

2002 ANNUAL REPORT

WEIFU HIGH-TECHNOLOGY CO.,LTD.
无锡威孚高科技股份有限公司

(Incorporated in the People's Republic of China with limited liability)

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I**MPORTANT:** *The Directors of Weifu High Technology Co., Ltd. collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false statements and material omissions which would make any statement in this report misleading.*

The Chairman of the Board, General manager and Principal Treasurer of the Company shall collectively assure of the authenticity and completeness of the financial statements contained in this report.

The reader is advised that the 2002 annual report of the Company has been prepared originally in Chinese. In the event of a conflict between this version and the original Chinese version or difference in interpretation between the versions of the report, the Chinese version shall prevail.

COMPANY INFORMATION

Chinese Name:	无锡威孚高科技股份有限公司
English Name:	WEIFU HIGH TECHNOLOGY CO., LTD.
Legal Representative:	Mr. Xu Liangfei
Secretary of the Board:	Mr. Liu Yonglin
Authorized Representative:	Mr. Zhou Weixin
Mailing Address:	No.107, West Renmin Road ,Wuxi, Jiangsu, China.
Tel.:	0510-2719579
Fax:	0510-2751025
E-Mail:	Wfjt @ public1.wx.js.cn
Registered Address:	Plot 46, Wuxi National High-Tech Industrial Development Zone
Head Office:	No.107, West Renmin Road ,Wuxi, Jiangsu, China.(214031)
Homepage:	http://www.China-weifu.com
Corporate E-Mail	webmaster@China-weifu.com
Information Disclosure	Securities Times, China Securities,
Media:	HongKong Ta Kung Pao
Annual Report for reference:	Securities Department of the Company
	Internet Website: http://www.cninfo.com.cn
Stock Listing and Trading:	Shenzhen Securities Exchange, China.
Stock Name:	Weifu High- Tech, Su Weifu-B
Stock Code:	000581,200581
Supplementary Information:	
1.Original Registration Date:	October 22,1988
Address:	No.107, West Renmin Road, Wuxi
Changed Registration	September 28, 1995,
Date:	July 16, 1998,
	November 2, 1999
	November 22,2000
Address:	Plot 46, National High-tech Industrial Development Zone, Wuxi
2.Business Registration No.	3200001103404(2/2)
3.Taxation Registration No.	320208250456967
4.Domestic Auditor:	Jiangsu Certified Public Accountant
	No.28, Liangxi Road, Wuxi
International Auditor:	PricewaterhouseCoopers Zhong Tian CPAs Co.,Ltd..
	12 th Floor, Shui On Plaza,333 Huai Hai Zhong Road,Shanghai,P.R.China

KEY ACCOUNTING AND BUSINESS DATA

1. Business Results in 2002 (in RMB' 000)

(1) Profit, Total	216,696
Profit, Net	197,646
Profit, deduct nonrecurring gains and losses	206,344
(2) Profit from main business operation	377,831
(3) Other Operating Income/Expense	246
(4) Operating Profit	125,612
Investment Income	116,573
Income from Subsidies	-
Non-operating Income/Expense	-13,356
(5) Cash Flow from Operating Activities, Net	118,790
(6) Increments on cash and cash equivalents	-183,383

Note: Nonrecurring gains and losses:

Income arising from capital occupied	227
Donation	-2,857
Losses arising from liabilities reorganization	-231
Gains/losses from disposal of fixed assets:	-5,287
Amortized price differences arising from consolidation	-2,081
Income Taxation	1,534
Total	-8,695

2. Impact of IAS adjustment on net profit (in RMB' 000)

As reported in the statutory accounts of the Company	204,033
recognition of investment income (loss) under equity accounting	-6,387
As restated to IAS	197,646

3. Three-year Key Financial and Business Data (as of 31st, Dec.2002, in RMB'000 unless expressed otherwise)

Items	2002	2001	2000
Sales	1,511,167	1,025,758	868,218
Net profit	197,646	159,590	130,240
Total assets	2,508,934	2,178,645	1,992,904
Shareholders' equity (less minority interests)	1,894,260	1,781,310	1,708,993
Earnings per share (Fully diluted, in RMB ¥)	0.45	0.37	0.30
Earnings per share (Average weight, in RMB ¥)	0.45	0.37	0.32
Equity per share (in RMB ¥)	4.34	4.08	3.92
Equity per share (upon adjustment, in RMB ¥)	4.33	4.07	3.92
Net Cash Flow per share (in RMB ¥)	0.27	0.34	0.02
Return on net assets (%) (Fully diluted)	10.43	8.96	7.62
Return on net assets (%) (Average weight)	10.51	8.92	10.51

4. Calculation for Return on net assets and Earnings per share

(in accordance with the Regulation (No.9) on Information Disclosure for Listed Company by the State Securities Regulatory Commission, expressed in RMB'000 unless expressed otherwise)

Items	Profit	Return on net assets (%)		Earnings per share (%)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Main business operational profit	377,831	19.95	20.56	0.87	0.87
Operating profit	125,612	6.63	6.83	0.29	0.29
Net profit	197,646	10.43	10.75	0.45	0.45
Profit, deduct nonrecurring gains/ losses	206,344	10.89	11.23	0.47	0.47

5.Changes in Shareholders' Equity (in RMB' 000)

Items	Amounts in the year beginning	Increment	Amounts at the year-end
Share Capital	436,366	-	436,366
Capital Reserve	908,919	2,431	911,496
Sulplus Reserve	111,768	31,111	142,879
Statutory Public Welfare	36,711	10,370	47,081
Unappropriated Profit,	324,257	79,262	403,519
Total	1,781,310	112,804	1,894,260

SHARE CAPITAL AND SHAREHOLDERS

1. Change in Share Capital (ended on Dec.31st,2002)

	Beginning Number	Increase/Decrease	Closing Number
Unlisted Shares			
1.Promoter's Shares	121,566,150	-	121,566,150
including: Domestic		-	
Legal Shares	121,566,150		121,566,150
2.Legal Subscription	10,400,000	-	10,400,000
3. Employees' Shares	24,000,000	-24,000,000	
Sub-total	<u>155,966,150</u>	-24,000,000	<u>131,966,150</u>
Listed Shares			
1.A Shares	192,000,000	23,838,300	215,838,300
2.B Shares	88,400,000	-	88,400,000
3.Overseas Shares		-	
4.Other		161,700	161,700
Sub-total	<u>280400000</u>	24,000,000	<u>304,400,000</u>
Total	<u>436,366,150</u>	-	<u>436,366,150</u>

2. Shares In Issue and listing:

During the period of 31st October to 10th November,2000,based on the total number of share capital of 303,435,500 shares on the 31st December,1998,the Company has offered an right issue for subscription at the price of RMB ¥10 per share by allocating 3 shares for every 10 shares, totally 41,900,000 shares, which were listed and traded from 30th November,2000.As a result, the Company's total share capital reached 436,366,150 shares.

3.Shareholders of the Company

1).Total Number of Shareholders: 91,417 (as of 31st, Dec. 2002)

2).Top 10 Shareholders:

NAME	Number of Shares	Percentage (%)	Classification
1.WUXI WEIFU GROUP COMPANY LIMITED	121,566,150	27.86	State Legal Person
2. HUAAN INNOVATION FUNDS	16,314,622	3.74	A Share Investor

3.ROBERT BOSCH GMBH	14,144,000	3.24	B Share Investor
4. GUOLIAN SECURITIES CO.	6,336,129	1.45	A Share Investor
5. ANSHUEN FUNDS	5,785,130	1.33	A Share Investor
6. KINGTAI FUND	5,643,748	1.29	A Share Investor
7.YUYUAN FUNDS	2,780,946	0.64	A Share Investor
8.WUXI STATE-OWNED ASSETS INVESTMENT AND DEVELOPMENT CO.	2,600,000	0.60	Social Legal Person
9. TONGQIAN FUNDS	2,538,622	0.58	A Share Investor
10. ZHANGPING	2,104,600	0.48	A Share Investor

Notes: Among the top ten shareholders, Huaan Innovation Funds and Anshuen Funds are managed by the same funds management company.

3). Majority Holding Shareholder

Name:	Wuxi Weifu Group Co.,Ltd..
Legal representative	Mr.Xu Liangfei
Nature	Fully State-owned enterprise
Registered Capital	RMB134, 830, 000
Establishment	December 14,1994
Business scope:	Processing and manufacturing of general machinery, instruments and meters, tools and components for electrical products, plastic products, chemical products and raw materials, sales of automobiles and installation kits, repair and maintenance for internal combustion engines, consultancy services for the machinery industry, import and export.

4).Majority Shareholder: The Company's majority holding shareholder remained unchanged, and no mortgage on its shareholding occurred through the year.

