



# **CHANGCHAI COMPANY, LIMITED**

## **ANNUAL REPORT 2016**

**April 2017**

## **Table of Contents**

<b>Section I Important Statements, Contents and Definitions.....</b>	<b>3</b>
<b>Section II Corporate Profile and Financial Results.....</b>	<b>5</b>
<b>Section III Business Profile .....</b>	<b>8</b>
<b>Section IV Performance Discussion and Analysis.....</b>	<b>10</b>
<b>Section V Significant Events .....</b>	<b>21</b>
<b>Section VI Share Changes and Shareholders' Profile.....</b>	<b>33</b>
<b>Section VII Preference Shares .....</b>	<b>37</b>
<b>Section VIII Directors, Supervisors, Executive Officers and Staff.....</b>	<b>38</b>
<b>Section IX Corporate Governance .....</b>	<b>47</b>
<b>Section X Corporate Bonds.....</b>	<b>53</b>
<b>Section XI Financial Report.....</b>	<b>54</b>
<b>Section XII Documents Available for Reference .....</b>	<b>158</b>

## Section I Important Statements, Contents and Definitions

The board of directors (the “Board”), the supervisory board (the “Supervisory Board”), as well as the directors, supervisors and executive officers of Changchai Company, Limited (the “Company”) hereby guarantee the factuality, accuracy and completeness of the contents of this Report, and shall be jointly and severally liable for any false representation, misleading statements or material omissions in this Report.

Shi Xinkun, head of the Company, Zhang Xin, accounting head for this Report, and Jiang He, head of the accounting department (head of accounting), hereby guarantee that the Financial Report carried in this Report is factual, accurate and complete.

All directors attended the board meeting for the review of this Report.

Any plans for the future and other forward-looking statements mentioned in this Report shall NOT be considered as virtual promises of the Company to investors. Therefore, investors are kindly reminded to pay attention to possible investment risks.

The Company has described in detail the risks it might face in “IX 4. Possible risks in the future” under “Section IV Performance Discussion and Analysis” in this Report.

The Board has considered and approved the following proposal for profit distribution: Based on the total shares of 561,374,326, a cash dividend of RMB0.3 (tax inclusive) per 10 shares will be distributed to all shareholders of the Company. No bonus shares will be granted, nor will any capital reserve be converted into share capital.

This Annual Report and its abstract have been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

## Definitions

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.
RMB, RMB'0,000	Refers to	RMB, RMB Ten thousand
Reporting Period	Refers to	January 1, 2016-December 31, 2016

## Section II Corporate Profile and Financial Results

### I Corporate information

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		
Abbr.	苏常柴		
Company name in English	CHANGCHAI COMPANY, LIMITED		
Abbr.	CHANGCHAI CO., LTD.		
Legal representative	Shi Xinkun		
Registered address	123 Huaide Middle Road, Changzhou, Jiangsu, China		
Zip code	213002		
Office address	123 Huaide Middle Road, Changzhou, Jiangsu, China		
Zip code	213002		
Company website	<a href="http://www.changchai.com.cn">http://www.changchai.com.cn</a>		
Email	<a href="mailto:cctqm@public.cz.js.cn">cctqm@public.cz.js.cn</a>		

### II Contact information

	Board Secretary	Securities Representative
Name	He Jianjiang	
Address	123 Huaide Middle Road, Changzhou, Jiangsu, China	
Tel.	(86)519-68683155	
Fax	(86)519-86630954	
E-mail	<a href="mailto:cchjj@changchai.com">cchjj@changchai.com</a>	

### III Information disclosure and place where this Report is kept

Newspapers designated by the Company for information disclosure	Securities Times, Ta Kung Pao (HK)
Website designated by the China Securities Regulatory Commission (CSRC) for the publication of this Report	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Place where this Report is kept	Board Secretariat of the Company and the Shenzhen Stock Exchange

## IV Company registration and alteration

Credibility code	91320400134792410W
Changes in main business activities of the Company after going public	No changes
Changes of controlling shareholder	No changes

## V Other information

The CPAs firm hired by the Company

Name	Jiangsu Gongzheng Tianye Certified Public Accountants LLP
Office address	10/F, Yingtong Commerce Building, Changzhou, Jiangsu, China
Accountants writing signatures	Dai Weizhong, He Taifeng

## VI Accounting and financial results

	2016	2015	+/-%	2014
Operating revenues (RMB)	2,283,028,855.52	2,519,799,547.29	-9.40%	2,489,792,063.33
Net profit attributable to shareholders of the Company (RMB)	62,539,896.17	71,102,792.49	-12.04%	64,202,144.29
Net profit attributable to shareholders of the Company before exceptional profit and loss (RMB)	56,835,566.28	61,588,462.29	-7.72%	58,685,034.57
Net cash flows from operating activities (RMB)	99,473,944.04	127,926,882.95	-22.24%	-51,507,355.52
Basic earnings per share (RMB/share)	0.11	0.13	-15.38%	0.11
Diluted earnings per share (RMB/share)	0.11	0.13	-15.38%	0.11
Weighted average return on equity (%)	3.00%	3.53%	-0.53%	3.28%
	December 31, 2016	December 31, 2015	+/-%	December 31, 2014
Total assets (RMB)	3,724,857,266.71	3,232,406,102.20	15.23%	3,166,783,758.18
Net assets attributable to shareholders of the Company (RMB)	2,323,712,892.92	2,002,910,311.01	16.02%	1,936,936,835.27

## VII Differences in accounting data under domestic and foreign accounting standards

The net profit and net assets of this Reporting Period under China's accounting standards are the same with those under the international or any applicable foreign accounting standards.

## VIII Financial results by quarter

Unit: RMB

	1Q	2Q	3Q	4Q
Operating revenues	654,517,225.08	509,143,496.61	605,182,860.65	514,185,273.18
Net profit attributable to shareholders of the Company	24,282,056.99	10,736,085.37	20,090,608.28	7,431,145.53
Net profit attributable to shareholders of the Company before exceptional profit and loss	24,946,954.15	3,563,547.46	19,718,706.88	8,606,357.79
Net cash flows from operating activities	-5,947,696.22	123,983,609.51	-46,874,591.45	28,312,622.20

## IX Exceptional profit/loss

Unit: RMB

Item	2016	2015	2014
Profit/loss on disposal of non-current assets (including offset asset impairment provisions)	6,254,028.26	211,929.61	118,901.99
Government subsidies charged to the profit/loss for this Reporting Period (except for the government grants closely related to the business of the Company and given at a fixed quota or amount in accordance with the State's uniform standards)	7,948,135.65	11,903,636.62	10,344,073.62
Capital occupation charges on non-financial enterprises that are charged to the profit/loss for this Reporting Period	1,340,364.82	1,523,155.52	1,505,666.68
Profit/loss on fair value changes of transactional financial assets and liabilities & investment income from disposal of transactional financial assets and liabilities as well as financial assets available for sale, except for effective hedges related to routine operations of the Company	1,058,569.81	1,793,021.58	572,812.70
Impairment provision reversal for accounts receivable on which the impairment test is carried out separately			
Non-operating income and expense other than the above	-9,328,953.27	-4,109,778.32	-6,029,012.72
Less: Corporate income tax	1,294,119.50	1,747,894.80	995,341.14
Minority interests (after tax)	273,695.88	59,740.01	-8.59
Total	5,704,329.89	9,514,330.20	5,517,109.72

## Section III Business Profile

### I Main business scope for this Reporting Period

As a manufacturer, we specialize in the manufacture and sale of diesel engines, diesel engine fittings and castings, gasoline engines, gasoline engine fittings, cereal harvesting machinery, rotovators, walking tractors, molds and jigs as well as the assembly and sale of diesel engine and gasoline engine supporting sets.

We mainly manufacture and sell small and medium-sized single-cylinder and multi-cylinder diesel engines under the brand of “Changchai”, which are often used in tractors, combine-harvesters, light commercial vehicles, agriculture equipment, small-sized engineering machinery, generator sets, ship machines, etc.

### II Significant changes in main assets

Main assets	Reason for any significant change
Available-for-sale financial assets	The closing amount stood at RMB820,072,500.00, up 63.04% from the opening amount, mainly because the Bank of Jiangsu, where the Company holds shares, went public during this Reporting Period, and the cost method which had been adopted in the measurement of these shares changed to the fair value method.
Other current assets	The closing amount stood at RMB39,669,983.12, down 34.22% from the opening amount, mainly because some wealth management products became due in this Reporting Period.

### III. Core competitiveness analysis

#### 1. Brand advantage

Changchai is a national industrial enterprise with a history of over one hundred years. It is one of the earliest professional manufacturers of internal combustion engines in China. The brand "Changchai" is the earliest domestic trademark of production goods known as China's well-known trademarks. The diesel engine of "Changchai" brand is China's brand-name product. The enterprise has been certified by ISO9000 quality system, ISO14001 environmental management system, ISO/TS16949 automotive product quality management system, and accessed to the national export-free enterprise qualification. Changchai was honorably ranked among “the Top One Hundred Chinese Enterprises in Engineering Industry” and “China Pacesetter Enterprise of Industrial Industry” for several times, and was awarded the honorary title of “State-level Enterprise of Observing Contracts and Keeping Promise”, “China's Agricultural Machinery Parts and Components Leading Enterprises”, “China's Agricultural Machinery AAA Credit Enterprise”, “Jiangsu Independent Industries Brand Top 50”, “Quality Management Excellence Award of Jiangsu Province”, “Mayor Quality Award of Changzhou City”, also our company won as the 10 users most satisfied leading brands in “Jing Geng” competition in the last five years. In 2016, Changchai was entitled honors of "My Favorite Jiangsu Trademark in 2016" awarded the Administration for Industry and Commerce of Jiangsu Provincial, "China Agricultural Machinery Parts and Components Leading Enterprises" awarded by China Agricultural Machinery Industry Association, and “Most Influential Brand of China Agricultural Machinery Industry in 2016” awarded jointly by China Agricultural Machinery Industry Association, China Agricultural Mechanization Association, and China Agricultural Machinery Circulation Association. For the past many years, in the process of achieving steady



economic development of the enterprise, we developed in a sound manner and cultivated the “Changchai” brand, a famous small diesel engine brand of China with independent intellectual property rights

## 2. Technology advantage

Changchai has a state-level technology center and post-doctoral research station, and a research center of small and medium-power internal combustion engine engineering and technology in Jiangsu Province. Currently, Changchai is mainly engaged in production of small and medium-power single-cylinder and multi-cylinder diesel engine. It has a complete product range, a wide power level coverage, a high reputation and intellectual property rights for its main products. Changchai’s product research and development and scientific research projects have won the second prize of National Machinery Industry Science and Technology Progress Award, the second prize of Science and Technology Award of Jiangsu Province, and the first prize of Science and Technology Progress Award of Changzhou City etc. So far, we have obtained 130 patents granted home and abroad in total, including 6 invention patents.

## 3. Sales advantage

Changchai has built up a sales service network covering the whole country, with 11 sales business units, 31 sales service centers, over 400 service stations and 600 designated maintenance stations. With a perfect diesel sales service network system, our company is able to provide high quality, efficient and timely services for our customers.

## Section IV Performance Discussion and Analysis

### I. Summary

In the year 2016, facing difficulties such as the continuous downward trend of the macro-economy, stricter emission laws and regulations, and the enormous pressure from safety and environmental protection requirements, we took core competitiveness improvement as the most important measure, by speeding product upgrades, optimizing the product structure, improving product quality, continuously promoting important technological transformation projects, making full use of the resource advantage, seizing opportunities in domestic and overseas markets, and expanding the advantages of superior products and business segments. As a result, we managed to maintain a stable and orderly development.

In 2016, we sold about 724,400 engines and engine units, of which about 116,600 were multi-cylinder engines, and about 607,800 are single-cylinder engines. We exported about 124,600 engines and engine units; and we achieved sales revenue of RMB2.283 billion, a yearly decline of 9.4%. The net profit attributable to shareholders of the Company was RMB62.5714 million, a yearly decline of 12.00%. Under the grim overall situation of the national small diesel engine industry, although our company's total sales of products went down from last year, our overall market share was stable, maintaining a leading position in the industry.

In terms of single-cylinder engines, our company adapted to new changes in the market, stabilize the main supporting enterprise market share, integrate A dealer team and continuously promote the secondary network construction. At the same time, we also accelerated the pace of product and market structure optimization, increased the proportion of superior products, and fully involved in bidding projects and the development of key customers.

Concerning multi-cylinder engines, on the one hand, our company stabilized the existing supporting system to enhance the supporting market share, speed up the agricultural market support of 4G33 and 4L88 series of middle and high ranking new products, as well as the promotion of resources of national standard III. Our company also accelerated the support of end products such as light engines and rice transplanters, but the supporting sales of commercial vehicles decreased significantly.

Facing a more severe situation of foreign trade market in the past two years, our company's export business maintained stable and rapid development. Both export volume and export income of our company increased.

As for market service, we focused on national standard III training for product upgrades and service station optimization, and continuously improved the service capacity of national standard III products. We made full use of the Internet, visualization and other means to improve the terminal market service capabilities by following-up and teamwork.

To sum up, in 2016, our company correctly grasped the industry trends, implemented targeted product structure adjustment, and did a lot to positively and effectively promote product upgrades. On the one hand, the upgrade of single multi-cylinder products to national standard III was basically completed. The technical route was recognized by the market and got an advantage in the development of the industry. On the other hand, the product structure adjustment achieved initial success. New key profitable products increased significantly, making good preparation for the new development of the company.

### II. Main business analysis

#### 1. Summary

See "I. Summary" in "Discussion & Analysis by the Management".

**2. Revenues and costs****(1) Breakdown of operating revenues**

Unit: RMB

	2016		2015		+/-%
	Amount	In total operating revenues	Amount	In total operating revenues	
Total of the operating income	2,283,028,855.52	100%	2,519,799,547.29	100%	-9.40%
Classified by industries					
Internal combustion engine industry	2,258,400,410.51	98.92%	2,495,248,411.83	99.03%	-9.49%
Other	24,628,445.01	1.08%	24,551,135.46	0.97%	0.31%
Classified by products					
Diesel engines	2,258,400,410.51	98.92%	2,495,248,411.83	99.03%	-9.49%
Other	24,628,445.01	1.08%	24,551,135.46	0.97%	0.31%
Classified by regions					
Domestic	1,974,994,464.83	86.51%	2,288,815,564.77	90.83%	-13.71%
Overseas	308,034,390.69	13.49%	230,983,982.52	9.17%	33.36%

**(2) Industries, products or areas contributing over 10% of operating revenues or profit**

Unit: RMB

	Operating revenue	Operating cost	Gross profit margin	Operating revenue: +/-% from last year	Operating cost: +/-% from last year	Gross profit margin: +/-% from last year
Classified by industries						
Internal combustion engine industry	2,258,400,410.51	1,849,826,031.76	18.09%	-9.49%	-11.68%	2.03%
Classified by products						
Diesel engines	2,258,400,410.51	1,849,826,031.76	18.09%	-9.49%	-11.68%	2.03%
Classified by regions						
Domestic	1,950,366,019.82	1,551,802,758.77	20.44%	-13.86%	-17.02%	3.03%
Overseas	308,034,390.69	298,023,272.99	3.25%	33.36%	32.86%	0.36%

**(3) Are the Company's goods selling revenue higher than the service revenue?**

Classified by industries	Item	Unit	2016	2015	YoY +/-
Diesel engines	Sales volume	Piece	724,452	907,715	-20.19%
	Output	Piece	745,941	870,754	-14.33%
	Stock	Piece	85,003	63,514	33.83%

Reasons of yearly change up to 30% of relevant data

√ Applicable □ Not applicable

At the end of the Reporting Period, product inventories increased by 33.83% over the same period last year, mainly because the company increased the product inventory in order to cope with the peak season in early 2017 at the end of the Reporting Period.

**(4) Breakdown of operating costs**

Unit: RMB

Classified by products	Item	2016		2015		YoY +/-
		Amount	Ratio to the operating cost	Amount	Ratio to the operating cost	
Diesel engines	Raw materials	1,504,920,345.33	80.62%	1,771,572,695.44	83.95%	-15.05%
Diesel engines	Wages	227,952,039.91	12.21%	200,838,801.68	9.52%	13.50%
Diesel engines	Depreciation	81,531,657.35	4.37%	77,956,874.68	3.69%	4.59%
Diesel engines	Energy	28,880,577.08	1.55%	30,561,457.15	1.45%	-5.50%

**(5) List of the major trade debtors and major supplier**

List of the major trade debtors of the Company

Total sales to the top 5 customers (RMB)	1,186,220,609.01
Ratio of the total sales to the top 5 customers to the annual total sales	51.96%
Ratio of the related party sales to the top 5 customers to the annual total sales	0.00%

Information of the top 5 customers of the Company

SN	Name of customer	Sales amount (RMB)	Proportion in annual total sales
1	Customer 1	497,881,915.34	21.81%
2	Customer 2	260,523,748.85	11.41%
3	Customer 3	213,112,753.56	9.33%
4	Customer 4	107,843,322.26	4.72%
5	Customer 5	106,858,869.00	4.68%
Total	--	1,186,220,609.01	51.96%

## List of the major suppliers of the Company

Total purchase to the top 5 suppliers (RMB)	215,630,764.22
Ratio of the total purchase to the top 5 suppliers to the annual total purchase	13.15%
Ratio of the related party purchase to the top 5 suppliers to the annual total purchase	0.00%

## Information of the top 5 suppliers of the Company

SN.	Name of supplier	Purchase amount (RMB)	Ratio to the annual purchase amount
1	Customer 1	60,796,149.82	3.71%
2	Customer 2	43,635,538.44	2.66%
3	Customer 3	41,255,451.77	2.52%
4	Customer 4	36,363,571.19	2.22%
5	Customer 5	33,580,053.00	2.05%
Total	--	215,630,764.22	13.15%

**3. Expenses**

Unit: RMB

	2016	2015	YoY +/-	Notes of the significant changes
Sales expenses	103,969,577.79	98,122,345.71	5.96%	
Management expenses	207,582,213.98	197,678,915.43	5.01%	
Financial expenses	-11,542,165.08	-15,723,785.00		Mainly due to the decrease of interest income of the company during the Reporting Period and supplier's discounted bills.

**4. R&D investment**

The Company has been paying attention on the R&D of the new products and new technology and regards the market as the orientation to constantly promote the technology upgrade, to make great efforts to enhance the R&D ability of the Company's technology and the self-innovation ability as well as to improve the added value of the products for constantly strengthening the market competitiveness of the Company.

## List of the R&amp;D investment of the Company

	2016	2015	Varied ratio
Number of the R&D personnel (person)	365	363	0.55%
Ratio to the R&D personnel	10.55%	10.12%	0.43%
Investment amount of the R&D (RMB10,000')	78,811,840.43	77,961,271.34	1.09%
Ratio of the R&D investment to the operating income	3.45%	3.09%	0.36%
Amount of the capitalized R&D investment (RMB)	0.00	0.00	0.00%
Ratio of the capitalized R&D investment to the R&D investment	0.00%	0.00%	0.00%

## 5. Cash flow

Unit: RMB

Item	2016	2015	YoY +/-
Subtotal of cash inflows from operating activities	2,505,758,062.18	2,686,973,788.27	-6.74%
Subtotal of cash outflows from operating activities	2,406,284,118.14	2,559,046,905.32	-5.97%
Net cash flows from operating activities	99,473,944.04	127,926,882.95	-22.24%
Subtotal of cash inflows from investing activities	45,132,445.41	17,469,925.84	158.34%
Subtotal of cash outflows from investing activities	67,310,667.45	68,003,567.09	-1.02%
Net cash flows from investing activities	-22,178,222.04	-50,533,641.25	
Subtotal of cash inflows from financing activities	15,000,000.00	17,000,000.00	-11.76%
Subtotal of cash outflows from financing activities	35,733,831.12	32,438,823.99	10.16%
Net cash flows from financing activities	-20,733,831.12	-15,438,823.99	
Net increase in cash and cash equivalents	56,561,890.88	61,954,417.71	-8.70%

Notes of the major effects on the YoY significant changes occurred of the data above

√ Applicable □ Not applicable

The increase in cash inflow from investing activities was mainly due to the withdrawal of funds from bank financial products during the Reporting Period.

