

Changchai Company, Limited

Financial Report For the Year 2017

I Independent Auditor's Report

| | |
|--------------------------------------|---|
| Type of auditor's opinion | Standard unqualified opinion |
| Date of signing the auditor's report | 04/11/2018 |
| Name of the auditor | Jiangsu Gongzheng Tianye Certified Public Accountants LLP |
| No. of the auditor's report | Sugong W[2018]A340 |
| Name of CPA | Dai Weizhong, He Taifeng |

Text of the Auditor's Report

To the Shareholders of Changchai Company, Limited,

I Opinion

We have audited the financial statements of Changchai Company Limited. (hereinafter referred to as the "Company") , which comprise the consolidated balance sheets as of December 31, 2017, the consolidated statements of income, cash flows and changes in owners' equity for the year then ended, as well as the notes to the consolidated financial statements.

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017, and the consolidated operating results and cash flows for the year then ended, in conformity with the Chinese Accounting Standards (CAS).

II Basis for Opinion

We conducted our audits in accordance with the Audit Standards for Chinese Registered Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of Financial Statements section of our report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the said Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on

these matters. And key audit matter identified in our audit is summarized as follows:

(I) Bad debt provision for accounts receivable

1. Description of the item

As stated in Notes V and 3 of the Financial Statements, as of December 31, 2017, book value of accounts receivable of the Company is RMB392,010,953.55, accounting for 10.53% of the total assets. Bad debt provision for accounts receivable of the Company is calculated by the assessment of accounts receivable's return ability. The assessment of accounts receivable's return ability needs large judgment of the management, involving the significant accounting estimations with significant influences on amounts. So, we take bad debt provision for account receivable as a key audit item.

2. Response for audit

(1) Knowing, evaluating and testing the related internal control of bad debt provision for accounts receivable;

(2) Re-checking the related considerations and objective evidences of impairment test for accounts receivable, paying attention to whether the management has fully recognized the impairment of items;

(3) For accounts receivable made bad debt provision separately, we re-check the basis and reasonability for the estimated available cash flow in the future;

(4) For accounts receivable made bad debt provision by the credit risks characteristic group, we evaluate whether the ratio of bad debt provision confirmed by management is reasonable;

(5) We request for confirmation of accounts receivable, and check the confirmation result with the carrying amount;

(6) Checking the payment collection after the binding stage, and evaluating the reasonability of bad debt provision made by management.

(II) List of acquisition of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd.

1. Description of the item

As stated in Notes VI of the Financial Statements, the Company purchased the rest of 67% equity of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. (original shareholding ratio was 33%) in the Reporting Period with RMB26,280,000.00, which constituted the combination not under the same control. The fair value of the 33% equity held before the purchase date was RMB22,757,433.46 on purchase date, and the combination cost was RMB49,037,433.46; the fair value share of the recognized net assets was RMB68,961,919.58. The amount RMB19,924,486.12 that the combination cost less than the fair value share of the recognized net assets was recorded into the current non-operating income in the consolidated financial statements, accounting for 42.27% of the current net profits with great influences on the amounts. So, we take the above-mentioned acquisition as a key audit item.

2. Response for audit

(1) Get and check the resolution on share acquisition, agreement materials, check the payment for equity,

inquire the industrial and commercial registration of changes, check the operation of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. to verify the actual right of control of the Company, and then to confirm the specific purchase date of share acquisition;

(2) Re-check the negative goodwill, and get the assets evaluation report of share transfer. Continuously calculate the fair value of net assets of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. as of the purchase date according to the evaluation report, and calculate and confirm the negative goodwill in accordance with the combination costs and its balance.

IV Other Information

The Company's management (hereinafter referred to as "management") is responsible for the other information. The other information comprises all of the information included in the Company's 2017 Annual Report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

V Responsibilities of Management and Those Charged with Governance for Financial Statements

The management is responsible for the preparation of the financial statements that give a fair view in accordance with CAS, and for designing, implementing and maintaining such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

VI Auditor's Responsibilities for Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected

to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by CAS to draw users' attention in our auditor's report to the related disclosures in the financial statements. If such disclosures are inadequate, we need to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any noteworthy deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public

disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Jiangsu Gongzheng Tianye Certified Public Accountants
(LLP)

Wuxi · China

Chinese CPA Dai weizhong, He Taifeng
(Engagement Partner)
Chinese CPA

April 11, 2018

II Financial Statements

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

1. Consolidated Balance Sheet

Prepared by Changchai Company, Limited

Unit: RMB

| Item | December 31, 2017 | December 31, 2016 |
|---|-------------------|-------------------|
| Current assets: | | |
| Monetary assets | 430,305,367.71 | 670,703,802.02 |
| Settlement reserve | | |
| Interbank loans granted | | |
| Financial assets at fair value through profit or loss | 0.00 | 0.00 |
| Derivative financial assets | | |
| Notes receivable | 716,404,345.57 | 501,070,279.01 |
| Accounts receivable | 392,010,953.55 | 359,279,821.69 |
| Prepayments | 17,781,007.77 | 15,483,475.43 |
| Premiums receivable | | |
| Reinsurance receivables | | |
| Receivable reinsurance contract reserve | | |
| Interest receivable | | |
| Dividends receivable | | |
| Other receivables | 5,794,971.22 | 4,165,674.62 |
| Financial assets purchased under resale agreements | | |
| Inventories | 508,246,807.48 | 494,046,458.44 |
| Assets classified as held for sale | | |
| Current portion of non-current assets | | |
| Other current assets | 42,540,184.05 | 39,669,983.12 |
| Total current assets | 2,113,083,637.35 | 2,084,419,494.33 |
| Non-current assets: | | |
| Loans and advances to customers | | |
| Available-for-sale financial assets | 793,522,639.04 | 820,072,500.00 |
| Held-to-maturity investments | | |

| | | |
|--|------------------|------------------|
| Long-term receivables | | |
| Long-term equity investments | | 21,006,230.03 |
| Investment property | 52,864,348.43 | 55,072,689.23 |
| Property, plant and equipment | 560,049,970.50 | 553,678,938.87 |
| Construction in progress | 94,581,989.06 | 89,781,047.21 |
| Construction materials | | |
| Proceeds from disposal of property, plant and equipment | | |
| Productive living assets | | |
| Oil and gas assets | | |
| Intangible assets | 107,795,746.86 | 99,915,137.62 |
| R&D expense | | |
| Goodwill | | |
| Long-term prepaid expense | | |
| Deferred income tax assets | 1,006,953.81 | 911,229.42 |
| Other non-current assets | | |
| Total non-current assets | 1,609,821,647.70 | 1,640,437,772.38 |
| Total assets | 3,722,905,285.05 | 3,724,857,266.71 |
| Current liabilities: | | |
| Short-term borrowings | 24,900,000.00 | 10,000,000.00 |
| Borrowings from central bank | | |
| Customer deposits and deposits from banks and other financial institutions | | |
| Interbank loans obtained | | |
| Financial liabilities at fair value through profit or loss | | |
| Derivative financial liabilities | | |
| Notes payable | 347,070,500.00 | 276,090,000.00 |
| Accounts payable | 616,228,500.18 | 605,424,726.65 |
| Advances from customers | 40,153,984.91 | 40,890,620.69 |
| Financial assets sold under repurchase agreements | | |
| Handling charges and commissions payable | | |
| Payroll payable | 51,247,112.66 | 58,549,908.90 |
| Taxes payable | 4,017,920.78 | 9,622,332.76 |
| Interest payable | | |
| Dividends payable | 3,891,433.83 | 3,891,433.83 |

| | | |
|---|------------------|------------------|
| Other payables | 192,094,243.08 | 204,446,810.56 |
| Reinsurance payables | | |
| Insurance contract reserve | | |
| Payables for acting trading of securities | | |
| Payables for acting underwriting of securities | | |
| Liabilities directly associated with assets classified as held for sale | | |
| Current portion of non-current liabilities | | |
| Other current liabilities | 2,028,937.59 | 2,454,381.75 |
| Total current liabilities | 1,281,632,633.03 | 1,211,370,215.14 |
| Non-current liabilities: | | |
| Long-term borrowings | 21,500,000.00 | |
| Bonds payable | | |
| Including: Preferred shares | | |
| Perpetual bonds | | |
| Long-term payables | | |
| Long-term payroll payable | | |
| Specific payables | | |
| Provisions | | |
| Deferred revenue | 60,992,858.46 | 61,057,232.08 |
| Deferred income tax liabilities | 92,409,779.39 | 109,949,700.00 |
| Other non-current liabilities | | |
| Total non-current liabilities | 174,902,637.85 | 171,006,932.08 |
| Total liabilities | 1,456,535,270.88 | 1,382,377,147.22 |
| Owners' equity: | | |
| Share capital | 561,374,326.00 | 561,374,326.00 |
| Other equity instruments | | |
| Including: Preferred shares | | |
| Perpetual bonds | | |
| Capital reserves | 164,328,665.43 | 164,328,665.43 |
| Less: Treasury shares | | |
| Other comprehensive income | 515,068,550.00 | 623,048,300.00 |
| Specific reserve | 13,289,059.21 | 11,715,417.22 |
| Surplus reserves | 313,705,210.16 | 311,880,248.88 |

| | | |
|---|------------------|------------------|
| General reserve | | |
| Retained earnings | 679,131,047.06 | 651,365,935.39 |
| Total equity attributable to owners of Parent Company | 2,246,896,857.86 | 2,323,712,892.92 |
| Non-controlling interests | 19,473,156.31 | 18,767,226.57 |
| Total owners' equity | 2,266,370,014.17 | 2,342,480,119.49 |
| Total liabilities and owners' equity | 3,722,905,285.05 | 3,724,857,266.71 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

2. Parent Company Balance Sheet

Unit: RMB

| Item | December 31, 2017 | December 31, 2016 |
|---|-------------------|-------------------|
| Current assets: | | |
| Monetary assets | 366,907,287.64 | 637,109,762.94 |
| Financial assets at fair value through profit or loss | | |
| Derivative financial assets | | |
| Notes receivable | 711,474,345.57 | 500,870,279.01 |
| Accounts receivable | 319,887,051.70 | 308,800,670.90 |
| Prepayments | 9,815,561.98 | 9,845,904.32 |
| Interest receivable | | |
| Dividends receivable | | |
| Other receivables | 11,798,211.40 | 3,694,673.93 |
| Inventories | 376,814,388.82 | 430,345,089.36 |
| Assets classified as held for sale | | |
| Current portion of non-current assets | | |
| Other current assets | 20,692,057.15 | 24,225,031.87 |
| Total current assets | 1,817,388,904.26 | 1,914,891,412.33 |
| Non-current assets: | | |
| Available-for-sale financial assets | 785,837,500.00 | 812,872,500.00 |
| Held-to-maturity investments | | |
| Long-term receivables | | |
| Long-term equity investments | 231,752,730.03 | 205,472,730.03 |
| Investment property | 52,864,348.43 | 55,072,689.23 |
| Property, plant and equipment | 453,155,359.47 | 450,042,747.40 |
| Construction in progress | 93,681,793.26 | 89,781,047.21 |
| Construction materials | | |
| Proceeds from disposal of property, plant and equipment | | |
| Productive living assets | | |
| Oil and gas assets | | |
| Intangible assets | 75,623,219.49 | 78,558,644.37 |
| R&D expense | | |
| Goodwill | | |
| Long-term prepaid expense | | |

| | | |
|---|------------------|------------------|
| Deferred income tax assets | 934,554.06 | 911,229.42 |
| Other non-current assets | | |
| Total non-current assets | 1,693,849,504.74 | 1,692,711,587.66 |
| Total assets | 3,511,238,409.00 | 3,607,602,999.99 |
| Current liabilities: | | |
| Short-term borrowings | | |
| Financial liabilities at fair value through profit or loss | | |
| Derivative financial liabilities | | |
| Notes payable | 323,030,500.00 | 251,220,000.00 |
| Accounts payable | 560,214,489.22 | 596,734,009.07 |
| Advances from customers | 38,382,261.14 | 37,250,941.51 |
| Payroll payable | 41,401,495.39 | 52,498,428.10 |
| Taxes payable | 1,373,036.64 | 6,587,374.37 |
| Interest payable | | |
| Dividends payable | 3,243,179.97 | 3,243,179.97 |
| Other payables | 182,738,709.26 | 194,596,980.96 |
| Liabilities directly associated with assets classified as held for sale | | |
| Current portion of non-current liabilities | | |
| Other current liabilities | | |
| Total current liabilities | 1,150,383,671.62 | 1,142,130,913.98 |
| Non-current liabilities: | | |
| Long-term borrowings | 19,500,000.00 | |
| Bonds payable | | |
| Including: Preferred shares | | |
| Perpetual bonds | | |
| Long-term payables | | |
| Long-term payroll payable | | |
| Specific payables | | |
| Provisions | | |
| Deferred revenue | 60,992,858.46 | 61,057,232.08 |
| Deferred income tax liabilities | 90,894,450.00 | 109,949,700.00 |
| Other non-current liabilities | | |
| Total non-current liabilities | 171,387,308.46 | 171,006,932.08 |

| | | |
|--------------------------------------|------------------|------------------|
| Total liabilities | 1,321,770,980.08 | 1,313,137,846.06 |
| Owners' equity: | | |
| Share capital | 561,374,326.00 | |
| Other equity instruments | | 561,374,326.00 |
| Including: Preferred shares | | |
| Perpetual bonds | | |
| Capital reserves | 183,071,147.70 | 183,071,147.70 |
| Less: Treasury shares | | |
| Other comprehensive income | 515,068,550.00 | 623,048,300.00 |
| Specific reserve | 13,289,059.21 | 11,715,417.22 |
| Surplus reserves | 313,705,210.16 | 311,880,248.88 |
| Retained earnings | 602,959,135.85 | 603,375,714.13 |
| Total owners' equity | 2,189,467,428.92 | 2,294,465,153.93 |
| Total liabilities and owners' equity | 3,511,238,409.00 | 3,607,602,999.99 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

3. Consolidated Income Statement

Unit: RMB

| Item | 2017 | 2016 |
|---|------------------|------------------|
| 1. Revenue | 2,423,058,958.29 | 2,283,028,855.52 |
| Including: Operating revenue | 2,423,058,958.29 | 2,283,028,855.52 |
| Interest revenue | | |
| Premium revenue | | |
| Handling charge and commission revenue | | |
| 2. Cost of revenue | 2,412,300,893.20 | 2,217,112,902.09 |
| Including: Cost of operating revenue | 2,072,877,976.77 | 1,866,617,336.37 |
| Interest expense | | |
| Handling charge and commission expense | | |
| Surrenders | | |
| Net claims paid | | |
| Net amount provided as insurance contract reserve | | |
| Expenditure on policy dividends | | |
| Reinsurance premium expense | | |
| Taxes and surtaxes | 13,904,298.45 | 13,005,243.59 |
| Selling expense | 102,297,713.37 | 103,969,577.79 |
| Administrative expense | 184,550,915.26 | 207,582,213.98 |
| Finance costs | -2,290,794.39 | -11,542,165.08 |
| Asset impairment losses | 40,960,783.74 | 37,480,695.44 |
| Add: Gains on changes in fair value (“-” for losses) | | |
| Investment income (“-” for loss) | 13,115,817.10 | 4,128,745.08 |
| Including: Share of profit or loss of joint ventures and associates | | 236,925.27 |
| Foreign exchange gains (“-” for losses) | | |
| Asset disposal income (“-” for loss) | 1,373,236.33 | 6,433,767.68 |
| Other income | 8,456,560.85 | |
| 3. Operating income (“-” for loss) | 33,703,679.37 | 70,044,698.51 |
| Add: Non-operating income | 22,907,878.36 | 9,156,923.41 |
| Less: Non-operating expense | 7,792,658.00 | 10,717,480.45 |
| 4. Pretax income (“-” for loss) | 48,818,899.73 | 74,917,909.15 |
| Less: Income tax expense | 1,681,667.26 | 11,201,239.88 |
| 5. Net income (“-” for net loss) | 47,137,232.47 | 63,716,669.27 |
| 5.1 Net income from continuing operations (“-” for net loss) | 47,137,232.47 | |
| 5.2 Net income from discontinued operations (“-” for net loss) | | |
| Attributable to owners of Parent Company | 46,431,302.73 | 62,539,896.17 |

| | | |
|--|-----------------|----------------|
| Attributable to non-controlling interests | 705,929.74 | 1,176,773.10 |
| 6. Other comprehensive income, net of tax | -107,979,750.00 | 269,528,625.00 |
| Attributable to owners of Parent Company | -107,979,750.00 | 269,528,625.00 |
| 6.1 Items that will not be reclassified to profit or loss | | |
| 6.1.1 Changes in net liabilities or assets caused by remeasurements on defined benefit pension schemes | | |
| 6.1.2 Share of other comprehensive income of investees that will not be reclassified to profit or loss under equity method | | |
| 6.2 Items that may subsequently be reclassified to profit or loss | -107,979,750.00 | 269,528,625.00 |
| 6.2.1 Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method | | |
| 6.2.2 Gains/Losses on changes in fair value of available-for-sale financial assets | -107,979,750.00 | 269,528,625.00 |
| 6.2.3 Gains/Losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets | | |
| 6.2.4 Effective gains/losses on cash flow hedges | | |
| 6.2.5 Differences arising from translation of foreign currency-denominated financial statements | | |
| 6.2.6 Other | | |
| Attributable to non-controlling interests | | |
| 7. Total comprehensive income | -60,842,517.53 | 333,245,294.27 |
| Attributable to owners of Parent Company | -61,548,447.27 | 332,068,521.17 |
| Attributable to non-controlling interests | 705,929.74 | 1,176,773.10 |
| 8. Earnings per share | | |
| 8.1 Basic earnings per share | 0.08 | 0.11 |
| 8.2 Diluted earnings per share | 0.08 | 0.11 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