Directors, Supervisors, Senior management and Staff

1. General Information

Name	Position	Gender	Age	Term of Office	2002 shareholding (Beginning/End)
Xu Liangfei	Chairman of the Directors	Male	58	2002.6~2005.6	12,800/12,800
Han Jiangming	Vice Chairman, General Manager	Male	51	2002.6~2005.6	12,800/12,800
Zu Jilin	Director	Male	60	2002.6~2005.6	12,800/12,800
Li Tonghua	Director	Male	59	2002.6~2005.6	12,800/12,800
Wang Weiliang	Director	Male	37	2002.6~2005.6	8,000/8,000
Gao Guoyuan	Director, Deputy General Manager	Male	49	2002.6~2005.6	6,500/6,500
Ge Songping	Director, Deputy General Manager	Male	48	2002.6~2005.6	16,000/16,000
Chen Zhaolin	Director	Male	45	2002.6~2005.6	-
Zhang Xiaoyu	Independent Director	Male	59	2002.6~2005.6	-
Ouyang Minggao	Independent Director	Male	44	2002.6~2005.6	-
Chen Qilong	Independent Director	Male	52	2002.6~2005.6	-
Chen Xuejun	Chairman of the Supervisors	Male	35	2002.6~2005.6	2,000/2,000
Li Guodong	Supervisor	Male	53	2002.6~2005.6	-
Zhang Jiming	Supervisor	Male	33	2002.6~2005.6	-
Wang Chuan	Supervisor	Male	53	2002.6~2005.6	-
Wang Xiaodong	Supervisor	Male	53	2002.6~2005.6	2,000/2,000
Deng Xijiang	Supervisor	Male	39	2002.6~2005.6	4,800/4,800
You Jianzhong	Supervisor	Male	35	2002.6~2005.6	6,400/6,400
Shi Xingyuan	Deputy General Manager	Male	40	2002.6~2005.6	2,000/2,000
Su Qingxian	Principal Treasurer	Female	48	2002.6~2005.6	-
Liu Yonglin	Secretary of the Director	Male	59	2002.6~2005.6	8,000/8,000

2.Directors and Supervisors from shareholding Companies

Name	Shareholding Companies	Position	Term of Office	Payied by the holding companies
Xu Liangfei	Wuxi Weifu Group Co.,Ltd.	Chairman of the Directors, General Manager, Secretary of the Party	Till now	yes
Zu Jilin	Wuxi Weifu Group Co.,Ltd.	Director,Deputy Secretary of the Party	Till now	yes
Li Tonghua	Wuxi Weifu Group Co.,Ltd.	Director, Deputy General Manager	Till now	yes
Wang Weiliang	Wuxi Weifu Group Co.,Ltd.	Deputy General Manager	Till now	yes
Chen Zhaolin	Robert Bosch Investment Co.in China	Executive Supervisor	Till now	yes
Li Guodong	Wuxi Guolian Development (Group) Co.	Investment Manager	Till now	yes
Zhang Jiming	State Investment Machinery and Light Industrial Co.	Business Manager	Till now	yes
Wang Chuan	China Auto Industry General Co. Investment and Development Cor.	Section Chief	Till now	yes

3. Annual Remuneration for Directors and Supervisors (in RMB ¥):

Top 3 directors, total	680,000
Top 3 senior managements, total	680,000
Annual remuneration, total	1,625,000
Independent directors subsidized	3 persons
Other treatment for independent directors	Reimbursement for travel costs upon attending the meetings of the board of directors and shareholders
Directors and supervisors unpaid by the Company	11 persons

Annual remuneration	Numbers of person
RMB 25,000-50,000	1
RMB 50,000-100,000	2
RMB 100,000-150,000	1
RMB 150,000-200,000	5
RMB 200,000-280,000	1

4. Directors and Supervisors Leaving Posts

Name	Previous Position	Reason for Change
Chen Haojun	Director	Re-election
Zhong Xichang	Director	Re-election
Tang Zhenhuan	Director	Re-election
Xu Lin	Director	Re-election
Yang Ankang	Director	Re-election
Li Guodong	Director	Re-election
Zhang Jiming	Director	Re-election
Wang Chuan	Director	Re-election
Zhao Xianshi	Chairman of the Supervisors	Re-election
Ge Songping	Supervisor	Reappointment
Li Weiqing	Supervisor	Re-election
Wang Zhenping	Supervisor	Re-election
Pan Hongying	Supervisor	Re-election

5. Corporate Staff

As at the year-end, the Company employed 3,783 people, which can be classified as follows:

Classification	Number of Staff	Percentage (%)
Production	2,750	72.69
Sales and Marketing	165	4.36
Engineering Technology	290	7.67
Finance	23	0.61
Administration	227	6.00
Other	328	8.67

Educational Degree	Number of Staff	Percentage (%)
Senior High School	2,812	74.33
Technical Secondary School	436	11.53
Junior College	365	9.65
University Graduate	130	3.44
Master	36	0.95
Doctor	4	0.11

As of December 31, 2002, total amount of retired employees for whom the Company bears pensions amounted to 789.

CORPORATE SUPERVISORY SYSTEM

1. Supervisory System Profile

Conformity to the requirements by the Company Law, the Securities Law and the relevant laws and regulations promulgated by the State Securities Regulatory Commission, the Company has amended and improved its Articles of Association, and set up a set of normative working regulations and procedures involving the shareholders' meeting, the board of directors and the board of supervisors. In accordance with the Guideline for the Appointment of Independent Director among Listed Companies promulgated by the State Securities Regulatory Commission, it has been formally institutionalized in the re-election of board of directors of the company in the shareholders' meeting held on 4th June, 2002 for the appointment of independent directors and the establishment of the expert committees involving policy decision, auditing, nomination, remuneration and results assessment, among which the independent directors have held majority positions and leadership in the auditing, remuneration and results assessment committees. Upon the great improvement of the Company's legal supervisory system, the Company has become a fully independent economic entity from its holding company, Wuxi Weifu Group Co., Ltd, in every conceivable aspect involving personnel, assets, financing, organization and operational activities. Consequently, related transactions between two parties have been reduced gradually. It has been up to the relevant requirements on listed companies by the State Securities Regulatory Commission in terms of the corporate supervisory system.

2. Performance of the Independent Directors

Conformity to the requirements by the Guideline for the Appointment of Independent Directors among Listed Companies and the Regulatory Criteria on Listed Companies, the Company has appointed 3 independent directors and established the expert committees involving policy decision, auditing, nomination, remuneration and results assessment, among which independent directors held the leadership in the committees of auditing, remuneration and results assessment. Ever since they took office, the Company's independent directors have consciously performed their duties to express independent opinions with regard to the significant policy decision upon attending the Board meetings and relevant meetings.

3. Independence of Majority Shareholder

1).Operational Activities

The Company is mainly engaged in the manufacturing of diesel injection system with its own completed production system, supply chain and sales channels. It is independent of the outer control from its majority shareholder. In October 2002, the 5th meeting of the 4th board of directors resolved to terminate the agreements signed in

1995 with Wuxi Weifu Group Co. on the related transactions involving the utilities supply (electricity, water, compressed air, steam, etc.), processing, maintenance, auxiliary facilities and living service. The termination of above agreements is beneficial to the improvement of the profitability of the Company with less related transactions between the two parties.

2).Assets Integrity

At the time of the Company's B Shares issuance, definition and transfer on assets were made clearly, and relevant registration procedures for properties were finished accordingly. As a result, explicit assets relations have been formed between the Company and its majority shareholder.

3).Financial Independence

With an integral financial department, the Company has installed and maintained a complete accounting and financial system for internal control and subsidiaries management. The relevant financial functions have been performed independently, including opening accounts with banks, paying taxations as well as making financial decisions.

4). Personnel

The Company has its own independent operational and administrative departments, including labor, personnel and wages management. Senior executives, including marketing manager, principal treasurer and secretary of the board of directors, all hold full-time positions and received payment accordingly from the Company. Appointments of directors have all been conducted subject to the nomination by the board of directors and approved by the shareholders' meeting, subject to no limitation and intervention by and from the holding company or the government institutions.

5).Functional Organization

As a legal person, the Company has installed a well-functioned internal organization for its daily operation.

4.Performance Assessment and Incentive Mechanism

The Company democratically conducted the performance assessments for its senior managements personnel in terms of the innovation and working results. However, the incentive mechanism system has not been established so far. It is expected to be formulated and implemented in the year 2003 by the results assessment committee of the board of directors of the Company.

SHAREHOLDERS' MEETING

The Company convened one annual general meeting and two provisional meetings of shareholders throughout the year.

1. The 1st Provisional Meeting of Shareholders

On 19th March, 2002, the Company announced a resolution of provisional Board meeting related to the convene of the 1st provisional shareholders' meeting of the Company for the year 2002 on "China Securities", "Shenzhen Securities Times" and "Ta Kung Pao" respectively. On 18th April, this meeting was held at which totally 25 shareholders or their proxies were present, representing 148,485,692 effective voting shares, which accounts for 34.03% of the total share capital of the Company. Resolutions were passed to approve:

- (1). Amended clauses and proposal for convertible bonds issuance;
- (2). Statements on the usage of previously raised funds by the board of directors.

Above Resolutions were announced on "China Securities", "Shenzhen Securities Times" and "Ta Kung Pao" on 19th April, 2002.

2. 2001 Annual General Meeting

On 23th April, 2002, the Company announced the resolution of the 12th meeting of the 3rd board of directors and a notice on the convene of the annual general meeting for 2001 on "China Securities", "Shenzhen Securities Times" and "Ta Kung Pao" respectively. On 4th June, the 2001 annual general meeting was held and there were 29 shareholders or their proxies presenting at the meeting, representing 158,855,099 shares, which accounts for 36.4% of the total share capital of the Company. Resolutions were passed to approve:

- (1). The working report of the Directors for 2001;
- (2). The working report of the Supervisors for 2001;
- (3). Final accounts and proposal for annual dividends distribution for fiscal 2001;
- (4). Re-appointment of Jiangsu Gongzhen Certified Public Accountant Co. and PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. Cooper China Limited as the Company's auditors for fiscal 2002;
- (5). The amendment of provisions of Articles of Association of the Company;

(6).Proposal by the independent directors;

(7).Proposal for the re-election of directors and supervisors.

Above Resolutions were announced on “China Securities”, “Shenzhen Securities Times” and “Ta Kung Pao” on 5th June, 2002.

3. The 2nd Provisional Shareholders’ Meeting

On 6th June, 2002, the Company announced the resolution of the 1st meeting of the 4th board of directors and a notice on the convene of the 2nd provisional shareholders’ meeting of the Company for the year 2002 on “China Securities”, “Shenzhen Securities Times” and “Ta Kung Pao” respectively. This meeting was held on 18th July, 2002. Totally 27 shareholders or their proxies were present and represented 172,761,866 effective voting shares, which accounts for 39.59% of the total share capital of the Company. This meeting resolved to approve the change in the usage of raised funds from right issue, which were announced on “China Securities”, “Shenzhen Securities Times” and “Ta Kung Pao” on 19th July, 2002.

4.Re-election of Directors and Supervisors

Considering the expiry of the term of office of the 3rd board of directors and the 3rd board of supervisors, the new round of board of directors and board of supervisors were elected at the annual general meeting of the Company for 2001 on June 4th, 2001. Mr.Xu Liangfei, Mr.Han Jiangming, Mr.Zu Jilin, Mr.Li Tonghua, Mr.Wang Weiliang, Mr.Gao Guoyuan, Mr.Ge Songping, Mr.Chen Zhaolin, Mr.Zhang Xiaoyu, Mr.Ouyang Minggao, Mr.Chen Qilong were elected as members of the 4th board of directors,and Mr.Chen Xuejun, Mr.Li Guodong, Mr.Zhang Jiming, Mr.Wang Chuan, Mr.Wang Xiaodong, Mr.Deng Xijiang, Mr.You Jianzhong were elected as members of the 4th board of supervisors.