## III. Analysis of the non-core business

□ Applicable √ Not applicable

## IV. List of the assets and liabilities

### 1. List of the significant changes of the assets form

Unit: RMB

	As at 31 Dec. 2016		As at 31 Dec. 2015		Proportion change	Explain any major change
	Amount	Proportion in total assets	Amount	Proportion in total assets		
Monetary funds	670,703,802.02	18.01%	601,312,715.62	18.60%	-0.59%	
Accounts receivable	359,279,821.69	9.65%	308,596,920.50	9.55%	0.10%	
Inventories	494,046,458.44	13.26%	397,290,012.36	12.29%	0.97%	
Investing real estate	55,072,689.23	1.48%	57,281,030.03	1.77%	-0.29%	
Long-term equity investment	21,006,230.03	0.56%	20,769,304.76	0.64%	-0.08%	
Fixed assets	553,678,938.87	14.86%	554,601,893.23	17.16%	-2.30%	
Construction in progress	89,781,047.21	2.41%	108,198,455.01	3.35%	-0.94%	
Short-term loans	10,000,000.00	0.27%	17,000,000.00	0.53%	-0.26%	
Long-term loans	670,703,802.02	18.01%	601,312,715.62	18.60%	-0.59%	

**2. Assets and liabilities measured at fair value**

Unit: RMB

Item	Opening amount	Gain/loss on fair value change in the Reporting Period	Cumulative fair value change recorded into equity	Impairment provisions in the Reporting Period	Purchased amount in the Reporting Period	Sold amount in the Reporting Period	Closing amount
Financial assets							
Financial assets measured at fair value and whose changes are recorded into current gains and losses (excluding derivative financial assets)	0.00						0.00
Available-for-sale financial assets	495,780,000.00	317,092,500.00	623,048,300.00				812,872,500.00
Subtotal of financial assets	495,780,000.00	317,092,500.00	623,048,300.00				812,872,500.00
Total of the above	495,780,000.00	317,092,500.00	623,048,300.00				812,872,500.00
Financial liabilities	0.00						0.00

**3. Restricted asset rights at the end of the Reporting Period**

Item	Book Value at the Ending Period	Reasons
Monetary funds	87,425,672.93	Security deposits for bank acceptance bills
Buildings	6,973,427.38	Collaterals for loan
Land use right	19,469,465.00	Collaterals for loan
Total	113,868,565.31	

**V. List of the investment****1. Overall condition**
☐ Applicable ☒ Not applicable
**2. List of the significant equity investment acquired from the Reporting Period**
☐ Applicable ☒ Not applicable
**3. List of the significant non-equity investment has been executing during the Reporting Period**
☐ Applicable ☒ Not applicable

**4. Investment on the financial assets****(1) List of the securities investment**

No such situation of the Company during the Reporting Period.

**(2) List of the derivative investment**

No such situation of the Company during the Reporting Period.

**5. Use of raised funds**

No such situation of the Company during the Reporting Period.

**VI. Selling of the significant assets and the equities**

No such cases in this Reporting Period.

**VII. Analysis of the major controlling and stock-participating companies**

Unit: RMB

Name	Type	Main services	Registered capital	Total assets	Net assets	Operating revenues	Operating profit	Net profit
Changchai Benniu	Subsidiary	Production of diesel engine fittings	55,063,000.00	176,044,790.50	100,757,978.77	150,718,980.23	-1,993,860.72	-5,610,886.94
Changchai Wanzhou	Subsidiary	Assembling of diesel engine fittings	85,000,000.00	132,841,434.23	113,595,088.53	66,035,872.53	2,426,480.84	2,686,324.49
Housheng Investment	Subsidiary	External investment and consulting service	30,000,000.00	35,536,468.30	34,875,699.59	1,340,364.82	1,195,513.64	916,890.70
Housheng Agricultural Equipment	Subsidiary	Agricultural machinery product of rice transplanter etc.	10,000,000.00	30,116,033.68	7,365,580.04	20,425,666.48	2,025,915.66	2,059,175.66
Changchai Robin	Joint stock company	Assembling of gasoline engines	37,250,000.00	80,218,115.74	63,655,243.17	154,944,857.08	3,183,020.39	1,315,524.51

**VIII. List of the structured main bodies controlled by the Company**



□ Applicable √ Not applicable

## IX. Outlook of the Company's future development

### 1. Industry competition structure and development tendency

At present, the development trend and market situation of the industry are mainly as follows: firstly, the demand for agricultural machinery and commercial vehicles slows down, bringing further competition of the industry; secondly, the rising cost of product emission upgrade is difficult for the market to accept; thirdly, users are very concerned about reliability, vibration, noise and appearance quality of diesel engines, and expectation of "Three Guarantees" extension increased significantly in the market. Overall, the diesel market competition is fierce. The industry will further reshuffle, and there will be better market prospects for diesel engines with high-performance in energy saving and environmental protection.

### 2. Company development strategies:

To base on the farm machinery, do stronger in the power, develop the fields and develop scientifically.

The current products market structure of the Company mainly distributed in fields and export market such as the farm equipment such as the walking, small four-wheeler, big small and medium-sized wheeled tractors, gardening tractors and combine harvesters; agricultural small construction machinery, three rounds and low-speed vehicles; light trucks, pickups automobile industry; generator and water pump, small ship auxiliary machinery. The Company would take the market and users' demands as the orientation to seize the main line of the products and to improve the quality and increase the efficiency as well as to do better in the power and to constantly enhance the market competitiveness.

As for the matched power of the wheeled tractors, the Company maintains the advantages of the power section about 50 horsepower. As for the mating field of the combine-harvester, the Company will form a stable brand. As for the terminal end, the Company realizes the production cut-over of the rice transplanters and will soon step into the mass production. And the phenomenon "lack of heavy-duty and light-duty trucks" had been improved. The multi-cylinder machine products series under 30 horsepower needs to be improved in the future and to develop the over-80-horsepower roller tractors and diesel engines for engineering and non-road vehicles with small-lot production into the market. The Company will further innovate the new management mechanism and to create marketing mode as well as to reduce the cost expenses that to promote the sustainable and stable and healthy development of the Company.

### 3. Operation Plan for the Year 2017:

We will perfect single-cylinder engines and strengthen multi-cylinder engines; further quality standard, and develop both home and abroad markets. The sales income achieves RMB 2.3 billion and sales of new products exceed 80,000 sets are expected in 2017. The above operation plan does not represent the profit forecast of Y2017 by the listed company, and whether can be realized depends on various factors on the changes of market conditions and the effort level of the management team. There is a lot of uncertainty, and investors should pay special attention on it.

### 4. Possible risks and countermeasures:

#### (1) Market risk:

With fierce competition, over-capacity of some products and the total available market of the single cylinder engine were in a decline tendency as well as the demand from the industry was insufficient. And the profitability of the enterprises faced with rather great pressure.

Countermeasures:

Firstly is to strengthen the production and sales management, to determine the production by the sales and to reasonably control the inventories.

Secondly is to make use of the leading position and brand advantages of the Company in the single-cylinder diesel engine market and expand the sales of air-cooled single-cylinder diesel engines and the high-power diesel engines.

Thirdly is to improve the R&D level of the Company, lean to medium-and high-class multi-cylinder diesel engines in product development and vigorously develop high-power diesel engines with high added value for non-road vehicles.

Fourthly is to strengthen the quality management, constantly enhance the customers' satisfaction and the brand value as well as to enhance the products quality.

Fifthly is to update the service and management ideas, optimize the resources and to further enhance the after-sales service ability.

## (2) Policy risk:

The macro-economic environment is complex and changeable, economic growth is slowing down and the policy on the diesel engine emissions is becoming stricter and stricter, which increased the operating difficulties and the pressure. As such, the market demands for some products of the Company will be affected to some extent.

Countermeasures: The Company will pay close attention to the government's economic macro-control policies and market developments. To promote the work such as "promote the products upgrade and quality enhancing", to embrace the upgrading of the engine emission standards, to accelerate the forging of the new "Standard V" platform, and to execute the necessary products resources reserves in advance.

## (3) Talent risk:

With escalation of national environmental policy and fierce competition in the market, the social and customer requirements of product quality, performance and other aspects are getting higher and higher, meanwhile our company's needs of high-ranking talents are also growing as our resources in research and development increased.

Solutions: introduce all kinds of high-ranking talents through varieties of channels and strengthen personnel training.

## X. List of the received researches, visits and interviews

Time of reception	Way of reception	Visitor type	Index of the researches basic information
26 Dec. 2016	Other	Individual	List of the 8 <sup>th</sup> new directors
23 Dec. 2016	Other	Individual	List of the shareholders' number
16 Dec. 2016	Other	Individual	List of the controlling shareholders of the Company
8 Dec. 2016	Other	Individual	List of the state-owned enterprise reform
8 Dec. 2016	Other	Individual	Production and operation of the Company
1 Dec. 2016	Other	Individual	Suggestion of the future development of the Company
30 Nov. 2016	Other	Individual	Share price of secondary market of the Company
29 Nov. 2016	Other	Individual	List of the state-owned enterprise reform
18 Nov. 2016	Other	Individual	List of the state-owned enterprise reform
17 Nov. 2016	Other	Individual	List of the state-owned enterprise reform

12 Oct. 2016	Other	Individual	Impact of Jiangsu Bank listing on the Company
29 Sep. 2016	Other	Individual	List of the shareholders' number
28 Sep. 2016	Other	Individual	List of the shareholders' number
28 Sep. 2016	Other	Individual	Whether the Company has the organization intention
27 Sep. 2016	Other	Individual	List of the shareholders' number
22 Sep. 2016	Other	Individual	List of the shareholders' number
16 Sep. 2016	Other	Individual	List of the shareholders' number
3 Sep. 2016	Other	Individual	List of the shareholders' number
26 Aug. 2016	Other	Individual	Operation of the Company
13 Jul. 2016	Other	Individual	List of the shareholders' number
18 Jun. 2016	Other	Individual	List of the shares of Jiangsu Bank held by the Company
13 Jun. 2016	Other	Individual	Shareholding increase or decrease plan of the major shareholders
6 Jun. 2016	Other	Individual	List of the shareholders' number
25 May 2016	Other	Individual	List of the planning of the power industrial park of the Company
25 May 2016	Other	Individual	Whether the Company has the organization intention
19 May 2016	Other	Individual	List of the shareholders' number
19 May 2016	Other	Individual	List of the Company's stock
13 May 2016	Other	Individual	Operation of the Company
28 Apr. 2016	Other	Individual	Products of the Company
27 Apr. 2016	Other	Individual	List of the agricultural informatization
26 Apr. 2016	Other	Individual	List of the shareholders' number
22 Apr. 2016	Other	Individual	List of the operation of the Changchai Benniu
22 Apr. 2016	Other	Individual	Operation of the Company
22 Apr. 2016	Other	Individual	List of the construction of technological transformation project
22 Apr. 2016	Other	Individual	List of the external cooperation of the Company
22 Apr. 2016	Other	Individual	List of the operation of the Housheng Investment
22 Apr. 2016	Other	Individual	List of the future development of the Company
21 Apr. 2016	Other	Individual	Development orientation of the future technology products of the Company
5 Apr. 2016	Other	Individual	List of the products development
31 Mar. 2016	Other	Individual	List of the future development of the Company
28 Mar. 2016	Other	Individual	List of the refinancing business participated by the

			Company
28 Mar. 2016	Other	Individual	List of the refinancing business participated by the Company
15 Mar. 2016	Other	Individual	List of the Company's stock
10 Mar. 2016	Other	Individual	List of the shareholders' number
1 Mar. 2016	Other	Individual	Operation of the Company
23 Feb. 2016	Other	Individual	List of the Tsinghua Industrial Company participated by the Company
23 Feb. 2016	Other	Individual	List of the shareholders' number
22 Feb. 2016	Other	Individual	List of the operation of the Housheng Agricultural Equipment
10 Mar. 2016	Other	Individual	List of the shareholders' number
1 Mar. 2016	Other	Individual	Operation of the Company
23 Feb. 2016	Other	Individual	List of the Tsinghua Industrial Company participated by the Company
23 Feb. 2016	Other	Individual	List of the shareholders' number
22 Feb. 2016	Other	Individual	List of the operation of the Housheng Agricultural Equipment
6 Jan. 2016	Other	Individual	List of the Company's stock
6 Jan. 2016	Other	Individual	Suggestion of the future development of the Company
6 Jan. 2016	Other	Individual	Operation of the Company
6 Jan. 2016	Other	Individual	List of the Company's stock
5 Jan. 2016	Other	Individual	List of the Company's stock
Reception times		57	
Number of reception institutions		0	
Number of reception person		57	
Number of receipting other targets		0	
Whether disclose, reveal or let out unpublished significant information		No	

## Section V Significant Events

### I. List of the profits distribution of the common shares and turning capital reserve into share capital of the Company

In Articles of Association, which had confirmed the specific profits distribution and cleared out the conditions, standards and proportion of the cash bonus, stipulated the decision-making progress of the formulation and alternation of the profits distribution policies and the chapters as well as the regulations fully ensure the opportunities for the medium and small shareholders to exert the functions and to provide advices as well as appeals. The cash bonus of recent 3 years of the Company met with the regulations of the Articles of Association and during the decision-making process of the profits distribution proposal, the Independent Directors stated the independent advices and fully respected the advices from the medium and small shareholders. The profits distribution preplan and the turning capital reserve into share capital preplan of the Company were both met with the relevant regulations of the Articles of Association and so no.

Special explanation of 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

List of the dividend distribution proposal (preplan) of the common shares and the proposal (preplan) of turning capital reserve into share capital of the Company of the recent 3 years

Dividend year	Profits distribution proposal	Turning capital reserve into share capital proposal	Execution
2016	Distributed RMB0.30 of every 10 shares (taxes including)	No	Still needed to submit to the Annual General Meeting
2015	Distributed RMB0.23 of every 10 shares (taxes including)	No	Finished the execution
2014	Distributed RMB0.20 of every 10 shares (taxes including)	No	Finished the execution

Cash dividend distribution of the common shares of the Company of the recent 3 years (including the Reporting Period)

Unit: RMB

Dividend year	Amount of cash dividend (including tax)	Net profit belonging to shareholders of	The ratio accounting in net profit which	Amount of the cash dividend by other methods	Ratio of the cash dividend by other methods
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		the listed company in consolidated statement of dividend year	belongs to shareholders of the listed company in consolidated statement		
2016	16,841,229.78	62,539,896.17	26.93%	0.00	0.00%
2015	12,911,609.50	71,102,792.49	18.16%	0.00	0.00%
2014	11,227,486.52	64,202,144.29	17.49%	0.00	0.00%

## II. Pre-plan for profit allocation and turning capital reserve into share capital for the Reporting Period

Bonus shares for every 10 shares (share)	0
Dividend for every 10 shares (RMB) (tax included)	0.30
Turning capital reserve into share capital for every 10 shares (share)	0
Total shares as the basis for the allocation preplan (share)	561,374,326
Total cash dividends (RMB) (tax included)	16,841,229.78
Distributable profit (RMB)	603,375,714.13
Percentage of the cash bonus of the total profits dividends	100%
Cash dividend situation	
Other	
Details about the profit allocation or turning capital reserve into share capital	
The preplan of the profits distribution reviewed and approved by the Board of Directors of the Company was: based on the total share capital of the Company on 31 Dec. 2016, the Company distributed the cash bonus of RMB0.30 (tax included) of every 10 shares for the whole shareholders. There was no bonus share and no turn from capital reserve to share capital of 2016.	

## III. Performance of commitments

Reason for commitments	Commitment maker	Commitments type	Commitments comments	Commitments date	Commitments period of time	Performance
Other commitments for minority shareholders of company	State-owned Assets Supervision and Administration Commission	Increasing shares	1. Changzhou People's Government State-owned Asset Supervision and Administration Commission would not unload the holding-share "Su Changchai A" in the next six months	July 10, 2015	In the next six months from July 10, 2015.	Changzhou People's Government State-owned Asset Supervision and Administration Commission accumulatively increased 22 2347500 shares of

	of Changzhou Municipal People's Government ssion		from July 10, 2015. 2. Changzhou People's Government State-owned Asset Supervision and Administration Commission would increase the share "Su Changchai A" by 20 million.			company by the bid trading system of Shenzhen Stock Exchange, accounting for 0.42% of the company total shares, and the investment amount was 20 million. The commitment of increasing shares has been fulfilled.
	Changchai Company, Limited	bonus	Rewards Plan for Shareholders in Next Three Years(2014-2016) Under the premise of positive distributive profit(remaining after-tax profits after making up for the loss and extracting for the common reserves) in this year or half year and abundant money flow and no influence on the following-up going concern after cash bonus, the profits allocated by cash every year shouldn't be lower than 10% of the allocable profits from parent compan. Meanwhile, the accumulated allocable profits by cash in the arbitrary continuous three accounting years should not be lower than 30% of the annual average allocable profits in those three years.	May 14, 2015	In the year of 2014-2016	Under implement in a normal way
Whether deliver commitments on time	Yes					

#### IV. Occupation of the Company's capital by the controlling shareholder or its related parties for non-operating purposes

No such situation of the Company during the Reporting Period.

#### V. Explanation by the Board of Directors and the Supervisory Committee about the "non-standard audit report" issued by the CPAs firm for the Reporting Period

☐ Applicable ☒ Not applicable

## VI. Explanation of the changes of the accounting policy, the accounting estimates and the accounting methods compared to the last financial report

No such cases in the Reporting Period.

## VII. Explain retrospective restatement due to correction of significant accounting errors in the Reporting Period

No such cases in the Reporting Period.

## VIII. Explain change of the consolidation scope as compared with the financial reporting of last year

No such cases in the Reporting Period.

## IX. Particulars about engagement and disengagement of CPAs firm

CPAs firm engaged at present

Name of domestic CPAs firm	Jiangsu Gongzheng Tianye Certified Public Accountants LLP
Remuneration for domestic CPAs firm for the Reporting Period (RMB'0,000)	70
Consecutive years of the audit services provided by domestic CPAs firm	15
Name of domestic CPAs firm	Dai Weizhong, He Taifeng

Particulars on engaging the audit firm for the internal control, financial adviser or sponsor

During Reporting Period, the Company hired Jiangsu Gongzheng Tianye Certified Public Accountants LLP as the internal control auditor at the cost of RMB150,000.

## X. Particulars about trading suspension and termination faced after the disclosure of annual report

☐ Applicable ☒ Not applicable

## XI. Bankruptcy and reorganization

No such cases in the Reporting Period.

