



CHANGCHAI COMPANY, LIMITED

2016 SEMI-ANNUAL REPORT

18 August 2016

Section I Important Reminders, Contents & Definition

The Board of Directors, the Supervisory Committee as well as all directors, supervisors and senior management staff of Changchai Company, Limited (hereinafter referred to as “the Company”) warrant that this report is factual, accurate and complete without any false record, misleading statement or material omission. And they shall be jointly and severally liable for that.

All directors attended the board session for reviewing this report.

The Company plans not to distribute cash dividends or bonus shares or turn capital reserve into share capital.

Mr. Xue Guojun, company principal, Mr. He Jianguang, chief of the accounting work, and Mr. Jiang He, chief of the accounting organ (chief of accounting), hereby confirm that the Financial Report enclosed in this report is factual, accurate and complete.

The future plans and some other forward-looking statements carried in this report shall not be considered as virtual promises of the Company to investors. And investors are kindly reminded to pay attention to possible risks.

This report is prepared in both Chinese and English. Should there be any understanding discrepancy between the two versions, the Chinese version shall prevail.

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Definition

Term	Refers to	Definition
Company, the Company, Changchai	Refers to	Changchai Company, Limited
Changchai Benniu	Refers to	Chuangzhou Changchai Benniu Diesel Engine Fittings Co., Ltd.
Changchai Wanzhou	Refers to	Changchai Wanzhou Diesel Engine Co., Ltd
Housheng Investment	Refers to	Changzhou Housheng Investment Co., Ltd.
Housheng Agricultural Equipment	Refers to	Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.
Changchai Robin	Refers to	Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.
Yuan, Ten thousand Yuan	Refers to	RMB, RMB Ten thousand
Reporting Period	Refers to	1 January 2016-30 June 2016

Section II Company Profile

I Basic information about the Company

Stock name	Changchai A, Changchai B	Stock code	000570, 200570
Stock exchange	Shenzhen Stock Exchange		
Company name in Chinese	常柴股份有限公司		
Abbreviation	苏常柴		
Company name in English	CHANGCHAI COMPANY,LIMITED		
Abbreviation	CHANGCHAI CO.,LTD.		
Legal representative	Xue Guojun		

II Contact information

	Board Secretary	Securities Representative
Name	Shi Jianchun	He Jianjiang
Address	123 Huaide Middle Road, Changzhou, Jiangsu, China	123 Huaide Middle Road, Changzhou, Jiangsu, China
Tel.	(86)519-86610041	(86)519-68683155
Fax	(86)519-86630954	(86)519-86630954
E-mail	ccsjc@changchai.com	cchjj@changchai.com

III Other information

1. Ways to contact the Company

Did any change occur to the registered address, office address and their postal codes, website address and email address of the Company during the Reporting Period?

Applicable Not applicable

The registered address, office address and their postal codes, website address and email address of the Company did not change during the reporting period. The said information can be found in the 2015 Annual Report.

2. About information disclosure and where this report is placed

Did any change occur to information disclosure media and where this report is placed during the Reporting Period?

Applicable Not applicable

The newspapers designated by the Company for information disclosure, the website designated by CSRC for disclosing this report and the location where this report is placed did not change during the Reporting Period. The said information can be found in the 2015 Annual Report.

3. Change of the registered information

Did any change occur to the registered information during the reporting period?

Applicable Not applicable

The registration date and place of the Company, its business license No., taxation registration No. and organizational code did not change during the Reporting Period. The said information can be found in the 2015 Annual Report.

Section III Highlights of Accounting Data & Financial Indicators

I Major accounting data and financial indicators

Does the Company adjust retrospectively or restate accounting data of previous years due to change of any accounting policy or correction of any accounting error?

Yes No

	Reporting period	Same period of last year	+/- (%)
Operating revenues (RMB)	1,163,660,721.69	1,359,895,900.69	-14.43%
Net profit attributable to shareholders of the Company (RMB)	35,018,142.36	37,563,399.18	-6.78%
Net profit attributable to shareholders of the Company after excluding extraordinary gains and losses (RMB)	28,510,501.61	35,710,619.28	-20.16%
Net cash flows from operating activities (RMB)	118,035,913.29	46,727,741.12	152.60%
Basic EPS (RMB/share)	0.06	0.07	-14.29%
Diluted EPS (RMB/share)	0.06	0.07	-14.29%
Weighted average ROE (%)	1.76%	1.85%	-0.09%
	As at the end of the reporting period	As at the end of last year	+/- (%)
Total assets (RMB)	3,204,416,788.95	3,232,406,102.20	-0.87%
Net assets attributable to shareholders of the Company (RMB)	1,975,255,293.87	2,002,910,311.01	-1.38%

II Differences between accounting data under domestic and overseas accounting standards

1. Differences of net profit and net assets disclosed in financial reports prepared under international and Chinese accounting standards

Applicable Not applicable

No difference.

2. Differences of net profit and net assets disclosed in financial reports prepared under overseas and Chinese accounting standards

Applicable Not applicable

No difference.

3. Explain reasons for the differences between accounting data under domestic and overseas accounting standards

Applicable Not applicable

III Items and amounts of extraordinary gains and losses

Applicable Not applicable

Unit: RMB

Item	Amount	Explanation
Gains/losses on the disposal of non-current assets (including the offset part of asset impairment provisions)	6,113,117.21	
Government grants recognized in the current period, except for those acquired in the ordinary course of business or granted at certain quotas or amounts according to the country's unified standards	3,787,728.09	
Gains and losses on change in fair value from tradable financial assets and tradable financial liabilities, as well as investment income from disposal of tradable financial assets and tradable financial liabilities and financial assets available for sales except for effective hedging related with normal businesses of the Company	1,205,730.87	
Non-operating income and expenses other than the above	-3,412,491.97	
Less: Income tax effects	986,443.45	
Minority interests effects (after tax)	200,000.00	
Total	6,507,640.75	

Explain the reasons if the Company classifies an item as an extraordinary gain/loss according to the definition in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public—Extraordinary Gains and Losses, or classifies any extraordinary gain/loss item mentioned in the said explanatory announcement as a recurrent gain/loss item

Applicable Not applicable

No such cases in the Reporting Period.

Section IV Report of the Board of Directors

I Overview

For the first half of 2016, we sold 376,100 units of diesel engines and generator sets, down 22.79% over the same period of last year. We achieved a sales income of RMB1,163,660,700, down 14.43% from the same period of last year. And the net profit attributable to our shareholders stood at RMB35.0181 million, down 6.78% on a year-on-year basis.

The reporting period saw a drop in production and consumption of diesel engines as well as fierce competition in the industry due to more downward pressure on the macro-economy and weak market demand for combustion engines. In face of the unfavorable factor of oversupply in the single-cylinder diesel engine market, we managed to keep our leading position in sales through upgrading products, improving our marketing network, stabilizing our supporting plants, etc.. As for our multi-cylinder diesel engines, we have achieved remarkable results with our product structure after years of improvement. Our multi-cylinder diesel engines with more technological contents and higher added value have started mass production, and the new products have also begun small-lot production. As a result, multi-cylinder diesel engines took up a larger proportion in our total sales income.

In general, despite the decreased sales revenue and net profit in the first half of 2016, our development momentum is still considered positive.

II Main business analysis

YoY change of major financial data:

Unit: RMB

	Reporting period	Same period of last year	YoY +/- %	Main reasons for change
Operating revenues	1,163,660,721.69	1,359,895,900.69	-14.43%	
Operating costs	984,594,264.43	1,179,073,102.73	-16.49%	
Selling expenses	59,518,474.60	58,059,098.92	2.51%	
Administrative expenses	78,488,615.70	84,401,024.18	-7.01%	
Financial costs	-4,811,135.29	-6,673,703.74	—	
Income tax expenses	6,581,748.12	7,503,443.33	-12.28%	
R&D inputs	36,683,008.45	35,771,589.22	2.55%	

Net cash flows from operating activities	118,035,913.29	46,727,741.12	152.60%	
Net cash flows from investing activities	-29,436,822.72	-65,286,749.02	—	
Net cash flows from financing activities	-20,380,965.42	-17,079,395.46	—	
Net increase in cash and cash equivalents	68,218,125.15	-35,638,403.36	—	

Major changes to the profit structure or sources of the Company during the Reporting Period;

Applicable Not applicable

No major changes occurred to the profit structure or sources of the Company during the Reporting Period.

Reporting period progress of the future development planning in the disclosed documents of the Company such as share-soliciting prospectuses, offering prospectuses, asset reorganization reports, etc.:

Applicable Not applicable

No such situation of the Company during the Reporting Period.

Overview of the reporting period progress of the business plans disclosed in previous periods:

The progress of the business plans of Y2016 that disclosed in the 2015 annual report was normal during the reporting period.

III. Breakdown of main business

Unit: RMB

	Operating revenues	Operating costs	Gross profit rate	Increase/decrease of operating revenues over last year	Increase/decrease of operating costs over last year	Increase/decrease of gross profit rate over last year
Classified by industry						
Internal combustion engine	1,152,656,941.95	976,226,687.99	15.31%	-14.65%	-16.80%	2.19%
Other						
Classified by product						
Diesel engines	1,152,656,941.95	976,226,687.99	15.31%	-14.65%	-16.80%	2.19%
Classified by region						
Domestic	1,046,828,931.10	873,404,875.20	16.57%	-15.94%	-18.50%	2.62%
Overseas	105,828,010.85	102,914,223.93	2.75%	0.68%	1.14%	-0.45%

IV. Core competitiveness analysis

1. Brand advantage

Incorporated in 1913, the Company has a history over 100 years, with its diesel engines well received both at

home and abroad.

The trademark of “Changchai” was the first among the production goods in the country to be recognized as a “Famous Trademark of China”. In 2005, the single-cylinder diesel engines of the Company were among the first to be titled as “Brandname Products of China”. In 2013, through the review and approval of General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China, the diesel engine products of the Company gained the export inspection-free qualification. In 2014, Changchai was awarded the honorary title of “Y2012-Y2013 State-level Enterprise of Observing Contracts and Keeping Promise” and had been awarded the title of “China Pacesetter Enterprise of Internal Combustion Engine and Accessories Manufacturing Industry” for five years in a row. In 2015, the Company listed in the “China Export Quality and Safety Demonstration Enterprises” with proud and be selected as the “Hundred Companies of the China Machinery Industry” that be awarded as the “Precision Farming Cup” among the national agricultural machinery industry brands as well as the products of the Company such as the 4G33TC, 3M78, 4H11 was respectively awarded the gold award of the China Agricultural Machinery Industry Annual Product, gold award and innovation award of China Agricultural Machinery Parts. For decades, the Company developed in a sound manner and cultivated the “Changchai” brand, a famous small diesel engine brand of China with independent intellectual property rights.

2. Product advantage

Currently, the Company is mainly engaged in small power single-cylinder and multi-cylinder diesel engines. It has a complete product range, a wide power level coverage, a high reputation and intellectual property rights for its main products. The sales of the single cylinder diesel had been China’ first for consecutive years. It owns a state-level technical center, a post doctoral scientific research station and Jiangsu Small-and Medium-power Internal Combustion Engine Engineering Research Center. Quite a few of its multi-cylinder diesel engines have passed the European Union EC certification, it has the capability to develop and put into pass production products meeting the national emission standard IV.

3. Sales network advantage

The Company has built up a sales service network covering the whole country. With 11 marketing units, 31 sales service centers, over 400 service locations and 600 cooperation maintenance stations, the service network covering the major cities and the countryside, the Company is able to provide quality, efficient and timely services for its customers.

VI. Investment analysis

1. Investments in equities of external parties

(1) Investments in external parties

Applicable Not applicable

(2) Equity-holdings in financial enterprises

Applicable Not applicable

Enterprise	Enterprise	Initial	Opening	Opening	Closing	Closing	Closing book	Gain/loss	Accounti	Equity
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name	variety	investment cost (RMB)	equity-holdings (share)	equity-holding ratio	equity-holdings (share)	equity-holding ratio	value (RMB)	in the reporting period (RMB)	ing title	source
Bank of Jiangsu Co., Ltd.	Commercial bank	38,000,000.00	38,000,000	0.42%	38,000,000	0.42%	38,000,000.00	0.00	Long-term equity investment	Promoter's shares

(3) Investment in securities

Applicable Not applicable

The Company did not invest in any securities in the Reporting Period.

(4) Explanation about shareholdings in other listed companies

Applicable Not applicable

At the end of the reporting period, the Company held 72.25 million "Foton Motor" shares measured as available-for-sale financial assets and 50,000 "Ninghu Expressway" shares measured as a long-term equity investment.

2. Wealth management entrustment, derivative investments and entrustment loans

(1) Wealth management entrustment

Applicable Not applicable

Unit: RMB'0,000

Name of the trustee	Related relationship	Related transaction or not	Type	Amount	Initial date	Ended Date	Remuneration determination method	Principal amount actually received in reporting period	Withdrawn impairment provision (if any)	Estimate profit	Amount of actual profits or losses in reporting period
Bank of Jiangsu	N/A	No	Break-even floating proceeds financial products	1,000	26 Aug. 2015	24 Feb. 2016	One-time confirmation when expired	1,000		17.95	17.95
Bank of Jiangsu	N/A	No	Break-even floating proceeds financial	1,000	3 Nov. 2015	4 May 2016	One-time confirmation when expired	1,000		18.45	18.45

			products								
Total				2,000	--	--	--	2,000		36.4	36.4
Capital resources				Self-owned raising funds							
Cumulative amount of principal and earnings maturity that fail to recover				0							
Self-own idle fund				Not applicable							
Disclosure date of announcement on wealth management entrustment reviewed and approved by the Board of Directors				13 Jan. 2015							
Disclosure date of announcement on wealth management entrustment reviewed and approved by the Board of Shareholders				Not applicable							

(2) Derivative investment

Applicable Not applicable

The Company did not carry out any derivative investment in the Reporting Period.

(3) Entrustment loans

Applicable Not applicable

There were no entrustment loans in the Reporting Period.

3. Use of raised funds

Applicable Not applicable

There was no any use of raised funds in the Reporting Period.

4. Analysis to main subsidiaries and stock-participating companies

Applicable Not applicable

Main subsidiaries and stock-participating companies:

Unit: RMB

Company name	Company variety	Industry	Main products/services	Registered capital	Total assets	Net assets	Operating revenues	Operating profit	Net profit
Changchai Benniu	Subsidiary	Machinery manufacture	Production and sales of diesel engine fittings	55063000.00	163,734,566.78	105,680,655.06	67,967,415.82	-820,115.14	-688,210.65

Changchai Wanzhou	Subsidiary	Machinery manufacture	Production and sales of diesel engine	85000000.00	77,278,180.18	43,997,240.93	29,922,164.72	305,185.67	684,407.82
Housheng Investment	Subsidiary	Service	External investment and consulting service	30000000.00	35,763,602.62	34,974,633.67	414,893.21	725,971.07	564,733.78
Housheng Agricultural Equipment	Subsidiary	Machinery manufacture	Production and sales of agricultural machinery product of rice transplanter etc.	10000000.00	24,566,756.27	7,539,527.94	14,101,934.04	2,233,123.56	2,233,123.56
Fuji Robin	Joint stock company	Machinery manufacture	Production and sales of gasoline engines	USD4500000.00	89,249,557.73	65,425,966.93	81,740,227.95	3,339,679.86	2,488,679.14

5. Significant projects invested with non-raised funds

Applicable Not applicable

No significant projects of investments with non-raised funds during the reporting period.

VI. Predict the operating results of Jan.-Sep. 2016

Warning of possible loss or considerable YoY change of the accumulated net profit made during the period-begin to the end of the next reporting period according to prediction, as well as explanations on the reasons:

Applicable Not applicable

VII. Explanation of the Board of Directors and Board of Supervisors on Non-standard Auditing Report issued by the CPA firm for the reporting period

Applicable Not applicable

VIII. Explanation by the Board of Directors about the “non-standard audit report” for last year

Applicable Not applicable

IX. Implementation of profit allocation during the reporting period

Profit allocation plan implemented during the reporting period, especially execution and adjustment of the cash dividend plan and the plan for turning capital reserve into share capital:

Applicable Not applicable

On 26 May 2016, the Y2015 Annual General Meeting of the Company reviewed and approved the Y2015 Equity Distribution Proposal as: based on the current share capital of 561,374,326 shares, the Company distributed the cash (tax including) of RMB0.23 Yuan for every 10 shares to the whole shareholders. On 15 June 2016, the Company disclosed Y2015 Implementation Announcement on Equity Distribution. The register date of the A share equity of the equity distribution was: 22 June 2016, the date of ex-right and ex-interest was: 23 June 2016; the last trading date of B share was: 22 June 2016, and the equity register date was 27 June 2016 as well as the date of ex-right and ex-interest was: 23 June 2016.

Y2015 profits distribution had completed the execution.

Special explanation of the cash dividend policy	
Whether conformed with the regulations of the Articles of association or the requirements of the resolutions of the shareholders' meeting:	Yes
Whether the dividend standard and the proportion were definite and clear:	Yes
Whether the relevant decision-making process and the system were complete:	Yes
Whether the independent director acted dutifully and exerted the proper function:	Yes
Whether the medium and small shareholders had the chances to fully express their suggestions and appeals, of which their legal interest had gained fully protection:	Yes
Whether the conditions and the process met the regulations and was transparent of the adjustment or altered of the cash dividend policy:	Yes

X. Preplan for profit distribution and turning capital reserve into share capital for the reporting period

Applicable Not applicable

The Company planed not to distribute cash dividends or bonus shares or turn capital reserve into share capital for the Reporting Period.

XI. Researches, visits and interviews received in the reporting period

Applicable Not applicable

Time	Place	Way of reception	Visitor type	Visitor	Main discussion and materials provided by the Company
18 Jun. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the stocks of the Bank of Jiangsu held by the Company
13 Jun. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	Shareholding increase or decrease plan of the major shareholders

6 Jun. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the shareholders' number
25 May 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	Future development plan of the Company
25 May 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	Whether the Company tend to reorganize
19 May 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the shareholders' number
19 May 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks
13 May 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's operation
28 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's products
27 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the agricultural informatization
26 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the shareholders' number
22 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Changchai Benniu Company's operation
22 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's operation
22 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the construction of the industrial park
22 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the foreign cooperation of the Company
22 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the investment and operation of Housheng Company
22 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the future plan of the Company
21 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	Future development direction of the technology products of the Company
5 Apr. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the products development of the Company
31 Mar. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the future plan of the Company
28 Mar. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the participation of the securities financing of the Company

28 Mar. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the participation of the securities financing of the Company
15 Mar. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks
10 Mar. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the shareholders' number
1 Mar. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's operation
23 Feb. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Tsinghua Industrial Company which the Company participated in
23 Feb. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the shareholders' number
22 Feb. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Housheng Agricultural Equipment
1 Feb. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the SOE reform progress of the Company
20 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the export business of the Company
11 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks
8 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's products development
7 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks
6 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks
6 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	Future development advice of the Company
6 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the foundry works' operation
6 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks
5 Jan. 2016	http://irm.cninfo.com.cn/szse/	Other	Individual	Individual investor	List of the Company's stocks

Section V. Significant Events

I. Corporate governance

In the Reporting Period, the Company was strictly in line with laws, statutes such as Company Law, Securities Laws, Code of Corporate Governance of Listed Companies, Guide Opinion on Establishment of Independent Director System by Listed Companies and Guidelines on Internal Controls of Listed Companies and so on, continuously perfected corporate governance, established and accomplished internal management and control system, consistently and deeply put forward corporate governance activities, so as to further normalized operation of the Company, raising corporate governance level, laying a guard for steady and healthy development of the Company, protect legal rights and interests of the Company and all shareholders.

According to each law and regulation and the traits of the industry, operation mode and self business, the Company formulated or revised a whole set of internal control system throughout routine operation management as well as formed the normative documents such as Internal Control Manual of Suzhou Changchai and Assemble of Internal Control System of Suzhou Changzhou. The content was a series of administration system, process and standard including each operation aspect and level such as purchase, sales, finance, assets, human resources, internal audit supervision, which ensured all kinds of work, had rules to follow.

There is not discrepancy between the corporate governance and Company Law, relevant regulations of CSRC.

II. Lawsuits or arbitrations

Significant lawsuits or arbitrations

Applicable Not applicable

Basic information of the lawsuit (arbitration)	Amount involved in the lawsuit (arbitration) (RMB Ten Thousand Yuan)	Forming the estimated liabilities or not?	Progress of the lawsuit (arbitration)	Trial result and influence of the lawsuit (arbitration)	Enforcement on the judgment of the lawsuit (arbitration)	Disclosure date	Disclosure index
About the lawsuit case of Shandong Hongli Group Co., Ltd., the accused company owed accumulatively RMB14.36 million to the Company. The Company sued to Changzhou Intermediate People's Court in 2001 and sued for compulsory execution in April, 2002. Currently, the defendant has	1,436	No	Judged for the second trial and no progress of the reporting period		Under the compulsory execution by the court and in the process of liquidation and bankruptcy		

started the bankruptcy procedure.							
About the lawsuit case of Beijing Baic Changsheng Automobile Co., Ltd., the accused company owed accumulatively RMB8.0636 million to the Company. According to the paper of civil mediation issued by the people's court of Beijing Shunyi on 31 October. 2013, the Company will amortize the arrears of RMB8.0636 million. If Baic Changsheng failed to execute the reconciliation agreement on time, the Company should applied for the compulsory execution of the whole unpaid accounts at one time and the Baic Changsheng should pay for the otherwise liquidated damages of RMB40,000 and the interests of the overdue payment.	806.36	No	Had mediated. Up the end of the reporting period, Baic Changsheng had paid RMB4.2 million to the Company. Recently, the Company is applying for compulsory execution.			30 Aug. 2013, 6 Nov. 2013	http://www.cninfo.com.cn . Announcement No.: 2013-015, 019

Other lawsuits

Applicable Not applicable

III. Media query

Applicable Not applicable

The Company was not involved in any media query in the Reporting Period.