REPORT OF THE BOARD OF DIRECTORS

1. Operational Review

The year under review witnessed the Company achieving the fastest economic growth in the history. At fiscal year-end sales income from main business operation increased by 47.32 % to RMB 1,511,167,000 over the equivalent period of the previous year, and profit rose 23.85 % to RMB 197,646,000. The Directors and executives attributes these accomplishments in 2002 to the followings:

1. The development of national auto industry in recent years has brought along the rapid progress of fuel injection system for internal combustion engine;
2. The State newly implemented emission control regulations for vehicles has greatly promoted the renewal for traditional auto engines;
3. The Company has given top priority to the establishment of a flexible and efficient marketing mechanism in order to reinforce the promotion of sales and the collection of receivables with the production growth. The ratio of payment collection reached 100% in the year under review;
4. The Company has substantially improved funds utilizing efficiency through controlling and reducing raw materials, in-process goods and finished goods in an idle or unproductive state through optimizing the Company's logistic and managerial information system.

As always, we want to commend our employees for making 2002 such a successful year. Their hard work and dedication underlie the achievements that we have profiled here.

2. Sales Composition

Category	Sales (RMB'000)	Domestic market share (%)	Position in domestic marketplace
A pump	253,419	50.87	1
PW pump	391,568	37.32	1
I, IW pump	105,627	48.39	1
VE pump	115,506	-	1
Single plunger pump	20,354	31.39	2
Injector	166,015	30.02	1
Precision pump parts	137,106	30.58	1

Source: Statistics Association of China's Machinery Industry, Fuel Injection Sub-branch (2002)

The profit from main business operation increased by 65.82 % over the previous year, which is primarily attributable to the substantial increase in the sales volume of PW pump. In 2001, sales volume of PW pump was 50,618 units. It increased by 197% to 150,335 units in 2002 with the completion of the technical upgrading project.

3. Major Subsidiaries (in RMB'000)

Name	Nanjing Weifu Jinning Co.,Ltd.	Wuxi Euro-Asia Diesel Fuel Injection Co.	Zhonglian Automobile Electronics Co.
The Company's Interests (%)	80	48	20
Registered Capital	256,000	253,561	600,620
Total Assets	346,456	391,381	1,044,577
Net Profits in 2002	34,703	116,087	263,806
Business Scope (Main Products)	VE pump	P series injectors and nozzles	Automobile Electronic Control System
Nature of Ownership	Majority shareheld by the Company	A joint venture among the Company, Robert Bosch and Japan Bosch Automobile System Co.	A limited company jointly sponsored by Shanghai General Motor, the Company and some domestic companies

4. Main Suppliers and Clients

The amount of procurement from top 5 suppliers accounts for 29.87 % of the total occurred in the year.

The amount of sales to top 5 customers accounts for 53.82 % of the total sales volume of the Company throughout the year.

5. Investments

For the year ended 31st December, 2002, the Company's investments (mainly for technical upgrading) amounted to RMB 25,937,000, primarily consisting of the project PW2000, etc.

1. Usage of the Proceeds Raised

In 2000, the Company offered a right issue for subscription. Net proceeds from the right issue amounted to RMB 405,060,000, which is mainly used for building up an annual production capacity of 2,000,000 sets of auto exhaust catalytic converter.

Throughout the year, RMB 12,588,000 has been invested. By the end of the period, accumulated investment in this project has reached RMB 227,430,000 and investment in fixed assets

has been completed, and the remaining funds will be partially used as supplement for working capital. Considering this, the 2nd provisional shareholders' meeting of the Company dated on 18th July, 2002 has resolved to change the usage of the remaining funds of RMB 177,630,000 to form a production capacity of 100,000 units of PW2000 pumps. By the end of this reporting year, RMB 14,712,000 has been invested. This production capacity is expected to be formed at the year-end of 2003 upon the completion of total investment.

Resolution by the 2nd provisional shareholders' meeting has been announced on "China Securities", "Shenzhen Securities Times" and "Hongkong Ta Kung Pao" on 19th July, 2002.

2. Other Investment

1). Subject to approval by the 11th meeting of the 3rd board of directors of the Company, the Company proposed to make an additional investment of US\$ 3,936,000 for the expansion of the current capacity of Wuxi Euro-Asia Diesel Injection Co. based on the previous 48% equity interests held by the Company. In fiscal 2001 and 2002, the Company has completed additional investments of US\$ 1,574,400 and US\$ 2,361,600 respectively. Also, the Company made a contribution of RMB 24,000,000, a 80% of the total registered capital, to Jiangsu Nano-material Technologies Development Center, which is jointly sponsored by the Company, Nanjing University, Southeast University, Nanjing Industrial University and Jiangsu New Technology Development Center. Above resolution by the board of directors was announced on "China Securities", "Shenzhen Securities Times" and "Hongkong Ta Kung Pao" on Nov. 29th, 2001 respectively.

2). To speed up the establishment of the supplementary parts base for fuel injection systems, subject to approval by the 12th meeting of the 3rd board of directors, the Company proposed to make a contribution of RMB 2,000,000 to jointly establish the Wuxi Weifu Precision Manufacturing Co. along with natural persons with a registered capital of RMB 6,900,000, among which the Company held a 28.99% equity interests. Above resolution was announced on "China Securities", "Shenzhen Securities Times" and "Hongkong Ta Kung Pao" on April 23th, 2002 respectively.

6. Financial Survey (in RMB'000)

Items	2002	2001	Increment over 2001(+%)	Reason for change
Total assets	2,508,934	2,178,645	15.16	Increase in fixed assets

Shareholders' equity	1,894,260	1,781,310	6.34	Increase in net profit
Main business profit	377,831	248,696	51.92	Increase in sales income from main business
Profit, net	197,646	159,590	23.85	Increase in sales income from main business
Increment on cash and cash equivalents, net	-183,383	-148,160	-23.77	Increase in investment in technical upgrading

7. Meetings of the Board of Directors

Resolutions by BoD Meetings

1. The 12th meeting of the 3rd board of directors of the Company was held on 19th April, 2002. The meeting considered and passed the following resolutions:

- 1). Annual Report of the Company for 2001;
- 2). Proposals for final accounts and annual dividends distribution for 2001 (cash dividend of RMB ¥ 2 for every 10 shares, including taxation), distribution policy for 2002;
- 3). The re-appointment of Jiangsu Certified Public Accountant Co. and Pricewaterhouse Coopers Zhong Tian CPAs Co. as the Company's auditors for the year 2002;
- 4). The amendment of the Articles of Association of the Company;
- 5). The annual subsidies for independent directors (RMB 30,000 each annually) and the reimbursement of the travel costs actually occurred when they attend the meeting of board of directors, shareholders' general meeting and relevant activities;
- 6). The nomination of candidates for directors and supervisors, the re-election of new round of board of directors and board of supervisors in shareholders' general meeting for 2001;
- 7). The working report for the first quarter of 2002;
- 8). The establishment of Wuxi Weifu Precision Machining Co. with an investment of RMB 2,000,000; and
- 9). The convening of the annual shareholders' general meeting for 2001.

Above resolution was announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on 23th April, 2002 respectively.

2.The 1st meeting of the 4th board of directors of the Company was held on 4th June, 2002. The meeting considered and passed the following resolutions:

- 1).The appointment of Mr.Xu Liangfei as the chairman of 4th board of directors of the Company, Mr. Han Jiangming as the vice chairman of the board;
- 2).The appointment of Mr. Xu Liangfei, Mr.Han Jiangming, Mr.Zhang Xiaoyu, Mr.Ouyang Minggao, Mr.Chen Zhaolin, Mr.Wang Weiliang and Mr.Ge Songping as members of the strategic decision-making committee of the Board, in which Mr.Xu Liangfei as the chief commissioner; the appointment of Mr. Chen Qilong, Mr.Zhang Xiaoyu, Mr. Ouyang Minggao, Mr.Ge Songping and Mr.Gao Guoyuan as members of the auditing committee of the Board, in which Mr.Chen Qilong as the chief commissioner; the appointment of Mr. Zhang Xiaoyu, Mr.Xu Liangfei, Mr.Zu Jilin, Mr.Ouyang Minggao and Mr.Chen Qilong as members of the nomination committee of the Board, in which Mr.Zhang Xiaoyu as the chief commissioner; the appointment of Mr.Ouyang Minggao, Mr.Zhang Xiaoyu, Mr.Chen Qilong, Mr.Li Tonghua and Mr.Chen Zhaolin as members of the remuneration and results assessment committee of the Board, in which Mr.Ouyang Minggao as the chief commissioner;
- 3). The appointment of Mr. Han Jiangming as the General Manger of the Company through nomination by the Chairman of the Board;
- 4).The appointment of Mr. Liu Yonglin as Secretary of Board of Directors, Mr. Zhou Weixing as the authorized representative through nomination by the Chairman of the Board;
- 5). The appointment of Mr. Gao Guoyuan, Mr.. Shi Xingyuan and Mr.Ge Songping as Deputy General Manager of the Company, Ms. Su Qingxian as Chief Accountant and Principal Treasurer through nomination by the General Manager;
- 6). The implementary regulations and working procedures for expert committees involving policy decision, auditing, nomination, remuneration and results assessment;
- 7). Internal control system for information disclosure;
- 8).The change in the usage of raised fund; and
- 9).The convening of the provisional shareholders’ meeting on 10th July,2002 to

examine the proposal for change in the usage of raised fund.

Above resolutions were announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on April 23, 2002 respectively.

3. The 2nd meeting of the 4th Board of Directors of the Company was held on 18th July, 2002 . The meeting considered and resolved the following:

1).The interim report of the Company and its summary for 2002;

2).Proposal for dividends distribution in the middle-term of 2002

Above resolutions were announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on July 23, 2002 respectively.

4. The 3rd meeting of the 4th Board of Directors of the Company was held on 28th August, 2002, which resolved to cancel the application for issuance convertible bonds of the Company to the State Securities Regulatory Commission, and this resolution was announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on August 29, 2002 respectively.