## XII. Significant lawsuit or arbitrations

Basic situation of the litigation (arbitration)	Amount involved in the	Progress of the litigation (arbitration)	Execution situation on the judgment	Disclosure date	Index to the disclosed
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	litigation (arbitration) (RMB'0,000)		of the litigation (arbitration)		
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.	1,436	Judged for the second trial	Under the compulsory execution by the court and in the process of liquidation and bankruptcy		
About the lawsuit case of Beijing Baic Changsheng Automobile Co., Ltd., the accused company owed accumulatively RMB 8.0636 million to the Company. According to the paper of civil mediation issued by the people's court of Beijing Shunyi on 31 Oct. 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	Up the end of the Reporting Period, Baic Changsheng had fully paid the debt to the company.	Finished	August 30, 2013 November 6, 2013	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> . Announcement No.: 2013-015, 019

### XIII. Punishment and rectification

No such cases in the Reporting Period.

### XIV. The honesty situations of the Company and its controlling shareholders and actual controller

☐ Applicable ☒ Not applicable

### XV. The actual implementation of the stock incentive plan, ESOP, or other Staff incentives

No such cases in the Reporting Period.

**XVI. Significant related-party transactions****XVI. Significant related-party transactions****1. Related-party transactions relevant to routine operation**

No such cases in Reporting Period.

**2. Related-party transactions incurred by assets or equity purchase**

No such cases in the Reporting Period.

**3. Related-party transactions common external investment**

No such cases in the Reporting Period.

**4. Credits and liabilities with related parties**

No such cases in the Reporting Period.

**(5) Other significant related-party transactions**

No such cases in the Reporting Period.

**XVII. Significant contracts and their execution****1. Trusteeship, contracting and leasing****(1) Trusteeship**

No such cases in the Reporting Period.

**(2) Contract**

No such cases in the Reporting Period.

**(3) Lease**

No such cases in the Reporting Period.

**2. Significant guarantees****(1) Guarantees provided by the Company**

Unit: RMB'0,000

Guarantees provided by the Company for external parties (excluding those for subsidiaries)								
Guaranteed party	Disclosur e date of the guarantee line announce ment	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarant ee for a related party or not
Guarantees provided by the Company for its subsidiaries								
Guaranteed party	Disclosur e date of the guarantee line announce ment	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarant ee for a related party or not
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	Decembe r 2, 2016	2,000	December 2, 2016	2,000	Joint liability	1 year	No	No
Total guarantee line approved for the subsidiaries during the Reporting Period (B1)		2,000		Total actual occurred amount of guarantee for the subsidiaries during the Reporting Period (B2)		2,000		
Total guarantee line that has been approved for the subsidiaries at the end of the Reporting Period (B3)		2,000		Total actual guarantee balance for the subsidiaries at the end of the Reporting Period (B4)		2,000		
Guarantees provided by the subsidiaries of the Company for subsidiaries								
Guaranteed party	Disclosur e date of the guarantee line announce ment	Line of guarantee	Actual occurrence date (date of agreement signing)	Actual guarantee amount	Type of guarantee	Term of guarantee	Due or not	Guarant ee 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)	2,000	Total actual occurred amount of guarantee during the Reporting Period (A2+B2+C2)	2,000
Total guarantee line that has been approved at the end of the Reporting Period (A3+B3+C3)	2,000	Total actual guarantee balance at the end of the Reporting Period (A4+B4+C4)	2,000
Proportion of total actual guarantee amount (A4+B4+C4) in the net assets of the Company		0.86%	
Of which:			
Guarantee amount provided for shareholders, actual controllers and its related parties(D)			0
Amount of debt guarantee provided for the guaranteed party whose asset-liability ratio is not less than 70% directly or indirectly (E)			0
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
Explanation on possibility to bear joint liability due to undue guarantees (if any)			Not applicable
Explanation on the external guarantees in violation of stipulated procedures (if any)			Not applicable

## (2) Illegal external guarantee

No such case during Reporting Period

## 3. Cash assets management entrustment

### (1) Wealth management entrustment

Unit: RMB'0,000

Name of the trustee	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	Actual withdrawal of profits or losses in
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										ng Period	Repor ting Period
Bank of Jiangshu	No	Break-even floating proceeds financial products	1,000	August 26, 2015	February 24, 2016	One-time confirmation when expired	1000		17.95	17.95	17.95
Bank of Jiangshu	No	Break-even floating proceeds financial products	1,000	November 3, 2015	May 4, 2016	One-time confirmation when expired	1000		18.45	18.45	18.45
Donghai Securities	No	Not break-even floating proceeds financial products	300	October 20, 2015	January 1, 2016	One-time confirmation when expired	300		4.19	4.19	4.19
Donghai Securities	No	Not break-even floating proceeds financial products	500	December 20, 2015	February 29, 2016	One-time confirmation when expired	500		7.84	7.84	7.84
Zhongxin Securities	No	Not break-even floating proceeds financial products	300	September 21, 2015	March 16, 2016	One-time confirmation when expired	300		9.27	9.27	9.27
Zhongxin Securities	No	Not break-even floating proceeds financial products	100	September 30, 2015	March 30, 2016	One-time confirmation when expired	100		2.58	2.58	2.58
Donghai Securities	No	Not break-even floating proceeds financial products	300	February 23, 2016	May 24, 2016	One-time confirmation when expired	300		4.19	4.19	4.19
Donghai Securities	No	Not break-even floating proceeds financial products	300	March 23, 2016	September 19, 2016	One-time confirmation when expired	300		8.58	8.58	8.58

Donghai Securities	No	Not break-even floating proceeds financial products	300	June 1, 2016	November 29, 2016	One-time confirmation when expired	300		8.14	8.14	8.14
Donghai Securities	No	Not break-even floating proceeds financial products	300	August 9, 2016	November 9, 2016	One-time confirmation when expired	300		3.81	3.81	3.81
Zhongxin Securities	No	Not break-even floating proceeds financial products	300	March 18, 2016	July 6, 2016	One-time confirmation when expired	300		4.62	4.62	4.62
Shanghai Yi Dezhen Equity Investment Management Center(Limited Partnership)	No	Not break-even floating proceeds financial products	200	March 24, 2016	September 28, 2016	Quarterly confirmation	200		7.80	7.80	7.80
Shanghai Yi Dezhen Equity Investment Management Center(Limited Partnership)	No	Not break-even floating proceeds financial products	100	May 13, 2016	November 23, 2016	Quarterly confirmation	100		3.68	3.68	3.68
Donghai Securities	No	Not break-even floating proceeds financial products	300	November 1, 2016	February 8, 2017	One-time confirmation when expired	0		3.90		

Donghai Securities	No	Not break-even floating proceeds financial products	300	November 16, 2016	May 20, 2017	One-time confirmation when expired	0		7.80		
Shanghai Yi Dezhen Equity Investment Management Center(Limited Partnership)	No	Not break-even floating proceeds financial products	200	November 1, 2016	May 5, 2017	Quarterly confirmation	0		7.30		
Total			5,800	--	--	--	5,000		120.10	101.10	--
Capital resources							Self-own idle fund				
Cumulative amount of principal and earnings maturity that fail to recover							0				
Involved in lawsuit							Not applicable				
Disclosure date of announcement on wealth management entrustment reviewed and approved by the Board of Directors							January 13, 2015				
Disclosure date of announcement on wealth management entrustment reviewed and approved by the Board of Shareholders							Not applicable				
Whether there is wealth management entrustment plan in future or not?							Yes				

**(2) Entrustment loans**

No such case during Reporting Period

**(4) Other significant contracts**

No such case during Reporting Period

**XVIII. Other significant events**

No such case during Reporting Period

**XIX. Significant events of subsidiaries**

☐ Applicable ☒ Not applicable

**XX. Social responsibilities**

☐ Applicable ☒ Not applicable

**XXI. Corporation bonds**

The Company has no corporate bonds publicly offered and listed on the stock exchange, which were undue before the approval date of this Report or were due but could not be redeemed in full.



## 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	Capitalization of public reserves	Other	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%

## II. Particulars about the shareholders and actual controller

### 1. Total number of shareholders and their shareholding

Unit: share

Total number of common shareholders at the period-end	49,929	Total number of common shareholders at the prior month-end before the disclosure of this Report	50,464	Total number of preference shareholders with resumed voting rights at the period-end (if any)	0	Total number of preference shareholders with resumed voting rights at the prior month-end before the disclosure of this Report (if any)	0	
5% or greater shareholders or the top 10 shareholders								
Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total shares held at the period-end	Increase/decrease during this Reporting Period	Number of restricted shares held	Number of non-restricted shares held	Pledged or frozen shares	
							Status	Number
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		
Bosera Value Growth Fund	Other	2.49%	14,000,000			14,000,000		
Galaxy Futures Co., Ltd.-Galaxy Futures Shengshi No. 2 Asset Management Plan	Other	1.05%	5,915,274			5,915,274		
China Construction Bank-Bosera Value Growth No. 1 Fund	Other	0.96%	5,400,000			5,400,000		
KGI Asia Limited	Foreign corporation	0.59%	3,324,845			3,324,845		
Rongtong Capital-Industrial Bank-Rongtong Capital Rongteng No. 11 Asset Management Plan	Other	0.56%	3,121,200			3,121,200		
Bank of Communications-Everbright Pramerica State-owned Enterprise Reform Theme Stock Fund	Other	0.53%	2,950,000			2,950,000		
Zhong Ou Asset Management-Bank of China-Ping An Life Insurance-Zhong Ou Asset Management - Ping An Life Insurance Entrusted Investment No. 1 Asset Management Plan	Other	0.34%	1,899,930			1,899,930		
Li Liang	Domestic individual	0.33%	1,827,445			1,827,445		

Vanguard Total International Stock Index Fund	Foreign corporation	0.29%	1,626,592			1,626,592		
Strategic investors or general corporations becoming top-ten shareholders due to placing of new shares		N/A						
Related or acting-in-concert parties among the shareholders above		It is unknown whether there is among the top 10 tradable shareholders and the top 10 non-restrictedly tradable shareholders any related parties or acting-in-concert parties as defined in the Administrative Measures for Information Regarding Shareholding Alteration.						
Shareholdings of the top ten non-restricted shareholders								
Name of shareholder			Number of non-restricted shares held at the period-end	Type of shares				
				Type	Number			
State-owned Assets Supervision and Administration Commission of Changzhou Municipal People’s Government			170,845,236	RMB ordinary shares		170,845,236		
Bosera Value Growth Fund			14,000,000	RMB ordinary shares		14,000,000		
Galaxy Futures Co., Ltd.-Galaxy Futures Shengshi No. 2 Asset Management Plan			5,915,274	RMB ordinary shares		5,915,274		
China Construction Bank-Bosera Value Growth No. 1 Fund			5,400,000	RMB ordinary shares		5,400,000		
KGI Asia Limited			3,324,845	Domestically listed foreign shares		3,324,845		
Rongtong Capital-Industrial Bank-Rongtong Capital Rongteng No. 11 Asset Management Plan			3,121,200	RMB ordinary shares		3,121,200		
Bank of Communications-Everbright Pramerica State-owned Enterprise Reform Theme Stock Fund			2,950,000	RMB ordinary shares		2,950,000		
Zhong Ou Asset Management-Bank of China-Ping An Life Insurance-Zhong Ou Asset Management - Ping An Life Insurance Entrusted Investment No. 1 Asset Management Plan			1,899,930	RMB ordinary shares		1,899,930		
Li Liang			1,827,445	RMB ordinary shares		1,827,445		
Vanguard Total International Stock Index Fund			1,626,592	Domestically listed foreign shares		1,626,592		
Related or acting-in-concert parties among the top ten non-restrictedly tradable share holders and between the top ten non-restrictedly tradable share holders and the top ten shareholders			It is unknown whether there is among the top 10 tradable shareholders and the top 10 non-restrictedly tradable shareholders any related parties or acting-in-concert parties as defined in the Administrative Measures for Information Regarding Shareholding Alteration.					
Top ten common shareholders conducting securities margin trading			Shareholder Li Liang held a total of 1,827,445 shares in the Company, representing a stake of 0.33%, through the client account of collateral securities for margin trading of Ping An Securities Co., Limited.					

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

## 2. Particulars about the controlling shareholder

Nature of controlling shareholder: Local state-controlled

Type of controlling shareholder: legal person

Name of controlling shareholder	Legal representative / company principal	Date of establishment	Organization code	Business scope
State-owned Assets Supervision and Administration Commission of Changzhou Municipal People's Government	Lu Qiang		01411025-1	Not applicable
Shares held by the controlling shareholder in other listed companies by holding or shareholding during the Reporting Period	Not applicable			

The controlling shareholder did not change during the Reporting Period

## 3. Particulars about actual controller

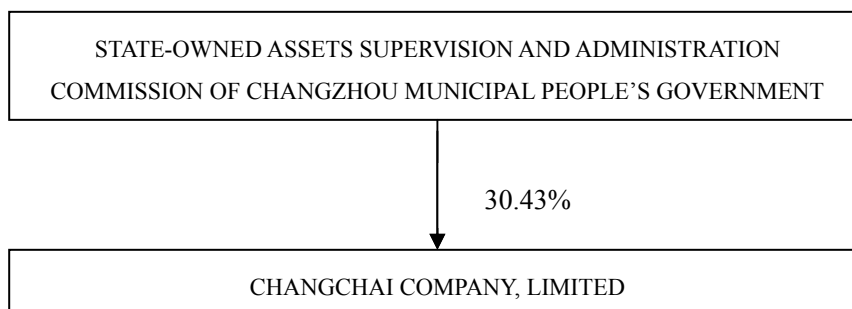
Nature of actual controllers: Local state-owned assets management institutions

Type of actual controller: legal person

Name of the actual controller	Legal representative / company principal	Date of establishment	Organization code	Business scope
State-owned Assets Supervision and Administration Commission of Changzhou Municipal People's Government	Lu Qiang		01411025-1	Not applicable
Equity of shareholding and participating shares of actual controllers in other domestic and foreign listed company during the Reporting Period	Not applicable			

The actual controller did not change during the Reporting Period

The ownership and controlling relationship between the actual controller of the Company and the Company is detailed as follows:



The actual controller controls the Company via trust or other ways of asset management

☐ Applicable ☒ Not applicable

#### **4. Particulars about other corporate shareholders with shareholding proportion over 10%**

☐ Applicable ☒ Not applicable

#### **5. Particulars about restriction of reducing holding-shares of controlling shareholders, actual controller, restructuring parties and other commitment entities**

☐ Applicable ☒ Not applicable

## **Section VII. Preference Shares**

☐ 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

Name	Position	Current/former	Gender	Age	Beginning date of office term	Ending date of office term	Number of shares held at period-end (share)
Shi Xinkun	Chairman of the Board	Current	Male	53	October 18, 2016	October 17, 2019	0
He Jianguang	Vice Chairman of the Board	Current	Male	53	October 18, 2016	October 17, 2019	0
Zhang Xin	Director, General Manager	Current	Male	51	October 18, 2016	October 17, 2019	0
Shi Jianchun	Director, Vice-general Manager	Current	Male	55	October 18, 2016	October 17, 2019	0
Xu Qian	Director	Current	Female	54	October 18, 2016	October 17, 2019	0
Zhang Qiong	Director	Current	Female	59	October 18, 2016	October 17, 2019	0
Li Minghui	Independent director	Current	Male	43	October 18, 2016	October 17, 2019	0
Jia Bin	Independent director	Current	Male	39	October 18, 2016	October 17, 2019	0
Feng Genfu	Independent director	Current	Male	60	October 18, 2016	October 17, 2019	0
Yin Lihou	Vice-general Manager	Current	Male	53	October 18, 2016	October 17, 2019	0

Xu Yi	Vice-general Manager	Current	Male	53	October 18, 2016	October 17, 2019	0
Liu Xiaoyun	Vice-general Manager	Current	Male	55	October 18, 2016	October 17, 2019	0
Wei Jinxiang	Vice-general Manager	Current	Male	54	October 18, 2016	October 17, 2019	0
Ni Mingliang	Chairman of the Supervisor	Current	Male	50	October 18, 2016	October 17, 2019	0
Zhu Min	Supervisor	Current	Male	53	October 18, 2016	October 17, 2019	0
Xie Guozhong	Supervisor	Current	Male	48	October 18, 2016	October 17, 2019	0
Lu Zhongguo	Supervisor	Current	Male	50	October 18, 2016	October 17, 2019	0
Liu Yi	Supervisor	Current	Male	48	October 18, 2016	October 17, 2019	0
He Jianjiang	Secretary of the Board	Current	Male	38	October 18, 2016	October 17, 2019	0
Xue Guojun	Chairman of the Board	Former	Male	54	June 26, 2013	October 18, 2016	0
Xu Zhenping	Director	Former	Male	60	June 26, 2013	October 18, 2016	0
Zhuang Rongfa	Director	Former	Male	73	June 26, 2013	October 18, 2016	0
Shen Ningwu	Independent director	Former	Male	75	June 26, 2013	October 18, 2016	0
Zhong Lei	Supervisor	Former	Male	48	June 26, 2013	October 18, 2016	0
Total	--	--	--	--	--	--	0

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

Name	Position	Type	Date	Reason
He Jianguang	General Manager	Current	October 18, 2016	Change of the term
Zhang Xin	Vice-general Manager	Current	October 18, 2016	Change of the term
Xue Guojun	Chairman of the Board	Former	October 18, 2016	Expiration of the term
Xu Zhenping	Director	Former	October 18, 2016	Expiration of the term
Zhuang Rongfa	Director	Former	October 18, 2016	Expiration of the term
Shen Ningwu	Independent director	Former	October 18, 2016	Expiration of the term
Zhong lei	Supervisor	Former	October 18, 2016	Expiration of the term

## III. Resumes of important personnel

Major background, main working experiences and responsibilities of current directors, supervisors and senior management staff

Shi Xinkun: He acted as vice-president of Changzhou Investment Group Co., Ltd. Now, he is the Chairman of the Board in our company.

He Jianguang: He successively acted as General Manager, Director, and Chief Engineer in our company. Now, he is the vice Chairman of the Board of our company.

Zhang Xin: He successively took the posts of Sales Manager, General Manager Assistant, and vice-general manager in our company. Now, he acts as Director and General Manager of our company.

Shi Jianchun: He successively acted as Party Secretary, Director, Vice-general Manager and Secretary of the Board of the Company. Now he is the Party Secretary, Director, Vice-general Manager and Chairman of the Board of Housheng Investment Co., Ltd.

Xu Qian: She successively worked as Clerk of Commerce of Changzhou Bureau of Finance, section member of Commercial Office, Deputy Principal Staff Member, Deputy Principal Staff Member, Deputy Section Chief of State-owned office of Changzhou Bureau of Finance and Section Chief of Changzhou SASAC Property Rights and Profits Management. Now, she is Deputy Researcher of Changzhou SASAC.

Zhang Qiong: She successively acted as Lecturer and Associate Professor in Department of Law of Anhui University, Deputy Director of Intellectual Property Office and Director of Legal Affairs Office in Shenzhen Huawei Technologies Co., Ltd, Senior Manager, Assistant Secretary General of Shenzhen Innovation Investment Group Ltd, Director, General Manager, and consultant of Anhui Hongtu Venture Capital Co., Ltd. Now, she works as Partner,



General Manager of Board, and Secretary General of Xie Tong Funds Management Limited.

Feng Genfu: he held the post of Dean of Institute of Economics and Finance in Xi'an Jiaotong University. Now, he is Professor and Doctoral Advisor of Institute of Economics and Finance in Xi'an Jiaotong University, Independent Director of Tianmao Industry Group Co., Ltd, Xi'an Baode Automation Co., Ltd, and Datang International Power Generation Co., Ltd.