4. Parent Company Income Statement

Unit: RMB

| Item | 2017 | 2016 |
|--|------------------|------------------|
| 1. Operating revenue | 2,235,805,990.99 | 2,261,424,064.06 |
| Less: Cost of operating revenue | 1,931,679,323.68 | 1,872,397,292.00 |
| Taxes and surtaxes | 11,611,908.48 | 11,368,257.55 |
| Selling expense | 91,518,856.80 | 97,391,154.08 |
| Administrative expense | 166,602,546.60 | 192,068,868.64 |
| Finance costs | -5,269,152.69 | -12,744,187.93 |
| Asset impairment losses | 36,843,390.33 | 36,296,470.30 |
| Add: Gains on changes in fair value (“-” for losses) | | |
| Investment income (“-” for loss) | 10,709,750.99 | 3,274,175.27 |
| Including: Share of profit or loss of joint ventures and associates | | 236,925.27 |
| Asset disposal income (“-” for loss) | 1,184,146.48 | |
| Other income | 7,921,898.35 | |
| 2. Operating income (“-” for loss) | 22,634,913.61 | 67,920,384.69 |
| Add: Non-operating income | 1,324,306.44 | 14,298,854.08 |
| Less: Non-operating expense | 6,979,953.83 | 10,617,280.45 |
| 3. Pretax income (“-” for loss) | 16,979,266.22 | 71,601,958.32 |
| Less: Income tax expense | -1,270,346.56 | 10,382,328.59 |
| 4. Net income (“-” for net loss) | 18,249,612.78 | 61,219,629.73 |
| 4.1 Net income from continuing operations (“-” for net loss) | 18,249,612.78 | 61,219,629.73 |
| 4.2 Net income from discontinued operations (“-” for net loss) | | |
| 5. Other comprehensive income, net of tax | -107,979,750.00 | 269,528,625.00 |
| 5.1 Items that will not be reclassified to profit or loss | | |
| 5.1.1 Changes in net liabilities or assets caused by remeasurements on defined benefit pension schemes | | |
| 5.1.2 Share of other comprehensive income of investees that will not be reclassified into profit or loss under equity method | | |
| 5.2 Items that may subsequently be reclassified to profit or loss | -107,979,750.00 | 269,528,625.00 |

| | | |
|--|-----------------|----------------|
| 5.2.1 Share of other comprehensive income of investees that will be reclassified into profit or loss under equity method | | |
| 5.2.2 Gains/Losses on changes in fair value of available-for-sale financial assets | -107,979,750.00 | 269,528,625.00 |
| 5.2.3 Gains/Losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets | | |
| 5.2.4 Effective gains/losses on cash flow hedges | | |
| 5.2.5 Differences arising from translation of foreign currency-denominated financial statements | | |
| 5.2.6 Other | | |
| 6. Total comprehensive income | -89,730,137.22 | 330,748,254.73 |
| 7. Earnings per share | | |
| 7.1 Basic earnings per share | | |
| 7.2 Diluted earnings per share | | |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

5. Consolidated Cash Flow Statement

Unit: RMB

| Item | 2017 | 2016 |
|---|------------------|------------------|
| 1. Cash generated by or used in operating activities: | | |
| Proceeds from sale of commodities and rendering of services | 2,340,135,466.05 | 2,449,124,878.50 |
| Net increase in customer deposits and deposits from banks and other financial institutions | | |
| Net increase in loans from central bank | | |
| Net increase in loans from other financial institutions | | |
| Premiums received on original insurance contracts | | |
| Net proceeds from reinsurance | | |
| Net increase in deposits and investments of policy holders | | |
| Net increase in proceeds from disposal of financial assets at fair value through profit or loss | | |
| Interest, handling charges and commissions received | | |
| Net increase in interbank loans obtained | | |
| Net increase in proceeds from repurchase transactions | | |
| Tax rebates received | 45,280,119.53 | 41,561,022.48 |
| Cash generated by other operating activities | 20,703,603.65 | 15,072,161.20 |
| Subtotal of cash generated by operating activities | 2,406,119,189.23 | 2,505,758,062.18 |
| Payments for goods and services | 2,068,207,850.42 | 1,900,783,453.31 |
| Net increase in loans and advances to customers | | |
| Net increase in deposits in central bank and in interbank loans granted | | |
| Payments for claims on original insurance contracts | | |
| Interest, handling charges and commissions paid | | |
| Policy dividends paid | | |
| Cash paid to and for employees | 332,974,762.36 | 340,494,353.98 |
| Taxes paid | 38,505,023.00 | 64,165,805.35 |
| Cash used in other operating activities | 88,100,832.84 | 100,840,505.50 |
| Subtotal of cash used in operating activities | 2,527,788,468.62 | 2,406,284,118.14 |
| Net cash flows from operating activities | -121,669,279.39 | 99,473,944.04 |
| 2. Cash generated by or used in investing activities: | | |
| Proceeds from disinvestments | 8,000,000.00 | 32,000,000.00 |

| | | |
|--|-----------------|----------------|
| Investment income received | 11,364,613.67 | 3,891,819.81 |
| Net proceeds from disposal of property, plant and equipment, intangible assets and other long-lived assets | 835,345.89 | 240,625.60 |
| Net proceeds from disposal of subsidiaries or other business units | | |
| Cash generated by other investing activities | 1,000,000.00 | 9,000,000.00 |
| Subtotal of cash generated by investing activities | 21,199,959.56 | 45,132,445.41 |
| Payments for acquisition of property, plant and equipment, intangible assets and other long-lived assets | 57,507,086.97 | 59,310,667.45 |
| Payments for investments | 113,985,139.04 | 8,000,000.00 |
| Net increase in pledged loans granted | | |
| Net payments for acquisition of subsidiaries and other business units | 4,272,350.99 | |
| Cash used in other investing activities | | |
| Subtotal of cash used in investing activities | 175,764,577.00 | 67,310,667.45 |
| Net cash flows from investing activities | -154,564,617.44 | -22,178,222.04 |
| 3. Cash generated by or used in financing activities: | | |
| Capital contributions received | | |
| Including: Capital contributions by non-controlling interests to subsidiaries | | |
| Increase in borrowings | 51,900,000.00 | 15,000,000.00 |
| Net proceeds from issuance of bonds | | |
| Cash generated by other financing activities | | |
| Subtotal of cash generated by financing activities | 51,900,000.00 | 15,000,000.00 |
| Repayment of borrowings | 15,500,000.00 | 22,000,000.00 |
| Payments for interest and dividends | 18,180,577.83 | 13,715,123.57 |
| Including: Dividends paid by subsidiaries to non-controlling interests | | |
| Cash used in other financing activities | | 18,707.55 |
| Subtotal of cash used in financing activities | 33,680,577.83 | 35,733,831.12 |
| Net cash flows from financing activities | 18,219,422.17 | -20,733,831.12 |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | |
| 5. Net increase in cash and cash equivalents | -258,014,474.66 | 56,561,890.88 |
| Add: Cash and cash equivalents, beginning of the period | 583,278,129.09 | 526,716,238.21 |
| 6. Cash and cash equivalents, end of the period | 325,263,654.43 | 583,278,129.09 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

6. Parent Company Cash Flow Statement

Unit: RMB

| Item | 2017 | 2016 |
|--|------------------|------------------|
| 1. Cash generated by or used in operating activities: | | |
| Proceeds from sale of commodities and rendering of services | 2,272,196,372.83 | 2,508,387,008.21 |
| Tax rebates received | 29,635,115.60 | 41,561,022.48 |
| Cash generated by other operating activities | 16,533,875.78 | 11,890,841.69 |
| Subtotal of cash generated by operating activities | 2,318,365,364.21 | 2,561,838,872.38 |
| Payments for goods and services | 2,059,024,833.30 | 2,020,333,070.85 |
| Cash paid to and for employees | 277,811,436.98 | 301,052,336.85 |
| Taxes paid | 28,251,524.17 | 56,155,882.63 |
| Cash used in other operating activities | 81,615,494.68 | 93,256,112.12 |
| Subtotal of cash used in operating activities | 2,446,703,289.13 | 2,470,797,402.45 |
| Net cash flows from operating activities | -128,337,924.92 | 91,041,469.93 |
| 2. Cash generated by or used in investing activities: | | |
| Proceeds from disinvestments | | 20,000,000.00 |
| Investment income received | 10,709,750.99 | 3,037,250.00 |
| Net proceeds from disposal of property, plant and equipment, intangible assets and other long-lived assets | 131,366.89 | 240,625.60 |
| Net proceeds from disposal of subsidiaries or other business units | | |
| Cash generated by other investing activities | 1,000,000.00 | 9,000,000.00 |
| Subtotal of cash generated by investing activities | 11,841,117.88 | 32,277,875.60 |
| Payments for acquisition of property, plant and equipment, intangible assets and other long-lived assets | 45,733,282.92 | 56,182,564.81 |
| Payments for investments | 126,280,000.00 | |
| Net payments for acquisition of subsidiaries and other business units | | |
| Cash used in other investing activities | | |

| | | |
|---|-----------------|----------------|
| Subtotal of cash used in investing activities | 172,013,282.92 | 56,182,564.81 |
| Net cash flows from investing activities | -160,172,165.04 | -23,904,689.21 |
| 3. Cash generated by or used in financing activities: | | |
| Capital contributions received | | |
| Increase in borrowings | 20,000,000.00 | |
| Net proceeds from issuance of bonds | | |
| Cash generated by other financing activities | | |
| Subtotal of cash generated by financing activities | 20,000,000.00 | |
| Repayment of borrowings | 500,000.00 | |
| Payments for interest and dividends | 17,084,535.34 | 12,911,609.50 |
| Cash used in other financing activities | | |
| Sub-total of cash used in financing activities | 17,584,535.34 | 12,911,609.50 |
| Net cash flows from financing activities | 2,415,464.66 | -12,911,609.50 |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | |
| 5. Net increase in cash and cash equivalents | -286,094,625.30 | 54,225,171.22 |
| Add: Cash and cash equivalents, beginning of the period | 558,159,090.01 | 503,933,918.79 |
| 6. Cash and cash equivalents, end of the period | 272,064,464.71 | 558,159,090.01 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

7. Consolidated Statements of Changes in Owners' Equity

2017

Unit: RMB

| Item | 2017 | | | | | | | | | | | | |
|--|---|--------------------------|-------|--|------------------|-----------------------|----------------------------|------------------|------------------|-----------------|---------------------------|----------------------|-------------------|
| | Equity attributable to owners of Parent Company | | | | | | | | | | Non-controlling interests | Total owners' equity | |
| | Share capital | Other equity instruments | | | Capital reserves | Less: Treasury shares | Other comprehensive income | Specific reserve | Surplus reserves | General reserve | | | Retained earnings |
| | Preferred shares | Perpetual bonds | Other | | | | | | | | | | |
| 1. Balances as of end of prior year | 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 |
| Add: Adjustments for changed accounting policies | | | | | | | | | | | | | |
| Adjustments for corrections of previous errors | | | | | | | | | | | | | |
| Adjustments for business mergers under same control | | | | | | | | | | | | | |
| Other adjustments | | | | | | | | | | | | | |
| 2. Balances as of beginning of the year | 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 |
| 3. Increase/ decrease in the period ("-" for decrease) | | | | | | | -107,979,750.00 | 1,573,641.99 | 1,824,961.28 | | 27,765,111.67 | 705,929.74 | -76,110,105.32 |

| | | | | | | | | | | | | | |
|--|----------------|--|--|--|----------------|--|----------------|---------------|----------------|--|----------------|---------------|------------------|
| 3.3.4 Other | | | | | | | | | | | | | |
| 3.4 Carryforwards within owners' equity | | | | | | | | | | | | | |
| 3.4.1 Increase in capital (or share capital) from capital reserves | | | | | | | | | | | | | |
| 3.4.2 Increase in capital (or share capital) from surplus reserves | | | | | | | | | | | | | |
| 3.4.3 Surplus reserves used to make up losses | | | | | | | | | | | | | |
| 3.4.4 Other | | | | | | | | | | | | | |
| 3.5 Specific reserve | | | | | | | | 1,573,641.99 | | | | | 1,573,641.99 |
| 3.5.1 Withdrawn for the period | | | | | | | | 4,161,424.06 | | | | | 4,161,424.06 |
| 3.5.2 Used during the period | | | | | | | | 2,587,782.07 | | | | | 2,587,782.07 |
| 3.6 Other | | | | | | | | | | | | | |
| 4. Balances as of end of the period | 561,374,326.00 | | | | 164,328,665.43 | | 515,068,550.00 | 13,289,059.21 | 313,705,210.16 | | 679,131,047.06 | 19,473,156.31 | 2,266,370,014.17 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

2016

Unit: RMB

| Item | 2016 | | | | | | | | | | | | |
|--|---|-----------------------------|---------------|--|---------------------|-----------------------------|--------------------------------------|---------------------|---------------------|--------------------|----------------------------------|----------------------------|----------------------|
| | Equity attributable to owners of Parent Company | | | | | | | | | | Non-con trolling interests | Total owners' equity | |
| | Share capital | Other equity instruments | | | Capital reserves | Less: Treasury shares | Other compreh ensive income | Specific reserve | Surplus reserves | General reserve | | | Retained earnings |
| | Preferr ed shares | Perpet ual bonds | O th er | | | | | | | | | | |
| 1. Balances as of end of 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: Adjustments for changed accounting policies | | | | | | | | | | | | | |
| Adjustments for corrections of previous errors | | | | | | | | | | | | | |
| Adjustments for business mergers under same control | | | | | | | | | | | | | |
| Other adjustments | | | | | | | | | | | | | |
| 2. Balances as of 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 (“-” for 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 Common shares increased by shareholders | | | | | | | | | | | | | |
| 3.2.2 Capital increased by holders of other equity instruments | | | | | | | | | | | | | |
| 3.2.3 Share-based payments included in 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 reserves | | | | | | | | 6,121,962.97 | | | -6,121,962.97 | | |
| 3.3.2 Appropriation to general reserve | | | | | | | | | | | | | |
| 3.3.3 Appropriation to owners (or shareholders) | | | | | | | | | | | -12,911,609.50 | | -12,911,609.50 |
| 3.3.4 Other | | | | | | | | | | | | | |
| 3.4 Carryforwards within owners' equity | | | | | | | | | | | | | |
| 3.4.1 Increase in capital (or share capital) | | | | | | | | | | | | | |

| | | | | | | | | | | | | | |
|--|--------------------|--|--|--|--------------------|--|--------------------|-------------------|--------------------|--|--------------------|-------------------|----------------------|
| from capital reserves | | | | | | | | | | | | | |
| 3.4.2 Increase in capital (or share capital) from surplus reserves | | | | | | | | | | | | | |
| 3.4.3 Surplus reserves used to make up losses | | | | | | | | | | | | | |
| 3.4.4 Other | | | | | | | | | | | | | |
| 3.5 Specific reserve | | | | | | | 1,645,67 0.24 | | | | | | 1,645,67 0.24 |
| 3.5.1 Withdrawn for the period | | | | | | | 4,416,86 5.61 | | | | | | 4,416,86 5.61 |
| 3.5.2 Used during the period | | | | | | | 2,771,19 5.37 | | | | | | 2,771,19 5.37 |
| 3.6 Other | | | | | | | | | | | | | |
| 4. Balances as of end of the period | 561,374,3 26.00 | | | | 164,328, 665.43 | | 623,048, 300.00 | 11,715,4 17.22 | 311,880, 248.88 | | 651,365, 935.39 | 18,767,2 26.57 | 2,342,48 0,119.49 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

8. Parent Company Statements of Changes in Owners' Equity

2017

Unit: RMB

| Item | 2017 | | | | | | | | | | |
|--|----------------|--------------------------|-----------------|-------|------------------|-----------------------|----------------------------|------------------|------------------|-------------------|----------------------|
| | Share capital | Other equity instruments | | | Capital reserves | Less: Treasury shares | Other comprehensive income | Specific reserve | Surplus reserves | Retained earnings | Total owners' equity |
| | | Preferred shares | Perpetual bonds | Other | | | | | | | |
| 1. Balances as of end of prior year | 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 |
| Add: Adjustments for changed accounting policies | | | | | | | | | | | |
| Adjustments for corrections of previous errors | | | | | | | | | | | |
| Other adjustments | | | | | | | | | | | |
| 2. Balances as of beginning of the year | 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 |
| 3. Increase/ decrease in the period ("-" for decrease) | | | | | | | -107,979,750.00 | 1,573,641.99 | 1,824,961.28 | -416,578.28 | -104,997,725.01 |
| 3.1 Total comprehensive income | | | | | | | -107,979,750.00 | | | 18,249,612.78 | -89,730,137.22 |
| 3.2 Capital | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--------------|----------------|----------------|
| increased and reduced by owners | | | | | | | | | | | |
| 3.2.1 Common shares increased by shareholders | | | | | | | | | | | |
| 3.2.2 Capital increased by holders of other equity instruments | | | | | | | | | | | |
| 3.2.3 Share-based payments included in owners' equity | | | | | | | | | | | |
| 3.2.4 Other | | | | | | | | | | | |
| 3.3 Profit distribution | | | | | | | | | 1,824,961.28 | -18,666,191.06 | -16,841,229.78 |
| 3.3.1 Appropriation to surplus reserves | | | | | | | | | 1,824,961.28 | -1,824,961.28 | |
| 3.3.2 Appropriation to owners (or shareholders) | | | | | | | | | | -16,841,229.78 | -16,841,229.78 |
| 3.3.3 Other | | | | | | | | | | | |
| 3.4 Carryforwards within owners' equity | | | | | | | | | | | |
| 3.4.1 Increase in capital (or share capital) from capital reserves | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|----------------|--|--|--|----------------|--|----------------|---------------|----------------|----------------|------------------|
| 3.4.2 Increase in capital (or share capital) from surplus reserves | | | | | | | | | | | |
| 3.4.3 Surplus reserves used to make up losses | | | | | | | | | | | |
| 3.4.4 Other | | | | | | | | | | | |
| 3.5 Specific reserve | | | | | | | | 1,573,641.99 | | | 1,573,641.99 |
| 3.5.1 Withdrawn for the period | | | | | | | | 4,161,424.06 | | | 4,161,424.06 |
| 3.5.2 Used during the period | | | | | | | | 2,587,782.07 | | | 2,587,782.07 |
| 3.6 Other | | | | | | | | | | | |
| 4. Balances as of end of the period | 561,374,326.00 | | | | 183,071,147.70 | | 515,068,550.00 | 13,289,059.21 | 313,705,210.16 | 602,959,135.85 | 2,189,467,428.92 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

