Lock-up Arrangement**"). As discussed with the PRC legal adviser to the Company, we understand that, according to the Section 24 of the Measures, any person holds not less than 30% of issued shares of a listed company in the PRC and continues to increase its shareholding, he or she shall proceed with either general offer or partial offer. However, according to the Section 63 of the Measures, if such person obtains independent shareholders' approval for the exemption from making an offer and undertakes not to transfer the newly issued shares within 36 months from the date of completion of the proposed subscription, he or she shall be exempted from the abovementioned requirement of general offer and partial offer. Therefore, YTO Group Corporation shall be exempted from making an offer under the Measures (not the Takeovers Code) if it obtains independent shareholders' approval and undertakes not to transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue.

To further assess the fairness and reasonableness of the Issue Price, we set out the following analysis for illustrative purposes:

(i) Review of A Share price

We have researched and analysed the historical closing price of the A Shares during the past twelve months and up to the Latest Practicable Date. The following share price chart of the Company illustrates the daily closing price of the A Shares as quoted on the Shanghai Stock Exchange, including a comparison with the SSE Composite Index and the NAV per

Share, during the period commencing from 4 July 2019 up to the Latest Practicable Date (the "**Historical Price Period**"):



Source: *The Shanghai Stock Exchange*

During the Historical Price Period, we noted that the Issue Price of RMB5.08 falls outside the range of the lowest and highest closing prices of the A Shares and is below the average closing price of the A Shares as quoted on the Shanghai Stock Exchange, representing (i) a discount of approximately 53.9% to the highest closing price of RMB11.01 recorded on 19 May 2020; (ii) a discount of approximately 29.4% over the average closing price of RMB7.20 during the Historical Price Period; and (iii) a premium of approximately 23.0% over the NAV per Share.

Based on the above chart, in view of uncertainties of global economy and outbreak of novel coronavirus that led to a volatile and decreasing trend of the price of A Shares between the 2nd half of 2019 and the Pricing Benchmark Date, the closing price of A Shares dropped from the highest closing price of RMB8.62 on 5 July 2019 to the lowest closing price RMB5.29 on 4 February 2020 which formed a wide range of the closing price of A Shares during the Historical Price Period. Further, we noted the performance of the A Shares was in line with SSE Composite Index. Given the closing price of A Share represents the performance of A Shares and the market sentiment during the Historical Price Period, we consider the wide range of closing price of the A Shares during the Historical Price Period is meaningful in arriving at our conclusion. After the publication of the Company's 1st quarterly report for the three months ended 31 March 2020 (the "**1st Quarterly Report**") and the Announcement on 23 April 2020, the closing price of the A Share increased from RMB6.8 on the date of the 1st Quarterly Report to RMB7.69 on 27 April 2020, representing an increase of approximately 13.1% over the closing price on the date of the 1st Quarterly Report. Subsequently, the Share price closed at HK$9.89 on the Latest Practicable Date.

In view of the prolonged uncertainties caused by the uncertainties of global economy and outbreak of novel coronavirus, the Directors are of the view that the Group has a funding need to maintain sufficient working capital to cope with the upcoming challenges. On the other hand, based on the Temporary Regulations mentioned in the section headed "Background of and Reasons for the Proposed A Shares Issue", the Group should convert the Operating Budget Fund from the state to the Group's share equity when there is a fund raising exercise.

Based on above, we understand that the closing price of the A Shares during the period preceding the Pricing Benchmark Date was generally sluggish as a result of the prolonged uncertainties of the global economy and the outbreak of novel coronavirus, while the Group needs additional working capital from the Proposed A Shares Issue to cope with the challenges. Notwithstanding the Issue Price falls out of the price range and is below the average closing price during the Historical Price Period, taking into account factors mainly including (i) the Group's funding need for maintaining sufficient working capital and the guidance of the Temporary Regulations; (ii) the Issue Price being determined in compliance with the Implementation Rules; and (iii) the Issue Price representing a premium of approximately 23.0% over the NAV per Share, we are of the view that the Issue Price is acceptable so far as the Independent Shareholders are concerned.

(ii) Comparison with industry comparables

In order to assess the fairness and reasonableness of the Issue Price, we have considered the Price-to-earnings multiple (the "**P/E Multiple**"), Price-to-book multiple (the "**P/B Multiple**") and Price-to-Sales multiple (the "**P/S Multiple**") for comparison between those implied by the Issue Price and those of other comparable listed companies (the "**Industry Comparable(s)**"). Given that (i) the Group is in profit-making position as it recorded net profit for FY 2019; (ii) the Group's core business, being mainly the manufacturing and sales of agricultural machinery, is asset-intensive in nature requiring significant contribution from property, plant and equipment in business operation; (iii) the P/S Multiple is commonly used in the valuation of start-up enterprises which does not capture the differences in cost structure across companies, therefore, saved for the P/S Multiple, we considered that the P/E Multiple and the P/B Multiple are the appropriate approaches for assessing the fairness and reasonableness of the Issue Price. As the Company is principally engaged in research and development, manufacturing and sales of agricultural machinery, power machinery and their spare parts in the PRC and the new Shares to be issued under the Proposed A Shares Issue are A Shares, we used the following criteria to identify comparable companies in making the P/E Multiple and P/B Multiple analysis: (i) companies which are principally engaged in manufacturing and sales of agricultural machinery and equipment (excluding parts and components) in the PRC (with more than 50% of revenue were generated from sales of agricultural machinery and equipment business in the last financial year); and (ii) companies which are listed on the Shenzhen Stock Exchange or the Shanghai Stock Exchange. Based on our research, we have identified three companies, namely Xingguang Agricultural Machinery Co., Ltd, Gifore Agricultural Science & Technology Service Co., Ltd. and Shandong Hongyu Agricultural Machinery Co., Ltd. We have studied their principal business and noted that (i) the main products of Xingguang Agricultural Machinery Co., Ltd and Gifore Agricultural Science & Technology Service Co., Ltd. are agricultural machineries and equipment, mainly including tractors, combine harvesters and other harvesting machineries; and (ii) the main products of Shandong Hongyu Agricultural Machinery Co., Ltd are large and medium power lifters which are parts and component of agricultural machinery and equipment instead of corresponding finished goods. Therefore, we have not considered Shandong Hongyu Agricultural Machinery Co., Ltd as one of the Industry Comparables. We have further noted that Gifore Agricultural Science & Technology Service Co., Ltd. recorded loss in the most recent financial year, hence Xingguang Agricultural Machinery Co., Ltd is the only Industry Comparable as it recorded profit in the most recent financial year for P/E Multiple comparison.

Taking into account the limited number of agricultural machinery and equipment companies listed in the PRC, we carried out further work with a view to identify sufficient comparable companies for comparison purpose. Based on our further research on the Group's business and industry, we understand that tractor, being the major product of the Group, is designed to perform special purpose (i.e. agricultural works) other than the general transport of people or goods. As such, we consider that tractor is one of the machinery vehicles for special purpose (the "**Special Purpose Machinery Vehicles**") and therefore it is reasonable to research companies which are principally engaged in manufacturing and sales of the Special Purpose Machinery Vehicles (excluding parts and components) to obtain a reasonable sample size for our analysis. Accordingly, we have extended our research to include companies listed in the PRC which (i) are principally engaged in manufacturing and sales of the Special Purpose Machinery Vehicles (excluding parts and components) in the PRC; (ii) are over 50% of total revenue was generated by manufacturing and sales of the Special Purpose Machinery Vehicles (excluding parts and components) during the most recent financial year; (iii) are profit making and have net asset value; and (iv) have market capitalisation up to RMB10 billion preceding the Pricing Benchmark Date, representing reasonable market capitalisation criteria to cover comparable companies with market capitalisation up to RMB10 billion, which the Group has a market capitalisation of approximately RMB6.7 billion preceding the Pricing Benchmark Date (collectively, the "**Revised Criteria**"), while the implied market capitalisation of approximately RMB5.0 billion as mentioned in the below table was used for the purpose of calculation of P/E Multiple and P/B Multiple of the Company implied by the Issue Price. Based on our research on the "Industry Classification Results of Listed Companies in the First Quarter of 2020" (the "**Industry Classification**") which covers all companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and was released by the CSRC in early 2020, we have identified 5 comparable companies (the "**Additional Comparable(s)**") including the Industry Comparable which recorded profit in its latest published financial statement, other than the Company, from 235 listed companies under the category namely "Special Equipment Manufacturing" under the Industry Classification, which have met the Revised Criteria. Having considered that (i) the Industry Classification published by the CSRC contains recent lists of industry classification of all companies listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange; (ii) the category of "Special Equipment Manufacturing" includes listed companies in the PRC whose operating income generated from manufacturing and sales of special equipment amounted for over 50% of their total revenue; (iii) the Company belongs to the category of "Special Equipment Manufacturing"; and (iv) we referred to the category of "Special

Equipment Manufacturing" to identify listed companies whose operating income generated from manufacturing and sales of the Special Purpose Machinery Vehicles (excluding parts and components) exceed 50% of their total revenue in the most recent financial year, we considered that the below list of the Additional Comparables is exhaustive. As (i) the Additional Comparables are comparable to the Company in terms of business nature and market capitalisation; and (ii) the list of the Additional Comparables is exhaustive, we consider that the selection of the Additional Comparables based on the Revised Criteria is fair and representative while allowing a sufficient number of the Additional Comparables to be obtained for the purpose of this analysis. We consider the Additional Comparables are sufficient and able to provide an appropriate basis to assess the fairness of the Issue Price. Details of the P/E Multiple and the P/B Multiple comparisons between those implied by the Issue Price and those of the Additional Comparables are summarised in table below:

Company Name	**Stock code**	**Market capitalisation preceding the Pricing Benchmark Date** *(RMB'million)*	**Latest published profit attributable to owners of company** *(RMB'million)*	**Latest published net asset value attributable to owners of company** *(RMB'million)*	**P/E Multiple preceding the Pricing Benchmark Date** *(times)* Note 1	**P/B Multiple preceding the Pricing Benchmark Date** *(times)* Note 2	**Gearing ratio** *(%)* Note 3
Guangxi Liugong Machinery	SZ000528	9,903	1,017	10,351	9.7	1.0	63.7
Shantui Construction Machinery	SZ000680	4,641	57	3,406	81.9	1.4	58.4
Sunward Intelligent Equipment	SZ002097	6,505	503	4,975	12.9	1.3	67.9
Anhui Heli	SH600761	7,032	651	4,971	10.8	1.4	32.2
Xingguang Agricultural Machinery	SH603789	3,432	12	1,044	284.0	3.3	59.5
				Maximum	284.0	3.3	67.9
				Minimum	9.7	1.0	32.2
				Average	79.9	1.7	56.3
				Median	12.9	1.4	59.5
The Company	SH601038	5,008 Note 4	61	4,070	81.5	1.2	58.9

Source: *The Shenzhen Stock Exchange and the Shanghai Stock Exchange*

Note:

1. The P/E Multiple is calculated by dividing market capitalisation by profit attributable to owners of company

2. The P/B Multiple is calculated by dividing market capitalisation by net asset value attributable to owners of company (the "**NAV**")

3. The gearing ratio is calculated by dividing total liabilities by total assets

4. The implied market capitalisation of the Company is calculated based on the Issue Price of RMB5.08 and the total number of issued Shares as at the trading day preceding the Pricing Benchmark Date, which is for calculation of implied P/E Multiple and implied P/B Multiple only.

As set out in the table above, all of the Additional Comparables recorded net profit for FY 2019 and net asset value as at 31 December 2019, therefore positive P/E Multiple and P/B Multiple of the Additional Comparables could be calculated for comparison. The P/E Multiple of the Additional Comparables based on their latest published financial statements and market capitalisation preceding the Pricing Benchmark Date ranged from approximately 9.7 times to 284.0 times, with an average of approximately 79.9 times and a median of approximately 12.9 times. The P/E Multiple implied by the Issue Price of approximately 81.5 times is within the range of the Additional Comparables, higher than the average and the median of the P/E Multiple of the Additional Comparables. The P/B Multiple of the Additional Comparables based on their latest published financial statements and market capitalisation preceding the Pricing Benchmark Date ranged from approximately 1.0 time to 3.3 times, with an average of approximately 1.7 times and a median of approximately 1.4 times. The P/B Multiple implied by the Issue Price of approximately 1.2 times is within the range of the Additional Comparables, close to the median but lower than the average of the P/B Multiple of the Additional Comparables.

Upon further analysis, we note that the NAV of the Company and Additional Comparables varied widely from approximately RMB1.0 billion to RMB10.4 billion. Further, we note that (i) the revenue to NAV ratio of the Company of approximately 121.9% was lower than the average of that of the Additional Comparables of approximately 149.6%; and (ii) the net profit to NAV ratio of the Company of approximately 1.3% was significantly lower than the average of that of the Additional Comparables of approximately 6.8%, reflecting that the net asset scale of the Group as compared to its operating scale is relatively larger than that of the Additional Comparables, and thus the P/B Multiple implied by the Issue Price is relatively lower than the average P/B Multiple of the Additional Comparables.

Based on the Additional Comparables by adopting the Revised Criteria, the P/E Multiple implied by the Issue Price is within the range of the Additional Comparables, higher than the average and the median of the P/E Multiple of the Additional Comparables, and the P/B Multiple implied by the Issue Price is within the range of the Additional Comparables, close to the median but lower than the average of the P/B Multiple of the Additional Comparables mainly as a result of relatively larger net asset scale of the Company as compared to its operating scale, hence we are of the view that the Issue Price is acceptable so far as the Independent Shareholders are concerned.

(iii) Comparison with other non-public A shares issuances

Pursuant to the decisions (the "**New Decisions**") announced by the CSRC on 14 February 2020 (the "**Effective Date**"), namely "Decision on Amending the Administration Measures on Securities Issuance of Listed Companies"《關於修改〈上市公司證券發行管理辦法〉的決定》and the "Decision on Amending the Implementation Rules for the Non-public Issue of Shares by Listed Companies"《關於修改〈上市公司非公開發行股票實施細則〉的決定》(中國證監會公告[2020]11號), in which, among others, the issue price is adjusted from not less than 90% to not less than 80% of the average trading price of the company's shares during the 20 trading days preceding the pricing benchmark date. After taking into account the above and in light of (i) the A Shares being listed on the Shanghai Stock Exchange; and (ii) YTO Group Corporation being the controlling shareholder of the Company, we have compared the terms of the Proposed A Shares Issue against those of similar non-public issuance of A shares (the "**Transaction Comparable(s)**") to controlling shareholder and/or a group of subscribers including controlling shareholder and other investor(s) proposed by companies listed on the Shanghai Stock Exchange from the Effective Date up to the Pricing Benchmark Date. In view of the fact that the Transaction Comparables involve A share issuance to controlling shareholder, being similar to the Proposed A Shares Issue, we consider the Transaction Comparables to be fair and representative for the purpose of comparison, and therefore we are of the view that taken into account of the Transaction Comparables in opining the fairness and reasonableness of the Issue Price is fair and representative. We have identified 30 Transaction Comparables, which represent an exhaustive list of samples available under the above selection criteria and are sufficient to establish a reasonable and meaningful sample size of non-public issuance of A shares reflecting the adoption of the new Implementation Rules based on the New Decisions and the recent market practices. Summarised below are our relevant findings:

Company name/ Stock code	Date of announcement	Basis for A-share issue price	Other basis to determine issue price
福建傲農生物科技 Fujian Aonong Biological Technology SH603363	17 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
福建東方銀星 Fujian Oriental Silver Star SH600753	18 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
廣東聯泰環保 Guangdong Liantai Environment Protection SH603797	20 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
捨得酒業 Shede Spirits SH600702	21 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A

Company name/ Stock code	Date of announcement	Basis for A-share issue price	Other basis to determine issue price
晉億實業 Gem-Year Industrial SH601002	22 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
保定天威保變電氣 Baoding Tianwei Baobian Electric SH600550	24 February 2020	Not less than 90% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
金杯汽車 Shenyang Jinbei Automotive SH600609	25 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
佳都新太科技 Pci-Suntek Technology SH600728	26 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
蘇州麥迪斯頓醫療科技 Suzhou Medicalsystem Technology SH603990	27 February 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
貴陽銀行 Bank Of Guiyang SH601997	2 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	Last audited NAV per share, whichever is higher
北京京城機電 Beijing Jingcheng Machinery Electric SH600860	2 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	Last audited NAV per share, whichever is higher
雲南雲天化 Yunnan Yuntianhua SH600096	4 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
中節能風力發電 CECEP Wind-Power SH601016	9 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A

Company name/ Stock code	Date of announcement	Basis for A-share issue price	Other basis to determine issue price
鵬博士電信傳媒 Dr. Peng Telecom & Media SH600804	11 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
浙江華正新材料 Zhejiang Wazam New Materials SH603186	11 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
南京証券 Nanjing Securities SH601990	20 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
上海妙可藍多食品科技 Shanghai Milkground Food Tech SH600882	24 March 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
東珠生態環保 Dongzhu Ecological Environment Protection SH603359	3 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
四川路橋建設 Sichuan Road & Bridge SH600039	6 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
上海雅仕投資發展 Shanghai Ace Investment & Development SH603329	7 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
新疆東方環宇燃氣 Xinjiang East Universe Gas SH603706	10 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
三棵樹塗料 Skshu Paint SH603737	13 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A

Company name/ Stock code	Date of announcement	Basis for A-share issue price	Other basis to determine issue price
江蘇鹿港文化 Jiangsu Lugang Culture SH601599	15 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
廣州金域醫學檢驗 Guangzhou Kingmed Diagnostics SH603882	16 April 2020	Not less than 85% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
金能科技 Jinneng Science & Technology SH603113	17 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
湖北興發化工 Hubei Xingfa Chemicals SH600141	18 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	Last audited NAV per share, whichever is higher
北京康辰藥業 Beijing Konruns Pharmaceutical SH603590	21 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
中國化學工程 China National Chemical Engineering SH601117	23 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	Last audited NAV per share, whichever is higher
浙江康隆達特種防護科技 Zhe Jiang Kang Long Da Special Protection Technology SH603665	24 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
浙江奧翔藥業 Zhejiang Ausun Pharmaceutical SH603229	24 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A
The Company	24 April 2020	Not less than 80% of the average trading price of the A Shares during the 20 trading days preceding the pricing benchmark date	N/A

As shown in the above table, there are 26 out of 30 Transaction Comparables which have pricing mechanism as the Pricing Mechanism of the Proposed A Shares Issuance, being not less than 80% of the average trading price of the A shares during the 20 trading days preceding the pricing benchmark date. Except for the 80% pricing criteria, we noticed that the pricing mechanism of remaining 4 of the Transaction Comparables included last audited NAV per share, representing a floor price of issue price in the event that the trading price of A shares trades below their NAV per share. Given the NAV per Share of the Company as at 31 December 2019 as set out in the 2019 Annual Report was RMB4.13, the Issue Price represents a premium of approximately 23.0% over the NAV per Share. Therefore, we consider that the basis in determining the Issue Price is not less favourable than those of the Transaction Comparables.

Having considered the factors and reasons set out in this letter, in particular, including (i) the Proposed A Shares Issue will optimise the Company's capital structure and reduce financial risks; (ii) the Proposed A Shares Issue will improve the Company's liquidity, ease its funding pressure, reduce the amount of short-term liabilities and reduce interest expenses; (iii) the Proposed A Shares Issue is to comply with the Temporary Regulations; (iv) the P/E Multiple implied by the Issue Price is higher than the average and the median of the P/E Multiple of the Additional Comparables; (v) the Issue Price represents a premium of approximately 23.0% over the NAV per Share, and (vi) the basis in determining the Issue Price is not less favourable than those of the Transaction Comparables, we are of the view that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Lock-up Period

As discussed with the PRC legal adviser to the Company, we understand that, according to the Section 24 of the Measures, any person holds not less than 30% of issued shares of a listed company in the PRC and continues to increase its shareholding, he or she shall proceed with either general offer or partial offer. However, according to the Section 63 of the Measures, if such person obtains independent shareholders' approval for the exemption from making an offer and undertakes not to transfer the newly issued shares within 36 months from the date of completion of the proposed subscription, he or she shall be exempted from the abovementioned requirement of general offer and partial offer. Therefore, YTO Group Corporation shall be exempted from making an offer under the Measures (not the Takeovers Code) if it obtains independent shareholders' approval and undertakes not to transfer the A Shares subscribed for under the Proposed A Shares Issue within 36 months from the date of completion of the Proposed A Shares Issue. Based on our discussion with the PRC legal adviser of the Company and after our review on the New Decisions, we understand that the Lock-up Arrangement is in-line with the Implementation Rules based on the New Decisions.

3. Financial effects of the Issuance on the Group

- ***Cashflow***

  According to the 2019 Annual Report, the Group had monetary funds as at 31 December 2019 of approximately RMB1,401.0 million. Upon completion of the Proposed A Shares Issue (the "**Completion**") and save for the expenses in relation to the Proposed A Shares Issue, the cash position of the Group will be improved as the Proposed A Shares Issue will increase the cash and cash equivalents by approximately RMB700 million. Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

- ***Earnings***

  Save for the expenses in relation to the Proposed A Shares Issue, the Proposed A Shares Issue will not have any immediate material impact on the earnings of the Company.

- ***Net Asset Value***

  According to the 2019 Annual Report, the NAV of the Company as at 31 December 2019 was approximately RMB4,070.0 million. Upon Completion and save for the expenses in relation to the Proposed A Shares Issue, the NAV of the Company will increase as the Proposed A Shares Issue will increase the cash balance of the Company.