5. The 4th meeting of the 4th Board of Directors of the Company was held on 21th Sept., 2002. The meeting authorized the Company’s senior management to negotiate with Robert Bosch on the comprehensive cooperation in the field of fuel injection, and to draw up feasibility study and related proposal for cooperation.

6. The 5th meeting of the 4th Board of Directors of the Company was held on 22nd Oct., 2002. The meeting considered and resolved the followings:

1).The report for the 3rd quarter of 2002 ;

2).The termination of agreements on related transactions between the Company and Weifu Group Co.,Ltd.

Above resolutions were announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on October 24, 2002 respectively.

The Implementation of Resolutions of Shareholders’ Meeting

1.The proposal for dividends distribution approved by the 2001 shareholders’ meeting has been implemented fully by 25th July, 2002.

2.The proposal for issuance convertible bonds of the Company approved by the shareholders’ meeting was resolved to be terminated by the 3rd meeting of the 4th

Board of Directors.

8.Dividends Distribution for Fiscal 2002

As audited by Jiangsu Gongzhen Certified Public Accountant, the Company's annual net profit amounted to RMB 204,035,000 for the fiscal year 2002. Together with the unappropriated profit of RMB 228,283,000 carried from the year 2001, the profit available to be distributed amounted to RMB 432,318,000. As reported in the statutory accounts based on the PRC accounting regulations, dividend available to be distributed was RMB 401,207,000 upon the allocation of 10% of the Company's annual net profit to the statutory surplus reserve (RMB 20,741,000) and 5% to the statutory public welfare (RMB 10,370,000) in accordance with the Articles of Association of the Company. The Board of Directors resolved that a cash dividends for the year 2002 will be distributed by the way of RMB ¥2 for every 10 shares (including taxation) based on the total amount of the Company's share capital of 436,366,150 shares at the end of 2002. The retained statutory unappropriated profit will be carried forward to the next year.

REPORT OF THE BOARD OF SUPERVISORS

1.Meetings of the Board of Supervisors

1.The 9th meeting of the 3rd Board of Supervisors of the Company was held on April 19, 2002. This meeting examined and approved the followings:

- 1).Working Report of the board of supervisors of the year 2001;
- 2).The nomination of Mr. Li Guodong, Mr.Zhang Jiming, Mr.Wang Chuan and Mr.Wang Xiaodong as the candidates for 4th Board of Supervisors of the Company, considering the expiry of the term of the 3rd Board of Supervisors, which will be submitted to the annual general meeting of 2001 for voting.
- 3).Annual report of the Company by the Board of Directors.

All supervisors of the Company were presented at the 12th meeting of the 3rd Board of Directors. Above resolutions were announced respectively on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on April 23, 2002

2.The 1st meeting of the 4th Board of Supervisors of the Company was held on 4th June, 2002. Mr. Chen Xuejun was elected as chairman of the 4th Board of Supervisors at the meeting, which was announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on June 5, 2002 respectively.

3.The 2nd meeting of the 4th Board of Supervisors of the Company was held on July 18, 2002. This meeting examined and approved the interim working report of the Company and proposal for dividends distribution in the mid-term of 2002, which was announced on “China Securities”, “Shenzhen Securities Times” and “Hongkong Ta Kung Pao” on July 23, 2002 respectively.

4. The 3rd meeting of the 4th Board of Supervisors of the Company was held on October 22, 2002. This meeting examined and approved the Company’s report for the 3rd quarter of 2002 and proposal for the termination of the related transactions agreement between the Company and Wuxi Weifu Group Co., Ltd.

2.Independent Opinion by the Supervisors

The Supervisors of the Company attended all meetings of the board of directors as

non-voting delegates during this year and are of the view that:

1. All significant decisions were made in strict accordance with the stipulations of working regulations and procedures for the board of directors of the Company. Subject to the approval by the resolutions of the board of directors, all decisions were well implemented. The internal control system of the Company is working properly and efficiently. The directors and executives of the Company have conscientiously performed their duties in accordance with the relevant laws, regulations and the provisions of these Articles of Association of the Company. No such action was found on the part of in performing their duties as to constitute a violation of laws, regulations, Articles of Association of the Company or a detriment to the interests of the Company and its shareholders;
2. The Company's reports for the first quarter, middle-term and third quarter of the year as well as the auditors' opinions presented by Jiangsu Gongzhen Certified Public Accountant and Pricewaterhouse Coopers China Limited respectively are authentic and reliable, which fairly reflected the Company's financial situation and operational results;
3. Net proceeds raised from right issue in 2000 have been applied to the project as committed. By the end of the period, investment in fixed assets for the project has been completed, and the remaining funds will be partially used as supplement for working capital. In order to improve funds using efficiency and to be more responsible for all shareholders of the Company, the Directors resolved to change the usage of the remaining funds of RMB 177,630,000 as investment to the project for the high-pressure fuel injection PW Pump with an annual production capacity of 100,000 units. Subject to the approval by the 2nd provisional Shareholders' Meeting of the Company on 18th July, 2002, we believe this resolution is in effect lawfully.
4. All related transactions occurred throughout this year were conducted fairly in line with the principle of market transaction, and the number of the related transactions has been reduced substantially. In particular, the termination of the related transactions agreement between the Company and Wuxi Weifu Group Co.,Ltd. approved by the 5th meeting of the 4th Board of directors highly embodies the interests of minority shareholders.

SIGNIFICANT EVENTS

1. Major Litigation and Arbitration: There was no significant litigation or arbitration involving the Company during this reporting year.

2. Assets Transactions: The Company was not engaged in any acquisition, reorganization or disposal during this reporting year.

3. Significant Related Transactions: Transactions between the Company and Wuxi Weifu Group Co.,Ltd, the majority shareholder of the Company, during this reporting period are as follows(RMB'000):

Items	2002	2001
Procurement of goods	83,305	72,467
Sales of goods	182,801	216,684
Procurement of fixed assets	89,162	8,897
Sales of fixed assets	234	175
Processing expenses	4,181	22,204
Procurement discount income	151	1,446
Land and trademark fees	3,194	2,914
Income from funds occupied	227	749
Transfer of equity interests in Weifu Lida	4,309	-

All related transactions above were conducted according to the related contracts strictly and remained unchanged in terms of the pricing, procedures and settlement with a gradually reduced trade volume.

4. Significant Contracts:

- 1). No assets custody, engagement or leasing occurred between the Company and other companies during this period.
- 2). The Company was not engaged in any financial guarantee and assets entrustment during this reporting period.

5. Independent Auditors: Jiangsu Gongzhen Certified Public Accountants Co. and PricewaterhouseCoopers Zhong Tian CPAs Co.,Ltd. remained appointed as the independent auditors of the Company for the year 2002.

CPA	Annual Remuneration	Service Year
Jiangsu Gongzhen Certified Public Accountants Co.	RMB 450,000	9
PricewaterhouseCoopers Zhong Tian CPAs Co.	RMB 770,000	8

FINANCIAL STATEMENTS

(as of 31st December, 2002)

1. AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of Weifu High-Technology Company Limited (hereinafter referred to as “the Company”), and its subsidiaries (hereinafter together with the Company referred to as “the Group”) as of 31 December 2002 and the related consolidated statements of income, and cash flows for the year then ended. These consolidated financial statements set out on pages 2 to 40 are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2002, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts in Renminbi (“RMB”) thousands, except for earnings per share)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Sales, net	4,27	1,499,973	1,019,062
Cost of sales		<u>(1,131,609)</u>	<u>(771,139)</u>
Gross profit		368,364	247,923
Other operating income	4	246	9,000
Distribution costs		(91,929)	(59,654)
Administrative expenses		(148,844)	(76,820)
Other operating expenses		<u>(16,055)</u>	<u>(5,300)</u>
Profit from operations	6	111,782	115,149
Finance cost, net	5	(3,889)	2,768
Share of results of associates before tax		116,573	58,704
Income from unconsolidated subsidiaries	14	4,363	3,301
Impairment loss of investment	15	<u>(12,133)</u>	<u>(2,033)</u>
Profit before tax and minority interests		216,696	177,889
Income tax expense	7(b)	<u>(15,849)</u>	<u>(14,829)</u>
Profit before minority interests		200,847	163,060
Minority interests	24	<u>(3,201)</u>	<u>(3,470)</u>
Net profit		<u>197,646</u>	<u>159,590</u>
Earnings per share	8		
- Basic		<u>RMB 0.45</u>	<u>RMB 0.37</u>
- Diluted		<u>Not applicable</u>	<u>Not applicable</u>

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2002

(All amounts in RMB thousands)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
ASSETS			
Non-current assets			
Leasehold land	10	27,792	28,836
Property, plant and equipment	11	903,501	741,121
Intangible assets	12	23,373	26,623
Investments in associates	13	384,787	273,872
Investments in unconsolidated subsidiaries	14	37,826	26,157
Available-for-sale investments	15	<u>43,520</u>	<u>46,878</u>
Total non-current assets		<u>1,420,799</u>	<u>1,143,487</u>
Current assets			
Inventories, net	16	321,150	190,913
Due from related parties	27(e)	55,865	-
Prepayments		8,168	-
Trade and other receivables, net	17	326,787	284,697
Trading investments		28,000	-
Cash and bank deposits	25(b)	<u>348,165</u>	<u>559,548</u>
Total current assets		<u>1,088,135</u>	<u>1,035,158</u>
Total Assets		<u><u>2,508,934</u></u>	<u><u>2,178,645</u></u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shares	22	436,366	436,366
Reserves	23	<u>1,457,894</u>	<u>1,344,944</u>
Total shareholders' equity		<u>1,894,260</u>	<u>1,781,310</u>
Minority interests	24	<u>58,519</u>	<u>45,102</u>
Non-current liabilities			
Long-term bank borrowings	20(b)	-	1,500
Long-term payables	21	<u>12,660</u>	<u>-</u>

Total non-current liabilities		<u>12,660</u>	<u>1,500</u>
Current liabilities			
Trade and other payables	18	357,214	166,842
Current-tax liabilities		(3,860)	1,418
Due to related parties	27(e)	16,688	17,169
Dividend payable		208	208
Short-term bank borrowings	20(a)	157,500	158,500
Accruals and other current liabilities	19	<u>15,745</u>	<u>6,596</u>
Total current liabilities		<u>543,495</u>	<u>350,733</u>
Total liabilities		<u>556,155</u>	<u>352,233</u>
Total Equity and Liabilities		<u><u>2,508,934</u></u>	<u><u>2,178,645</u></u>