2016

Unit: RMB

| Item | 2016 | | | | | | | | | | |
|--|----------------|--------------------------|-----------------|-------|------------------|-----------------------|----------------------------|------------------|------------------|-------------------|----------------------|
| | Share capital | Other equity instruments | | | Capital reserves | Less: Treasury shares | Other comprehensive income | Specific reserve | Surplus reserves | Retained earnings | Total owners' equity |
| | | Preferred shares | Perpetual bonds | Other | | | | | | | |
| 1. Balances as of end of 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: Adjustments for changed accounting policies | | | | | | | | | | | |
| Adjustments for corrections of previous errors | | | | | | | | | | | |
| Other adjustments | | | | | | | | | | | |
| 2. Balances as of 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 (“-” for 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 Common shares increased by | | | | | | | | | | | |

| | | | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--------------|----------------|----------------|
| shareholders | | | | | | | | | | | |
| 3.2.2 Capital increased by holders of other equity instruments | | | | | | | | | | | |
| 3.2.3 Share-based payments included in 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 reserves | | | | | | | | | 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 Carryforwards within owners' equity | | | | | | | | | | | |
| 3.4.1 Increase in capital (or share capital) from capital reserves | | | | | | | | | | | |
| 3.4.2 Increase in capital (or share capital) from surplus reserves | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|--------------------|--|--|--|--------------------|--|--------------------|-------------------|--------------------|--------------------|----------------------|
| 3.4.3 Surplus reserves used to make up losses | | | | | | | | | | | |
| 3.4.4 Other | | | | | | | | | | | |
| 3.5 Specific 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 during the period | | | | | | | | 2,771,195. 37 | | | 2,771,195. 37 |
| 3.6 Other | | | | | | | | | | | |
| 4. Balances as of end of the period | 561,374, 326.00 | | | | 183,071,14 7.70 | | 623,048,30 0.00 | 11,715,417 .22 | 311,880,24 8.88 | 603,375, 714.13 | 2,294,465, 153.93 |

Legal representative: Shi Xinkun

General Manager: Zhang Xin

Head of the accounting department: Jiang He

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 Recourses 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 April 11, 2018.

The consolidated scope of the Company of the Reporting Period includes the parent company and 5 subsidiaries. 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.

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

Does the Company need to comply with the disclosure requirements of special industry?

No

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.

2. Fiscal Period

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

3. Operating Cycle

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

4. Currency Used in Bookkeeping

Renminbi is functional currency of the Company.

5. Accounting Methods for Business Combinations under the Same Control and Business Combinations not under the Same Control

(1) Business combinations under the same control:

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

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

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

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

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

current gains and losses during the statement period.

(2) Business combinations not under the same control

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

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

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

6. Methods for Preparing Consolidated Financial Statements

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

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

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

As for the added subsidiary company not controlled by the same enterprise preparing the consolidated

financial statement, shall adjust individual financial statement based on the fair value of the identifiable net assets on the acquisition date; as for the added subsidiary companies controlled by the same enterprise preparing the financial statement, shall not adjust the financial statement of the subsidiaries, namely survived by integration as participating in the consolidation when the final control party starts implementing control and should adjust the period-begin amount of the consolidated balance sheet and at the same time adjust the relevant items of the compared statement.

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

Where the Group 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 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 loss of control, when the Group losing control on its subsidiary.

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

7. Classification of Joint Arrangements and Accounting Treatment of Joint Operations

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

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

(1) Recognizes the assets that it holds and bears in the joint operation and recognizes the jointly-held assets according to the Group's stake in the joint operation;

(2) Recognizes the liabilities that it holds and bears in the joint operation and recognizes the jointly-held liabilities according to the Group's stake in the joint operation;

- (3) Recognizes the income from sale of the Group's share in the output of the joint operation
- (4) Recognizes the income from sale of the joint operation's outputs according to the Group's stake in it
- (5) Recognizes the expense solely incurred to the Group and the expense incurred to the joint operation according to the Group's stake in it.

8. Recognition Standard for Cash and Cash Equivalents

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

9. Foreign Currency Businesses and Translation of Foreign Currency Financial Statements

(1) Foreign currency business

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

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

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

(2) Translation of foreign currency

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

10. Financial Instruments

(1) Category of financial instruments

The Company classifies the financial assets into four kinds such as trading financial assets, available-for-sale financial assets, accounts receivable and held-to-maturity investment according to the investment purpose and the economy nature.

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

(2) Recognition basis and measurement methods of financial instruments

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

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

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

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

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

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

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

(4) De-recognition conditions of financial liabilities

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

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

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

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

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

accounts receivable)

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

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

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

A serious financial difficulty occurs to the issuer or debtor;

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

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

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

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

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

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

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

Other objective evidences showing the impairment of the financial asset.

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

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

Where a sellable financial asset is impaired, even if the recognition of the financial asset has not been terminated, the accumulative losses arising from the decrease of the fair value of the owner's equity which is

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

11. Receivables

(1) Accounts Receivable with Significant Single Amount for which the Bad Debt Provision is Made Individually

| | |
|--|--|
| Recognition criteria of accounts receivable with individual and significant amount | Significant single amounts refers to the accounts receivable of the single amount more than 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) Accounts Receivable which the Bad Debt Provision is withdrawn by Credit Risk Characteristics

| Group name | Withdrawal method of bad debt provision |
|--|---|
| the age of the accounts receivable is divided by the groups of credit risk | aging analysis method |

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

Applicable Not applicable

| Aging | Withdrawal proportion of account receivables | Withdrawal proportion of other account receivables |
|----------------------------------|--|--|
| Within 1 year (including 1 year) | 2.00% | 2.00% |
| 1 to 2 years | 5.00% | 5.00% |
| 2 to 3 years | 15.00% | 15.00% |

| | | |
|--------------|---------|---------|
| 3 to 4 years | 30.00% | 30.00% |
| 4 to 5 years | 60.00% | 60.00% |
| Over 5 years | 100.00% | 100.00% |

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

Applicable Not applicable

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

Applicable Not applicable

(3) Accounts Receivable with an Insignificant Single Amount but for which the Bad Debt Provision is Made Independently

| | |
|---|--|
| Reason of individually withdrawing bad debt provision | Insignificant single amounts refers to the accounts receivable of the single amount lower than RMB 1 million (RMB1 million not include) (including accounts receivable and other accounts receivable). |
| Withdrawal method for bad debt provision | As for an account receivable with an insignificant single amount and which can not show its risk feature when withdrawing a bad-bet 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

Is the Company subject to any disclosure requirements for special industries?

No

(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 costs and net realizable value. When all the inventories are checked roundly, for those which were destroyed, outdated in all or in part, sold at a loss, etc, the Company shall estimate the irrecoverable part of its cost and withdrawal the inventory falling price reserve at the year-end. Where the cost of the single inventory item is higher than the net realizable value, the inventory falling price reserve shall be withdrawn and recorded into profits and losses of the current period. Of which: in the normal production and operating process, as for the commodities inventory directly for sales such as the finished products, commodities and the materials for sales, should recognize the net realizable value according to the amount of the estimated selling price of the inventory 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. Assets Held for Sale

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

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

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

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

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

14. Long-term Equity Investments

(1) Judgment standard of joint control and significant influences

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

formulation of the policies with the other parties.

(2) Recognition for initial investment cost

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

① As for those forms under the same control of the enterprise combine, if the combine party takes the cash payment, non-cash assets transformation, liabilities assumption or equity securities issuance as the combination consideration, should take the shares of the book value by the ultimate control party in the consolidate financial statement of the owners' equities of the combiners acquired on the merger date as the initial investment cost. The difference between the initial investment cost and the book value of the paid combination consideration or the total amount of the issued shares of the long-term equity investment should be adjusted the capital reserve; If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. To include each direct relevant expense occurred when executing the enterprise merger into the current gains and losses; while the handling charges and commission occurs from the issuing the equity securities or the bonds for the enterprise merger should be included in the initial measurement amount of the shareholders' equities or the liabilities.

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

③ Long-term equity investment obtained by other means

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

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

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

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

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

(3) Subsequent measurement and recognition of profits and losses

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

Where the Company hold, and is able to do equity investment with control over an invested entity, the

invested entity shall be its subsidiary company. Where the Company holds the shares of an entity over 50%, or, while the Company holds the shares of an entity below 50%, but has a real control to the said entity, then the said entity shall be its subsidiary company.

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

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

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

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

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

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

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

In the preparation for the financial statements, the balance existed between the long-term equity investment increased by acquiring shares of minority interest and the attributable net assets on the subsidiary calculated by the increased shares held since the purchase date (or combination date), the capital reserves shall be adjusted, if

the capital reserves are not sufficient to offset, the retained profits shall be adjusted; the Company disposed part of the long-term equity investment on subsidiaries without losing its controlling right on them, the balance between the disposed price and attributable net assets of subsidiaries by disposing the long-term equity investment shall be recorded into owners' equity.

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

For the long-term equity investment measured by adopting equity method, if the remained equity after disposal still adopts the equity method for measurement, the other comprehensive income originally recorded into owners' equity should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees according to the corresponding proportion. The owners' equity recognized owing to the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current gains and losses according to the proportion.

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

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

For those the Company lost the control of the investees by disposing part of the equity investment, the disposed remained equity should change to calculate according to the recognition and measurement standards of financial instrument, and difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized from the original

equity investment by adopting the equity method, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when terminate the equity method for measurement, while for the owners' equity recognized owing to the changes of the other owner's equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current investment income with full amount when terminate adopting the equity method.

15. Investment Real Estate

Measurement mode of investment real estate:

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 estate 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) Recognition Conditions

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 | Method | Useful life | Expected net salvage value | Annual depreciation |
|--------------------------|-------------------------------|-------------|----------------------------|---------------------|
| Housing and building | Average method of useful life | 20-40 | | 2.50%-5% |
| Machinery 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 | 5-10 | | 10%-20% |

(3) Recognition Basis, Pricing and Depreciation Method of Fixed Assets by Finance Lease

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

① The leasing contract had agreed that (or made the reasonable judgment according to the relevant conditions on the lease starting date) when the lease term expires, the ownership of leasing the fixed assets could be transferred to the Company;

② The Company owns the choosing right for purchasing and leasing the fixed assets, with the set purchase price which is estimated far lower than the fair value of the fixed assets by finance lease when executing the choosing right, so the Company could execute the choosing right reasonably on the lease starting date;

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

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

⑤ The nature of the lease assets is special that only the Company could use it if not execute large transformation.

The fixed assets by finance lease should take the lower one between the fair value of the leasing assets and the current value of the minimum lease payment on the lease starting date as the entry value. As for the minimum lease payment which be regarded as the entry value of the long-term accounts payable, its difference should be regarded as the unrecognized financing expense. For the initial direct expenses occur in the lease negotiations and the signing process of the lease contracts that attribute to the handling expenses, counsel fees, travel expenses and stamp taxes of the lease items, should be included in the charter-in assets value. The unrecognized financing expenses should be amortized by adopting the actual interest rate during the period of the lease term.

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

17. Construction in Progress

Is the Company subject to any disclosure requirements for special industries?

No

(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 has not audited the final accounting shall recognize the cost and make depreciation in line with valuation value. The construction in process shall adjust the original valuation value at its historical cost but not adjust the depreciation that has been made after auditing the final accounting.

18. Borrowing Costs

(1) Recognition principle of capitalization of borrowing costs

The borrowing costs shall include the interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. Where the borrowing costs occurred belong to specifically borrowed loan or general borrowing used for the acquisition and construction of investment real estates and inventories over one year (including one year) shall be capitalized, and record into relevant assets cost. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses. The borrowing costs shall not be capitalized unless they simultaneously meet the following three requirements: (1) The asset disbursements have already incurred; (2) The borrowing costs have already incurred; and (3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

(2) The period of capitalization of borrowing costs

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

(3) Measurement method of capitalization amount of borrowing costs

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

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

19. Intangible Assets

(1) Pricing Method, 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 Policies of Internal R & D Expenses

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

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

20. Impairment of Long-term Assets

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

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

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

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

21. Amortization Method of Long-term Deferred Expenses

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

22. Payroll

(1) Accounting Treatment of Short-term Compensation

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

(2) Accounting Treatment of the Welfare after Demission

The Company classifies the welfare plans after demission into defined contribution plans and defined benefit plans. Welfare plans after demission refers to the agreement on the welfare after demission reaches between the Company and the employees, or the regulations or methods formulated by the Company for providing the welfare after demission for the employees. Of which, defined contribution plans refers to the welfare plans after demission

that the Company no more undertake the further payment obligations after the payment of the fixed expenses for the independent funds; defined benefit plans, refers to the welfare plans after demission except for the defined contribution plans.

Defined contribution plans

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

(3) Accounting Treatment of the Demission Welfare

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

(4) Accounting Treatment of the Welfare of Other Long-term Staffs

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;
- ③ The amount of the obligation can be measured in a reliable way.

(2) Measurement of estimated liabilities

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

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

24. Revenue

Is the Company subject to any disclosure requirements for special industries?

No

(1) Recognition of revenue from sale of goods: the revenue from selling shall be recognized by the following conditions: The significant risks and rewards of ownership of the goods have been transferred to the buyer by the Company; the Company retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; the relevant amount of revenue can be measured in a reliable way; the relevant revenue and costs of selling goods can be measured in a reliable way. The amount of the revenue

from selling shall ascertain the revenue incurred by selling goods in accordance with the received or receivable price stipulated in the contract or agreement signed between the enterprise and the buyer, unless the received or receivable amount as stipulated in the contract or agreement is unfair.

(2) Recognition of revenue from providing labor services: When the total revenue and costs from providing labor can be measured in a reliable way; the relevant economic benefits are likely to flow into the enterprise; the schedule of completion under the transaction can be measured in a reliable way, the revenue from providing labor shall be recognized. If the Company can reliably estimate the outcome of a transaction concerning the labor services it provides, it shall recognize the revenue from providing services employing the percentage-of-completion method on the date of the balance sheet, otherwise the revenue from the providing of labor services shall be recognized in accordance with the amount of the cost of labor services incurred and expected to be compensated. The Company recognized the completion process of the transaction concerning the labor services according to the proportion of the occurred cost of the estimated total cost. The total amount of the revenue from providing services should be recognized according to the contract price received or receivable from the accepting of the labor services or the agreement price except for those unfair prices.

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

25. Government Subsidies

(1) Judgment Basis and Accounting Treatment of Government Subsidies Related to Assets

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

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

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

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

The government subsidies pertinent to assets shall be recognized as deferred income, and included in the current gains and losses or offset the book value of related assets within the useful lives of the relevant assets with a reasonable and systematic method.

(2) Judgment Basis and Accounting Treatment of Government Subsidies Pertinent to Incomes

Government subsidies used to compensate the relevant costs, expenses or losses of the Company in the subsequent period shall be recognized as deferred income, and shall be included in the current profit and loss during the period of confirming the relevant costs, expenses or losses; those used to compensate the relevant costs, expenses or losses of the Company already happened shall be included in the current gains and losses or used to offset relevant costs directly.

For government subsidies that include both assets-related and income-related parts, they should be distinguished separately for accounting treatment; for government subsidies that are difficult to be distinguished, they should be classified as income-related.

Government subsidies related to the daily activities of the Company shall be included into other income or used to offset relevant costs by the nature of economic business; those unrelated shall be included into non-operating income.

The government subsidies recognized with relevant deferred income balance but need to return shall be used to offset the book balance of relevant deferred income, the excessive part shall be included in the current gains and losses or adjusting the book value of assets for the government subsidies assets-related that offset the book value of relevant assets when they are initially recognized; those belong to other cases shall be directly included in the current gains and losses.

26. Deferred Income Tax Assets and Liabilities

(1) Basis of recognizing the deferred income tax assets

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

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

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

(2) Basis of recognizing the deferred income tax liabilities

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

27. Lease

(1) Accounting Treatment of Operating Lease

Lessee in an operating lease shall treat the lease payment under an operating lease as a relevant asset cost or the current profit or loss on a straight-line basis over the lease term. The initial direct costs incurred shall be

recognized as the current profit or loss; Contingent rents shall be charged as expenses in the periods in which they are incurred.

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

(2) Accounting Treatments of Financial Lease

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

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

28. Other Significant Accounting Policies and Estimates

(1) Operation termination

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

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

(2) Hedging accounting

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

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

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

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

① At the commencement of the hedging, the enterprise shall specify the hedging relationship formally (namely the relationship between the hedging instrument and the hedged item) and prepare a formal written document on the hedging relationship, risk management objectives and the strategies of hedging.

② The hedging expectation is highly efficient and meets the risk management strategy, which is confirmed for the hedging relationship by enterprise at the very beginning.

③ For a cash flow hedging of forecast transaction, the forecast transaction shall be likely to occur and shall make the enterprise faced to the risk of changes in cash flow, which will ultimately affect the profits and losses.

④ The effectiveness of hedging can be reliably measured.

⑤ The hedging is highly effective in accounting period in which the hedging relationship is specified.