- ***Gearing***

  According to the 2019 Annual Report, the gearing ratio of the Group as at 31 December 2019, as derived by total liabilities over the total assets of the Group as at 31 December 2019, was approximately 58.9%. Upon Completion, the total debt of the Group will decrease, while the total assets of the Group will increase. Thus, the gearing level of the Group will decrease upon Completion.

Based on the above, the Proposed A Shares Issue would have an overall positive effect on the future earnings of the Group and the financial position of the Group in terms of cashflow, net asset value, and gearing upon Completion. On such basis, we are of the view that the Proposed A Shares Issue is in the interests of the Company and the Shareholders as a whole.

4. Potential dilution effect on the shareholding of the Company

As set out in the table showing the shareholdings changes of the Company under the section headed "Effect of the Shareholding Structure of the Company" as contained in the Letter from the Board, the shareholding of the existing public Shareholders (other than YTO Group Corporation) as at the Latest Practicable Date was approximately 58.34%, comprising the A Shares and the H Shares held by existing public Shareholders. The A Shares issued under the Proposed A Shares Issue represents approximately 13.98% of the existing issued share capital of the Company as at the Latest Practicable Date and 12.26% of the issued share capital of the Company as enlarged by the issue of the A Shares in the Proposed A Shares Issue. Assuming that YTO Group Corporation will subscribe all of the new A Shares issued under the Proposed A Shares Issue, being 137,795,275 A Shares, and there are no other changes to the total issued share capital of the Company other than the Proposed A Shares Issue from the date of Latest Practicable Date to the date of the completion of the Proposed A Shares Issue, the shareholdings of the existing public Shareholders will be diluted from approximately 58.34% to 51.19%.

Having considered the reasons stated in details in the section headed "Background of and Reasons for the Proposed A Shares Issue" above in this letter, in particular, the following:

(a) the Company has a strong commercial rationale for the Proposed A Shares Issue to support the principal business for its long-term development and improve its financial position; and

(b) the Proposed A Shares Issue will provide funding to the Group and will also allow YTO Group Corporation to maintain its controlling stake over the Company to lead the Company in the future,

we are of the opinion that the shareholding dilution to the Independent Shareholders is acceptable so far as the Independent Shareholders are concerned.

5. The Whitewash Waiver

As at the Latest Practicable Date, YTO Group Corporation holds 410,690,578 A Shares, representing approximately 41.66% of the total issued share capital of the Company. Upon completion of the Proposed A Shares Issue, YTO Group Corporation's shareholding in the Company is expected to increase from approximately 41.66% to a maximum of approximately 48.81%. In the absence of an applicable waiver, the Proposed A Shares Issue will give rise to an obligation on the part of YTO Group Corporation to make a mandatory offer for all the Shares in issue other than those already owned or agreed to be acquired by it under Rule 26.1 of the Takeovers Code.

YTO Group Corporation has applied for the Whitewash Waiver from compliance with Rule 26.1 of the Takeovers Code to the Executive. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, among other things, the approval of the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy at the General Meeting, and the approval of the Proposed A Shares Issue and the A Shares Subscription Agreement by more than 50% of the independent votes that are cast either in person or by proxy at the General Meeting as required under the Takeovers Code. Further, under the Articles, the Proposed A Shares Issue and the A Shares Subscription Agreement will have to be approved by at least two-thirds of the votes cast on a poll by the Independent Shareholders at each of the General Meeting, the A Shares Class Meeting and the H Shares Class Meeting. The Proposed A Shares Issue will not proceed if the Whitewash Waiver is not granted by the Executive or the Proposed A Shares Issue is not approved by the Independent Shareholders at the General Meeting and the Class Meetings, or if the Whitewash Waiver is not approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the General Meeting.

Recommendation

After taking into account the above principal factors and reasons, we consider that the Proposed A Shares Issue was entered into on normal commercial terms, and the terms of the Proposed A Shares Issue and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole, but the Proposed A Shares Issue is not conducted in the ordinary and usual course of business of the Company due to the nature of such transaction. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend the Independent Shareholders to, vote in favour of the resolutions to approve the Proposed A Shares Issue and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Octal Capital Limited
Alan Fung
Managing Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

This Proposal for Non-public Issuance of A Shares (Revised) was originally prepared in Chinese and the English version is for reference only. If there is any discrepancy between the English and Chinese version, the Chinese version shall prevail. Pursuant to the Implementation Rules for the Non-public Issue of Shares by Listed Companies (2020 Revision) (上市公司非公開發行股票實施細則(2020年修訂)) promulgated by the CSRC, the Board shall prepare the proposal for non-public issuance of A Shares (the "**Proposal**") in accordance with the requirements set out in No. 25 Guideline on the Contents and Formats of Information Disclosure by the Companies – Advanced Proposal and Issuance Reports on the Non-public Issue of Shares by Listed Companies (公司信息披露內容與格式準則第25號－上市公司非公開股票預案和發行情況報告書) ("**No. 25 Guideline**"). The said Proposal is required to be approved by the Board and the Shareholders in accordance with the Administrative Measures for the Issuance of Securities by Listed Companies (上市公司證券發行管理辦法), and the Implementation Rules for the Non-public Issue of Shares by Listed Companies (2020 Revision) (上市公司非公開發行股票實施細則(2020 年修訂)) promulgated by the CSRC.

All the numbers in this Proposal are prepared by using PRC GAAP. The "net profit attributable to the owner of parent company" and the "net profit attributable to the owner of parent company after deduction of non-recurring items" for the year ending 31 December 2020 under the section headed "(II) Analysis of the impact of dilution of current returns by the Issuance on key financial indicators" (the "**Relevant Information**") constitutes profit forecast under Rule 10 of the Takeovers Code. Inclusion of the Relevant Information in the Proposal is required under relevant laws, rules and/or regulations in the PRC. Shareholders and other investors should note that the Relevant Information has not been prepared to a standard required under Rule 10 of the Takeovers Code and has not been reported on in accordance with Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting the Relevant Information and when assessing the merits or demerits of the Proposed A Shares Issue and dealing or investing in the Shares or other securities of the Company.

The Executive has granted a waiver to the Company from its obligation to comply with Rule 10 of the Takeovers Code in respect of the Relevant Information.

Stock Code: 601038.SH/0038.HK **Abbreviation: FIRST TRACTOR**

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)

FIRST TRACTOR COMPANY LIMITED*
2020 PROPOSAL FOR NON-PUBLIC ISSUANCE OF A SHARES

(Revised)

July 2020

COMPANY'S STATEMENT

I. The Company and all members of the Board of Directors guarantee that the contents of the proposal are true, accurate and complete without false records, misleading statements or major omissions.

II. Upon completion of this non-public issuance of A shares, any change in the operation and revenue shall be borne by the Company at its own and any investment risk arising from the non-public issuance of A shares shall be assumed by the investors.

III. The proposal is the description of the non-public issuance of A shares by the Board of Directors of the Company, and any statement to the contrary shall be misrepresentation.

IV. Investors should consult their own stockbrokers, lawyers, professional accountants or other professional advisers if in doubt.

V. The matters mentioned in the proposal do not represent the substantive judgment, confirmation, approval or verification of the approval authorities on the matters relating to the non-public issuance of A shares, and the matters related to the non-public issuance of shares mentioned in the proposal are still subject to the granting of the Whitewash Waiver from the Securities and Futures Commission of Hong Kong, the review and approval by the General Meeting and the Class Meetings of the shareholders, and the approval and verification of the China Securities Regulatory Commission.

SPECIAL REMINDERS

I. The proposal for the non-public issuance has been reviewed and approved at the 17th meeting of the eighth session of the Board of Directors of the Company and the adjustment to the validity period of the shareholders‘ resolution to be proposed at the general meeting in relation to the proposal for the non-public issuance has been reviewed and approved at the 19th meeting of the eighth session of the Board of Directors of the Company. The proposal for non-public issuance shall still be subject to the granting of the Whitewash Waiver from Securities and Futures Commission of Hong Kong, review and consideration by shareholders' general meeting and class meetings as well as approval and verification by the CSRC.

II. The target subscriber of the non-public issuance shall be YTO Group Corporation. As only one specific investor is involved, the non-public issuance is in line with the regulations of the China Securities Regulatory Commission and other securities regulatory departments which restricts the maximum number of target subscribers to 35. YTO Group Corporation shall subscribe for all shares under the non-public issuance of the Company by cash. YTO Group Corporation has signed the conditional share subscription agreement. The non-public issuance constitutes a connected transaction.

III. The Pricing Benchmark Date of the non-public issuance shall be one day after the date of on which the board approved the non-public issuance of shares at the 17th meeting of the 8th session of the board, being 24 April 2020. The issue price of shares under the non-public issuance will be RMB5.08 per share, which is not lower than 80% of the average trading price of shares 20 trading days prior to the Pricing Benchmark Date. The average trading price of shares 20 trading days prior to the Pricing Benchmark Date equals to the total trading amount of shares traded 20 trading days prior to the Pricing Benchmark Date, divided by the total trading volume of shares 20 trading days prior to the Pricing Benchmark Date.

If there are any ex-right and ex-dividend issues such as dividend distribution, bonus issue, and capitalization issue during the period from the Pricing Benchmark Date to the issue date, the issue price of this non-public issuance shall be adjusted accordingly.

IV. The number of shares in issue under the non-public issuance equals to the total amount of proceeds divided by the issue price. The number of shares issued under the non-public issuance will be 137,795,275 shares, which does not exceed 30% of total share capital of the Company before the issuance, i.e. 295,755,000 shares. The final issue size shall be subject to the approval of the issuance by the CSRC. The number of shares issued under the non-public issuance shall be subject to adjustment if there are any changes in the issue price and total share capital of the Company before the issuance due to bonus issue and capitalization issue or otherwise during the period from the Pricing Benchmark Date to the issue date.

V. The total amount of proceeds of the issuance will be RMB700 million, and all of the net proceeds after deducting issue expenditure will be used to supplement the working capital of the Company.

VI. No shares under the non-public issuance subscribed for by the target subscriber shall be transferable within 36 months from closing of the issuance. Shares derived from dividend distribution, capitalization issue and by other forms shall also comply with the lock-up arrangement above. Reduction in shares of the Company obtained by the target subscriber under the issuance will be implemented in accordance with the relevant requirements of the CSRC and the Shanghai Stock Exchange.

VII. After the completion of this non-public issuance, the new and existing shareholders of the Company shall share the undistributed profits of the Company before the non-public issuance so that the interests of both new and existing shareholders will be protected.

VIII. For details of the prevailing profit distribution policies, profit distribution in recent three years and shareholders' return plan in next three years of the Company, please refer to "Section V Profit Distribution Policies of the Company and its Implementation" of the proposal.

IX. The non-public issuance of shares will not result in change in controlling shareholders or actual controller of the Company.

X. The non-public issuance of shares will not cause the shareholding structure of the Company to fail to meet the listing requirements.

XI. The immediate returns (financial indicators including basic earnings per share and diluted earnings per share) of the Company may decline in the short term upon completion of the non-public issuance. Investors are reminded the risk that the non-public issuance may dilute the immediate returns. Although the Company has formulated return remedial measures to cope with potential dilution of the immediate returns, such measures are not undertakings made by the Company as to its future profits. Investors should not make any investment decision based on such assumptions, and the Company disclaims any liability for any losses incurred by investors arising from any investment decisions made based on them. Investors are advised to exercise caution. For details, please see "Section VI Dilution of Current Returns due to the Non-public Issuance of Shares and Remedial Measures".

CONTENTS

DEFINITION

In this proposal, the following abbreviations shall have the specific meaning stated in the definition unless otherwise specified:

"Administration Measures"	Administration Measures on Securities Issuance of Listed Companies
"Agreement", "Share Subscription Agreement"	the "Non-Public Offering Share Subscription Agreement between First Tractor Company Limited and YTO Group Corporation" entered into between the Company and YTO Group Corporation
"agricultural machinery"	various machinery used in the crop farming and animal husbandry, and the primary processing of agricultural and animal products
"Articles of Association"	the Articles of Association of First Tractor Company Limited
"Board"	the Board of Directors of First Tractor Company Limited
"Company Law"	Company Law of the People's Republic of China
"CSRC"	China Securities Regulatory Commission
"First Tractor", "Listed Company", the "Company"	First Tractor Company Limited (第一拖拉機股份有限公司)
"funds appropriated from state-owned capital"	the central state-owned capital budget (appropriation) provided by YTO Group Corporation to First Tractor Company Limited through an entrusted loan since 2015
"Implementation Rules"	Implementation Rules for Non-public Issuance of Shares by Listed Companies
"issuance", "non-public issuance"	the Company intends to issue 137,795,275 ordinary shares (A shares) with a par value of RMB1.00 per share to YTO Group Corporation through a non-public issuance
"Listing Rules of the Shanghai Stock Exchange"	Rules Governing the Listing of Securities on the Shanghai Stock Exchange

"Listing Rules of the Stock Exchange"	Rules Governing the Listing of Securities on the Stock Exchange
"MOF"	the Ministry of Finance of the People's Republic of China
"National Ⅲ"	the stage III standard of Limits and Measurement Methods for Exhaust Pollutants from Diesel engines of Non-road Mobile Machinery (CHINA Ⅲ, Ⅳ) (GB20891 – 2014)
"National Ⅳ"	the stage IV standard of Limits and Measurement Methods for Exhaust Pollutants from Diesel engines of Non-road Mobile Machinery (CHINA Ⅲ, Ⅳ) (GB20891 – 2014)
"National II"	the stage II standard of Limits and Measurement Methods for Exhaust Pollutants from Diesel engines of Non-road Mobile Machinery (CHINA I, II) (GB20891 – 2007)
"One Belt and One Road"	Abbreviations for "Silk Road Economic Belt" and "21st Century Maritime Silk Road"
"power machinery"	products including diesel engine and fuel injection pump
"CVT"	Continuously variable transmission, a type of automotive transmission
"Pricing Benchmark Date"	one day after the date on which the Board approved this non-public offering at the 17th meeting of the 8th session of the Board, being 24 April 2020
"proposal", "this proposal"	the revised proposal for non-public issuance of A shares in 2020 of First Tractor Company Limited
"RMB, RMB10,000, RMB100 million"	RMB, RMB10,000, RMB100 million
"SASAC", "ultimate actual controller"	the State-owned Assets Supervision and Administration Commission of the State Council
"Securities Law"	Securities Law of the People's Republic of China
"Shanghai Stock Exchange"	Shanghai Stock Exchange

"SINOMACH", "actual controller"	China National Machinery Industry Corporation Ltd. (中國機械工業集團有限公司)
"State Council"	the State Council of the People's Republic of China
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidies"	the subsidies for purchasing agricultural machinery
"target subscriber", "subscription party", "subscriber"	YTO Group Corporation*(中國一拖集團有限公司)
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of YTO Group Corporation to make a general offer for all shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by YTO Group Corporation and its concert parties) as a result of the non-public issuance
"YTO Group Corporation", "controlling shareholder"	YTO Group Corporation*(中國一拖集團有限公司)

All amounts are rounded to two decimal places unless otherwise stated. Any discrepancy between the total and the sum of its components is due to the effects of rounding.

SECTION I SUMMARY OF THE NON-PUBLIC ISSUANCE OF A SHARES PLAN

I. Basic information of the Issuer

Company name: 第一拖拉機股份有限公司

English name: First Tractor Company Limited

Legal representative: Li Xiaoyu (黎曉煜)

Date of establishment: 8 May 1997

Listing date of H shares：23 June 1997

Listing date of A shares: 8 August 2012

Listing exchange of its shares: Stock Exchange/Shanghai Stock Exchange

Abbreviation of its shares: FIRST TRACTOR/一拖股份

Stock code of its Shares: 0038.HK/601038.SH

Registered capital: RMB985,850,000

Registered address: No. 154 Jianshe Road, Luoyang City, Henan Province

Office address: No. 154 Jianshe Road, Luoyang City, Henan Province

Postal code: 471004

Tel: 86–379–64970213

Fax: 86–379–64967438

E-mail: msc0038@ytogroup.com

Company website: http://www.first-tractor.com.cn

Business scope: design, manufacturing, sales and services of tractors, harvesters, agricultural machinery and other agricultural machinery products, diesel engines, self-power stations, generator sets, forklifts, castings and forgings and spare parts, and related development, transfer, contracting and consultancy services of tractor and construction machinery technologies, import and export business of self-produced products and related technologies of the Company (including the member companies), except for the commodities and technologies limited by the country to operate or prohibited from import and export (those involving administrative examination and approval and permission shall operate with valid approval and permission).

II. Background and purpose of this non-public issuance

(I) Background of this non-public issuance

1. Challenges and opportunities faced by the agricultural machinery manufacturing industry

Since the country implemented the subsidy policy for purchasing agricultural machinery in 2004, the agricultural machinery market has entered a period of rapid expansion. However, in recent years, due to the increasing number of agricultural machinery products, diminishing marginal effects of agricultural machinery purchase subsidies and the decline in grain production and operating income, the overall development of the agricultural machinery industry has slowed down with lower profit level, and the market has entered a period of structural adjustment from a "golden decade" with rapid growth.

In January 2018, the Opinions of the Central Committee of the Communist Party of China and the State Council on the Implementation of the Rural Revitalization Strategy pointed out: "promoting the transformation and upgrading of China's agricultural machinery and equipment industry, strengthening the joint research of scientific research institutions and equipment manufacturing enterprises, further improving the localization level of bulk crop machinery, and accelerating the research and development of the economy crops, aquaculture, and agriculture and forestry machinery in hilly and mountainous areas, and developing the manufacturing of high-end agricultural machinery and equipment". The opinions indicate the direction for China's agricultural machinery industry adjustment and supply-side reform: high-end agricultural machinery is the direction supported by national policies; the mechanization of economic crops, aquaculture, and hilly and mountainous areas is particularly supported by the country; the agricultural machinery equipment combined with smart agriculture and the Internet of Things will be the focus of further development; the "green agricultural machinery" related to environmental protection and waste disposal and utilization will usher in large market opportunities.

In March 2020, the offices of the Ministry of Agriculture and Rural Affairs, the Ministry of Finance and the Ministry of Commerce jointly issued the Guiding Opinions on Implementation of Subsidies for Scrapping and Upgrading Agricultural Machinery", which introduced a policy of subsidy for scrapping and upgrading agricultural machinery with overdue service to guide local areas to accelerate the scrapping and upgrading of old agricultural machinery, optimize the structure of agricultural machinery and equipment, promote the safe production and saving energy and reducing emissions of agricultural machinery, as well as upgrading to the National IV emission standards.

The Company will seize the opportunity of industry demand upgrading, transform the investment in technology upgrade and manufacturing capacity improvement in recent years into the strength of market competition, and accelerate the pace of market structure adjustment. The Company adheres to the strategy of "intelligence-driven, collaborative innovation and increased efficiency", and owns a number of domestic leading product technologies with proprietary intellectual property rights. The key R&D and construction projects are advanced in an orderly manner including power shift tractor quality improvement and serialized research and development project, a full range of national IV tractor supporting development project, and the application of new model of wheeled intelligent manufacturing. The Company adheres to the direction of transformation and upgrading, increases investment in the research and development of intelligent control systems such as automatic driving of agricultural machinery, intelligent control, operation monitoring technology, and precision operation devices, and strengthens the development and industrialization of intelligent systems in terms of the development of high-end agricultural equipment.

The Company will actively grasp the important opportunity of "going out for agriculture" under the "One Belt and One Road" initiative, enhance international management capabilities of the enterprise, increase efforts to expand in overseas market, and strive to innovate and improve international business development ideas, optimize the international market entry mode, continuously cultivate in the overseas key market, research and develop the models suitable for agronomic characteristics of different countries through enhancing product adaptability, improving overseas channel layout, and diversifying international marketing models, so as to create conditions for making breakthroughs in the regional key market and increase sales scale and market share in overseas markets.

2. *State allocated funds obtained earlier shall be injected into the listed company in the form of equity*

According to the Notice of the State-owned Assets Supervision and Administration Commission of the Ministry of Finance on Issuing Central State-owned Capital Budget (Appropriation) for China National Machinery Industry Corporation Ltd. in 2014 (Cai Qi [2014] No. 162), the Ministry of Finance allocated RMB700 million for the upgrading project of the tractor manufacturing industry of YTO Group Corporation to increase the state-owned capital. After obtaining the said funds allocated from state-owned capital, SINOMACH has made a special capital increase to YTO Group Corporation by RMB700 million in the spirit of the above document of the Ministry of Finance. From July 2015 to July 2019, the funds appropriated from state-owned capital have been allocated to First Tractor in the form of entrusted loans. The loan was due on 12 July 2019, and the Company has repaid the loan to YTO Group Corporation as scheduled.

The Interim Provisions on Strengthening the Management of Financial Information of Enterprises (Cai Qi [2012] No. 23) of the Ministry of Finance provide that, "where the parent company of an enterprise group allocates capital and financial funds to its wholly-owned or holding corporation for use, it shall be regarded as an equity investment. Where the holding corporation to which the parent company belongs has no plan for capital increase and share expansion, it shall be regarded as an entrusted loan. Such entrusted loan will be converted into equity investment of the parent company according to law in case of capital increase and share expansion, restructuring and listing pursuant to an agreement entered into between the enterprise and the parent company". The Opinions on the Financial Treatment of Enterprises Obtaining State Direct Investment and Investment Subsidies ((Cai Ban Qi [2009] No. 121)) of the Ministry of Finance provide that, "where a group company obtains financial funds which belong to the state direct investment and the investment subsidy nature and reallocates such financial funds to its subsidiaries for use after handling in accordance with the Article 20 of the General Rules Governing Enterprise Financial Affairs, it shall be regarded as external investment; the financial funds received by its subsidiaries shall be regarded as the capital invested by the group company or capital reserve, and shall not be recorded as internal accounts or other accounting treatment."