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts in RMB thousands)

	Notes	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	25(a)	141,983	163,016
Interest paid		(11,115)	(7,317)
Income tax paid		(12,078)	(15,326)
Net cash from operating activities		<u>118,790</u>	<u>140,373</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of a subsidiary, net of cash and bank balance acquired	26	(2,975)	-
Purchase of property, plant and equipment		(225,948)	(320,286)
Proceeds from disposals of property, plant and equipment	25(c)	214	1,839
Increase in investments in associates	13	(21,577)	(13,050)
Increase in available-for-sale investments	15	(13,855)	(1,100)
Increase in unconsolidated subsidiaries	14	(7,306)	-
Proceeds from disposal of available-for-sale investments		5,080	-
Interest received		17,201	6,929
Dividends from associates		27,106	33,200
Net cash used in investing activities		<u>(222,060)</u>	<u>(292,468)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in short-term bank borrowings		(10,000)	107,000
Repayments of long-term bank borrowings		(1,500)	(16,000)
Dividends paid		(87,273)	(87,065)
Cash injection from minority shareholders		6,000	-
Cash received from government grants		12,660	-
Net cash from financing activities		<u>(80,113)</u>	<u>3,935</u>
Net decrease in cash and cash equivalents		(183,383)	(148,160)
Cash and cash equivalents at beginning of year		<u>559,548</u>	<u>707,708</u>
Cash and cash equivalents at end of year	25(b)	<u><u>376,165</u></u>	<u><u>559,548</u></u>

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002

(All amounts in RMB thousands)

	Reserves							Total equity
	Share capital	Capital surplus	Statutory surplus reserve fund	Statutory public welfare fund	Discretion-ary surplus reserve fund	Retained earnings	Total reserves	
	(Note 22)	(Note 23(a))	(Note 23(b))	(Note 23(c))		(Note 23(d))		
Balance as at 1 January								
2001	436,366	908,919	58,200	29,175	1,785	274,548	1,272,627	1,708,993
Dividends declared after 1 January 2001 from retained earnings as of 31 December 2000 (Note 9)	-	-	-	-	-	(87,273)	(87,273)	(87,273)
Net profit for 2001	-	-	-	-	-	159,590	159,590	159,590
Appropriations:								
- statutory surplus reserve fund	-	-	15,072	-	-	(15,072)	-	-
- statutory public welfare fund	-	-	-	7,536	-	(7,536)	-	-
Balance as at 31 December 2001	436,366	908,919	73,272	36,711	1,785	324,257	1,344,944	1,781,310
Dividends declared after 1 January 2002 from retained earnings as of 31 December 2001 (Note 9)	-	-	-	-	-	(87,273)	(87,273)	(87,273)
Donation received	-	146	-	-	-	-	146	146
Increase in subsidiary's Capital surplus								
- debts waived	-	2,431	-	-	-	-	2,431	2,431

Net profit for 2002	-	-	-	-	-	197,646	197,646	197,646
Appropriations:								
- statutory surplus reserve								
fund	-	-	20,741	-	-	(20,741)	-	-
- statutory public welfare								
fund	-	-	-	10,370	-	(10,370)	-	-
Balance as at 31								
December 2002	<u>436,366</u>	<u>911,496</u>	<u>94,013</u>	<u>47,081</u>	<u>1,785</u>	<u>403,519</u>	<u>1,457,894</u>	<u>1,894,260</u>

The accompanying accounting policies and notes form an integral part of these consolidated financial statements

2. NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Weifu High-technology Company Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 22 October 1992 as a joint stock limited company. The Company is principally engaged in the manufacture and sale of fuel injection pumps for use in diesel engines and injectors and components for fuel injection pumps. The registered office of the Company is No.46, Wuxi State Hi-tech Industrial Development Zone, Jiangsu Province, and the Company has approximately 3,783 and 2,437 employees as of 31 December 2002 and 2001 respectively.

The Company’s domestic listed foreign investment shares (“B share”) and domestic Renminbi ordinary shares (“A share”) are listed on the Shenzhen Stock Exchange.

The Company together with its consolidated subsidiaries are hereinafter collectively referred to as “the Group”.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in preparation of these financial statements of the Group are set out below:

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”, which includes International Accounting Standards and Interpretations) as published by the International Accounting Standards Board. These consolidated financial statements have been prepared under the historical cost conversion with the exception of fair value measurement of certain financial instruments.

This basis of accounting differs from that used in the Group's statutory accounts ("Statutory Accounts") which are prepared in accordance with PRC Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises. The adjustments made to conform the Statutory Accounts of the Group to IFRS are shown in Supplementary Information.

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting this standard were reported in 2001's consolidated financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results could differ from those estimates.

(b) Group accounting

(1) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus cost directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of net assets of the subsidiary acquired is recorded as goodwill. See Note 2(g) for the accounting policy on goodwill.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

The results of operations and net assets of certain subsidiary companies are not material to those of the Group; hence, they have been excluded from consolidation. Investments in subsidiaries that are excluded from consolidated financial statements are accounted for by the equity method.

As of 31 December 2002, the consolidated financial statements include the financial statements of the Company and its subsidiaries as follows:

Name of consolidated subsidiary company	Place of registration	Principal activities	Registered capital		Percentage of equity interest		
			(RMB'000)		Directly	Indirectly	
			2002	2001			
Nanjing Jingning Limited ("Nanjing Weifu")	Weifu Company ("Nanjing Weifu")	Nanjing, PRC	Manufacture and sale of diesel engines, machinery, electronic products and automotive components.	256,000	256,000	80%	-
Wuxi Catalytic Converter Company Limited ("Weifu Leader")	Weifu Leader	Wuxi, PRC	Manufacture and sale of catalytic converter, catalyser and automotive components	30,000	-	55%	-
Jiangsu Nanometre Technology Limited ("Weifu Nanometre")	Weifu Nanometre Company ("Weifu Nanometre")	Wuxi, PRC	Manufacture and sale of nanometre material and products	30,000	-	80%	-
Wuxi Fuel Equipment Factory	Weifu Mashan Injection	Wuxi, PRC	Manufacture and sale of fuel injection equipment	12,237	12,237	72.78%	-
Wuxi Fuel Injection Ltd.	Weifu Chang'an Co., Ltd.	Wuxi, PRC	Manufacture and sale of injection equipment for diesel	21,490	21,490	85%	-
Wuxi Material Development Ltd.	Weifu Jida New Co., Ltd.	Wuxi, PRC	Manufacture and development of metallic and metallic materials	5,000	5,000	70%	-

(2) Associates

Investments in associates are accounted for by the equity method of accounting. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not to recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

(c) Foreign currency translation

Items included in the consolidated financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group. The consolidated financial statements are presented in RMB, which is the measurement currency of the Group. Transactions in other currencies are translated into Rmb at the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in other currencies at the consolidated balance sheet date

are re-translated at the exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising from changes in exchange rates subsequent to the transaction dates are included in consolidated income statement.

(d) Leasehold land

Leasehold land represents land use fees paid for long leasehold land and is classified as operating leases. The prepaid lease payments are amortized over the lease periods (thirty to fifty years) on a straight-line basis.

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price, construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated using the straight-line method to write off the cost, after taken into account the estimated residual value at 3% of cost, of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	35 years
Machinery and equipment	10-16 years

The useful lives of assets and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefit from items of property, plant and equipment.

Expenditures incurred after the property, plant and equipment have become ready for its intended use, such as repairs and maintenance and overhaul costs, are recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

When assets are sold or retired, their costs and accumulated depreciation and accumulated impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(f) Construction-in-progress

Construction-in-progress represents properties and plant under construction and machinery and equipment under installation and testing, and is stated at cost. This includes cost of construction, site restoration cost, plant and equipment and other direct costs plus borrowing costs which mainly include interest charges arising from borrowings used to finance these projects during the construction period.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

(g) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the assets will flow to the Group; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed periodically to ensure that the method and period of amortization are consistent with the expected pattern of economic benefits from intangible assets.

(1) Trademarks

Amounts paid for trademarks are capitalised and then amortised on a straight-line basis over the expected useful lives. The expected useful life is 30 years.

Trademarks are reviewed for impairment at each balance sheet date.

The trademark is registered with an unlimited usage period. The management considers the useful life of the trademark will not be less than 30 years, which is the operating period of Nanjing Weifu.

(2) Research and development costs

Expenditure for research is recognised as an expense when incurred. Expenditure on development is charged against income in the period incurred except for project development costs, which comply strictly with all of the following criteria:

- the product or process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;

- the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness in the case of internal use is demonstrated); and
- adequate technical, financial and other resources required for completion of the project are available.

Capitalization of costs starts when the above criteria are first met. Expenditure recognised as an expense in previous accounting periods is not reinstated.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

In the year ended 31 December 2002, there is no capitalized expenditure on development.

(3) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition, and is included in intangible assets.

Goodwill is amortized using the straight-line method over its estimated useful life of one to five years. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

(h) **Impairment of long lived assets**

Property, plant and equipment and other non-current assets, including investments in associates and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(i) Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these consolidated financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets; during the period, the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. For the available-for-sale investments that have a quoted market price in an active market, the fair value is based on quoted bid prices; for available-for-sale investments that does not have a quoted market price, but the fair value can be reliably determined, the fair value is constructed on the basis of the market price of the similar financial instrument or derived from cash flow models; for available-for-sale investments that the fair value can not be reliably determined, are carried at cost less accumulated impairment loss. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the consolidated income statement in the period in which they arise.

(j) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash represents cash on hand and deposits with banks, which can be withdrawn on demand. Cash equivalents represent short-term, highly liquid investments, which are readily convertible into known amounts of cash with original maturity period of three months or less and are subject to an insignificant risk of change in value.

(n) Borrowings and borrowing costs

Borrowings are initially recognized at the proceeds received, net of transaction costs incurred. They are subsequently stated at amortised costs using the effective yield method; any difference between net proceeds and redemption value is recognized in the consolidated income statement over the period of the borrowings.