29. Changes in Main Accounting Policies and Estimates

(1) Change of Accounting Policies

√ Applicable □ Not applicable

| Content and reason for changes | Approval procedures | Remark |
|--|---|--------|
| The Ministry of Finance released <i>Accounting Standards for Business Enterprises No. 42—Held-for-sale Non-current Assets, Disposal Groups and Discontinued Operation</i> on April 28, 2017 which the Company began to execute on May 28, 2017. This change of accounting policies was adjusted by prospective application. | Reviewed and approved on the 11 th Meeting of the 8 th Board of Directors and on the 9 th Meeting of the 8 th Supervisory Board | |
| The Ministry of Finance released <i>Notice on Revising and Issuing the Format of Financial Statement for General Enterprises</i> on Dec. 25, 2017 in which the amendment to the format of financial statements for general enterprises was made, changing the presentation of gains and losses arising from disposal of non-current assets from being originally listed under Non-operating Revenues and Non-operating Expenses into listed under Gains from Asset Disposal. This change of accounting policy was adjusted by retrospective application. | Reviewed and approved on the 11 th Meeting of the 8 th Board of Directors and on the 9 th Meeting of the 8 th Supervisory Board | |
| The Ministry of Finance released the notice on revising <i>Accounting Standards for Business Enterprises No. 16—Government Subsidy</i> (CK [2017] No. 15) on May 10, 2017 which the Company began to execute on June 12, 2017. The government subsidies existing on Jan. 1, 2017 were treated by prospective applicable. While, those newly added from Jan. 1, 2017 to the executive date of the new code were adjusted in line with the new code. | Reviewed and approved on the 6 th Meeting of the 8 th Board of Directors and on the 6 th Meeting of the 8 th Supervisory Board | |

As for the item of Gains Arising from Asset Disposal newly added in the profit statement, the Company adjusted the comparable data during the comparable period in line with the Notice according to regulations stipulated in Accounting Standards for Business Enterprises No. 30-Presentation of Financial Statements.

As for the item of Other Income newly added in the profit statement, the Company treated the government subsidies existing on Jan. 1, 2017 by prospective application without the necessity to adjust the comparable data in the comparable period in accordance with the governing regulations stipulated in Accounting Standards for Business Enterprises No. 16-Government Subsidy.

Due to the retrospective adjustment of Gains Arising from Asset Disposal, the influence on the items in the financial statements for 2016 was presented as follows: non-operating revenues in 2016 were decreased RMB6,445,469.06; gains arising from asset disposal were increased RMB6,445,469.06; non-operating expenses in 2016 were decreased RMB11,701.38; and gains arising from asset disposal were decreased RMB11,701.38.

(2) Significant Changes in Accounting Estimates

Applicable Not applicable

30. Other

Critical accounting judgments and estimates

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

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

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

(1) Provision for bad debts

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

(2) Provision for falling price of inventories

In accordance with the accounting policies of inventories, for the inventories that the costs were more than

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

(3) Held-to-maturity investment

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

(4) Held-to-maturity investment impairment

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

(5) The impairment of financial assets available for sale

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

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

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

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

The net amount of fair value after deducting the disposal expenses should be fixed the price in the sale

agreement for similar assets in the fair transaction minus the increased costs directly attributable to the assets disposal.

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

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

(7) Depreciation and amortization

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

(8) Income tax

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

VI Taxes

1. Main Taxes and Tax Rates

| Type of tax | Taxation basis | Tax rates |
|--|--------------------------|---|
| VAT | Payable to sales revenue | 11%、13%、17% |
| Urban maintenance and construction tax | Taxable turnover amount | Tax paid in accordance with the tax regulations of tax units location |
| Enterprise income tax | Taxable income | 25% or 15% |
| Educational surtax | Taxable turnover amount | 5% |

Notes of the disclosure situation of the taxpaying bodies with different enterprises income tax rate

| Taxpayer | Income tax rate |
|---|-----------------|
| Changchai Co., Ltd. | 15% |
| Changchai Wanzhou Diesel Engine Co., Ltd. | 15% |
| Changzhou Changchai Benniu Diesel Engine Fittings Co., Ltd. | 25% |

| | |
|---|-----|
| Changzhou Housheng Investment Co., Ltd. | 25% |
| Changzhou Changchai Housheng Agricultural Equipment Co., Ltd. | 25% |
| Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 25% |

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 Jan. 1, 2011 to Dec. 31, 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 to Main Items of Consolidated Financial Statements

1. Monetary Funds

Unit: RMB

| Item | Closing balance | Opening balance |
|----------------------|-----------------|-----------------|
| Cash on hand | 466,356.31 | 314,905.29 |
| Bank deposits | 324,781,747.27 | 582,963,123.80 |
| Other monetary funds | 105,057,264.13 | 87,425,772.93 |
| Total | 430,305,367.71 | 670,703,802.02 |

At the period-end, the restricted monetary fund was of RMB105,041,713.28 in total, of which the bank acceptance deposit was of RMB102,862,822.93, and the credit deposit was of RMB2,178,890.35.

2. Notes Receivable

(1) Notes Receivable Listed by Category

Unit: RMB

| Item | Closing balance | Opening balance |
|----------------------|-----------------|-----------------|
| Bank acceptance bill | 716,404,345.57 | 501,070,279.01 |
| Total | 716,404,345.57 | 501,070,279.01 |

(2) Notes Receivable Pledged by the Company at the Period-end

Naught

(3) Notes Receivable which Had Endorsed by the Company or Had Discounted and Had not Due on the Balance Sheet Date at the Period-end

Unit: RMB

| Item | Amount of recognition termination at the period-end | Amount of not terminated recognition at the period-end |
|----------------------|---|--|
| Bank acceptance bill | 308,740,702.48 | |
| Total | 308,740,702.48 | |

(4) Notes Transferred to Accounts Receivable because Drawer of the Notes Fails to Executed the Contract or Agreement

Naught

3. 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 | 26,482,933.51 | 4.19% | 25,729,422.09 | 97.15% | 753,511.42 | 27,508,638.82 | 4.62% | 25,391,099.21 | 92.30% | 2,117,539.61 |
| Accounts receivable withdrawn bad debt provision according to credit risks characteristics | 604,209,510.47 | 95.65% | 212,952,068.34 | 35.24% | 391,257,442.13 | 567,673,711.72 | 95.33% | 210,511,429.64 | 37.08% | 357,162,282.08 |

| | | | | | | | | | | |
|--|----------------|---------|----------------|---------|----------------|----------------|---------|----------------|---------|----------------|
| Accounts receivable with insignificant single amount for which bad debt provision separately accrued | 974,986.14 | 0.16% | 974,986.14 | 100.00% | | 276,298.29 | 0.05% | 276,298.29 | 100.00% | |
| Total | 631,667,430.12 | 100.00% | 239,656,476.57 | 37.94% | 392,010,953.55 | 595,458,648.83 | 100.00% | 236,178,827.14 | 39.66% | 359,279,821.69 |

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

√ Applicable □ Not applicable

Unit: RMB

| Accounts receivable (by unit) | Closing balance | | | |
|-------------------------------|---------------------|--------------------|-----------------------|--------------------------------|
| | Accounts receivable | Bad debt provision | Withdrawal proportion | Withdrawal reason |
| Customer 1 | 1,902,326.58 | 1,902,326.58 | 100.00% | Difficult to recover |
| Customer 2 | 6,215,662.64 | 6,215,662.64 | 100.00% | Difficult to recover |
| Customer 3 | 2,347,839.17 | 2,175,177.75 | 92.65% | Estimated difficult to recover |
| Customer 4 | 3,279,100.00 | 3,279,100.00 | 100.00% | Estimated difficult to recover |
| Customer 5 | 2,068,377.01 | 2,068,377.01 | 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 | 1,563,741.28 | 1,563,741.28 | 100.00% | Difficult to recover |
| Customer 9 | 1,161,700.00 | 580,850.00 | 50.00% | Estimated difficult to recover |
| Total | 26,482,933.51 | 25,729,422.09 | -- | -- |

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

√ Applicable □ Not applicable

Unit: RMB

| Aging | Closing balance | | |
|-------|---------------------|--------------------|-----------------------|
| | Accounts receivable | Bad debt provision | Withdrawal proportion |
| | | | |

| Subitem within 1 year | | | |
|-----------------------|----------------|----------------|---------|
| Within 1 year | 384,401,884.42 | 7,688,038.15 | 2.00% |
| 1 to 2 years | 13,207,493.22 | 660,374.66 | 5.00% |
| 2 to 3 years | 1,529,286.38 | 229,392.96 | 15.00% |
| 3 to 4 years | 901,193.92 | 270,358.18 | 30.00% |
| 4 to 5 years | 164,370.37 | 98,622.22 | 60.00% |
| Over 5 years | 204,005,282.16 | 204,005,282.16 | 100.00% |
| Total | 604,209,510.47 | 212,952,068.34 | |

Notes of the basis for the recognition of the group:

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

Applicable Not applicable

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

Applicable Not applicable

(2) Bad Debt Provision Withdraw, Reversed or Collected during the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB7,751,495.98; the amount of the reversed or collected part during the Reporting Period was of RMB2,863,905.96.

(3) The Actual Write-off Accounts Receivable

Unit: RMB

| Item | Amount |
|---|--------------|
| Wuxi Combine-harvester Co., Ltd. | 148,840.10 |
| Shanghe Xiyanghong Agricultural Machinery Trading Company | 510,972.30 |
| Xinxiang Yituo Co., Ltd. | 681,150.48 |
| FAW Harbin K-Car Co., Ltd. | 138,297.38 |
| Total | 1,479,260.26 |

(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 RMB218,623,071.69, which was 34.61% of the closing balance of the accounts receivable and the relevant closing balance of bad debt provision was RMB9,673,874.34.

4. Prepayment

(1) Listed by Aging Analysis

Unit: RMB

| Aging | Closing balance | | Opening balance | |
|---------------|-----------------|------------|-----------------|------------|
| | Amount | Proportion | Amount | Proportion |
| Within 1 year | 16,300,217.23 | 91.67% | 13,981,887.79 | 90.30% |
| 1 to 2 years | 110,270.90 | 0.62% | 515,122.72 | 3.33% |
| 2 to 3 years | 384,622.72 | 2.16% | 7,418.00 | 0.05% |
| Over 3 years | 985,896.92 | 5.55% | 979,046.92 | 6.32% |
| Total | 17,781,007.77 | -- | 15,483,475.43 | -- |

(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 RMB11,844,083.68, which was 66.61% of the closing balance of the accounts receivable.

5. Other Accounts Receivable

(1) Other Accounts Receivable Disclosed by Category

Unit: RMB

| Category | Closing balance | | | | | Opening balance | | | | |
|--|-----------------|------------|--------------------|-----------------------|------------|-----------------|------------|--------------------|-----------------------|------------|
| | Book balance | | Bad debt provision | | Book value | Book balance | | Bad debt provision | | Book value |
| | Amount | Proportion | Amount | Withdrawal proportion | | Amount | Proportion | Amount | Withdrawal proportion | |
| Other accounts receivable with significant single amount for which bad debt provision separately accrued | 2,853,188.02 | 7.45% | 2,853,188.02 | 100.00% | | 2,853,188.02 | 7.82% | 2,853,188.02 | 100.00% | |
| Other accounts receivable | 33,367,460.9 | 87.08% | 27,572,489.76 | 82.63% | 5,794, | 30,950,7 | 84.83% | 26,785,062.6 | 86.54% | 4,165,67 |

| | | | | | | | | | | |
|--|---------------|---------|---------------|---------|--------------|---------------|---------|---------------|---------|--------------|
| withdrawn bad debt provision according to credit risks characteristics | 8 | | | | 971.22 | 37.22 | | 0 | | 4.62 |
| Other accounts receivable with insignificant single amount for which bad debt provision separately accrued | 2,099,382.02 | 5.47% | 2,099,382.02 | 100.00% | | 2,679,980.13 | 7.35% | 2,679,801.13 | 100.00% | |
| Total | 38,320,031.02 | 100.00% | 32,525,059.80 | 84.88% | 5,794,971.22 | 36,483,726.37 | 100.00% | 32,318,051.75 | 88.58% | 4,165,674.62 |

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

Applicable Not applicable

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 | 100.00% | Difficult to recover |
| Total | 2,853,188.02 | 2,853,188.02 | -- | -- |

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

Applicable Not applicable

Unit: RMB

| Aging | Closing balance | | |
|------------------------|---------------------------|--------------------|-----------------------|
| | Other accounts receivable | Bad debt provision | Withdrawal proportion |
| Subitem within 1 year | | | |
| Subtotal within 1 year | 5,105,269.36 | 102,105.39 | 2.00% |
| 1 to 2 years | 463,526.94 | 23,176.35 | 5.00% |
| 2 to 3 years | 106,930.77 | 16,039.62 | 15.00% |

| | | | |
|--------------|---------------|---------------|---------|
| 3 to 4 years | 61,989.57 | 18,596.87 | 30.00% |
| 4 to 5 years | 542,931.99 | 325,759.19 | 60.00% |
| Over 5 years | 27,086,812.35 | 27,086,812.35 | 100.00% |
| Total | 33,367,460.98 | 27,572,489.76 | |

Notes of the basis for the recognition of the group:

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

Applicable Not applicable

Notes: write the name of groups in detail.

Notes of the basis for the recognition of the group:

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

Applicable Not applicable

(2) Bad Debt Provision Withdrawal, Reversed or Recovered in the Reporting Period

The amount of bad debt provision was RMB205,883.38, the amount of reversed or recovered bad debt provision in the Reporting Period RMB0.00.

(3) Particulars of the Actual Verification of Other Accounts Receivable during the Reporting Period

Unit: RMB

| Item | Amount |
|---------------------------------|----------|
| Temporarily paid postage | 5,695.50 |
| Advance payment for procurement | 3,768.65 |
| Total | 9,464.15 |

(4) Other Account Receivable Classified by Account Nature

Unit: RMB

| Nature | Closing book balance | Opening book balance |
|----------------------------------|----------------------|----------------------|
| Margin and cash pledge | 4,200.00 | 4,200.00 |
| Intercourse accounts among units | 21,072,102.14 | 19,305,341.92 |
| Employee loan | 1,854,174.11 | 1,819,817.62 |
| Other | 15,389,554.77 | 15,354,366.83 |
| Total | 38,320,031.02 | 36,483,726.37 |

(5) The Top Five Other Account Receivable Classified by Debtor at Period-end

Unit: RMB

| Name of units | Nature | Closing balance | Aging | Proportion% | Closing balance of bad debt provision |
|---|----------------------|-----------------|---------------|-------------|---------------------------------------|
| Changzhou Compressor Co., Ltd. | Intercourse accounts | 2,940,000.00 | Over 5 years | 7.67% | 2,940,000.00 |
| Import and Export Company of Changchai Group | Intercourse accounts | 2,853,188.02 | Over 5 years | 7.45% | 2,853,188.02 |
| Changzhou New District Accounting Center | Intercourse accounts | 1,626,483.25 | Over 5 years | 4.24% | 1,626,483.25 |
| OEM Group Settlement Center | Intercourse accounts | 1,140,722.16 | Over 5 years | 2.98% | 1,140,722.16 |
| Jiangsu Branch of China Export & Credit Insurance Corporation | Intercourse accounts | 684,008.33 | Within 1 year | 1.78% | 13,680.17 |
| Total | -- | 9,244,401.76 | -- | 24.12% | 8,574,073.60 |

6. Inventory

(1) Category of Inventory

Unit: RMB

| Item | Closing balance | | | Opening balance | | |
|-----------------------------------|-----------------|------------------------|----------------|-----------------|------------------------|----------------|
| | Book balance | Falling price reserves | Book value | Book balance | Falling price reserves | Book value |
| Raw material | 137,637,917.36 | 5,646,775.16 | 131,991,142.20 | 105,129,601.58 | 4,315,935.29 | 100,813,666.29 |
| Materials processed on commission | 17,692,442.71 | 183,111.28 | 17,509,331.43 | 25,326,273.77 | 597,808.75 | 24,728,465.02 |
| Goods in | 142,366,956 | 18,705,451. | 123,661,5 | 127,378,644.50 | 21,803,781.1 | 105,574,863.3 |

| | | | | | | |
|--------------------------|----------------|---------------|----------------|----------------|---------------|----------------|
| process | .08 | 92 | 04.16 | | 8 | 2 |
| Finished goods | 247,668,232.73 | 15,020,818.93 | 232,647,413.80 | 280,847,238.35 | 20,174,913.34 | 260,672,325.01 |
| Low-value fugitive items | 4,212,709.15 | 1,775,293.26 | 2,437,415.89 | 3,557,926.14 | 1,300,787.34 | 2,257,138.80 |
| Total | 549,578,258.03 | 41,331,450.55 | 508,246,807.48 | 542,239,684.34 | 48,193,225.90 | 494,046,458.44 |

(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 | 4,315,935.29 | 1,327,300.54 | 29,318.33 | 25,779.00 | | 5,646,775.16 |
| Materials processed on commission | 597,808.75 | | | 414,697.47 | | 183,111.28 |
| Goods in process | 21,803,781.18 | 18,705,451.92 | | 21,803,781.18 | | 18,705,451.92 |
| Finished goods | 20,174,913.34 | 15,020,818.93 | | 20,174,913.34 | | 15,020,818.93 |
| Low-value fugitive items | 1,300,787.34 | 813,738.95 | | 339,233.03 | | 1,775,293.26 |
| Total | 48,193,225.90 | 35,867,310.34 | 29,318.33 | 42,758,404.02 | | 41,331,450.55 |

(3) Notes of the Closing Balance of the Inventory which Includes Capitalized Borrowing Expenses

Naught

(4) Completed Unsettled Assets Formed from the Construction Contract at the Period-end