According to the above-mentioned requirements, the funds allocated from state-owned capital to YTO Group Corporation shall be converted into its equity investment in the Company.

(II) The purpose of the non-public issuance

1. Optimize the capital structure, reduce the gearing ratio, increase the current ratio, and improve the robustness of the operation, in line with the national policy guidance for reducing leverage

The agricultural machinery manufacturing industry in which the Company is engaged in the capital and technology-intensive industries, and therefore there is a large demand for capital investment. For the past two years, the Company has been working to reduce the scale of debt and reduce the gearing ratio. As of 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%, and the gearing ratio of the Company will decrease to 54.24% after the completion of issuance (assuming other factors are not taken into account).

In terms of current ratio, it has been declining year by year in the last two years due to the decline in the industry's prosperity. As of 31 March 2020, the current ratio on a consolidated basis of the Company is 1.06, and the current ratio of the Company will rise to 1.17 after the completion of the non-public issuance (assuming other factors are not taken into account). The pressure in liquidity of the Company will be mitigated to a certain extent.

The improvement of capital structure and the increase of current ratio will provide a good environment for the production and operation of the Company, which is an important measure for the Company to enhance its competitiveness and achieve sustainable development. Meanwhile, the non-public issuance is in line with the country's policy guidance to increase the proportion of direct financing, enhance the financial services of the real economy, and reduce the leverage ratio of state-owned enterprises.

2. Improve the ability to cope with industry cycles and lay the foundation for further seizing development opportunities

Affected by factors such as insufficient market demand for traditional products, the weakening of the effect of the purchase subsidy policy and the decline in farmers' grain production and operating income, the agricultural machinery industry is currently undergoing a period of in-depth adjustment and the Company is also facing challenges. Guiding Opinions on the Implementation of Renewal Subsidies for Retirement of Agricultural Machinery issued by the general offices of the three ministries and commissions of Ministry of Agriculture and Rural Affairs, the Ministry of Finance, and the Ministry of Commerce, support by policy to accelerate the elimination of old agricultural machinery with high energy consumption, heavy pollution, and low safety performance, strive to optimize the structure of agricultural machinery equipment and promote the transformation and upgrading of agricultural mechanization and green development in agriculture.

Under the background of strict environmental protection requirements, the implementation of subsidy policies by the state, and encouraging industrial upgrading, the agricultural machinery industry is expected to usher in new development opportunities, and the industry concentration is expected to be continuously improved.

The non-public issuance will improve the current ratio level of the Company, enhance the ability to respond to market change, help to optimize and strengthen the main business of tractors, and maintain technological leadership and industry competitive advantage by ensuring the steady switching of National IV products and the technical reserve of National V products, to promote a stable and healthy development of the Company under the background of industry upgrade and adjustment. Meanwhile, the improvement of the capital structure is conducive to the Company to seize the opportunity, deepen the adjustment and upgrading of the industrial layout around the implementation of the country's rural revitalization strategy and the development trend of smart agriculture, realize the improvement of quality and efficiency, and enhance its going-concern ability.

3. To undertake the social responsibility of shareholders and establish a good market image and social image

Since 2020, the international capital market and the domestic A-share market have been affected by the "COVID-2019" epidemic, and there have been large fluctuations. The controlling shareholder, YTO Group Corporation, from the perspective of being courageous in undertaking social responsibilities and being a responsible shareholder, participates in the subscription of shares in this non-public issuance in cash. This fully demonstrates the support of the controlling shareholders for the development of the Company, confidence in its future prospects and recognition of its value, which is conducive to maintaining the stability of the securities market, protecting the interests of all shareholders, and establishing a good market image and social image for the Company.

III. Target subscriber and its relations with the Company

The target subscriber of the non-public issuance shall be YTO Group Corporation, the controlling shareholder of the Company. YTO Group Corporation held 41.66% equity interests of the listed company before this issuance, and YTO Group Corporation, the target subscriber of the non-public issuance, is a connected person of the Company.

IV. Summary of the non-public issuance plan

(I) Class and par value of the shares to be issued

The shares under the non-public issuance are domestically-listed and RMB-denominated ordinary shares (A shares) with a par value of RMB1.00 per share.

(II) Method and timing of issuance

The shares will be issued to a specific target through non-public issuance, which will be implemented during the validity period of the approval from the CSRC.

(III) Target subscriber and subscription method

The target subscriber of the non-public issuance shall be YTO Group Corporation. YTO Group Corporation will subscribe for all shares under the non-public issuance in cash.

(IV) Pricing benchmark date, pricing principle and issue price

The pricing benchmark date of the non-public issuance of A shares is the announcement date of resolutions of the 17th meeting of the 8th session of board of directors of the Company, namely 24 April 2020. The issue price shall be RMB5.08 per share and shall not be lower than 80% of the average transaction price of A shares in the 20 trading days prior to the pricing benchmark date (average price of A shares in the 20 trading days before the pricing benchmark date = total amount of trading A shares in the 20 trading days before the pricing benchmark date/total volume of trading A shares in the 20 trading days before the pricing benchmark date).

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital occurs in respect of the shares of the Company during the period from the pricing benchmark date to the date of this issuance, the issue price shall be adjusted accordingly. The specific adjustment formula is as follows:

Distribution of cash dividends: $P_1=P_0-D$

Bonus shares or converted into share capital: $P_1=P_0/(1+N)$

Combination of both: $P_1=(P_0-D)/(1+N)$

Where: P_0 denotes the issue price before adjustment; D denotes the cash dividend per share, N denotes the number of shares distributed as bonus shares or converted into share capital per share; P_1 denotes the issue price after adjustment.

(V) Number of shares to be issued

The number of shares under this non-public issuance shall be determined by dividing the total amount of the proceeds from this non-public issuance of RMB700 million by the issue price, that is, the number of shares issued is 137,795,275 shares, which does not exceed 30% of the total share capital of the Company before this non-public issuance. The final number of shares issued shall be subject to the approval of the CSRC.

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital, issuing new shares or rights issues occur during the period from the pricing benchmark date of A shares to the date of this issuance, the number of shares under the non-public issuance shall be adjusted accordingly.

(VI) Use of proceeds

The total proceeds from the non-public issuance is RMB700 million, which is intended to be used for the following purpose after deducting the cost of issue:

Unit: RMB10'000

No.	Item name	Estimated total investment	Amount of proceeds to be utilized
1	To supplement working capital	70,000	70,000
	Total	70,000	70,000

All proceeds raised by the Company are intended to be used to supplement working capital after deducting the cost of issue.

(VII) Lock-up period

The A shares subscribed by YTO Group Corporation under this issuance shall not be transferred within 36 months from the completion of the issuance. Where laws and regulations impose other provisions on the lock-up period, those provisions shall prevail. The shares derived from the subscription of the underlying shares by YTO Group Corporation under the non-public issuance due to the distribution of bonus shares and conversion of capital reserves to share capital shall also comply with the above lock-up arrangements. Upon the expiration of the lock-up period, the reduction in shares of the Company obtained by YTO Group Corporation under the non-public issuance shall also be implemented in compliance with relevant laws and regulations such as the Company Law and the Securities Law and related requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange.

(VIII) Listing location

A share under the non-public issuance will be listed and traded on the Shanghai Stock Exchange after the expiration of the lock-up period.

(IX) Arrangement for retained profits before the non-public issuance of A shares

After the completion of the non-public issuance of A shares, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before the non-public issuance of A shares.

(X) Validity period of resolution regarding the non-public issuance of A shares

The resolution regarding the non-public issuance of A share shall be valid for 12 months from the date on which the resolution is approved by the general meeting of shareholders and class meeting of shareholders.

V. Whether the issuance will constitute a connected transaction

As the subscription of A shares under the non-public issuance by YTO Group Corporation, which is the controlling shareholder of the Company, constitutes a connected transaction with the Company, the Company will comply with the approval procedures for connected transactions strictly in accordance with the laws and regulations and the internal rules of the Company. When the Board of Directors of the Company votes on the resolution regarding the non-public issuance of A shares, the affiliated directors shall abstain from voting, and the independent directors and the audit committee of the Board of Directors shall express their opinions on such connected transaction. The affiliated shareholders shall abstain from voting on the relevant resolution at the general meeting of shareholders and the class meeting of shareholders when reviewing and considering the non-public issuance at such meetings.

VI. Whether the issuance will cause a change in the right of control of the Company

The total share capital of the Company is 985,850,000 shares before the issuance, of which the controlling shareholder, YTO Group Corporation, holds 410,690,578 A shares, accounting for 41.66% of the total share capital of the Company. SINOMACH holds 87.90% equity interests in YTO Group Corporation and is the actual controller of the listed company. The State-owned Assets Supervision and Administration Commission of the State Council holds 100% equity interests in SINOMACH and is the ultimate actual controller of the listed company. YTO Group Corporation undertakes to subscribe for all A shares under the non-public issuance. Upon the completion of the issuance, the shareholding ratio of YTO Group Corporation will increase, and YTO Group Corporation will remain the controlling shareholder of the Company, while SINOMACH will remain the actual controller of the Company, and the State-owned Assets Supervision and Administration Commission of the State Council will remain the ultimate actual controller of the Company. The non-public issuance will not result in a change in right of control of the Company.

VII. Whether this issuance will result in the Company's shareholding distribution not being eligible for listing

Based on the number of shares to be issued under the non-public issuance, it is expected that after the completion of this issuance, the proportion of public float of A shares and public float of H shares in the total number of share capital of the Company will comply with the requirements regarding listing conditions of the Securities Law, the Listing Rules of the Shanghai Stock Exchange, and the Listing Rules of the Stock Exchange.

VIII. Approval obtained for this issuance plan from the relevant competent authorities and procedures to be submitted for approval

The proposal for the non-public issuance has been reviewed and approved at the 17th meeting of the eighth session of the Board of Directors of the Company and the adjustment to the validity period of the shareholders' resolution to be proposed at the general meeting in relation to the proposal for the non-public issuance has been reviewed and approved at the 19th meeting of the eighth session of the Board of Directors of the Company.

The Reply on Issues Concerning the Non-Public Issuance of A Shares by First Tractor《關於一拖股份非公開發行A股股票有關問題的批覆》(Guo Ji Zhan Tou [2020] No.142) issued by SINOMACH, the actual controller of the Company, has been obtained, and the outstanding approval procedures include:

1. seeking a whitewash waiver from the Securities and Futures Commission of Hong Kong;

2. seeking an approval for the non-public issuance plan, the Agreement, whitewash waiver, waiver from general offer obligations, and related and incidental proposals at the general meeting and class meeting of shareholders (as appropriate) of the Company;

3. seeking an approval for the application for this non-public issuance of shares from the China Securities Regulatory Commission.

There are uncertainties as to whether the above-mentioned approval or verification can be obtained, and if so, when they can be obtained. Investors are reminded of the risk of approval.

SECTION II BASIC INFORMATION OF THE TARGET SUBSCRIBER AND SUMMARY OF THE CONDITIONAL SHARE SUBSCRIPTION AGREEMENT

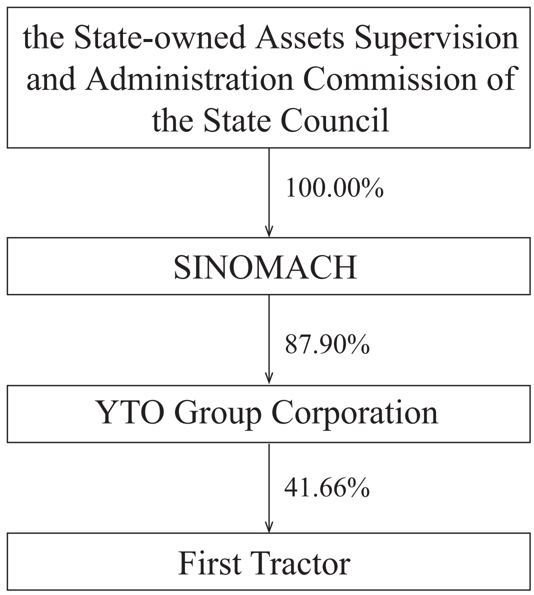
I. Basic information of YTO Group Corporation

(I) Basic information

Company name	YTO Group Corporation* (中國一拖集團有限公司)
Registered capital	RMB3,023,749,600
Legal representative	Li Xiaoyu (黎曉煜)
Registered address	No. 154 Jianshe Road, Luoyang City, Henan Province
Business scope	Manufacturing and sales of tractors and other agricultural machinery, automobiles, engineering machinery, diesel engines, generators, forklifts, bicycles, fuel injection pumps and spare parts of the above products; manufacturing of coal mining machinery, tank trucks, molds, machine tools, forging castings, clip aids and non-standard equipment. Industrial gas (prohibited as non-fuel use such as chemical raw materials, limited to branch operations); production and sale of oxygen (compressed), oxygen (liquefied), nitrogen (compressed), nitrogen (liquefied), and air (compressed) (above five items are limited to operating in the branch vouchers); road transportation of general cargo and road transportation of dangerous goods (including items 3 of Class 2 and Class 3, operating with a permit); import and export (according to qualification certificate); contracting overseas mechanical and electrical engineering and domestic and international bidding project; export of equipment and materials required for the above-mentioned overseas projects; dispatch of labor required for the implementation of the above-mentioned projects. (Enterprise shall not operate any of the above scopes without approval)

(II) Equity control relationship

As of the date of the announcement of the proposal, the controlling shareholder of YTO Group Corporation is SINOMACH, and its actual controller is the State-owned Assets Supervision and Administration Commission of the State Council. The equity control relationship between YTO Group Corporation and its controlling shareholder and actual controller is as follows:



(III) Main business condition and development and operating results of the main business in the recent three years

YTO Group Corporation is a large-scale equipment manufacturing enterprise group with agricultural machinery as its core product and also operates multiple products such as power machinery, special vehicles, parts and components. Since its establishment, it has accumulated core competitive advantages in technology, brand, market, talents, etc., and has made positive contributions to the construction of "agriculture, rural areas and farmers" in China.

The business segment of YTO Group Corporation is mainly divided into agricultural machinery segment, power machinery segment and other business segments, of which the agricultural machinery segment mainly includes tractors, harvesters, agricultural machinery and their parts and components; the power machinery segment mainly includes engines and its major parts and components business; other business segments mainly include special vehicles, finance, transportation, energy, engineering, media and other machinery and manufacturing services.

The total operating income of YTO Group Corporation from 2017 to 2019 was RMB8,225,805,600, RMB6,556,678,700 and RMB6,767,155,100, respectively.

(IV) Key financial data

The key financial data of YTO Group Corporation on a consolidated basis for the most recent year and quarter is as follows:

Unit: RMB10,000

Balance sheet	**31 March 2020**	**31 December 2019**
total assets	1,509,517.36	1,458,152.27
total liabilities	970,957.89	950,403.39
owners' equity	538,559.47	507,748.88
Equity attributable to the owner of parent company	264,149.02	244,490.42
Income statement	**January to March 2020**	**2019**
total operating income	252,423.76	676,715.51
operating income	251,130.66	670,550.40
operating profits	29,292.93	-32,436.10
total profits	29,377.35	-27,855.94
net profits	31,172.25	-34,223.96
Net profits attributable to the owner of the parent company	20,218.31	-35,486.36

Note: The financial data of YTO Group Corporation for 2019 has been audited by the accountants and its financial data for the first quarter of 2020 has not been audited.

(V) Description on administrative punishment, criminal punishment and major civil litigation or arbitration related to economic disputes in the past five years

YTO Group Corporation and its directors, supervisors, senior management (or the principals) have not received any administrative punishment or criminal punishment, or been involved in major civil litigation or arbitration related to economic disputes within the past five years.

II. Horizontal competition and connected transactions after the issuance

(I) Horizontal competition after the completion of the non-public issuance

After the completion of the non-public issuance, the business relationship between YTO Group Corporation, its controlling shareholders, actual controllers and related parties and the listed company will remain unchanged. The issuance will not result in new horizontal competition between the listed company and other companies controlled by its actual controller.

(II) Connected transactions after the completion of the non-public issuance

Except that the subscription of shares under the non-public issuance by YTO Group Corporation constitutes a connected transaction, there will be no new connected transaction between YTO Group Corporation, its controlling shareholders, actual controllers and related parties and the Company due to the issuance after the completion of the issuance.

III. Major transactions between the controlling shareholders, the actual controllers and the enterprises under their control and the Company within 24 months before the disclosure of the proposal

Significant transactions between SINOMACH, YTO Group Corporation and the affiliated enterprises under their control and the Company within 24 months before the disclosure of the proposal have been publicly disclosed. For details, please refer to relevant information disclosure documents such as periodic reports and interim announcements published in the China Securities Journal, the Shanghai Securities News and the website of the Shanghai Stock Exchange (www.sse.com.cn). Except for the transactions and major agreements disclosed by the Company in the periodic report or interim report, there is no other major transaction between the Company and YTO Group Corporation, its controlling shareholders and actual controllers.

IV. Summary of the Conditional Share Subscription Agreement

The Company and YTO Group Corporation have entered into a conditional Share Subscription Agreement on 23 April 2020, the main contents of which are as follows:

(I) Parties to the contract

Issuer：First Tractor Company Limited

Subscriber：YTO Group Corporation

(II) Issue of shares and issue price

The issuer agrees to issue the domestically listed RMB-denominated ordinary shares (A shares) with a nominal value of RMB1.00 per share to the subscriber provided that all precedent conditions specified in this agreement are satisfied.

The issue price of the issuance is RMB5.08 per share, which shall not be lower than 80% of the average transaction price of A shares of the issuer for the 20 trading days prior to the pricing benchmark date.

The calculation formula for "average price of A shares of the issuer for the 20 trading days prior to the pricing benchmark date" (the following parameters should use the data officially announced by the Shanghai Stock Exchange) is: Average price of A shares of the issuer for the 20 trading days prior to the pricing benchmark date = total amount of trading A shares of the issuer for the 20 trading days prior to the pricing benchmark date/total volume of trading A shares for the 20 trading days prior to the pricing benchmark date.

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital occurs during the period from the pricing benchmark date to the date of this issuance, the issue price shall be adjusted accordingly. The specific adjustment formula is as follows:

Distribution of cash dividends: $P_1=P_0-D$

Bonus shares or conversion into share capital: $P_1=P_0/(1+N)$

Combination of both: $P_1=(P_0-D)/(1+N)$

Where: P_0 denotes the issue price before adjustment; D denotes the cash dividend per share, N denotes the number of shares distributed as bonus shares or converted into share capital per share; P_1 denotes the issue price after adjustment.

(III) Number and method of subscription

The subscriber agrees to subscribe for 137,795,275 shares in the non-public issuance in cash of RMB700 million. The final number of shares issued shall be subject to the approval of the CSRC.

If any ex-right and ex-dividend event such as cash dividends, bonus shares, and conversion of capital reserves to share capital, issuing new shares or rights issues occur during the period from the pricing benchmark date of A shares to the date of this issuance, the number of shares under the non-public issuance shall be adjusted accordingly.

The total subscription price to be paid by the subscriber for the subscription of the underlying shares shall be the number of shares subscribed by the subscriber multiplied by the issue price per share, and the subscription price shall be rounded up to RMB cents.

(IV) Payment of subscription amount and delivery of underlying shares

After the issuance was approved by the CSRC, the subscribers shall transfer all the subscription price in a lump sum to the bank account specially opened by the master underwriter for the issuance in accordance with the requirements of Payment Notice issued by the issuer and the master underwriter. Upon completion of capital verification by accounting firms with securities-related qualifications and deduction of related fees, the master underwriter shall transfer the funds to the issuer's specific deposit account for proceeds.

After the China Securities Regulatory Commission approves the issuance, the issuer shall complete the relevant work of the issuance as soon as possible. After a qualified accountant firm has verified the capital for the issuance, the issuer shall go through the registration procedures for the underlying shares with China Securities Depository and Clearing Co., Ltd. Shanghai Branch within 15 business days; the issuer shall timely modify the current Articles of Association, and complete the relevant procedures for registration of changes with its original industrial and commercial registration authority according to the situation of this issuance.

(V) Lock-up period

The subscriber agrees and undertakes that the underlying shares obtained through the issuance shall not be transferred within 36 months from the completion of the issuance. Where laws and regulations impose other provisions on the lock-up period, those provisions shall prevail.

The shares derived from the subscription of the underlying shares by the subscriber due to the issuer's distribution of share dividends, conversion of capital reserves, etc., shall also comply with the above lock-up arrangements. Upon the expiration of the lock-up period, such restricted shares of the subscriber shall be transferred and traded in accordance with the laws and regulations in force at that time, such as the Company Law and the Securities Law and the rules of the China Securities Regulatory Commission and the Shanghai Stock Exchange.