Li Minghui: He acted as Lecturer and Associate Professor of School of Accounting in Xiamen University, Associate Professor and Professor of School of Accounting in Nanjing University Business School. Now he is the Doctoral Supervisor of School of Accounting in Nanjing University Business School, independent director of Jiangsu DayBright Intelligent Electric Co., Ltd, Baosheng Science & Technology Innovation Co., Ltd, Nanjing Securities Co., Ltd, and Jiangsu Fasten Co., Ltd.

Jia Bin: He successively acted as the Deputy Director of No.1 Research office in Tianjin Research Institute of Internal Combustion Engine, now he acts as the Director of No.1 Research office in Tianjin Research Institute of Internal Combustion Engine and Secretary-general of CICEIA Small Gasoline Engine Branch.

Yin Lihou: He worked as Minister of Human Resources Department and General Manager Assitant. Now he acts as Deputy General Manager of the Company, and the Chairman of the Board of Changwan Co., Ltd.

Xu Yi: He successively took the posts of Director of Technical Center and General Manager Assitant. Now he is Vice-general Manager of the Company.

Liu Xiaoyun: He successively acted as Multi-cylinder Engine Factory Director, Minister of Purchase Department, and General Manager Assitant in the Company. Now he acts as Deputy General Manager of the Company.

Wei Jinxiang: He successively held the posts of Department Director of Quality Assurance Department, General Manager Assistant of the Company. Now he acts as Deputy General Manager of the Company.

Ni Mingliang: Now he acts as Deputy Party Secretary, Secretary of Comission, Chairman of Labor Union and Chairman of the Supervisory.

Zhu Min: Now he acts as Deputy Section Chief and Principal Staff Member of Changzhou SASAC Property Rights, and Section Supervisor of Supervisory.

Xie Guozhong: Now he acts as General Manager Assitant, Secretary of Party General Branch of the Sales Company, General Manager and Supervisor of the Company and Director of Housheng Agriculture Equipment.

Lu Zhonggui: Now he acts as Minister of political Department, Office Director, Secretary of Organ Party General Branch as well as supervisor of the Company.

Liu Yi: He successively took the posts of Assistant Minister of Enterprise Management Department. Now he acts as Deputy Director of Finance Department and Supervisor of the Company and Supervisor of Changwan Company.

He Jianjiang: He successively acted as Assistant Minister, Vice Minister of Investment and Development Department in our Company. Now he is secretary of the board and Minister of Investment and Development Department in our Company.

## Post-holding in shareholder units

Name of the person holding any post in any shareholder unit	Name of the shareholder unit	Position in the shareholder unit	Beginning date of office term	Ending date of office term	Receives payment from the shareholder unit?
Xu Qian	State-owned Assets Supervision and Administration Commission of Changzhou Municipal People's Government	Deputy Researcher	July 1, 2014		Yes
Zhu Min	State-owned Assets Supervision and Administration Commission of Changzhou Municipal People's Government	Section Supervisor of Supervisory	June 1, 2016		Yes

## Post-holding in other units

Name of the person holding any post in any shareholder unit	Name of the other unit	Position in the other unit	Beginning date of office term	Ending date of office term	Receives payment from other units?
Zhang Qiong	Xie Tong Funds Management Limited	Partner, General Manager of Board, and Secretary General			Yes
Li Minghui	Nanjing University	Doctoral Supervisor	April 1, 2012		Yes
	Jiangsu DayBright Intelligent Electric Co., Ltd	Independent Director	November 25, 2014		
	Baosheng Science & Technology Innovation	Independent Director	December 3, 2014		

	Co., Ltd				
	Nanjing Securities Co., Ltd	Independent Director	May 12, 2016		
	Jiangsu Fasten Co., Ltd	Independent Director	April 20, 2015		
Jia Bin	Tianjin Research Institute of Internal Combustion Engine	the Director of No.1 Research office	March 1, 2009		Yes
	China Internal Combustion Engine Industry Association	Secretary-general of CICEIA Small Gasoline Engine Branch.	November 1, 2011		
Feng Genfu	Institute of Economics and Finance in Xi'an Jiaotong University	Professor and Doctoral Advisor	March 1, 2016		Yes
	Tianmao Industry Group Co., Ltd	Independent Director	May 4, 2016		
	Xi'an Baode Automation Co., Ltd	Independent Director	August 3, 2015		
	Datang International Power Generation Co., Ltd.	Independent Director	June 30, 2016		

#### IV. Remuneration for directors, supervisors and senior management

Decision-making procedure, determining basis and actual payment for the remuneration of directors, supervisors and senior management

In 2016, the monthly salaries of directors, supervisors and senior executives in the Company were in line with the stipulations of relevant salary management and grade standards, and the benefits of the Company and assessment results. The Director Xu Qian, Supervisor Zhu Min obtained salaries in shareholders' entities.

Remuneration of the directors, supervisors and senior management of the Company during the Reporting Period is as follows:

Unit: RMB'0,000

Name	Position	Gender	Age	Current/former	Total before-tax remuneration gained from the Company	Whether gained remuneration from the related parties of the Company
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Shi Xinkun	Chairman of the Board	Male	53	Current	11.82	No
He Jianguang	Vice Chairman of the Board	Male	53	Current	47.3	No
Zhang Xin	Director, General Manager	Male	51	Current	43.75	No
Shi Jianchun	Director, Vice-general Manager	Male	55	Current	47.3	No
Xu Qian	Director	Female	54	Current	0	Yes
Zhang Qiong	Director	Female	59	Current	0	No
Li Minghui	Independent director	Male	43	Current	5	No
Jia Bin	Independent director	Male	39	Current	5	No
Feng Genfu	Independent director	Male	60	Current	1.25	No
Yin Lihou	Vice-general Manager	Male	53	Current	41.15	No
Xu Yi	Vice-general Manager	Male	53	Current	42.57	No
Liu Xiaoyun	Vice-general Manager	Male	55	Current	41.15	No
Wei Jinxiang	Vice-general Manager	Male	54	Current	39.26	No
Ni Mingliang	Chairman of the Supervisor	Male	50	Current	37.84	No
Zhu Min	Supervisor	Male	53	Current	0	Yes
Xie Guozhong	Supervisor	Male	48	Current	30.95	No
Lu Zhonggui	Supervisor	Male	50	Current	16.75	No
Liu Yi	Supervisor	Male	48	Current	16.36	No
He Jianjiang	Secretary of the Board	Male	38	Current	22.33	No
Xue Guojun	Chairman of the Board	Male	54	Former	39.41	No
Xu Zhenping	Director	Male	60	Former	42	No
Zhuang Rongfa	Director	Male	73	Former	0	No
Shen Ningwu	Independent director	Male	75	Former	2	No
Zhong lei	Supervisor	Male	48	Former	0	Yes
Total	--	--	--	--	533.19	--

Situations of equity incentives awarded to the directors, supervisors and senior management of the Company during the Reporting Period

☐ Applicable ☒ Not applicable

## V Employees

### 1. Number, functions and educational backgrounds of employees

Number of in-service employees of the Company	2,884
Number of in-service employees of main subsidiaries	576
Total number of in-service employees	3,460
Total number of employees with remuneration in this Reporting Period	3,460
Number of retirees to whom the Company or its main subsidiaries need to pay retirement pension	0
Functions	
Function	Number of employees
Production	2404
Sales	219
Technical	365
Financial	39
Administrative	324
Other	109
Total	3460
Educational backgrounds	
Educational background	Number of employees
Junior high school graduates and below	1,549
High school graduates	1,062
College graduates and technical secondary school graduates	540
Bachelors	287
Masters above	22
Total	3,460

### 2. Employee remuneration policy

The Company always adhered to the principle of tilting the remuneration incentive mechanism towards excellent talents, so as to display the roles of various professional technicians, management staffs and skilled backbones. Besides, it adhered to the principle of increasing the employee's income integrated with increasing labor production efficiency and production & operation efficiency, so as to perfect the salary structure and further increase employees' income steadily.

**3. Employee training plans**

The Company established the Management Rules on the Education & Training for Employees, aiming to enhance employees' quality and try its best to cultivate a team of faithful and highly professional talents. Besides, it innovated the training mechanism, optimized the training environment, and reinforced to encourage employees to attend various training, so as to inspire the employees' potential to the maximum extent and further promote the sustainable development of the Company.

**4. Labor outsourcing**

☐ Applicable ☒ Not applicable

## Section IX Corporate Governance

### I Basic situation of 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.

The Company promulgated or revised a series of internal control system through all aspects of normal operation and management activities in accordance with each national laws and regulations, characteristics of the industry, operation and self-managing business, and improved it continuously, and finally formed a normative management system. And formulated a series of management system, process and standard covered each operation link and level of the financial assets control, human resources management, quality environment management and internal audit supervisor etc., which ensured all the work had rules to follow.

Was there any material incompliance with the regulatory documents issued by the CSRC governing the governance of listed companies?

No.

### II Independence of businesses, personnel, asset, organizations and finance which are separate from the controlling shareholder

The Company was totally independent from the controlling shareholder State-owned Assets Supervision and Administration Commission of Changzhou Municipal People's Government in terms of assets, business, personnel, organization and financing, with independent & complete business and capability to operate independently.

### III Horizontal competition

☐ Applicable ☒ Not applicable

### IV Annual and special meetings of shareholders convened during this Reporting Period

#### 1. Meetings of shareholders convened during this Reporting Period

Meeting	Type	Investor participation ratio	Convened date	Disclosure date	Index to disclosed information
2015 Annual Meeting of Shareholders	Annual	0.05%	05/26/2016	05/27/2016	2016-011
The 1 <sup>st</sup> Special Meeting of Shareholders in 2016	Special	0.04%	10/18/2016	10/19/2016	2016-021

## 2. Special meetings of shareholders convened at the request of preference shareholders with resumed voting rights

☐ Applicable ☒ Not applicable

## V Performance of independent directors in this Reporting Period

### 1. Attendance of independent directors in board meetings and meetings of shareholders

Attendance of independent directors in board meetings						
Independent director	Due presence in this Reporting Period (times)	Presence on site (times)	Presence by telecommunication (times)	Presence through a proxy (times)	Absence (times)	Absent for two consecutive times
Shen Ningwu	10	2	8	0	0	No
Feng Genfu	2	1	1	0	0	No
Li Minghui	12	2	9	1	0	No
Jia Bin	12	3	9	0	0	No
Attendance of independent directors in meetings of shareholders as non-voting delegates (times)		2				

### 2. Objections raised by independent directors on issues of the Company

Did any independent directors raised any objections on issues of the Company?

No such cases in this Reporting Period.

### 3. Other details about the performance of duties by independent directors

The independent directors of the Company in line with the law, rules, normative documents and obligations given by the Company of the Company law, Article of Associations and Independent Directors Work Rules, comprehensively focused on the development and operation of the Company, actively attended the general meeting of shareholder and meeting of board of directors, and given independent opinions for the significant events of the Company, and effectively maintained the profits of the Company and all the shareholders. The Company actively listened to the suggestions from the independent directors upon the significant events and adopted them.



## **VI Performance of duties by specialized committees under the Board during this Reporting Period**

### **1. Summary Report on Responsibility Performance of the Audit Committee under the Board of Directors:**

During the Reporting Period, the Audit Committee under the Board of Directors performed its duty according to the diligent and responsible principle, based on relevant regulations such as the Company Law, the Guidelines for Corporate Governance of Listed Companies, the Articles of Association as well as provisions in the Enforcement Regulation of the Audit Committee under the Board of Director of the Company.

#### **(1) Major work of Audit Committee in Reporting Period:**

1) Periodically examined the working plan and execution of inner control of the Company;

2) Communicated fully with the CPAs firm on plan and content of audit;

3) Urged the CPAs firm to submit report as scheduled;

4) The Audit Committee reviewed the financial statements of the Company before the audit and after the issuance of preliminary opinion by the CPAs firm. After it communicated with the CPAs firm on some important items as well as major accounting estimation items, audit adjustment items and important accounting policies which were likely to have potential influence on the financial statements, it considered that the financial statements reflected the overall situation of the Company authentically, accurately and completely.

5) Submitted the summary report on annual audit of the Company conducted by the CPAs firm to the Board of Directors;

6) Advised to continue the appointment of Jiangsu Gongzheng Certified Public Accountants Co., Ltd as the audit institution of the Company in 2016.

#### **(2) Written opinions on financial statements of the Company issued by the Audit Committee**

1) On March 21, 2017, the Audit Committee the Audit Committee examined the financial statements of the Company after the certified public accountants had issued the preliminary opinion on the statements, and issued a written opinion as follows: The financial statements of the Company were prepared in accordance with the New Accounting Standards for Enterprises and relevant financial rules of the Company, and faithfully reflected the financial position of the Company as at December 31, 2016, as well as the business results and cash flows in 2016 in all material aspects.

2) With regard to the audited financial statements 2016, on April 11, 2017, the Audit Committee made the following resolution: the Audit Committee reviewed the financial statements 2016 audited by auditors, and believed that the said financial statements faithfully reflected the financial position of the Company as at December 31, 2016, as well as the business results and cash flows in 2016 in all material aspects. It agreed to submit the statements to the Board of Directors for examination and approval.

#### **(3) Summary report on the audit work conducted by the CPAs firm in 2016:**

According to the annual audit plan jointly formulated by the Audit Committee and Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd, auditors communicated fully with the management personnel of the Company and members of the Audit Committee on the consolidation of financial statements, accounting adjustment, accounting policy and other accounting work needed to be improved, which helped both parties acquire a deeper understanding about the operation, financial process and implementation of the New Accounting Standards for Business Enterprises in the Company. With such understanding, the annual audit accountants would make more mature judgment to issue a fair audit conclusion.

The Audit Committee held that the CPAs firm conducted the audit strictly in accordance with provisions stipulated in the Independent Auditing Standards for CPAs of the PRC. The time of audit was sufficient, and the auditors with excellent ability to practice were deployed reasonably. The issued auditor's report fully reflected the financial position of the Company as at December 31, 2016, as well as the business results and cash flows in 2016, and the audit conclusion was in line with the actual situation of the Company.

(4) Resolution letter on renewing the employment of the CPAs firm:

The Audit Committee convened a meeting on April 11, 2017 to review the matter concerning the employment of a CPAs firm for the audit in 2017, and the review opinion was as follows:

Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd had accomplished the audit of the Company 2016, and the auditor's report reflected the actual financial status of the Company in 2016 objectively and fairly.

The Audit Committee was satisfied with the audit conducted by Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd and decided to continue to engage it as the audit institution of the Company in 2017.

The said proposal was agreed to be submitted to the 4<sup>th</sup> Session of the 8<sup>th</sup> Board of Directors for review.

2. Summary Report on Responsibility Performance of Remuneration & Appraisal Committee under the Board of Directors:

The Remuneration & Appraisal Committee under the Board of Directors was composed of three Directors, including 2 Independent Directors and 1 Inner Director. And one of the Independent Directors assumed the position of Chairman of the Committee.

In the Reporting Period, the Remuneration & Appraisal Committee raised the proposal on implementing the appraisal of senior executives in 2016, based on the fulfillment of the main financial indicators and operation targets in 2016, which were determined in the Contract for Appraisal of Senior Executives in 2016.

In the Reporting Period, based on relevant regulations and rules, the Remuneration & Appraisal Committee examined the remuneration of the Company's senior executives in 2016 and issued opinions as follows:

The Remuneration & Appraisal Committee held that, the remuneration of the Company's senior executives in 2016 was in accordance with provisions in the Contract for Appraisal of Senior Executives in 2016, as well as the laws, regulations and rules of the Company.

## VII Performance of duties by the Supervisory Board

The Supervisory Board raised no objections in this Reporting Period.

## VIII Appraisal and incentive for executive officers

The Company has established a fair and objective performance appraisal and incentive restraint mechanism for senior management staffs. The annual remuneration of senior management staffs consisted of the basic annual salary and performance appraisal bonus, and the basic annual salary was distributed monthly with a certain proportion, while the performance appraisal bonus was distributed after being appraised according to the appraisal scheme for senior management staffs signed between the Board of Directors and the managers for each year.

## IX Internal control

### 1. Serious internal control defects found in this Reporting Period

☐ Yes ☒ No

### 2. Internal control self-evaluation report

Disclosure date of the internal control self-evaluation report	04/13/2017	
Index to the disclosed internal control self-evaluation report	2017-005	
Total assets of the evaluated entities as a percentage in the consolidated total assets	100.00%	
Operating revenues of the evaluated entities as a percentage in the consolidated operating revenues	100.00%	
Defect identification standards		
Type	Financial-report related	Non-financial-report related
Nature standard	The Company classified the defects as serious defect, important defect and general defect according to the influence degree from the internal control: (1) Serious defect: refers to one or multiple groups with control defect which may lead the enterprise seriously deviates the control target; (2) Important defect: refers to one or multiple groups with control defect with the severity and the economic	Defects with the following random characteristics should be recognized as serious defect: 1) Seriously violated the national laws and administrative regulations and the normative documents; 2) “three significant one great” event had not been through the collective decision-making process; 3) the significant events involved with the production and operation

	<p>results lower than the great defect but may still lead the enterprise seriously deviates the control target;</p> <p>(3) General defect: refers to other defect except for the great defect and significant defect.</p> <p>Nature standards: defects with the following random characteristics should be recognized as serious defect:</p> <p>1) the defect involves with the malpractice of the Directors, Supervisors and Senior Executives;</p> <p>2) revised the disclosed financial report;</p> <p>3) CPAs discovered the great misstatement among the current financial statement while which could not be found during the operating process of the internal control;</p> <p>4) the supervision from the Audit Committee and the internal audit institution of the enterprise was invalid.</p>	<p>of the Company lacked of systematic control or the institutional system was invalid;</p> <p>4) the internal control of the information disclosure was invalid, which led the Company be open condemned by the supervision department;</p> <p>5) the serious defect from the assessment results of the internal control had not been revised.</p>
Quantitative standard	<p>Quantitative standards: The quantitative standards of recognizing the significant degree of the misstatement (including the false negatives) of the consolidated financial report of the Company based on the data from the 2016 consolidated statements was as:</p> <p>Serious defect: misstatement <math>\geq 5\%</math> of the annual profits</p> <p>Important defect: <math>2.5\%</math> of the annual profits <math>\leq</math> misstatement <math>&lt; 5\%</math> of the annual profits</p> <p>General defect <math>&lt; 2.5\%</math> of the annual profits</p>	<p>Refer to the quantitative criteria of the internal control defect of the financial report, to recognize the quantitative criteria of the significant degree of the internal control defect of the non-financial report of the Company as:</p> <p>Serious defect: possibly caused directly losses <math>\geq 0.1\%</math> of the net assets</p> <p>Important defect: <math>0.05\%</math> of the net assets <math>\leq</math> possibly caused directly losses <math>&lt; 0.1\%</math> of the net assets</p> <p>General defect: possibly caused directly losses <math>&lt; 0.05\%</math> of the net assets</p>
Number of serious financial-report-related defects	0	
Number of serious non-financial-report-related defects	0	
Number of important financial-report-related defects	0	
Number of important non-financial-report-related defects	0	

**X Auditor's report on internal control**

Opinion paragraph in the auditor's report on internal control	
We believed that Changchai Company, Limited maintained effective internal control of the financial report in significant aspects according to the Basic Norms of Internal Control and relevant regulations on December 31, 2016.	
Auditor's report on internal control disclosed or not	Disclosed
Disclosure date	04/13/2017
Index to the disclosed auditor's report on internal control	2017-005
Type of the auditor's opinion	Standard unqualified opinion
Serious non-financial-report-related defects	None

Indicate by tick mark whether any modified opinions are expressed by the CPAs firm in its auditor's report on the Company's internal control.