Naught

7. Other Current Assets

Unit: RMB

| Item | Closing balance | Opening balance |
|--------------------------------------|----------------------|----------------------|
| The VAT tax credits | 28,078,565.33 | 31,669,983.12 |
| Export tax rebates receivable | 825,933.00 | |
| Unamortized expenses | 135,685.72 | |
| Securities company financing product | 13,500,000.00 | 6,000,000.00 |
| Ju Pai financing product | | 2,000,000.00 |
| Total | 42,540,184.05 | 39,669,983.12 |

8. Available-for-sale Financial Assets

(1) List of Available-for-sale Financial Assets

Unit: RMB

| Item | Closing balance | | | Opening balance | | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Book balance | Depreciation reserves | Book value | Book balance | Depreciation reserves | Book value |
| Available-for-sale equity instruments | | | | | | |
| Measured by fair value | 685,837,500.00 | | 685,837,500.00 | 812,872,500.00 | | 812,872,500.00 |
| Measured by cost | 108,895,139.04 | 1,210,000.00 | 107,685,139.04 | 8,410,000.00 | 1,210,000.00 | 7,200,000.00 |
| Total | 794,732,639.04 | 1,210,000.00 | 793,522,639.04 | 821,282,500.00 | 1,210,000.00 | 820,072,500.00 |

(2) Available-for-sale Financial Assets Measured by Fair Value at the Period-end

Unit: RMB

| Category of the available-for-sale financial assets | Available-for-sale equity instruments | Total |
|--|---------------------------------------|----------------|
| Cost of the equity instruments/amortized cost of the debt instruments | 79,874,500.00 | 79,874,500.00 |
| Fair value | 685,837,500.00 | 685,837,500.00 |
| Changed amount of the fair value that be accumulatively recorded in other comprehensive income | 515,068,550.00 | 515,068,550.00 |
| Withdrawn impairment amount | | |

(3) Available-for-sale Financial Assets Measured by Cost at the Period-end

Unit: RMB

| Investee | Book balance | | | | Depreciation reserves | | | | Shareholding proportion among the investees | Cash bonus of the Reporting Period |
|--|--------------|------------|----------|--------------|-----------------------|----------|----------|------------|---|------------------------------------|
| | Period-begin | Increase | Decrease | Period-end | Period-begin | Increase | Decrease | Period-end | | |
| Liance Tech | 7,200,000.00 | | | 7,200,000.00 | | | | | 3.2% | |
| Changzhou Xietong Innovation Private Equity Fund (Limited Partnership) | | 100,000.00 | | 100,000.00 | | | | | 99.01% | |
| Guizhou Warmen Pharmaceutical Co., Ltd. | | 200,104.80 | | 200,104.80 | | | | | | |
| Guizhou Anda Energy Technology Co., Ltd. | | 195,297.49 | | 195,297.49 | | | | | | |
| FUNIK Ultrahard Material Co., Ltd. | | 63,096.08 | | 63,096.08 | | | | | | |
| Epitop Optoelec | | 26,640.67 | | 26,640.67 | | | | | | |

| | | | | | | | | | | |
|------------------|--------------|----------------|--|----------------|--------------|--|--|--------------|----|--|
| tronic Co., Ltd. | | | | | | | | | | |
| Others | 1,210,000.00 | | | 1,210,000.00 | 1,210,000.00 | | | 1,210,000.00 | | |
| Total | 8,410,000.00 | 100,485.139.04 | | 108,895,139.04 | 1,210,000.00 | | | 1,210,000.00 | -- | |

Notes: Others respectively refer to 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 of the available-for-sale financial assets | Available-for-sale equity instruments | Total |
|---|---------------------------------------|--------------|
| Withdrawn impairment balance at the period-begin | 1,210,000.00 | 1,210,000.00 |
| Withdrawal in the Reporting period | | |
| Of which: transferred from other comprehensive income | | |
| Decrease in the Reporting Period | | |
| Of which: reversed due to the increase of fair value after the Reporting Period | | |
| Withdrawn impairment balance at the period-end | 1,210,000.00 | 1,210,000.00 |

9. Long-term Equity Investment

Unit: RMB

| Investee | Opening balance | Increase/decrease | | | | | | | | Closing balance | Closing balance of impairment provision |
|----------|-----------------|-------------------|--------------------|-----------------------------|---------------------------|-------------------------|-----------------------------|----------------------------|-----------------|-----------------|---|
| | | Addition in inv | Reduced investment | Gains and losses recognized | Adjustment of other compr | Changes of other equity | Cash bonus or profits annou | Withd rawal of impair ment | Other decrea se | | |

| | | est me nt | | under the equity metho d | ehensi ve incom e | | nced to issue | provis ion | | | n |
|---|---------------|-----------------|--|--------------------------------------|----------------------------|--|---------------------|---------------|---------------|-----------|-----------|
| I. Joint ventures | | | | | | | | | | | |
| II. Associated enterprises | | | | | | | | | | | |
| Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 21,006,230.03 | | | | | | | | 21,006,230.03 | | |
| Beijing Tsinghua Industrial Investment Management Co., Ltd. | 44,182.50 | | | | | | | | | 44,182.50 | 44,182.50 |
| Subtotal | 21,050,412.53 | | | | | | | | 21,006,230.03 | 44,182.50 | 44,182.50 |
| Total | 21,050,412.53 | | | | | | | | 21,006,230.03 | 44,182.50 | 44,182.50 |

Notes: The Company held a special meeting of shareholders on August 26, 2016, on which the Proposal on Being Transferred 67% of shares in Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. held by Fuji Heavy Industries was reviewed and approved. After the acquisition, the Company held the whole shares of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd., and the latter became a domestic enterprise from a sino-foreign joint venture. Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. finished the change procedures of industrial and commercial registration related to the stock transfer on Jan. 20, 2017, from which it began to be recorded into the consolidated financial statements of the Company.

10. Investment Property

(1) Investment Property Adopted the Cost Measurement Mode

√ Applicable □ Not applicable

Unit: RMB

| Item | Houses and buildings | Land use right | construction in progress | Total |
|---|----------------------|----------------|--------------------------|---------------|
| I. Original book value | | | | |
| 1. Opening balance | 87,632,571.14 | | | 87,632,571.14 |
| 2. Increased amount of the period | | | | |
| (1) Outsourcing | | | | |
| (2) Transfer of inventory\fixed assets\project under construction | | | | |
| (3) Enterprises merger increase | | | | |
| 3. Decreased amount of the period | | | | |
| (1) Disposal | | | | |
| (2) Other transfer | | | | |
| 4. Closing balance | 87,632,571.14 | | | 87,632,571.14 |
| II. The accumulative depreciation and accumulative amortization | | | | |
| 1. Opening balance | 32,559,881.91 | | | 32,559,881.91 |
| 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 | 34,768,222.71 | | | 34,768,222.71 |
| 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 | 52,864,348.43 | | | 52,864,348.43 |
| 2. Opening book value | 55,072,689.23 | | | 55,072,689.23 |

11. Fixed Assets

(1) List of Fixed Assets

Unit: RMB

| Item | Houses and buildings | Machinery equipment | Transportation equipment | Other equipment | Total |
|-----------------------------------|----------------------|---------------------|--------------------------|-----------------|------------------|
| I. Original book value | | | | | |
| 1. Opening balance | 419,008,246.37 | 853,659,305.64 | 23,007,178.60 | 35,579,255.84 | 1,331,253,986.45 |
| 2. Increased amount of the period | 26,324,925.35 | 73,986,607.74 | 2,438,084.02 | 10,012,890.62 | 112,762,507.73 |
| (1) Purchase | 665,992.60 | 2,991,265.91 | 91,282.06 | 990,976.13 | 4,739,516.70 |
| (2) Construction project transfer | 11,337,226.11 | 65,910,481.82 | 673,059.84 | 1,919,827.88 | 79,840,595.65 |
| (3) Enterprises merger increase | 14,321,706.64 | 5,084,860.01 | 1,673,742.12 | 7,102,086.61 | 28,182,395.38 |
| 3. Decreased amount of the period | 97,348.35 | 16,965,344.51 | 2,081,752.62 | 1,241,979.85 | 20,386,425.33 |
| (1) Disposal or Scrap | 97,348.35 | 16,965,344.51 | 2,081,752.62 | 1,241,979.85 | 20,386,425.33 |
| 4. Closing | 445,235,823.37 | 910,680,568.87 | 23,363,510.00 | 44,350,166.61 | 1,423,630,068.85 |

| | | | | | |
|---|----------------|----------------|---------------|---------------|----------------|
| balance | | | | | |
| II. The accumulative depreciation | | | | | |
| 1. Opening balance | 224,127,801.27 | 508,354,183.08 | 16,762,107.06 | 25,806,818.81 | 775,050,910.22 |
| 2. Increased amount of the period | 25,160,349.06 | 68,623,939.75 | 3,197,113.98 | 8,782,382.33 | 105,763,785.12 |
| (1) Withdrawal | 16,872,689.15 | 65,430,713.16 | 2,069,990.60 | 3,608,700.59 | 87,982,093.50 |
| (2) Enterprise combination and increase | 8,287,659.91 | 3,193,226.59 | 1,127,123.38 | 5,173,681.74 | 17,781,691.62 |
| 3. Decreased amount of the period | 84,531.37 | 15,354,550.74 | 2,055,653.58 | 1,233,976.30 | 18,728,711.99 |
| (1) Disposal or Scrap | 84,531.37 | 15,354,550.74 | 2,055,653.58 | 1,233,976.30 | 18,728,711.99 |
| 4. Closing balance | 249,203,618.96 | 561,623,572.09 | 17,903,567.46 | 33,355,224.84 | 862,085,983.35 |
| III. Impairment provision | | | | | |
| 1. Opening balance | | 2,524,137.36 | | | 2,524,137.36 |
| 2. Increased amount of the period | | | | | |
| (1) Withdrawal | | | | | |
| 3. Decreased amount of the period | | 1,030,022.36 | | | 1,030,022.36 |
| (1) Disposal or Scrap | | 1,030,022.36 | | | 1,030,022.36 |
| 4. Closing balance | | 1,494,115.00 | | | 1,494,115.00 |
| IV. Book value | | | | | |
| 1. Closing book value | 196,032,204.41 | 347,562,881.78 | 5,459,942.54 | 10,994,941.77 | 560,049,970.50 |
| 2. Opening book value | 194,880,445.10 | 342,780,985.20 | 6,245,071.54 | 9,772,437.03 | 553,678,938.87 |

The accumulative depreciation in Reporting Period was RMB87,982,093.50; the original value of construction in progress transfer into fix assets was RMB79,840,595.65.

12. Construction in Progress

(1) List of Construction in Progress

Unit: RMB

| Item | Closing balance | | | Opening balance | | |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| | Book balance | Depreciation reserves | Book value | Book balance | Depreciation reserves | Book value |
| Trial production workshop project technology center | 14,349,461.80 | | 14,349,461.80 | 4,233,919.80 | | 4,233,919.80 |
| Casting renovation project | 396,000.00 | | 396,000.00 | 396,000.00 | | 396,000.00 |
| Expansion capacity of multi-cylinder (The 2nd Period) | 11,217,706.49 | | 11,217,706.49 | 57,529,623.42 | | 57,529,623.42 |
| Diesel Engine Cylinder Body Flexible Manufacturing Line | 20,125,955.51 | | 20,125,955.51 | 15,110,073.95 | | 15,110,073.95 |
| 35KV Substation | 1,218,587.83 | | 1,218,587.83 | | | |
| Equipment to be installed and payment for projects | 47,274,277.43 | | 47,274,277.43 | 12,511,430.04 | | 12,511,430.04 |
| Total | 94,581,989.06 | | 94,581,989.06 | 89,781,047.21 | | 89,781,047.21 |

(2) Changes of Significant Construction in Progress

Unit: RMB

| Name of item | Estimated number | Opening balance | Increased amount | Amount that transferred to fixed | Other decreased amount of the | Closing balance | Proportion estimated of the | Project progresses | Accumulative amount of | Of which: the amount of the | Capitalization rate of the | Capital resources |
|--------------|------------------|-----------------|------------------|----------------------------------|-------------------------------|-----------------|-----------------------------|--------------------|------------------------|-----------------------------|----------------------------|-------------------|
|--------------|------------------|-----------------|------------------|----------------------------------|-------------------------------|-----------------|-----------------------------|--------------------|------------------------|-----------------------------|----------------------------|-------------------|

| | er | | | assets of the period | period | | project accum ulative input | | capita lized intere sts | capitali zed interest s of the period | intere sts of the perio d | |
|---|-------------------|---------------------------|---------------------------|----------------------------|--------|---------------------------|--------------------------------------|------------------------|----------------------------------|---|---------------------------------------|---------------------|
| Trial producti on worksho p project technolo gy center | 2,2 89. 63 | 4,23 3,91 9.80 | 10,1 15,5 42.0 0 | | | 14,3 49,4 61.8 0 | 62.67 % | Inc om plet e | | | | Self -rais ed |
| Expansi on capacity of multi-cyl inder (The 2nd Period) | 7,0 19. 00 | 57,5 29,6 23.4 2 | 6,82 9,69 9.76 | 53,141, 616.69 | | 11,2 17,7 06.4 9 | 91.69 % | Inc om plet e | | | | Self -rais ed |
| Diesel Engine Cylinder Body Flexible Manufac turing Line | 11, 604 .00 | 15,1 10,0 73.9 5 | 5,26 1,82 0.66 | 245,939 .10 | | 20,1 25,9 55.5 1 | 34.23 % | Inc om plet e | | | | Self -rais ed |
| 35KV Substati on | | | 1,21 8,58 7.83 | | | 1,21 8,58 7.83 | | Inc om plet e | | | | Self -rais ed |
| Total | | 76,8 73,6 17.1 7 | 23,4 25,6 50.2 5 | 53,387, 555.79 | | 46,9 11,7 11.6 3 | | | | | | Self -rais ed |

13. Intangible Assets

(1) Particulars about Intangible Assets

Unit: RMB

| Item | Land use right | Software | Patent | Total |
|-----------------------------------|----------------|---------------|--------------|----------------|
| I. Original book value | | | | |
| 1. Opening balance | 137,782,945.30 | 8,795,831.59 | | 146,578,776.89 |
| 2. Increased amount of the period | 6,987,562.55 | 2,176,535.22 | 8,751,862.30 | 17,915,960.07 |
| (1) Purchase | | 1,997,011.05 | 5,488,000.00 | 7,485,011.05 |
| (2) Enterprises merger increase | 6,987,562.55 | 179,524.17 | 3,263,862.30 | 10,430,949.02 |
| 3. Decreased amount of the period | | | 3,263,862.30 | 3,263,862.30 |
| (1) Disposal | | | 3,263,862.30 | 3,263,862.30 |
| 4. Closing balance | 144,770,507.85 | 10,972,366.81 | 5,488,000.00 | 161,230,874.66 |
| II. Total accrued amortization | | | | |
| 1. Opening balance | 41,303,353.99 | 5,360,285.28 | | 46,663,639.27 |
| 2. Increased amount of the period | 3,852,690.24 | 2,461,464.99 | 3,721,195.60 | 10,035,350.83 |
| (1) Withdrawal | 2,972,850.26 | 2,316,333.22 | 729,321.82 | 6,018,505.30 |
| (2) Enterprises merger increase | 879,839.98 | 145,131.77 | 2,991,873.78 | 4,016,845.53 |
| 3. Decreased amount of the period | | | 3,263,862.30 | 3,263,862.30 |
| (1) Disposal | | | 3,263,862.30 | 3,263,862.30 |
| 4. Closing balance | 45,156,044.23 | 7,821,750.27 | 457,333.30 | 53,435,127.80 |
| III. Depreciation reserves | | | | |
| 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. Book value of the period-end | 99,614,463.62 | 3,150,616.54 | 5,030,666.70 | 107,795,746.86 |
| 2. Book value of the | 96,479,591.31 | 3,435,546.31 | | 99,915,137.62 |

| | | | | |
|--------------|--|--|--|--|
| period-begin | | | | |
|--------------|--|--|--|--|

The proportion of the intangible assets formed from the internal R&D through the Company to the balance of the intangible assets at the period-end was 0.00%.

14. Deferred Income Tax Assets/Deferred Income Tax Liabilities

(1) Deferred Income Tax Assets Had not Been Off-set

Unit: RMB

| Item | Closing balance | | Opening balance | |
|-----------------------------|---------------------------------|----------------------------|---------------------------------|----------------------------|
| | Deductible temporary difference | Deferred income tax assets | Deductible temporary difference | Deferred income tax assets |
| Assets impairment provision | 6,519,959.41 | 1,006,953.81 | 6,074,862.83 | 911,229.42 |
| Total | 6,519,959.41 | 1,006,953.81 | 6,074,862.83 | 911,229.42 |

(2) Deferred Income Tax Liabilities Had not Been Off-set

Unit: RMB

| Item | Closing balance | | Opening balance | |
|---|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | Taxable temporary difference | Deferred income tax liabilities | Taxable temporary difference | Deferred income tax liabilities |
| Changes in fair value of available-for-sale financial assets | 605,963,000.00 | 90,894,450.00 | 732,998,000.00 | 109,949,700.00 |
| Consolidated assets evaluation appreciation not under the same controller | 6,061,317.56 | 1,515,329.39 | | |
| Total | 612,024,317.56 | 92,409,779.39 | 732,998,000.00 | 109,949,700.00 |

(3) List of Unrecognized Deferred Income Tax Assets

Unit: RMB

| Item | Closing balance | Opening balance |
|---------------------------------|-----------------|-----------------|
| Deductible temporary difference | 306,993,027.51 | 310,615,241.96 |

| | | |
|-------|----------------|----------------|
| Total | 306,993,027.51 | 310,615,241.96 |
|-------|----------------|----------------|

15. 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 |

16. Short-term Loans

(1) Category of Short-term Loans

Unit: RMB

| Item | Closing balance | Opening balance |
|-----------------|-----------------|-----------------|
| Mortgage loan | 10,000,000.00 | 5,000,000.00 |
| Guaranteed loan | 14,900,000.00 | 5,000,000.00 |
| Total | 24,900,000.00 | 10,000,000.00 |

17. Notes Payable

Unit: RMB

| Category | Closing balance | Opening balance |
|----------------------|-----------------|-----------------|
| Bank acceptance bill | 347,070,500.00 | 276,090,000.00 |
| Total | 347,070,500.00 | 276,090,000.00 |

There was no unpaid notes payable due at the Period end.