(VI) Conditions precedent for the Agreement

The Agreement is a conditional agreement and shall become effective subject to the satisfaction of all the following conditions:

(1) The issuance is approved by Board of Directors of the issuer;

(2) The issuance is approved by the competent state-owned assets supervision and administration authorities;

(3) The issuance, the agreement, whitewash waiver, waiver from general offer obligations, and related and incidental proposals are reviewed and approved by the General Meeting and the Class Meetings of shareholders of the Company respectively;

(4) The granting of Whitewash Waiver by the SFC;

(5) The issuance is approved by the CSRC.

All of the above conditions are non-waivable by any party to the agreement.

(VII) Arrangement for the undistributed profits

The subscriber agrees that after the completion of this issuance, the new and existing shareholders of the Company shall be jointly entitled to the undistributed profits before the issuance in proportion to their shareholdings after the issuance.

(VIII) Taking effect, change and termination of the agreement

The agreement shall be established after the execution by both the issuer and the subscriber and shall take effect on the date on which all precedent conditions specified in the agreement are satisfied. Any change in the agreement shall be agreed upon by both the issuer and the subscriber with a written agreement.

The agreement shall be terminated under the following circumstances:

(1) Both parties have fulfilled their obligations in accordance with the agreement;

(2) The agreement has been terminated upon mutual agreement between the issuer and the subscriber;

(3) Either party may terminate the agreement in accordance with the provisions hereof due to force majeure;

(4) The issuance has not been completed within the validity period of the approval documents issued by the CSRC.

(IX) Liability for breach of contract

Save for force majeure and termination of this agreement due to circumstances stipulated in this agreement, if any party fails to perform its obligations or commitments under this agreement or the statements or warranties made are untrue or materially inaccurate, the party shall be deemed to be in breach of this agreement. The breaching party shall rectify its behaviors within 15 days from the date on which the notice for rectification is served to the observant party. If the breaching party fails to make rectification in time, the observant party shall have the right to request the breaching party to compensate it for the direct losses suffered by the observant party.

SECTION III FEASIBILITY ANALYSIS OF THE BOARD OF DIRECTORS ON THE USE OF PROCEEDS

I. Plan of the use of proceeds

The total amount of proceeds from the non-public issuance is RMB700 million, which will be used to supplement working capital after deducting the cost of issue.

II. Necessity analysis on the use of the proceeds

(I) Meet the relevant requirements of funds appropriated from state-owned capital

In accordance with the relevant documents such as the Interim Provisions on Strengthening the Management of Financial Information of Enterprises and Opinions on the Financial Treatment of Enterprises Obtaining State Direct Investment and Investment Subsidies and other relevant documents of the Ministry of Finance, the funds appropriated from state-owned capital obtained by YTO Group Corporation should be converted into the equity investment of the YTO Group Corporation to First Tractor timely based on the actual use, in order to meet the relevant requirements on funds appropriated from state-owned capital.

(II) Optimize the capital structure and improve the risk-resistance ability

As of 31 March 2020, the comparison of gearing ratio, current ratio and quick ratio between the Company and the comparable listed companies in the agricultural machinery industry is as follows:

	31 March 2020			31 December 2019			31 December 2018			31 December 2017		
Stock abbreviation	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio
Gifore (吉峰科技)	87.00	0.98	0.62	83.65	0.98	0.66	78.57	1.05	0.75	80.47	1.04	0.67
Xinjiang Machinery Research Institute (新研股份)	41.44	1.12	0.88	42.09	1.15	0.93	33.09	1.66	1.40	29.38	1.86	1.53
Thinker Agricultural Machinery (星光農機)	33.71	2.08	1.72	35.19	1.83	1.54	32.06	1.83	1.42	22.64	2.55	2.19
Shandong Hongyu Agricultural Machinery (弘宇股份)	17.18	4.49	3.39	15.66	4.90	3.79	16.95	4.46	3.27	16.44	4.44	3.31
Shandong Swan Cotton Industrial Machinery (天鵝股份)	32.40	2.53	1.58	37.33	1.98	1.29	32.93	2.11	1.56	23.97	3.56	2.82
Median	33.71	2.08	1.58	37.33	1.83	1.29	32.93	1.83	1.42	23.97	2.55	2.19
Average	42.34	2.24	1.64	42.79	2.17	1.64	38.72	2.22	1.68	34.58	2.69	2.10
First Tractor	57.49	1.06	0.90	58.86	1.02	0.86	64.57	1.05	0.85	61.43	1.09	0.94

Note: The financial data as at 31 March 2020 has not been audited and the financial data for 2017 to 2019 has been audited.

As of 31 March 2020, the gearing ratio, current ratio and quick ratio of the Company were 57.49%, 1.06 and 0.90, respectively, while the average gearing ratio, current ratio and quick ratio of the comparable companies in the industry were 42.34%, 2.24 and 1.64, respectively. Compared with the same industry, higher gearing ratio and relatively lower asset liquidity increased the potential financial risks of the Company and were not conducive to financing. This non-public issuance will help the Company optimize its capital structure and reduce financial risks by reducing the gearing ratio, thereby improving the Company's risk-resistance ability and financing ability in the future.

(III) Reduce financial expenses and improve financial stability

The agricultural machinery industry in which the Company is engaged in is a capital and technology-intensive industry, and there is a large demand for capital investment. The current interest-bearing liabilities level of the Company remains generally maintained at a high level. The interest-bearing liabilities of the Company in 2018, 2019 and as at 31 March 2020 are as follows:

Unit: RMB100 million

Item	31 March 2020	31 December 2019	31 December 2018
Short-term loan	13.28	14.20	27.78
Non-current liabilities due within one year	5.56	6.49	0.77
Long term loan	1.00	1.39	8.68
Subtotal	19.84	22.08	37.23
Total Liabilities	67.12	68.45	84.85

Note: The above data are on a consolidated basis, the data as at the end of the first quarter of 2020 has not been audited and the data as at the end of 2019 and 2018 has been audited.

The current liabilities account for a large proportion of the Company liabilities, and the current liabilities such as short-term loans are susceptible to fluctuations due to factors such as the macroeconomic environment, national credit and financial policies, industry development situation and enterprise fundamentals, etc., which easily leads the Company to face liquidity risks. The higher level of interest-bearing liabilities has resulted in the long-term high level of interest expenditure of the Company, and the interest expense amount of the Company was RMB138 million in 2019. This non-public issuance will supplement our working capital, effectively alleviate the funding pressure, reduce the scale of short-term liabilities, decrease the interest expenses, and improve the level of financial stability of the Company.

(IV) Funds required for future operations and development

The future development strategy of the Company requires funds, and on the basis of its own operation and development. It is necessary for the Company to reasonably use a variety of financing tools such as the capital market of A shares refinancing to meet the needs of industrial upgrading and business development, increase operating liquidity, reduce financial expenses, use the raised funds more effectively to strengthen the production, sales and research and development of the Company, accelerate the promotion of agricultural mechanization and agricultural machinery equipment industry upgrading, and promote the revitalization of rural areas and agricultural modernization of China.

(V) Subscription of shares by the controlling shareholder will enhance market confidence

The participation of YTO Group Corporation, our controlling shareholder, in the subscription of shares under the non-public issuance in cash fully demonstrates the support of the controlling shareholder for the development and confidence in the future prospects of the Company, which is conducive to maintaining the stability of the securities market, protecting the interests of all shareholders and establishing a good market image of the Company.

III. Feasibility analysis on the use of proceeds

(I) The use of proceeds from the non-public issuance complies with the provisions of laws and regulations

The use of proceeds from the non-public issuance of the Company complies with the relevant policies, laws and regulations, and is feasible. After the proceeds from the non-public issuance are in place, the gearing ratio of the Company will be reduced, which will help to improve the capital structure of the Company, reduce its financial risks, and improve its going-concern ability, thus laying a solid foundation for the subsequent production and development.

(II) The issuer of this non-public issuance has established sound governance and internal control system

The Company has established a modern corporate system with a corporate governance structure as the core, and through continuous improvement and refinement, the Company has formed a standardized corporate governance system and a perfect internal control environment that meet the requirements of listed company governance. Regarding the management of raised funds, the Company has established Management System for the Use of Raised Funds in accordance with regulatory requirements, which clearly stipulates the storage, use, change of investment direction, inspection and supervision of the raised funds. After the proceeds from the non-public issuance are in place, the Board of Directors and board of supervisors of the Company will continue to monitor the storage and use of proceeds to ensure that the proceeds are used in a reasonable manner and prevent the risk of use of the proceeds.

IV. Impacts of the issuance on the business operations and financial condition of the Company

(I) Impacts of the issuance on the business operations of the Company

The proceeds raised in the non-public issuance will be used to supplement working capital after deducting the cost of issue. This will help to further enhance the Company's comprehensive strengths, optimize its capital structure, and reduce the financial risks, so as to closely follow the industry trend, and achieve long-term sustainable development of the Company.

After the raised proceeds are put in place and put into use, the capital strength of the Company will be significantly enhanced, and its sustainable development will be more stable. The issuance is in line with the interests of the Company and all of its shareholders.

(II) Impacts of the issuance on the financial condition of the Company

Based on the benchmark date of 31 March 2020, assuming that the issue cost and other factors are not taken into consideration, the gearing ratio of the Company (on a consolidated basis) will be reduced from 57.49% to 54.24% by supplementing the working capital through funds raised from the non-public issuance. The non-public issuance will effectively optimize the Company's capital structure, improve its financial position, improve the cash flow generated from future financing activities, reduce the financial expenses, enhance its risk-resistance ability and going-concern ability, and further improve its ability to create continuous returns to shareholders, which is in line with the goal of maximizing the interests of the shareholders.

SECTION IV DISCUSSION AND ANALYSIS OF THE BOARD OF DIRECTORS ON THE IMPACT OF THE ISSUANCE ON THE COMPANY

I. Changes in Business, Articles of Association, Shareholder Structure, Senior Management Structure, and Business Income Structure of the Company

(I) Impact of the Issuance on the Company's Business and Assets

Upon completion of the non-public issuance, the principal business of the Company will remain unchanged and there involves no integration of existing business and assets of the Company. The proceeds from the non-public issuance after deducting issuance expenditure, is proposed to be used to supplement working capital, which will reduce the gearing ratio of the Company. It is conductive to optimising the capital structure of the Company, increasing asset size of the Company and providing a strong support for the Company to expand and strengthen its principal business.

(II) Impact of the issuance on the Articles of Association

The registered capital, total number of shares and capital structure of the Company will change upon completion of the non-public issuance. The Company will make amendments to relevant articles of the Articles of Association pursuant to the issuance and comply with the procedures for the change in industrial and commercial registration.

Save for the aforementioned matters, the Company has no plan to adjust other matters under the Articles of Association as of the date of the proposal.

(III) Impact of the issuance on capital structure

The issuance will result in certain changes in the capital structure of the Company. The Company will issue additional 137,795,275 shares with trading restrictions.

Prior to the issuance, YTO Group Corporation, which is the controlling shareholder of the Company and the target subscriber, directly held 41.66% equity interest of the Company. Based on 1,123,645,275 share in issue, the proportion of shares directly held by YTO Group Corporation in the Company is expected to increase to 48.81% upon completion of the issuance, and YTO Group Corporation will remain as the controlling shareholder of the Company. The issuance will not result in change in control of the Company.

(IV) Impact of the issuance on senior management structure

There will be no significant changes in the senior management structure of the Company upon completion of the issuance.

(V) Impact of the issuance on business structure

The issuance will not have a significant impact on the business and income structure of the Company as the proceeds will be used to supplement working capital after deducting the issuance costs.

II. Changes in financial position, profitability and cash flows of the Company

Based on the major assumption set out in the next section below, the non-public issuance will have positive impact on the overall financial condition of the Company. Upon receipt of proceeds from the non-public issuance, the financial risks of the Company will be effectively reduced, with further improved ability to continue operations and sharpened comprehensive competitive edge. Particulars on the impacts are as follows:

(I) Impact on financial condition of the Company

Upon completion of the non-public issuance, the Company's total assets and net assets will increase accordingly with lower gearing ratio as a whole. As at 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%. Based on data as at 31 March 2020, without taking into consideration of issuance expenditure and other influencing factors, the Company's gearing ratio upon completion of the non-public issuance will be reduced to 54.24%. The non-public issuance may optimise the capital structure of the Company to a certain degree, facilitate the Company's ability to resist financial risks and enhance its sustainable profitability.

(II) Impact on profitability of the Company

Upon implementation of the non-public issuance and after the proceeds are used to supplement working capital, the Company will reduce short-term borrowings for daily operations annually, thereby reducing interest expenses on short-term borrowings, alleviating short-term funding pressure, improving short-term debt solvency, effectively reducing financial expenses, and enhancing the sustainable profitability of the Company.

The issuance may reduce the Company's gearing ratio, increase the size of net assets, and optimise the Company's capital structure. The improvement of asset quality and debt repayment ability will help the Company to broaden its financing channels and enhance its refinancing ability, which will benefit its capital turnover and sustainable operation.

(III) Impact on cash flows of the Company

Upon completion of the non-public issuance, the total proceeds of RMB700 million will be used to supplement working capital after deducting the related issuance costs. The cash flow generated from financing activities of the Company will increase the cash inflow received from investment. Without considering other influencing factors, the net increase in cash and cash equivalents of the Company will increase that year. The issuance helps improve the Company's cash flow condition, enhance the Company's ability to resist risks and competitiveness, and lay a capital foundation for the future business expansion of the Company.

III. Changes in business relationship, management relationship, connected transactions and competition between the Company and the controlling shareholder and its affiliates

Upon completion of the issuance, there will be no significant changes in the business relationship and management relationship between the Company, and the controlling shareholder, the actual controller and its affiliates, nor will competition arise from the issuance.

In the issuance proposal, save that the subscription for shares under the non-public issuance by cash by the controlling shareholder, YTO Group Corporation, which constitutes a connected transaction, no other connected transaction will arise from the issuance.

IV. Upon completion of the issuance, whether there will be embezzlement of funds and assets by the controlling shareholder and its affiliates, or whether guarantee will be provided by Listed Company for the controlling shareholder and its affiliates

As of the date of the proposal, the authorization approval procedures on use of capital and external guarantee of the Company and information disclosure obligation were strictly complied with in accordance with relevant laws and regulations and the relevant provisions of the Articles of Association. There was no embezzlement of funds and assets in breach of the rules by controlling shareholder, actual controller or its affiliates, or guarantee provided for its controlling shareholder or its affiliates in breach of the rules.

Upon completion of the issuance, there will be no embezzlement of funds and assets of the Company in breach of the rules by controlling shareholder and its affiliates, nor will be there any guarantee provided by the Company for its controlling shareholder or its affiliates in breach of the rules.

There will be no embezzlement of funds and assets in breach of the rules by controlling shareholder and its affiliates, nor will be there any guarantee provided by the Company for its controlling shareholder or its affiliates in breach of the rules due to the issuance.

V. Effect of the Issuance on the debt structure of Listed Company

As of 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%. Based on the data as at 31 March 2020 and assuming that the issuance expenditure and other influencing factors are not taken into account, the gearing ratio of the Company upon completion of the issuance will reduce to 54.24%.

The non-public issuance will optimize the capital structure of the Company and help to reduce the financial risk of the Company. The Company will not significantly increase its liabilities (including contingent liabilities) or has a gearing ratio that is too low as a result of the issuance, nor will there be any unreasonable finance cost.

VI. Risks concerning the issuance

(I) Risks concerning the non-public issuance of A Shares

1. Risk of approval

Matters regarding the non-public issuance shall be subject to approval of the competent state-owned assets supervision and administration department, the granting of the Whitewash Waiver by Securities and Futures Commission of Hong Kong, review and consideration by general meeting and class shareholders' meeting of the Company, and approval of the China Securities Regulatory Commission.

There are certain uncertainties on the approval or verification from the General Meeting, class shareholder's meetings and relevant competent authorities being given, as well as the timing of final approval or verification from the relevant competent authorities. All investors are advised to pay attention to investment risks.

2. Risk of dilution of immediate returns

The non-public issuance will increase the total share capital and net assets of the Company. If the growth rate of the Company's net profit is lower than the growth rate of equity and net assets in the short term, there is a risk that the earnings per share and the return on net assets will be diluted in the short term after the issuance.

3. Risk of stock price volatility

Stock investment itself involves certain risks. The fluctuation in stock prices is not only affected by Listed Company 's financial condition, operation results and development prospects, but also affected by many factors such as the political and economic condition at home and abroad, national economic policy, macroeconomic cycle, stock market supply and demand. Therefore, there are certain uncertainties in the price of stock at secondary market upon completion of the non-public issuance. If the stock price is lower than expected, investors will be exposed to the risk of investment losses.

(II) Market and Policy Risk

1. Market risk

There is overcapacity of medium and low-end agricultural machinery equipment in the cultivation and harvesting of staple food crops in China, and the number of agricultural machinery kept increasing. The domestic tractor market is expected to continue to be in a period of adjustment due to factors such as the market-oriented reform of grain prices, the decline in the amount and proportion of subsidies for purchases of machinery, and the upgrading of the National IV emission standards for non-road diesel engines. Although the product power continues to rise and the structure continues to be optimized under the policy promotion, it is expected that the product demand will remain difficult to show a clear upward trend in the short term. If the industry continues to be in a period of deep adjustment in the future, the Company's performance in future will be affected.

2. Policy risk

With the continuous deepening of China's comprehensive deepening reforms, it is currently in the period of industrial structure adjustment, and changes in industrial policies have a greater impact on agricultural machinery manufacturing. Changes in industry policies such as national macroeconomic policies, taxation policies, pricing policies, agricultural machinery purchase subsidies policy, and national standard models of agricultural machinery will affect the Company's operating performance and development prospects.

(III) Operation and Management Risk

1. Risk of fluctuations in price of major raw materials

Commodities such as steel and rubber account for a relatively high proportion of the Company's raw materials and parts. The prices of such raw materials fluctuate due to such factors as their respective production costs, market demand and short-term speculative in the market, and may therefore affect the production costs of the Company's products, resulting in fluctuations in the Company's profitability. Although the Company has weakened the impact of rising raw material prices on the Company's performance through measures such as optimizing the procurement process, shortening intermediate procurement links, and centralized procurement scale, if the raw material prices continue to rise or remain high in the future, it may be detrimental to the Company's profitability.

2. *Risk concerning sales mode*

In order to cope with the increasingly fierce domestic market competition and enhance the Company's sales competitiveness, the Company adopted sales methods such as credit sales, buyer credit, and finance leases. Although these new sales methods can promote sales to a certain extent, they have also increased the Company's risk exposure. Although the Company has strengthened risk management and control through the establishment of a more comprehensive customer credit investigation and review system, obtaining counter-guarantee from dealers, and improving the management level of accounts receivable, the Company is still subject to certain operational risks if the customers fail to repay timely.

3. *Risk concerning product technology upgrading*

In order to win the tough battle of pollution prevention and control, China continues to promote the switching and upgrading of non-road diesel engine emission standards and accelerate the pace of upgrading environmental protection policy standards. In the future, agricultural machinery that cannot meet the requirements of emission standards will not be available for sale. This will place higher requirements on the technical upgrading of diesel products and the matching of diesel engines and agricultural machinery. The non-road diesel engine National IV emission standard switching will place higher requirements on the product technology, manufacturing technology and overall upgrade of the supply chain of agricultural machinery manufacturing enterprises. If the relevant R&D cannot be successfully completed, it may have a direct impact on the Company's product sales, which in turn will have a negative impact on its future development. Besides, with the continuous acceleration of the entire process of agricultural production and comprehensive mechanization, if the Company cannot fully expand the product variety and effectively cover the new market demand under the development trend of diversified market demand, the income and profit in future will be affected.

(IV) Financial Risk

1. Risk of higher gearing ratio

The equipment manufacturing industry where the Company is operated is a capital-intensive industry, and the construction of production projects and the renovation and transformation of fixed assets require a large amount of capital investment. As of 31 March 2020, the gearing ratio of the Company on a consolidated basis was 57.49%, which is higher than the average gearing ratio of the special equipment manufacturing industry where business of the Company operated. Through the non-public issuance and its own capital accumulation, the Company's gearing ratio will decline in the future, but the capital-intensive operating characteristics still expose the Company to a certain degree of financial risk.

2. Risk of declining profitability

In the past three years, the operating income and profit of the Company fluctuated significantly during the reporting period due to multiple factors such as the decline in crop planting income, the increase in market agricultural machinery ownership, and the weakening of the effect of agricultural machinery purchase subsidies. In 2017, 2018, 2019 and the first quarter of 2020, the operating income of the Company was RMB7.219 billion, RMB5.541 billion, RMB5.737 billion and RMB2.077 billion respectively, and the net profits attributable to the owners of the parent company were RMB57 million, RMB-1,300 million, RMB61 million and RMB198 million respectively. Net sales margins were 0.52%, -24.63%, 2.21% and 8.88% respectively. Although the Company increased its market development efforts to vigorously implement measures such as cost reduction in procurement, product process optimization, quality improvement, and internal management enhancement, and successfully turned losses into profits in 2019, however, in the face of the agricultural machinery market that is currently in a period of deep adjustment, there remains a risk of larger fluctuations in earnings of the Company.

3. Foreign exchange risk

The Company's business is mainly located in China, and most transactions are settled in RMB. However, due to the foreign currency borrowing and foreign currency settlement in export trading, various related risks may arise due to exchange rate fluctuations, mainly involving currencies such as US dollar, Hong Kong dollar, Euro, Japanese yen, AUD, franc and Rand. Risks include but are not limited to: foreign exchange transaction risks due to the inconsistency of exchange rates between the transaction occurrence date and the settlement date in foreign currency-denominated transactions, and the risk of changes in the value of foreign companies due to exchange rate fluctuations.