☐ Yes ☒ No

Indicate by tick mark whether the auditor's report on the Company's internal control issued by the CPAs firm is consistent with the self-evaluation report of the Board.

☒ Yes ☐ No

**Section X Corporate Bonds**

The Company has no corporate bonds publicly offered and listed on the stock exchange, which were undue before the approval date of this Report or were due but could not be redeemed in full.

## Section XI Financial Report

### I Auditor's report

Type of auditor's opinion	Standard unqualified opinion
Date of signing the auditor's report	04/11/2017
Name of the auditor	Jiangsu Gongzheng Tianye Certified Public Accountants LLP
No. of the auditor's report	SGW [2017] No. A467
Name of CPA	Dai weizhong, He Taifeng

#### Text of the Auditor's Report

#### All shareholders of Changchai Company, Limited,

We have audited the accompanying financial statements of Changchai Company, Limited (the "Company"), which comprise the Company's and consolidated balance sheets as at December 31, 2016, the Company's and consolidated income statements, the Company's and consolidated cash flow statements, the Company's and consolidated statements of changes in shareholders' equity for the year then ended, as well as the notes to the financial statements.

#### 1. The management's responsibility for the financial statements

The management of the Company is responsible for the preparation of these financial statements as per the Accounting Standards for Business Enterprises. Such a responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and adopting appropriate accounting policies; and (3) making rational accounting estimations.

#### 2. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the Audit Standards for Chinese Registered Accountants, which require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers the internal control related to the preparation of the financial statements so as to design proper audit procedures. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate, which provides a basis for us to express auditing opinion.

#### 3. Auditor's opinion

In our opinion, the financial statements of the Company have been prepared according to the Accounting Standards for Business Enterprises in all material aspects, which give a fair view of the Company's and consolidated financial positions as at December 31, 2016 and the Company's and consolidated operating results and cash flows for the year then ended.

Jiangsu Gongzheng Tianye Certified Public Accountants LLP

Wuxi · China

Chinese CPA: Dai Weizhong

Chinese CPA: He Taifeng

April 11, 2017

## II Financial statements

Currency unit for the financial statements: RMB

### 1. Consolidated balance sheet

Prepared by Changchai Company, Limited

Unit: RMB

Item	December 31, 2016	December 31, 2015
Current assets:		
Monetary funds	670,703,802.02	601,312,715.62
Settlement reserve		
Interbank lendings		
Financial assets at fair value through profit/loss		
Derivative financial assets		
Notes receivable	501,070,279.01	498,502,274.42
Accounts receivable	359,279,821.69	308,596,920.50
Accounts paid in advance	15,483,475.43	12,882,271.70
Premiums receivable		
Reinsurance premiums receivable		
Receivable reinsurance contract reserve		
Interest receivable		
Dividends receivable		
Other accounts receivable	4,165,674.62	5,622,539.81
Financial assets purchased under agreements to resell		
Inventories	494,046,458.44	397,290,012.36
Assets held for sale		
Non-current assets due within one year		
Other current assets	39,669,983.12	60,304,691.41
Total current assets	2,084,419,494.33	1,884,511,425.82
Non-current assets:		
Loans and advances to customers		
Available-for-sale financial assets	820,072,500.00	502,980,000.00
Held-to-maturity investments		
Long-term accounts receivable		
Long-term equity investments	21,006,230.03	20,769,304.76
Investment property	55,072,689.23	57,281,030.03
Fixed assets	553,678,938.87	554,601,893.23

Construction in progress	89,781,047.21	108,198,455.01
Engineering materials		
Disposal of fixed assets		
Productive living assets		
Oil-gas assets		
Intangible assets	99,915,137.62	103,101,462.47
R&D expenses		
Goodwill		
Long-term deferred expenses		
Deferred tax assets	911,229.42	962,530.88
Other non-current assets		
Total non-current assets	1,640,437,772.38	1,347,894,676.38
Total assets	3,724,857,266.71	3,232,406,102.20
Current liabilities:		
Short-term borrowings	10,000,000.00	17,000,000.00
Borrowings from the Central Bank		
Money deposits accepted and inter-bank deposits		
Interbank borrowings		
Financial liabilities at fair value through profit/loss		
Derivative financial liabilities		
Notes payable	276,090,000.00	238,200,000.00
Accounts payable	605,424,726.65	535,978,470.07
Accounts received in advance	40,890,620.69	26,665,671.38
Financial assets sold for repurchase		
Fees and commissions payable		
Payroll payable	58,549,908.90	60,309,349.29
Taxes payable	9,622,332.76	10,798,062.93
Interest payable		
Dividends payable	3,891,433.83	3,891,433.83
Other accounts payable	204,446,810.56	201,151,632.46
Reinsurance premiums payable		
Insurance contract reserve		
Payables for acting trading of securities		
Payables for acting underwriting of securities		
Liabilities held for sale		



Non-current liabilities due within one year		
Other current liabilities	2,454,381.75	2,403,287.06
Total current liabilities	1,211,370,215.14	1,096,397,907.02
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Of which: Preference shares		
Perpetual bonds		
Long-term accounts payable		
Long-term payroll payable		
Special payables		
Provisions		
Deferred income	61,057,232.08	53,121,605.70
Deferred tax liabilities	109,949,700.00	62,385,825.00
Other non-current liabilities		
Total non-current liabilities	171,006,932.08	115,507,430.70
Total liabilities	1,382,377,147.22	1,211,905,337.72
Owners' equity:		
Share capital	561,374,326.00	561,374,326.00
Other equity instruments		
Of which: Preference shares		
Perpetual bonds		
Capital reserve	164,328,665.43	164,328,665.43
Less: Treasury shares		
Other comprehensive income	623,048,300.00	353,519,675.00
Special reserve	11,715,417.22	10,069,746.98
Surplus reserve	311,880,248.88	305,758,285.91
Provisions for general risks		
Retained earnings	651,365,935.39	607,859,611.69
Equity attributable to owners of the Company	2,323,712,892.92	2,002,910,311.01
Minority interests	18,767,226.57	17,590,453.47
Total owners' equity	2,342,480,119.49	2,020,500,764.48
Total liabilities and owners' equity	3,724,857,266.71	3,232,406,102.20

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

**2. Balance sheet of the Company**

Unit: RMB

Item	December 31, 2016	December 31, 2015
Current assets:		
Monetary funds	637,109,762.94	572,530,396.20
Financial assets at fair value through profit/loss		
Derivative financial assets		
Notes receivable	500,870,279.01	490,777,874.42
Accounts receivable	308,800,670.90	263,878,166.23
Accounts paid in advance	9,845,904.32	6,512,574.55
Interest receivable		
Dividends receivable		
Other accounts receivable	3,694,673.93	4,885,363.01
Inventories	430,345,089.36	348,179,430.41
Assets held for sale		
Non-current assets due within one year		
Other current assets	24,225,031.87	41,403,182.61
Total current assets	1,914,891,412.33	1,728,166,987.43
Non-current assets:		
Available-for-sale financial assets	812,872,500.00	495,780,000.00
Held-to-maturity investments		
Long-term accounts receivable		
Long-term equity investments	205,472,730.03	205,235,804.76
Investment property	55,072,689.23	57,281,030.03
Fixed assets	450,042,747.40	445,343,167.61
Construction in progress	89,781,047.21	108,198,455.01
Engineering materials		
Disposal of fixed assets		
Productive living assets		
Oil-gas assets		
Intangible assets	78,558,644.37	81,159,855.82
R&D expenses		
Goodwill		
Long-term deferred expenses		
Deferred tax assets	911,229.42	962,530.88

Other non-current assets		
Total non-current assets	1,692,711,587.66	1,393,960,844.11
Total assets	3,607,602,999.99	3,122,127,831.54
Current liabilities:		
Short-term borrowings		
Financial liabilities at fair value through profit/loss		
Derivative financial liabilities		
Notes payable	251,220,000.00	218,200,000.00
Accounts payable	596,734,009.07	527,416,373.82
Accounts received in advance	37,250,941.51	24,537,940.90
Payroll payable	52,498,428.10	55,068,743.12
Taxes payable	6,587,374.37	8,521,233.87
Interest payable		
Dividends payable	3,243,179.97	3,243,179.97
Other accounts payable	194,596,980.96	194,650,090.70
Liabilities held for sale		
Non-current liabilities due within one year		
Other current liabilities		
Total current liabilities	1,142,130,913.98	1,031,637,562.38
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Of which: Preference shares		
Perpetual bonds		
Long-term payables		
Long-term payroll payable		
Special payables		
Provisions		
Deferred income	61,057,232.08	53,121,605.70
Deferred tax liabilities	109,949,700.00	62,385,825.00
Other non-current liabilities		
Total non-current liabilities	171,006,932.08	115,507,430.70
Total liabilities	1,313,137,846.06	1,147,144,993.08
Owners' equity:		
Share capital	561,374,326.00	561,374,326.00

Other equity instruments		
Of which: Preference shares		
Perpetual bonds		
Capital reserve	183,071,147.70	183,071,147.70
Less: Treasury shares		
Other comprehensive income	623,048,300.00	353,519,675.00
Special reserve	11,715,417.22	10,069,746.98
Surplus reserve	311,880,248.88	305,758,285.91
Retained earnings	603,375,714.13	561,189,656.87
Total owners' equity	2,294,465,153.93	1,974,982,838.46
Total liabilities and owners' equity	3,607,602,999.99	3,122,127,831.54

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

**3. Consolidated income statement**

Unit: RMB

Item	2016	2015
1. Operating revenues	2,283,028,855.52	2,519,799,547.29
Including: Sales income	2,283,028,855.52	2,519,799,547.29
Interest income		
Premium income		
Fee and commission income		
2. Operating costs	2,217,112,902.09	2,445,178,600.59
Including: Cost of sales	1,866,617,336.37	2,110,216,135.62
Interest expenses		
Fee and commission expenses		
Surrenders		
Net claims paid		
Net amount provided as insurance contract reserve		
Expenditure on policy dividends		
Reinsurance premium		
Taxes and surtaxes	13,005,243.59	7,632,813.49
Selling expenses	103,969,577.79	98,122,345.71
Administrative expenses	207,582,213.98	197,678,915.43
Finance costs	-11,542,165.08	-15,723,785.00
Asset impairment loss	37,480,695.44	47,252,175.34
Add: Profit on fair value changes (“-” means loss)		-109,642.19
Investment income (“-” means loss)	4,128,745.08	9,120,105.94
Including: Share of profit/loss of associates and joint ventures	236,925.27	670,328.77
Exchange gains (“-” means loss)		
3. Operating profit (“-” means loss)	70,044,698.51	83,631,410.45
Add: Non-operating income	15,602,392.47	14,048,268.56
Including: Profit on disposal of non-current assets	6,445,469.06	298,236.45
Less: Non-operating expense	10,729,181.83	8,510,877.99
Including: Loss on disposal of non-current assets	191,440.80	86,306.84
4. Total profit (“-” means loss)	74,917,909.15	89,168,801.02
Less: Corporate income tax	11,201,239.88	16,684,465.13
5. Net profit (“-” means loss)	63,716,669.27	72,484,335.89

Net profit attributable to owners of the Company	62,539,896.17	71,102,792.49
Minority interests' income	1,176,773.10	1,381,543.40
6. Other comprehensive income net of tax	269,528,625.00	4,360,500.00
Other comprehensive income net of tax attributable to owners of the Company	269,528,625.00	4,360,500.00
6.1 Other comprehensive income that will not be reclassified into profit/loss		
6.1.1 Changes in net liabilities or assets with a defined benefit plan upon re-measurement		
6.1.2 Share of other comprehensive income of investees that cannot be reclassified into profit/loss under the equity method		
6.2 Other comprehensive income to be subsequently reclassified into profit/loss	269,528,625.00	4,360,500.00
6.2.1 Share of other comprehensive income of investees that will be reclassified into profit/loss under the equity method		
6.2.2 Profit/loss on fair value changes of available-for-sale financial assets	269,528,625.00	4,360,500.00
6.2.3 Profit/loss on reclassifying held-to-maturity investments into available-for-sale financial assets		
6.2.4 Effective profit/loss on cash flow hedges		
6.2.5 Currency translation differences		
6.2.6 Other		
Other comprehensive income net of tax attributable to minority interests		
7. Total comprehensive income	333,245,294.27	76,844,835.89
Attributable to owners of the Company	332,068,521.17	75,463,292.49
Attributable to minority interests	1,176,773.10	1,381,543.40
8. Earnings per share		
8.1 Basic earnings per share	0.11	0.13
8.2 Diluted earnings per share	0.11	0.13

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

**4. Income statement of the Company**

Unit: RMB

Item	2016	2015
1. Operating revenues	2,261,424,064.06	2,516,865,611.28
Less: Operating costs	1,872,397,292.00	2,129,587,480.88
Taxes and surtaxes	11,368,257.55	7,167,609.31
Selling expenses	97,391,154.08	92,215,078.66
Administrative expenses	192,068,868.64	182,609,958.75
Finance costs	-12,744,187.93	-17,089,993.07
Asset impairment loss	36,296,470.30	42,554,499.55
Add: profit on fair value changes (“-” means loss)		
Investment income (“-” means loss)	3,274,175.27	7,808,397.71
Including: Share of profit/loss of associates and joint ventures	236,925.27	670,328.77
2. Operating profit (“-” means loss)	67,920,384.69	87,629,374.91
Add: Non-operating income	14,298,854.08	12,294,626.92
Including: Profit on disposal of non-current assets	6,445,439.34	82,621.37
Less: Non-operating expense	10,617,280.45	8,218,111.06
Including: Loss on disposal of non-current assets	179,739.42	53,999.76
3. Total profit (“-” means loss)	71,601,958.32	91,705,890.77
Less: Corporate income tax	10,382,328.59	15,640,001.29
4. Net profit (“-” means loss)	61,219,629.73	76,065,889.48
5. Other comprehensive income net of tax	269,528,625.00	4,360,500.00
5.1 Other comprehensive income that will not be reclassified into profit and loss		
5.1.1 Changes in net liabilities or assets with a defined benefit plan upon re-measurement		
5.1.2 Share of other comprehensive income of investees that cannot be reclassified into profit/loss under the equity method		
5.2 Other comprehensive income to be subsequently reclassified into profit/loss	269,528,625.00	4,360,500.00
5.2.1 Share of other comprehensive income of investees that will be reclassified into profit/loss under the equity method		
5.2.2 Profit/loss on fair value changes of available-for-sale financial assets	269,528,625.00	4,360,500.00
5.2.3 Profit/loss on reclassifying held-to-maturity investments into available-for-sale financial assets		
5.2.4 Effective profit/loss on cash flow hedges		

5.2.5 Currency translation differences		
5.2.6 Other		
6. Total comprehensive income	330,748,254.73	80,426,389.48
7. Earnings per share		
7.1 Basic earnings per share		
7.2 Diluted earnings per share		

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He



**5. Consolidated cash flow statement**

Unit: RMB

Item	2016	2015
1. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	2,449,124,878.50	2,636,363,557.61
Net increase in money deposits from customers and interbank placements		
Net increase in loans from the Central Bank		
Net increase in funds borrowed from other financial institutions		
Cash received from premium of original insurance contracts		
Net cash received from reinsurance business		
Net increase in deposits of policy holders and investment fund		
Net increase in disposal of financial assets at fair value through profit/loss		
Interest, fees and commissions received		
Net increase in interbank borrowings		
Net increase in funds in repurchase business		
Tax refunds received	41,561,022.48	28,895,174.42
Cash received from other operating activities	15,072,161.20	21,715,056.24
Subtotal of cash inflows from operating activities	2,505,758,062.18	2,686,973,788.27
Cash paid for goods and services	1,900,783,453.31	2,072,255,235.99
Net increase in loans and advances to customers		
Net increase in funds deposited in the Central Bank and interbank placements		
Cash paid for claims of original insurance contracts		
Interest, fees and commissions paid		
Cash paid as policy dividends		
Cash paid to and for employees	340,494,353.98	311,707,299.43
Taxes paid	64,165,805.35	86,777,245.36
Cash paid for other operating activities	100,840,505.50	88,307,124.54
Subtotal of cash outflows due to operating activities	2,406,284,118.14	2,559,046,905.32
Net cash flows from operating activities	99,473,944.04	127,926,882.95
2. Cash flows from investing activities:		
Cash received from retraction of investments	32,000,000.00	2,000,000.00
Cash received as investment income	3,891,819.81	8,810,777.17

Net cash received from disposal of fixed assets, intangible assets and other long-term assets	240,625.60	6,659,148.67
Net cash received from disposal of subsidiaries or other business units		
Cash received from other investing activities	9,000,000.00	
Subtotal of cash inflows from investing activities	45,132,445.41	17,469,925.84
Cash paid to acquire fixed assets, intangible assets and other long-term assets	59,310,667.45	36,003,567.09
Cash paid for investment	8,000,000.00	32,000,000.00
Net increase in pledged loans		
Net cash paid to acquire subsidiaries and other business units		
Cash paid for other investing activities		
Subtotal of cash outflows due to investing activities	67,310,667.45	68,003,567.09
Net cash flows from investing activities	-22,178,222.04	-50,533,641.25
3. Cash flows from financing activities:		
Cash received from capital contributions		
Including: Cash received from minority shareholder investments by subsidiaries		
Cash received as borrowings	15,000,000.00	17,000,000.00
Cash received from issuance of bonds		
Cash received from other financing activities		
Subtotal of cash inflows from financing activities	15,000,000.00	17,000,000.00
Repayment of borrowings	22,000,000.00	20,000,000.00
Cash paid for interest expenses and distribution of dividends or profit	13,715,123.57	12,410,748.99
Including: dividends or profit paid by subsidiaries to minority interests		
Cash paid for other financing activities	18,707.55	28,075.00
Sub-total of cash outflows due to financing activities	35,733,831.12	32,438,823.99
Net cash flows from financing activities	-20,733,831.12	-15,438,823.99
4. Effect of foreign exchange rate changes on cash and cash equivalents		
5. Net increase in cash and cash equivalents	56,561,890.88	61,954,417.71
Add: Opening balance of cash and cash equivalents	526,716,238.21	464,761,820.50
6. Closing balance of cash and cash equivalents	583,278,129.09	526,716,238.21

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

**6. Cash flow statement of the Company**

Unit: RMB

Item	2016	2015
1. Cash flows from operating activities:		
Cash received from sale of commodities and rendering of service	2,508,387,008.21	2,709,527,428.26
Tax refunds received	41,561,022.48	28,895,174.42
Cash received from other operating activities	11,890,841.69	18,196,561.87
Subtotal of cash inflows from operating activities	2,561,838,872.38	2,756,619,164.55
Cash paid for goods and services	2,020,333,070.85	2,197,759,847.18
Cash paid to and for employees	301,052,336.85	276,172,157.36
Taxes paid	56,155,882.63	79,691,910.58
Cash paid for other operating activities	93,256,112.12	80,587,740.62
Subtotal of cash outflows due to operating activities	2,470,797,402.45	2,634,211,655.74
Net cash flows from operating activities	91,041,469.93	122,407,508.81
2. Cash flows from investing activities:		
Cash received from retraction of investments	20,000,000.00	
Cash received as investment income	3,037,250.00	7,499,068.94
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	240,625.60	6,440,518.67
Net cash received from disposal of subsidiaries or other business units		
Cash received from other investing activities	9,000,000.00	4,000,000.00
Subtotal of cash inflows from investing activities	32,277,875.60	17,939,587.61
Cash paid to acquire fixed assets, intangible assets and other long-term assets	56,182,564.81	31,944,367.09
Cash paid for investment		20,000,000.00
Net cash paid to acquire subsidiaries and other business units		
Cash paid for other investing activities		4,000,000.00
Subtotal of cash outflows due to investing activities	56,182,564.81	55,944,367.09
Net cash flows from investing activities	-23,904,689.21	-38,004,779.48
3. Cash flows from financing activities:		
Cash received from capital contributions		
Cash received as borrowings		
Cash received from issuance of bonds		
Cash received from other financing activities		