IV. Bankruptcy or Reorganization Events

Applicable Not applicable

There Company was not involved in any bankruptcy or reorganization events in the Reporting Period.

V. Transaction in Assets

1. Purchase of assets

Applicable Not applicable

There is no purchase of assets in the Company during the Reporting Period.

2. Sale of assets

Applicable Not applicable

There is no sale of assets in the Company during the Reporting Period.

3. Business combination

Applicable Not applicable

There is no business combination in the Company during the Reporting Period.

VI. Implementation and Influence of Equity Incentive Plan of the Company

Applicable Not applicable

There is no equity incentive plan and its implementation in the Company during the Reporting Period.

VII. Significant related-party transactions

1. Related-party transactions concerning routine operation

Applicable Not applicable

There is no related-party transaction concerning routine operation in the Company during the Reporting Period.

2. Related-party transactions arising from asset acquisition or sale

Applicable Not applicable

The Company was not involved in any related-party transactions arising from asset acquisition or sale during the Reporting Period.

3. Related-party transactions with joint investments

Applicable Not applicable

The Company was not involved in any related-party transaction with joint investments during the Reporting Period.

4. Credits and liabilities with related parties

Applicable Not applicable

The Company was not involved in any credit and liability with related parties during the Reporting Period.

5. Other related-party transactions

Applicable Not applicable

The Company was not involved in any other related-party transaction during the Reporting Period.

VIII. Particulars about the non-operating occupation of funds by the controlling shareholder and other related parties of the Company

Applicable Not applicable

The Company was not involved in the non-operating occupation of funds by the controlling shareholder and other related parties during the Reporting Period.

IX. Significant contracts and their execution

1. Trusteeship, contracting and leasing

(1) Trusteeship

Applicable Not applicable

No such cases in the Reporting Period.

(2) Contract

Applicable Not applicable

No such cases in the Reporting Period.

(3) Lease

Applicable Not applicable

No such cases in the Reporting Period.

2. Guarantees provided by the Company

Applicable Not applicable

Unit: RMB Thousand Yuan

Guarantees provided by the company for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosure date of relevant announcement	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not

Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosure date of relevant announcement	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	4 December 2015	1,000	4 December 2015	1,000	General guarantee	1 year	No	No
Total guarantee line approved for the subsidiaries during the Reporting Period (B1)		0		Total actual occurred amount of guarantee for the subsidiaries during the Reporting Period (B2)		0		
Total guarantee line that has been approved for the subsidiaries at the end of the Reporting Period (B3)		1,000		Total actual guarantee balance for the subsidiaries at the end of the Reporting Period (B4)		1,000		
Guarantees provided by the subsidiaries of the Company for subsidiaries								
Guaranteed party	Disclosure date of relevant announcement	Amount for guarantee	Actual occurrence date (date of agreement)	Actual guarantee amount	Type of guarantee	Period of guarantee	Executed or not	Guarantee for a related party or not
Total guarantee amount provided by the Company (total of the above-mentioned three kinds of guarantees)								
Total guarantee line approved during the Reporting Period (A1+B1+C1)		0		Total actual occurred amount of guarantee during the Reporting Period (A2+B2+C2)		0		
Total guarantee line that has been approved at the end of the Reporting Period (A3+B3+C3)		1,000		Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)		1,000		
Proportion of total actual guarantee amount (A4+B4+C4) in the net assets of the Company				0.51%				
Of which:								
Guarantee amount provided for shareholders, actual controllers and its related parties(D)				0				
Amount of debt guarantee provided for the guaranteed party				0				

whose asset-liability ratio is not less than 70% directly or indirectly (E)	
Part of the amount of the total guarantee over 50% of net assets (F)	0
Total amount of the above three guarantees (D+E+F)	0
Note to not overdue guarantee may bear joint liquidated liability (if any)	Not applicable
Explanation on the external guarantees in violation of stipulated procedures (if any)	Not applicable

Illegal external guarantee

Applicable Not applicable

No such case during Reporting Period

3. Other significant contracts

Applicable Not applicable

No such cases in the Reporting Period.

4. Other significant related-party transactions

Applicable Not applicable

No such cases in the Reporting Period.

X. Commitments made by the Company or shareholders holding over 5% of the Company's shares in the Reporting Period or such commitments carried down into the Reporting Period

Applicable Not applicable

Commitment	Commitment maker	Contents	Date of commitment making	Term of commitment	Fulfillment
Commitments made in share reform					
Commitments made in acquisition documents or shareholding alteration documents					
Commitments made in time of asset restructuring					

Commitments made in time of IPO or refinancing					
Bonus commitment	Changchai Company, Limited	Under the conditions of in future three years (2014-2016) the attributable profit (the remaining profits after the losses have been made up and common reserves have been drawn) of shareholders' reward plan in the year or half year is positive, and the cash flow is sufficient, the cash dividends had no influence to the follow-up continuously operation, the profit dividends in cash shall no lower than the 10% of attributable profit realized by the Company and in any three continuous accounting years the accumulative profit dividends in cash shall no less than 30% of the average annual attributable profits realized in three years.	2014-05-14	Y2014-2016	The commitment was under progress.

XI. Particulars about engagement and disengagement of CPAs firm

Whether the semi-annual financial report had been audited?

Yes No

This semi-annual report is un-audited.

XII. Punishment and rectification

Applicable Not applicable

No such cases in the Reporting Period.

XIII. Reveal of the delisting risks of illegal or violation

Applicable Not applicable

No such cases in the Reporting Period.

XIV. Other significant events

Applicable Not applicable

No such cases in the Reporting Period.

XV. Corporation bonds

Whether existing corporation bonds public issued and listed in Stock Exchange and maturity or maturity but not fully paid on the approval report date of semi-annual report

No

Section VI. Change in Shares & Shareholders

I. Changes in shares

Unit: share

	Before the change		Increase/decrease (+/-)					After the change	
	Amount	Proportion	Newly issue share	Bonus shares	Capitalized Capital reserves	Others	Subtotal	Amount	Proportion
I. Restricted shares	0	0.00%						0	0.00%
1. Shares held by the state	0	0.00%						0	0.00%
2. Shares held by state-own Legal-person	0	0.00%						0	0.00%
3. Shares held by other domestic investors	0	0.00%						0	0.00%
Among which: shares held by domestic legal person	0	0.00%						0	0.00%
Shares held by domestic natural person	0	0.00%						0	0.00%
4. Oversea shareholdings	0	0.00%						0	0.00%
Among which: shares held by oversea legal person	0	0.00%						0	0.00%
Shares held by oversea natural person	0	0.00%						0	0.00%
II. Shares not subject to trading moratorium	561,374,326	100.00%						561,374,326	100.00%
1. RMB ordinary shares	411,374,326	73.28%						411,374,326	73.28%
2. Domestically listed foreign shares	150,000,000	26.72%						150,000,000	26.72%
3. Oversea listed foreign shares	0	0.00%						0	0.00%
4. Other	0	0.00%						0	0.00%
III. Total shares	561,374,326	100.00%						561,374,326	100.00%

Reason for the change in shares

Applicable Not applicable

Approval of the change in shares

Applicable Not applicable

Reason for the change in shares

Applicable Not applicable

Effects of the change in shares on the basic EPS, diluted EPS, net assets per share attributable to common shareholders of the Company and other financial indexes over the last year and last period

Applicable Not applicable

Other contents that the Company considered necessary or were required by the securities regulatory authorities to disclose

Applicable Not applicable

Explanation on changes in share capital & the structure of shareholders, the structure of assets and liabilities

Applicable Not applicable

II. Total number of shareholders and their shareholding

Unit: share

Total number of shareholders at the Reporting Period	63,916			Total number of preferred stockholder with vote right restored	0			
Shareholding of common shareholders holding more than 5% shares or the top 10 of common shareholders								
Name of shareholder	Nature of shareholder	Holding percentage (%)	Number of shareholding at the end of the Reporting Period	Increase and decrease of shares during Reporting Period	Number of shares held subject to trading moratorium	Number of shares held subject to trading moratorium	Pledged or frozen shares	
							Status of shares	Amount
STATE-OWNED ASSETS SUPERVISION AND ADMINISTRATION COMMISSION OF CHANGZHOU MUNICIPAL PEOPLE'S GOVERNMENT	On behalf of the government	30.43%	170,845,236			170,845,236		
KGI ASIA LIMITED	Overseas corporation	0.59%	3,324,845			3,324,845		
BNP PARIBAS WEALTH MANAGEMENT HONG KONG BRANCH	Overseas corporation	0.55%	3,099,873			3,099,873		
HUANG LIHOU	Domestic individual	0.35%	1,949,700			1,949,700		
VANGUARD TOTAL	Overseas	0.29%	1,626,592			1,626,592		

INTERNATIONAL STOCK INDEX FUND	corporation							
LI MIN	Domestic individual	0.29%	1,618,950			1,618,950		
HUANG GUOLIANG	Domestic individual	0.27%	1,528,891			1,528,891		
LI SUINAN	Domestic individual	0.24%	1,328,300			1,328,300		
CENTRAL HUIJIN ASSET MANAGEMENT CO., LTD.	State-owned corporation	0.20%	1,107,900			1,107,900		
XIE DEQING	Domestic individual	0.19%	1,078,700			1,078,700		
Strategic investors or the general legal person due to the placement of new shares become the top 10 shareholders	Naught							
Explanation on associated relationship or/and persons	It is unknown whether there was any associated relationship among the top ten tradable shareholders and among the top ten shareholders not subject to trading moratorium, or whether they are persons acting in concert as described by Measures for the Administrative of Disclosure of Shareholder Equity Changes.							
Particulars about shares held by top 10 common shareholders not subject to trading moratorium								
Name of shareholder	Number of shares held not subject to trading moratorium at the end of the period	Type of share						
		Type of share	Amount					
STATE-OWNED ASSETS SUPERVISION AND ADMINISTRATION COMMISSION OF CHANGZHOU MUNICIPAL PEOPLE'S GOVERNMENT	170,845,236	RMB ordinary shares	170,845,236					
KGI ASIA LIMITED	3,324,845	Domestically listed foreign shares	3,324,845					
BNP PARIBAS WEALTH MANAGEMENT HONG KONG BRANCH	3,099,873	Domestically listed foreign shares	3,099,873					
HUANG LIHOU	1,949,700	RMB ordinary shares	1,949,700					
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,626,592	Domestically listed foreign shares	1,626,592					
LI MIN	1,618,950	RMB ordinary shares	1,618,950					
HUANG GUOLIANG	1,528,891	Domestically listed foreign shares	1,528,891					
LI SUINAN	1,328,300	Domestically listed foreign shares	1,328,300					
CENTRAL HUIJIN ASSET MANAGEMENT CO., LTD.	1,107,900	RMB ordinary shares	1,107,900					

XIE DEQING	1,078,700	Domestically listed foreign shares	1,078,700
Explanation on associated relationship among the top ten shareholders of tradable share not subject to trading moratorium, as well as among the top ten shareholders of tradable share not subject to trading moratorium and top ten shareholders, or explanation on acting-in-concert	It is unknown whether there was any associated relationship among the top ten tradable shareholders and among the top ten shareholders not subject to trading moratorium, or whether they are persons acting in concert as described by Measures for the Administrative of Disclosure of Shareholder Equity Changes.		
Particular about shareholder participate in the securities lending and borrowing business	The shareholder Huang Lihou held the shares of the Company of 1,949,700 shares through the securities guarantee account of the customer credit transactions provided by Guotai Junan Securities Co., Ltd, with the proportion of the share holding of 0.35%. The shareholder Li Min held 1,618,950 shares of the Company through customer credit collateral securities trading account of Guosen Securities Co., Ltd, with the proportion of the share holding of 0.29%.		

Did any of the Company's top 10 common shareholders or top 10 non-restricted common shareholders conduct any agreed buy-back in the Reporting Period?

Yes No

There was no shareholder of a company conduct the transaction of repurchase under the agreement during the Reporting Period.

III. Change of the controlling shareholder or the actual controller

Change of the controlling shareholder during the Reporting Period.

Applicable Not applicable

The controlling shareholder did not change during the Reporting Period.

Change of the actual controller during the Reporting Period

Applicable Not applicable

The actual controller did not change during the Reporting Period.

IV. Particulars on shareholding increase scheme during the Reporting Period proposed or implemented by the shareholders and act-in-concert persons

Applicable Not applicable

Within the scope known to the Company, there was no any shareholding increase scheme during the Reporting Period proposed or implemented by the shareholders and act-in-concert persons.

Section VII. Preferred stock

Applicable Not applicable

There was no preferred stock during Reporting Period.

Section VIII. Directors, Supervisors, Senior Management Staff & Employees

I. Changes in shareholding of directors, supervisors and senior management staff

Applicable Not applicable

There was no change in shareholding of Directors, Supervisors, Senior Management Staffs and Employees, for details, please refer to 2015 Annual Report

II. Particulars about changes of Directors, Supervisors and Senior Executives

Applicable Not applicable

There was no change in Directors, Supervisors, Senior Management Staffs and Employees, for details, please refer to 2015 Annual Report

IX. Financial Report

I. Audit report

Has this semi-annual report been audited?

Yes No

The semi-annual financial report has not been audited.

II. Financial statements

Currency unit for the statements in the notes to these financial statements: RMB

1. Consolidated balance sheet

Prepared by Changchai Company, Limited

30 June 2016

Unit: RMB

Item	Closing balance	Opening balance
Current Assets:		
Monetary funds	673,796,047.14	601,312,715.62
Settlement reserves		
Intra-group lendings		
Financial assets measured by fair value with the changes be included in the current gains and losses		
Derivative financial assets		
Notes receivable	278,520,898.26	498,502,274.42
Accounts receivable	567,606,221.86	308,596,920.50
Accounts paid in advance	10,141,930.24	12,882,271.70
Premiums receivable		
Reinsurance premiums receivable		
Receivable reinsurance contract reserves		
Interest receivable		
Dividend receivable		
Other accounts receivable	18,236,447.42	5,622,539.81
Financial assets purchased under		

agreements to resell		
Inventories	360,199,008.69	397,290,012.36
Assets divided available for sale		
Non-current assets due within 1 year		
Other current assets	22,645,221.04	60,304,691.41
Total current assets	1,931,145,774.65	1,884,511,425.82
Non-current assets:		
Loans by mandate and advances granted		
Available-for-sale financial assets	444,437,000.00	502,980,000.00
Held-to-maturity investments		
Long-term accounts receivable		
Long-term equity investment	21,590,568.88	20,769,304.76
Investing property	56,176,859.63	57,281,030.03
Fixed assets	571,960,644.43	554,601,893.23
Construction in progress	76,961,584.95	108,198,455.01
Engineering materials		
Disposal of fixed assets		
Production biological assets		
Oil-gas assets		
Intangible assets	101,181,825.53	103,101,462.47
R&D expense		
Goodwill		
Long-term deferred expenses		
Deferred income tax assets	962,530.88	962,530.88
Other non-current assets		
Total of non-current assets	1,273,271,014.30	1,347,894,676.38
Total assets	3,204,416,788.95	3,232,406,102.20
Current liabilities:		
Short-term borrowings	10,000,000.00	17,000,000.00
Borrowings from Central Bank		
Customer bank deposits and due to banks and other financial institutions		
Intra-group borrowings		
Financial liabilities measured by fair		

value with the changes be included in the current gains and losses		
Derivative financial liabilities		
Notes payable	278,909,300.00	238,200,000.00
Accounts payable	509,018,960.25	535,978,470.07
Accounts received in advance	39,284,991.46	26,665,671.38
Financial assets sold for repurchase		
Handling charges and commissions payable		
Employee's compensation payable	33,470,816.93	60,309,349.29
Tax payable	2,549,274.24	10,798,062.93
Interest payable		
Dividend payable	3,891,433.83	3,891,433.83
Other accounts payable	225,946,037.83	201,151,632.46
Reinsurance premiums payable		
Insurance contract reserves		
Payables for acting trading of securities		
Payables for acting underwriting of securities		
Liabilities divided available for sale		
Non-current liabilities due within 1 year		
Other current liabilities	1,921,013.87	2,403,287.06
Total current liabilities	1,104,991,828.41	1,096,397,907.02
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Of which: preferred shares		
Perpetual capital securities		
Long-term payables		
Long-term payroll payables		
Specific payables		
Estimated liabilities		
Deferred income	52,589,418.89	53,121,605.70

Deferred income tax liabilities	53,604,375.00	62,385,825.00
Other non-current liabilities		
Total non-current liabilities	106,193,793.89	115,507,430.70
Total liabilities	1,211,185,622.30	1,211,905,337.72
Owners' equity		
Share capital	561,374,326.00	561,374,326.00
Other equity instruments		
Of which: preferred shares		
Perpetual capital securities		
Capital reserves	164,328,665.43	164,328,665.43
Less: Treasury stock		
Other comprehensive income	303,758,125.00	353,519,675.00
Specific reserves	10,069,746.98	10,069,746.98
Surplus reserves	305,758,285.91	305,758,285.91
Provisions for general risks		
Retained profits	629,966,144.55	607,859,611.69
Total equity attributable to owners of the Company	1,975,255,293.87	2,002,910,311.01
Minority interests	17,975,872.78	17,590,453.47
Total owners' equity	1,993,231,166.65	2,020,500,764.48
Total liabilities and owners' equity	3,204,416,788.95	3,232,406,102.20

Legal representative: Xue Guojun

Person-in-charge of the accounting work: He Jianguang

Chief of the accounting division: Jiang He

2. Balance sheet of the Company

Unit: RMB

Item	Closing balance	Opening balance
Current Assets:		
Monetary funds	655,641,987.55	572,530,396.20
Financial assets measured by fair value with the changes be included in the current gains and losses		
Derivative financial assets		
Notes receivable	277,874,656.26	490,777,874.42

Accounts receivable	515,840,137.69	263,878,166.23
Accounts paid in advance	4,544,702.50	6,512,574.55
Interest receivable		
Dividend receivable		
Other accounts receivable	6,587,098.07	4,885,363.01
Inventories	296,700,526.06	348,179,430.41
Assets divided available for sale		
Non-current assets due within 1 year		
Other current assets	2,579,928.34	41,403,182.61
Total current assets	1,759,769,036.47	1,728,166,987.43
Non-current assets:		
Available-for-sale financial assets	437,237,000.00	495,780,000.00
Held-to-maturity investments		
Long-term accounts receivable		
Long-term equity investment	206,057,068.88	205,235,804.76
Investing property	56,176,859.63	57,281,030.03
Fixed assets	466,608,080.79	445,343,167.61
Construction in progress	76,939,362.73	108,198,455.01
Engineering materials		
Disposal of fixed assets		
Production biological assets		
Oil-gas assets		
Intangible assets	79,532,775.58	81,159,855.82
R&D expense		
Goodwill		
Long-term deferred expenses		
Deferred income tax assets	962,530.88	962,530.88
Other non-current assets		
Total of non-current assets	1,323,513,678.49	1,393,960,844.11
Total assets	3,083,282,714.96	3,122,127,831.54
Current liabilities:		
Short-term borrowings		
Financial liabilities measured by fair value with the changes be included in the current gains and losses		

Derivative financial liabilities		
Notes payable	253,909,300.00	218,200,000.00
Accounts payable	490,856,873.65	527,416,373.82
Accounts received in advance	37,894,565.98	24,537,940.90
Employee's compensation payable	28,818,140.01	55,068,743.12
Tax payable	113,640.60	8,521,233.87
Interest payable		
Dividend payable	3,243,179.97	3,243,179.97
Other accounts payable	217,334,034.74	194,650,090.70
Liabilities divided available for sale		
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	1,032,169,734.95	1,031,637,562.38
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Of which: preferred shares		
Perpetual capital securities		
Long-term payables		
Long-term payroll payables		
Specific payables		
Estimated liabilities		
Deferred income	52,589,418.89	53,121,605.70
Deferred income tax liabilities	53,604,375.00	62,385,825.00
Other non-current liabilities		
Total non-current liabilities	106,193,793.89	115,507,430.70
Total liabilities	1,138,363,528.84	1,147,144,993.08
Owners' equity:		
Share capital	561,374,326.00	561,374,326.00
Other equity instruments		
Of which: preferred shares		
Perpetual capital securities		
Capital reserves	183,071,147.70	183,071,147.70

Less: Treasury stock		
Other comprehensive income	303,758,125.00	353,519,675.00
Specific reserves	10,069,746.98	10,069,746.98
Surplus reserves	305,758,285.91	305,758,285.91
Retained profits	580,887,554.53	561,189,656.87
Total owners' equity	1,944,919,186.12	1,974,982,838.46
Total liabilities and owners' equity	3,083,282,714.96	3,122,127,831.54

3. Consolidated income statement

Unit: RMB

Item	Jan.-Jun. 2016	Jan.-Jun 2015
I. Total operating revenues	1,163,660,721.69	1,359,895,900.69
Including: Sales income	1,163,660,721.69	1,359,895,900.69
Interest income		
Premium income		
Handling charge and commission income		
II. Total operating cost	1,130,064,900.87	1,319,907,071.98
Including: Cost of sales	984,594,264.43	1,179,073,102.73
Interest expenses		
Handling charge and commission expenses		
Surrenders		
Net claims paid		
Net amount withdrawn for the insurance contract reserve		
Expenditure on policy dividends		
Reinsurance premium		
Taxes and associate charges	2,017,527.41	2,280,012.43
Selling and distribution expenses	59,518,474.60	58,059,098.92
Administrative expenses	78,488,615.70	84,401,024.18
Financial expenses	-4,811,135.29	-6,673,703.74
Asset impairment loss	10,257,154.02	2,767,537.46
Add: Gain/(loss) from change in fair value ("-" means loss)		

Gain/(loss) from investment (“-” means loss)	1,901,135.64	4,900,603.44
Including: share of profits in associates and joint ventures		
Foreign exchange gains (“-” means loss)		
III. Business profit (“-” means loss)	35,496,956.46	44,889,432.15
Add: non-operating income	10,636,194.05	3,664,111.90
Of which: gains from non-current asset disposal	6,113,117.21	106,674.56
Less: non-operating expense	4,147,840.72	2,832,658.16
Of which: losses from non-current asset disposal	32,408.99	14,758.29
IV. Total profit (“-” means loss)	41,985,309.79	45,720,885.89
Less: Income tax expense	6,581,748.12	7,503,443.33
V. Net profit (“-” means loss)	35,403,561.67	38,217,442.56
Attributable to owners of the Company	35,018,142.36	37,563,399.18
Minority shareholders’ income	385,419.31	654,043.38
VI. After-tax net amount of other comprehensive incomes	-49,761,550.00	157,931,275.00
After-tax net amount of other comprehensive incomes attributable to owners of the Company	-49,761,550.00	157,931,275.00
(I) Other comprehensive incomes that will not be reclassified into gains and losses		
1. Changes in net liabilities or assets with a defined benefit plan upon re-measurement		
2. Enjoyable shares in other comprehensive incomes in investees that cannot be reclassified into gains and losses under the equity method		
(II) Other comprehensive incomes that will be reclassified into gains and losses	-49,761,550.00	157,931,275.00
1. Enjoyable shares in other comprehensive incomes in investees that will be reclassified into gains and losses		

under the equity method		
2. Gains and losses on fair value changes of available-for-sale financial assets	-49,761,550.00	157,931,275.00
3. Gains and losses on reclassifying held-to-maturity investments into available-for-sale financial assets		
4. Effective hedging gains and losses on cash flows		
5. Foreign-currency financial statement translation difference		
6. Other		
After-tax net amount of other comprehensive incomes attributable to minority shareholders		
VII. Total comprehensive incomes	-14,357,988.33	196,148,717.56
Attributable to owners of the Company	-14,743,407.64	195,494,674.18
Attributable to minority shareholders	385,419.31	654,043.38
VIII. Earnings per share		
(I) Basic earnings per share	0.06	0.07
(II) Diluted earnings per share	0.06	0.07

Where business mergers under the same control occurred in this reporting period, the net profit achieved by the merged parties before the business mergers was RMB0.00, with the corresponding amount for the last period being RMB0.00.