(V) Risk arising from COVID-19

The COVID-19 has spread globally since 2020. Although the epidemic is preliminarily under control in China, it still has negative impact on the Company's raw material procurement, manufacturing, resumption of production and terminal sales of finished products in the short term. Besides, considering the seasonal nature of the agricultural machinery market, it is usually the peak season for agricultural machinery production and sales during spring tillage, and it is expected that the COVID-19 will affect the production of agricultural machinery product and market sales in the first half of 2020, market sales will lag, and the sales period in agricultural machinery market will shift backwards, which may adversely affect the short-term performance of the listed company.

In response to the above risks, the Company will establish a risk prevention mechanism and supporting control measures, strictly follow the requirements of relevant laws and regulations, standardize the Company's behavior, disclose important information in a timely, accurate, comprehensive and fair manner, strengthen communication with investors, and try to reduce the Company's investment risk and ensure steady and growth in operating performance.

SECTION V PROFIT DISTRIBUTION POLICY OF THE COMPANY AND ITS IMPLEMENTATION

I. Existing profit distribution policy and decision-making procedures of the Company

According to the relevant provisions and requirements of the No. 3 Guideline for the Supervision of Listed Companies–Cash Dividend Distribution of Listed Companies(《上市公司監管指引第3號－上市公司現金分紅》)issued by the CSRC and the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司現金分紅指引》)issued by Shanghai Stock Exchange, the main provisions of the profit distribution policy in the Articles of Association are set out below:

(I) Principle of profit distribution

The profits after paying related taxes shall be distributed in the following order:

1. making up for the loss;

2. allocation to the statutory surplus reserve;

3. allocation to the discretionary surplus reserve;

4. distribution of dividends on ordinary shares.

The specific distribution ratio of items 3 and 4 under this article in a certain year shall be formulated by the Board of Directors based on the operating conditions and development need of the Company, and shall be resolved by the General Meeting.

Besides, the Board of Directors may, according to the authorization granted by the General Meeting, pay an interim dividend that it considers to be acceptable for the Company's profit to the shareholders before the next General Meeting from time to time without prior approval of the General Meeting.

The Company shall not distribute dividends before making up for the losses and allocating to the statutory surplus reserve. The Company is not required to pay interests to shareholders in respect of dividends, except for dividends that are due but not yet paid by the Company. If the General Meeting distributes, in violation of this paragraph, the profits to shareholders before making up for the losses and allocating to the statutory surplus reserve, the shareholders shall return to the Company the profit distributed in violation of the regulations.

(II) Profit distribution policy

1. The Company shall adopt consistent and stable profit distribution policy, which should emphasize on investors' reasonable investment return and its sustainable development;

2. The Company may distribute dividends in cash, in shares, in a combination of both cash and shares. The Company preferentially adopts cash dividends for profit distribution;

3. The Board of Directors may distribute interim dividends or bonus upon authorization of the General Meeting if available;

4. In the case of meeting the normal production and operation capital requirements of the Company, if there is no major investment plan or major cash expenditure, the profits distributed by the Company in cash every year are not less than 25% of the profits available for distribution in the year;

5. When the Company's net profit realized in that year has increased by more than 20% over that of the previous year, the Board of Directors of the Company may propose a profit distribution plan for issuing dividends;

6. The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of Association:

   (1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

   (2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

   (3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution.

In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(III) Decision-making and implementation procedures for profit distribution

1. The Board of Directors of the Company should fully consider the requirements and wishes of shareholders and appreciate the opinions of independent directors and the board of supervisors after carefully analyzing the industry development trends, the production and operation conditions and future investment planning of the Company and external financing environment, and should formulate the annual profit distribution plan of the Company within three months after the end of each fiscal year in accordance with the profit distribution policy stipulated in Article 217 of the Articles of Association, and submit it to the general meeting of the Company for consideration.

2. The Company shall announce the opinions of the independent directors when issuing the announcement of the resolution of the Board of Directors or the notice of convening the relevant general meeting. When reviewing the profit distribution plan, the General Meeting should communicate with shareholders, especially minority shareholders, through various channels to fully listen to the opinions and demands of minority shareholders.

3. The profit distribution plan can be implemented only after it is considered and approved by the general meeting of the Company.

4. After the general meeting of the Company makes a decision on the profit distribution plan, the Board of Directors of the Company shall complete the distribution of dividends (or shares) within two months from the date of the General Meeting.

(IV) Adjustment of profit distribution policy

If the profit distribution policy is required to be adjusted due to a major change in the external operating environment or its own operating conditions, the Board of Directors of the Company should propose an adjustment proposal for profit distribution policy based on the actual situation. The adjusted profit distribution policy shall take protecting shareholders' rights and interests as the starting point, and shall not violate the relevant regulations of the China Securities Regulatory Commission and the exchange. The independent non-executive directors of the Company shall issue written audit opinions on the adjustment of the profit distribution policy, and the proposal on the adjustment of the profit distribution policy is required to be submitted to the general meeting of the Company after deliberation by the Board of Directors of the Company, and considered and approved by more than two-thirds of the voting rights held by shareholders attending the General Meeting.

The reasons for adjusting the profit distribution policy and the opinions of independent non-executive directors and external supervisors should be disclosed in the periodic reports of the Company.

(V) Methods of Profit Distribution

Dividends or other distributions of ordinary shares shall be distributed and denominated in RMB.

Dividends or other cash distributions of domestic shares shall be paid in RMB.

Dividends or other cash distributions of overseas-listed foreign shares listed in Hong Kong shall be paid in Hong Kong dollars in accordance with the relevant foreign exchange regulations of China; the exchange rate shall be translated from the average closing price of Hong Kong dollar against RMB published by the People 's Bank of China for each business day one week before the date of declaration of dividend.

II. Profit distribution in the recent three years

The Company's profit distribution for the recent three years is as follows:

Unit: RMB10'000

Year of dividend	Amount of cash dividend (tax inclusive)	Net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements	Percentage of net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements *(%)*
2019	–	6,147.54	–
2018	–	-130,010.88	–
2017	1,786.87	5,651.42	31.62

Note: The amount of cash dividends in 2017 was the repurchase of 4,928,000 H shares by the Company, and the total amount of expenditure was RMB17.8787 million.

On 29 May 2018, the Company held the 2017 Annual General Meeting, at which the Company's 2017 profit distribution plan was reviewed and approved. In 2017, the Company recorded the net profit of RMB56,651,400 attributable to ordinary shareholders of the Company. Taking into account its production and operation conditions and capital requirements, the Company did not distribute the cash dividends for 2017. In 2017, the Company repurchased 4,928,000 H shares and paid a total amount of RMB17.8687 million (excluding commissions, etc.), and according to the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司現金分紅指引》), the cash paid by the Company for share repurchase during the reporting period was regarded as cash dividend.

On 11 June 2019, the Company held the 2018 Annual General Meeting, at which the Company's 2018 profit distribution plan was considered and approved: the Company would not carry out profit distribution for 2018 according to the Articles of Association as the audited net profit in 2018 of the Company was a loss.

On 15 June 2020, the Company held the 2019 Annual General Meeting, at which the Company's 2019 profit distribution plan was considered and approved: After taking into account the development features of the agricultural machinery industry, the Company's development strategies and capital need, the Company will not make any profit distribution for 2019.

The Company formulated and implemented its profit distribution plan for the past three years strictly in accordance with the provisions of the Articles of Association, with clear dividend standards and proportions and complete decision-making procedures and mechanisms, which effectively safeguarded the legitimate rights and interests of shareholders.

III. Future profit distribution planning of the Company

In order to improve and develop the scientific, sustained and stable dividend distribution mechanism, and to protect the legitimate rights and interests of scattered investors, the Company has formulated shareholders' return plan for the next three years (2020-2022) by taking into account the development plan, profitability and other actual conditions of the Company in accordance with the People's Republic of China Company Law, the Announcement on Further Implementation of Relevant Matters Concerning Cash Dividend Distribution of Listed Companies (Zheng Jian Fa [2012] No.37) issued by the CSRC, Guidelines No. 3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies (Announcement [2013] No. 43 of the CSRC) and the Guidelines on Cash Dividend Distribution of Listed Companies of Shanghai Stock Exchange and the relevant provisions of the Articles of Association.

The specific contents of the plan are as follows:

(I) Basic principles for developing a shareholders' return plan

The plan is made based on factors such as the Company's development plan, profitability, shareholder returns, social capital costs and external financing environment, and by fully taking into account the Company's profitability scale, cash flows, development stage, funding requirements for project investment, and bank credit environment in the next three years, and on the basis of balancing the reasonable return on investment of shareholders and the long-term development of the Company.

(II) Principles of the return plan for the next three years

The Company implements a continuous and stable profit distribution policy by comprehensively considering reasonable returns to investors and sustainable development of the Company. Subject to the satisfaction of profit distribution conditions and the requirements of its normal operation and the medium and long-term development strategy, the Company preferentially selects cash dividends and emphasizes on reasonable investment return to investors.

(III) Specific plans for shareholders' return in the next three years

1. The Company proactively distributes dividends in cash or shares, or makes distribution to shareholders by adopting other methods permitted by laws and regulations. If the conditions for cash dividends are satisfied, cash dividends should be used for profit distribution; if stock dividends are used for profit distribution, various factors including the Company's growth, dilution of net assets per share should be fully considered.

2. Profit distribution policy of the Company

(1) The Company implements a continuous and stable profit distribution policy. The Company shall emphasize the reasonable return on investment for investors and its sustainable development when implementing its profit distribution policy;

(2) The Company may distribute dividends in cash, in shares, or in a combination of both cash and shares. The Company preferentially adopts cash dividends for profit distribution, and the following conditions shall be satisfied when implementing cash dividends:

1) the distributable net profits realized by the Company in the year or half year (i.e. net profit of the Company after making up the loss and allocating its profits to the statutory reserve) are positive, and its cumulative distributable profits are positive with adequate cash flow;

2) the auditor has issued a standard unqualified audit report for the annual or semi-annual financial statements of the Company;

3) the implementation of cash dividends will not affect the Company's continued operations;

4) the Company has no major investment plans or major cash disbursements (excluding projects funded by raised proceeds).

Significant investment plan or significant cash expenditure refers to the Company's cumulative expenditures of its proposed foreign investment, asset acquisition or other major expenditures in the next twelve months reaching or exceeding 30% of its most recent audited net assets.

(3) When the Company's net profit realized in that year has increased by more than 20% over that of the previous year, the Board of Directors may propose a profit distribution plan for issuing dividends;

(4) The Board of Directors may distribute interim dividends or dividends upon authorization of the General Meeting if available;

(5) The profits distributed by the Company in cash in the recent three years are not less than 25% of the profits available for distribution in the year.

The Board shall take various factors into consideration, including its industry features, development stages, business model and profitability level as well as whether it has any significant capital expenditure arrangements, to differentiate the following circumstances and propose a differentiated policy for cash dividend distribution according to the procedures stipulated in the Articles of Association:

1) Where the Company is in a developed stage with no significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 80% of the total profit distribution;

2) Where the Company is in a developed stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 40% of the total profit distribution;

3) Where the Company is in a developing stage with significant capital expenditure arrangements, the dividend distributed in the form of cash shall not be less than 20% of the total profit distribution.

In the case that it is difficult to distinguish the Company's stage of development but the Company has significant capital expenditure arrangements, such matter may be dealt with pursuant to the preceding provisions.

(IV) Decision-making mechanism for shareholders' return plan

1. The Board of Directors should fully consider the requirements and wishes of shareholders and appreciate the opinions of independent directors and the board of supervisors after carefully analyzing the industry development trends, the production and operation conditions and future investment planning of the Company and external financing environment, and should formulate the annual profit distribution plan of the Company within three months after the end of each fiscal year in accordance with the profit distribution policy stipulated in the Articles of Association, and submit it to the general meeting of the Company for consideration.

2. The Company shall announce the opinions of the independent directors when issuing the announcement of the resolution of the Board of Directors or the notice of convening the relevant general meeting. When reviewing the profit distribution plan during the General Meeting, the Company should communicate with the shareholders, especially minority shareholders, through various channels to fully listen to the opinions and demands of minority shareholders.

3. The profit distribution plan can be implemented only after it is approved by the general meeting of the Company.

4. After the general meeting of the Company makes a decision on the profit distribution plan, the Board of Directors shall complete the distribution of dividends (or shares) within two months from the date of the General Meeting.

5. In the next three years, the Company may adjust its profit distribution policy if it encounters force majeure events such as war, natural disasters, epidemics, or changes in external operating environment that have a major impact on the production and operations of the Company, or suffers significant change in its own operating conditions.

(V) Matters not covered in this plan

The outstanding matters shall be implemented in accordance with relevant laws and regulations, regulatory documents and the Articles of Association. The Board of Directors is responsible for the interpretation of this plan, which will be implemented from the date of consideration and approval by the general meeting of the Company.

SECTION VI DILUTION OF CURRENT RETURNS DUE TO THE NON-PUBLIC ISSUANCE OF SHARES AND REMEDIAL MEASURES

According to the requirements of the Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)), the Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (Guo Ban Fa [2013] No. 110) (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》(國辦發[2013]110號)) and the Guiding Opinions on Matters concerning the Dilution of Current Return in Initial Public Offering, Refinancing and Material Asset Restructuring (Announcement No. 31 [2015] of the CSRC) (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》(證監會公告[2015]31號)), to protect the interests of scattered investors, the Company has made careful analysis on the impact of dilution of current returns caused by the non-public issuance and has formulated specific remedial measures for the diluted current returns. The relevant entities have made a commitment to ensure that the Company will earnestly implement the remedial measures for the current returns.

I. Impact of Dilution of Current Returns by the Non-public Issuance on Key Financial indicators

(I) Major Assumptions

The following assumptions are made mainly in estimating the effects of the non-public Issuance on key financial indicators of the Company. They do not represent the Company's expectation of its results of operation and trend, and neither do they constitute a profit forecast. Investors shall not make any investment decision based on such estimates, and the Company disclaims any liability for any losses incurred by investors arising from any investment decisions made based on them. The relevant assumptions are as follows:

1. Assuming there will be no material changes in macroeconomic environment, industrial policies, industry development conditions and product market conditions;

2. Assuming the non-public issuance will be completed at the end of October 2020, which is only an estimate and does not constitute a commitment to the actual date of completion. Investors should not make investment decisions on this basis and the Company shall not be liable for losses incurred by investors who make investment decisions on this basis. It is subject to the actual date of completion following the approval from CSRC for the Issuance;

3. Assuming the number of shares to be issued under the non-public issuance is 137,795,275 shares, and the total amount of proceeds is RMB700 million, without taking into account the issuance costs. The above figures are just an estimation, and are only used for measuring the impact of the issuance on the Company's earnings per share. Such figures do not represent the Company's judgment on the number of shares to be issued and the total amount of proceeds, which is subject to the approval by the CSRC;

4. Assuming that the profit of the Company attributable to the owner of parent company and net profit of the Company attributable to the owner of parent company after deduction of non-recurring items for 2020 shall fall within one of the following three scenarios:

   (1) The profit of the Company attributable to the owner of parent company and net profit of the Company attributable to the owner of parent company after deduction of non-recurring items of the Company for 2020 decrease by 10% compared with the those audited ones of 2019;

   (2) The profit of the Company attributable to the owner of parent company and net profit of the Company attributable to the owner of parent company after deduction of non-recurring items for 2020 remain at the same level as those audited ones of 2019; and

   (3) The profit of the Company attributable to the owner of parent company and net profit of the Company attributable to owners of the parent company after deduction of non-recurring items of the Company for 2020 increase by 10% compared with those audited ones of 2019;

5. In estimating the equity attributable to the owner of parent company under the non-public issuance, factors other than estimated net profits and proceeds from the non-public issuance for 2020 or the impact of profit distribution are not taken into consideration;

6. The impact on the Company's production and operation after receiving proceeds from the issuance is not taken into consideration;

7. In estimating the total share capital at the end of the period and calculating the earnings per share upon the completion of the non-public issuance, only the impact of the non-public issuance on the total share capital is considered, and other possible equity changes that may occur in 2020 are not taken into consideration;

8. Earnings per share and weighted average return on equity were calculated based on Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision).

(II) Analysis of the impact of dilution of current returns by the Issuance on key financial indicators

Based on the aforesaid assumptions, the impact of the non-public issuance on key financial indicators of the Company is as follows:

Item	**2019/ 31 December 2019**	**2020/ 31 December 2020 (without taking into account the issuance)**	**2020/ 31 December 2020 (taking into account the issuance)**
Total share capital at the end of the period *(in ten thousand shares)*	98,585.00	98,585.00	128,160.50
Total proceeds from the issuance *(in RMB ten thousand)*	–	–	70,000.00
Equity attributable to the owner of parent company as at the beginning of the period *(in RMB ten thousand)*	400,708.17	407,000.54	407,000.54

Item	2019/ 31 December 2019	2020/ 31 December 2020 (without taking into account the issuance)	2020/ 31 December 2020 (taking into account the issuance)
Scenario 1: assuming that net profit attributable to the owner of parent company and net profit attributable to the owner of parent company after deduction of non-recurring items for 2020 decrease by 10% compared with those audited ones of 2019			
Net profit attributable to the owner of parent company *(in RMB ten thousand)*	6,147.54	5,532.79	5,532.79
Net profit attributable to the owner of parent company after deduction of non-recurring items *(in RMB ten thousand)*	-25,125.93	-27,638.52	-27,638.52
Basic earnings per share *(RMB)*	0.0624	0.0561	0.0534
Basic earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2804	-0.2670
Diluted earnings per share *(RMB)*	0.0624	0.0561	0.0534
Diluted earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2804	-0.2670
Weighted average return on equity	1.52%	1.35%	1.31%
Weighted average return on equity after deduction of non-recurring items	-6.22%	-6.74%	-6.56%
Scenario 2: assuming that net profit attributable to the owner of parent company and net profit attributable to the owner of parent company after deduction of non-recurring items for 2020 remain at the same level as those audited ones of 2019			
Net profit attributable to the owner of parent company *(in RMB ten thousand)*	6,147.54	6,147.54	6,147.54
Net profit attributable to the owner of parent company after deduction of non-recurring items *(in RMB ten thousand)*	-25,125.93	-25,125.93	-25,125.93
Basic earnings per share *(RMB)*	0.0624	0.0624	0.0594
Basic earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2549	-0.2427
Diluted earnings per share *(RMB)*	0.0624	0.0624	0.0594
Diluted earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2549	-0.2427
Weighted average return on equity	1.52%	1.50%	1.46%
Weighted average return on equity after deduction of non-recurring items	-6.22%	-6.13%	-5.96%

Item	**2019/ 31 December 2019**	**2020/ 31 December 2020 (without taking into account the issuance)**	**2020/ 31 December 2020 (taking into account the issuance)**
Scenario 3: assuming that net profit attributable to the owner of parent company and net profit attributable to the owner of parent company after deduction of non-recurring for 2020 increase by 10% compared with those audited ones of 2019			
Net profit attributable to the owner of parent company *(in RMB ten thousand)*	6,147.54	6,762.30	6,762.30
Net profit attributable to the owner of parent company after deduction of non-recurring items *(in RMB ten thousand)*	-25,125.93	-22,613.33	-22,613.33
Basic earnings per share *(RMB)*	0.0624	0.0686	0.0653
Basic earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2294	-0.2185
Diluted earnings per share *(RMB)*	0.0624	0.0686	0.0653
Diluted earnings per share after deduction of non-recurring items *(RMB)*	-0.2549	-0.2294	-0.2185
Weighted average return on equity	1.52%	1.65%	1.60%
Weighted average return on equity after deduction of non-recurring items	-6.22%	-5.51%	-5.36%

Note: The numbers in the table above are prepared using PRC GAAP. The "net profit attributable to the owner of parent company" and the "net profit attributable to the owner of parent company after deduction of non-recurring items" for the year ending 31 December 2020 referred to in the table above constitute profit forecast under Rule 10 of the Takeovers Code. Inclusion of such information in this announcement is required under relevant laws, rules and/or regulations in the PRC. Shareholders and other investors should note that such information has not been prepared to a standard required under Rule 10 of the Takeovers Code and has not been reported on in accordance with Rule 10. Therefore, the Relevant Information should not be relied upon as a forecast of any future profitability or other financial position of the Company. Shareholders and other investors should exercise caution when reading and interpreting such information and when assessing the merits or demerits of the non-public issuance and dealing or investing in the shares or other securities of the Company.

The Executive has granted a waiver to the Company from its obligation to comply with Rule 10 of the Takeovers Code in respect of the Relevant Information.

II. Risk warning for dilution of current returns due to the non-public issuance

The non-public issuance will increase the total share capital and net assets of the Company. If the Company's business and net profit fail to achieve a corresponding increase, there will be a risk of short-term diluted earnings per share and net return on equity after the issuance. Investors are hereby reminded the risk that the non-public issuance may dilute the immediate shareholder returns.

III. Necessity and rationality of the non-public issuance

For details of necessity and rationality of the non-public issuance, please refer to relevant information disclosed in "Section III Feasibility Analysis of the Board of Directors on the use of the proceeds" of this proposal.