Subtotal of cash inflows from financing activities		
Repayment of borrowings		
Cash paid for interest expenses and distribution of dividends or profit	12,911,609.50	11,227,486.52
Cash paid for other financing activities		
Sub-total of cash outflows due to financing activities	12,911,609.50	11,227,486.52
Net cash flows from financing activities	-12,911,609.50	-11,227,486.52
4. Effect of foreign exchange rate changes on cash and cash equivalents		
5. Net increase in cash and cash equivalents	54,225,171.22	73,175,242.81
Add: Opening balance of cash and cash equivalents	503,933,918.79	430,758,675.98
6. Closing balance of cash and cash equivalents	558,159,090.01	503,933,918.79

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

## 7. Consolidated statement of changes in owners' equity

2016

Unit: RMB

Item	2016												
	Equity attributable to owners of the Company											Minority interests	Total owners' equity
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Retained earnings		
		Preference shares	Perpetual bonds	Other									
1. Balance at the end of the prior 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: Changes in accounting policies													
Correction of errors in prior periods													
Business mergers under the same control													
Other													
2. Balance at the beginning of the 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
3. Increase/ decrease in the period (“-” means decrease)							269,528,625.00	1,645,670.24	6,121,962.97		43,506,323.70	1,176,773.10	321,979,355.01
3.1 Total comprehensive income							269,528,625.00				62,539,896.17	1,176,773.10	333,245,294.27
3.2 Capital increased and reduced by owners													

3.2.1 Ordinary shares increased by shareholders													
3.2.2 Capital increased by holders of other equity instruments													
3.2.3 Amounts of share-based payments charged to owners' equity													
3.2.4 Other													
3.3 Profit distribution									6,121,962.97		-19,033,572.47		-12,911,609.50
3.3.1 Appropriation to surplus reserve									6,121,962.97		-6,121,962.97		
3.3.2 Appropriation to general risk provisions													
3.3.3 Appropriation to owners (or shareholders)											-12,911,609.50		-12,911,609.50
3.3.4 Other													
3.4 Internal carry-forward of owners' equity													
3.4.1 New increase of capital (or share													

capital) from capital reserve													
3.4.2 New increase of capital (or share capital) from surplus reserve													
3.4.3 Surplus reserve for making up loss													
3.4.4 Other													
3.5 Special reserve								1,645,670.24					1,645,670.24
3.5.1 Withdrawn for the period								4,416,865.61					4,416,865.61
3.5.2 Used in the period								2,771,195.37					2,771,195.37
3.6 Other													
4. Closing balance	561,374,326.00				164,328,665.43		623,048,300.00	11,715,417.22	311,880,248.88		651,365,935.39	18,767,226.57	2,342,480,119.49

2015

Unit: RMB

Item	2015												
	Equity attributable to owners of the Company											Minority interests	Total owners' equity
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Specific reserve	Surplus reserve	General risk reserve	Retained earnings		
		Preference shares	Perpetual bonds	Other									
1. Balance at the end of the prior 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: Changes in accounting policies													
Correction of errors in prior periods													
Business mergers under the same control													
Other													
2. Balance at the beginning of the 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
3. Increase/ decrease in the period ("-" means decrease)							4,360,500.00	1,737,669.77	7,606,588.95		52,268,717.02	1,381,543.40	67,355,019.14
3.1 Total comprehensive income							4,360,500.00				71,102,792.49	1,381,543.40	76,844,835.89
3.2 Capital increased and reduced by owners													
3.2.1 Ordinary shares increased by shareholders													



3.2.2 Capital increased by holders of other equity instruments													
3.2.3 Amounts of share-based payments charged to owners' equity													
3.2.4 Other													
3.3 Profit distribution									7,606,588.95		-18,834,075.47		-11,227,486.52
3.3.1 Appropriation to surplus reserve									7,606,588.95		-7,606,588.95		
3.3.2 Appropriation to general risk provisions													
3.3.3 Appropriation to owners (or shareholders)													
3.3.4 Other											-11,227,486.52		-11,227,486.52
3.4 Internal carry-forward of owners' equity													
3.4.1 New increase of capital (or share capital) from capital reserve													
3.4.2 New increase													

of capital (or share capital) from surplus reserve													
3.4.3 Surplus reserve for making up loss													
3.4.4 Other													
3.5 Special reserve								1,737,669.77					1,737,669.77
3.5.1 Withdrawn for the period								4,394,339.56					4,394,339.56
3.5.2 Used in the period								2,656,669.79					2,656,669.79
3.6 Other													
4. Closing balance	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

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

## 8. Statement of changes in owners' equity of the Company

2016

Unit: RMB

Item	2016										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total owners' equity
		Preference shares	Perpetual bonds	Other							
1. Balance at the end of the prior 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: Changes in accounting policies											
Correction of errors in prior periods											
Other											
2. Balance at the beginning of the 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
3. Increase/ decrease in the period ("-" means decrease)							269,528,625.00	1,645,670.24	6,121,962.97	42,186,057.26	319,482,315.47
3.1 Total comprehensive income							269,528,625.00			61,219,629.73	330,748,254.73
3.2 Capital increased and reduced by owners											
3.2.1 Ordinary shares increased by shareholders											
3.2.2 Capital increased by holders of											

other equity instruments											
3.2.3 Amounts of share-based payments charged to owners' equity											
3.2.4 Other											
3.3 Profit distribution									6,121,962.97	-19,033,572.47	-12,911,609.50
3.3.1 Appropriation to surplus reserve									6,121,962.97	-6,121,962.97	
3.3.2 Appropriation to owners (or shareholders)										-12,911,609.50	-12,911,609.50
3.3.3 Other											
3.4 Internal carry-forward of owners' equity											
3.4.1 New increase of capital (or share capital) from capital reserve											
3.4.2 New increase of capital (or share capital) from surplus reserve											
3.4.3 Surplus reserve for making up											

loss											
3.4.4 Other											
3.5 Special reserve								1,645,670.24			1,645,670.24
3.5.1 Withdrawn for the period								4,416,865.61			4,416,865.61
3.5.2 Used in the period								2,771,195.37			2,771,195.37
3.6 Other											
4. Closing balance	561,374,326.00				183,071,147.70		623,048,300.00	11,715,417.22	311,880,248.88	603,375,714.13	2,294,465,153.93

2015

Unit: RMB

Item	2015										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total owners' equity
		Preferen ce shares	Perpetua l bonds	Other							
1. Balance at the end of the prior 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: Changes in accounting policies											
Correction of errors in prior periods											
Other											
2. Balance at the beginning of the 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
3. Increase/ decrease in the period ("-" means decrease)							4,360,500.00	1,737,669.77	7,606,588.95	57,231,814.01	70,936,572.73
3.1 Total comprehensive income							4,360,500.00			76,065,889.48	80,426,389.48
3.2 Capital increased and reduced by owners											
3.2.1 Ordinary shares increased by shareholders											
3.2.2 Capital increased by holders of other equity instruments											
3.2.3 Amounts of share-based payments charged to owners' equity											

3.2.4 Other											
3.3 Profit distribution									7,606,588.95	-18,834,075.47	-11,227,486.52
3.3.1 Appropriation to surplus reserve									7,606,588.95	-7,606,588.95	
3.3.2 Appropriation to owners (or shareholders)										-11,227,486.52	-11,227,486.52
3.3.3 Other											
3.4 Internal carry-forward of owners' equity											
3.4.1 New increase of capital (or share capital) from capital reserve											
3.4.2 New increase of capital (or share capital) from surplus reserve											
3.4.3 Surplus reserve for making up loss											
3.4.4 Other											
3.5 Special reserve								1,737,669.77			1,737,669.77
3.5.1 Withdrawn for the period								4,394,339.56			4,394,339.56
3.5.2 Used in the period								2,656,669.79			2,656,669.79
3.6 Other											
4. Closing balance	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

Legal representative: Shi Xinkun

Accounting head for this Report: Zhang Xin

Head of the accounting department: Jiang He

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### 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 Jan. 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 Mar. 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 Jul. 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 Aug. 1996 to 30 Aug. 1996, getting listed on 13 Sep. 1996.

On 9 Jun. 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 Jun. 2006.

As examined and approved at the 2009 2nd Extraordinary Shareholders’ General Meeting in Sep. 2009, based on the total share capital of 374,249,551 shares as at 30 Jun. 2009, the Company implemented the profit distribution plan, i.e. to distribute 5 bonus shares and cash of RMB0.8 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 Dec. 2015, the total share capital of the Company is 561,374,326.00 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. And the unified social credit code of the enterprise business license of the Company is 91320400134792410W.

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 11 Apr. 2017.**

The consolidated scope of the Company of the Reporting Period including the parent company and 4 subsidiaries, which of no change when compared with the last period. For the details of the consolidated scope of the Reporting Period and the changes situation, please refer to the changes of the consolidated scope of the notes to the financial report and the notes to the equities among other entities.



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## **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**

Notification of specific accounting policies and accounting 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 policies 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.

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## **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

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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.

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## 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 losses 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

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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.

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## 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.

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## 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

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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.;



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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 RMB 1 million (RMB 1 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) Withdrawing the bad debt provision of the accounts receivable according to groups of credit ris

Name of Groups	Withdrawal method of the bad debt provision
the age of the accounts receivable is divided by the groups of credit risk	aging analysis method

Withdrawing the bad debt provision by adopting aging analysis method among those groups:

Aging	Withdrawal proportion of accounts receivable	Withdrawal proportion of other accounts receivable
Within 1 year(1 year included)	2%	2%
1 to 2 years	5%	5%
2 to 3 years	15%	15%
3 to 4 years	30%	30%
4 to 5 years	60%	60%
Over 5 years	100%	100%

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**(3) Receivables with insignificant amount but being individually withdrawn the provision for bad debts**

The reason for the bad debt provision of the accounts receivable	insignificant single amounts refers to the accounts receivable of the single amount lower than RMB 1 million (RMB 1 million not include) (including accounts receivable and other accounts receivable).
The withdrawal method of the bad debt provision of the accounts receivable	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 planed 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 cchengpinost 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

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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 minuses 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 minuses 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 consumables and packages

One time amortization method is adopted for low-value consumables and packages.

### **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.

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## 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 policies 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

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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.

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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;

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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.



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## 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 method

Category of fixed assets	Depreciation method	Useful life	Residual value(%)	Annual depreciation (%)
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

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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.

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## 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.

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## **19. Intangible assets**

### **(1) Pricing method, Service life, and Impairment test**

#### **(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.

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## **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.

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## 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.

## 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.

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## 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.

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## **25. Government subsidies**

### **(1) Category**

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.

### **(2) Recognition of the government subsidies**

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.

### **(3) Accounting treatments**

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. 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.



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## **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;

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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 main accounting policies

☐ Applicable ☒ Inapplicable

(2) Change of main accounting estimates

☐ Applicable ☒ Inapplicable

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### 30. 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

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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%
Business tax	Taxable operating revenue	5%
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 2015, 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 Jan. 2011 to 31 Dec. 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 (The unit was RMB, if there was no special illustration)

### 1. Monetary funds

Unit: RMB

Item	Closing balance	Opening balance
Cash on hand	314,905.29	252,373.65
Bank deposits	582,963,123.80	526,463,864.56
Other monetary funds	87,425,772.93	74,596,477.41
Total	670,703,802.02	601,312,715.62

At the period-end, the restricted monetary fund was of RMB 87,425,672.93 in total, of which the bank acceptance deposit was of RMB 87,425,672.93.

### 3. Notes receivable

#### (1) Notes receivable listed by category

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance bill	501,070,279.01	498,502,274.42
Total	501,070,279.01	498,502,274.42

#### (2) Notes receivable pledged by the Company at the period-end

N/A

#### (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	376,560,093.54	
Total	376,560,093.54	

#### (4) There was no notes transferred to accounts receivable because drawer of the notes fails to executed the contract or agreement.

#### 4. Accounts receivable

##### (1) 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 (%)	
Accounts receivable with significant single amount for which bad debt provision separately accrued	27,508,638.82	4.62	25,391,099.21	92.30	2,117,539.61	32,966,572.81	6.03%	28,743,568.09	87.19%	4,223,004.72
Accounts receivable withdrawn bad debt provision according to credit risks characteristics	567,673,711.72	95.33	210,511,429.64	37.08	357,162,282.08	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	276,298.29	0.05	276,298.29	100.00		1,686,716.39	0.31%	1,686,716.39	100.00%	
Total	595,458,648.83	100.00	236,178,827.14	39.66	359,279,821.69	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:

Unit: RMB

Account receivable(by unit)	Closing balance			
	Account receivable	Bad debt provision	Withdrawal proportion (%)	Withdrawal reason
Customer 1	1,902,326.58	1,902,326.58	100.00	Difficult to recovered
Customer 2	6,215,662.64	6,202,854.45	99.79	Difficult to recovered
Customer 3	4,319,339.17	2,214,607.75	51.27	Estimated difficult to recover
Customer 4	3,279,100.00	3,279,100.00	100.00	Estimated difficult to recover
Customer 5	2,133,377.01	2,133,377.01	100.00	Estimated difficult to recover
Customer 6	5,359,381.00	5,359,381.00	100.00	Difficult to recovered
Customer 7	2,584,805.83	2,584,805.83	100.00	Difficult to recovered
Customer 8	1,714,646.59	1,714,646.59	100.00	Difficult to recovered
Total	27,508,638.82	25,391,099.21		

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

Unit: RMB

Aging	Closing balance		
	Accounts receivable	Bad debt provision	Withdrawal proportion (%)
Within 1 year	357,020,701.75	7,140,414.51	2.00
1 to 2 years	3,080,848.05	154,042.40	5.00
2 to 3 years	1,820,092.27	273,013.85	15.00
3 to 4 years	527,790.44	158,337.13	30.00
4 to 5 years	6,096,643.65	3,657,986.19	60.00
Over 5 years	199,127,635.56	199,127,635.56	100.00
Total	567,673,711.72	210,511,429.64	



## (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 RMB5,408,351.39; the amount of the reversed or collected part during the Reporting Period was of RMB 6,666,742.43.

## (3) The actual write-off accounts receivable

Unit: RMB

Item	Write-off account
Changge Shiyang Machinery Co., Ltd	457,153.57

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

At the period-end, the total amount of top 5 of the closing balance of the accounts receivable collected according to the arrears party was RMB 192,749,341.51, which was 32.37% of the closing balance of the accounts receivable and the relevant closing balance of bad debt provision was RMB 20,942,174.47.

## 5. Prepayment

### (1) List by aging analysis:

Unit: RMB

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	13,981,887.79	90.30	11,891,116.78	92.30
1 to 2 years	515,122.72	3.33	7,418.00	0.06
2 to 3 years	7,418.00	0.05	114,790.79	0.89
3 to 4 years	110,100.79	0.71		
4 to 5 years				
Over 5 years	868,946.13	5.61	868,946.13	6.75
Total	15,483,475.43	100.00	12,882,271.70	100.00

## (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 RMB 13,130,359.44, which was 84.80% of the closing balance of the accounts receivable.

## 6. 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	7.82	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	30,950,737.22	84.83	26,785,062.60	86.54	4,165,674.62	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	2,679,801.13	7.35	2,679,801.13	100.00		1,952,628.15	5.24%	1,952,628.15	100.00%	
Total	36,483,726.37	100.00	32,318,051.75	88.58	4,165,674.62	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 at period end:

Unit: RMB

Other account receivable(by unit)	Closing balance			
	Other account receivable	Bad debt provision	Withdrawal proportion (%)	Withdrawal reason
Changchai Group Import & Export Company	2,853,188.02	2,853,188.02	100	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:

Unit: RMB

Aging	Closing balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion (%)
Within 1 year	3,630,055.73	72,601.12	2.00
1 to 2 years	120,076.86	6,003.84	5.00
2 to 3 years	61,989.57	9,298.44	15.00
3 to 4 years	621,279.82	186,383.95	30.00
4 to 5 years	16,399.95	9,839.97	60.00
Over 5 years	26,500,935.29	26,500,935.29	100.00
Total	30,950,737.22	26,785,062.60	

## (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 RMB 706,757.69; the amount of the reversed or collected part during the Reporting Period was of RMB 3,192.87.

## (3) The actual write-off other accounts receivable

N/A

**(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	19,305,341.92	20,433,624.06
Employee loan	1,819,817.62	2,011,484.92
Other	15,354,366.83	14,787,717.76
Total	36,483,726.37	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
Changzhou Compressor Co., Ltd.	Current	2,940,000.00	Over 5 years	8.06	2,940,000.00
Import and Export Company of Changchai Group	Current	2,853,188.02	Over 5 years	7.82	2,853,188.02
Changzhou New District Accounting Center	Current	1,626,483.25	Over 5 years	4.46	1,626,483.25
OEM Group Settlement Center	Current	1,140,722.16	Over 5 years	3.13	1,140,722.16
Changzhou Xingsheng Property Management Co., Ltd	Current	496,450.56	Within 1 year	1.35	9,929.01
Total		9,056,843.99		24.82	8,570,322.44

## 7. 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	105,129,601.58	4,315,935.29	100,813,666.29	111,288,103.55	2,587,305.60	108,700,797.95
Goods in process	127,378,644.50	21,803,781.18	105,574,863.32	110,165,018.34	23,144,279.29	87,020,739.05
Inventory goods	280,847,238.35	20,174,913.34	260,672,325.01	208,519,567.29	20,277,368.92	188,242,198.37
Materials processed on commission	25,326,273.77	597,808.75	24,728,465.02	12,310,710.53		12,310,710.53
Low-value consumables	3,557,926.14	1,300,787.34	2,257,138.80	2,316,353.80	1,300,787.34	1,015,566.46
Total	542,239,684.34	48,193,225.90	494,046,458.44	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 material	2,587,305.60	1,774,322.02		45,692.33		4,315,935.29
Materials processed on commission		597,808.75				597,808.75
Finished products	20,277,368.92	14,296,707.22		14,399,162.80		20,174,913.34
Goods in process	23,144,279.29	21,366,683.67		22,707,181.78		21,803,781.18
Low-value consumables	1,300,787.34					1,300,787.34
Total	47,309,741.15	38,035,521.66		37,152,036.91		48,193,225.90

## 8. Other Current Assets

Unit: RMB

Item	Closing balance	Opening balance
The VAT tax credits	31,669,983.12	28,304,691.41
Bank financing product		20,000,000.00
Securities company financing product	6,000,000.00	12,000,000.00
Ju pai financing product	2,000,000.00	
Total	39,669,983.12	60,304,691.41

## 9. 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:	821,282,500.00	1,210,000.00	820,072,500.00	504,190,000.00	1,210,000.00	502,980,000.00
Measured by fair value	812,872,500.00		812,872,500.00	457,780,000.00		457,780,000.00
Measured by cost method	8,410,000.00	1,210,000.00	7,200,000.00	46,410,000.00	1,210,000.00	45,200,000.00
Total	821,282,500.00	1,210,000.00	820,072,500.00	504,190,000.00	1,210,000.00	502,980,000.00

### (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	79,874,500.00		79,874,500.00
Fair value	812,872,500.00		812,872,500.00
Changes of fair value accumulated recorded into other comprehensive income	623,048,300.00		623,048,300.00

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

Unit: RMB

Investees	Book balance				Depreciation reserves				Share holding proportion among the investees (%)	Cash bonus of the Reporting Period
	Period-b egin	Increase	Decrease	Period-e nd	Period-b egin	Increase	Decrease	Period-e nd		
Jiangsu Bank	38,000,000.00		38,000,000.00							
Qidong Liantong Dynamo meter Co., Ltd.	7,200,000.00			7,200,000.00					3.2	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		38,000,000.00	8,410,000.00	1,210,000.00			1,210,000.00		160,000.00

- ① Jiangsu Bank was listed in A share on August 2016, and the investment was measured by fair value after that period.
- ② Others: RMB510,000 in Chengdu Changwan Diesel Engine Marketing Corp., and RMB290,000 in Wanzhou Changwan Diesel Engine Fitting Corp. and RMB20,000 in Changzhou Economic and Technological Development Co., Ltd., RMB100,000 in Changzhou Tractors Co., Ltd., RMB200,000 in the Industrial Financing Mutual Benefit Association of Changzhou Economic and Information Technology Commission and RMB90,000 in Beijing Engineering and Agricultural Machinery Co., Ltd.. Due to difficulty in recovery, full-amount impairment provisions were made for the aforesaid accounts.