Legal representative: Xue Guojun

Person-in-charge of the accounting work: He Jianguang

Chief of the accounting division: Jiang He

4. Income statement of the Company

Unit: RMB

Item	Jan.-Jun. 2016	Jan.-Jun 2015
I. Total sales	1,163,696,328.66	1,371,231,764.35
Less: cost of sales	1,000,185,315.06	1,200,341,035.82
Business taxes and surcharges	1,663,181.76	2,092,245.81
Distribution expenses	55,298,258.45	55,751,714.71

Administrative expenses	69,931,423.68	76,865,506.74
Financial costs	-5,358,474.86	-7,439,596.01
Impairment loss	10,109,097.39	2,767,537.46
Add: gain/(loss) from change in fair value (“-” means loss)		
Gain/(loss) from investment (“-” means loss)	1,185,264.12	3,509,872.47
Of which: income from investment on associates and joint ventures		
II. Business profit (“-” means loss)	33,052,791.30	44,363,192.29
Add: non-business income	9,904,289.56	3,052,280.67
Of which: gains from non-current asset disposal		
Less: non-business expense	4,047,840.72	2,800,072.37
Of which: losses from non-current asset disposal	32,408.99	14,758.29
III. Total profit (“-” means loss)	38,909,240.14	44,615,400.59
Less: income tax expense	6,299,732.98	7,047,847.82
IV. Net profit (“-” means loss)	32,609,507.16	37,567,552.77
V. After-tax net amount of other comprehensive incomes	-49,761,550.00	157,931,275.00
(I) Other comprehensive incomes that will not be reclassified into gains and losses		
1. Changes in net liabilities or assets with a defined benefit plan upon re-measurement		
2. Enjoyable shares in other comprehensive incomes in investees that cannot be reclassified into gains and losses under the equity method		
(II) Other comprehensive incomes that will be reclassified into gains and losses	-49,761,550.00	157,931,275.00
1. Enjoyable shares in other comprehensive incomes in investees that will be reclassified into gains and losses under the equity method		

2. Gains and losses on fair value changes of available-for-sale financial assets	-49,761,550.00	157,931,275.00
3. Gains and losses on reclassifying held-to-maturity investments into available-for-sale financial assets		
4. Effective hedging gains and losses on cash flows		
5. Foreign-currency financial statement translation difference		
6. Other		
VI. Total comprehensive incomes	-17,152,042.84	195,498,827.77
VII. Earnings per share		
(I) Basic earnings per share	0.06	0.07
(II) Diluted earnings per share	0.06	0.07

5. Consolidated cash flow statement

Unit: RMB

Item	Jan.-Jun. 2016	Jan.-Jun 2015
I. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	1,297,635,026.56	1,379,194,450.30
Net increase of deposits from customers and dues from banks		
Net increase of loans from the central bank		
Net increase of funds borrowed from other financial institutions		
Cash received from premium of original insurance contracts		
Net cash received from reinsurance business		
Net increase of deposits of policy holders and investment fund		
Net increase of dispose of the financial assets measured by fair value with the changes be included in the		

current gains and losses		
Cash received from interest, handling charges and commissions		
Net increase of intra-group borrowings		
Net increase of funds in repurchase business		
Tax refunds received	22,852,333.55	17,902,474.19
Other cash received relating to operating activities	7,978,801.83	11,362,233.37
Subtotal of cash inflows from operating activities	1,328,466,161.94	1,408,459,157.86
Cash paid for goods and services	956,379,929.94	1,117,905,635.90
Net increase of customer lendings and advances		
Net increase of funds deposited in the central bank and amount due from banks		
Cash for paying claims of the original insurance contracts		
Cash for paying interest, handling charges and commissions		
Cash for paying policy dividends		
Cash paid to and for employees	174,777,109.44	161,565,170.00
Various taxes paid	36,296,987.31	48,202,988.69
Other cash payment relating to operating activities	42,976,221.96	34,057,622.15
Subtotal of cash outflows from operating activities	1,210,430,248.65	1,361,731,416.74
Net cash flows from operating activities	118,035,913.29	46,727,741.12
II. Cash flows from investing activities:		
Cash received from withdrawal of investments	32,000,000.00	2,109,642.19
Cash received from return on investments	663,870.52	3,953,970.87
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	22,440.00	283,604.57

Net cash received from disposal of subsidiaries or other business units		
Other cash received relating to investing activities		
Subtotal of cash inflows from investing activities	32,686,310.52	6,347,217.63
Cash paid to acquire fixed assets, intangible assets and other long-term assets	39,123,133.24	31,633,966.65
Cash paid for investment		20,000,000.00
Net increase of pledged loans		
Net cash paid to acquire subsidiaries and other business units		
Other cash payments relating to investing activities	23,000,000.00	20,000,000.00
Subtotal of cash outflows from investing activities	62,123,133.24	71,633,966.65
Net cash flows from investing activities	-29,436,822.72	-65,286,749.02
III. Cash Flows from Financing Activities:		
Cash received from capital contributions		
Including: Cash received from minority shareholder investments by subsidiaries		
Cash received from borrowings	8,000,000.00	10,000,000.00
Cash received from issuance of bonds		
Other cash received relating to financing activities	5,431.58	4,046.87
Subtotal of cash inflows from financing activities	8,005,431.58	10,004,046.87
Repayment of borrowings	15,000,000.00	15,000,000.00
Cash paid for interest expenses and distribution of dividends or profit	13,386,397.00	12,083,442.33
Including: dividends or profit paid by subsidiaries to minority shareholders		
Other cash payments relating to		

financing activities		
Sub-total of cash outflows from financing activities	28,386,397.00	27,083,442.33
Net cash flows from financing activities	-20,380,965.42	-17,079,395.46
IV. Effect of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	68,218,125.15	-35,638,403.36
Add: Opening balance of cash and cash equivalents	526,716,238.21	464,761,820.50
VI. Closing balance of cash and cash equivalents	594,934,363.36	429,123,417.14

6. Cash flow statement of the Company

Unit: RMB

Item	Jan.-Jun. 2016	Jan.-Jun 2015
I. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	1,307,793,947.42	1,382,174,877.12
Tax refunds received	22,852,333.55	17,902,474.19
Other cash received relating to operating activities	5,921,206.26	9,780,837.80
Subtotal of cash inflows from operating activities	1,336,567,487.23	1,409,858,189.11
Cash paid for goods and services	1,003,396,703.92	1,148,582,635.11
Cash paid to and for employees	157,612,290.63	145,784,170.00
Various taxes paid	31,818,121.46	45,452,896.38
Other cash payment relating to operating activities	41,036,165.12	32,169,844.52
Subtotal of cash outflows from operating activities	1,233,863,281.13	1,371,989,546.01
Net cash flows from operating activities	102,704,206.10	37,868,643.10
II. Cash flows from investing activities:		
Cash received from retraction of investments	20,000,000.00	
Cash received from return on investments	364,000.00	3,112,240.00

Net cash received from disposal of fixed assets, intangible assets and other long-term assets	22,440.00	106,674.57
Net cash received from disposal of subsidiaries or other business units		
Other cash received relating to investing activities		
Subtotal of cash inflows from investing activities	20,386,440.00	3,218,914.57
Cash paid to acquire fixed assets, intangible assets and other long-term assets	37,368,413.24	29,560,366.65
Cash paid for investment		20,000,000.00
Net cash paid to acquire subsidiaries and other business units		
Other cash payments relating to investing activities		
Subtotal of cash outflows from investing activities	37,368,413.24	49,560,366.65
Net cash flows from investing activities	-16,981,973.24	-46,341,452.08
III. Cash Flows from Financing Activities:		
Cash received from capital contributions		
Cash received from borrowings		
Cash received from issuance of bonds		
Other cash received relating to financing activities	35,761.62	
Subtotal of cash inflows from financing activities	35,761.62	
Repayment of borrowings		
Cash paid for interest expenses and distribution of dividends or profit	12,911,609.50	11,227,486.52
Other cash payments relating to financing activities		
Sub-total of cash outflows from financing activities	12,911,609.50	11,227,486.52

Net cash flows from financing activities	-12,875,847.88	-11,227,486.52
IV. Effect of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	72,846,384.98	-19,700,295.50
Add: Opening balance of cash and cash equivalents	503,933,918.79	430,758,675.98
VI. Closing balance of cash and cash equivalents	576,780,303.77	411,058,380.48

7. Consolidated Statement of Changes in Owners' Equity

Jan.-Jun. 2016

Unit: RMB

Item	Jan.-Jun. 2016												
	Equity attributable to owners of the Company											Minority interests	Total owners' equity
	Share capital	Other equity instruments			Capital reserve	Less: treasury stock	Other comprehensive income	Specific reserve	Surplus reserve	General risk reserve	Retained profit		
		Preferred shares	Perpetual capital securities	Other									
I. Balance at the end of the previous year	561,374,326.00				164,328,665.43		353,519,675.00	10,069,746.98	305,758,285.91		607,859,611.69	17,590,453.47	2,020,500,764.48
Add: change of accounting policy													
Correction of errors in previous periods													
Business combination under the same control													
Other													
II. Balance at the period-begin	561,374,326.00				164,328,665.43		353,519,675.00	10,069,746.98	305,758,285.91		607,859,611.69	17,590,453.47	2,020,500,764.48

capital) from capital public reserves														
2. New increase of capital (or share capital) from surplus reserves														
3. Surplus reserves for making up losses														
4. Other														
(V) Specific reserve														
1. Withdrawn for the period														
2. Used in the period														
(VI) Other														
IV. Closing balance	561,374,326.00				164,328,665.43		303,758,125.00	10,069,746.98	305,758,285.91		629,966,144.55	17,975,872.78	1,993,231,166.65	

Jan.-Jun. 2015

Unit: RMB

Item	Jan.-Jun. 2015												Minority interests	Total owners' equity
	Equity attributable to owners of the Company													
	Share capital	Other equity instruments			Capital reserve	Less: treasury stock	Other comprehensive income	Specific reserve	Surplus reserve	General risk reserve	Retained profit			
		Preferred shares	Perpetual capital securities	Other										
I. Balance at the end of the previous year	561,374,326.00				164,328,665.43		349,159,175.00	8,332,077.21	298,151,696.96		555,590,894.67	16,208,910.07	1,953,145,745.34	
Add: change of accounting policy														
Correction of														

errors in previous periods													
Business combination under the same control													
Other													
II. Balance at the period-begin	561,374,326.00				164,328,665.43		349,159,175.00	8,332,077.21	298,151,696.96		555,590,894.67	16,208,910.07	1,953,145,745.34
III. Increase/decrease in the period (“-” means decrease)							157,931,275.00				26,335,912.66	654,043.38	184,921,231.04
(I) Total amount of the comprehensive income							157,931,275.00				37,563,399.18	654,043.38	196,148,717.56
(II) Capital paid in and reduced by owners													
1. Common shares invested by the shareholders													
2. Capital invested by the owners of other equity instruments													
3. Amounts of share-based payments recognized in owners' equity													
4. Others													
(III) Profit distribution											-11,227,486.52		-11,227,486.52
1. Appropriations to surplus reserves													
2. Appropriations to general risk provisions													

			securiti es								
I. Balance at the end of the previous year	561,374,326.00				183,071,147.70		353,519,675.00	10,069,746.98	305,758,285.91	561,189,656.87	1,974,982,838.46
Add: change of accounting policy											
Correction of errors in previous periods											
Other											
II. Balance at the period-begin	561,374,326.00				183,071,147.70		353,519,675.00	10,069,746.98	305,758,285.91	561,189,656.87	1,974,982,838.46
III. Increase/decrease in the period (“-” means decrease)							-49,761,550.00			19,697,897.66	-30,063,652.34
(I) Total amount of the comprehensive income							-49,761,550.00			32,609,507.16	-17,152,042.84
(II) Capital paid in and reduced by owners											
1. Common shares invested by the shareholders											
2. Capital invested by the owners of other equity instruments											
3. Amounts of share-based payments recognized in owners' equity											
4. Others											
(III) Profit distribution										-12,911,609.50	-12,911,609.50
1. Appropriations											

to surplus reserves											
2. Appropriations to owners (or shareholders)										-12,911,609.50	-12,911,609.50
3. Other											
(IV) Internal carry-forward of owners' equity											
1. New increase of capital (or share capital) from capital public reserves											
2. New increase of capital (or share capital) from surplus reserves											
3. Surplus reserves for making up losses											
4. Other											
(V) Specific reserve											
1. Withdrawn for the period											
2. Used in the period											
(VI) Other											
IV. Closing balance	561,374,326.00				183,071,147.70		303,758,125.00	10,069,746.98	305,758,285.91	580,887,554.53	1,944,919,186.12

Jan.-Jun. 2015

Unit: RMB

Item	Jan.-Jun. 2015										
	Share capital	Other equity instruments			Capital reserve	Less: treasury stock	Other comprehensive income	Specific reserve	Surplus reserve	Retained profit	Total owners' equity
		Preferred shares	Perpetual capital securities	Other							

I. Balance at the end of the previous year	561,374,326.00				183,071,147.70		349,159,175.00	8,332,077.21	298,151,696.96	503,957,842.86	1,904,046,265.73
Add: change of accounting policy											
Correction of errors in previous periods											
Other											
II. Balance at the period-begin	561,374,326.00				183,071,147.70		349,159,175.00	8,332,077.21	298,151,696.96	503,957,842.86	1,904,046,265.73
III. Increase/decrease in the period (“-” means decrease)							157,931,275.00			26,340,066.25	184,271,341.25
(I) Total amount of the comprehensive income							157,931,275.00			37,567,552.77	195,498,827.77
(II) Capital paid in and reduced by owners											
1. Common shares invested by the shareholders											
2. Capital invested by the owners of other equity instruments											
3. Amounts of share-based payments recognized in owners' equity											
4. Others											
(III) Profit distribution										-11,227,486.52	-11,227,486.52
1. Appropriations to surplus reserves											
2. Appropriations										-11,227,486.52	-11,227,486.52

to owners (or shareholders)										486.52	86.52
3. Other											
(IV) Internal carry-forward of owners' equity											
1. New increase of capital (or share capital) from capital public reserves											
2. New increase of capital (or share capital) from surplus reserves											
3. Surplus reserves for making up losses											
4. Other											
(V) Specific reserve											
1. Withdrawn for the period											
2. Used in the period											
(VI) Other											
IV. Closing balance	561,374,326.00				183,071,147.70		507,090,450.00	8,332,077.21	298,151,696.96	530,297,909.11	2,088,317,606.98

III. Company Profile

Changchai Company, Limited (hereinafter referred to as “the Company”) was founded on 5 May 1994, which is a company limited by shares promoted solely by Changzhou Diesel Engine Plant through the approval by the State Commission for Restructuring the Economic Systems with document TGS [1993] No. 9 on 15 January 1993 by way of public offering of shares. With the approved of the People’s Government of Jiangsu Province SZF [1993] No. 67, as well as reexamined and approved by China Securities Regulatory Commission (“CSRC”) through document ZJFSZ (1994) No. 9, the Company initially issued A shares to the public from 15 March 1994 to 30 Mar. 1994. As approved by the Shenzhen Stock Exchange through document SZSFZ (1994) No. 15, such tradable shares of the public got listing on 1 July 1994 at Shenzhen Stock Exchange with “Su Changchai A” for short of stock, as well as “0570” as stock code (present stock code is “000570”).

In 1996, with the recommendation of the Office of the People's Government of Jiangsu Province SZBH [1996] No. 13, as well as first review by Shenzhen Municipal Securities Administration Office through SZBZ [1996] No. 24, and approval of the State Council Securities Commission ZWF [1996] No. 27, the Company issued 100 million B shares to qualified investors on 27 August 1996 to 30 August 1996, getting listed on 13 September 1996.

On 9 June 2006, the Company held a shareholders' general meeting related to A shares market to examine and approve share merger reform plan, and performed the share merger reform on 19 June 2006.

As examined and approved at the 2009 2nd Extraordinary Shareholders' General Meeting in September 2009, based on the total share capital of 374,249,551 shares as at 30 June 2009, the Company implemented the profit distribution plan, i.e. to distribute 5 bonus shares and cash of RMB 0.8 for every 10 shares, with registered capital increased by RMB187,124,775.00, as well as registered capital of RMB561,374,326.00 after change. As at 31 December 2014, the total share capital of the Company is 561,374,326 shares, as well as registered capital of RMB561,374,326.00, which verified by Jiangsu Gongzheng Tianye Certified Public Accountants Company Limited with issuing Capital Verification Report SGC [2010] No. B002. The Company had registered the change with the administrative authorities for industry and commerce, and obtained the renewed business license as legal person with No. 32040000004012.

The Company's registered address is situated at No. 123 Huaide Middle Road, Changzhou, Jiangsu, as well as its head office located at No. 123 Huaide Middle Road, Changzhou, Jiangsu.

The Company belongs to manufacturing with business scope including manufacturing and sale of diesel engine, diesel engines part and casting, grain harvesting machine, rotary cultivators, walking tractor, mould and fixtures, assembling and sale of diesel generating set and pumping unit. The Company mainly engaged in the production and sales of small and medium-sized single cylinders and multi-cylinder diesel engine with the label of Changchai Brand. The diesel engine produced and sold by the Company were mainly used in tractors, combine harvest models, light commercial vehicle, farm equipment, small-sized construction machinery, generating sets and shipborne machinery and equipment, etc. The Company's main business remained unchanged in the reporting period.

The Company established the Shareholders' General Meeting, the Board of Directors and the Board of Supervisors, Corporate office, Financial Department, Political Department, Investment and Development Department, Enterprise Management Department, Human Resources Department, Production Department, Procurement Department, Sales Company, Market Department, Chief Engineer Office, Technology Center, QA Department, Foundry Branch, Machine Processing Branch, Single-cylinder Engine branch, Multi-cylinder Engine Branch and Overseas Business Department in the Company.

The financial report has been approved to be issued by the Board of Directors on 16 August 2016.

The consolidated scope of the Company of the Reporting Period included the parent company and 4 subsidiaries, which remained the same as the last period. As for the details of the consolidated scope of the financial statements as well as the changes, please refer to the notes to the changes of the consolidated scope and the equities among other entities of the annotation of the financial statements.

IV. Basis for preparation of the financial report

1. Basis for preparation

With the going-concern assumption as the basis and based on transactions and other events that actually occurred, the Group prepared financial statements in accordance with <The Accounting Standards for Business Enterprises—Basic Standard> issued by the Ministry of Finance with Decree No. 33 and revised with Decree No. 76, the 41 specific accounting standards, the Application Guidance of Accounting Standards for Business Enterprises, the Interpretation of Accounting Standards for Business Enterprises and other regulations issued and revised from 15 Feb. 2006 onwards (hereinafter jointly referred to as “the Accounting Standards for Business Enterprises”, “China Accounting Standards” or “CAS”), as well as the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15 – General Regulations for Financial Reporting (revised in 2014) by China Securities Regulatory Commission.

In accordance with relevant provisions of the Accounting Standards for Business Enterprises, the Group adopted the accrual basis in accounting. Except for some financial instruments, where impairment occurred on an asset, an impairment reserve was withdrawn accordingly pursuant to relevant requirements.

2. Continuation

The Company comprehensively evaluated the information acquired recently that there would be no such factors in the 12 months from the end of the reporting period that would obviously influence the continuation capability of the Company and predicted that the operating activities would continue in the future 12 months of the Company. The financial statement compiled base on the continuous operation.

V. Important accounting policies and estimations

Note to accounting policies and estimations:

The Company and each subsidiary according to the actual production and operation characteristics and in accord with the regulations of the relevant ASBE, formulated certain specific accounting polices and accounting estimations, which mainly reflected in the withdrawal method of the bad debt provision of the accounts receivable (Notes III, 11), the measurement of the inventory (Notes III, 12) and the depreciation of the fixed assets (Notes III, 16) etc. As for the details of the significant accounting judgment and the estimations made by the management layer, please refer to Notes III, 30 “Important accounting judgment and estimations”.

1. Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Group are in compliance with in compliance with the Accounting Standards for Business Enterprises, which factually and completely present the Company’s and the Group’s financial positions, business results and cash flows and other relevant information.

2. Fiscal period

The fiscal periods are divided into fiscal year and metaphase, the fiscal year is from Jan. 1 to Dec. 31 and as the metaphase included monthly, quarterly and semi-yearly periods.

3. Operating cycle

A normal operating cycle refers to a period from the Group purchasing assets for processing to realizing cash or cash equivalents. An operating cycle for the Group is 12 months, which is also the classification criterion for the liquidity of its assets and liabilities.

4. Currency used in bookkeeping

Renminbi is functional currency of the Company.

5. Accounting methods for business combinations under the same control and business combinations not under the same control

(1) Business combinations under the same control:

A business combination under the same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary.

For the merger of enterprises under the same control, if the consideration of the merging enterprise is that it makes payment in cash, transfers non-cash assets or bear its debts, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.

If the consideration of the merging enterprise is that it issues equity securities, it shall, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The total face value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.

All direct costs for the business combination, including expenses for audit, evaluating and legal services shall be recorded into the profits and losses at the current period. The expenses such as the handling charges and commission etc, premium income of deducting the equity securities, and as for the premium income was insufficient to dilute, the retained earnings shall be written down.

Owing to the reasons such as the additional investment, for the equity investment held before acquiring the control right of the combined parties, the confirmed relevant gains and losses, other comprehensive income and the changes of other net assets since the date of the earlier one between the date when acquiring the original equity right and the date when the combine parties and combined ones were under the same control to the combination date, should be respectively written down and compared with the beginning balance of retained earnings or the current gains and losses during the statement period.

(2) Business combinations not under the same control

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination.

The combination costs of the acquirer and the identifiable net assets obtained by the acquirer in a business combination shall be measured at the fair values. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains forms the acquiree as business reputation. The direct relevant expenses occurred from the enterprise combination should be included in the current gains and losses when occurred. The combination costs of the acquirer and the identifiable net assets obtained by it in the combination shall be measured according to their fair values at the acquiring date. The difference between the fair value of the assets paid out by the Company and its book value should be included in the current gains and losses. The purchase date refers to the date that the purchaser acquires the control right of the acquiree.

For the business combinations not under the same control realized through step by step multiple transaction, as for the equity interests that the Group holds in the acquiree before the acquiring date, they shall be re-measured according to their fair values at the acquiring date; the positive difference between their fair values and carrying amounts shall be recorded into the investment gains for the period including the acquiring date. The equity held by the acquiree which involved with the other comprehensive income and the other owners' equities changes except for the net gains and losses, other comprehensive income and the profits distribution and other related comprehensive gains and other owners' equities which in relation to the equity interests that the Group holds in the acquiree before the acquiring date should be transferred into the current investment income on the acquiring date, except for the other comprehensive income occurred from the re-measurement of the net profits of the defined benefit plans or the changes of the net assets of the investees.

6. Methods for preparing consolidated financial statements

The Company confirms the consolidated scope based on the control and includes the subsidiaries with actual control right into the consolidated financial statement.

The consolidated financial statement of the Company is compiled according to the regulations of No. 33 of ASBE-Consolidated Financial Statement and the relevant regulations and as for the whole significant come-and-go balance, investment, transaction and the unrealized profits should be written off when compiling the consolidated financial statement. The portion of a subsidiary's shareholders' equity and the portion of a subsidiary's net profits and losses for the period not held by the Group are recognized as minority interests and minority shareholder profits and losses respectively and presented separately under shareholders' equity and net profits in the consolidation financial statements. The portion of a subsidiary's net profits and losses for the period that belong to minority interests is presented as the item of "minority shareholder profits and losses" under the bigger item of net profits in the consolidated financial statements. Where the loss of a subsidiary shared by minority shareholders exceeds the portion enjoyed by minority shareholders in the subsidiary's opening owners' equity, minority interests are offset.

The accounting policy or accounting period of each subsidiary is different from which of the Company, which shall be adjusted as the Company; or subsidiaries shall prepare financial statement again required by the Company when preparing the consolidated financial statements.

As for the added subsidiary company not controlled by the same enterprise preparing the consolidated financial statement, shall adjust individual financial statement based on the fair value of the identifiable net assets on the acquisition date; as for the added subsidiary companies controlled by the same enterprise preparing the financial statement, shall not adjust the financial statement of the subsidiaries, namely survived by integration as participating in the consolidation when the final control party starts implementing control and should adjust the

period-begin amount of the consolidated balance sheet and at the same time adjust the relevant items of the compared statement.

As for the disposed subsidiaries, the operation result and the cash flow should be included in the consolidated income statement and the consolidated cash flow before the disposing date; the disposed subsidiaries of the current period, should not be adjusted the period-begin amount of the consolidated balance sheet.

Where the Group loses control on its original subsidiaries due to disposal of some equity investments or other reasons, the residual equity interests are re-measured according to the fair value on the date when such control ceases. The summation of the consideration obtained from the disposal of equity interests and the fair value of the residual equity interests, minus the portion in the original subsidiary's net assets measured on a continuous basis from the acquisition date that is enjoyable by the Group according to the original shareholding percentage in the subsidiary, is recorded in investment gains for the period when the Group's control on the subsidiary ceases. Other comprehensive incomes in relation to the equity investment and the other owners' equities changes except for the net gains and losses, other comprehensive income and profits distribution in the original subsidiary are treated on the same accounting basis as the acquiree directly disposes the relevant assets or liabilities (that is, except for the changes in the net liabilities or assets with a defined benefit plan resulted from re-measurement of the original subsidiary, the rest shall all be transferred into current investment gains) when such control ceases. And subsequent measurement is conducted on the residual equity interests according to the No.2 Accounting Standard for Business Enterprises-Long-term Equity Investments or the No.22 Accounting Standard for Business Enterprises-Recognition and Measurement of Financial Instruments.

For the disposal of equity investment belongs to a package deal, should be considered as a transaction and conduct accounting treatment. However, Before losing control, every disposal cost and corresponding net assets balance of subsidiary of disposal investment are confirmed as other comprehensive income in consolidated financial statements, which together transferred into the current profits and losses in the lose of control, when the Group losing control on its subsidiary.

For the disposal of the equity investment not belongs to a package deal, should be executed accounting treatment according to the relevant policies of partly disposing the equity investment of the subsidiaries under the situation not lose the control right before losing the control right; when losing the control right, the former should be executed accounting treatment according to the general disposing method of the disposal of the subsidiaries.

7. Classification of joint arrangements and accounting treatment of joint operations

The Group classifies joint arrangements into joint operations and joint ventures.

A joint operation refers to a joint arrangement where the Group is the joint operations party of the joint arrangement and enjoys assets and has to bear liabilities related to the arrangement. The Company confirms the following items related to the interests share among the joint operations and executes accounting treatment according to the regulations of the relevant ASBE:

- (1) Recognizes the assets that it holds and bears in the joint operation and recognizes the jointly-held assets according to the Group's stake in the joint operation;
- (2) Recognizes the liabilities that it holds and bears in the joint operation and recognizes the jointly-held liabilities according to the Group's stake in the joint operation;
- (3) Recognizes the income from sale of the Group's share in the output of the joint operation
- (4) Recognizes the income from sale of the joint operation's outputs according to the Group's stake in it
- (5) Recognizes the expense solely incurred to the Group and the expense incurred to the joint operation according

to the Group's stake in it.

8. Recognition standard for cash and cash equivalents

In the Group's understanding, cash and cash equivalents include cash on hand, any deposit that can be used for cover, and short-term (usually due within 3 months since the day of purchase) and high circulating investments, which are easily convertible into known amount of cash and whose risks in change of value are minimal.

9. Foreign currency businesses and translation of foreign currency financial statements

(1) Foreign currency business

Concerning the foreign-currency transactions that occurred, the foreign currency shall be converted into the recording currency according to the middle price of the market exchange rate disclosed by the People's Bank of China on the date of the transaction. Among the said transactions that occurred, those involving foreign exchanges shall be converted according to the exchange rates adopted in the actual transactions.

On the balance sheet date, the foreign-currency monetary assets and the balance of the liability account shall be converted into the recoding currency according to the middle price of the market exchange rates disclosed by the People's Bank of China on the Balance Sheet Date. The difference between the recording-currency amount converted according to the exchange rate on the Balance Sheet Date and the original book recording-currency amount shall be recognized as gains/losses from foreign exchange. And the exchange gain/loss caused by the foreign-currency borrowings related to purchasing fixed assets shall be handled according to the principle of capitalizing borrowing expenses; the exchange gain/loss incurred in the establishment period shall be recorded into the establishment expense; others shall be recorded into the financial expenses for the current period.

On the balance sheet date, the foreign-currency non-monetary items measured by historical cost shall be converted according to the middle price of the market exchange disclosed by the People's Bank of China on the date of the transaction, with no changes in the original recording-currency amount; while the foreign-currency non-monetary items measured by fair value shall be converted according to the middle price of the market exchange disclosed by the People's Bank of China on the date when the fair value is recognized, and the exchange gain/loss caused thereof shall be recognized as the gain/loss from fair value changes and recorded into the gain/loss of the current period.

(2) Translation of foreign currency

The assets and liabilities items among the balance sheet of the foreign operation shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except for the items as "undistributed profits", other items shall be translated at the spot exchange rate at the time when they are incurred. And the revenues and expenses items among the balance sheet of the foreign operation shall be translated at the approximate exchange rate of the transaction date. The difference caused from the above transaction of the foreign currency statement should be listed in the other comprehensive income among the owners' equities.

10. Financial instruments

(1) Category of financial instruments

The Company classifies the financial assets into four kinds such as trading financial assets, available-for-sale

financial assets, accounts receivable and held-to-maturity investment according to the investment purpose and the economy nature.

The Company classifies the financial liabilities into two kinds such as the financial liabilities measured by fair value with the changes included in the current gains and losses and the other financial liabilities measured by amortized cost according to the economy nature.

(2) Recognition basis and measurement methods of financial instruments

The trading financial assets should be measured by fair value with the changes of fair value included in the current gains and losses; the available-for-sale financial assets should be measured by fair value with the changes of fair value included in the owners' equities; and the accounts receivable and the held-to-maturity investment should be measured by amortized cost.

(3) Recognition basis and measurement methods of financial instruments transformation

The Company transfers or delivers a financial asset to a party other than the issuer of the financial asset and the transformation of the financial assets could be whole of the financial assets or a part of it, which including two methods:

The enterprise transfers the right to another party for receiving the cash flow of the financial asset;

The enterprise transfers the financial asset to another party, but maintains the right to receive the cash flow of the financial asset and undertakes the obligation to pay the cash flow it receives to the final recipient.

Where the Company has transferred a part or nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset and the difference between the consideration received and the book value of the transferred financial assets should be recognized as gains and losses and at the same time transfers the accumulative gains or losses from the recognized financial assets among the original owners' equities in the gains and losses; if it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall continue to recognize the whole or part of the financial assets and the consideration received be recognized as financial liabilities.

Where the Company neither transfers nor retains nearly all of the risks and rewards related to the ownership of a financial asset, and it does not cease its control on the said financial asset, it recognizes the relevant financial asset and liability accordingly according to the extent of its continuous involvement in the transferred financial asset.

(4) De-recognition conditions of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly.

(5) Recognition methods of the fair value of main financial assets and financial liabilities

As for the financial assets held by the Company or the financial liabilities plans to undertake, if there exists active market, should adopt the current offering price in the active market, and as for the financial assets plans to be purchased by the Company or the financial liabilities undertook, should adopt the current offering in the active market, and if there is no current offering price or asking price, should adopt the market quotation of the recent transactions or the adjusted market quotation of the recent transactions, except for there is definite evidence indicate the market quotation is not the fair value.

Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques, including the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature etc.

(6) Impairment test method and withdrawal methods of impairment provision of financial assets (excluding

accounts receivable)

The Company shall carry out an inspection, on the balance sheet day, on the carrying amount of the financial assets other than those measured at their fair values and of which the variation is recorded into the profits and losses of the current period. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made. For the financial assets with significant single amount, if there is objective evidence indicates the occurred impairment, should recognize the impairment losses and should include which in the current gains and losses. As for the financial assets with insignificant single amount but not occur impairment, the Company should execute the impairment test by credit groups according to the credit degree of the customers and the actual situation of the happen of the bad debts over the years for recognizing the impairment losses.

The expression “objective evidence proving that the financial asset has been impaired” refers to the actually incurred events which, after the financial asset is initially recognized, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the enterprise.

The objective evidences that can prove the impairment of a financial asset shall include:

A serious financial difficulty occurs to the issuer or debtor;

The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.;

The creditor makes any concession to the debtor who is in financial difficulties due to economic or legal factors, etc.;

The debtor will probably become bankrupt or carry out other financial reorganizations;

The financial asset can no longer continue to be traded in the active market due to serious financial difficulties of the issuer;

It is impossible to identify whether the cash flow of a certain asset within a certain combination of financial assets has decreased or not. But after making an overall appraisal according to the public data available, it is found that the predicted future cash flow of the said combination of financial assets has indeed decreased since it was initially recognized and such decrease can be measured, for example, the ability of the debtor of the said combination of financial assets worsens gradually, the unemployment rate of the country or region where the debtor is situated increases, the prices of the region where the guaranty is situated are obviously dropping, or the industrial sector concerned is in slump, etc.;

Any seriously disadvantageous change has occurred to technical, market, economic or legal environment, etc. wherein the debtor operates its business, which makes the investor of an equity instrument unable to take back its investment;

Where the fair value of the equity instrument investment drops significantly or not contemporarily;

Other objective evidences showing the impairment of the financial asset.

Where a financial asset measured on the basis of post-amortization costs is impaired, the carrying amount of the said financial asset shall be calculated by the difference between the book value and the current value of the predicted future cash flow of the impairment losses.

Where any financial asset measured on the basis of post-amortization costs is recognized as having suffered from any impairment loss, if there is any objective evidence proving that the value of the said financial asset has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period.

Where a sellable financial asset is impaired, even if the recognition of the financial asset has not been terminated,

the accumulative losses arising from the decrease of the fair value of the owner's equity which is directly included shall be transferred out and recorded into the profits and losses of the current period. The accumulative losses are the initial cost after deducting the principal, the amortization amount, fair value of current period and balance after originally recorded into impairment loss of profits or losses. After the recognition of impairment losses, if there is any objective evidence indicated that the value of financial assets is resumed and objectively related to the events after the recognition of impairment losses, transfer the impairment losses originally recognized, transfer the impairment losses of available for sale equity instrument investment and recognized as other comprehensive income, and transfer the impairment losses of available for sale liability instruments and record into current profits or losses.

11. Receivables

(1) Accounts receivable with significant single amount for which the bad debt provision is made individually

Recognition criteria of accounts receivable with individual and significant amount	significant single amounts refers to the accounts receivable of the single amount more than RMB1 million (RMB1 million include) (including accounts receivable and other accounts receivable)
Withdrawal method of the bad debt provision of the accounts receivable with significant single amounts	The Company makes an independent impairment test on the accounts receivable with significant single amount, and provision for bad debts shall withdrawn on the basis of the balance between the current values of the predicted future cash flow lower than book value. Upon independent impairment test, the accounts receivable with significant single amounts has not been impaired, it shall be withdrawn bad debt provision based on ending balance by adopting aging analysis method.

(2) Account receivable withdrawal bad debt provision by the credit risk portfolio

Name of the group	Method
The age of the accounts receivable as the credit risk portfolio	Aging analysis

In the group, adopting aging analysis withdraws bad debt provision:

Applicable Not applicable

Age	Withdrawal proportion for accounts receivable	Withdrawal proportion for other accounts receivable
Within 1 year (including 1 year)	2.00%	2.00%
1-2 years	5.00%	5.00%
2-3 years	15.00%	15.00%
3-4 years	30.00%	30.00%
4-5 years	60.00%	60.00%
Over 5 years	100.00%	100.00%

In the groups, adopting balance percentage method to withdraw bad debt provision:

Applicable Not applicable

In the groups, adopting other methods to withdraw bad debt provision:

Applicable Not applicable

(3) Accounts receivable with an insignificant single amount but for which the bad debt provision is made individually

Reason of individually withdrawing bad debt provision	Recognition criteria of accounts receivable with individual but insignificant amount: insignificant single amounts refers to the accounts receivable of the single amount lower than RMB1 million (RMB1 million include) (including accounts receivable and other accounts receivable).
Withdrawal method for bad debt provision	As for an account receivable with an insignificant single amount and which can not show its risk feature when withdrawing a bad-debt provision for it on the group basis, the bad-debt provision for the account receivable shall be withdrawn based on the difference of the expected present value of the future cash flows of the account receivable that less than its carrying amount. The Company shall withdraw the bad-debt provision for such an account receivable by combining the aging method and individual judgment based on the debtor entity's actual financial position, cash flows and other relevant information.

12. Inventory

(1) Category of Inventory

Inventory refers to the held-for-sale finished products or commodities, goods in process, materials consumed in the production process or the process providing the labor service etc. Inventory is mainly including the raw materials, low priced and easily worn articles, unfinished products, inventories and work in process—outsourced etc.

(2) Pricing method

Purchasing and storage of the various inventories should be valued according to the planned cost and the dispatch be calculated according to the weighted average method; carried forward the cost of the finished products according to the actual cost of the current period and the sales cost according to the weighted average method.

(3) Determination basis of the net realizable value of inventory and withdrawal method of the provision for falling price of inventory

At the balance sheet date, inventories are measured at the lower of the cost and net realizable value. When all the inventories are checked roundly, for those which were destroyed, outdated in all or in part, sold at a loss, etc, the Company shall estimate the irrecoverable part of its cost and withdrawal the inventory falling price reserve at the year-end. Where the cost of the single inventory item is higher than the net realizable value, the inventory falling price reserve shall be withdrawn and recorded into profits and losses of the current period. Of which: in the normal production and operating process, as for the commodities inventory directly for sales such as the finished

products, commodities and the materials for sales, should recognize the net realizable value according to the amount of the estimated selling price of the inventory minus the estimated selling expenses and the relevant taxes; as for the materials inventory needs to be processed in the normal production and operating process, should recognize its net realizable value according to the amount of the estimated selling price of the finished products minus the cost predicts to be occur when the production completes and the estimated selling expenses as well as the relevant taxes; on the balance sheet date, for the same inventory with one part agreed by the contract price and other parts not by the contract price, should be respectively recognized the net realizable value. For items of inventories relating to a product line that are produced and marketed in the same geographical area, have the same or similar end users or purposes, and cannot be practicably evaluated separately from other items in that product line provision for decline in value is determined on an aggregate basis; for large quantity and low value items of inventories, provision for decline in value is made based on categories of inventories.

(4) The perpetual inventory system is maintained for stock system.

(5) Amortization method of low-value consumption goods and packages

It is one time amortization method of low-value consumption goods and packages when consuming.

13. Divided as assets held for sale

The Company recognizes the components (or the non-current assets) which meet with the following conditions as assets held for sale:

(1) The components must be immediately sold only according to the usual terms of selling this kind of components under the current conditions;

(2) The Company had made solutions on disposing the components (or the non-current assets), for example, the Company should gain the approval from the shareholders according to the regulations and had acquired the approved from the Annual General Meeting or the relevant authority institutions;

(3) The Company had signed the irrevocable transformation agreement with the transferee;

(4) The transformation should be completed within 1 year.

14. Long-term equity investments

(1) Judgment standard of joint control and significant influences

Joint control, refers to the control jointly owned according to the relevant agreement on an arrangement by the Company and the relevant activities of the arrangement should be decided only after the participants which share the control right make consensus. Significant influence refers to the power of the Group which could anticipate in the finance and the operation polices of the investees, but could not control or jointly control the formulation of the policies with the other parties.

(2) Recognition for initial investment cost

The initial investment cost of the long-term equity investment shall be recognized by adopting the following ways in accordance with different methods of acquisition:

① As for those forms under the same control of the enterprise combine, if the combine party takes the cash payment, non-cash assets transformation, liabilities assumption or equity securities issuance as the combination consideration, should take the shares of the book value by the ultimate control party in the consolidate financial statement of the owners' equities of the combiners acquired on the merger date as the initial investment cost. The

difference between the initial investment cost and the book value of the paid combination consideration or the total amount of the issued shares of the long-term equity investment should be adjusted the capital reserve; If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. To include each direct relevant expense occurred when executing the enterprise merger into the current gains and losses; while the handling charges and commission occurs from the issuing the equity securities or the bonds for the enterprise merger should be included in the initial measurement amount of the shareholders' equities or the liabilities.

② As for long-term equity investment acquired through the merger of enterprises not under the same control, its initial investment cost shall regard as the combination cost calculated by the fair value of the assets, equity instrument issued and liabilities incurred or undertaken on the purchase date adding the direct cost related with the acquisition. The identifiable assets of the combined party and the liabilities (including contingent liability) undertaken on the combining date shall be measured at the fair value without considering the amount of minority interest. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. The acquirer shall record the negative balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree into the consolidated income statement directly. The agent expense and other relevant management expenses such as the audit, legal service and evaluation consultation occurs from the enterprise merger, should be included in the current gains and losses when occur; while the handling charges and commission occurs from the issuing the equity securities or the bonds for the enterprise merger should be included in the initial measurement amount of the shareholders' equities or the liabilities.

③ Long-term equity investment obtained by other means

The initial cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement, the unfair value stipulated in the contract or agreement shall be measured at fair value.

As for long-term investment obtained by the exchange of non-monetary assets, where it is commercial in nature, the fair value of the assets surrendered shall be recognized as the initial cost of the long-term equity investment received; where it is not commercial in nature, the book value of the assets surrendered shall be recognized as the initial cost of the long-term equity investment received.

The initial cost of a long-term equity investment obtained by recombination of liabilities shall be recognized at fair value of long-term equity investment.