18. Accounts Payable

(1) List of Accounts Payable

Unit: RMB

| Item | Closing balance | Opening balance |
|-------|-----------------|-----------------|
| Loans | 616,228,500.18 | 605,424,726.65 |
| Total | 616,228,500.18 | 605,424,726.65 |

(2) Notes of the Accounts Payable Aging Over One Year

Naught

19. Advance from Customers**(1) List of Advance from Customers**

Unit: RMB

| Item | Closing balance | Opening balance |
|-------|-----------------|-----------------|
| Loans | 40,153,984.91 | 40,890,620.69 |
| Total | 40,153,984.91 | 40,890,620.69 |

(2) Significant Advance from Customers Aging Over One Year

Naught

20. Payroll Payable**(1) List of Payroll Payable**

Unit: RMB

| Item | Opening balance | Increase | Decrease | Closing balance |
|--|-----------------|----------------|----------------|-----------------|
| I. Short-term salary | 58,549,908.90 | 285,465,135.70 | 292,767,931.94 | 51,247,112.66 |
| II. Welfare after demission - defined contribution plans | | 40,250,917.57 | 40,250,917.57 | |
| III. Termination benefits | | | | |
| Total | 58,549,908.90 | 325,716,053.27 | 333,018,849.51 | 51,247,112.66 |

(2) List of Short-term Salary

Unit: RMB

| Item | Opening balance | Increase | Decrease | Closing balance |
|--------------------------------------|-----------------|----------------|----------------|-----------------|
| 1. Salary, bonus, allowance, subsidy | 50,720,926.61 | 235,243,296.81 | 243,183,111.83 | 42,781,111.59 |
| 2. Employee welfare | | 5,278,623.79 | 5,101,031.05 | 177,592.74 |
| 3. Social insurance | | 20,405,748.93 | 20,405,748.93 | |

| | | | | |
|---|---------------|----------------|----------------|---------------|
| Including: Medical insurance premiums | | 16,493,117.13 | 16,493,117.13 | |
| Work-related injury insurance | | 2,438,815.53 | 2,438,815.53 | |
| Maternity insurance | | 1,473,816.27 | 1,473,816.27 | |
| 4. Housing fund | | 19,607,673.00 | 19,607,673.00 | |
| 5. Labor union budget and employee education budget | 7,828,982.29 | 4,929,793.17 | 4,470,367.13 | 8,288,408.33 |
| 6. Short-term absence with salary | | | | |
| 7 Short-term profit sharing scheme . | | | | |
| Total | 58,549,908.90 | 285,465,135.70 | 292,767,931.94 | 51,247,112.66 |

(3) List of Drawing Scheme

Unit: RMB

| Item | Opening balance | Increase | Decrease | Closing balance |
|-----------------------------------|-----------------|---------------|---------------|-----------------|
| 1. Basic endowment insurance | | 38,911,738.46 | 38,911,738.46 | |
| 2. Unemployment insurance expense | | 1,339,179.11 | 1,339,179.11 | |
| 3. Enterprise annuity | | | | |
| Total | | 40,250,917.57 | 40,250,917.57 | |

21. Taxes Payable

Unit: RMB

| Item | Closing balance | Opening balance |
|-----------------------|-----------------|-----------------|
| VAT | 257,634.15 | 972,104.89 |
| Corporate income tax | 1,220,803.03 | 5,537,211.23 |
| Personal income tax | 397,114.88 | 940,612.41 |
| Urban maintenance and | 850,853.05 | 902,501.60 |

| | | |
|-----------------------|--------------|--------------|
| construction tax | | |
| Education surcharge | 14,671.54 | 51,563.36 |
| The comprehensive fee | 1,075,134.76 | 1,075,134.76 |
| Property tax | 173,200.76 | 143,204.51 |
| Land use tax | 21,000.00 | |
| Stamp duty | 7,508.61 | |
| Total | 4,017,920.78 | 9,622,332.76 |

22. 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 |

Other notes, including the disclosure of unpaid reason as for the significant dividends payable unpaid over one year: Shareholders have not yet taken.

23. Other Accounts Payable

(1) Other Accounts Payable Listed by Nature of the Account

Unit: RMB

| Item | Closing balance | Opening balance |
|-------------------------------------|-----------------|-----------------|
| Margin and deposit | 3,266,453.59 | 2,700,853.59 |
| Unit current amount | 10,838,311.11 | 11,420,825.32 |
| Personal amount payable | 457,465.63 | 1,067,429.96 |
| Sales discount and three guarantees | 142,449,844.40 | 151,408,043.35 |
| Other | 35,082,168.35 | 37,849,658.34 |
| Total | 192,094,243.08 | 204,446,810.56 |

(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.

24. Other Current Liabilities

Unit: RMB

| Item | Closing balance | Opening balance |
|-----------------|-----------------|-----------------|
| Sewage charge | 54,000.00 | 200,000.00 |
| Electric charge | 1,974,937.59 | 2,254,381.75 |
| Total | 2,028,937.59 | 2,454,381.75 |

25. Long-term Loan**(1) Category of Long-term Loan**

Unit: RMB

| Item | Closing balance | Opening balance |
|----------------|-----------------|-----------------|
| Mortgage loan | 2,000,000.00 | |
| Loan on credit | 19,500,000.00 | |
| Total | 21,500,000.00 | |

Notes:

The loan on credit of RMB19,500,000.00 at the period-end was borrowing from Changzhou Branch of CMBC by the Parent Company for the technical transformation project at interest rate of 4.75% with period from Sep. 20, 2017 to Sep. 19, 2019.

The mortgage loan at the period-end of RMB2,000,000.00 was borrowing from Gaosuntang Branch of Chongqing Three Gorges Bank by the subsidiary Changchai Wanzhou Diesel Engine Co., Ltd. at interest rate of 6.15% with period from Dec. 14, 2017 to Nov 6, 2020.

26. Deferred Income

Unit: RMB

| Item | Opening balance | Increase | Decrease | Closing balance | Formation reasons |
|----------------------|-----------------|--------------|--------------|-----------------|------------------------|
| Government subsidies | 61,057,232.08 | 1,000,000.00 | 1,064,373.62 | 60,992,858.46 | Government allocations |
| Total | 61,057,232.08 | 1,000,000.00 | 1,064,373.62 | 60,992,858.46 | -- |

Items involved in government subsidies:

Unit: RMB

| Item | Opening balance | Amount of newly subsidy | Amount accrued in non-busin | Amount accrued in other | Amount set off cost expenses | Other changes | Closing balance | Related to the assets/ income |
|------|-----------------|-------------------------|-----------------------------|-------------------------|------------------------------|---------------|-----------------|-------------------------------|
| | | | | | | | | |

| | | | ess income | income | | | | |
|--|---------------|--------------|---------------|------------|--|--|---------------|-----------------------|
| Electric control of diesel engine research and development and industrialization allocations | 1,443,600.00 | | | 398,400.00 | | | 1,045,200.00 | Related to the assets |
| National major project special allocations | 28,770,000.00 | | | | | | 28,770,000.00 | Related to the assets |
| Remove compensation | 21,843,632.08 | | | 665,973.62 | | | 21,177,658.46 | 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 | 1,000,000.00 | | | | | 10,000,000.00 | Related to the assets |

| | | | | | | | | |
|-------|---------------|--------------|--|--------------|--|--|---------------|----|
| Total | 61,057,232.08 | 1,000,000.00 | | 1,064,373.62 | | | 60,992,858.46 | -- |
|-------|---------------|--------------|--|--------------|--|--|---------------|----|

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 compreh | Less: income tax expense | After-tax attribute to the parent company | After-tax attribute to minority shareholder | |
| | | | | | | | |

| | | | ensive income in prior period | | | | |
|--|----------------|-----------------|--|----------------|-----------------|--|----------------|
| II. Other comprehensive income not reclassified into profits and losses | | | | | | | |
| Of which: changes in net assets and net liabilities of defined benefit plan due to re-measurement | | | | | | | |
| Of which: Shares in other comprehensive income shall be not reclassified into profits or losses in future in investee entity under the equity method | | | | | | | |
| | | | | | | | |
| II. Other comprehensive income reclassified into profits and losses | | | | | | | |
| Of which: Shares in other comprehensive income shall be reclassified into profits or losses in future in investee entity under the equity method | | | | | | | |
| Profits or losses from the change of fair value of available-for-sale financial assets | 623,048,300.00 | -127,035,000.00 | | -19,055,250.00 | -107,979,750.00 | | 515,068,550.00 |
| Profits or losses from held-to-maturity investment reclassified as available-for-sale financial assets | | | | | | | |
| Effective profits or losses of cash flow arbitrage | | | | | | | |
| Balance arising from translation of foreign currency financial statements | | | | | | | |
| Total of other comprehensive income | 623,048,300.00 | -127,035,000.00 | | -19,055,250.00 | -107,979,750.00 | | 515,068,550.00 |

30. Special Reserves

Unit: RMB

| Item | Opening balance | Increase | Decrease | Closing balance |
|------------------------|-----------------|--------------|--------------|-----------------|
| Safety production cost | 11,715,417.22 | 4,161,424.06 | 2,587,782.07 | 13,289,059.21 |
| Total | 11,715,417.22 | 4,161,424.06 | 2,587,782.07 | 13,289,059.21 |

31. Surplus Reserves

Unit: RMB

| Item | Opening balance | Increase | Decrease | Closing balance |
|--------------------------------|-----------------|--------------|----------|-----------------|
| Statutory surplus reserves | 298,723,390.98 | 1,824,961.28 | | 300,548,352.26 |
| Discretionary surplus reserves | 13,156,857.90 | | | 13,156,857.90 |
| Total | 311,880,248.88 | 1,824,961.28 | | 313,705,210.16 |

32. Retained Profits

Unit: RMB

| Item | Reporting Period | Same period of last year |
|---|------------------|--------------------------|
| Opening balance of retained profits before adjustments | 651,365,935.39 | 607,859,611.69 |
| Total retained profits at the beginning of the adjustments (“+” means up, “-“ means down) | | |
| Opening balance of retained profits after adjustments | 651,365,935.39 | 607,859,611.69 |
| Add: Net profit attributable to owners of the Company | 46,431,302.73 | 62,539,896.17 |
| Less: Accrued statutory surplus reserve | 1,824,961.28 | 6,121,962.97 |
| Accrued discretionary surplus reserve | | |
| Accrued general risk preparation | | |
| Dividend of common stock payable | 16,841,229.78 | 12,911,609.50 |
| Dividend of common stock transferred as share capital | | |
| | | |

| | | |
|--------------------------|----------------|----------------|
| Closing retained profits | 679,131,047.06 | 651,365,935.39 |
|--------------------------|----------------|----------------|

33. Revenue and Cost of Sales

Unit: RMB

| Item | Reporting Period | | Same period of last year | |
|------------------|------------------|------------------|--------------------------|------------------|
| | Revenue | Operating costs | Revenue | Operating costs |
| Main operations | 2,393,799,573.65 | 2,053,982,326.15 | 2,258,400,410.51 | 1,849,826,031.76 |
| Other operations | 29,259,384.64 | 18,895,650.62 | 24,628,445.01 | 16,791,304.61 |
| Total | 2,423,058,958.29 | 2,072,877,976.77 | 2,283,028,855.52 | 1,866,617,336.37 |

34. Business Tax and Surcharges

Unit: RMB

| Item | Reporting Period | Same period of last year |
|--|------------------|--------------------------|
| Urban maintenance and construction tax | 2,565,415.20 | 2,649,728.73 |
| Education surcharge | 1,832,439.41 | 1,892,413.41 |
| Property tax | 4,650,467.91 | 4,169,245.49 |
| Land use tax | 3,659,038.57 | 2,976,381.90 |
| Vehicle and vessels usage tax | 1,920.00 | 2,280.00 |
| Stamp duty | 1,151,693.01 | 894,177.60 |
| Business tax | | 7,500.00 |
| Other taxes | 43,324.35 | 413,516.46 |
| Total | 13,904,298.45 | 13,005,243.59 |

35. Sales Expenses

Unit: RMB

| Item | Reporting Period | Same period of last year |
|---------------------------|------------------|--------------------------|
| Office expenses | 16,073,409.43 | 18,933,214.19 |
| Employee's remuneration | 30,109,247.54 | 28,799,684.22 |
| Sales promotional expense | 17,037,228.20 | 9,370,719.41 |
| Three guarantees | 28,911,112.28 | 39,799,196.44 |
| Transport fees | 7,199,785.26 | 6,837,099.50 |
| Other | 2,966,930.66 | 229,664.03 |
| Total | 102,297,713.37 | 103,969,577.79 |

36. Administration Expenses

Unit: RMB

| Item | Reporting Period | Same period of last year |
|----------------------------------|-----------------------|--------------------------|
| Office expenses | 15,631,029.11 | 17,890,984.51 |
| Employee's remuneration | 77,283,923.72 | 97,316,215.78 |
| Depreciation and amortization | 16,124,845.01 | 15,942,006.73 |
| Research and development expense | 50,801,135.42 | 53,319,103.98 |
| Transport fees | 2,761,951.21 | 2,966,033.22 |
| Repair charge | 2,036,028.52 | 4,796,798.73 |
| Safety expenses | 4,161,424.06 | 1,645,670.24 |
| Other | 15,750,578.21 | 13,705,400.79 |
| Total | 184,550,915.26 | 207,582,213.98 |

37. Financial Expenses

Unit: RMB

| Item | Reporting Period | Same period of last year |
|-----------------------------|----------------------|--------------------------|
| Interest expenses | 2,119,903.67 | 1,220,678.60 |
| Less: Interest income | 7,613,535.50 | 5,446,142.49 |
| Exchange net profit or loss | 6,421,288.87 | -6,491,112.12 |
| Other | -3,218,451.43 | -825,589.07 |
| Total | -2,290,794.39 | -11,542,165.08 |

38. Asset Impairment Loss

Unit: RMB

| Item | Reporting Period | Same period of last year |
|----------------------------------|----------------------|--------------------------|
| I. Bad debt loss | 5,093,473.40 | -554,826.22 |
| II. Inventory falling price loss | 35,867,310.34 | 38,035,521.66 |
| Total | 40,960,783.74 | 37,480,695.44 |

39. Investment Income

Unit: RMB

| Item | Reporting Period | Same period of last year |
|------|------------------|--------------------------|
|------|------------------|--------------------------|

| | | |
|---|---------------|--------------|
| Long-term equity investment income accounted by equity method | | 236,925.27 |
| Investment income received from the disposal of financial assets measured at fair value and the changes included into the current gains and losses | | 294,760.70 |
| Investment income received from the holding of available-for-sale financial assets | 10,709,750.99 | 2,833,250.00 |
| Investment income received from the disposal of bank's financial products | | 364,000.00 |
| Investment income received from the disposal of securities companies' financial products | 654,862.68 | 399,809.11 |
| Gains or losses arising from the equity held before the purchase date re-measured at fair value for the business combination not under the same control | 1,751,203.43 | |
| Total | 13,115,817.10 | 4,128,745.08 |

40. Return on Disposal of Assets

Unit: RMB

| Resources | Reporting Period | Same period of last year |
|------------------------------------|------------------|--------------------------|
| Return on disposal of fixed assets | 1,373,236.33 | 6,433,767.68 |

41. Other Income

Unit: RMB

| Resources | Reporting Period | Same period of last year |
|----------------------|------------------|--------------------------|
| Government subsidies | 8,456,560.85 | |

List of government subsidies recorded into other income

Unit: RMB

| Item | Reporting Period | Same period of last year | Related to assets/income |
|------------------------------------|------------------|--------------------------|--------------------------|
| Subsidy for the transformation and | 2,070,000.00 | | Related to income |

| | | | |
|---|--------------|--|--------------------------|
| upgrading of industrial and information sectors | | | |
| Trinity subsidy | 1,696,000.00 | | Related to income |
| Subsidy for stabilizing posts | 1,355,883.23 | | Related to income |
| Subsidy for the special rectification of coal fired boilers | 60,000.00 | | Related to income |
| Subsidy for participating in the international brand campaign | 300,000.00 | | Related to income |
| Commercial development fund | 21,700.00 | | Related to income |
| Development funds for small and medium-sized enterprises | 32,000.00 | | Related to income |
| Relocation compensation | 1,780,757.62 | | Related to assets/income |
| R & D and industrialization of off-road diesel engine controlled by electricity | 398,400.00 | | Related to assets |
| Other rewards and subsidies | 110,820.00 | | Related to income |
| Appropriation of other technological projects | 631,000.00 | | Related to income |
| Total | 8,456,560.85 | | |

42. Non-operating Gains

Unit: RMB

| Item | Reporting Period | Same period of last year | Recorded in the amount of the non-recurring gains and losses |
|---|------------------|--------------------------|--|
| Government subsidies | | 7,948,135.65 | |
| Insurance compensation | 1,453,805.83 | 357,156.87 | 1,453,805.83 |
| Penalty incomes | 218,421.07 | 157,649.63 | 218,421.07 |
| Gains and losses arising from the disposal of current assets | 303,456.00 | 264,992.00 | 303,456.00 |
| Other | 1,007,709.34 | 428,989.26 | 1,007,709.34 |
| Negative goodwill arising from the combination not under the same control | 19,924,486.12 | | 19,924,486.12 |

| | | | |
|-------|---------------|--------------|---------------|
| Total | 22,907,878.36 | 9,156,923.41 | 22,907,878.36 |
|-------|---------------|--------------|---------------|