Borrowing costs include interest charges and other costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the property, plant and equipment that necessarily take a substantial period of time to get ready for its intended use in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings until the asset is ready for its intended use.

If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(O) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(P) Pension scheme

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are made monthly to a government agency based on certain percentage of the standard salary set by the provincial government. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these defined contributions on an accrual basis.

The Group has no obligation for the payment of pension benefits beyond the contribution described above.

(q) Government grants relating to purchase of property, plant and equipment

Grants from the government are recognised in the consolidated balance sheet at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to future costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

(r) Provisions

A provision is recognized when, and only when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

When a provision is no longer probable that an outflow of resources embodying economic benefit will be required to settle the obligation, the provision will be reversed.

(s) **Revenue recognition**

Revenue comprises the invoiced value for the sales of goods net off rebates and discounts, and after eliminating sales within the Group.

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following basis:

(1) Sales of goods and raw materials

Revenue is recognized when the significant risks and rewards of ownership of goods and materials have been transferred to the buyer.

(2) Interest income

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

(3) Dividend income

Dividend income is recognized when the right to receive payment is established.

(t) **Dividends**

Dividends are recorded in the Group's consolidated financial statements as liability in the period in which they are approved by the Group's shareholders.

(u) **Segments**

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group conduct the business within one business segment and the Group also operates within one geographical segment because its revenue is primarily generated in the PRC and its assets are located in the PRC.

(v) **Subsequent events**

Post year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events), are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the

notes when material.

(w) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

(x) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors and financial risk management

The Group activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign exchange risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(1) Credit risks

The Group has no significant concentration of credit risk with any single counter party or group counter parties. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies that deposits are put in reputable banks.

(2) Liquidity risks

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(3) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant long-term interest-bearing assets.

The Group policy is to maintain all its borrowings in fixed rate instruments. The interest rates of borrowings are disclosed in Note 20.

(4) Foreign exchange risk

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

(b) Estimation of fair value

(1) Cash and cash equivalent

The carrying amount of cash and cash equivalents approximates their fair value due to these financial instruments either carry a current rate of interest or have a short period of time between the origination of the cash deposits and their expected maturity.

(2) Trade and other receivables and payables

The carrying amount of trade and other receivables and payables, which are all subject to normal trade credit terms, approximates their fair value.

(3) Due from and due to related parties

The carrying amount of due from and due to related parties, which are all subject to normal trade credit terms, approximates their fair value.

(4) Borrowings

As at 31 December 2002 the carrying amount of borrowings approximates their fair value as these borrowings bear quoted market interest rates.

(5) Available-for-sale investments

The carrying amount of available-for-sale investments cannot be reliably estimated and disclosed because these investments do not have quoted market prices in an active market and other methods reasonably estimating fair value for these investments are not available.

4. Sales

Sales comprised:

	<u>2002</u>	<u>2001</u>
Sales of goods	1,517,462	1,030,375
Less: surtaxes	(6,295)	(4,617)
Less: cash discount on sales	(11,194)	(6,696)
	<u>1,499,973</u>	<u>1,019,062</u>
Other operating income -		
Dividend income	<u>246</u>	<u>9,000</u>

5. Finance costs

	<u>2002</u>	<u>2001</u>
Interest income		
- Bank deposits	6,999	9,336
- Loans to Weifu Group Company Limited ("WFGC") (Note 27(c))	<u>227</u>	<u>749</u>
	<u>7,226</u>	<u>10,085</u>
Interest on		
- Bank loans	11,115	8,568
Less: amount capitalized in construction-in-progress	<u>-</u>	<u>(1,251)</u>
	<u>11,115</u>	<u>7,317</u>
	<u>(3,889)</u>	<u>2,768</u>

6. Profit from operation

The following items have been included in arriving at profit from operations:

	<u>2002</u>	<u>2001</u>
Depreciation on property, plant and equipment (Note 11)	45,992	32,209
Provide for / (Reversal of) impairment of property, plant and equipment (Note 11)	6,537	(3,029)
Loss on disposal of property plant and equipment (Note 25(c))	11,983	1,192
Amortisation of intangible assets		
- Goodwill (Note 12)	3,961	2,375
- Trademark (Note 12)	876	876

Amortisation of leasehold land (Note 10)	1,044	1,044
Research and development expenditures	40,248	15,012
Repairs and maintenance and overhaul costs of property, plant and equipment	16,235	12,146
Inventory		
- Cost of inventories recognized as expense	797,550	594,469
- Provision for inventory obsolescence	7,799	3,234
Trade receivables		
- Impairment charge for bad and doubtful debts and write-off of uncollectable receivables	4,655	12,246
Staff costs		
- Salary and wages	109,552	74,298
- Staff and workers' bonus and welfare fund	19,892	10,935
- Contribution to statutory pension scheme	23,670	15,457
- Provision for housing fund	<u>6,270</u>	<u>4,519</u>

The Company and its subsidiaries provide for staff welfare and contributions to the statutory pension fund based on a certain percentage of the total salaries. Staff welfare consists of staff welfare fund, medical insurance fund, housing fund and unemployment insurance etc.

The relevant percentages are as follows:

	<u>Percentage</u>
Staff welfare fund	14%
Medical insurance fund (included in Staff welfare fund)	8%
Housing fund	8%
Unemployment fund	2%
Statutory pension fund	21%-22%

7. Taxation

(a) Value-added Tax ("VAT")

The Company and its subsidiaries are subject to VAT, which is charged on top of the selling price at a general rate of 17%. Input VAT from purchases of raw materials and other production materials can be netted off against output VAT from sales. VAT payable or receivable is the net difference between periodic output and deductible input VAT.

(b) Enterprise Income Tax ("EIT")

(1) Income tax expense in the consolidated income statements comprised:

	<u>2002</u>	<u>2001</u>
Current tax	15,694	14,829
Share of tax of associates	<u>155</u>	<u>-</u>
Income tax expense	<u><u>15,849</u></u>	<u><u>14,829</u></u>

(2) The reconciliation of the applicable tax rate to the effective tax rate is as follows:

	<u>2002</u>	<u>2001</u>
Accounting profit before tax and minority interest	<u>216,696</u>	<u>177,889</u>
Tax calculated at the effective tax rate of 15% (2001: 15%)	32,504	26,683
Utilisation of tax losses of subsidiaries'	-	(2,601)
Tax effect of expenses that are not deductible in determining taxable profit	8,245	1,660
Tax effect of income that are not taxable in determining taxable profit	(18,608)	(8,466)
Income tax exemption	<u>(6,292)</u>	<u>(2,447)</u>
	<u><u>15,849</u></u>	<u><u>14,829</u></u>

The Company, being a high-technology enterprise registered in Wuxi Hi-tech Industrial Development Zone, is subject to EIT at a reduced rate of 15%. Nanjing Weifu, being a high-technology company registered in Nanjing Hi-tech Development Zone is also subject to EIT at a reduced rate of 15%.

(b) Enterprise Income Tax ("EIT") (Continued)

(2) The reconciliation of the applicable tax rate to the effective tax rate is as follows (Continued):

Pursuant to the relevant document issued by Jiangsu Tax bureau, Nanjing Weifu is entitled to a tax exemption for the year ended 31 December 2002 arising from purchasing domestically manufactured equipment for its technical innovation with a total amount of RMB 6,292,473.

As of 31 December 2002, the impact of unrecognised timing differences is approximately RMB 7,919 thousands (2001: RMB 6,024 thousands). The timing difference mainly arose from the provision for doubtful accounts and obsolete inventories. The management of the Company consider that the period to obtain the approval from related authorities are uncertain, so no such deferred tax assets was

recognized and included in the consolidated financial statements.

8. Earnings per share

Basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year.

	<u>2002</u>	<u>2001</u>
Net profit	197,646	159,590
Weighted average number of ordinary shares in issue	436,366,150	436,366,150
Basic earnings per share	<u>0.45</u>	<u>0.37</u>

The diluted earnings per share was not calculated, because no potential dilutive shares existed during the year.

9. Dividend per share

At the meeting of the board of directors dated 15 April 2003, a dividend in respect of 2002 of RMB 0.20 per share amounting to a total dividend of RMB 87,273,230 was proposed (Note 30). These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2003. The dividends declared in respect of 2001 and 2000 were RMB 87,273,230 and RMB 87,273,230, respectively.

10. Leasehold land

	<u>2002</u>	<u>2001</u>
<u>Cost</u>		
Beginning of year	33,038	33,038
Additions	<u>-</u>	<u>-</u>
End of year	<u>33,038</u>	<u>33,038</u>
<u>Accumulated amortisation</u>		
Beginning of year	4,202	3,158
Charge for the year	<u>1,044</u>	<u>1,044</u>
End of year	<u>5,246</u>	<u>4,202</u>
<u>Net book value</u>		
End of year	<u>27,792</u>	<u>28,836</u>
Beginning of year	<u>28,836</u>	<u>29,880</u>

Leasehold land represents land use fees paid for the right to use the parcels of land where the Group's factory buildings in Wuxi and Nanjing are located.

Since all land in the PRC is owned by the State or is subject to collective ownership, the risks and rewards of the parcel of land remain with the State. As a result, such lease payment is accounted for under operating leases and is charged to the income statement on a straight-line basis over lease terms of thirty to fifty years.