**(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

**(5) The reason for an increase of 63.04% of closing balance than opening balance is that our company measured holding Jiangsu Bank by fair value in current period, so the closing market value increased dramatically.**

**10. 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		
Joint Ventures											
Associated enterprises											
Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.	20,769,304.76			236,925.27						21,006,230.03	
Beijing Tsinghua Industrial											44,182.50



Investment Management Co., Ltd.											
Subtotal	20,769,304.76			236,925.27						21,006,230.03	44,182.50
Total	20,769,304.76			236,925.27						21,006,230.03	44,182.50

## 11. Investment property

### (1) Investment property adopted the cost measurement mode

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) Enterprises merger increase				
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4.Closing balance				

II. The accumulative depreciation and accumulative amortization				
1. Opening balance	30,351,541.11			30,351,541.11
2. Increased amount of the period	2,208,340.80			2,208,340.80
(1) The depreciation or amortization	2,208,340.80			2,208,340.80
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4.Closing balance	32,559,881.91			32,559,881.91
III. Impairment provision				
1. Opening balance				
2. Increased amount of the period				
(1) Disposal				
3. Decreased amount of the period				
(1) Disposal				
(2) Other transfer				
4.Closing balance				
IV. Book value				
1.Closing book value	55,072,689.23			55,072,689.23
2.Opening book value	57,281,030.03			57,281,030.03

## 12. Fixed assets

### (1) List of fixed assets

Unit: RMB

Item	Houses and buildings	Machinery equipment	Electronic equipment	Transportation equipment	Other
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	3,660,199.12	71,564,557.24	124,854.70	4,310,645.03	79,660,256.09
(1) Purchase	870,000.00	3,601,601.02		206,897.44	4,678,498.46
(2) Construction project transfer	2,790,199.12	67,962,956.22	124,854.70	4,103,747.59	74,981,757.63
(3) Enterprises merger increase					
3. Decreased amount of the period	4,061,877.00	20,694,427.98	665,092.08	3,702,963.39	29,124,360.45
(1) Disposal or Scrap	4,061,877.00	20,694,427.98	665,092.08	3,702,963.39	29,124,360.45
4. Closing balance	419,008,246.37	853,659,305.64	23,007,178.60	35,579,255.84	1,331,253,986.45
II. The 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	15,676,994.07	59,250,366.26	2,029,207.41	2,661,353.43	79,617,921.17
(1) Withdrawal	15,676,994.07	59,250,366.26	2,029,207.41	2,661,353.43	79,617,921.17

(2) Enterprise combination and increase					
3. Decreased amount of the period	3,641,066.64	19,088,432.01	635,312.44	3,700,128.41	27,064,939.50
(1) Disposal or Scrap	3,641,066.64	19,088,432.01	635,312.44	3,700,128.41	27,064,939.50
4. Closing balance	224,127,801.27	508,354,183.08	16,762,107.06	25,806,818.81	775,050,910.22
III. Impairment provision					
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		1,094,131.67			1,094,131.67
(1) Disposal or Scrap		1,094,131.67			1,094,131.67
4. Closing balance		2,524,137.36			2,524,137.36
IV. Book value					
1. Closing book value	194,880,445.10	342,780,985.20	6,245,071.54	9,772,437.03	553,678,938.87
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 accumulative depreciation in Reporting Period was RMB79,617,921.17; the original value of construction in progress transfer into fix assets was RMB74,981,757.63.

### 13. Construction in progress

#### (1) List of construction in progress

Unit: RMB

Item	Closing amount			Opening amount		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Trial production workshop project technology center	4,233,919.80		4,233,919.80	22,960,533.29		22,960,533.29
Casting renovation project	396,000.00		396,000.00	396,000.00		396,000.00
Expansion capacity of multi-cylinder (The 2 <sup>nd</sup> Period)	57,529,623.42		57,529,623.42	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	15,110,073.95		15,110,073.95	1,851,752.13		1,851,752.13
Equipment to be installed and payment for projects	12,511,430.04		12,511,430.04	42,905,906.11		42,905,906.11
Total	89,781,047.21		89,781,047.21	108,198,455.01		108,198,455.01

**(2) Changes of significant construction in progress**

Unit: RMB

Name of item	Opening balance	Increased amount of the period	Amount that transferred to fixed assets of the period	Other decreased amount of the period	Closing balance	Capital resources
Trial production workshop project technology center	22,960,533.29	1,993,135.80	20,719,749.29		4,233,919.80	Self-raised
Casting renovation project	396,000.00				396,000.00	Self-raised
Expansion capacity of multi-cylinder (The 2 <sup>nd</sup> Period)	40,050,712.95	17,616,848.99	137,938.52		57,529,623.42	Self-raised
Base of land in Hehai Road	33,550.53	388,800.00	422,350.53			Self-raised
Diesel Engine Cylinder Body Flexible Manufacturing Line	1,851,752.13	13,258,321.82			15,110,073.95	Self-raised
Total	65,292,548.90	33,257,106.61	21,280,038.34		77,269,617.17	--

**14. Intangible assets****(1) Particulars about Intangible assets**

Unit: RMB

Item	Land use right	Software	Other	Total
I. Original book value				
1. Opening balance	137,782,945.30	7,039,691.42		144,822,636.72
2. Increased amount of the period		1,756,140.17		1,756,140.17
(1) Purchase		1,756,140.17		1,756,140.17

(2) Internal research and development				
(2) Enterprises merger increase				
3. Decreased amount of the period				
(1) Withdrawal				
4. Closing balance	137,782,945.30	8,795,831.59		146,578,776.89
II. Accumulated amortization				
1. Opening balance	38,511,304.87	3,209,869.38		41,721,174.25
2. Increased amount of the period	2,792,049.12	2,150,415.90		4,942,465.02
(1) Withdrawal	2,792,049.12	2,150,415.90		4,942,465.02
3. Decreased amount of the period				
(1) Disposal				
4. Closing balance	41,303,353.99	5,360,285.28		46,663,639.27
III. Impairment provision				
1. Opening balance				
2. Increased amount of the period				
(1) Withdrawal				
3. Decreased amount of the period				
(1) Disposal				
4. Closing balance				
IV. Book value				
1. Closing book value	96,479,591.31	3,435,546.31		99,915,137.62
2. Opening book value	99,271,640.43	3,829,822.04		103,101,462.47

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**15. 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	6,074,862.83	911,229.42	6,416,872.53	962,530.88
Total	6,074,862.83	911,229.42	6,416,872.53	962,530.88

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

Unit: RMB

Item	Closing balance		Opening balance	
	Taxable temporary difference	Deferred income tax assets	Taxable temporary difference	Deferred income tax assets
Assets impairment provision	732,998,000.00	109,949,700.00	415,905,500.00	62,385,825.00
Total	732,998,000.00	109,949,700.00	415,905,500.00	62,385,825.00

**(3) List of unrecognized deferred income tax assets**

Unit: RMB

Item	Closing amount	Opening amount
Bad debt provision	262,422,016.06	263,091,986.15
Inventory falling price reserves	48,193,225.90	47,309,741.15
Total	310,615,241.96	310,401,727.30

**16. Other non-current assets**

Unit: RMB

Item	Closing balance	Closing impairment provision	Opening balance	Opening impairment provision
Entrust 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



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## 17. 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

(3)The reason for a decrease of 41.18% of closing balance than opening balance is that the loans of our subsidiary Changwan decreased in current period.

## 18. Notes payable

Unit: RMB

Category	Closing balance	Opening balance
Bank acceptance bill	276,090,000.00	238,200,000.00
Total	276,090,000.00	238,200,000.00

There was no due but not pay notes payable at the period-end.

## 19. Accounts payable

### (1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Payment for goods	605,424,726.65	535,978,470.07
Total	605,424,726.65	535,978,470.07

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

## 20. Advance from customers

### (1) List of advance from customers

Unit: RMB

Item	Closing balance	Opening balance
Payment for goods	40,890,620.69	26,665,671.38
Total	40,890,620.69	26,665,671.38

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

(3) The reason for a increase of 53.35% of closing balance than opening balance is mainly that the stock in sales season added advance from some customers.

## 21. Payroll payable

### (1) List of Payroll payable

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
I. Short-term salary	60,309,349.29	300,948,673.13	302,708,113.52	58,549,908.90
II. welfare after departure-defined contribution plan		37,719,070.46	37,719,070.46	
III. Termination benefits		67,170.00	67,170.00	
Total	60,309,349.29	338,734,913.59	340,494,353.98	58,549,908.90

### (2) List of Short-term salary

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
1. Salary, bonus, allowance, subsidy	53,805,049.80	253,931,739.68	257,015,862.87	50,720,926.61
2. Employee welfare		6,539,596.50	6,539,596.50	
3. Social insurance		18,329,613.92	18,329,613.92	
Including: Medical insurance premiums		14,830,115.83	14,830,115.83	
Work-related injury insurance		2,577,353.37	2,577,353.37	
Maternity insurance		922,144.72	922,144.72	
4. Housing fund		17,230,006.28	17,230,006.28	
5. Labor union budget and employee education budget	6,504,299.49	4,917,716.75	3,593,033.95	7,828,982.29
6. Other short-term compensation	60,309,349.29	300,948,673.13	302,708,113.52	58,549,908.90

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**(3) List of drawing scheme**

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
1. Basic endowment insurance		35,678,708.54	35,678,708.54	
2. Unemployment insurance expense		2,040,361.92	2,040,361.92	
Total		37,719,070.46	37,719,070.46	

**22. Taxes payable**

Unit: RMB

Item	Closing balance	Opening balance
VAT	972,104.89	467,010.50
Business tax		2,900.00
Corporate income tax	5,537,211.23	5,923,463.67
Personal income tax	940,612.41	49,924.16
Urban maintenance and construction tax	902,501.60	1,996,316.42
Property tax	143,204.51	143,204.50
Education Surcharge	51,563.36	840,517.28
The comprehensive fee	1,075,134.76	1,374,726.40
Total	9,622,332.76	10,798,062.93

**23. Dividends payable**

Unit: RMB

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

Reason for unpaid dividends payable over one year: the shareholder has not get.

## 24. Other accounts payable

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

Unit: RMB

Item	Closing balance	Opening balance
Margin and deposit	2,700,853.59	3,149,353.59
Unit current amount	11,420,825.32	15,550,754.25
Personal amount payable	1,067,429.96	955,910.51
Sales discount and three guarantees	151,408,043.35	146,392,031.63
Other	37,849,658.34	35,103,582.48
Total	204,446,810.56	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 temporarily closed and owe payment unsettled.

## 25. Other current-liabilities

Unit: RMB

Item	Closing balance	Opening balance
Sewage charge	200,000.00	200,000.00
Electric charge	2,254,381.75	1,795,289.06
Other		407,998.00
Total	2,454,381.75	2,403,287.06

## 26. Deferred income

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance	Formation reasons
Government subsidies	53,121,605.70	9,000,000.00	1,064,373.62	61,057,232.08	Government allocations
Total	53,121,605.70	9,000,000.00	1,064,373.62	61,057,232.08	--

Items involved in government subsidies:

Unit: RMB

Item	Opening balance	Amount of newly subsidy	Amount accrued in non-business income	Other changes	Closing balance	Related to the assets/ income
Electric control of diesel engine research and development and industrialization allocations	1,842,000.00		398,400.00		1,443,600.00	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		665,973.62		21,843,632.08	Related to the assets
Research and development and industrialization allocations of national III/IV standard high-powered efficient diesel engine for agricultural use		9,000,000.00			9,000,000.00	Related to the assets
Total	53,121,605.70					--

**27. Share capital**

Unit: RMB

	Opening balance	Increase/decrease (+/-)					Closing balance
		Newly issue share	Bonus shares	Capitalization of public reserves	Other	Subtotal	
The sum of shares	561,374,326.00						561,374,326.00

**28. Capital reserves**

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

**29. Other comprehensive income**

Unit: RMB

Item	Opening balance	Reporting Period					Closing balance
		Amount incurred before income tax	Less: Amount transferred into profit and loss in the current period that recognized into other comprehensive income in prior period	Less: income tax expense	After-tax attribute to the parent company	After-tax attribute to minority shareholder	
Other comprehensive	353,519,675.00	317,092,500.00		47,563,875.00	269,528,625.00		623,048,300.00

reclassified into profits or losses							
Profits or losses of change in fair value of available-for-sale financial assets	353,519,675.00	317,092,500.00		47,563,875.00	269,528,625.00		623,048,300.00
Total	353,519,675.00	317,092,500.00		47,563,875.00	269,528,625.00		623,048,300.00

### 30. Special reserves

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
Safety production cost	10,069,746.98	4,416,865.61	2,771,195.37	11,715,417.22
Total	10,069,746.98	4,416,865.61	2,771,195.37	11,715,417.22

### 31. Surplus reserves

Unit: RMB

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserves	292,601,428.01	6,121,962.97		298,723,390.98
Discretionary surplus reserves	13,156,857.90			13,156,857.90
Total	305,758,285.91	6,121,962.97		311,880,248.88

### 32. Retained profits

Unit: RMB

Item	2016	2015
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	62,539,896.17	71,102,792.49
Less: Withdrawal of statutory surplus reserves	6,121,962.97	7,606,588.95
Dividend of common stock payable	12,911,609.50	11,227,486.52
Closing retained profits	651,365,935.39	607,859,611.69

### 33. Revenues and operating costs

Unit: RMB

Item	Reporting Period		Same period of last year	
	Revenue	Operating costs	Revenue	Operating costs
Main operations	2,258,400,410.51	1,849,826,031.76	2,495,248,411.83	2,094,368,998.80
Other operations	24,628,445.01	16,791,304.61	24,551,135.46	15,847,136.82
Total	2,283,028,855.52	1,866,617,336.37	2,519,799,547.29	2,110,216,135.62

### 34. Business tax and surcharges

Unit: RMB

Item	Reporting Period	Same period of last year
Business tax	7,500.00	22,650.00
Urban maintenance and construction tax	2,649,728.73	4,424,215.49
Education Surcharge	1,892,413.41	3,185,948.00
House property tax	4,169,245.49	
Land use tax	2,976,381.90	
Stamp tax	894,177.60	
Vehicle and vessel tax	2,280.00	
Other taxes	413,516.46	
Total	13,005,243.59	7,632,813.49

According to “Notice of ‘VAT Accounting Treatment’ Issued by Ministry of Finance” (Finance and



Accounting[2016] No.22), after full trial for changing business tax to VAT, the name of “business tax and surcharges” was changed to “tax and surcharges”, which was for calculating consumption tax, urban maintenance and construction tax, and resources tax, education surcharge, house property tax, land use tax, vehicle and vessel tax and stamp tax, and other related taxes in enterprise’s business activities.

### 35. Sales expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Office expenses	18,933,214.19	21,201,667.69
Employee’s remuneration	28,799,684.22	28,684,358.57
Sales promotional expense	9,370,719.41	9,218,580.00
Three guarantees	39,799,196.44	30,238,223.49
Transport fees	6,837,099.50	8,414,005.85
Other	229,664.03	365,510.11
Total	103,969,577.79	98,122,345.71

### 36. Administrative expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Office expenses	17,890,984.51	19,693,941.37
Employee’s remuneration	97,316,215.78	89,702,808.14
Depreciation and amortization	15,942,006.73	20,448,433.20
Research and development expense	53,319,103.98	37,769,695.87
Transport fees	2,966,033.22	2,948,275.12
Repair charge	4,796,798.73	5,269,797.93
Taxes		8,605,279.72
Safety expenses	1,645,670.24	1,737,669.77
Other	13,705,400.79	11,503,014.31
Total	207,582,213.98	197,678,915.43

### 37. Financial expenses

Unit: RMB

Item	Reporting Period	Same period of last year
Interest expenses	1,220,678.60	1,183,262.47
Less: Interest income	5,446,142.49	7,372,960.51

Exchange net profit or loss	-6,491,112.12	-6,135,135.67
Other	-825,589.07	-3,398,951.29
Total	-11,542,165.08	-15,723,785.00

### 38. Asset impairment loss

Unit: RMB

Item	Reporting Period	Same period of last year
I. Bad debt loss	-554,826.22	6,001,727.18
II. Inventory falling price loss	38,035,521.66	41,250,448.16
Total	37,480,695.44	47,252,175.34

### 39. Gains on the changes in the fair value

Unit: RMB

Item	Reporting Period	Same period of last year
Financial assets measured by fair value and the changes be included in the current profits and losses	-109,642.19	-109,642.19
Total	-109,642.19	-109,642.19

### 40. Investment income

Unit: RMB

Item	Reporting Period	Same period of last year
Long-term equity investment income accounted by equity method	236,925.27	670,328.77
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	294,760.70	594,434.83
Investment income received from holding of available-for-sale financial assets	2,833,250.00	6,547,113.40
Investment income from disposal of bank financial products	364,000.00	468,547.94
Investment income received from disposal of securities financial products	399,809.11	
Financing security gains		839,681.00
Total	4,128,745.08	9,120,105.94

Current accruals reduce by 54.73% compared with the previous period, mainly are dividends of Jiangsu Bank of the previous period. Current accruals have not been allocated.