(3) Subsequent measurement and recognition of profits and losses

① An investment in the subsidiary company shall be measured by employing the cost method

Where the Company hold, and is able to do equity investment with control over an invested entity, the invested entity shall be its subsidiary company. Where the Company holds the shares of an entity over 50%, or, while the Company holds the shares of an entity below 50%, but has a real control to the said entity, then the said entity shall be its subsidiary company.

② An investment in the joint enterprise or associated enterprise shall be measured by employing the equity method

Where the Company hold, and is able to do equity investment with joint control with other parties over an invested entity, the invested entity shall be its joint enterprise. Where the Company hold, and is able to have equity investment with significant influences on an invested entity, the invested entity shall be its associated

entity.

After the Company acquired the long-term equity investment, should respectively recognize investment income and other comprehensive income according to the net gains and losses as well as the portion of other comprehensive income which should be enjoyed or be shared, and at the same time adjust the book value of the long-term equity investment; corresponding reduce the book value of the long-term equity investment according to profits which be declared to distribute by the investees or the portion of the calculation of cash dividends which should be enjoyed; for the other changes except for the net gains and losses, other comprehensive income and the owners' equity except for the profits distribution of the investees, should adjust the book value of the long-term equity investment as well as include in the owners' equity .

The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity.

If the accounting polices adopted by the investees is not accord with that of the Group, should be adjusted according to the accounting policies of the Group and the financial statement of the investees during the accounting period and according which to recognize the investment income as well as other comprehensive income.

For the transaction happened between the Company and associated enterprises as well as joint ventures, if the assets launched or sold not form into business, the portion of the unrealized gains and losses of the internal transaction, which belongs to the Group according to the calculation of the enjoyed proportion, should recognize the investment gains and losses on the basis. But the losses of the unrealized internal transaction happened between the Company and the investees which belongs to the impairment losses of the transferred assets, should not be neutralized.

The Company shall recognize the net losses of the invested enterprise according to the following sequence: first of all, to write down the book value of the long-term equity investment. Secondly, if the book value of the long-term equity investment is insufficient for written down, should be continued to recognized the investment losses limited to the book value of other long-term equity which forms of the net investment of the investees and to written down the book value of the long-term accounts receivable etc. Lastly, through the above handling, for those should still undertake the additional obligations according to the investment contracts or the agreements, it shall be recognized as the estimated liabilities in accordance with the estimated duties and then recorded into investment losses at current period. If the invested entity realizes any net profits later, the Group shall, after the amount of its attributable share of profits offsets against its attributable share of the un-recognized losses, resume recognizing its attributable share of profits.

In the preparation for the financial statements, the balance existed between the long-term equity investment increased by acquiring shares of minority interest and the attributable net assets on the subsidiary calculated by the increased shares held since the purchase date (or combination date), the capital reserves shall be adjusted, if the capital reserves are not sufficient to offset, the retained profits shall be adjusted; the Company disposed part of the long-term equity investment on subsidiaries without losing its controlling right on them, the balance between the disposed price and attributable net assets of subsidiaries by disposing the long-term equity investment shall be recorded into owners' equity.

For other ways on disposal of long-term equity investment, the balance between the book value of the disposed equity and its actual payment gained shall be recorded into current profits and losses.

For the long-term equity investment measured by adopting equity method, if the remained equity after disposal still adopts the equity method for measurement, the other comprehensive income originally recorded into owners'

equity should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees according to the corresponding proportion. The owners' equity recognized owing to the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current gains and losses according to the proportion.

For the long-term equity investment which adopts the cost method of measurement, if the remained equity still adopt the cost method, the other comprehensive income recognized owing to adopting the equity method for measurement or the recognition and measurement standards of financial instrument before acquiring the control of the investees, should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees and should be carried forward into the current gains and losses according to the proportion; the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion.

For those the Company lost the control of the investees by disposing part of the equity investment as well as the remained equity after disposal could execute joint control or significant influences on the investees, should change to measure by equity method when compiling the individual financial statement and should adjust the measurement of the remained equity to equity method as adopted since the time acquired; if the remained equity after disposal could not execute joint control or significant influences on the investees, should change the accounting disposal according to the relevant regulations of the recognition and measurement standards of financial instrument, and its difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized by adopting equity method for measurement or the recognition and measurement standards of financial instrument before the Group acquired the control of the investees, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when lose the control of them, while the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion. Of which, for the disposed remained equity which adopted the equity method for measurement, the other comprehensive income and the other owners' equity should be carried forward according to the proportion; for the disposed remained equity which changed to execute the accounting disposal according to the recognition and measurement standards of financial instrument, the other comprehensive income and the other owners' equity should be carried forward in full amount.

For those the Company lost the control of the investees by disposing part of the equity investment, the disposed remained equity should change to calculate according to the recognition and measurement standards of financial instrument, and difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized from the original equity investment by adopting the equity method, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when terminate the equity method for measurement, while for the owners' equity recognized owing to the changes of the other owner's equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current investment income with full amount when terminate adopting the equity method.

15. Investment real estates

Measurement mode of investment real estates:

Measurement of cost method

Depreciation or amortization method:

The investment real estate shall be measured at its cost. Of which, the cost of an investment real estate by acquisition consists of the acquisition price, relevant taxes, and other expense directly relegated to the asset; the cost of a self-built investment real estate composes of the necessary expenses for building the asset to the hoped condition for use. The investment real estates invested by investors shall be recorded at the value stipulated in the investment contracts or agreements, but the unfair value appointed in the contract or agreement shall be entered into the account book at the fair value.

As for withdrawal basis of provision for impairment of investment real estates, please refer to withdrawal method for provision for impairment of fixed assets.

16. Fixed assets

(1) Conditions for recognition

Fixed assets refers to the tangible assets that simultaneously possess the features as follows: (a) they are held for the sake of producing commodities, rendering labor service, renting or business management; and (b) their useful life is in excess of one fiscal year. The fixed assets are only recognized when the relevant economic benefits probably flow in the Company and its cost could be reliable measured.

(2) Depreciation methods

Category of fixed assets	Method	Useful life	Expected net salvage value	Annual deprecation
Houses and buildings	Average method of useful life	20-40		2.50-5
Machine equipment	Average method of useful life	6-15		6.67-16.67
Transportation equipment	Average method of useful life	5-10		10-20
Electronic equipment	Average method of useful life			
Other equipment	Average method of useful life	5-10		10-20

(3) Recognition basis, pricing and depreciation method of fixed assets by finance lease

The Company recognizes those meet with the following one or certain standards as the fixed assets by finance lease:

- ① The leasing contract had agreed that (or made the reasonable judgment according to the relevant conditions on the lease starting date) when the lease term expires, the ownership of leasing the fixed assets could be transferred to the Company;
- ② The Company owns the choosing right for purchasing and leasing the fixed assets, with the set purchase price which is estimated far lower than the fair value of the fixed assets by finance lease when executing the choosing right, so the Company could execute the choosing right reasonably on the lease starting date;

③ Even if the ownership of the fixed assets not be transferred, the lease period is of 75% or above of the useful life of the lease fixed assets;

④ The current value of the minimum lease payment on the lease starting date of the Company is equal to 90% or above of the fair value of the lease fixed assets on the lease starting date; the current value of the minimum lease receipts on the lease starting date of the leaser is equal to 90% or above of the fair value of the lease fixed assets on the lease starting date;

⑤ The nature of the lease assets is special that only the Company could use it if not execute large transformation. The fixed assets by finance lease should take the lower one between the fair value of the leasing assets and the current value of the minimum lease payment on the lease starting date as the entry value. As for the minimum lease payment which be regarded as the entry value of the long-term accounts payable, its difference should be regarded as the unrecognized financing expense. For the initial direct expenses occur in the lease negotiations and the signing process of the lease contracts that attribute to the handling expenses, counsel fees, travel expenses and stamp taxes of the lease items, should be included in the charter-in assets value. The unrecognized financing expenses should be amortized by adopting the actual interest rate during the period of the lease term.

The fixed assets by finance lease shall adopt the same depreciation policy for self-owned fixed assets. If it is reasonable to be certain that the lessee will obtain the ownership of the leased asset when the lease term expires, the leased asset shall be fully depreciated over its useful life. If it is not reasonable to be certain that the lessee will obtain the ownership of the leased asset at the expiry of the lease term, the leased asset shall be fully depreciated over the shorter one of the lease term or its useful life

17. Construction in process

(1) Valuation of the progress in construction

Construction in progress shall be measured at actual cost. Self-operating projects shall be measured at direct materials, direct wages and direct construction fees; construction contract shall be measured at project price payable; project cost for plant engineering shall be recognized at value of equipments installed, cost of installation, trail run of projects. Costs of construction in process also include borrowing costs and exchange gains and losses, which should be capitalized.

(2) Standardization on construction in process transferred into fixed assets and time point

The construction in process, of which the fixed assets reach to the predicted condition for use, shall carry forward fixed assets on schedule. The one that hasn't audit the final accounting shall recognize the cost and make depreciation in line with valuation value. The construction in process shall adjust the original valuation value at its historical cost but not adjust the depreciation that has been made after auditing the final accounting.

18. Borrowing costs

(1) Recognition principle of capitalization of borrowing costs

The borrowing costs shall include the interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. Where the borrowing costs occurred belong to specifically borrowed loan or general borrowing used for the acquisition and construction of investment real estates and inventories over one year (including one year) shall be capitalized, and record into relevant assets cost. Other borrowing costs shall be recognized as expenses on the basis of the actual amount

incurred, and shall be recorded into the current profits and losses. The borrowing costs shall not be capitalized unless they simultaneously meet the following three requirements: (1) The asset disbursements have already incurred; (2) The borrowing costs have already incurred; and (3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(2) The period of capitalization of borrowing costs

The borrowing costs arising from acquisition and construction of fixed assets, investment real estates and inventories, if they meet the above-mentioned capitalization conditions, the capitalization of the borrowing costs shall be measured into asset cost before such assets reach to the intended use or sale, Where acquisition and construction of fixed assets, investment real estates and inventories is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended, and recorded into the current expense, till the acquisition and construction of the assets restarts. When the qualified asset is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased, the borrowing costs occurred later shall be included into the financial expense directly at the current period.

(3) Measurement method of capitalization amount of borrowing costs

As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment.

Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

19. Intangible assets

(1) Pricing method, using life and impairment test of intangible assets

1) Pricing method of intangible assets

Intangible assets purchased should take the actual payment and the relevant other expenses as the actual cost.

For the intangible assets invested by the investors should be recognized the actual cost according to the value of the investment contracts or agreements, however, for the value of the contracts or agreements is not fair, the actual cost should be recognized according to the fair value.

For the intangible assets acquires from the exchange of the non-currency assets, if own the commercial nature, should be recorded according to the fair value of the swap-out assets; for those not own the commercial nature, should be recorded according to the book value of the swap-out assets.

For the intangible assets acquires from the debts reorganization should be recognized by the fair value.

2) Amortization method and term of intangible assets

As for the intangible assets with limited service life, which are amortized by straight-line method when it is available for use within the service period, shall be recorded into the current profits and losses. The Company

shall, at least at the end of each year, check the service life and the amortization method of intangible assets with limited service life. When the service life and the amortization method of intangible assets are different from those before, the years and method of the amortization shall be changed.

Intangible assets with uncertain service life may not be amortized. However, the Company shall check the service life of intangible assets with uncertain service life during each accounting period. Where there are evidences to prove the intangible assets have limited service life, it shall be estimated of its service life, and be amortized according to the above method mentioned.

The rights to use land of the Company shall be amortized according to the rest service life.

(2) Accounting polices of internal R & D expenses

The internal research and development projects of an enterprise shall be classified into research phase and development phase: the term “research” refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge; the term “development” refers to the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product.

The Company collects the expenses of the corresponding phases according to the above standard of classifying the research phase and the development phase. The research expenditures for its internal research and development projects of an enterprise shall be recorded into the profit or loss for the current period. The development expenditures for its internal research and development projects of an enterprise may be capitalized when they satisfy the following conditions simultaneously: it is feasible technically to finish intangible assets for use or sale; it is intended to finish and use or sell the intangible assets; the usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally; it is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources; the development expenditures of the intangible assets can be reliably measured.

20. Impairment of long-term assets

For non-current financial Assets of fixed Assets, projects under construction, intangible Assets with limited service life, investing real estate with cost model, long-term equity investment of subsidiaries, cooperative enterprises and joint ventures, the Group should judge whether decrease in value exists on the date of balance sheet. Recoverable amounts should be tested for decrease in value if it exists. Other intangible Assets of reputation and uncertain service life and other non-accessible intangible assets should be tested for decrease in value no matter whether it exists.

If the recoverable amount is less than book value in impairment test results, the provision for impairment of differences should include in impairment loss. Recoverable amounts would be the higher of net value of asset fair value deducting disposal charges or present value of predicted cash flow. Asset fair value should be determined according to negotiated sales price of fair trade. If no sales agreement exists but with asset active market, fair value should be determined according to the Buyer’s price of the asset. If no sales agreement or asset active market exists, asset fair value could be acquired on the basis of best information available. Disposal expenses include legal fees, taxes, cartage or other direct expenses of merchantable Assets related to asset disposal. Present value of predicted asset cash flow should be determined by the proper discount rate according to Assets in service and predicted cash flow of final disposal. Asset depreciation reserves should be calculated on the basis of single

Assets. If it is difficult to predict the recoverable amounts for single Assets, recoverable amounts should be determined according to the belonging asset group. Asset group is the minimum asset combination producing cash flow independently.

In impairment test, book value of the business reputation in financial report should be shared to beneficial asset group and asset group combination in collaboration of business merger. It is shown in the test that if recoverable amounts of shared business reputation asset group or asset group combination are lower than book value, it should determine the impairment loss. Impairment loss amount should firstly be deducted and shared to the book value of business reputation of asset group or asset group combination, then deduct book value of all assets according to proportions of other book value of above assets in asset group or asset group combination except business reputation.

After the asset impairment loss is determined, recoverable value amounts would not be returned in future.

21. Amortization method of long-term deferred expenses

Long-term deferred expenses of the Company shall be recorded in light of the actual expenditure, and amortized averagely within benefit period. In case of no benefit in the future accounting period, the amortized value of such project that fails to be amortized shall be transferred into the profits and losses of the current period.

22. Payroll

(1) Accounting treatment of short-term compensation

Short-term compensation mainly including salary, bonus, allowances and subsidies, employee services and benefits, medical insurance premiums, birth insurance premium, industrial injury insurance premium, housing fund, labor union expenditure and personnel education fund, non-monetary benefits etc. The short-term compensation actually happened during the accounting period when the active staff offering the service for the Group should be recognized as liabilities and is included in the current gains and losses or relevant assets cost. Of which the non-monetary benefits should be measured according to the fair value.

(2) Accounting treatment of the welfare after demission

The Company classifies the welfare plans after demission into defined contribution plans and defined benefit plans. Welfare plans after demission refers to the agreement on the welfare after demission reaches between the Company and the employees, or the regulations or methods formulated by the Company for providing the welfare after demission for the employees. Of which, defined contribution plans refers to the welfare plans after demission that the Company no more undertake the further payment obligations after the payment of the fixed expenses for the independent funds; defined benefit plans, refers to the welfare plans after demission except for the defined contribution plans.

Defined contribution plans

During the accounting period that the Company providing the service for the employees, the Company should recognize the liabilities according to the deposited amount calculated by defined contribution plans, and should be included in the current gains and losses or the relevant assets cost.

(3) Accounting treatment of the demission welfare

The Company should recognize the payroll payment liabilities occur from the demission welfare according to the earlier date between the following two conditions and include which in the current gains and losses when

providing the demission welfare for the employees: the Company could not unilaterally withdraw the demission welfare owing to the relieve plans of the labor relationship or reduction; when the Company recognizing the costs or expenses related to the reorganization involves with the demission welfare payments.

(4) Accounting treatment of the welfare of other long-term staffs

The Company should recognize the payroll payment liabilities occur from the demission welfare according to the earlier date between the following two conditions and include which in the current gains and losses when providing the demission welfare for the employees: the Company could not unilaterally withdraw the demission welfare owing to the relieve plans of the labor relationship or reduction; when the Company recognizing the costs or expenses related to the reorganization involves with the demission welfare payments.

23. Estimated liabilities

(1) Criteria of estimated liabilities

Only if the obligation pertinent to a contingencies shall be recognized as an estimated debts when the following conditions are satisfied simultaneously:

- ① That obligation is a current obligation of the Company;
- ② It is likely to cause any economic benefit to flow out of the Company as a result of performance of the obligation; and
- ③ The amount of the obligation can be measured in a reliable way.

(2) Measurement of estimated liabilities

The Company shall measure the estimated debts in accordance with the best estimate of the necessary expenses for the performance of the current obligation.

The Company shall check the book value of the estimated debts on the Balance Sheet Date. If there is any conclusive evidence proving that the said book value can't truly reflect the current best estimate, the Company shall, subject to change, make adjustment to carrying value to reflect the current best estimate.

24. Revenue

(1) Recognition of revenue from sale of goods: the revenue from selling shall be recognized by the following conditions: The significant risks and rewards of ownership of the goods have been transferred to the buyer by the Company; the Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; the relevant amount of revenue can be measured in a reliable way; the relevant revenue and costs of selling goods can be measured in a reliable way. The amount of the revenue from selling shall ascertain the revenue incurred by selling goods in accordance with the received or receivable price stipulated in the contract or agreement signed between the enterprise and the buyer, unless the received or receivable amount as stipulated in the contract or agreement is unfair.

(2) Recognition of revenue from providing labor services: When the total revenue and costs from providing labor can be measured in a reliable way; the relevant economic benefits are likely to flow into the enterprise; the schedule of completion under the transaction can be measured in a reliable way, the revenue from providing labor shall be recognized. If the Company can reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method on the date of the balance sheet, otherwise the revenue from the providing of

labor services shall be recognized in accordance with the amount of the cost of labor services incurred and expected to be compensated. The Company recognized the completion process of the transaction concerning the labor services according to the proportion of the occurred cost of the estimated total cost. The total amount of the revenue from providing services should be recognized according to the contract price received or receivable from the accepting of the labor services or the agreement price except for those unfair prices.

(3) Recognition of the revenue from transferring use rights of assets: When the relevant economic benefits are likely to flow into the enterprises and the amount of revenues can be measured in a reliable way, the revenue from abalienating the right to use assets shall be recognized. The amount of interest revenue should be measured and confirmed in accordance with the length of time for which the enterprise's cash is used by others and the actual interest rate; the amount of royalty revenue should be measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement; as for the rental revenue: the amount of the rental revenue from the operation lease should be recognized according to the straight-line method during each period of the lease term or accrued into the current gains and losses if rental actual occurred.

25. Government subsidies

(1) Judgment basis and accounting treatment of government subsidies related to assets

A government subsidy means the monetary or non-monetary assets obtained free by an enterprise from the government. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income according to the relevant government documents.

For those the government documents not definite stipulate the assistance object, the judgment basis of the Company classifies the government subsidies pertinent to assets and government subsidies pertinent to income is: whether are used for purchasing or constructing or for forming the long-term assets by other methods.

The government subsidies should be recognized only when meet with the attached conditions of the government subsidies as well as could be acquired.

If the government subsidies are the monetary assets, should be measured according to the received or receivable amount; and for the government subsidies are the non-monetary assets, should be measured by fair value.

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses.

(2) Judgment basis and accounting treatment of government subsidies related to profits

The government subsidies pertinent to incomes shall be treated respectively in accordance with the circumstances as follows: those subsidies used for compensating the related future expenses or losses of the enterprise shall be recognized as deferred income and shall included in the current profits and losses during the period when the relevant expenses are recognized; or those subsidies used for compensating the related expenses or losses incurred to the enterprise shall be directly included in the current profits and losses.

26. Deferred income tax assets and liabilities

(1) Basis of recognizing the deferred income tax assets

According to the difference between the book value of the assets and liabilities and their tax basis, A deferred tax assets shall be measured in accord with the tax rates that are expected to apply to the period when the asset is

realized or the liability is settled.

The recognition of the deferred income tax assets is limited by the income tax payable that the Company probably gains for deducting the deductible temporary differences. At the balance sheet date, where there is strong evidence showing that sufficient taxable profit will be available against which the deductible temporary difference can be utilized, the deferred tax asset unrecognized in prior period shall be recognized.

The Company assesses the carrying amount of deferred tax asset at the balance sheet date. If it's probable that sufficient taxable profit will not be available against which the deductible temporary difference can be utilized, the Company shall write down the carrying amount of deferred tax asset, or reverse the amount written down later when it's probable that sufficient taxable profit will be available

(2) Basis of recognizing the deferred income tax liabilities

According to the difference between the book value of the assets and liabilities and their tax basis, A deferred tax liabilities shall be measured in accord with the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

27. Lease

(1) Accounting treatment of operating lease

Lessee in an operating lease shall treat the lease payment under an operating lease as a relevant asset cost or the current profit or loss on a straight-line basis over the lease term. The initial direct costs incurred shall be recognized as the current profit or loss; Contingent rents shall be charged as expenses in the periods in which they are incurred.

Lessors in an operating lease shall be recognized as the current profit or loss on a straight-line basis over the lease term; Initial direct costs incurred by lessors shall be recognized as the current profit or loss; the initial direct expenses occur should be directly included in the current gains and losses except for those with larger amount and be capitalized as well as be included in the gains and losses by stages. Contingent rents shall be charged as expenses in the periods in which they are incurred.

(2) Accounting treatments of financial lease

When the Company as the lessee, On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges and the occurred initial direct expenses, should be recorded in the lease assets value. During each lease period, should recognize the current financing expenses by adopting the actual interest rate.

When the Company as the lessor and on the beginning date of the lease term, the Company shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and the sum of their present values shall be recognized as unrealized financing income. During each lease period, should recognize the current financing revenues adopting the actual interest rate.