11. Property, plant and equipment

	2002			Total
	Buildings	Machinery and equipment	Construction-i n-progress	
<u>Cost</u>				
Beginning of year	106,649	457,673	378,429	942,751
Additions	28,000	9,122	99,664	136,786
Purchase from WFGC (Note 27(c))	41,245	84,862		126,107
Acquisition of a subsidiary (Note 26)	5,740	8,338	2,735	16,813
Disposals	(6,595)	(45,185)	-	(51,780)
Transfer	22,346	132,529	(154,875)	-
End of year	197,385	647,339	325,953	1,170,677
<u>Accumulated depreciation</u>				
Beginning of year	29,048	164,510	-	193,558
Charge for the year	3,796	42,196	-	45,992
Purchase from WFGC (Note 27(c))	10,611	26,334	-	36,945
Acquisition of a subsidiary (Note 26)	550	2,746	-	3,296
Disposals	(1,203)	(24,923)	-	(26,126)
End of year	42,802	210,863	-	253,665
<u>Impairment loss</u>				
Beginning of year	-	8,072	-	8,072
Additions	-	4,130	2,407	6,537
Acquisition of a subsidiary (Note 26)	-	794	-	794

Disposals	-	(1,892)	-	(1,892)
End of year	-	11,104	2,407	13,511

Net book value

End of year	154,583	425,372	323,546	903,501
Beginning of year	77,601	285,091	378,429	741,121

2001

	Buildings	Machinery and equipment	Construction-i n-progress	Total
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Cost

Beginning of year	103,680	371,823	155,201	630,704
Additions	11	605	319,670	320,286
Disposals	(612)	(7,627)	-	(8,239)
Transfer	3,570	92,872	(96,442)	-
End of year	106,649	457,673	378,429	942,751

Accumulated depreciation

Beginning of year	26,295	139,130	-	165,425
Charge for the year	2,845	29,364	-	32,209
Disposals	(92)	(3,984)	-	(4,076)
End of year	29,048	164,510	-	193,558

Impairment loss

Beginning of year	-	11,101	-	11,101
Additions	-	-	-	-
Reversal	-	(3,029)	-	(3,029)
End of year	-	8,072	-	8,072

Net book value

End of year	77,601	285,091	378,429	741,121
Beginning of year	77,385	221,592	155,201	454,178

12. Intangible assets

	2002		
	Trademarks	Goodwill	Total
<u>Cost</u>			
Beginning of year	26,356	11,872	38,228
Additions (Note 26)	-	1,587	1,587
End of year	26,356	13,459	39,815
<u>Accumulated amortization</u>			
Beginning of year	2,701	8,904	11,605
Charge for the year	876	3,961	4,837
End of year	3,577	12,865	16,442
<u>Net book value</u>			
End of year	22,779	594	23,373
Beginning of year	23,655	2,968	26,623

Nanjing Weifu acquired trademarks from WFGC at a consideration of RMB 26,355,900 for a period of 30 years effective from 20 August 1997.

	2001		
	Trademarks	Goodwill	Total
<u>Cost</u>			
Beginning of year	26,356	11,872	38,228
Additions	-	-	-
End of year	26,356	11,872	38,228
<u>Accumulated amortization</u>			
Beginning of year	1,825	6,529	8,354
Charge for the year	876	2,375	3,251
End of year	2,701	8,904	11,605
<u>Net book value</u>			
End of year	23,655	2,968	26,623
Beginning of year	24,531	5,343	29,874

13. Investments in associates

	<u>2002</u>	<u>2001</u>
Beginning of year	273,872	226,318
Addition of investments in associates	21,577	13,050
Share of results after tax	116,418	58,704
Dividend received	(27,080)	(24,200)
End of year	<u>384,787</u>	<u>273,872</u>

As of 31 December 2002, the Group had the following associates:

Name	Place of registration	Principal activities	Carrying amount		Percentage of equity interest	
			31 December 2002	31 December 2001	Directly	Indirectly
Wuxi Europe Asia Diesel Fuel Injection Co., Ltd. ("Wuxi Europe Asia")	Wuxi, PRC	Manufacture and sale of nozzles holders for diesel fuel injection	172,264	96,645	48%	-
Zhonglian Automobile Electronics Co., Ltd.	Shanghai, PRC	Manufacture and sale of automobile electronic equipment	210,467	177,227	20%	-
Wuxi Weifu Mechanism Manufacturing Co., Ltd. ("Weifu Mechanism Manufacturing")	Wuxi, PRC	Manufacture and sale of diesel fuel injection, automotive components	2,056	-	28.98%	-
			<u>384,787</u>	<u>273,872</u>		

There were no changes in the interests held in the associates in 2001 and 2002.

14. Investments in unconsolidated subsidiaries

	<u>2002</u>	<u>2001</u>
Beginning of year	26,157	23,513
Addition of investments in unconsolidated	7,306	-

subsidiaries

Share of results	4,363	3,301
<hr/> Disposals <hr/>	-	(657)
<hr/> End of year <hr/>	<u>37,826</u>	<u>26,157</u>

As of 31 December 2002, the Group had the following unconsolidated subsidiaries:

Name	Place of registration	Principal activities	Carrying amount		Percentage of equity interest	
			2002	2001	Directly	Indirectly
Wuxi Weifu Mashan Fuel Injection Equipment Factory	Wuxi, PRC	Manufacture and sale of fuel injection equipment	10,671	10,566	72.78%	-
Wuxi Weifu Chang'an Fuel Injection Co., Ltd.	Wuxi, PRC	Manufacture and sale of injection equipment for diesel	23,815	12,333	85%	-
Wuxi Weifu Jida New Material Development Co., Ltd.	Wuxi, PRC	Manufacture and development of metallic and non-metallic materials	3,340	3,258	70%	-
			<u>37,826</u>	<u>26,157</u>		

15. Available-for-sale investments

	<u>2002</u>	<u>2001</u>
At beginning of year	48,911	51,311
Additions	13,855	1,100
Disposals	<u>(5,080)</u>	<u>(3,500)</u>
At end of year	57,686	48,911
Less: Impairment losses	<u>(14,166)</u>	<u>(2,033)</u>
	<u>43,520</u>	<u>46,878</u>

Available-for-sale investments were investments in unlisted legal person shares, including approximately RMB 45,750,000(2001: RMB 35,550,000) of investments in financial institutions.

16. Inventories

	<u>31 December 2002</u>	<u>31 December 2001</u>
Raw materials	23,054	5,874

Work in progress	90,932	92,662
Finished goods	<u>221,061</u>	<u>95,611</u>
	335,047	194,147
Less: Provision for obsolescence	<u>(13,897)</u>	<u>(3,234)</u>
	<u><u>321,150</u></u>	<u><u>190,913</u></u>

17. Trade and other receivables

	<u>31 December 2002</u>	<u>31 December 2001</u>
Notes receivable	<u>66,767</u>	<u>17,652</u>
Accounts receivable	285,948	272,769
Other receivables	<u>12,968</u>	<u>28,142</u>
	365,683	318,563
Less: Provision for doubtful accounts	<u>(38,896)</u>	<u>(33,866)</u>
	<u><u>326,787</u></u>	<u><u>284,697</u></u>

18. Trade and other payables

	<u>31 December 2002</u>	<u>31 December 2001</u>
Notes payables	<u>80,000</u>	<u>-</u>
Trade payables	243,592	123,784
Other payables	<u>33,622</u>	<u>43,058</u>
	<u><u>357,214</u></u>	<u><u>166,842</u></u>

19. Accruals and other current liabilities

	<u>31 December 2002</u>	<u>31 December 2001</u>
Accrued expenses	<u>3,326</u>	<u>2,098</u>
Welfare payable	3,691	1,603
Advance from customer	5,496	940
Other levies payable	<u>3,232</u>	<u>1,955</u>
	<u><u>15,745</u></u>	<u><u>6,596</u></u>

20. Borrowings

(a) Short-term bank borrowings

	<u>31 December 2002</u>	<u>31 December 2001</u>
Unsecured bank borrowings	16,500	18,500
Secured bank borrowings	141,000	140,000
	<u>157,500</u>	<u>158,500</u>

Short-term bank borrowings bear interest at rates ranging from 4.779% to 5.310% (2001: 5.265% to 6.435%) per annum, of which RMB 91,000,000 were guaranteed by a related company – WFGC (2001: RMB 90,000,000), and RMB 50,000,000 by a third party (2001: RMB 50,000,000).

(b) Long-term bank borrowings

	<u>31 December 2002</u>	<u>31 December 2001</u>
Long-term bank borrowings	-	1,500
Less: Amounts due within one year	-	-
	<u>-</u>	<u>1,500</u>

Long-term bank borrowings are guaranteed by non-related third party entities and bear interest at 6.03% per annum.

21. Long-term payables

Long-term payables represent the fund granted from government relating to future costs and purchase of property, plant and equipment, which is interest free and without specified terms.

22. Ordinary shares

As of 31 December 2002 and 2001, the details of share capital (par value of RMB 1 each) were as follows:

	<u>Number of shares</u>		<u>Amount</u>	
	<u>31 December 2002</u>	<u>31 December 2001</u>	<u>2002</u>	<u>2001</u>
State-owned legal person shares	121,566,150	121,566,150	121,566	121,566
Legal person shares	10,400,000	10,400,000	10,400	10,400
Employee shares	24,000,000	24,000,000	24,000	24,000
A shares	192,000,000	192,000,000	192,000	192,000
B shares	88,400,000	88,400,000	88,400	88,400
	<u>436,366,150</u>	<u>436,366,150</u>	<u>436,366</u>	<u>436,366</u>

The B Shares rank pari passu in all respects with the A Shares.

23. Reserves

(a) Capital surplus

	<u>31 December 2002</u>	<u>31 December 2001</u>
Share premium	908,919	908,919
Other capital surplus	<u>2,577</u>	<u>-</u>
	<u>911,496</u>	<u>908,919</u>

In accordance with the provisions of the Company's articles of association, the Company shall record the following as capital surplus:

- (i) Share premium arising from the issue of shares in excess of par value;
- (ii) Surpluses arising from revaluation of assets; and
- (iii) Other items in accordance with the Company's articles of association and relevant regulations in the PRC.

Capital surplus can be utilised to offset prior years' losses or for the issuance of bonus shares.

Share premium mainly represents total proceeds from the issuance of A and B shares and the rights issue in excess of par value, net of expenses relating to the issuance of the shares such as underwriting commissions, fees for professional advisors and promotional expenses. Share premium can be utilized to offset prior years' losses or to issue bonus shares.

The increase of capital surplus in the year ended 31 December 2002 mainly included donation received and debts waived of subsidiaries.

(b) Statutory reserves

In accordance with the Company Law and the Company's articles of association, the Company and its subsidiaries shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve fund account. When the balance of such reserve reaches 50% of each entity's share capital, any further appropriation is optional. The statutory surplus reserve can only be utilised, upon approval by the relevant authority, to offset prior years' losses or increase capital. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such issuance.