Government subsidies recorded into the current gains and losses:

Unit: RMB

| Item | Distribution entity | Distribution reason | Nature | Whether subsidies influence the current profits and losses or not | Special subsidy or not | Reporting Period | Same period of last year | Related to assets/related income |
|---|---------------------|---------------------|--------|---|------------------------|------------------|--------------------------|----------------------------------|
| Project of industrial revitalization and technical transformation | | | | | | | 2,000,000.00 | Related to income |
| Special fund for industrial development | | | | | | | 500,000.00 | Related to income |
| Special fund to industrial economy for steady growth and promoting transformation | | | | | | | 1,250,000.00 | Related to income |
| Mayor Quality Prize | | | | | | | | |
| Subsidy for stabilizing posts | | | | | | | 1,928,234.75 | Related to income |
| Science and Technology Progress Award | | | | | | | | |
| Talent development fund | | | | | | | 80,000.00 | Related to income |
| Appropriation of other technological projects | | | | | | | | Related to income |
| Other rewards and subsidies | | | | | | | 615,527.28 | Related to income |
| Relocation compensation | | | | | | | 665,973.62 | Related to income |

| | | | | | | | | |
|---|--|--|--|--|--|--|--------------|-------------------|
| Subsidy for famous brands | | | | | | | 300,000.00 | Related to income |
| R & D and industrialization of off-road diesel engine controlled by electricity | | | | | | | 398,400.00 | Related to income |
| Subsidy as the fund for university-industry cooperation | | | | | | | 150,000.00 | Related to income |
| Subsidy from the association | | | | | | | 60,000.00 | Related to income |
| Total | | | | | | | 7,948,135.65 | -- |

43. Non-operating Expenses

Unit: RMB

| Item | Reporting Period | Same period of last year | Recorded in the amount of the non-recurring gains and losses |
|--|------------------|--------------------------|--|
| Losses on the disposal of non-current assets | 367,435.71 | 179,739.42 | 367,435.71 |
| Donation | 210,000.00 | 310,000.00 | 210,000.00 |
| Losses on the disposal of current assets | 7,047,215.23 | 9,640,304.91 | 7,047,215.23 |
| Other | 168,007.06 | 587,436.12 | 168,007.06 |
| Total | 7,792,658.00 | 10,717,480.45 | 7,792,658.00 |

44. Income Tax Expense

(1) Lists of Income Tax Expense

Unit: RMB

| Item | Reporting Period | Same period of last year |
|-----------------------------|------------------|--------------------------|
| Current income tax expense | 2,030,954.40 | 11,149,938.42 |
| Deferred income tax expense | -349,287.14 | 51,301.46 |
| Total | 1,681,667.26 | 11,201,239.88 |

(2) Adjustment Process of Accounting Profit and Income Tax Expense

Unit: RMB

| Item | Reporting Period |
|---|------------------|
| Total profits | 48,818,899.73 |
| Current income tax expense accounted by tax and relevant regulations | 7,322,834.96 |
| Influence of different tax rate suitable to subsidiary | 855,374.42 |
| Influence of non-taxable income | -4,583,262.68 |
| Influence of not deductible costs, expenses and losses | -1,766,118.69 |
| Influence of deductible losses of deferred income tax assets derecognized used in previous period | 5,742,161.50 |
| Influence of deductible temporary difference or deductible losses of deferred income tax assets derecognized in Reporting Period. | -11,221.38 |
| Tax preference incurred from qualified expense | -323,318.11 |
| Tax preference arising from eligible expenses | -2,303,429.33 |
| Other | -3,251,353.43 |
| Total profits | 1,681,667.26 |

45. Cash Flow Statement**(1) Other Cash Received Relevant to Operating Activities**

Unit: RMB

| Item | Reporting Period | Same period of last year |
|--|------------------|--------------------------|
| Subsidies and grants | 8,003,187.23 | 6,883,762.03 |
| Cash received from other current account | 5,034,680.92 | 2,742,256.68 |
| Interest income | 7,665,735.50 | 5,446,142.49 |
| Total | 20,703,603.65 | 15,072,161.20 |

(2) Other Cash Paid Relevant to Operating Activities

Unit: RMB

| Item | Reporting Period | Same period of last year |
|------------------------------|------------------|--------------------------|
| Sale expense paid into cash | 42,623,103.17 | 50,525,203.20 |
| Management expense paid into | 42,894,223.56 | 48,853,500.64 |

| | | |
|---------------------|---------------|----------------|
| cash | | |
| Commission Expenses | 797,242.10 | 585,735.15 |
| Other | 1,786,264.01 | 876,066.51 |
| Total | 88,100,832.84 | 100,840,505.50 |

46. Supplemental Information for Cash Flow Statement

(1) Supplemental Information for Cash Flow Statement

Unit: RMB

| Supplemental information | Reporting Period | Same period of last year |
|---|------------------|--------------------------|
| 1. Reconciliation of net profit to net cash flows generated from operating activities | -- | -- |
| Net profit | 47,137,232.47 | 63,716,669.27 |
| Add: Provision for impairment of assets | 40,960,783.74 | 37,480,695.44 |
| Depreciation of fixed assets, of oil-gas assets, of productive biological assets | 90,190,434.30 | 81,826,261.97 |
| Amortization of intangible assets | 6,018,505.30 | 4,942,465.02 |
| Amortization of long-term deferred expenses | | |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (gains by "-") | -1,373,236.33 | -6,254,028.26 |
| Losses on the scrapping of fixed assets (gains by "-") | 367,435.71 | |
| Losses on the changes in fair value (gains by "-") | | |
| Financial expenses (gains by "-") | 2,119,903.67 | 1,220,678.60 |
| Investment losses (gains by "-") | -13,115,817.10 | -4,128,745.08 |
| Decrease in deferred income tax assets (increase by "-") | -95,724.39 | 51,301.46 |
| Increase in deferred income tax liabilities (decrease by "-") | -253,562.75 | |
| Decrease in inventory (increase by "-") | -16,207,075.64 | -134,791,967.74 |
| Decrease in accounts receivable from operating activities (increase by "-") | -255,524,512.29 | -70,568,271.81 |
| Increase in payables from operating activities (decrease by "-") | 15,592,612.02 | 138,226,784.07 |

| | | |
|--|-----------------|----------------|
| Other | -37,486,258.10 | -12,247,898.90 |
| Net cash flows generated from operating activities | -121,669,279.39 | 99,473,944.04 |
| 2. Investing and financing activities that do not involving cash receipts and payment: | | -- |
| Debt transferred as capital | | |
| Convertible corporate bond due within one year | | |
| Fixed assets from financing lease | | |
| 3. Net increase in cash and cash equivalents | | -- |
| Closing balance of cash | 325,263,654.43 | 583,278,129.09 |
| Less: Opening balance of cash | 583,278,129.09 | 526,716,238.21 |
| Add: Closing balance of cash equivalents | | |
| Less: Opening balance of cash equivalents | | |
| Net increase in cash and cash equivalents | -258,014,474.66 | 56,561,890.88 |

(2) Net Cash Paid of Obtaining the Subsidiary

Unit: RMB

| | Amount |
|--|---------------|
| Cash or cash equivalents paid in the Reporting Period for the business combination occurring in the Current Period | 26,280,000.00 |
| Of which: Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 26,280,000.00 |
| Less: cash and cash equivalents held by subsidiaries on the purchase date | 22,007,649.01 |
| Of which: Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 22,007,649.01 |
| Add: cash or cash equivalents for the business combination occurring in previous period | |
| Of which: | |
| Net cash paid of obtaining the subsidiary | 4,272,350.99 |

(3) Cash and Cash Equivalents

Unit: RMB

| Item | Closing balance | Opening balance |
|-------------------------|-----------------|-----------------|
| I. Cash | 325,263,654.43 | 583,278,129.09 |
| Including: Cash on hand | 466,356.31 | 314,905.29 |
| Bank deposit on demand | 324,781,747.27 | 582,963,123.80 |

| | | |
|---|----------------|----------------|
| Other monetary fund on demand | 15,550.85 | 100.00 |
| Accounts deposited in the central bank available for payment | | |
| Deposits in other banks | | |
| Accounts of interbank | | |
| II. Cash equivalents | | |
| Of which: bond investment expired within three months | | |
| III. Balance of cash and cash equivalents | 325,263,654.43 | 583,278,129.09 |
| Of which: cash and cash equivalents with restriction in use for the Parent Company or subsidiaries of the Group | | |

47. The Assets with the Ownership or Use Right Restricted

Unit: RMB

| Item | Closing book value | Reason for restriction |
|----------------------|--------------------|--|
| Monetary capital | 105,041,713.28 | Margin of bank acceptance bill and L/C |
| Houses and buildings | 9,597,056.53 | Pledge for bank loans |
| Land use right | 18,940,882.28 | Pledge for bank loans |

48. Foreign Currency Monetary Items

(1) Foreign Currency Monetary Items

Unit: RMB

| Item | Closing foreign currency balance | Exchange rate | Closing balance of converting to RMB |
|---------------------|----------------------------------|---------------|--------------------------------------|
| Monetary capital | -- | -- | |
| Including: USD | 6,798,219.88 | 6.5342 | 44,420,928.34 |
| HKD | 218,624.13 | 0.83591 | 182,750.10 |
| SGD | 54,427.95 | 4.8831 | 265,777.12 |
| JPY | 3,451.00 | 0.057883 | 199.75 |
| Accounts receivable | -- | -- | |
| Including: USD | 7,600,123.97 | 6.5342 | 49,660,730.04 |

VIII. Changes of Merger scope

1. Business Merger not under Same Control

(1) Business Merger not under Same Control in Reporting Period

Unit: RMB

| Name of acquiree | Time and place of gaining the stock rights | Cost of gaining the stock rights | Proportion of stock rights | Way to gain the stock rights | Purchase date | Recognition basis of purchase date | Income of acquiree during the purchase date to period-end | Net profits of acquiree during the purchase date to period-end |
|--|--|----------------------------------|----------------------------|------------------------------|---------------|---|---|--|
| Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 01/20/2017 | 26,280,000.00 | 67.00% | Acquisition in cash | 01/20/2017 | The whole accounts of stock acquisition had been paid; the change procedure of industrial and commercial registration had been conducted; the controlling rights had been acquired. | 160,850,613.34 | 5,642,002.58 |

(2) Combined Cost and Goodwill

Unit: RMB

| | |
|---------------|--|
| Combined cost | Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. |
| --Cash | 26,280,000.00 |

| | |
|---|---------------|
| --Fair value of non-cash assets | |
| --Fair value of liabilities issued or undertaken | |
| --Fair value of equity securities issued | |
| --Fair value of contingent consideration | |
| --Fair value of equity held before the purchase date on the purchase date | 22,757,433.46 |
| --Other | |
| Total combination cost | 49,037,433.46 |
| Less: Shares of fair value of recognizable net assets obtained | 68,961,919.58 |
| Amount of shares of fair value recognizable net assets obtained minus goodwill/combination cost | 19,924,486.12 |

(3) The Identifiable Assets and Liabilities of Acquiree on Purchase Date

Unit: RMB

| | Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | |
|------------------------------------|--|-----------------------------|
| | Fair value on purchase date | Book value on purchase date |
| Assets: | 87,293,684.29 | 80,218,115.74 |
| Monetary capital | 22,007,649.01 | 22,007,649.01 |
| Accounts receivable | 14,218,423.93 | 14,218,423.93 |
| Inventory | 33,860,583.74 | 33,860,583.74 |
| Fixed assets | 7,697,441.16 | 10,400,703.76 |
| Intangible assets | 2,041,797.54 | 6,414,103.49 |
| Liabilities | 18,331,764.71 | 16,562,872.57 |
| Loans | 0.00 | 0.00 |
| Accounts payable | 16,562,872.57 | 16,562,872.57 |
| Deferred income tax liabilities | 0.00 | 1,768,892.14 |
| Net assets | 68,961,919.58 | 63,655,243.17 |
| Less: Minority shareholders equity | | |
| Net assets obtained | 68,961,919.58 | 63,655,243.17 |

(4) The Profit or Loss from Equity Held before the Acquisition Date Re-measured at Fair Value

Whether there is a transaction that through multiple transaction step by step to realize enterprises merger and gaining the control during the Reporting Period

Yes No

Unit: RMB

| Name of acquiree | Book value of stock rights held before the purchase date on the purchase date | Fair value of stock rights held before the purchase date on the purchase date | Gains or losses arising from stock rights held before the purchase date re-measured at fair value | Determination method for the fair value of stock rights held before the purchase date on the purchase date and main assumptions | Amount of investment income transferred from other comprehensive income related to stock rights held before the purchase date |
|--|---|---|---|--|---|
| Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 21,006,230.03 | 22,757,433.46 | 1,751,203.43 | Continue to calculate the fair value on the purchase date based on the fair values of assets and liabilities assessed on June 30, 2017-the base date of assets evaluation. | - |

IX. Equity in Other Entities

1. Equity in Subsidiary

(1) The Structure of the Enterprise Group

| Name | Main operating place | Registration place | Nature of business | Holding percentage (%) | | Way of gaining |
|---|----------------------|--------------------|--------------------|------------------------|------------|----------------|
| | | | | Directly | Indirectly | |
| Changchai Wanzhou Diesel Engine Co., Ltd. | Chongqing | Chongqing | Industry | 60.00% | | Set-up |
| Changzhou Changchai Benniu Diesel Engine Fittings Co., Ltd. | Changzhou 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 |
| Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | Changzhou City | Changzhou City | Industry | 100.00% | | Business merger not under the same control |

(2) Significant Non-wholly-owned Subsidiary

Unit: RMB

| Name | Shareholding proportion of minority shareholder | The profits and losses arbitrate to the minority shareholders | Declaring dividends distribute to minority shareholder | Balance of minority shareholder at closing period |
|---|---|---|--|---|
| Changchai Wanzhou Diesel Engine Co., Ltd. | 40.00% | 703,685.46 | | 19,102,633.03 |
| Changzhou Changchai Housheng Agricultural Equipment Co., Ltd. | 5.00% | 2,244.28 | | 370,523.28 |

(3) The Main Financial Information of Significant not Wholly Owned Subsidiary

Unit: RMB

| Name | Closing balance | | | | | | Opening balance | | | | | |
|----------------|-----------------|--------------------|---------------|---------------------|-----------------------|-------------------|-----------------|--------------------|---------------|---------------------|-----------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liability | Total liabilities | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liability | Total liabilities |
| Changchai Wanz | 51,974,844.72 | 27,420,469.36 | 79,395,314.08 | 29,638,731.50 | 2,000,000.00 | 31,638,731.50 | 43,462,836.42 | 27,671,597.38 | 71,134,433.80 | 25,137,064.88 | | 25,137,064.88 |

| | | | | | | | | | | | | |
|---|-----------------------|----------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------|-----------------------|-----------------------|-----------------------|--|--|
| hou Diese l Engin e Co., Ltd. | | | | | | | | | | | | |
| Chan gzhou Chan gchai Hous heng Agric ultura l Equip ment Co., Ltd. | 38,59 7,424 .23 | 346,5 26.83 | 38,94 3,951 .06 | 31,53 3,485 .51 | 31,53 3,485 .51 | 29,74 3,164 .98 | 372,8 68.70 | 30,11 6,033 .68 | 22,75 0,453 .64 | 22,75 0,453 .64 | | |

Unit: RMB

| Name | Reporting Period | | | | Same period of last year | | | |
|---|--------------------------|------------------|--------------------------------------|------------------------|--------------------------|------------------|--------------------------------------|------------------------|
| | Operatio n revenue | Net profit | Total comprehe nsive income | Operating cash flow | Operation revenue | Net profit | Total comprehe nsive income | Operating cash flow |
| Changchai Wanzhou Diesel Engine Co., Ltd. | 64,348,5 08.86 | 1,759,213 .66 | 1,759,213 .66 | 6,032,875 .55 | 66,035,87 2.53 | 2,684,535 .81 | 2,684,535 .81 | 5,461,701 .22 |
| Changzho u Changchai Housheng Agricultur al Equipmen t Co., Ltd. | 15,715,1 66.92 | 44,885.51 | 44,885.51 | -10,230,8 32.08 | 20,425,66 6.48 | 2,059,175 .66 | 2,059,175 .66 | 1,114,872 .81 |

2. Equity in the Structured Entity not Included in the Scope of Consolidated Financial Statements

Related notes to structured entity not included in the scope of consolidated financial statements:

On October 18, 2017, the Company set up Changzhou Xietong Private Equity Fund (Limited Partnership) together with Synergetic Innovation Fund Management Co., Ltd. through joint investment, of which, RMB1 million was invested by the general partner- Synergetic Innovation Fund Management Co., Ltd., and RMB100 million was invested by the limited partner-Changchai Co., Ltd. In accordance with the *Partnership Agreement*, the limited partner does not execute the partnership affairs. Thus, the Company does not control Changzhou Xietong Private Equity Fund (Limited Partnership) and did not include it into the scope of consolidated financial statements.

X. The Risk Related Financial Instruments

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

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

(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 has 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 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 | -- | -- | -- | -- |
| (II) Available-for-sale financial assets | 685,837,500.00 | | | 685,837,500.00 |
| (1) Debt instrument investment | | | | |
| (2) Equity tool investment | 685,837,500.00 | | | 685,837,500.00 |
| Total of assets consistently measured by fair value | 685,837,500.00 | | | 685,837,500.00 |

2. Market Price Recognition Basis for Consistent and Inconsistent Fair Value Measurement Items at Level 1

The available-for-sale financial assets measured at fair value of the Company were 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 the Parent Company

| Name of Parent Company | Registration place | Nature of business | Registered capital | Proportion of share held by parent company against the Company (%) | Proportion of voting rights owned by parent company against the |
|------------------------|--------------------|--------------------|--------------------|--|---|
| | | | | | |

| | | | | | Company (%) |
|---|-----------|--|--|--------|-------------|
| Changzhou Government State-owned Assets Supervision and Administration Commission | Changzhou | | | 30.43% | 30.43% |

Notes: Information on the parent company:

The actual controller of the Company is Changzhou Government State-owned Assets Supervision and Administration Commission. At Dec. 31, 2017, 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

Refer to Note IX for details.