28. Other significant accounting policies and estimates

(1) Operation termination

Operation termination refers to the compose part that meet with one of the following conditions which had been disposed by the Group or be classified to held-to-sold as well as could be individually distinguished in operating and compiling the financial statement:

- ① The compose part represents an individual main business or a main operation area;
- ② The compose part is a part intends to dispose and plan an individual main business or a main operation area;
- ③ The compose part is a subsidiary which be acquired only for resold.

(2) Hedging accounting

The term “hedging” refers to one or more hedging instruments which are designated by an enterprise for avoiding the risks of foreign exchange, interest rate, commodity price, stock price, credit and etc., and which is expected to make the changes in fair value or cash flow of hedging instrument(s) to offset all or part of the changes in the fair value or cash flow of the hedged item.

The term “hedging instrument” shall refer to a derivative instrument which is designated by an enterprise for hedging and by which it is expected that changes in its fair value or cash flow can offset the changes in fair value or cash flow of the hedged item. For a hedging of foreign exchange risk, a non-derivative financial asset or non-derivative financial liability may be used as a hedging instrument.

The “hedged item” shall refer to the following items which make an enterprise faced to changes in fair value or cash flow and are designated as the hedged objectives.

The hedging should be executed by the hedging accounting methods when satisfying the following conditions at the same time:

- ① At the commencement of the hedging, the enterprise shall specify the hedging relationship formally (namely the relationship between the hedging instrument and the hedged item) and prepare a formal written document on the hedging relationship, risk management objectives and the strategies of hedging.
- ② The hedging expectation is highly efficient and meets the risk management strategy, which is confirmed for the hedging relationship by enterprise at the very beginning.
- ③ For a cash flow hedging of forecast transaction, the forecast transaction shall be likely to occur and shall make the enterprise faced to the risk of changes in cash flow, which will ultimately affect the profits and losses.
- ④ The effectiveness of hedging can be reliably measured.
- ⑤ The hedging is highly effective in accounting period in which the hedging relationship is specified.

29. Changes in main accounting policies and estimates**(1) Change of accounting policies**

Applicable Inapplicable

(2) Change of main accounting estimates

Applicable Inapplicable

30. Other

Critical accounting judgments and estimates

Due to the inside uncertainty of operating activity, the Group needed to make judgments, estimates and assumption on the book value of the accounts without accurate measurement during the employment of accounting policies. And these judgments, estimates and assumption were made basing on the prior experience of the senior executives of the Group, as well as in consideration of other factors. These judgments, estimates and assumption would also affect the report amount of income, costs, assets and liabilities, as well as the disclosure of contingent liabilities on balance sheet date. However, the uncertainty of these estimates was likely to cause significant adjustment on the book value of the affected assets and liabilities.

The Group would check periodically the above judgments, estimates and assumption on the basis of continuing operation. For the changes in accounting estimates only affected on the current period, the influence should be recognized at the period of change occurred; for the changes in accounting estimates affected the current period and also the future period, the influence should be recognized at the period of change occurred and future period.

On the balance sheet date, the Group needed to make judgments, estimates and assumption on the accounts in the following important items:

(1) Provision for bad debts

In accordance with the accounting policies of accounts receivable, the Group measured the losses for bad debts by adopting allowance method. The impairment of accounts receivable was based on the appraisal of the recoverability of accounts receivable. The impairment of accounts receivable was dependent on the judgment and estimates. The actual amount and the difference of previous estimates would affect the book value of accounts receivable and the withdrawal and reversal on provision for bad debts of accounts receivable during the period of estimates being changed.

(2) Provision for falling price of inventories

In accordance with the accounting policies of inventories, for the inventories that the costs were more than the net realizable value as well as out-of-date and dull-sale inventories, the Group withdrawn the provision for falling price of inventories on the lower one between costs and net realizable value. Evaluating the falling price of inventories needed the management level gain the valid evidence and take full consideration of the purpose of inventories, influence of events after balance sheet date and other factors, and then made relevant judgments and estimates. The actual amount and the difference of previous estimates would affect the book value of inventories and the withdrawal and reversal on provision for bad debts of inventories during the period of estimates being changed.

(3) Held-to-maturity investment

The Company classifies the non-derivative financial assets which meet with conditions with fixed or confirmable repayment amount and fixed maturity date as well as the Company owns definite intention and ability to hold until mature as the held-to-maturity investment. To execute the classification needs large judgment. In the process of executing the judgment, the Company would assess the intention and ability of the investment which hold until the due date. Except for the particular situation (for example, selling the investment with insignificant amount when approaching the due date), if the Company fails to hold the investment until the due date, should re-classify the investment to the available-for-sale financial assets and would no more be classified as the held-to-maturity investment in the current fiscal year as well as the afterward two complete fiscal years. If there exists such situation, that would probably cause significant influences on the value of the relevant financial assets presented on the

financial statement and may influence the risks management strategies of the financial instruments of the Company.

(4) Held-to-maturity investment impairment

The Company confirms whether the held-to-maturity investment has impairment depends on the judgment from the management layer to a large extent. The objective evidences of the impairments including the issuers which occur serious financial difficulties that lead the financial assets could not continue to trade in the active market and to execute the contracts regulations (for example, to return the interests or the principal violates a treaty) etc. In the process of executing judgment, the Company needs to evaluate the influences of the objective evidences of the impairment on the estimated future cash flow.

(5) The impairment of financial assets available for sale

The Group judged whether the financial assets available for sale were impaired relying heavily on the judgment and assumption of the management team, so as to decide whether recognized the impairment losses in the income statement. During the process of making the judgment and assumption, the Group needed to appraise the balance of the cost of the investment exceeding its fair value and the continuous period, the financial status and business forecast in a short period, including the industrial situation, technical reform, credit level, default rate and risk of counterparty.

(6) Provision for impairment of non-financial non-current assets

The Group made a judgment on the non-current assets other than financial assets whether they had any indication of impairment on the balance sheet date. For the intangible assets without finite service life, other than the annual impairment test, they should be subject to the impairment test when there was any indication of impairment. For other non-current non-financial assets, which should be subjected to impairment test when there was indication of impairment indicated that the book value can't be recoverable.

When the book value of the assets or assets portfolio was more than the recoverable amount, which was the higher one between the net amount of fair value after deducting the disposal expenses and the discounted amount of the estimated future cash flow, it means impairment incurred.

The net amount of fair value after deducting the disposal expenses should be fixed the price in the sale agreement for similar assets in the fair transaction minus the increased costs directly attributable to the assets disposal.

When estimated the discounted value of future cash flow, the Group needed to make important judgment on the output, selling price, relevant costs and the discount rate for calculating the discounted amount, etc. When estimated the recoverable amount, the Group would adopt all the available documents, including the prediction for relevant output, selling price and relevant operating costs arising from reasonable and supportive assumptions.

The Group made the impairment test on goodwill at least one time per year, which required to predict the discounted amount of the future cash flow of the assets or assets portfolio with the distributed good will, for which, the Group needed to predict the future cash flow of the assets or assets portfolio, and adopt the property discounted rate to decide the discounted amount of future cash flow.

(7) Depreciation and amortization

For the investment real estate, fixed assets and intangible assets, the Group withdrew the depreciation and amortization by adopting the straight-line method during the service life after full consideration of the salvage value. The Group checked the service life periodically so as to decide the amount of depreciation and amortization at each reporting period. The service life was fixed by the Group in accordance with the previous experience of the similar assets and the expected technical update. If there was any significant change on the previous estimates, the depreciation and amortization expenses should be adjusted.

(8) Income tax

During the routine operating activities, there were some uncertainty in the ultimate tax treatment and calculation for parts of transactions. Some accounts of such transaction could be listed as pre-tax expenditures only after the approval of taxation authorities. If there were any differences between the ultimate result of recognition for these taxation matters and their initial estimates, the differences would affect the current income tax and deferred income tax at the period of ultimate recognition.

VI. Taxation

1. Main taxes and tax rate

Type of tax	Taxation basis	Tax rates
VAT	Payable to sales revenue	13%, 17%
Urban maintenance and construction tax	Taxable turnover amount	Tax paid in accordance with the tax regulations of tax units location
Corporate income tax	Taxable income	25% or 15%
Education surcharge	Taxable turnover amount	5%

2. Tax preference

In 2009, the Company has been identified as High-tech Enterprises, therefore, it enjoys 15-percent preferential rate for corporate income tax; the Company's controlling subsidiary—Changchai Wanzhou Diesel Engine Co., Ltd., the controlling subsidiary company, shall pay the corporate income tax at tax rate 15% from 1 January 2011 to 31 December 2020 in accordance with the Notice of the Ministry of Finance, the General Administration of Customs of PRC and the National Administration of Taxation about the Preferential Tax Policies for the Western Development.

VII. Notes on major items in consolidated financial statements of the Company

1. Monetary funds

Unit: RMB

Item	Closing balance	Opening balance
Cash on hand	317,822.87	252,373.65
Bank deposits	594,616,540.49	526,463,864.56
Other monetary funds	78,861,683.78	74,596,477.41
Total	673,796,047.14	601,312,715.62

At the period-end, the restricted monetary fund was RMB78,861,683.78 in total, of which: the bank acceptance deposit was RMB78,861,683.78.

2. Notes receivable

(1) Notes receivable listed by category

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance bill	278,520,898.26	498,502,274.42
Total	278,520,898.26	498,502,274.42

(2) Notes receivable pledged at the period-end

Naught

(3) Notes receivable which had endorsed by the Company or had discounted and had not due on the balance sheet date at the period-end

Unit: RMB

Item	Amount of recognition termination at the period-end	Amount of not terminated recognition at the period-end
Bank acceptance bill	463,361,452.46	
Total	463,361,452.46	

(4) There was no any notes be transferred to accounts receivable owing to the drawer failed to performance of the Company at the period-end

3. Accounts receivable

(1) Accounts receivable disclosed by category

Unit: RMB

Item	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Accounts receivable with significant single amount for which bad debt provision separately	32,467,231.93	3.98%	28,615,577.21	88.14%	3,851,654.72	32,966,572.81	6.03%	28,743,568.09	87.19%	4,223,004.72

accrued										
Accounts receivable withdrawn bad debt provision according to credit risks characteristics	781,385,263.07	95.81%	217,630,695.93	27.85%	563,754,567.14	511,838,003.05	93.66%	207,464,087.27	40.53%	304,373,915.78
Accounts receivable with insignificant single amount for which bad debt provision separately accrued	1,686,716.39	0.21%	1,686,716.39	100.00%		1,686,716.39	0.31%	1,686,716.39	100.00%	
Total	815,539,211.39	100.00%	247,932,989.53	100.00%	567,606,221.86	546,491,292.25	100.00%	237,894,371.75	43.53%	308,596,920.50

Accounts receivable with significant single amount for which bad debt provision separately accrued at period end:

√ Applicable □ Not applicable

Unit: RMB

Accounts receivable (classified by units)	Closing balance			
	Book balance	Bad debt provision	Withdrawal Proportion	Withdrawal Reason
Customer 1	3,863,600.00	1,931,800.00	50.00%	Estimated irrecoverable
Customer 2	1,902,326.58	1,902,326.58	100.00%	Difficult to recover
Customer 3	6,215,662.64	6,193,248.32	99.64%	Difficult to recover
Customer 4	4,115,396.29	2,217,955.89	53.89%	Estimated irrecoverable
Customer 5	3,279,100.00	3,279,100.00	100.00%	Estimated irrecoverable
Customer 6	2,592,177.01	2,592,177.01	100.00%	Estimated irrecoverable
Customer 7	5,359,381.00	5,359,381.00	100.00%	Difficult to recover
Customer 8	2,584,805.83	2,584,805.83	100.00%	Difficult to recover
Customer 9	1,060,660.44	1,060,660.44	100.00%	Difficult to recover
Customer 10	1,494,122.14	1,494,122.14	100.00%	Difficult to recover
Total	32,467,231.93	28,615,577.21	--	--

In the groups, accounts receivable adopting aging analysis method to withdraw bad debt provision:

√ Applicable □ Not applicable

Unit: RMB

Aging	Closing balance		
	Accounts receivable	Bad debt provision	Withdrawal Proportion
Subitem within 1 year			
Subtotal of within 1 year	446,547,327.18	8,930,946.54	2.00%

1-2 years	125,094,600.52	6,254,730.03	5.00%
2-3 years	2,943,628.31	441,544.25	15.00%
Over 3 years	206,799,707.06	202,003,475.12	
3 to 4 years	6,227,544.95	1,868,263.49	30.00%
4 to 5 years	1,092,376.21	655,425.73	60.00%
Over 5 years	199,479,785.90	199,479,785.90	100.00%
Total	781,385,263.07	217,630,695.93	

(2) Accounts receivable withdraw, reversed or collected during the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB13,290,094.03; the amount of the reversed or collected part during the Reporting Period was of RMB3,251,476.25.

(3) List of the accounts receivable actual written-off during the Reporting Period

Naught

(4) Top 5 of the closing balance of the accounts receivable collected according to the arrears party

At period end, the total amount of top 5 of the closing balance of the accounts receivable collected according to the arrears party was RMB314,311,923.70, 38.54% of the closing balance of the accounts receivable and the relevant closing balance of bad debt provision was RMB33,195,372.32.

4. Prepayment

(1) List by aging analysis:

Unit: RMB

Aging	Closing balance		Opening balance	
	Amount	Proportion	Amount	Proportion
Within 1 year	9,122,952.07	89.95%	11,891,116.78	92.30%
1 to 2 years	35,241.25	0.35%	7,418.00	0.06%
2 to 3 years	114,790.79	1.13%	114,790.79	0.89%
Over 3 years	868,946.13	8.57%	868,946.13	6.75%
Total	10,141,930.24	--	12,882,271.70	--

(2) Top 5 of the closing balance of the prepayment collected according to the prepayment target

At the period-end, the total amount of top 5 of the closing balance of the prepayment collected according to the prepayment target was RMB7,513,250.28, 74.08% of the closing balance of the accounts receivable.

5. Other accounts receivable

(1) Other accounts receivable disclosed by category

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Other accounts receivable with significant single amount for which bad debt provision separately accrued	2,853,188.02	5.70%	2,853,188.02	100.00%		2,853,188.02	7.66%	2,853,188.02	100.00%	
Other accounts receivable withdrawn bad debt provision according to credit risks characteristics	45,263,654.42	90.40%	27,027,207.00	59.71%	18,236,447.42	32,431,210.57	87.10%	26,808,670.76	82.66%	5,622,539.81
Other accounts receivable with insignificant single amount for which bad debt provision separately accrued	1,952,628.15	3.90%	1,952,628.15	100.00%		1,952,628.15	5.24%	1,952,628.15	100.00%	
Total	50,069,470.59	100.00%	31,833,023.17	63.58%	18,236,447.42	37,237,026.74	100.00%	31,614,486.93	84.90%	5,622,539.81

Other accounts receivable with significant single amount for which bad debt provision separately accrued:

√ Applicable □ Not applicable

Unit: RMB

Other account receivable (classified by units)	Closing balance			
	Book balance	Bad provision	Withdrawal proportion	Withdrawal reason
Changchai Group Import & Export Company	2,853,188.02	2,853,188.02	100.00%	Difficult to recover
Total	2,853,188.02	2,853,188.02	--	--

In the groups, other accounts receivable adopting aging analysis method to accrue bad debt provision:

√ Applicable □ Not applicable

Unit: RMB

Aging	Closing balance		
	Other account receivable	Bad provision	Withdrawal proportion
Subitem within 1 year			
Subtotal of within 1 year	16,348,668.83	326,973.38	2.00%
1-2 years	270,511.72	13,525.59	5.00%
2-3 years	746,557.24	16,232.27	15.00%
Over 3 years	27,897,916.63	26,670,475.77	
3 to 4 years	670,650.62	37,747.29	30.00%
4 to 5 years	1,486,343.82	891,806.29	60.00%
Over 5 years	25,740,922.19	25,740,922.19	100.00%
Total	45,263,654.42	27,027,207.00	

(2) Accounts receivable withdraw, reversed or collected during the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB218,536.24.

(3) List of the other accounts receivable actual written-off during the Reporting Period

Naught

(4) Other accounts receivable classified by the nature of accounts

Unit: RMB

Nature	Closing book balance	Opening book balance
Margin and cash pledge	4,200.00	4,200.00
Unit current amount	32,156,632.14	20,433,624.06
Employee loan	2,026,731.24	2,011,484.92
Other	15,881,907.21	14,787,717.76
Total	50,069,470.59	37,237,026.74

(5) Top 5 of the closing balance of the other accounts receivable collected according to the arrears party

Unit: RMB

Name of units	Nature	Closing balance	Aging	Proportion of the total year end balance of the accounts receivable	Closing balance of bad debt provision
Xuzhou East China	Current	6,000,000.00	Within 1 year	11.98%	120,000.00

Casting General Factory					
Changzhou Changjiang Casting Materials Co., Ltd.	Current	5,000,000.00	Within 1 year	9.99%	100,000.00
Changzhou Compressor Co., Ltd.	Current	2,940,000.00	Over 5 years	5.87%	2,940,000.00
Import and Export Company of Changchai Group	Current	2,853,188.02	Over 5 years	5.70%	2,853,188.02
Changzhou New District Accounting Center	Current	1,626,483.25	Over 5 years	3.25%	1,626,483.25
Total	--	18,419,671.27	--	36.79%	7,639,671.27

(6) The amount of the period-begin increased of 224.35% over that of the period-end, which mainly due to the subsidiary Housheng Investment lent RMB11 million to Xuzhou East China Casting Factory and Changzhou Changjiang Casting Materials Co., Ltd.

6. Inventory

(1) Category of inventory

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Falling price reserves	Book value	Book balance	Falling price reserves	Book value
Raw material	88,721,968.31	2,587,305.60	86,134,662.71	111,288,103.55	2,587,305.60	108,700,797.95
Goods in process	118,460,998.75	23,144,279.29	95,316,719.46	110,165,018.34	23,144,279.29	87,020,739.05
Inventory goods	181,128,422.74	20,277,368.92	160,851,053.82	208,519,567.29	20,277,368.92	188,242,198.37
Materials processed on commission	17,045,095.69		17,045,095.69	12,310,710.53		12,310,710.53
Low priced and easily worn articles	2,152,264.35	1,300,787.34	851,477.01	2,316,353.80	1,300,787.34	1,015,566.46
Total	407,508,749.84	47,309,741.15	360,199,008.69	444,599,753.51	47,309,741.15	397,290,012.36

(2) Falling price reserves of inventory

Unit: RMB

Item	Opening balance	Increased amount		Decreased amount		Closing balance
		Withdrawal	Other	Reverse or write-off	Other	
Raw materials	2,587,305.60					2,587,305.60
Goods in process	23,144,279.29					23,144,279.29
Inventory goods	20,277,368.92					20,277,368.92
Low priced and easily worn articles	1,300,787.34					1,300,787.34
Total	47,309,741.15					47,309,741.15

7. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
The VAT tax credits	10,645,221.04	28,304,691.41
Bank financial products		20,000,000.00
Financial products from securities companies	12,000,000.00	12,000,000.00
Export drawback receivable		
Total	22,645,221.04	60,304,691.41

8. Available-for-sale financial assets**(1) List of available-for-sale financial assets**

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Available-for-sale equity instruments:						
Measured by fair value	399,237,000.00		399,237,000.00	457,780,000.00		457,780,000.00
Measured by cost method	46,410,000.00	1,210,000.00	45,200,000.00	46,410,000.00	1,210,000.00	45,200,000.00

Total	445,647,000.00	1,210,000.00	444,437,000.00	504,190,000.00	1,210,000.00	502,980,000.00
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(2) Available-for-sale financial assets measured by fair value at the period-end

Unit: RMB

Category	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Cost of equity instruments /amortized cost of debt instruments	41,874,500.00		41,874,500.00
Fair value	399,237,000.00		399,237,000.00
Changes of fair value accumulated recorded into other comprehensive income	303,758,125.00		303,758,125.00

(3) Available-for-sale financial assets measured by cost at the period-end

Unit: RMB

Investee	Book balance				Impairment provision				Shareholding proportion among the investees	Cash bonus of the reporting period
	Period-beg in	Increase	Decrease	Period-end	Period-beg in	Increase	Decrease	Period-end		
Jiangsu Bank	38,000,000.00			38,000,000.00					0.42%	
Qidong Liantong Dynamometer Co., Ltd.	7,200,000.00			7,200,000.00					3.20%	160,000.00
Others	1,210,000.00			1,210,000.00	1,210,000.00			1,210,000.00		
Total	46,410,000.00			46,410,000.00	1,210,000.00			1,210,000.00	--	160,000.00

Other were respectively the investment of RMB0.51 million in Chengdu Changchai Wanzhou Diesel Engine Distribution Company, RMB0.29 million in Chongqing Wanzhou District Changchai Wanzhou Diesel Engine Accessories Company, RMB0.02 million in Changzhou Economic Technology Development Company, RMB0.1 million in Changzhou Tractor Company, RMB0.2 million in Changzhou Economic Commission Industrial Funds Fraternity and RMB0.09 million in Beijing Engineering Machinery Agricultural Machinery Company, and all of the above investment were difficult to recover that should withdraw the impairment provision in full

amount.