**41. 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	6,445,469.06	298,236.45	6,445,469.06
Including: Gains from disposal of fixed assets	6,445,469.06	298,236.45	6,445,469.06
Insurance compensation	7,948,135.65	11,903,636.62	7,948,135.65
Penalty income	357,156.87	1,133,046.55	357,156.87
Government subsidies	157,649.63	163,851.65	157,649.63
Income from disposal of current assets	264,992.00	539,523.00	264,992.00
Other	428,989.26	9,974.29	428,989.26
Total	15,602,392.47	14,048,268.56	15,602,392.47

**Lists of government subsidies**

Unit: RMB

Item	Reporting Period	Same period of last year	Related to the assets/ income
The central budget investment plans	2,000,000.00	3,000,000.00	Related to the income
Special fund for industrial development	500,000.00		Related to the income
Special fund for Promoting the transformation of industrial economy steady growth	1,250,000.00	6,510,000.00	Related to the income
The mayor quality award		500,000.00	Related to the income
Stabilization subsidy	1,928,234.75		Related to the income
Science and Technology Progress Award		30,000.00	Related to the income
Talent development funds	80,000.00	184,000.00	Related to the income
Other science and technology project allocations		130,000.00	Related to the income

Other incentives and subsidies	615,527.28	485,263.00	Related to the income
Compensation for demolition	665,973.62	665,973.62	Related to the assets
Famous brand subsidy	300,000.00		Related to the income
R & D and industrialization of electric non-road diesel engine	398,400.00	398,400.00	Related to the assets
Industry-university-institute cooperation subsidy	150,000.00		Related to the income
Association subsidy	60,000.00		Related to the income
Total	7,948,135.65	11,903,636.62	

#### 42. 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	191,440.80	86,306.84	191,440.80
Including: Loss on disposal of fixed assets	191,440.80	86,306.84	191,440.80
Donation	310,000.00	260,000.00	310,000.00
The flood control security fund		2,468,397.34	
Loss on disposal of current assets	9,640,304.91	4,489,449.93	9,640,304.91
Other	587,436.12	1,206,723.88	587,436.12
Total	10,729,181.83	8,510,877.99	10,729,181.83

#### 43. Income tax expense

##### (1) Lists of income tax expense

Unit: RMB

Item	Reporting Period	Same period of last year
Current income taxes	11,149,938.42	16,562,132.69
Deferred income taxes	51,301.46	122,332.44
Total	11,201,239.88	16,684,465.13

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

Unit: RMB

Item	Reporting Period
Total profits	74,917,909.15
Current income tax expense accounted by tax and relevant regulations	11,237,686.38
Influence of different tax rate suitable to subsidiary	-281,919.26
Influence of non-taxable income	-440,987.50
Influence of not deductible costs, expenses and losses	3,521,373.78
Influence of deductible losses of deferred income tax assets derecognized used in previous period	-514,793.92
Influence of deductible temporary difference or deductible losses of deferred income tax assets derecognized in Reporting Period.	494,592.90
Tax preference incurred from qualified expense	-2,814,712.50
Income tax expense	11,201,239.88

**44. 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	6,883,762.03	10,839,263.00
Cash received from other current account	2,742,256.68	3,502,832.73
Interest income	5,446,142.49	7,372,960.51
Total	15,072,161.20	21,715,056.24

**(2) Other cash paid relevant to operating activities**

Unit: RMB

Item	Reporting Period	Same period of last year
Sale expense paid into cash	50,525,203.20	46,608,291.02
Management expense paid into cash	48,853,500.64	39,027,007.46
Commission Expenses	585,735.15	701,704.94
Other	876,066.51	1,970,121.12
Total	100,840,505.50	88,307,124.54

#### 45. Supplementary information to cash flow statement

##### (1) Information of net profit to net cash flows generated from operating activities

Unit: RMB

Supplementary materials	Reporting Period	Last period
1. Reconciliation of net profit to net cash flows generated from operating activities	--	--
Net profit	63,716,669.27	72,484,335.89
Add: Provision for impairment of assets	37,480,695.44	47,252,175.34
Depreciation of fixed assets, of oil-gas assets, of productive biological assets	81,826,261.97	85,201,281.00
Amortization of intangible assets	4,942,465.02	4,216,562.60
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains by "-")	-6,254,028.26	-211,929.61
Losses from variation of fair value (gains by "-")		109,642.19
Financial expenses (gains by "-")	1,220,678.60	1,211,337.47
Investment losses (gains by "-")	-4,128,745.08	-9,120,105.94
Decrease in deferred income tax assets (increase by "-")	51,301.46	122,332.44
Decrease in inventory (increase by "-")	-134,791,967.74	59,048,257.34
Decrease in accounts receivable from operating activities (increase by "-")	-70,568,271.81	-142,246,349.15
Increase in payables from operating activities (decrease by "-")	138,226,784.07	16,574,597.23
Other	-12,247,898.90	-6,715,253.85
Net cash flows generated from operating activities	99,473,944.04	127,926,882.95
2. Investing and financing activities that do not involving cash receipts and payment:	--	--
3. Net increase in cash and cash equivalents	--	--
Closing balance of cash	583,278,129.09	526,716,238.21
Less: Opening balance of cash	526,716,238.21	464,761,820.50
Net increase in cash and cash equivalents	56,561,890.88	61,954,417.71

##### (2) Cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	583,278,129.09	526,716,238.21
Including: Cash on hand	314,905.29	252,373.65
Bank deposit on demand	582,963,123.80	526,463,864.56
Other monetary funds on demand	100.00	
II. Closing balance of cash and cash equivalents	583,278,129.09	526,716,238.21

**46. The assets with the ownership or use right restricted**

Unit: RMB

Item	Closing book value	Restricted reason
Monetary capital	87,425,672.93	Bank acceptance draft deposited in the margin
Houses and buildings	6,973,427.38	Pledge for bank loan
Land use right	19,469,465.00	Pledge for bank loan
Total	113,868,565.31	

**47. Foreign currency monetary items**

Unit: RMB

Item	Closing foreign currency balance	Exchange rate	Closing convert to RMB balance
Monetary capital			
Including: USD	13,601,122.55	6.937	94,350,987.13
HKD	162,384.51	0.8945	145,252.94
SGD	54,427.95	4.7995	261,226.95
Account receivable			
Including: USD	5,052,495.61	6.937	35,049,162.08

**VIII. Changes of merge scope**

N/A

**IX. Equity in other entities****1. Equity in subsidiary****(1) The structure of the enterprise group**

Name of the subsidiary	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 City	Changzhou City	Industry	99.00%	1.00%	Set-up
Changzhou Housheng Investment Co., Ltd.	Changzhou City	Changzhou City	Service	100.00%		Set-up
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	Changzhou City	Changzhou City	Industry	70.00%	25.00%	Set-up

**(2) Significant not wholly owned subsidiary**

Unit: RMB

Name of the subsidiary	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%	1,073,814.32		18,398,947.57
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	5.00%	102,958.78		368,279.00

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

Unit: RMB Thousand Yuan

Name of the subsidiary	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.	43,462,836.42	27,671,597.38	71,134,433.80	25,137,064.88		25,137,064.88	41,770,953.46	28,631,830.17	70,402,783.63	27,089,950.52		27,089,950.52
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	29,743,164.98	372,868.70	30,116,033.68	22,750,453.64		22,750,453.64	16,619,127.25	440,565.96	17,059,693.21	11,753,288.83		11,753,288.83



Unit: RMB Thousand Yuan

Name of the subsidiary	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.	66,035,872.53	2,684,535.81	2,684,535.81	5,461,701.22	99,618,978.42	3,763,210.92	3,763,210.92	6,750,035.77
Changzhou Changchai Housheng Agricultural Equipment Co., Ltd.	20,425,666.48	2,059,175.66	2,059,175.66	1,114,872.81	5,594,781.07	-2,474,819.32	-2,474,819.32	-5,350,193.17

## 2. Equity in joint venture or associated enterprise

### (1) Significant joint venture arrangement or associated enterprise

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

### (2) Main financial information of significant associated enterprise

Unit: RMB

Item	Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.	
	Closing balance/ Reporting Period	Opening balance /last period
Current assets	70,478,877.04	70,218,388.26
Non-current assets	9,739,238.70	11,465,367.78
Total assets	80,218,115.74	81,683,756.04

Current liabilities	16,562,872.57	11,746,468.25
Non-current liability		7,000,000.00
Total liabilities	16,562,872.57	18,746,468.25
Equity attributable to owners of the Company	63,655,243.17	62,937,287.79
Portion of net assets calculated according to proportion of shareholdings	21,006,230.03	20,769,304.76
Book value of investment to associated enterprise	21,006,230.03	20,769,304.76
Operation revenue	154,944,857.08	139,148,868.35
Net profit	1,315,524.51	2,138,273.61
Total comprehensive income	1,315,524.51	2,138,273.61
Equity received from associated enterprises in Reporting Period		361,000.00

#### **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 analyse 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:

##### **(I) 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 was referred to their risk of incurring capital shortage when performing settlement obligation in the way of cash payment or other financial assets. The policies of the Company were 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 department 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 was referred to risk of the fair value or future cash flow of financial instrument changed due to the change of market interest risk.

#### 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) Financial assets calculated by fair value and changes record into current profits or losses				
1. Trading financial assets				
Transactional financial assets				
Equity tool investment	812,872,500.00			812,872,500.00
(II) Available-for-sale financial assets	812,872,500.00			812,872,500.00
Equity tool investment	812,872,500.00			812,872,500.00
Total assets of consistent 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**

Name of parent company	Registration place	Nature of business	Registered capital	Parent company's ownership of the Company	Parent company's voting right of the Company
Changzhou Government State-owned Assets Supervision and Administration Commission	Changzhou City			30.43%	30.43%

The actual controller of the Company is Changzhou Government State-owned Assets Supervision and Administration Commission. At 31 Dec. 2016, it held 30.43% shares of the Company (state owned shares).

Final control of the Company is Changzhou Government State-owned Assets Supervision and Administration Commission.

**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.**

N/A

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

N/A

**XIII. Commitments and contingency****1. Significant commitments**

As of 31 Dec. 2016, there were no significant commitments to be disclosed.

**2. Contingency****(1) 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	Amount involved	Remark
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		arbitration institutions	(RMB ten thousand)	
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	Finished
Total			2242.36	

Notes to the case:

(1) 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 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 owed our Company 8.0636 million; Beijing Shunyi District People's Court accepted the case on 12 Aug. 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 full payment.

**(2) The Company does not have important contingency which is required to be disclosed, explanation shall also be given.**

N/A

#### XIV. Events after balance sheet date

##### 1. Profit distribution

Unit: RMB

Planning allocation of profits or dividends	16,841,229.78
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##### 2. Business merger

The Company held the interim meeting of board of directors on 26 Aug. 2016. The meeting reviewed and approved the Proposal about Receiving 67% of Stock Rights of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. Held by Fuji Heavy Industries Ltd.. After merger is completed, the Company will hold 100% of stock rights of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. and Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. will be transferred to domestic enterprise from Sino-Foreign joint venture. Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. completed the industrial and commercial registration of alteration related to stock rights transfer and got Business License changed by Market Supervision Commission of Changzhou National High-Tech Industrial Development Area (New North Area) on 20 Jan. 2017. The registered capital is RMB 37,250,000, scope of business comprises small general gasoline engine and concerned equipment (including agricultural machinery, engineering machinery, water pump unit and small generator unit); production, processing, research, development, sales, technical consultation of relevant components and spare parts. Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. will be added into the scope of consolidated statements of the Company since January 2017 and the stock rights transfer will have certain influence on the profit and loss of the Company in 2017.

#### XV. 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.

2. Other important transactions and events have an impact on investor's decision-making

As of the approval issue date of financial statements, the Company did not complete the liquidation procedures of 2016 annual enterprise income tax.

## XVI. 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				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Withdrawal proportion	
Accounts receivable with insignificant single amount for which bad debt provision separately accrued	37,894,677.78	7.17%	31,210,576.96	82.36%	6,684,100.82
Accounts receivable withdrawal of bad debt provision of by credit risks characteristics:	490,383,771.93	92.78%	188,267,201.85	38.39%	302,116,570.08
Accounts receivable with insignificant single amount for which bad debt provision separately accrued	276,298.29	0.05%	276,298.29	100.00%	
Total	528,554,748.00	100.00%	219,754,077.10	41.58%	308,800,670.90

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

Unit: RMB

Account receivable	Book balance	Bad debt provision	Withdrawal proportion	Withdrawal reason
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Customer 1	1,902,326.58	1,902,326.58	100.00%	Difficult to recover
Customer 2	6,215,662.64	6,202,854.45	99.79%	Difficult to recover
Customer 3	4,319,339.17	2,214,607.75	51.27%	Estimated difficult to recover
Customer 4	3,279,100.00	3,279,100.00	100.00%	Estimated difficult to recover
Customer 5	2,133,377.01	2,133,377.01	100.00%	Estimated difficult to recover
Customer 6	5,359,381.00	5,359,381.00	100.00%	Difficult to recover
Customer 7	2,584,805.83	2,584,805.83	100.00%	Difficult to recover
Customer 8	1,714,646.59	1,714,646.59	100.00%	Difficult to recover
Customer 9	10,386,038.96	5,819,477.75	56.03%	Estimated difficult to recover
Total	44,942,468.52	35,630,157.18		

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

Unit: RMB

Aging	Closing balance		
	Account receivable	Bad debt provision	Withdrawal proportion
Within 1 year	301,185,313.00	6,023,706.26	2.00%
1 to 2 years	2,835,235.05	141,761.75	5.00%
2 to 3 years	1,709,857.97	256,478.70	15.00%
3 to 4 years	527,790.44	158,337.13	30.00%
4 to 5 years	6,096,643.65	3,657,986.19	60.00%
Over 5 years	178,028,931.82	178,028,931.82	100.00%
Total	490,383,771.93	188,267,201.85	

## (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 RMB 5,287,674.00; the amount of the reversed or collected part during the Reporting Period was of RMB 7,733,853.77.

## (3) The actual write-off accounts receivable

Item	Written-off amount
Changge Shiying Machinery Co., Ltd.	457,153.57

**(4) Top five of account receivable of closing balance collected by arrears party**

The total amount of top five of account receivable of closing balance collected by arrears party was RMB 192,749,341.51, 36.47% of total closing balance of account receivable, the relevant closing balance of bad debt provision withdrawn was RMB 20,942,174.47.

**2. Other accounts receivable**

(1) Other account receivable classified by category

Unit: RMB

Category	Closing balance				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Withdrawal proportion	
Other accounts receivable with insignificant single amount for which bad debt provision separately accrued	2,853,188.02	8.56%	2,853,188.02	100.00%	
Other accounts receivable withdrawn bad debt provision according to credit risks characteristics	27,799,389.26	83.40%	24,104,715.33	86.71%	3,694,673.93
Other accounts receivable with insignificant single amount for which bad debt provision separately accrued	2,679,801.13	8.04%	2,679,801.13	100.00%	
Total	33,332,378.41	100.00%	29,637,704.48	88.92%	3,694,673.93

Other accounts receivable with significant single amount for which bad debt provision separately accrued at the period-end

Unit: RMB



Other accounts receivable	Book balance	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:

Unit: RMB

Aging	Closing balance		
	Other accounts receivable	Bad debt provision	Withdrawal proportion (%)
Within 1 year	3,175,600.75	63,512.01	2.00%
1 to 2 years	109,930.77	5,496.54	5.00%
2 to 3 years	60,114.33	9,017.15	15.00%
3 to 4 years	600,705.43	180,211.63	30.00%
4 to 5 years	16,399.95	9,839.97	60.00%
Over 5 years	23,836,638.03	23,836,638.03	100.00%
Total	27,799,389.26	24,104,715.33	

**(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 RMB 707,128.41; the amount of the reversed or collected part during the Reporting Period was of RMB 000.

**(3) The actual write-off other accounts receivable**

N/A

**(4) Other account receivable classified by account nature**

Unit: RMB

Nature	Closing balance	Opening balance
Guarantee and cash pledge	4,200.00	4,200.00
Unit current amount	16,917,626.21	17,463,134.91
Petty cash & employee borrowing	1,056,185.37	1,560,886.41
Other	15,354,366.83	14,787,717.76
Total	33,332,378.41	33,815,939.08

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

Unit: RMB

Name of the entity	Nature	Closing balance	Aging	Proportion%	Bad debt provision
Changzhou Compressor Co., Ltd.	Intercourse funds	2,940,000.00	Over 5 years	8.82%	2,940,000.00
Changchai Group Import & Export Co., Ltd.	Intercourse funds	2,853,188.02	Over 5 years	8.56%	2,853,188.02
Changzhou New District Accounting Center	Intercourse funds	1,626,483.25	Over 5 years	4.88%	1,626,483.25
OEM Group Settlement Center	Intercourse funds	1,140,722.16	Over 5 years	3.42%	1,140,722.16
Changzhou Xingsheng Property Management Co., Ltd.	Intercourse funds	496,450.56	Within 1 year	1.49%	9,929.01
Total	--	9,056,843.99	--	27.17%	8,570,322.44

### 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	21,050,412.53	44,182.50	21,006,230.03	20,813,487.26	44,182.50	20,769,304.76
Total	205,516,912.53	44,182.50	205,472,730.03	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	96,466,500.00			96,466,500.00		

Changchai Benniu Diesel Engine Fittings Co., Ltd.						
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	Changes of other equity	Declaration of cash dividends or profits	Withdrawal of impairment provision	Other		
I. Associated Enterprises											
II. Joint Ventures											
Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.	20,769,304.76			236,925.27						21,006,230.03	
Beijing Tsinghua Xingye Industrial Investment Management Co., Ltd.	44,182.50									44,182.50	44,182.50
Subtotal	20,813,487.26			236,925.27						21,050,412.53	44,182.50
Total	20,813,487.26			236,925.27						21,050,412.53	44,182.50

## 4. Revenues and operating costs

Unit: RMB

Item	Reporting Period		Same period of last year	
	Revenue	Operating costs	Revenue	Operating costs
Main operations	2,238,155,721.58	1,856,049,114.70	2,495,008,065.10	2,115,049,779.90
Other operations	23,268,342.48	16,348,177.30	21,857,546.18	14,537,700.98
Total	2,261,424,064.06	1,872,397,292.00	2,516,865,611.28	2,129,587,480.88

## 5. Investment income

Unit: RMB

Item	Reporting Period	Same period of last year
Long-term equity investment income accounted by equity method	236,925.27	670,328.77
Investment income received from holding of available-for-sale financial assets	2,673,250.00	5,829,840.00
Investment income from disposal of bank financial products	364,000.00	468,547.94
Financing security gains		839,681.00
Total	3,274,175.27	7,808,397.71

## XVII. Supplementary materials

### 1. Items and amounts of extraordinary gains and losses

Unit: RMB

Item	Amount	Explanation
Gains/losses on the disposal of non-current assets	6,254,028.26	
Tax rebates, reductions or exemptions due to approval beyond authority or the lack of official approval documents	7,948,135.65	
Included in current profit and loss against the non-financial enterprises occupation fee funds collected	1,340,364.82	
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	1,058,569.81	
Other non-operating income and expenses other than the above	-9,328,953.27	
Less: Income tax effects	1,294,119.50	
Minority interests effects	273,695.88	
Total	5,704,329.89	--

### 2. Return on equity (ROE) and earnings per share (EPS)

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Profit as of Reporting Period	Weighted average ROE (%)	EPS (RMB/share)	
		EPS-basic	EPS-diluted
Net profit attributable to common shareholders of the Company	3.00%	0.11	0.11
Net profit attributable to common shareholders of the Company after deduction of non-recurring profit and loss	2.73%	0.10	0.10

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## **Section XII Documents Available for Reference**

Documents available for reference include the following:

1. This Annual Report carrying the signature of the Board Chairman;
2. The financial statements signed and sealed by the legal representative, the accounting head for this Report and the head of the accounting department;
3. The original Auditor's Report signed and sealed by the CPAs, as well as sealed by the CPAs firm;
4. The originals of all the Company's documents and announcements which were disclosed on Securities Time and Ta Kung Pao (HK) (newspapers designated by the CSRC for information disclosure) during this Reporting Period; and
5. The Articles of Association of the Company.

The above-mentioned documents available for reference are all kept in the Secretariat of the Board of Directors of the Company.

This Annual Report and its abstract have been prepared in both Chinese and English. Should there be any discrepancies or misunderstandings between the two versions, the Chinese version shall prevail.

The Board of Directors

Changchai Company, Limited

April 13, 2017