(c) Statutory public welfare fund

According to the relevant financial regulations of the PRC and the articles of association of the Company, the Company and its subsidiaries are also required to appropriate 5% to 10% of their annual statutory net profit (after offsetting any prior year's losses) to a statutory public welfare fund to be utilized to build or acquire capital items, such as dormitories and other facilities for the Company and its subsidiaries' employees, and can not be used to pay for staff welfare expenses. Title to these capital items will remain with the Company and its subsidiaries.

(d) Retained earnings

According to the articles of association of the Company, the earnings available for distribution are the lower of the amount determined under the PRC accounting standards and the amount determined under IFRS.

As of 31 December 2002, the earnings available for distribution were RMB 401,207,000 (2001: RMB 315,556,000)

24. Minority interests

	<u>2002</u>	<u>2001</u>
Beginning of year	45,102	41,632
Acquisition of a subsidiary (Note 26)	2,227	-
Cash injection from minority shareholders	6,000	-
Share of net profit of subsidiaries	3,201	3,470
Increase in subsidiaries' capital surplus	<u>1,989</u>	<u>-</u>
End of year	<u><u>58,519</u></u>	<u><u>45,102</u></u>

25. Cash generated from operations

(a) Reconciliation from net profit to cash generated from operations:

	<u>2002</u>	<u>2001</u>
Net profit	197,646	159,590
Adjustments for:		
Minority interest	3,201	3,470
Income tax	15,849	14,829
Provision for doubtful debts and write-off of uncollectible accounts receivable	4,655	12,246
Provision for inventory obsolescence	7,799	3,234
Loss on disposal of property, plant and equipment	11,983	1,192
Depreciation of property, plant and	45,992	32,209

equipment		
(Reversal of) provision for impairment loss of property, plant and equipment	6,537	(3,029)
Amortization of intangible assets	4,837	3,251
Amortization of leasehold land	1,044	1,044
Loss on disposal of available-for-sale investments	-	173
Share of results of associates before tax	(116,573)	(58,704)
Income from unconsolidated subsidiaries	(4,363)	(3,301)
Provision for impairment loss of available-for-sale investments	12,133	2,033
Dividend income	(246)	(9,000)
Interest expense	11,115	7,317
Interest income	(7,226)	(10,085)
Changes in working capital (excluding the effects of acquisition of subsidiaries)	194,383	156,469
Increase in inventories	(125,957)	(42,606)
(Increase) decrease in trade and other receivables	(36,128)	22,524
(Increase) decrease in prepayments	(8,049)	102
Increase due from related parties	(51,088)	-
Increase in trade and other payables	189,632	49,304
Decrease in due to related companies	(481)	(16,915)
Decrease in taxes payable	(8,412)	(1,065)
Decrease in accrual and other current liabilities	(11,917)	(4,797)
Cash generated from operations	<u>141,983</u>	<u>163,016</u>

(b) Analysis of the balances of cash and cash equivalents

	31 December 2002	31 December 2001
Cash on hand	<u>272</u>	<u>21</u>
Bank deposits	<u>347,893</u>	<u>559,527</u>
	348,165	559,548
Trading investments with maturity within three months	<u>28,000</u>	<u>-</u>
Cash and cash equivalents	<u>376,165</u>	<u>559,548</u>

(c) Other information

Proceeds from sale of property, plant and equipment comprise

	<u>2002</u>	<u>2001</u>
Net book value	23,762	4,163
Less: Loss on sale of property plant and equipment	(11,983)	(1,192)
Less: Increase in trade and other receivables	(10,824)	-
Less: Increase in due from related parties	(211)	(1,132)
Less: Decrease in trade and other payables	(530)	-
Proceeds from sale of property plant and equipment	<u>214</u>	<u>1,839</u>

26. Acquisition

On 1 January 2002, the Company acquired 55% of the equity interest in Weifu Leader from WFGC. The acquired business contributed revenue of RMB 14,775,259 and operating loss of RMB 2,583,233 to the Group for the period from 1 January 2002 to 31 December 2002, and its assets and liabilities as of 31 December 2002 were respectively RMB 71,051,519 and RMB 69,962,837.

Details of net assets acquired and goodwill are as follows:

Total purchase consideration	4,309
Fair value of net assets acquired	<u>(2,722)</u>
Goodwill (Note 12)	<u><u>1,587</u></u>

The fair value of assets and liabilities arising from the acquisition are as follows:

Property, plant and equipment, net (Note 11)	12,723
Inventories, net	12,079
Prepayments	119
Trade and other receivables, net	9,549
Cash and cash equivalents	1,334
Trade and other payables	(1,273)
Current tax liabilities	483
Short-term bank borrowings	(9,000)
Accruals and other current liabilities	(21,065)
Minority interests (Note 24)	<u>(2,227)</u>
Fair value of net assets acquired	2,722
Goodwill	<u>1,587</u>
Total purchase consideration	4,309
Less: cash and cash equivalents in subsidiary	<u>(1,334)</u>

acquired	_____
Cash outflow on acquisition	<u><u>2,975</u></u>

The fair value of the net assets approximated to the book value of the net assets acquired.

There were no acquisitions in the year ended 31 December 2001.

27. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Name of related companies and relationship

Name	Relationship
WFGC	Shareholder which owns a 27.86% equity share of the Company
Wuxi Europe Asia	Associated company
Zhonglian Automobile Electronics Company Limited	Associated company
Weifu Mechanism Manufacturing	Associated company

(b) The Company and WFGC have entered into the following agreements:

(1) Six service agreements

These agreements include sales agent agreement, repairing service agreement, purchase agent agreement, cargo freight agreement, employee welfare agreement and labour service agreement. These agreements are each for a ten-year term with effect from 1 January 1995 for various services provided by WFGC to support the Company's business operations.

(2) Two utilities supply agreements

These agreements are each for a ten-year term with effect from 1 January 1995 for electricity, water, compressed air and steam supplied by WFGC.

(3) Trademark licensing agreement

The agreement is for a ten-year term with effect from 1 May 1995. The Company shall pay WFGC a license fee of 0.3% of the sales value of the Company's products

bearing the licensed trademark, with an annual minimum fee of RMB 1,200,000.

(b) The Company and WFGC have entered into the following agreements (continued):

(4) Land use right leasing agreement

The agreement is for a term of 50 years with effect from 1 April 1995. The annual rental for the first year is RMB 327,285, which is subject to an annual increment of 10%.

At a meeting of board of directors dated 22 October 2002, the board of directors resolved to terminate seven agreements from 1 January 2002 with WFGC in advance and the sales agent agreement; trademark licensing agreement and land use right agreement are maintained.

(c) Significant transactions with WFGC for the year ended 31 December 2002 are as follows:

Except as disclosed in Note 12, Note 20 and Note 26, significant transactions with WFGC for the year ended 31st December, 2002 are as follows:

	<u>2002</u>	<u>2001</u>
Purchases of materials	54,384	74,267
Sales of products	182,800	216,684
Purchases of property, plant and equipment	89,162	-
Interest income		
- From the amounts due from WFGC, net (i)	227	749
- Cash discount on material purchases	151	1,446
Processing expenses	4,292	22,204
Fees for use of land and trademark	3,914	2,914

(i) The amounts due to WFGC as at 31 December 2002 and 2001 represented the unpaid balances arising from the above transactions. The amounts due from WFGC bear interest at 1.98% (2001: 2.25%) per annum.

(d) Significant transactions with other related companies for the year ended 31 December 2002 are as follows:

	<u>2002</u>	<u>2001</u>
Purchase of materials from		
- Wuxi Europe Asia	<u>86,526</u>	<u>42,164</u>

Sales of products to		
- Wuxi Europe Asia	<u>43,735</u>	<u>28,647</u>

(e) Balances with related parties

	<u>31 December 2002</u>	<u>31 December 2001</u>
Due to related parties		
- WFGC	<u>-</u>	<u>13,933</u>
- Wuxi Europe Asia	<u>16,688</u>	<u>3,236</u>
	<u>16,688</u>	<u>17,169</u>
Due from related parties		
- WFGC	<u>38,032</u>	<u>-</u>
- Weifu Mechanism Manufacturing	<u>17,833</u>	<u>-</u>
	<u>55,865</u>	<u>-</u>

Except as mentioned in Note 27(b), the amounts due to/from related companies arose from the above transactions and were unsecured, interest-free and had no fixed repayment terms.

28. Contingent liabilities

As of 31 December 2002, the Group had no significant contingent liabilities.

29. Commitments

As of 31 December 2002, the Group had the following significant commitments:

- (a) Commitment to acquire property, plant and equipment amounting to approximately RMB 270,000,000 (2001: RMB 80,000,000);
- (b) Commitment to obtain leasehold land under the following payment terms:

	<u>31 December 2002</u>
Within 1 year	<u>2,500</u>
Over 1 year but within 5 years	<u>17,000</u>
	<u>19,500</u>

30. Subsequent events

At the meeting of the board of directors dated 15 April 2003, a dividend in respect of 2002

of RMB 0.20 per share amounting to a total dividend of RMB 87,273,230 was proposed (Note 9).

31. Approval of financial statements

The consolidated financial statements were approved for issuance by the board of directors of the Company on 15 April 2003.

Impact of IFRS adjustments on profit after taxation and minority interests and net assets

	Net profit		Shareholders' equity	
	2002	2001	31 December 2002	31 December 2001
As reported in the statutory accounts	204,033	150,720	1,804,674	1,685,337
Reversal of doubtful debts	-	3,000	-	-
Adjustment for intangible and deferred assets without future benefit	-	472	-	-
Adjustment for income from associates	(6,387)	5,398	2,313	8,700
Dividend proposed in subsequent period	-	-	87,273	87,273
As restated under IFRS	<u>197,646</u>	<u>159,590</u>	<u>1,894,260</u>	<u>1,781,310</u>

DOCUMENTS FOR REFERENCE

1. Financial Statements affixed therewith the signatures and stamps of the Company's legal representative, principal treasurer and chief accountant;
2. Original Auditors' Report affixed therewith the stamps of the accounting firms ,the signatures and stamps of the certified public Accountants;
3. Originals of all released documents and announcements disclosed on the press designated by the State Securities Regulatory Commission during this reporting year.

By order of
Board of Directors of
Weifu High Technology Co., Ltd.

April 18,2003