3. Information on Other Related Parties of the Company

| Name | Relationship |
|---|--|
| Synergetic Innovation Fund Management Co., Ltd. | The Company serves as the senior executive of that company |

4. List of Related-party Transactions

(1) Other Related-party Transactions

On October 18, 2017, the Company set up Changzhou Synergetic Innovation Private Equity Fund (Limited Partnership) through investment together with Synergetic Innovation Fund Management Co., Ltd., of which, RMB1 million was invested by the general partner-Synergetic Innovation Fund Management Co., Ltd., and RMB0.1 billion was invested by the limited partner-Changchai Co., Ltd.

XIII. Commitments and Contingency

1. Significant Commitments

Significant commitments on the balance sheet date

As of 31 Dec. 2017, there were no significant commitments to be disclosed.

2. Contingency

(1) Significant Contingency on Balance Sheet Date

Previous litigations continuing to the Reporting Period the Company involved:

| Name of the entity | Date of accepted | Name of the litigation or arbitration institutions | Amount involved (RMB'0,000) | Remark |
|---------------------------------|------------------|--|-----------------------------|--------------------------------------|
| Shandong Hongli Group Co., Ltd. | 06/27/2001 | Changzhou Intermediate People's Court | 1,436.00 | Under the bankruptcy and liquidation |

Notes to the case:

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.

XIV. Events after Balance Sheet Date

1. Profit Distribution

Unit: RMB

| | |
|---|---------------|
| Profits or dividends planned to be allocated | 16,841,229.78 |
| Reviewed and approved Profits or dividends allocation | |

XV. Other Significant Events

1. Segment Information

(1) Reasons Should Be Given when the Company Has no Segment, or the Total Assets and Total Liabilities of Various Segments Could Not Be Disclosed

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 Notes

2. Other Important Transactions and Events Having an Impact on Investors' Decision-making

As of the approval issue date of financial statements, the Company did not complete the liquidation procedures of 2017 annual enterprise income tax.

XVI. Notes of Main Items in the Financial Statements of the Parent Company

1. Accounts Receivable

(1) Accounts Receivable Classified by Category

Unit: RMB

| Category | Closing balance | | | | | Opening balance | | | | |
|--|-----------------|------------|--------------------|-----------------------|----------------|-----------------|------------|--------------------|-----------------------|----------------|
| | Book balance | | Bad debt provision | | Book value | Book balance | | Bad debt provision | | Book value |
| | Amount | Proportion | Amount | Withdrawal proportion | | Amount | Proportion | Amount | Withdrawal proportion | |
| Accounts receivable with significant single amount for which bad debt provision separately accrued | 35,274,603.67 | 6.52% | 30,401,000.85 | 86.18% | 4,873,602.82 | 37,894,677.8 | 7.17% | 31,210,576.96 | 82.36% | 6,684,100.82 |
| Accounts receivable withdrawal of bad debt provision of by credit risks characteristics: | 505,142,981.60 | 93.30% | 190,129,532.72 | 37.64% | 315,013,448.88 | 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 | 974,986.14 | 0.18% | 974,986.14 | 100.00% | | 276,298.29 | 0.05% | 276,298.29 | 100.00% | |
| Total | 541,392,571.41 | 100.00% | 221,505,519.71 | 40.91% | 319,887,051.70 | 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:

Applicable Not applicable

Unit: RMB

| Accounts receivable (by unit) | Closing balance | | | |
|-------------------------------|---------------------|--------------------|-----------------------|--------------------------------|
| | Accounts receivable | Bad debt provision | Withdrawal proportion | Withdrawal reason |
| Customer 1 | 1,902,326.58 | 1,902,326.58 | 100.00 | Difficult to recover |
| Customer 2 | 6,215,662.64 | 6,215,662.64 | 100.00 | Difficult to recover |
| Customer 3 | 2,347,839.17 | 2,175,177.75 | 92.65 | Estimated difficult to recover |
| Customer 4 | 3,279,100.00 | 3,279,100.00 | 100.00 | Estimated difficult to recover |
| Customer 5 | 2,068,377.01 | 2,068,377.01 | 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 | 1,563,741.28 | 1,563,741.28 | 100.00 | Difficult to recover |
| Customer 9 | 1,161,700.00 | 580,850.00 | 50.00 | Estimated difficult to recover |
| Customer 10 | 8,791,670.16 | 4,671,578.76 | 53.14 | Estimated difficult to recover |
| Total | 35,274,603.67 | 30,401,000.85 | -- | -- |

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

Applicable Not applicable

Unit: RMB

| Aging | Closing balance | | |
|-------|---------------------|--------------------|-----------------------|
| | Accounts receivable | Bad debt provision | Withdrawal proportion |
| | | | |

| Subitem within 1 year | | | |
|------------------------|----------------|----------------|---------|
| Subtotal within 1 year | 310,936,203.59 | 6,218,724.06 | 2.00% |
| 1 to 2 years | 8,955,873.22 | 447,793.66 | 5.00% |
| 2 to 3 years | 1,307,816.38 | 196,172.46 | 15.00% |
| 3 to 4 years | 872,139.62 | 261,641.89 | 30.00% |
| 4 to 5 years | 164,370.37 | 98,622.22 | 60.00% |
| Over 5 years | 182,906,578.42 | 182,906,578.42 | 100.00% |
| Total | 505,142,981.60 | 190,129,532.72 | |

Notes of the basis for the determination of the group:

In the groups, accounts receivable adopting balance percentage method to accrue bad debt provision:

Applicable Not applicable

Unit: RMB

(2) Bad Debt Provision Withdrawal, Reversed or Recovered in the Reporting Period

The withdrawal amount of the bad debt provision during the Reporting Period was of RMB7,242,507.82; the amount of the reversed or collected part during the Reporting Period was of RMB4,011,804.95.

(3) Particulars of the Actual Verification of Accounts Receivable during the Reporting Period

Unit: RMB

| Item | Amount |
|---|--------------|
| Wuxi Combine Harvester Co., Ltd. | 148,840.10 |
| Shanghe Xiyanghong Agricultural Machinery Trading Company | 510,972.30 |
| Xinxiang Yituo Co., Ltd. | 681,150.48 |
| FAW Harbin K-CAR Co., Ltd. | 138,297.38 |
| Total | 1,479,260.26 |

(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 218,623,071.69, 40.38% of total closing balance of account receivable, the relevant closing balance of bad debt provision withdrawn was RMB9,673,874.34.

2. Other Accounts Receivable

(1) Other Account Receivable Classified by Category

Unit: RMB

| Category | Closing balance | | | | | Opening balance | | | | |
|--|-----------------|------------|--------------------|-----------------------|---------------|-----------------|------------|--------------------|-----------------------|--------------|
| | Book balance | | Bad debt provision | | Book value | Book balance | | Bad debt provision | | Book value |
| | Amount | Proportion | Amount | Withdrawal proportion | | Amount | Proportion | Amount | Withdrawal proportion | |
| Other accounts receivable with significant single amount for which bad debt provision separately accrued | 2,853,188.02 | 6.83% | 2,853,188.02 | 100.00% | | 2,853,188.02 | 8.56% | 2,853,188.02 | 100.00% | |
| Other accounts receivable withdrawn bad debt provision according to credit risks characteristics | 36,815,664.59 | 88.14% | 25,017,453.19 | 67.95% | 11,798,211.40 | 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 | 2,099,382.02 | 5.03% | 2,099,382.02 | 100.00% | | 2,679,801.13 | 8.04% | 2,679,801.13 | 100.00% | |
| Total | 41,768,234.63 | 100.00% | 29,970,023.23 | 71.75% | 11,798,211.40 | 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:

Applicable Not applicable

Unit: RMB

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

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

Applicable Not applicable

Unit: RMB

| Aging | Closing balance | | |
|------------------------|---------------------------|--------------------|-----------------------|
| | Other accounts receivable | Bad debt provision | Withdrawal proportion |
| Subitem within 1 year | | | |
| Subtotal within 1 year | 11,257,923.82 | 225,158.47 | 2.00% |
| 1 to 2 years | 445,822.98 | 22,291.15 | 5.00% |
| 2 to 3 years | 106,930.77 | 16,039.62 | 15.00% |
| 3 to 4 years | 60,114.33 | 18,034.30 | 30.00% |
| 4 to 5 years | 522,357.60 | 313,414.56 | 60.00% |
| Over 5 years | 24,422,515.09 | 24,422,515.09 | 100.00% |
| Total | 36,815,664.59 | 25,017,453.19 | |

Notes of the basis for the determination of the group:

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

Applicable Not applicable

Note: fill in the accurate name of the group.

Notes of the basis for the determination of the group:

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

Applicable Not applicable

Notes: explain the basis for the determination of the group, the closing balance of various other accounts receivable, the closing balance of bad debt provision and the withdrawal proportion of bad debt provision.

(2) Bad Debt Provision Withdraw, Reversed or Collected during the Reporting Period

The amount of bad debt provision was RMB332,318.75, the amount of reversed or recovered bad debt

provision in the Reporting Period RMB0.00.

(3) Particulars of the Actual Verification of Other Accounts Receivable during the Reporting Period

Naught

(4) Other Accounts Receivable Classified by the Nature

Unit: RMB

| Nature | Closing book balance | Opening book balance |
|----------------------------------|----------------------|----------------------|
| Guarantee and cash pledge | 4,200.00 | 4,200.00 |
| Intercourse accounts among units | 25,497,534.34 | 16,917,626.21 |
| Petty cash & employee borrowing | 912,133.46 | 1,056,185.37 |
| Other | 15,354,366.83 | 15,354,366.83 |
| Total | 41,768,234.63 | 33,332,378.41 |

(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% | Closing balance of bad debt provision |
|---|----------------------|----------------------|---------------|---------------|---------------------------------------|
| Changzhou Changchai Housheng Agricultural Equipment Co., Ltd. | Intercourse accounts | 7,161,832.25 | Within 1 year | 17.15% | 143,236.65 |
| Changzhou Compressor Co., Ltd. | Intercourse accounts | 2,940,000.00 | Over 5 years | 7.04% | 2,940,000.00 |
| Changchai Group Import & Export Co., Ltd. | Intercourse accounts | 2,853,188.02 | Over 5 years | 6.83% | 2,853,188.02 |
| Changzhou New District Accounting Center | Intercourse accounts | 1,626,483.25 | Over 5 years | 3.89% | 1,626,483.25 |
| OEM Group Settlement Center | Intercourse accounts | 1,140,722.16 | Over 5 years | 2.73% | 1,140,722.16 |
| Total | -- | 15,722,225.68 | -- | 37.64% | 8,703,630.08 |

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 | 231,752,730.03 | | 231,752,730.03 | 184,466,500.00 | | 184,466,500.00 |
| Investment to joint ventures and associated enterprises | 44,182.50 | 44,182.50 | | 21,050,412.53 | 44,182.50 | 21,006,230.03 |
| Total | 231,796,912.53 | 44,182.50 | 231,752,730.03 | 205,516,912.53 | 44,182.50 | 205,472,730.03 |

(1) Investment to the Subsidiary

Unit: RMB

| Investee | Opening balance | Increase | Decrease | Closing balance | Withdrawn impairment provision in the Reporting Period | Closing balance of impairment provision |
|---|-----------------|---------------|----------|-----------------|--|---|
| Changchai Wanzhou Diesel Engine Co., Ltd. | 51,000,000.00 | | | 51,000,000.00 | | |
| Changzhou Changchai Benniu Diesel Engine Fittings Co., Ltd. | 96,466,500.00 | | | 96,466,500.00 | | |
| Changzhou Housheng Investment Co., Ltd. | 30,000,000.00 | | | 30,000,000.00 | | |
| Changzhou Changchai Housheng Agricultural Equipment Co., Ltd. | 7,000,000.00 | | | 7,000,000.00 | | |
| Changzhou Fuji Changchai Robin | | 47,286,230.03 | | 47,286,230.03 | | |

| | | | | | |
|---------------------------|----------------|---------------|--|----------------|--|
| Gasoline Engine Co., Ltd. | | | | | |
| Total | 184,466,500.00 | 47,286,230.03 | | 231,752,730.03 | |

(2) Investment to Joint Ventures and Associated Enterprises

Unit: RMB

| Investee | Opening balance | Increase/decrease | | | | | | | | Closing balance | Closing balance of impairment provision |
|--|-----------------|---------------------|--------------------|---|--|-------------------------|--|------------------------------------|-------|-----------------|---|
| | | Addition investment | Reduced investment | Gains and losses recognized under the equity method | Adjustment of other comprehensive income | Changes of other equity | Cash bonus or profits announced to issue | Withdrawal of impairment provision | Other | | |
| I. Joint ventures | | | | | | | | | | | |
| II. Associated enterprises | | | | | | | | | | | |
| Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. | 21,006,230.03 | | 21,006,230.03 | | | | | | | | |
| Beijing Tsinghua Xingye Industrial Investment Management Co., Ltd. | 44,182.50 | | | | | | | | | 44,182.50 | 44,182.50 |
| Subtotal | 21,050,412.53 | | 21,006,230.03 | | | | | | | 44,182.50 | 44,182.50 |
| Total | 21,050,412.53 | | 21,006,230.03 | | | | | | | 44,182.50 | 44,182.50 |

(3)Other Notes**4. Revenues and Operating Costs**

Unit: RMB

| Item | Reporting Period | | Same period of last year | |
|------------------|------------------|------------------|--------------------------|------------------|
| | Revenue | Operating costs | Revenue | Operating costs |
| Main operations | 2,208,546,755.61 | 1,913,570,161.64 | 2,238,155,721.58 | 1,856,049,114.70 |
| Other operations | 27,259,235.38 | 18,109,162.04 | 23,268,342.48 | 16,348,177.30 |
| Total | 2,235,805,990.99 | 1,931,679,323.68 | 2,261,424,064.06 | 1,872,397,292.00 |

5. Investment Income

Unit: RMB

| Item | Reporting Period | Same period of last year |
|--|------------------|--------------------------|
| Long-term equity investment income accounted by cost method | | 236,925.27 |
| Investment income received from holding of available-for-sale financial assets | 10,709,750.99 | 2,673,250.00 |
| Investment income received from the disposal of financial products | | 364,000.00 |
| Total | 10,709,750.99 | 3,274,175.27 |

XVII. Supplementary Materials**1. Non-recurring Gains and Losses during this Reporting Period**√ Applicable Not applicable

Unit: RMB

| Item | Amount | Note |
|--|--------------|------|
| Gains/losses on the disposal of non-current assets | 1,005,800.62 | |
| Tax rebates, reductions or exemptions due to approval beyond authority or the lack of official approval documents | | |
| Government grants recognized in the current period, except for those acquired in the ordinary course of business or granted at certain quotas or amounts according to the government's unified standards | 8,456,560.85 | |

| | | |
|--|---------------|---|
| Capital occupation charges on non-financial enterprises that are recorded into current gains and losses | 1,200,592.21 | |
| Gains due to that the investment costs for the Company to obtain subsidiaries, associates and joint ventures are lower than the enjoyable fair value of the identifiable net assets of the investees when making the investments | 19,924,486.12 | In case of the negative goodwill resulting from non-identical control after the merger of FCR, Changchai decided to complete the transfer of shares of Changzhou Fuji Changchai Robin Gasoline Engine Co., Ltd. on January 20, 2017. So FCR has incorporated into Changchai company's consolidated statement since January 20, 2017. Then the difference of identifiable net assets share less the combined cost was included in the current profit and loss as 19.9245 million yuan. |
| Gain/loss on non-monetary asset swap | | |
| Gain/loss on entrusting others with investments or asset management | | |
| Asset impairment provisions due to acts of God such as natural disasters | | |
| Gains and losses from debt restructuring | | |
| Expenses on business reorganization, such as expenses on staff arrangements, integration, etc. | | |
| Gain/loss on the part over the fair value due to transactions with distinctly unfair prices | | |
| Current net gains and losses of subsidiaries acquired in business combination under the same control from period-begin to combination date | | |
| Profits or losses incurred from contingency of non-operating business. | | |
| 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 | 654,862.68 | |
| Reverse of bad debt provision of account receivable individually conducting impairment test | | |

| | | |
|--|---------------|----|
| Gain/loss on entrustment loans | | |
| Gain/loss on change of the fair value of investing real estate of which the subsequent measurement is carried out adopting the fair value method | | |
| Effect on current gains/losses when a one-off adjustment is made to current gains/losses according to requirements of taxation, accounting and other relevant laws and regulations | | |
| Custody fee income when entrusted with operation | | |
| Other non-operating income and expenses other than the above | -4,441,830.05 | |
| Project confirmed with the definition of non-recurring gains and losses and losses | | |
| Gains or losses arising from the re-measurement of the original stock rights held before the purchase date by fair value for the business combination not under the same control | 1,751,203.43 | |
| Less: Income tax effects | 951,629.77 | |
| Minority interests effects | -12,821.48 | |
| Total | 27,612,867.57 | -- |

Notes: Items of non-recurring gains and losses were listed in line with the pretax amount.

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

Applicable Not applicable

2. Return on Equity (ROE) and Earnings Per Share (EPS)

| Profit as of Reporting Period | Weighted average ROE (%) | EPS (Yuan/share) | |
|--|--------------------------|------------------|-------------|
| | | EPS-basic | EPS-diluted |
| Net profit attributable to common shareholders of the Company | 2.00 | 0.08 | 0.08 |
| Net profit attributable to common shareholders of the Company after deduction of non-recurring profit and loss | 0.81 | 0.03 | 0.03 |

The Board of Directors
Changchai Company, Limited
April 13, 2018