(4) Changes of the impairment of the available-for-sale financial assets during the reporting period

Unit: RMB

Category	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
Balance of the withdrawn impairment at the period-begin	1,210,000.00		1,210,000.00
Balance of the withdrawn impairment at the period-end	1,210,000.00		1,210,000.00

9. Long-term equity investment

Unit: RMB

Investees	Opening balance	Increase/decrease								Closing balance	Closing balance of impairment provision
		Additional investment	Reduced investment	Gains and losses recognized under the equity method	Adjustment of other comprehensive income	Changes of other equity	Cash bonus or profits announced to issue	Withdrawal of impairment provision	Other		
I. Joint ventures											
II. Associated enterprises											
Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.	20,769,304.76			821,264.12						21,590,568.88	
Beijing Tsinghua Industrial Investment Management Co., Ltd.											44,182.50
Subtotal	20,769,304.76			821,264.12						21,590,568.88	44,182.50

Total	20,769,304.76			821,264.12					21,590,568.88	44,182.50
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10. Investment property

(1) Investment property adopted the cost measurement mode

Applicable Not applicable

Unit: RMB

Item	Houses and buildings	Land use right	Construction in progress	Total
I. Original book value				
1. Opening balance	87,632,571.14			87,632,571.14
2. Increased amount of the period				
(1) Outsourcing				
(2) Transfer of inventory\fixed assets\project under construction				
(3) Increased from enterprise merger				
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4. Closing balance	87,632,571.14			87,632,571.14
II. Accumulative depreciation and accumulative amortization				
1. Opening balance	30,351,541.11			30,351,541.11
2. Increased amount of the period	1,104,170.40			1,104,170.40
(1) Withdrawal or amortization	1,104,170.40			1,104,170.40
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				

4. Closing balance	31,455,711.51			31,455,711.51
III. Depreciation reserves				
1. Opening balance				
2. Increased amount of the period				
(1) Withdrawal				
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4. Closing balance				
IV. Book value				
1. Closing book value	56,176,859.63			56,176,859.63
2. Opening book value	57,281,030.03			57,281,030.03

11. Fixed assets

List of fixed assets

Unit: RMB

Item	Houses and buildings	Machinery equipment	Transportation equipment	Other	Total
I. Original book value					
1. Opening balance	419,409,924.25	802,789,176.38	23,547,415.98	34,971,574.20	1,280,718,090.81
2. Increased amount of the period	15,205,415.74	41,931,939.19	1,880,778.49	2,330,411.06	61,348,544.48
(1) Purchase		661,187.08		407,209.33	1,068,396.41
(2) Transfer of project under construction	15,205,415.74	41,270,752.11	1,880,778.49	1,923,201.73	60,280,148.07
(3) Increased from enterprise merger					
3. Decreased	4,061,877.00	3,045,487.26	2,148,795.61	1,232,211.06	10,488,370.93

amount of the period					
(1) Disposal or scrap	4,061,877.00	3,045,487.26	2,148,795.61	1,232,211.06	10,488,370.93
4. Closing balance	430,553,462.99	841,675,628.31	23,279,398.86	36,069,774.20	1,331,578,264.36
II. Accumulative depreciation					
1. Opening balance	212,091,873.84	468,192,248.83	15,368,212.09	26,845,593.79	722,497,928.55
2. Increased amount of the period	9,729,309.18	30,252,266.58	951,416.36	1,752,041.36	42,685,033.48
(1) Withdrawal	9,729,309.18	30,252,266.58	951,416.36	1,752,041.36	42,685,033.48
3. Decreased amount of the period	3,641,066.64	2,652,615.33	1,942,516.55	947,412.61	9,183,611.13
(1) Disposal or scrap	3,641,066.64	2,652,615.33	1,942,516.55	947,412.61	9,183,611.13
4. Closing balance	218,180,116.38	495,791,900.08	14,377,111.90	27,650,222.54	755,999,350.90
III. Depreciation reserves					
1. Opening balance		3,618,269.03			3,618,269.03
2. Increased amount of the period					
(1) Withdrawal					
3. Decreased amount of the period					
(1) Disposal or scrap					
4. Closing balance		3,618,269.03			3,618,269.03
IV. Book value					
1. Closing book value	212,373,346.61	342,265,459.20	8,902,286.96	8,419,551.66	571,960,644.43
2. Opening book value	207,318,050.41	330,978,658.52	8,179,203.89	8,125,980.41	554,601,893.23

The depreciation amount of the Reporting Period was of RMB42,685,033.48. The original value transferred into the fixed assets from the construction in progress of the Reporting Period was of RMB60,280,148.07.

12. Construction in progress

(1) List of construction in progress

Unit: RMB

Item	Closing amount			Opening amount		
	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value
Trial production workshop project technology center				22,960,533.29		22,960,533.29
Casting renovation project				396,000.00		396,000.00
Expansion capacity of multi-cylinder (The 2 nd Period)	41,887,573.16		41,887,573.16	40,050,712.95		40,050,712.95
Base of land in Hehai Road				33,550.53		33,550.53
Diesel Engine Cylinder Body Flexible Manufacturing Line	11,039,316.25		11,039,316.25	1,851,752.13		1,851,752.13
Equipment to be installed and payment for projects	24,034,695.54		24,034,695.54	42,905,906.11		42,905,906.11
Total	76,961,584.95		76,961,584.95	108,198,455.01		108,198,455.01

(2) Changes of significant construction in progress

Unit: RMB

Name of item	Estimated number	Opening balance	Increase d amount of the period	Amount that transferr ed to fixed assets of the	Other decrease d amount of the period	Closing balance	Proporti on estimate d of the project accumul ative	Project progress	Accumul ative amount of capitaliz ed interests	Of which: the amount of the capitaliz ed	Capitaliz ation rate of the interests of the period	Capital resources
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				period			input			interests of the period		
Trial producti on worksho p project technolo gy center		22,960,5 33.29		22,960,5 33.29			0.00					Other
Casting renovati on project		396,000. 00		396,000. 00			0.00					Other
Expansio n capacity of multi-cyl inder (The 2 nd Period)		40,050,7 12.95	2,097,06 0.78	260,200. 57			41,887,5 73.16					Other
Base of land in Hehai Road		33,550.5 3		33,550.5 3			0.00					Other
Diesel Engine Cylinder Body Flexible Manufac turing Line		1,851,75 2.13	9,187,56 4.12				11,039,3 16.25					Other
Total		65,292,5 48.90	11,284,6 24.90	23,650,2 84.39			52,926,8 89.41	--	--			--

13. Intangible assets

(1) List of intangible assets

Unit: RMB

Item	Land use right	Patent right	Non-patented technology	Software	Other	Total
I. Total original book value						
1. Opening balance	137,782,945.30			5,871,691.42		143,654,636.72
2. Increase in the reporting period				488,876.81		488,876.81
(1) Purchase				488,876.81		488,876.81
(2) Internal R & D						
(3) Increase from enterprise combination						
3. Decrease in the reporting period						
(1) Purchase						
4. Closing balance	137,782,945.30			6,360,568.23		144,143,513.53
II. Total accrued amortization						
1. Opening balance	38,511,304.87			2,041,869.38		40,553,174.25
2. Increase in the reporting period	1,396,024.56			1,012,489.19		2,408,513.75
(1) Withdrawal	1,396,024.56			1,012,489.19		2,408,513.75
3. Decrease in the reporting period						
(1) Disposal						
4. Closing balance	39,907,329.43			3,054,358.57		42,961,688.00
III. Total impairment provision						
1. Opening balance						
2. Increase in the reporting						

period						
(1) Withdrawal						
3. Decrease in the reporting period						
(1) Disposal						
4. Closing balance						
IV. Total book value of intangible assets						
1. Book value of the period-end	97,875,615.87			3,306,209.66		101,181,825.53
2. Book value of the period-begin	99,271,640.43			3,829,822.04		103,101,462.47

14. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets had not been off-set

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Assets impairment provision	6,416,872.53	962,530.88	6,416,872.53	962,530.88
Total	6,416,872.53	962,530.88	6,416,872.53	962,530.88

(2) Deferred income tax liabilities had not been off-set

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred income tax liabilities	Deductible temporary difference	Deferred income tax liabilities
Change in fair value of available financial assets	357,362,500.00	53,604,375.00	415,905,500.00	62,385,825.00
Total	357,362,500.00	53,604,375.00	415,905,500.00	62,385,825.00

(3) List of the unrecognized deferred income tax assets

Unit: RMB

Item	Closing balance	Opening balance
Bad debt provision	273,349,140.17	263,091,986.15
Inventory falling price reserves	47,309,741.15	47,309,741.15
Total	320,658,881.32	310,401,727.30

15. Other non-current assets

Unit: RMB

Item	Closing balance	Impairment provision at the period-end	Opening balance	Impairment provision at the period-begin
Entrusted loans	14,000,000.00	14,000,000.00	14,000,000.00	14,000,000.00
Total	14,000,000.00	14,000,000.00	14,000,000.00	14,000,000.00

16. Short-term loans

(1) Category of short-term loans

Unit: RMB

Item	Closing balance	Opening balance
Mortgage loan	5,000,000.00	12,000,000.00
Guaranteed loan	5,000,000.00	5,000,000.00
Total	10,000,000.00	17,000,000.00

(2) List of the short-term loans overdue but not return at period end

17. Notes payable

Unit: RMB

Category	Closing balance	Opening balance
Bank acceptance bill	278,909,300.00	238,200,000.00
Total	278,909,300.00	238,200,000.00

No such case.

18. Accounts payable

(1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Goods payment	509,018,960.25	535,978,470.07
Total	509,018,960.25	535,978,470.07

(2) There was no note of the accounts payable aging over one year

19. Advance from customers

(1) List of advance from customers

Unit: RMB

Item	Closing balance	Opening balance
Goods payment	39,284,991.46	26,665,671.38
Total	39,284,991.46	26,665,671.38

(2) There was no significant advance from customers aging over one year

20. Payroll payable

(1) List of Payroll payable

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term salary	60,309,349.29	127,405,958.34	154,244,490.70	33,470,816.93
II. Post-employment benefit-defined contribution plans		18,367,799.93	18,367,799.93	
III. Termination benefits				
IV. Other benefits due within one year				
Total	60,309,349.29	145,773,758.27	172,612,290.63	33,470,816.93

(2) List of Short-term salary

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
1. Salary, bonus, allowance, subsidy	53,805,049.80	103,933,731.06	130,970,704.71	26,768,076.15
2. Employee welfare		3,883,673.30	3,883,673.30	

3. Social insurance		8,719,918.78	8,719,918.78	
Of which: 1. Medical insurance premiums		6,833,863.52	6,833,863.52	
Work-related injury insurance		1,446,486.71	1,446,486.71	
Maternity insurance		439,568.55	439,568.55	
4. Housing fund		7,973,387.00	7,973,387.00	
5. Labor union budget and employee education budget	6,504,299.49	2,895,248.20	2,696,806.91	6,702,740.78
6. Short-term absence with payment				
7. Short-term profit sharing plan				
Total	60,309,349.29	127,405,958.34	154,244,490.70	33,470,816.93

(3) List of drawing scheme

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic pension benefits		17,276,042.90	17,276,042.90	
2. Unemployment insurance		1,091,757.03	1,091,757.03	
Annuity				
Total		18,367,799.93	18,367,799.93	

21. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
VAT		467,010.50
Business tax		2,900.00
Corporate income tax	635,775.94	5,923,463.67
Personal income tax	113,640.60	49,924.16
Urban maintenance and construction tax		1,996,316.42
Property tax	945,986.32	143,204.50

Education surcharge		840,517.28
Comprehensive fees	853,871.38	1,374,726.40
Total	2,549,274.24	10,798,062.93

22. Dividends payable

Unit: RMB

Item	Closing balance	Opening balance
Common stock dividends	3,243,179.97	3,243,179.97
Minority dividends	648,253.86	648,253.86
Total	3,891,433.83	3,891,433.83

Reason of not pay overdue 1 year: the shareholder had not drawn down yet.

23. Other accounts payable

(1) Other accounts payable listed by nature of the account

Unit: RMB

Item	Closing balance	Opening balance
Margin & cash pledge	3,043,793.03	3,149,353.59
Intercourse funds between entities	16,340,217.93	15,550,754.25
Personal amount payable	959,580.09	955,910.51
Sales discount and three guarantees	165,265,432.24	146,392,031.63
Others	40,337,014.54	35,103,582.48
Total	225,946,037.83	201,151,632.46

(2) Other significant accounts payable with aging over one year

Other significant accounts payable with aging over one year mainly was the temporary receivable and charges owed.

24. Other current-liabilities

Unit: RMB

Item	Closing balance	Opening balance
Sewage charge	200,000.00	200,000.00
Energy charge	1,615,216.25	1,795,289.06
Others	105,797.62	407,998.00

Total	1,921,013.87	2,403,287.06
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25. Deferred revenue

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance	Formed reason
Government subsidies	53,121,605.70		532,186.81	52,589,418.89	Government allocations
Total	53,121,605.70		532,186.81	52,589,418.89	--

Item involving government subsidies:

Unit: RMB

Item	Opening balance	Amount of newly subsidy	Amount recorded into non-operating income in report period	Other changes	Closing balance	Related to assets/related income
Electric control of diesel engine research and development and industrialization allocations	1,842,000.00		199,200.00		1,642,800.00	Related to the assets
National major project special allocations	28,770,000.00				28,770,000.00	Related to the assets
Remove compensation	22,509,605.70		332,986.81		22,176,618.89	Related to the assets
Total	53,121,605.70		532,186.81		52,589,418.89	--

26. Share capital

Unit: RMB

	Opening balance	Increase/decrease (+/-)					Closing balance
		New shares issued	Bonus shares	Capitalized Capital reserves	Others	Subtotal	
The sum of shares	561,374,326.00						561,374,326.00

27. Capital surplus

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
Capital premium	143,990,690.24			143,990,690.24
Other capital reserves	20,337,975.19			20,337,975.19
Total	164,328,665.43			164,328,665.43

28. Other comprehensive income

Unit: RMB

Item	Opening balance	Reporting Period					Closing balance
		Amount before income tax in current period	Less: recorded in other comprehensive income in prior period and transferred to profit or loss in current period	Less: Income tax expense	Attributable to owners of the Company after tax	Attributable to minority shareholders after tax	
II. Other comprehensive reclassified into profits or losses	353,519,675.00	-58,543,000.00		-8,781,450.00	-49,761,550.00		303,758,125.00
Profits or losses of change in fair value of available-for-sale financial assets	353,519,675.00	-58,543,000.00		-8,781,450.00	-49,761,550.00		303,758,125.00
Total	353,519,675.00	-58,543,000.00		-8,781,450.00	-49,761,550.00		303,758,125.00

29. Special reserves

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
Safety production cost	10,069,746.98			10,069,746.98
Total	10,069,746.98			10,069,746.98

30. Surplus reserves

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
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Statutory surplus reserves	292,601,428.01		292,601,428.01
Discretionary surplus reserves	13,156,857.90		13,156,857.90
Total	305,758,285.91		305,758,285.91

31. Retained profits

Unit: RMB

Item	Reporting Period	Last period
Opening balance of retained profits before adjustments	607,859,611.69	555,590,894.67
Opening balance of retained profits after adjustments	607,859,611.69	555,590,894.67
Add: Net profit attributable to owners of the Company	35,018,142.36	71,102,792.49
Less: Withdrawal of statutory surplus reserves		7,606,588.95
Dividend of common stock payable	12,911,609.50	11,227,486.52
Closing retained profits	629,966,144.55	607,859,611.69

32. Revenue and Cost of Sales

Unit: RMB

Item	Reporting Period		Same period of last year	
	Sales revenue	Cost of sales	Sales revenue	Cost of sales
Main operations	1,152,656,941.95	976,226,687.99	1,350,510,775.34	1,173,357,978.37
Other operations	11,003,779.74	8,367,576.44	9,385,125.35	5,715,124.36
Total	1,163,660,721.69	984,594,264.43	1,359,895,900.69	1,179,073,102.73

33. Business tax and surcharges

Unit: RMB

Item	Reporting Period	Same period of last year
Business tax	94,345.65	120,612.60
Urban maintenance and construction tax	1,130,189.36	1,255,742.07
Education Surcharge	792,992.40	903,657.76
Total	2,017,527.41	2,280,012.43

34. Sales expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Office expenses	9,181,360.21	8,713,283.05
Employee's remuneration	12,133,611.70	12,430,572.11
Sales promotional expense	7,436,628.43	6,919,526.51
Three guarantees	26,050,046.98	24,877,205.63
Transport fees	3,854,006.91	4,383,942.37
Others	862,820.37	734,569.25
Total	59,518,474.60	58,059,098.92

35. Administrative expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Office expenses	8,381,652.44	12,135,083.25
Employee's remuneration	32,126,018.65	30,279,507.54
Depreciation and amortization	8,374,082.68	8,657,938.02
Research and development expense	20,553,134.25	22,045,157.07
Transport fees	1,035,214.39	2,218,091.89
Repair charge	2,044,525.58	2,101,559.99
Taxes	3,789,425.82	3,785,315.92
Security charge	881,547.58	951,236.54
Others	1,303,014.31	2,227,133.96
Total	78,488,615.70	84,401,024.18

36. Financial expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Interest expenses	1,917,987.53	1,317,324.03
Less: Interest income	2,859,561.84	3,247,570.12
Exchange net profit or loss	-1,649,720.29	-1,609,657.81
Others	-2,219,840.69	-3,133,799.84
Total	-4,811,135.29	-6,673,703.74

37. Asset impairment loss

Unit: RMB

Item	Reporting Period	Same period of last year
I. Bad debt loss	10,257,154.02	2,767,537.46
Total	10,257,154.02	2,767,537.46

38. Investment income

Unit: RMB

Item	Reporting Period	Same period of last year
Long-term equity investment income accounted by equity method	821,264.12	397,632.47
Investment income received from disposal of financial assets measured by fair value and the changes be included in the current profits and losses during holding period	555,871.52	673,457.57
Investment income received from holding of available-for-sale financial assets	160,000.00	3,829,513.40
Investment income from disposal of bank financial products	364,000.00	
Total	1,901,135.64	4,900,603.44

39. Non-operating gains

Unit: RMB

Item	Reporting Period	Same period of last year	Recorded in the amount of the non-recurring gains and losses
Total gains from disposal of non-current assets	6,113,117.21	106,674.56	6,113,117.21
Including: Gains from disposal of fixed assets	6,113,117.21	106,674.56	6,113,117.21
Government subsidies	3,787,728.09	2,573,286.81	3,787,728.09
Insurance compensation	144,000.00	604,260.63	144,000.00
Penalty income		36,121.36	
Gains from disposal of current assets	377,937.49	185,478.91	377,937.49
Account payable no need to pay		85,655.38	
Others	213,411.26	72,634.25	213,411.26

Total	10,636,194.05	3,664,111.90	10,636,194.05
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Government subsidies recorded into current profits and losses

Unit: RMB

Item	Distribution entity	Distribution reason	Nature	Whether subsidies influence the current profits and losses or not	Special subsidy or not	Reporting Period	Same period of last year	Related to assets/related income
The central budget investment plans						1,000,000.00		Related to the income
Special fund for Promoting the transformation of industrial economy steady growth						1,250,000.00	1,600,300.00	Related to the income
The mayor award							500,000.00	Related to the income
Famous brand reward						300,000.00		Related to the income
Science and Technology Progress Award							30,000.00	Related to the income
Talent development funds						103,800.00	110,000.00	Related to the income
Borrowing fiscal interest discount						500,000.00		Related to the income
Other incentives and subsidies						300,941.28		Related to the income
Remove						332,986.81	332,986.81	Related to the

compensation								assets
Total	--	--	--	--	--	3,787,728.09	2,573,286.81	--

40. Non-operating expenses

Unit: RMB

Item	Reporting Period	Same period of last year	Recorded in the amount of the non-recurring gains and losses
Loss on disposal of non-current assets	32,408.99	14,758.29	32,408.99
Including: Loss on disposal of fixed assets	32,408.99	14,758.29	32,408.99
Donation	100,000.00	100,000.00	100,000.00
The flood control security fund		1,359,895.90	
Loss on disposal of current assets	3,988,707.85	1,242,677.62	3,988,707.85
Others	26,723.88	115,326.35	26,723.88
Total	4,147,840.72	2,832,658.16	4,147,840.72

41. Income tax expense

(1) Lists of income tax expense

Unit: RMB

Item	Reporting Period	Same period of last year
Current income tax expense	6,581,748.12	7,503,443.33
Total	6,581,748.12	7,503,443.33

(2) Adjustment process of accounting profit and income tax expense:

Unit: RMB

Item	Reporting Period
Total profits	41,985,309.79
Current income tax expense accounted by tax and relevant regulations	6,297,796.47
Influence of different tax rate suitable to subsidiary	-385,858.50
Influence of income tax before adjustment	36,073.11
Influence of non taxable income	-457,500.00

Influence of not deductible costs, expenses and losses	1,734,785.66
Influence of deductible temporary difference or deductible losses of deferred income tax assets derecognized in Reporting Period.	791,426.54
Tax preference incurred from qualified expense	-1,434,975.16
Income tax expense	6,581,748.12

42. Supplementary information to cash flow statement

(1) Other cash received relevant to operating activities:

Unit: RMB

Item	Reporting Period	Same period of last year
Subsidies and grants	3,454,741.28	2,240,300.00
Cash received from other current account	1,964,606.67	5,874,363.25
Interest income	2,559,453.88	3,247,570.12
Total	7,978,801.83	11,362,233.37

(2) Other cash paid relevant to operating activities:

Unit: RMB

Item	Reporting Period	Same period of last year
Sales expense paid in Reporting Period	18,835,610.08	14,343,363.07
Administration expense paid in Reporting Period	23,200,555.04	19,150,193.53
Handling charges for financial expense in Reporting Period	359,561.84	242,529.32
Others	580,495.00	321,536.23
Total	42,976,221.96	34,057,622.15

43. Supplemental information for Cash Flow Statement

(1) Supplemental information for Cash Flow Statement

Unit: RMB

Supplemental information	Reporting Period	Same period of last year
1. Reconciliation of net profit to net cash flows generated from operating activities	--	--
Net profit	35,403,561.67	38,217,442.56
Add: Provision for impairment of assets	10,257,154.02	2,767,537.46

Depreciation of fixed assets, of oil-gas assets, of productive biological assets	42,685,033.48	40,473,167.52
Amortization of intangible assets	2,408,513.75	1,728,810.62
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains: negative)	-6,113,117.21	-106,674.56
Financial cost (gains: negative)	2,163,147.25	1,350,365.56
Investment loss (gains: negative)	-1,901,135.64	-4,900,603.44
Increase in deferred income tax liabilities (“-” means decrease)	-8,781,450.00	27,870,225.00
Decrease in inventory (gains: negative)	37,091,003.67	87,405,953.65
Decrease in accounts receivable from operating activities (gains: negative)	-25,134,137.10	-109,506,857.89
Increase in payables from operating activities (decrease: negative)	29,957,339.40	-38,571,625.36
Net cash flows generated from operating activities	118,035,913.29	46,727,741.12
2. Significant investing and financing activities without involvement of cash receipts and payments	--	--
3. Change of cash and cash equivalent:	--	--
Closing balance of cash	594,934,363.36	429,123,417.14
Less: Opening balance of cash	526,716,238.21	464,761,820.50
Net increase in cash and cash equivalents	68,218,125.15	-35,638,403.36