IV. Measures adopted by the Company for the dilution of current returns caused by the non-public issuance

(I) Make efforts to enhance the market competitiveness of leading products, actively improve quality and efficiency, and transform and upgrade

Focusing on the development idea of "smart driving, collaborative innovation and improving efficiency", the Company will accelerate the upgrade of technology for core products to continue to lead the technological progress, and strengthen international management capabilities to consolidate and enhance its leading advantages in the industry based on product quality improvement and by taking market competitiveness improvement as the core, intellectualization of agricultural equipment as the starting point and technology collaborative innovation as the means. Meanwhile, it promotes the formation of a company development structure with "outstanding principal business, moderate diversification, solid foundation and efficient operation", and strives to become an outstanding global agricultural equipment manufacturing service provider.

1. Market-oriented approach to enhance the market competitiveness of leading products

For tractor products, the Company will take advantage of research and development, core manufacturing and scale procurement, maintain keen insight, and continuously optimize product design while accelerating the technical upgrading of products such as power shifting, CVT speed control, high-quality tractors and smart products deployment, to further improve product reliability and product cost performance, so as to gain customer trust and increase market share by providing high-quality products and efficient services.

For diesel engine products, the Company will continue to prepare well in product upgrading, technical reserve, quality improvement and market expansion, make overall plan to promote the development of the National Ⅲ common-rail diesel engine market, prepare for the conversion of the National IV series products, and develop new platform of the National V generation. Taking the upgrade of non-road emission standard from National III to National IV as an opportunity, the Company will comprehensively sort and benchmark products and improve performance indicators, increase market promotion efforts while preparing well in supporting the Company's mainframe products, to transform its in-depth understanding of the agricultural machinery industry into product matching advantages and increase the external matching share; meanwhile, it will reserve National V product technology to maintain the technological leading advantage.

2. *Implement the international special plan and strive for breakthroughs in the international market*

The first is to implement a special internationalization plan, accelerate breakthroughs in key overseas markets, promote the layout of key overseas markets, and explore the transformation from pure international trade to "international trade + overseas marketing + overseas manufacturing". The second is preparing for key overseas market expansion and accelerating the adaptation and quality improvement of export products based on the expansion of overseas key market pipelines and the in-depth development of market research in key regions. The third is to strengthen the construction of an international management talent team, establish an international training mechanism for professional and technical personnel, and improve the salary incentive mechanism for international marketing personnel. The fourth is to optimize the access of the international market, and actively participate in agricultural development cooperation projects through "going global by resources sharing" and "going global by forming alliances".

3. *Focus on key core technological breakthroughs, promote technological innovation and product upgrades*

The Company will actively focus on the changes in market demand, accelerate the R&D and application of large-scale, intelligent, environment-friendly and compound agricultural machinery, and actively extend the business development chain, promote the implementation of complete solutions, enhance the service capacity of the entire agricultural industry chain, and promote application of precision agriculture and smart agriculture. The first is to strengthen the integration and sharing of information systems, and step up efforts in the development and demonstration of high-end agricultural equipment and the upgrading of manufacturing technologies. The second is to promote the construction of a smart agricultural platform, optimize platform functions, and achieve rapid development of the platform by virtue of big data services and accelerate transformation and upgrading. The third is to focus on the development of smart agriculture, master information acquisition, intelligent decision-making and precise operation technology, and actively cultivate unmanned driving, new energy and other emerging equipment.

4. *Focus on improving quality and efficiency to maintain stable operation and healthy development*

The Company will strengthen cost control, and improve the profitability of the product value chain focusing on key links such as technology cost reduction, procurement cost reduction, labor cost reduction, production process cost control and financial cost reduction, by implementing a target cost management system, innovating cost control models and mechanisms, and refining the target of cost and expense reduction. Meanwhile, the Company will firmly establish the red line awareness and bottom line thinking, enhance its risk prevention and control capabilities and strengthen the risk early warning mechanism, to build a major risk prevention bottom line, reduce the impact of various risk events on the Company's operation, and achieve stable and orderly development of the Company.

(II) Strengthen the management of proceeds to ensure the rational and standardized use of proceeds

In order to enhance the management and standardize the use of the proceeds and ensure standardized use of the proceeds, the Company has formulated the Measures for the Administration of Proceeds in accordance with the Company Law, the Securities Law, Rules governing the Listing of Stocks on the Shanghai Stock Exchange, and Regulatory Requirements for Fund Raised by Listed Companies of Shanghai Stock Exchange(《上海證券交易所上市公司募集資金管理規定》). After the proceeds from the non-public issuance are in place, the Company will deposit the funds in a special account designated by the Board of Directors in accordance with the requirements of the system, and establish a three-party supervision system for the proceeds, which will be supervised jointly by sponsors, regulatory banks and the Company. The sponsors regularly check the use of the proceeds, while the Company regularly conducts internal and external audits on the proceeds, and cooperates with regulatory banks and sponsors to inspect and supervise the use of the proceeds.

(III) Continuously improve profit distribution policy and strengthen investor return mechanism

The Company will strictly implement the shareholder return plan reviewed and approved by the shareholders' meeting, strictly implement the cash dividend policy specified in the Articles of Association to maintain the continuity and stability of the profit distribution policy, and bring reasonable return to investors for overall interests of all shareholders and the sustainable development of the Company in accordance with the requirements of the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in Capital Market (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》), the Notice of the CSRC on the Further Implementation of Matters in Relation to Cash Dividend of Listed Companies, and the Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend of Listed Companies and based on the actual condition of the Company.

(IV) Improve the corporate governance structure of the Company and improve the efficiency of operations and management

The Company will constantly improve the corporate governance structure according to the requirements of laws and regulations and regulatory documents such as the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies, to ensure the standardized operation and efficient execution in such aspects as corporate governance structure, decision-making mechanism, organizational form and decision-making process, and achieve scientific decision-making and standardized operation. The Company will ensure that independent directors can seriously perform their duties to safeguard the Company's overall interests, especially the legitimate rights and interests of small and medium shareholders, and provide institutional guarantee for its development.

Meanwhile, the Company will further improve the level of operation and management, strengthen internal control, and give full play to the effectiveness of corporate control. It will promote comprehensive budget management, strengthen cost management, strengthen budget execution supervision, and improve operating and management efficiency and control operating and management risks based on strict control of expenses.

V. Undertakings of Controlling Shareholders, Actual controller, Directors and Senior Management

(I) Undertakings of directors and senior management

The directors and senior management of the Company will perform their duties faithfully and diligently, and safeguard the legal rights and interests of the Company and all shareholders. In accordance with relevant regulations, the Company makes the following commitments to ensure that its measures to make up for returns can be effectively fulfilled:

"1. I undertake that I will not direct benefits to other units or individuals at nil consideration or on unfair terms, and will not harm the Company's interests in any other manner;

2. I undertake that I will act to restrain duty-related spending;

3. I undertake that I will not utilise the assets of the Company for any investment or consumption irrelevant with the performance of my duties;

4. the remuneration system formulated by the Board or the Remuneration Committee will be correlated to the implementation of the Company's measures to make up for returns;

5. in the event of the implementation of any share option incentive scheme by the Company in future, the conditions for exercising options under such scheme proposed to be published will be correlated to the implementation of the Company's measures to make up for returns;

6. during the period from the date on which such undertaking is given to the completion of the non-public issuance of shares, supplementary undertakings will be given in accordance with new regulations announced by the CSRC concerning measures to make up for returns and related undertakings, if such regulations are announced by the CSRC and the foregoing undertakings fall short of meeting such new regulations."

(II) Undertakings of controlling shareholder and actual controller

Pursuant to relevant provision such as the "Guidance Opinion on Matters Pertaining to dilution of return for the Current Period Resulting from Initial Offering and Refinancing or Material Asset Reorganisation" (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》), YTO Group Corporation and SINOMACH, the controlling shareholder and the actual controller of the Company, make the following undertakings to ensure the return remedial measures of the Company can be effectively performed:

"We undertake that we will not act beyond our powers to interfere with the Company's operating and management activities or infringe upon the Company's interests, will effectively promote the Company's effective implementation of the immediate return remedial measures according to the responsibility and authority, and effectively fulfill our commitments and are willing to compensate the Company or investors in accordance with the law if there is any loss incurred due to breach of such undertakings".

SECTION VII OTHER DISCLOSURES

I. Statement of the Board on whether there are other equity financing plans in the next twelve months apart from this issuance

In addition to this issuance, depending on the progress of the investment projects planned and implemented and after considering factors such as its capital structure and financing requirements, the Company will not rule out the possibility of arranging other equity financing plans within the next 12 months. If the Company arranges equity financing based on the requirements of business development and assets and liabilities in the future, it will perform the review procedures and information disclosure obligations in accordance with relevant laws and regulations.

The Board of Directors of First Tractor Company Limited
7 July 2020

FIRST TRACTOR COMPANY LIMITED
FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS FROM THE NON-PUBLIC ISSUANCE OF A SHARES IN 2020
(REVISED)

I. PLAN OF THE USE OF PROCEEDS

The total proceeds raised from the non-public issuance amounted to RMB700,000,000, all of which were proposed to be used to supplement the working capital after deducting the relevant issue costs.

II. ANALYSIS ON NECESSITY OF THE USE OF PROCEEDS

(I) Meeting the relevant requirements of national funding

Pursuant to the provisions of the Provisional Regulations on Strengthening the Financial Information Management of Enterprises (《加強企業財務信息管理暫行規定》), Opinions on the Issues Concerning the Financial Treatment of State Direct Investment and Investment Subsidies Obtained by Enterprises (《關於企業取得國家直接投資和投資補助財務處理問題的意見》) and other relevant documents, the national funding obtained by YTO Group Corporation shall be transferred to the equity investment in First Tractor by YTO Group Corporation as soon as practicable according to the actual use situation, so as to meet the relevant requirements of national funding.

(II) Optimising the capital structure and improving the risk resistance capacity

The table below sets out the comparison of the gearing ratio, current ratio and quick ratio between the Company and the comparable listed companies in agricultural machinery industry as of 31 March 2020:

	31 March 2020			31 December 2019			31 December 2018			31 December 2017		
Stock abbreviation	**gearing ratio/%**	**current ratio**	**quick ratio**	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio	gearing ratio/%	current ratio	quick ratio
Gifore (吉峰科技)	**87.00**	**0.98**	**0.62**	83.65	0.98	0.66	78.57	1.05	0.75	80.47	1.04	0.67
Xinjiang Machinery Research Institute (新研股份)	**41.44**	**1.12**	**0.88**	42.09	1.15	0.93	33.09	1.66	1.40	29.38	1.86	1.53
Thinker Agricultural Machinery (星光農機)	**33.71**	**2.08**	**1.72**	35.19	1.83	1.54	32.06	1.83	1.42	22.64	2.55	2.19
Shandong Hongyu Agricultural Machinery (弘宇股份)	**17.18**	**4.49**	**3.39**	15.66	4.90	3.79	16.95	4.46	3.27	16.44	4.44	3.31
Shandong Swan Cotton Industrial Machinery (天鵝股份)	**32.40**	**2.53**	**1.58**	37.33	1.98	1.29	32.93	2.11	1.56	23.97	3.56	2.82
Median	**33.71**	**2.08**	**1.58**	37.33	1.83	1.29	32.93	1.83	1.42	23.97	2.55	2.19
Average	**42.34**	**2.24**	**1.64**	42.79	2.17	1.64	38.72	2.22	1.68	34.58	2.69	2.10
First Tractor	**57.49**	**1.06**	**0.90**	58.86	1.02	0.86	64.57	1.05	0.85	61.43	1.09	0.94

Note: The financial data as at 31 March 2020 have not been audited, and the financial data for 2017 to 2019 have been audited.

As of 31 March 2020, the gearing ratio, current ratio and quick ratio of the Company was 57.49%, 1.06 and 0.90, respectively, while the average gearing ratio, current ratio and quick ratio of the comparable companies in the industry was 42.34%, 2.24 and 1.64, respectively during the same period. As compared with the peers, the relatively higher gearing ratio and the relatively lower asset liquidity increase the Company's potential financial risks and is not conducive to the Company's financing. By reducing its gearing ratio, the non-public issuance will help the Company optimise its capital structure and reduce financial risks, thereby improving the Company's capacity to resist risks and the ability to obtain future financing.

(III) Reducing financial expenses and improving financial stability

The agricultural machinery industry in which the Company is engaged is a capital and technology intensive industry, and there is a large demand for capital investment. The Company's current interest-bearing liabilities level remains relatively high overall. Particulars of the interest-bearing liabilities of the Company for 2018, 2019 and as at 31 March 2020 are as follows:

Unit: RMB100 million

Items	**31 March 2020**	31 December 2019	31 December 2018
Short-term loans	**13.28**	14.20	27.78
Non-current liabilities due within one year	**5.56**	6.49	0.77
Long-term loans	**1.00**	1.39	8.68
Subtotal	**19.84**	22.08	37.23
Total liabilities	**67.12**	68.45	84.85

Note: The above data are on a consolidated basis, the data as at the end of the first quarter of 2020 have not been audited, and the data as at the end of 2019 and 2018 have been audited.

The proportion of the current liabilities in the liabilities of the Company was relatively high. Short-term loans and other current liabilities were vulnerable to fluctuations as affected by the macroeconomic environment, the national credit and financial policy, industry development situation, enterprise fundamentals and other factors, thus increasing the liquidity risk of the Company. The higher interest-bearing liabilities resulted in the interest costs of the Company maintaining a higher level for a long time. The interest costs of the financial expenses of the Company for 2019 amounted to RMB138 million. By supplementing the working capital, the non-public issuance will effectively alleviate capital pressure of the Company, decrease the scale of short-term liabilities, reduce interest costs and improve financial stability.

(IV) Funds required for the future operation and development

Funds are required for the future development strategy of the Company. On the basis of its own operation and development, it's necessary for the Company to reasonably apply multiple financing instruments, such as refinancing in the capital market of A shares, to meet the needs of industry upgrading and business development, increase operating liquidity and reduce financial expenses, and to use the proceeds in a more effective manner to expand the Company's production, sales, research and development, accelerate the advancement of agricultural mechanization and the upgrading of agricultural machinery equipment industry and promote rural revitalization and agricultural modernization in China.

(V) Boosting market confidence with a controlling shareholder's participation in the subscription

As the controlling shareholder, YTO Group Corporation's participation in the subscription in cash for the shares issued by the non-public issuance fully demonstrates its support for the Company's development and its confidence in the Company's future prospects, which are conducive to maintaining the stability of the stock market, protecting the interests of all shareholders and establishing a positive market image for the Company.

III. FEASIBILITY ANALYSIS ON THE USE OF PROCEEDS

(I) The use of proceeds raised from the non-public issuance complies with the requirements of laws and regulations

The use of proceeds raised from the non-public issuance of the Company complies with the relevant policies and laws and regulations, which is feasible. The gearing ratio of the Company will decrease after the receipt of the proceeds raised from the non-public issuance, which is conducive to improving the capital structure of the Company, lowering the financial risk and improving the Company's ability to continue as a going concern, thereby laying a sound foundation for the following production and development.

(II) The Issuer of the non-public issuance carries out standardised governance and sound internal control

The Company has established the modern corporation system by regarding the corporate governance structure as the core and formulated a standardised corporate governance system which complies with the governance requirements for listed companies and a sound internal control process by its continuous improvement and perfection. The Company has established Proceeds Management System (《募集資金管理制度》) in respect of proceeds management according to the regulatory requirement, which aims to set out detailed provisions for deposit, use, investment movement, review and supervision of the proceeds. After the receipt of the proceeds raised from the non-public issuance, the board of directors and the supervisory committee of the Company will continuously supervise the deposit and use of the proceeds by the Company so as to guarantee that the proceeds will be used in a standard and reasonable way, which will prevent the risk from the use of proceeds.

IV. IMPACT OF THE ISSUANCE ON THE OPERATING POSITION AND FINANCIAL POSITION OF THE COMPANY

(I) Impact of the issuance on the operating position of the Company

All proceeds raised from the non-public issuance will be used to supplement the working capital after deducting the relevant issue costs, which is conducive to further improving the comprehensive strength of the Company, and also conducive to optimising the capital structure of the Company and lowering the financial risk, as such, being further in line with the industry trend and the achievement of sustainable development of the Company for a long time.

After the proceeds were received and put into use, the capital strength of the Company will be enhanced substantially and the sustainable development will be more stable. The issuance is in the interests of the Company and all shareholders.

(II) Impact of the issuance on the financial position of the Company

Assuming taking no account of the issue costs and other influencing factors, it is expected that the gearing ratio of the Company (on a consolidated basis) will decrease from 57.49% to 54.24% by supplementing working capital with the proceeds raised from the non-public issuance of shares as calculated with 31 March 2020 as the benchmark date. The non-public issuance can effectively optimise the Company's capital structure, improve the Company's financial position, improve the cash flows of the future financing activities of the Company, reduce the financial expenses and be conducive to improving the Company's risk resistance capacity and its ability to continue as a going concern, thereby further intensifying the ability to give continuous returns to the shareholders of the Company and meeting the target of maximizing the interests of its shareholders.

The Board of Directors of First Tractor Company Limited
7 July 2020

FIRST TRACTOR COMPANY LIMITED
EXPLANATION THAT THE COMPANY IS NOT REQUIRED TO PREPARE THE REPORT ON THE USE OF THE PREVIOUS PROCEEDS

Upon approval of China Securities Regulatory Commission through the "Approval Regarding Initial Public Offer of Shares of First Tractor Company Limited" (Zheng Jian Xu Ke [2012] No. 736) (《關於核准第一拖拉機股份有限公司首次公開發行股票的批覆》(證監許可[2012]736號)), First Tractor Company Limited (the "Company") was approved to publicly issue 150,000,000 RMB ordinary shares (A shares), with a nominal value of RMB1 per share and the issue price of RMB5.40 per share. The total proceeds amounted to RMB810,000,000 and net proceeds amounted to RMB773,733,100 after deducting various issuance costs. The aforesaid proceeds were verified by the Tian Zhi Jing QJ [2012] No.T25 capital verification report issued by Baker Tilly China Certified Public Accountants (Special General Partnership).

According to the relevant provisions of the Regulations on Reporting the Use of Previous Proceeds (Zheng Jian Fa Xing Zi [2007] No. 500) (《關於前次募集資金使用情況報告的規定》(證監發行字[2007]500號)) issued by the China Securities Regulatory Commission, "If a listed company applied for the issuance of securities and less than five fiscal years were passed from the time of receipt of the previous proceeds, the Board of Directors shall prepare a report on the use of the previous proceeds in accordance with these regulations, explain in detail the actual use of the latest proceeds raised (domestic or overseas) as at the closing date of latest audited financial report set out in the issuance application documents, and submit the resolution concerning the report on the use of the previous proceeds to the General Meeting for approval".

As the Company has not raised funds through share allotment, additional issuance, convertible corporate bonds or other types of securities as stipulated by the Administrative Measures on the Securities Issue of Listed Company in the past five fiscal years, and more than five fiscal years have passed from the time of receipt of the previous proceeds. Therefore, the Company is exempt from the requirement to prepare a report on the use of proceeds from the previous fund raising for the non-public issuance of A shares in 2020.

The Board of Directors
First Tractor Company Limited

FIRST TRACTOR COMPANY LIMITED SHAREHOLDERS' RETURN PLAN FOR THE FORTHCOMING THREE YEARS (2020-2022)

In order to improve and enhance a scientific, sustainable and stable dividend distribution mechanism and to protect the legitimate rights and interests of minority investors, the First Tractor Company Limited* (the "Company") formulates the Shareholders' Return Plan for the Forthcoming Three Years (2020–2022) in accordance with relevant regulations of the Company Law of the People's Republic of China, the Notice on Matters in Relation to Further Implementing Cash Dividend Distribution of Listed Companies (Zheng Jian Fa [2012] No.37) (《關於進一步落實上市公司現金分紅有關事項的通知》(證監發〔2012〕37號)), the Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend Distribution of Listed Companies (SFC Announcement [2012] No.43) (《上市公司監管指引第3號–上市公司現金分紅》(證監會公告〔2012〕43號)) and the Guidelines of the Shanghai Stock Exchange on Cash Dividends Distribution of Listed Companies (《上海證券交易所上市公司現金分紅指引》) issued by CSRC and the Articles of Association, and with reference to the actual situation including the development plan and profitability of the Company.

I. BASIC PRINCIPLES OF FORMULATING THE SHAREHOLDERS' RETURN PLAN

The plan is formulated in combination of the development plan, profitability, shareholders' returns, social capital costs and external financing environment and other factors of the Company, taking full account of the profitability scale, cash flows condition, development stage, capital demand for projects investment, bank credit environment and other circumstances of the Company in the forthcoming three years and on the basis of balancing the reasonable investment returns of shareholders and the long-term development of the Company.

II. PRINCIPLES OF RETURN PLAN FOR THE FORTHCOMING THREE YEARS

The Company implements the sustainable and stable profit distribution policy. Regarding profit distribution of the Company, reasonable investment returns to investors shall be taken into comprehensive account and the sustainable development of the Company shall be given consideration. Under the premise of satisfying the conditions of the profit distribution of the Company and meeting the needs of the normal operation of the Company and medium and long-term development strategy, the Company gives priority to the cash dividend and emphasizes the reasonable investment returns to investors.

III. DETAILS OF THE SHAREHOLDERS' RETURN PLAN FOR THE FORTHCOMING THREE YEARS

(I) The Company actively adopts to distribute its dividends in cash or in shares or distribute the interests to shareholders in other ways permitted by the laws and regulations. Where conditions for cash dividend distribution are ready, profit distribution shall be carried out in the form of cash dividend distribution. Where profit distribution is carried out in the form of stock dividends, comprehensive consideration shall be given to factors such as company growth performance and dilution of net assets per share.