(2) Cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	594,934,363.36	526,716,238.21
Including: Cash on hand	317,822.87	252,373.65
Bank deposit on demand	594,616,540.49	526,463,864.56
II. Closing balance of cash and cash equivalents	594,934,363.36	526,716,238.21

44. The assets with the ownership or use right restricted

Unit: RMB

Item	Closing book value	Restricted reason
Monetary capital	78,861,683.78	Bank acceptance draft deposited in the margin
Houses and buildings	7,562,514.22	Pledge for bank loan
Land use right	19,763,533.25	Pledge for bank loan
Total	106,187,731.25	--

45. Foreign currency monetary items

Unit: RMB

Item	Closing foreign currency balance	Exchange rate	Closing convert to RMB balance
Monetary capital			
Including: USD	6,109,769.87	6.6312	40,515,105.96
HKD	1,380,790.93	0.8547	1,180,162.01
Account receivable			
Including: USD	5,168,227.43	6.6312	34,271,549.73

VIII. Changes of merge scope

N/A

IX. Equity in other entities

1. Equity in subsidiary

(1) The structure of the enterprise group

Name	Main operating place	Registration place	Nature of business	Holding percentage (%)		Way of gaining
				Directly	Indirectly	
Changchai Wanzhou Diesel Engine Co., Ltd.	Chongqing	Chongqing	Industry	60.00%		Set-up
Changzhou Changchai Benniu Diesel Engine Fittings Co., Ltd.	Changzhou	Changzhou	Industry	99.00%	1.00%	Set-up
Changzhou Housheng	Changzhou	Changzhou	Service	100.00%		Set-up

Investment Co., Ltd.						
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	Changzhou	Changzhou	Industry	70.00%	25.00%	Set-up

(2) Significant not wholly owned subsidiary

Unit: RMB

Name	Shareholding proportion of minority shareholder	The profits and losses arbitrate to the minority shareholders	Declaring dividends distribute to minority shareholder	Balance of minority shareholder at closing period
Changchai Wanzhou Diesel Engine Co., Ltd.	40.00%	273,763.13		17,598,896.38
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	5.00%	111,656.18		376,976.40

(3) The main financial information of significant not wholly owned subsidiary

Unit: RMB

Name	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liability	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liability	Total liabilities
Changchai Wanzhou Diesel Engine Co., Ltd.	49,129,366.56	28,148,813.62	77,278,180.18	33,280,939.25		33,280,939.25	41,770,953.46	28,631,830.17	70,402,783.63	27,089,950.52		27,089,950.52
Changzhou Changchai Housheng Agricultural	24,162,397.91	404,358.36	24,566,756.27	17,027,228.33		17,027,228.33	16,619,127.25	440,565.96	17,059,693.21	11,753,288.83		11,753,288.83

Equipment Co., Ltd.												
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Unit: RMB

Name	Reporting Period				Same period of last year			
	Operation revenue	Net profit	Total comprehensive income	Operating cash flow	Operation revenue	Net profit	Total comprehensive income	Operating cash flow
Changchai Wanzhou Diesel Engine Co., Ltd.	29,922,164.72	684,407.82	684,407.82	9,295,155.40	46,604,607.87	1,748,347.34	1,748,347.34	6,600,149.69
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	14,101,934.04	2,233,123.56	2,233,123.56	-10,382,517.52	897,928.98	-905,911.21	-905,911.21	-1,075,236.54

2. Equity in joint venture arrangement or associated enterprise

(1) Significant joint venture arrangement or associated enterprise

Name	Main operating place	Registration place	Nature of business	Holding percentage (%)		Accounting treatment of the investment of joint venture or associated enterprise
				Directly	Indirectly	
Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.	Changzhou	Changzhou	Industry	33.00%		Equity method

(2) Main financial information of significant associated enterprise

Unit: RMB

	Closing balance/ Reporting Period	Opening balance /last period
Current assets	78,600,777.00	70,218,388.26
Non-current assets	10,648,780.73	11,465,367.78

Total assets	89,249,557.73	81,683,756.04
Current liabilities	16,823,590.80	11,746,468.25
Non-current liability	7,000,000.00	7,000,000.00
Total liabilities	23,823,590.80	18,746,468.25
Equity attributable to owners of the Company	65,425,966.93	62,937,287.79
Portion of net assets calculated according to proportion of shareholdings	21,590,569.09	20,769,304.76
Book value of equity investment to associated venture	21,590,569.09	20,769,304.76
Operation revenue	81,740,227.95	76,175,353.71
Net profit	2,488,679.14	1,204,946.89
Total comprehensive income	2,488,679.14	1,204,946.89

X. The risk related financial instruments

The goal of the Company's risk management was gaining the balance between the risk and income, and reduced the negative impact to the operation performance of the Company in the lowest level and maximized the interests of shareholders and other equity investors. Base on the risk management goal, the basis strategy of the Company's risk management was to recognized and analyze all kinds of risk that the Company faced, set up suitable risk bottom line and conduct risk management, and supervised the risks timely and reliably and control the risk within the limited scope.

The main risks of the Company due to financial instruments were credit risk, liquidity risk and market risk. The management level had reviewed and approved the policies to manage the risks, which summarized as follows:

(1) Credit risk

Credit risk was one party of the contract failed to fulfill the obligations and causes loss of financial assets of the other party.

The credit of risk of the Company mainly was related to account receivable, in order to control the risk, the Company conduct the following methods.

The Company only conducts related transaction with approved and reputable third party, in line with the policy of the Company, the Company need to conduct credit-check for the clients adopting way of credit to conduct transaction. In addition, the Company continuously monitors the balance of account receivable to ensure the Company would not face the significant bad debt risk.

(II) Liquidity Risk

Liquidity risk is referred to the risk of incurring capital shortage when performing settlement obligation in the way of cash payment or other financial assets. The policies of the Company are to ensure that there was sufficient cash to pay the due liabilities.

The liquidity risk was centralized controlled by the financial department of the Company. The financial departments through supervising the balance of the cash and securities can be convert to cash at any time and the rolling prediction of cash flow in future 12 months to ensure the Company have sufficient cash to pay the liabilities under the case of all reasonable prediction.

(III) Market risk

Market risk is refer to risk of the fair value or future cash flow of financial instrument changed due to the change of market price, including: foreign exchange rate risk, interest rate risk.

1. Interest rate risk

Interest rate risk is refers to fluctuation risk of the fair value or future cash flow of financial instrument change due to the change of market price.

2. Foreign exchange risk

Foreign exchange rate risk is referred to the risk incurred form the change of exchange rate. The export sales of the Company mainly was market of Southeast Asia region which settled by USD. Though the Company's export business receiving part of payment for goods in advance, but the balance had a certain credit term, if the RMB appreciates against the dollar, the company's accounts receivable will incur foreign currency exchange loss.

XI. The disclosure of the fair value

1. Closing fair value of assets and liabilities calculated by fair value

Unit: RMB

Item	Closing fair value			
	Fair value measurement items at level 1	Fair value measurement items at level 2	Fair value measurement items at level 3	Total
I. Consistent fair value measurement	--	--	--	--
(I) Available-for-sale financial assets	399,237,000.00			399,237,000.00
(1) Equity tool investment	399,237,000.00			399,237,000.00
Total assets of consistent fair value measurement	399,237,000.00			399,237,000.00
II. Inconsistent fair value measurement	--	--	--	--

2. Market price recognition basis for consistent and inconsistent fair value measurement items at level 1

Tradable financial assets and available for sale financial assets of the Company were funds and shares with the closing price as the basis of fair value calculation at period-end.

XII. Related party and related Transaction

1. Information related to parent company of the Company

The actual controller of the Company is Changzhou Government State-owned Assets Supervision and Administration Commission. As of 30 June 2016, it held 30.43% shares of the Company (state owned shares).

2. Subsidiaries of the Company

The details of subsidiaries of the Company please refer to equity in other entities in note to financial statements.

3. Information on the joint ventures and associated enterprises of the Company

The details of the joint ventures and associated enterprises of the Company please refer to equity in other entities in note to financial statements.

4. The Company had no other related party.

5. The Company had no other related transaction need to be disclosed.

XIII. Commitments and contingency

1. Significant commitments

As of 30 June 2016, there were no significant commitments to be disclosed.

2. Contingency

Significant contingency at balance sheet date

Litigation and arbitration in the Reporting Period:

Name of the entity	Date of accepted	Name of the litigation or arbitration institutions	Amount involved (RMB ten thousand)	Notes
Shandong Hongli Group Co., Ltd.	2001.6.27	Changzhou Intermediate People's Court	1,436.00	Under the bankruptcy and liquidation
Beijing Beiqi Changsheng Automobile Co., Ltd.	2013.8.12	Beijing Shunyi District People's Court	806.36	Enforcing conduct
Total			2,242.36	

Notes:

(1) About the lawsuit case of Shandong Hongli Group Co., Ltd., the accused company owed accumulatively RMB 14.36 million to the Company. The Company sued to Changzhou Intermediate People's Court in 2001 and sued for compulsory execution in April, 2002. Currently, the defendant has started the bankruptcy procedure. The aforesaid payment has arranged for the full provision for bad debts.

(2) As the litigation of Beijing Beiqi Changsheng Automobile Co., Ltd., the company owned our Company 8.0636 million; Beijing Shunyi District People's Court accepted the case on Aug. 12 2013. Under the auspices, two sides concluded mediation agreement. Beiqi Changsheng pays RMB 8,063,600.00 to the Company by stage. Although the Company bombarded many times, Beijing Beiqi Changsheng Automobile Co., Ltd did not perform its obligation of payment in line with mediation agreement. As of the end of Reporting Period, the Company had paid the payment of goods RMB 4.2 million, the Company had applied to the Court for compulsory execution.

XIV. Other significant events

1. Segment information

Due to the operation scope of the Company and subsidiaries were similar, the Company conduct common management, did not divide business unit, so the Company only made single branch report.

XV. Notes of main items in the financial statements of the Company

1. Accounts receivable

(1) Accounts receivable classified by category

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Accounts receivable with insignificant single amount for which bad debt provision separately accrued	44,562,311.89	5.95%	35,502,166.30	79.67%	9,060,145.59	44,942,468.52	9.24%	35,630,157.18	79.28%	9,312,311.34
Accounts receivable withdrawal of bad debt provision of by credit risks characteristics:	702,139,081.00	93.82%	195,359,088.90	27.82%	506,779,992.10	439,906,391.76	90.41%	185,340,536.87	42.13%	254,565,854.89
Accounts receivable with insignificant single amount for which bad debt provision separately accrued	1,686,716.39	0.23%	1,686,716.39	100.00%	0.00	1,686,716.39	0.35%	1,686,716.39	100.00%	
Total	748,388,109.28	100.00%	232,547,971.59	45.76%	515,840,137.69	486,535,576.67	100.00%	222,657,410.44	45.76%	263,878,166.23

Accounts receivable with single significant amount and withdrawal bad debt provision separately at end of period

√ Applicable □ Not applicable

Unit: RMB

Accounts receivable (classified by units)	Closing balance			
	Account receivable	Bad debt provision	Withdrawal proportion	Withdrawal reason
Customer 1	3,863,600.00	1,931,800.00	50.00%	Estimated difficult to recover
Customer 2	1,902,326.58	1,902,326.58	100.00%	Difficult to recover
Customer 3	6,215,662.64	6,193,248.32	99.64%	Difficult to recover
Customer 4	4,115,396.29	2,217,955.89	53.89%	Estimated difficult to recover
Customer 5	3,279,100.00	3,279,100.00	100.00%	Estimated difficult to recover
Customer 6	2,592,177.01	2,592,177.01	100.00%	Estimated difficult to recover
Customer 7	5,359,381.00	5,359,381.00	100.00%	Difficult to recover
Customer 8	2,584,805.83	2,584,805.83	100.00%	Difficult to recover
Customer 9	1,060,660.44	1,060,660.44	100.00%	Difficult to recover
Customer 10	1,494,122.14	1,494,122.14	100.00%	Difficult to recover
Customer 11	12,095,079.96	6,886,589.09	56.94%	Estimated difficult to recover
Total	44,562,311.89	35,502,166.30	--	--

In the groups, accounts receivable adopting aging analysis method to withdraw bad debt provision:

Applicable Not applicable

Unit: RMB

Aging	Closing balance		
	Account receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Subtotal of within 1 year	381,521,022.15	7,630,420.44	2.00%
1 to 2 years	127,647,057.22	6,382,352.84	5.00%
2 to 3 years	2,943,628.31	441,544.25	15.00%
Over 3 years	185,701,003.32	180,904,771.38	
3 to 4 years	6,227,544.95	1,868,263.49	30.00%
4 to 5 years	1,092,376.21	655,425.73	60.00%
Over 5 years	178,381,082.16	178,381,082.16	100.00%
Total	702,139,081.00	195,359,088.90	

(2) Bad debt provision withdrawal, reversed or recovered in the report period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB13, 142,037.40; the amount of the

reversed or collected part during the Reporting Period was of RMB 3,251,476.25.

(3) Particulars of the actual verification of accounts receivable during the Reporting Period

N/A

(4) Top 5 of the closing balance of the accounts receivable collected according to the arrears party

The total amount of top five of account receivable of closing balance collected by arrears party was RMB314, 715,720.86, 42.05% of total closing balance of account receivable. 42.05%, the relevant closing balance of bad debt provision withdrawn was RMB33, 201,024.83

2. Other accounts receivable

(1) Other account receivable classified by category

Unit: RMB

Category	Closing balance					Opening balance				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Proportion	Amount	Withdrawal proportion		Amount	Proportion	Amount	Withdrawal proportion	
Other accounts receivable with insignificant single amount for which bad debt provision separately accrued	2,853,188.02	8.03%	2,853,188.02	100.00%		2,853,188.02	8.44%	2,853,188.02	100.00%	
Other accounts receivable withdrawn bad debt provision according to credit risks characteristics	30,710,394.21	86.47%	24,123,296.14	78.55%	6,587,098.07	29,010,122.91	85.79%	24,124,759.90	83.16%	4,885,363.01
Other accounts receivable with insignificant single amount for which bad debt provision separately accrued	1,952,628.15	5.50%	1,952,628.15	100.00%		1,952,628.15	5.77%	1,952,628.15	100.00%	
Total	35,516,210.38	100.00%	28,929,112.31	81.45%	6,587,098.07	33,815,939.08	100.00%	28,930,576.07	85.55%	4,885,363.01

Other receivable with single significant amount and withdrawal bad debt provision separately at end of period:

Applicable Not applicable

Unit: RMB

Other accounts receivable (unit)	Closing balance			
	Other accounts receivable	Bad debt provision	Withdrawal proportion	Withdrawal reason
Changchai Group Import & Export Co., Ltd.	2,853,188.02	2,853,188.02	100.00%	Difficult to recover
Total	2,853,188.02	2,853,188.02	--	--

In the groups, other accounts receivable adopting aging analysis method to withdraw bad debt provision:

Applicable Not applicable

Unit: RMB

Aging	Closing balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion
Subentry within 1 year			
Subtotal of within 1 year	4,804,251.37	96,085.03	2.00%
1 to 2 years	212,264.36	10,613.22	5.00%
2 to 3 years	721,514.66	108,227.04	15.00%
Over 3 years	24,972,363.82	23,908,370.86	
3 to 4 years	670,650.62	201,195.19	30.00%
4 to 5 years	1,486,343.82	891,806.29	60.00%
Over 5 years	22,815,369.38	22,815,369.38	100.00%
Total	30,710,394.21	24,123,296.14	

(2) Bad debt provision withdrawal, reversed or recovered in the report period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB145, 216.33; the amount of the reversed or collected part during the Reporting Period was of RMB 146,680.09.

(3) Particulars of the actual verification of other accounts receivable during the Reporting Period

N/A

(4) Other account receivable classified by account nature

Unit: RMB

Nature	Closing book balance	Opening book balance
Margin & cash pledge	4,200.00	4,200.00

Intercourse funds between entities	18,046,889.10	17,463,134.91
Petty cash & employee borrowing	1,583,214.07	1,560,886.41
Others	15,881,907.21	14,787,717.76
Total	35,516,210.38	33,815,939.08

(5) The top five other account receivable classified by debtor at period-end

Unit: RMB

Name of the entity	Nature	Closing balance	Aging	Proportion%	Closing balance of bad debt provision
Changzhou Compressor Co., Ltd.	Intercourse funds	2,940,000.00	Over 5 years	8.28%	2,940,000.00
Changchai Group Import & Export Co., Ltd.	Intercourse funds	2,853,188.02	Over 5 years	8.03%	2,853,188.02
Changzhou New District Accounting Center	Intercourse funds	1,626,483.25	Over 5 years	4.58%	1,626,483.25
Changzhou Xingsheng Property Management Co., Ltd.	Intercourse funds	1,141,056.71	Within 1 year	3.21%	22,821.13
OEM Group Settlement Center	Intercourse funds	1,140,722.16	Over 5 years	3.21%	1,140,722.16
Total	--	9,701,450.14	--	27.32%	8,583,214.56

3. Long-term equity investment

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Depreciation reserves	Book value	Book balance	Depreciation reserves	Book value
Investment to the subsidiary	184,466,500.00		184,466,500.00	184,466,500.00		184,466,500.00
Investment to joint ventures and associated enterprises	21,634,751.38	44,182.50	21,590,568.88	20,813,487.26	44,182.50	20,769,304.76
Total	206,101,251.38	44,182.50	206,057,068.88	205,279,987.26	44,182.50	205,235,804.76

(1) Investment to the subsidiary

Unit: RMB

Investee	Opening balance	Increase	Decrease	Closing balance	Withdrawn impairment provision in the Reporting Period	Closing balance of impairment provision
Changchai Wanzhou Diesel Engine Co., Ltd.	51,000,000.00			51,000,000.00		
Changzhou Changchai Benniu Diesel Engine Fittings Co., Ltd.	96,466,500.00			96,466,500.00		
Changzhou Housheng Investment Co., Ltd.	30,000,000.00			30,000,000.00		
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	7,000,000.00			7,000,000.00		
Total	184,466,500.00			184,466,500.00		

(2) Investment to joint ventures and associated enterprises

Unit: RMB

Investee	Opening balance	Increase/decrease in Reporting Period								Closing balance	Closing balance of impairment provision
		Additional investment	Negative investment	Investment profit and loss recognized under the equity method	Adjustment of other comprehensive income	Other equity changes	Declaration of cash dividends or profits	Withdrawn impairment provision	Others		
I. Joint ventures											
II. Associated enterprises											
Changzhou Fuji	20,769,304.76			821,264.12						21,590,568.88	

Changchai Robin Gasoline Engine Co., Ltd.											
Beijing Tsinghua Xingye Industrial Investment Management Co., Ltd.	44,182.50									44,182.50	44,182.50
Subtotal	20,813,487.26			821,264.12						21,634,751.38	44,182.50
Total	20,813,487.26									21,634,751.38	44,182.50

4. Revenue and Cost of Sales

Unit: RMB

Item	Reporting Period		Same period of last year	
	Sales revenue	Cost of sales	Sales revenue	Cost of sales
Main operations	1,153,641,301.29	992,786,487.60	1,361,846,639.00	1,186,065,510.97
Other operations	10,055,027.37	7,398,827.46	9,385,125.35	6,353,215.35
Total	1,163,696,328.66	1,000,185,315.06	1,371,231,764.35	1,192,418,726.32

5. Investment income

Unit: RMB

Item	Reporting Period	Same period of last year
Long-term equity investment income accounted by equity method	821,264.12	397,632.47
Investment income received from holding of available-for-sale financial assets		3,112,240.00
Investment income from disposal of bank financial products	364,000.00	
Total	1,185,264.12	3,509,872.47

XVI. Supplementary materials

1. Items and amounts of extraordinary gains and losses

√ Applicable □ Not applicable

Unit: RMB

Item	Amount	Explanation
Gains/losses on the disposal of non-current assets	6,113,117.21	
Tax rebates, reductions or exemptions due to approval beyond authority or the lack of official approval documents	3,787,728.09	
Gain/loss from change of fair value of transactional assets and liabilities, and investment gains from disposal of transactional financial assets and liabilities and available-for-sale financial assets, other than valid hedging related to the Company's common businesses	1,205,730.87	
Other non-operating income and expenses other than the above	-3,412,491.97	
Less: Income tax effects	986,443.45	
Minority interests effects	200,000.00	
Total	6,507,640.75	--

2. Return on equity and earnings per share

Profit as of Reporting Period	Weighted average ROE (%)	EPS (Yuan/share)	
		EPS-basic	EPS-diluted
Net profit attributable to common shareholders of the Company	1.76%	0.06	0.06
Net profit attributable to common shareholders of the Company after deduction of non-recurring profit and loss	1.43%	0.05	0.05

3. Differences between accounting data under domestic and overseas accounting standards

(1) Differences of net profit and net assets disclosed in financial reports prepared under international and Chinese accounting standards

Applicable Not applicable

(2) Differences of net profit and net assets disclosed in financial reports prepared under overseas and Chinese accounting standards

Applicable Not applicable

Section X. Documents Available For Reference

1. 2016 semi-annual report with signatures and seals of the Chairman.
2. Financial Statements carried with signatures and seals of responsible person of the Company, Accounting Principal, as well as Head of the Accounting Organ;
3. In the Reporting Period, originals of all documents of the Company ever disclosed publicly in media designated by China Securities Regulatory Commission such as the Securities Times and Ta Kung Pao and the originals of all the public notices.
4. Articles of Association

Board of Directors
Changchai Company, Limited
18 August 2016