(II) Profit distribution policy of the Company

1. The Company implements the sustainable and stable profit distribution policy. Regarding profit distribution of the Company, reasonable investment returns to investors shall be emphasized and that the sustainable development of the Company shall be given consideration;

2. Profit distribution of the Company can be in the form of cash, shares, a combination of cash and shares. The Company gives priority to the profit distribution of cash dividend. In cash dividend distribution, the Company shall satisfy all of the following conditions:

   (1) The Company's distributable net profits (i.e. net profits of the Company after making up for losses and setting aside reserves) realized in the year or in the interim year shall be positive, and the accumulative distributable profits of the Company shall be positive and the Company shall have a sufficient cash flow at the same time;

   (2) The auditing firm issues a standard unqualified audit report on the financial report of the Company for the year and the interim year;

   (3) The implementation of cash dividend will not have an influence on the ongoing continuous operation of the Company;

   (4) There are no significant investment plan or significant cash expenses and other matters of the Company (excluding projects of raise of proceeds). Significant investment plan or significant cash expenses refer to the accumulative expenses from the proposed external investment, assets acquisition or other significant expenses of the Company within the next 12 months reaching or exceeding 30% of the audited net assets of the Company for the latest financial period.

3. When the increase in the net profits for the year exceeds 20% as compared with that of the previous year, a stock dividend of profit distribution plan can be raised by the Board of Directors of the Company;

4. Under certain conditions, the Board of Directors shall distribute interim stock dividend or dividend upon the authorization of the General Meeting;

5. The profits distributed in cash annually of the Company for the last three years shall not lower than 25% of the distributable profits for the year.

The Board of Directors of the Company shall take various factors as a whole into consideration, including the characteristics of the industry where it operates, the stage of development, its own operation model, the level of profitability and whether there is significant capital expenditure arrangement, to classify the followings and propose a differentiated cash dividend policy under the procedures stipulated in the Articles of Association:

(1) If the Company is in a mature stage of development with no significant capital expenditure arrangement, in profit distribution, the minimum percentage of cash dividend profit distribution in the profit distribution shall be 80%;

(2) If the Company is in a mature stage of development with significant capital expenditure arrangement, in profit distribution, the minimum percentage of cash dividend profit distribution in the profit distribution shall be 40%;

(3) If the Company is in a growing stage of development with significant capital expenditure arrangement, in profit distribution, the minimum percentage of cash dividend profit distribution in the profit distribution shall be 20%.

If it is difficult to differentiate the development stage of the Company but with significant capital expenditure arrangement, it can be dealt with in accordance with the aforementioned requirements.

IV. DECISION-MAKING MECHANISM FOR THE SHAREHOLDERS' RETURN PLAN

(I) The Board of Directors of the Company shall fully take account of the requirements and wills of the shareholders and attach importance to the opinions of independent directors and the supervisory committee under the premise of detailed analysis on the industrial development trend, the Company's production and operation situations, future investment plan, external financing environment and other factors, and formulate the annual profit distribution plan of the Company within three months following the end of each fiscal year and submit it for the consideration at the general meeting of the Company in accordance with the profit distribution policy stipulated in the Articles of Association.

(II) The Company shall announce the opinions of independent directors when issuing the resolution announcement of the Board of Directors or the notice of convening relevant general meetings. Before the profit distribution plan are considered at the General Meeting, the Company shall communicate with the shareholders, especially the minority shareholders, through various channels, such that the opinions and requests of the minority shareholders can be fully heard.

(III) The profit distribution plan is subject to the consideration and approval at the general meeting of the Company.

(IV) After the resolution on the profit distribution plans is made, the Board of Directors of the Company shall, within two months after the General Meeting, complete the distribution of the dividend (or shares).

(V) In the forthcoming three years, in case of force majeure such as war, natural disasters and epidemics, or changes in the external operating environment of the Company that have a material impact on the production and operation of the Company, or major changes in the Company's own operating position, the Company may adjust the profit distribution policy.

V. RELEVANT MATTERS WHICH ARE NOT COVERED UNDER THE PLAN

Relevant matters which are not covered under the plan shall be implemented in accordance with the relevant laws and regulations, regulatory documents and the Articles of Association. The Board of Directors of the Company shall be responsible for the explanation of the plan which shall be implemented from the date of consideration and approval at the general meeting of the Company.

The Board of Directors
First Tractor Company Limited

1. FINANCIAL INFORMATION OF THE GROUP

I. Financial Summary

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019, and for the three months ended 31 March 2019 and 31 March 2020. The figures for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are extracted from the annual report of the Company for the year ended 31 December 2017, 31 December 2018 and 31 December 2019, and the figures for the three months ended 31 March 2019 and 31 March 2020 are extracted from the first quarterly report for the three months ended 31 March 2019 and 31 March 2020.

The auditors' reports issued by the auditors of the Company, Da Hua Certified Public Accountants, in respect of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

	(Unaudited)		**(Audited)**		
	For the three months ended		**For the year ended 31 December**		
	31 March 2019	**31 March 2020**	**2019**	**2018**	**2017**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
I. Total operating revenue	2,141,158,384.59	2,097,315,992.71	5,830,175,119.64	5,681,547,536.68	7,357,944,190.89
II. Total profits	45,038,176.40	165,021,272.04	182,623,838.91	-1,314,750,256.02	56,056,354.74
Less: income tax expenses	4,394,700.81	-19,466,126.47	56,110,713.49	50,221,900.25	18,345,015.80
III. Net profits	40,643,475.59	184,487,398.51	126,513,125.42	-1,364,972,156.27	37,711,338.94
(I) Classified according to operating continuity					
1. Net (loss)/profit from continuing operations	40,643,475.59	184,487,398.51	126,513,125.42	-1,364,972,156.27	40,662,147.32
2. Net profit from discontinuing operations	–	–	–	–	-2,950,808.38
(II) Classified according to attribution of the ownership					
1. Net (loss)/profits attributable to owners of the company	44,955,415.92	198,494,578.64	61,475,427.17	-1,300,108,773.92	56,514,222.97
2. Non-controlling interests	-4,311,940.33	-14,007,180.13	65,037,698.25	-64,863,382.35	-18,802,884.03

	(Unaudited) For the three months ended 31 March 2019	31 March 2020	(Audited) For the year ended 31 December 2019	2018	2017
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
IV. Other net comprehensive incomes after-tax	-5,387,769.09	-5,036,922.56	2,282,095.72	-509,964.75	-13,936,840.55
Other net after-tax comprehensive income attributable to the owner of the parent company	-5,248,675.79	-6,851,620.45	2,665,396.05	-595,491.68	-13,582,334.26
(I) Other comprehensive incomes that cannot be reclassified through profit or loss	–	–	–	–	–
(II) Other comprehensive incomes that will be re-classified into profits or losses	-5,248,675.79	-6,851,620.45	2,665,396.05	-595,491.68	-13,582,334.26
Including: Changes in the fair value of available-for-sale financial assets	–	–	–	–	-14,361,213.55
Converted difference in foreign currency statements for foreign currency	-5,248,675.79	-6,851,620.45	2,665,396.05	-595,491.68	778,879.29
Net other comprehensive incomes after-tax attributable to minority shareholders	-139,093.30	1,814,697.89	-383,300.33	85,526.93	-354,506.29
IV. Total comprehensive incomes	35,255,706.50	179,450,475.95	128,795,221.14	-1,365,482,121.02	23,774,498.39
Total comprehensive incomes attributable to owners of the company	39,706,740.13	191,642,958.19	64,140,823.22	-1,300,704,265.60	42,931,888.71
Total comprehensive incomes attributable to non-controlling interests	-4,451,033.63	-12,192,482.24	64,654,397.92	-64,777,855.42	-19,157,390.32
V. Earnings per share					
(I) Basic earnings per share	0.0456	0.2013	0.0624	-1.3188	0.0572
(II) Diluted earnings per share	0.0456	0.2013	0.0624	-1.3188	0.0572
VI. Amount of cash dividend (inclusive of tax)	0	0	0	0	17,868,700
Dividends per share	0	0	0	0	0.057

Save as disclosed above, there was no other item of any income or expense which was material in (a) the audited consolidated financial statements of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019 and (b) the first quarterly reports for the three months ended 31 March 2019 and 31 March 2020.

II. Consolidated Financial Statements

The Company is required to set out or refer to in this circular the consolidated statements of profit or loss, the consolidated statements of financial position, the consolidated statements of cash flows, and any other primary statements as shown in the (i) audited consolidated financial statements of the Group for the year ended 31 December 2017, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the "**2017 Financial Statements**"); (ii) audited consolidated financial statements of the Group for the year ended 31 December 2018, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the "**2018 Financial Statements**"); (iii) audited consolidated financial statements of the Group for the year ended 31 December 2019, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the "**2019 Financial Statements**"); and (iv) the first quarterly report for the three months ended 31 March 2020, together with significant accounting policies and any points from the notes to the relevant published accounts which are of major relevance to an appreciation of the above financial information (the "**2020 First Quarterly Report**").

The 2017 Financial Statements are set out from page 115 to 339 in the 2017 Annual Report which was published on 25 April 2018. The 2017 Annual Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.first-tractor.com.cn) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/ltn201804251552.pdf

The 2018 Financial Statements are set out from page 113 to 323 in the 2018 Annual Report which was published on 25 April 2019. The 2018 Annual Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.first-tractor.com.cn) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904251324.pdf

The 2019 Financial Statements are set out from page 117 to 359 in the 2019 Annual Report which was published on 28 April 2020. The 2019 Annual Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.first-tractor.com.cn) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042801040.pdf

The 2020 First Quarterly Report published on 23 April 2020 is available on the website of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.first-tractor.com.cn) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042302584.pdf

The above information is incorporated by reference into this circular and form part of this circular.

III. Analysis and explanation on changes in accounting policies

(1) Impacts of New Revenue Standards on the Company

Since 1 January 2018, the Group has implemented the revised "Accounting Standards for Business Enterprises No. 14 – Revenue" (the "New Revenue Standards") issued by the Ministry of Finance on 5 July 2017. The standard stipulates that the enterprise that implements this standard should adjust the retained earnings and other items in the financial statements for the first time of the implementation of the standard based on the cumulative number of impacts, and the information for the comparable period will not be adjusted. Based on the assessment of the Company, the Company's implementation of the new revenue standard does not have a significant impact on the Company's existing revenue recognition, thus the Company does not need to adjust the retained earnings at the beginning of the year but this would affect the presentation of the financial statements.

(2) Impacts of New Financial Instruments Standards on the Company

Since 1 January 2018, the Group has implemented the revised "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedging Accounting", "Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation" (the "New Financial Instruments Standards") issued by the Ministry of Finance in March 2017. The standard stipulates that on the implementation date of the standard, the enterprise shall classify and measure the financial instruments according to the regulations. If the data of the previous comparative financial statements are inconsistent with the requirements of this standard, no adjustment is needed. The difference between the original book value of the financial instrument and the new book value at the date of implementation of the standard is included in the retained earnings, other comprehensive income and other items in the financial statements as at 1 January 2018. The items previously accounted for in the available-for-sale financial assets of the Group are directly designated as financial assets measured at fair value through profit or loss. This accounting change resulted in an increase of RMB591,510,084.65 in owners' equity at the beginning of the period, of which the undistributed profits at the beginning of the period increased by RMB507,215,011.34, the surplus reserve increased by RMB3,658,821.49, and the minority interests at the beginning of the period increased by RMB80,636,251.82. Since the implementation of the New Financial Instruments Standards did not make any adjustment to the 2017 annual report, the income statement for the financial year of 2017 was not affected, but the annual profits for the financial year of 2018 decreased by RMB845,942.13 and the annual profits for the financial year of 2019 increased by RMB88,744,783.48.

2. INDEBTEDNESS

As at 30 April 2020:

(A) the total amount of the outstanding loans of Company was RMB1,759,916,677.17, including credit loans of RMB1,611,828,677.17, guaranteed loans of RMB78,088,000.00 and secured loans of RMB70,000,000.00;

(B) the outstanding amount of notes payable by the Company was RMB801,495,939.84, which was secured by the Company's bank deposits of RMB46,814,834.59 and its bills receivables; and

(C) the outstanding amount of guarantee of the Company was RMB614,454,911.50, including the guarantee provided to the Company's subsidiaries in the amount of RMB258,155,000 and to the external parties in the amount of RMB356,299,911.50.

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, as at 30 April 2020, the Group had no 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 other material contingent liabilities.

3. MATERIAL CHANGE

The Directors confirm that, save and except for, (i) the bankruptcy proceeding of the Group's wholly owned subsidiary with the Luoyang Intermediate People's Court disclosed in the annual report for the year ended 31 December 2019 published on 28 April 2020; and (ii) the loss on impairment on credit and impairment on assets as disclosed in the Group's unaudited quarterly result for the three months ended 31 March 2020 published on 23 April 2020, there has been no material change in the financial or trading position or outlook of the Group since 31 December 2019, being the date which the latest published audited consolidated financial statements of the Group were made up up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The circular also includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to YTO Group Corporation and parties acting in concert with it), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statements in this circular misleading.

The directors of YTO Group Corporation jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Company), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statements in this circular misleading.

2. MARKET PRICE

The table below shows the closing prices of the H Shares on the Stock Exchange and the A Shares on the Shanghai Stock Exchange (i) on the last trading day of each of the six calendar months immediately preceding the date of the Announcement and up to the Latest Practicable Date; (ii) on the last trading day immediately preceding the date of the Announcement; (iii) on the date of the Announcement; and (iv) on the Latest Practicable Date.

Date	**Closing price per H Share** *HK$*	**Closing price per A Share** *RMB*
31 October 2019	1.63	6.14
29 November 2019	1.63	5.90
31 December 2019	1.76	6.94
23 January 2020 *(being the last trading day of A Shares for January 2020)*	1.68	6.36
31 January 2020 *(being the last trading day of H Shares for January 2020)*	1.49	N/A
28 February 2020	1.58	6.09
31 March 2020	1.41	6.52
22 April 2020 *(the last trading day immediately preceding the date of the Announcement)*	1.45	6.50
23 April 2020 *(the date of the Announcement)*	1.49	6.80
29 April 2020 *(being the last trading day of H Shares for April 2020)*	1.71	7.15
30 April 2020 *(being the last trading day of A Shares for April 2020)*	N/A	7.04
29 May 2020	2.14	9.80
30 June 2020	1.85	9.24
3 July 2020 (*the Latest Practicable Date)*	2.07	9.89

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK$2.44 on 19 May 2020, and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$1.26 on 19 March 2020 and 23 March 2020.

During the Relevant Period, the highest closing price of the A Shares as quoted on the Shanghai Stock Exchange was RMB11.01 on 19 May 2020, and the lowest closing price of the A Shares as quoted on the Shanghai Stock Exchange was RMB5.29 on 4 February 2020.

3. SHARE CAPITAL OF THE COMPANY

The registered and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Proposed A Shares Issue are set out below:

As at the Latest Practicable Date:

	Number of Shares
A Shares	593,910,000
H Shares	391,940,000
Total	985,850,000

Immediately after completion of the Proposed A Shares Issue

	Number of Shares
A Shares	731,705,275
H Shares	391,940,000
Total	1,123,645,275

The A Shares to be issued under the Proposed A Shares Issue when issued and fully paid, shall rank *pari passu* in all aspects amongst themselves with the A Shares in issue at the time of the issuance of such A Shares including, in particular , as to dividends, voting rights and return of capital.

Since 31 December 2019 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

As at the Latest Practicable Date, the Company has no outstanding warrants, options or securities convertible into Shares.

4. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors, the Supervisors and chief executive of the Company or their respective associates has any interest or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporations (as defined under the Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Mr. Li Xiaoyu, Mr. Cai Jibo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, each being a Director, is also a director and employee of YTO Group Corporation, a controlling shareholder of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, (a) none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation) and (b) none of the Directors or Supervisors had entered into a service contract with the Company or any of its subsidiaries or associated companies (as defined under the Takeovers Code), which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

6. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the any member of the Group.

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

7. COMPETING INTERESTS

Mr. Li Xiaoyu, Mr. Cai Jibo, Mr. Li Hepeng, Mr. Xie Donggang and Mr. Zhou Honghai, each being a Director, is also a director and employee of YTO Group Corporation, a controlling shareholder of the Company.

As at the Latest Practicable Date, none of the Directors or the supervisors of the Company or their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or is likely to compete with the business of the Group as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Listing Rules.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (not being contract in the ordinary course of business of the Group) have been entered into by members of the Group within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date:

(a) A Shares Subscription Agreement;

(b) the wealth management product agreement entered into between the Company and Bank of Pingdingshan on 26 December 2018 in relation to the subscription of the "Golden Phoenix Wealth Management of Bank of Pingdingshan – 'Yingcheng Wealth' Institution-exclusive 2018 24th RMB-denominated Wealth Management Product (平頂山銀行金鳳凰理財––"鷹城財富"機構專屬2018年第24期人民幣理財產品)" issued by Bank of Pingdingshan and subscribed for by the Company in cash at RMB100,000,000 (equivalent to approximately HK$113,658,320);

(c) the wealth management product agreement entered into between the Company and Bank of Pingdingshan on 26 December 2018 in relation to the subscription of "Golden Phoenix Wealth Management of Bank of Pingdingshan – 'Yingcheng Wealth' Institution-exclusive 2018 25th RMB-denominated Wealth Management Product (平頂山銀行金鳳凰理財––"鷹城財富"機構專屬2018年第25期人民幣理財產品)" issued by Bank of Pingdingshan and subscribed for by the Company in cash at RMB150,000,000 (equivalent to approximately HK$170,487,481);

(d) the conditional agreement dated 11 October 2019 entered into between the Company and YTO Group Corporation, pursuant to which the Company agreed to sell and YTO Group Corporation agreed to purchase 100% equity interest in YTO (Xinjiang) Dongfanghong equipment Machinery Co., Ltd.* (一拖(新疆)東方紅裝備機械有限公司) for a consideration of approximately RMB184.13 million; and

(e) the conditional agreement dated 11 October 2019 entered into between the Luoyang Tractor Research Institute Co., Ltd.* (洛陽拖拉機研究所有限公司), a 51%-owned subsidiary of the Company, and YTO Group Corporation, pursuant to which Luoyang Tractor Research Institute Co., Ltd.* agreed to sell and YTO Group Corporation agreed to purchase 100% equity interest in Luoyang Xiyuan Vehicle and Power Inspection Institute Co., Ltd.* (洛陽西苑車輛與動力檢驗所有限公司) for a consideration of approximately RMB172.93 million.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, there is no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

11. EXPERT

The following is the qualification of the expert who have given its opinions or advices which are contained in this circular:

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

As at the Latest Practicable Date, the above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or opinion and reference to its name in the form and context in which they respectively appear.

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

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

12. ARRANGEMENT IN CONNECTION WITH THE PROPOSED A SHARES ISSUE

As at the Latest Practicable Date,

(a) save for the A Shares Subscription Agreement, no agreement, arrangement or understanding (including any compensation arrangement) exists between YTO Group Corporation or parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver;

(b) there was no benefit to be given to any Directors as compensation for loss of office or otherwise in connection with the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver;

(c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of, or otherwise connected with, the Proposed A Shares Issue, the Specific Mandate, and the Whitewash Waiver;

(d) there was no material contract entered into by YTO Group Corporation in which any Director has a material personal interest; and

(e) there was no agreement, arrangement or understanding pursuant to which the A Shares to be issued to YTO Group Corporation under the Proposed A Shares Issue would be transferred, charged or pledged to any other persons.

13. DISCLOSURE OF SHAREHOLDINGS AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

As at the Latest Practicable Date:

(a) YTO Group Corporation is holding 410,690,578 A Shares, representing approximately 41.66% of the total number of issued Shares;

(b) none of the directors of YTO Group Corporation was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options or derivatives in respect of the Shares;

(c) none of the persons acting in concert with YTO Group Corporation owned or controlled any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(d) none of YTO Group Corporation or parties acting in concert with it has received any irrevocable commitment from any person to vote for or against the resolutions to be proposed at the General Meeting and/or the Class Meetings to approve the Proposed A Shares Issue, the Whitewash Waiver, and/or the Specific Mandate;

(e) save for the A Shares Subscription Agreement and the transactions contemplated thereunder, none of YTO Group Corporation or parties acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;

(f) neither YTO Group Corporation nor any persons acting in concert with it had borrowed or lent any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(g) the Company had no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in YTO Group Corporation;

(h) none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in YTO Group Corporation;

(i) none of the Directors was interested in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(j) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert", or the Company's associates by virtue of classes (2), (3) or (4) of the definition of "associate" under the Takeovers Code;

(k) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company was owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by an adviser to the Company as specified in class (5) of "acting in concert" or class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal trader or exempt fund manager;

(l) no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(m) there were no shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company which the Company or the Directors has/have borrowed or lent or sold;

(n) none of YTO Group Corporation or parties acting in concert with it has entered into any understanding, agreement or arrangement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(o) none of the Company, its subsidiaries or associated companies has entered into any understanding, agreement, or arrangement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(p) save for the aggregate subscription price payable under the A Shares Subscription Agreement, none of YTO Group Corporation or parties acting in concert with it has paid or will pay any other considerations, compensations or benefits in whatever form to the Company or any parties acting in concert with it in relation to the Proposed A Shares Issue;

(q) none of YTO Group Corporation or parties acting in concert with it will make any acquisitions or disposals of voting rights in the Company in the period between the Latest Practicable Date and the completion of the Proposed A Shares Issue;

(r) save for the Proposed A Shares Issue, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of any of YTO Group Corporation and parties acting in concert with it and which might be material to the transactions contemplated under the Proposed A Shares Issue or the Whitewash Waiver; and

(s) save for the A Shares Subscription Agreement, there are no agreements or arrangements to which YTO Group Corporation is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition under the Proposed A Shares Issue or the Whitewash Waiver.

14. DEALINGS IN SHARES

During the Relevant Period,

(a) save for the A Shares Subscription Agreement, neither YTO Group Corporation nor any persons acting in concert with it had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(b) none of the directors of YTO Group Corporation had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives in the Company;

(c) there were no Shares or convertible securities, warrants, options and derivatives of the Company which YTO Group Corporation or parties acting in concert with it or the Directors has borrowed or lent;

(d) the Company had not dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of YTO Group Corporation;

(e) none of the Directors had dealt for value in any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of YTO Group Corporation or any shareholdings (as defined under Note 1 to paragraph 4 of Schedule I of the Takeovers Code), convertible securities, warrants, options and derivatives of the Company; and

(f) none of the subsidiaries of the Company had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

15. 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) YTO Group Corporation is a company incorporated in the PRC with limited liability. The registered office of YTO Group Corporation is No. 154 Jianshe Road, Luoyang, Henan Province, the PRC.

(e) SINOMACH is a company incorporated in the PRC with limited liability. The registered office of SINOMACH is No. 3 Danling Street, Haidian District, Beijing, the PRC.

(f) The directors of YTO Group Corporation are Mr. Li Xiaoyu, Mr. Cai Jibo; Mr. Li Hepeng, Mr. Xie Donggang, Mr. Li Kai, Mr. Zhou Honghai and Mr. Tian Peng.

(g) YTO Group Corporation is the controlling shareholder of the Company. The Shares in YTO Group Corporation are owned:

(i) as to 87.9% by SINOMACH, which in turn is 100% owned by State-owned Assets Supervision and Administration Commission of State Council (國務院國有資產監督管理委員會); and

(ii) as to 12.1% 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).

(h) The directors of SINOMACH are Mr. Zhang Xiaolun, Mr. Song Xin, Mr. Shang Bing, Mr. Gao Fulai, Mr. Jiang Xin, Mr. Dong Xuebo, Mr. Cai Hongping, and Mr. Liu Zuqing.

(i) The directors of Luoyang Guozi State-Owned Assets Management Co., Ltd. are Mr. Zhou Honghai, Mr. Chen Zengren, Mr. Zhang Bin, Mr. Ma Zhihui, and Mr. Meng Xin.

(j) The English translation of those entities whose name is marked with an asterisk (*) is for identification purpose only.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at (i) the office of Clifford Chance, 27th Floor Jardine House, One Connaught Place, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m., (ii) on the website of the Company at http://www.first-tractor.com.cn and (iii) the website of the SFC at www.sfc.hk from the date of this circular up to and including the date of the General Meeting and the Class Meetings.

(a) the Articles;

(b) Articles of Association of YTO Group Corporation;

(c) the annual reports of the Company for the financial years ended 31 December 2018 and 31 December 2019;

(d) the first quarterly report of the Company for the three months ended 31 March 2020;

(e) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(f) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(g) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Octal Capital Limited" in this circular;

(h) the consent letter from the expert referred to in the paragraph headed "Expert" in this Appendix;

(i) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and

(j) this circular.

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)

SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

This notice is supplemental to the notice dated 5 June 2020 (the "**Notice**") of the extraordinary general meeting (the "**EGM**") of First Tractor Company Limited (the "**Company**") to be held at 2:15 p.m. on 24 July 2020 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**").Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 8 July 2020.

In order to facilitate the smooth implementation of the Proposed A Shares Issue, the proposal has been revised to remove the automatic extension to the validity period of the resolutions regarding the Proposed A Shares Issue. For further details, please refer to the supplemental announcement of the Company dated 7 July 2020.

As a result of the amendments to the proposal for the Proposed A Shares Issue, the resolutions as set out in the Notice will be revised. The full text of the resolutions as amended by the supplemental announcement dated 7 July 2020 to be considered and, if thought fit, passed by the Shareholders at the EGM is set out as follows:

ORDINARY RESOLUTIONS

1. To consider and approve the resolution in relation to the Company's compliance with the conditions of the proposed non-public issuance of a total of 137,795,275 new A Shares of the Company to YTO Group Corporation pursuant to a subscription agreement dated 23 April 2020 and entered into between the Company and YTO Group Corporation (the "**Proposed A Shares Issue**").

2. To consider and approve the resolution in relation to the dilution of current return as a result of the Proposed A Shares Issue and the adoption of remedial measures.

3. To consider and approve the resolution in relation to undertakings by the controlling shareholder, actual controller, directors and senior management of the Company to the implementation of the remedial measures.

4. To consider and approve the resolution in relation to the shareholders' return plan for the next three years of the Company.

5. To consider and approve the resolution that the Company is not required to prepare the report on the use of the previous proceeds.

(For details of the above Ordinary Resolutions No. 1 to 5, please refer to the announcement of the Company dated 23 April 2020.)

6. To consider and approve the resolution in relation to the formulation of the Working Rules of Independent Directors.

7. To consider and approve the resolution in relation to the proposed amendments to the Decision Making Principles on Investments.

(For details of the above Ordinary Resolutions No. 6 to 7, please refer to the announcement of the Company dated 5 June 2020.)

SPECIAL RESOLUTIONS

1. *[deleted]*

2. *[deleted]*

3. *[deleted]*

4. To consider and approve the resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes connected transaction of the Company.

5. To consider and approve the resolution in relation to the conditional A Share Subscription Agreement entered into between the Company and YTO Group Corporation on 23 April 2020:

"**THAT**

the A Shares Subscription Agreement entered into between the Company and YTO Group Corporation on 23 April 2020 (pursuant to which the Company has conditionally agreed to issue and YTO Group Corporation has agreed to subscribe for 137,795,275 A Shares under the Proposed A Shares Issue at a total subscription price of RMB700,000,000) and the transactions contemplated therein are hereby approved, confirmed and ratified."

6. *[deleted]*

7. To consider and approve the resolution in relation to the application for the Whitewash Waiver:

“**THAT**

subject to the granting of a waiver by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Code on Takeovers and Mergers of Hong Kong of the obligation of YTO Group Corporation to make a general offer for all Shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by YTO Group Corporation and its concert parties) as a result of the allotment and issue of A Shares under the A Shares Subscription Agreement (the “**Whitewash Waiver**”):

(i) the Whitewash Waiver be and is hereby approved, confirmed and ratified; and

(ii) any one Director be and is hereby authorised to do all acts and matters and sign such documents (including the affixation of the common seal of the Company thereon) and take all such steps as the Director may in his or her opinion deem necessary, desirable or expedient to implement or give effect to the Whitewash Waiver.”

8. To consider and approve the resolution in relation to the application of the waiver in respect of the general offer obligation over the A Shares by YTO Group Corporation to be triggered as a result of the Proposed A Shares Issue under the relevant laws and regulations in the PRC.

9. To consider and approve the resolution in relation to the revised plan for the Proposed A Shares Issue:

“**THAT**

each of the following items in relation to the revised plan for the Proposed A Shares Issue be and is hereby approved, confirmed and ratified, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

(i) Class and par value of A Shares to be issued;

(ii) Method and time of issue;

(iii) Target subscriber and method of subscription;

(iv) Pricing Benchmark Date, issue price and pricing principles;

(v) Number of A Shares to be issued;

(vi) Amount and use of proceeds;

(vii) Lock-up period;

(viii) Place of listing;

(ix) Distribution of retained profit; and

(x) Validity period of the resolution."

10. To consider and approve the resolution in relation to the revised proposal for the Proposed A Shares Issue.

11. To consider and approve the resolution in relation to the revised feasibility analysis report on the use of proceeds from the Proposed A Shares Issue.

12. To consider and approve the resolution in relation to the Specific Mandate to the Board to deal with matters related to Proposed A Shares Issue:

"**THAT**

the Board be and is hereby granted a specific mandate to exercise powers of the Company to allot and issue 137,795,275 A Shares pursuant to the Proposed A Shares Issue to YTO Group Corporation at an issue price of RMB5.08 per A Share, and the Board be and is hereby authorised to do all acts and matters and sign, execute or deliver such documents (including the affixation of the common seal of the Company thereon) and take all such steps as the Board in its opinion deem necessary, desirable or expedient to implement or give effect to the Specific Mandate, where the scope of authorisation includes but is not limited to:

(i) formulating and implementing the specific plan for the Proposed A Shares Issue according to the specific circumstances, and determining the target subscriber, issue price, number of A Shares to be issued, time of issue, starting and ending date of the issue, termination of the issue, method of subscription, subscription ratio and all other matters related to the Proposed A Shares Issue in accordance with the resolutions passed at the EGM;

(ii) preparing and filing the application documents in relation to the Proposed A Shares Issue in accordance with the requirements of the China Securities Regulatory Commission ("**CSRC**"), and responding to the relevant questions, revising and supplementing the application documents based on the feedback from the CSRC's audit department and the Issuance Examination Committee;

(iii) handling matters relating to the establishment of special deposit account for raised funds;

(iv) preparing, revising, supplementing, signing, submitting, reporting and executing all agreements and documents relating to the Proposed A Shares Issue in accordance with the relevant provisions of national laws, regulations and regulatory documents and resolutions of the EGM;

(v) adjusting the specific arrangements for the use of proceeds within the scope of the resolutions of the EGM;

(vi) adjusting the specific plan and matters relating to the Proposed A Shares Issue if laws, regulations, regulatory documents and CSRC's policy on non-public issuance of shares, or the market conditions have changed, except for matters that require new resolutions of the EGM under the relevant laws, regulations and Articles of the Company;

(vii) after completion of the Proposed A Shares Issue, handling matters relating to registration, lock-up and listing of the A Shares issued under the Proposed A Shares Issue in the Shanghai Stock Exchange and China Securities Depository and Clearing Co., Ltd. Shanghai Branch;

(viii) amending the relevant provisions in the Articles of the Company to reflect the Company's new total share capital and share capital structure after the completion of the Proposed A Shares Issue in accordance with the situation of the Proposed A Shares Issue, reporting to the relevant governmental departments and supervision institutions for approval, and completing the procedure relating to the change in industrial and commercial registration;

(ix) delegating to the chairman of the Board or other persons authorised by him to decide, handle and process all of the abovementioned matters relating to the Proposed A Shares Issue; and

(x) handling other specific matters relating to the Proposed A Shares Issue except for those matters that require new resolutions of the EGM under the relevant laws, regulations and Articles of the Company, including but not limited to amending, supplementing and signing all agreements and documents related to the Proposed A Shares Issue.

The above authorisation shall be effective for 12 months from the date of the passing of the resolution at the EGM."

(For details of the above Special Resolutions No. 1 to 12, please refer to the announcements of the Company dated 23 April 2020 and 7 July 2020.)

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

Luoyang, the PRC
8 July 2020

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this notice and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this notice have been arrived at after due and careful consideration and there are no other facts not contained in this notice, the omission of which would make any statement in this notice misleading.

Notes:

1. As set out in the announcement of the Company dated 23 April 2020: (a) it is one of the conditions precedent for the A Shares Subscription Agreement to take effect that Special Resolutions No. 5, No. 9, No. 10 and No. 12 above are passed by at least two-thirds of the votes cast on a poll by the Independent Shareholders (as defined in the said announcement) present either in person or by proxy at the EGM; (b) it is one of the conditions precedent for the A Shares Subscription Agreement to take effect that Special Resolution No. 7 above is passed by at least 75% of the votes cast on a poll by the Independent Shareholders present either in person or by proxy at the EGM; and (c) it is one of the conditions precedent for the A Shares Subscription Agreement to take effect that Special Resolution No. 8 above is passed by at least two-thirds of the votes cast on a poll by the Independent Shareholders present either in person or by proxy at the EGM.

2. The register of members of the Company will be temporarily closed from 24 June 2020 to 23 July 2020 (both days inclusive) during which no transfer of shares of the Company (the "**Shares**") will be registered in order to determine the list of shareholders of the Company (the "**Shareholders**") for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 23 June 2020 at Hong Kong Registrars Limited by or before 4:30 p.m. The Shareholders or their proxies being registered before the close of business on 23 June 2020 are entitled to attend the EGM by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Shares registrar of the Company, is Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

3. 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.

4. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the revised proxy form which is issued by the Company on 8 July 2020). The said proxy form shall be signed by the person appointing the proxy or an attorney authorized by such person in writing. If the said proxy form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the revised proxy form and the notarially certified power of attorney or other documents of authorization must be delivered to the Company's registered address at No. 154 Jianshe Road, Luoyang, Henan Province, the PRC (for A Shareholders), or the Company's H Shares registrar, Hong Kong Registrars Limited at 17M Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders) in not less than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.

5. Shareholders who intend to attend the EGM are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 3 July 2020.

6. Shareholders or their proxies shall present proofs of their identities upon attending the EGM.

7. 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.

8. The Company's registered address:

   No. 154 Jianshe Road, Luoyang, Henan Province, the PRC

Postal code:	471004
Telephone:	(86379) 6496 7038
Facsimile:	(86379) 6496 7438
Email:	msc0038@ytogroup.com

* *For identification purposes only*

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)

SUPPLEMENTAL NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES

This notice is supplemental to the notice dated 5 June 2020 (the "**Notice**") of the a class meeting (the "**Class Meeting**") for holders of H shares of First Tractor Company Limited (the "**Company**") will be held at 3:30 p.m. (or immediately after the class meeting for holders of A shares of the Company to be convened and held on the same date and at the same place) on 24 July 2020 (Friday) at No. 154 Jianshe Road, Luoyang, Henan Province, the People's Republic of China (the "**PRC**"). Unless otherwise indicated, capitalized terms used herein shall have the same meanings as those defined in the circular of the Company dated 8 July 2020.

In order to facilitate the smooth implementation of the Proposed A Shares Issue, the proposal has been revised to remove the automatic extension to the validity period of the resolutions regarding the Proposed A Shares Issue. For further details, please refer to the supplemental announcement of the Company dated 7 July 2020.

As a result of the amendments to the proposal for the Proposed A Shares Issue, the resolutions as set out in the Notice will be revised. The full text of the resolutions as amended by the supplemental announcement dated 7 July 2020 to be considered and, if thought fit, passed by the holders of H Shares at the Class Meeting is set out as follows:

SPECIAL RESOLUTIONS

1. *[deleted]*

2. *[deleted]*

3. To consider and approve the resolution in relation to the subscription of A Shares under the Proposed A Shares Issue which constitutes connected transaction of the Company.

4. To consider and approve the resolution in relation to the conditional A Shares Subscription Agreement entered into between the Company and YTO Group Corporation on 23 April 2020:

"THAT

the A Shares Subscription Agreement entered into between the Company and YTO Group Corporation on 23 April 2020 (pursuant to which the Company has conditionally agreed to issue and YTO Group Corporation has agreed to subscribe for 137,795,275 A Shares under the Proposed A Shares Issue at a total subscription price of RMB700,000,000) and the transactions contemplated therein are hereby approved, confirmed and ratified."

5. *[deleted]*

6. To consider and approve the resolution in relation to the revised plan for the proposed non-public issuance of a total of 137,795,275 A Shares of the Company to YTO Group Corporation (the "**Proposed A Shares Issue**"):

"THAT

each of the following items in relation to the revised plan for the Proposed A Shares Issue be and is hereby approved, confirmed and ratified, and be implemented conditional upon approvals and/or authorisations having been obtained from the relevant authorities:

(i) Class and par value of A Shares to be issued;

(ii) Method and time of issue;

(iii) Target subscriber and method of subscription;

(iv) Pricing Benchmark Date, issue price and pricing principles;

(v) Number of A Shares to be issued;

(vi) Amount and use of proceeds;

(vii) Lock-up period;

(viii) Place of listing;

(ix) Distribution of retained profit;

(x) Validity period of the resolution."

7. To consider and approve the resolution in relation to the revised proposal for the Proposed A Shares Issue.

8. To consider and approve the resolution in relation to the Specific Mandate to the Board to deal with matters related to Proposed A Shares Issue:

"**THAT**

the Board be and is hereby granted a specific mandate to exercise powers of the Company to allot and issue 137,795,275 A Shares pursuant to the Proposed A Shares Issue to YTO Group Corporation at an issue price of RMB5.08 per A Share, and the Board be and is hereby authorised to do all acts and matters and sign, execute or deliver such documents (including the affixation of the common seal of the Company thereon) and take all such steps as the Board in its opinion deem necessary, desirable or expedient to implement or give effect to the Specific Mandate, where the scope of authorisation includes but is not limited to:

(i) formulating and implementing the specific plan for the Proposed A Shares Issue according to the specific circumstances, and determining the target subscriber, issue price, number of A Shares to be issued, time of issue, starting and ending date of the issue, termination of the issue, method of subscription, subscription ratio and all other matters related to the Proposed A Shares Issue in accordance with the resolutions passed at the EGM;

(ii) preparing and filing the application documents in relation to the Proposed A Shares Issue in accordance with the requirements of the China Securities Regulatory Commission ("**CSRC**"), and responding to the relevant questions, revising and supplementing the application documents based on the feedback from the CSRC's audit department and the Issuance Examination Committee;

(iii) handling matters relating to the establishment of special deposit account for raised funds;

(iv) preparing, revising, supplementing, signing, submitting, reporting and executing all agreements and documents relating to the Proposed A Shares Issue in accordance with the relevant provisions of national laws, regulations and regulatory documents and resolutions of the EGM;

(v) adjusting the specific arrangements for the use of proceeds within the scope of the resolutions of the EGM;

(vi) adjusting the specific plan and matters relating to the Proposed A Shares Issue if laws, regulations, regulatory documents and CSRC's policy on non-public issuance of shares, or the market conditions have changed, except for matters that require new resolutions of the EGM under the relevant laws, regulations and Articles of the Company;

(vii) after completion of the Proposed A Shares Issue, handling matters relating to registration, lock-up and listing of the A Shares issued under the Proposed A Shares Issue in the Shanghai Stock Exchange and China Securities Depository and Clearing Co., Ltd. Shanghai Branch;

(viii) amending the relevant provisions in the Articles of the Company to reflect the Company's new total share capital and share capital structure after the completion of the Proposed A Shares Issue in accordance with the situation of the Proposed A Shares Issue, reporting to the relevant governmental departments and supervision institutions for approval, and completing the procedure relating to the change in industrial and commercial registration;

(ix) delegating to the chairman of the Board or other persons authorised by him to decide, handle and process all of the abovementioned matters relating to the Proposed A Shares Issue; and

(x) handling other specific matters relating to the Proposed A Shares Issue except for those matters that require new resolutions of the EGM under the relevant laws, regulations and Articles of the Company, including but not limited to amending, supplementing and signing all agreements and documents related to the Proposed A Shares Issue.

The above authorisation shall be effective for 12 months from the date of the passing of the resolution at the EGM."

(For details of the above resolutions, please refer to the announcements of the Company dated 23 April 2020 and 7 July 2020.)

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

Luoyang, the PRC
8 July 2020

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this notice and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this notice have been arrived at after due and careful consideration and there are no other facts not contained in this notice, the omission of which would make any statement in this notice misleading.

Notes:

1. As set out in the announcement of the Company dated 23 April 2020, it is one of the conditions precedent for the A Shares Subscription Agreement to take effect that Special Resolutions No. 4, No. 6, No. 7 and No. 8 above are passed by at least two-thirds of the votes cast on a poll by the Independent Shareholders (as defined in the said announcement) present either in person or by proxy at the EGM.

2. The register of members of the Company will be temporarily closed from 24 June 2020 to 23 July 2020 (both days inclusive) during which no transfer of H Shares of the Company will be registered in order to determine the list of holders of H Shares of the Company (the "**Shareholders**") for attending the Class Meeting. The last lodgment for H Shares transfer should be made on 23 June 2020 at Hong Kong Registrars Limited by or before 4:30 p.m. The Shareholders or their proxies being registered before the close of business on 23 June 2020 are entitled to attend the Class Meeting by presenting their identity documents. The address of Hong Kong Registrars Limited, the H Shares registrar of the Company, is Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

3. Each Shareholder having the rights to attend and vote at the Class Meeting 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.

4. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the revised proxy form which is issued by the Company on 8 July 2020). The said proxy form shall be signed by the person appointing the proxy or an attorney authorized by such person in writing. If the said proxy form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the revised proxy form and the notarially certified power of attorney or other documents of authorization must be delivered to the H Shares registrar of the Company, 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 Class Meeting or any adjournment thereof.

5. Shareholders who intend to attend the Class Meeting are requested to deliver the duly completed and signed reply slip for attendance to the Company's registered and principal office in person, by post or by facsimile on or before 4:00 p.m., 3 July 2020.

6. Shareholders or their proxies shall present proofs of their identities upon attending the Class Meeting.

7. The Class Meeting is expected to last for less than one day. The Shareholders and proxies attending the Class Meeting shall be responsible for their own travelling and accommodation expenses.

8. The Company's registered address:

   No. 154 Jianshe Road, Luoyang, Henan Province, the PRC

Postal code:	471004
Telephone:	(86379) 6496 7038
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* *For identification purposes only*