

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED
AND ITS SUBSIDIARIES**

(Registered in the People's Republic of China)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004
TOGETHER WITH AUDITORS' REPORT

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

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

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 2004 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements set out on pages 2 to 48 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 statements 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 financial position of the Group as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co.

19 April 2005

Shanghai, The People's Republic of China

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004**

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

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
Revenue, net	4,29	2,118,745	1,640,793
Cost of sales		<u>(1,645,383)</u>	<u>(1,251,925)</u>
Gross profit		473,362	388,868
Other operating income	4	6,015	8,639
Distribution costs		(80,271)	(78,217)
Administrative expenses		(188,611)	(177,422)
Other operating expenses		<u>(52,997)</u>	<u>(5,324)</u>
Profit from operations	6	157,498	136,544
Finance costs, net	5	(31,256)	(28,254)
Share of results of associates before tax	13	145,991	162,785
Income from unconsolidated subsidiaries	14	4,909	3,943
Impairment loss of investments	15	<u>(19,000)</u>	<u>-</u>
Profit before tax and minority interests		258,142	275,018
Income tax expense	7(b)	<u>(24,191)</u>	<u>(27,137)</u>
Profit before minority interests		233,951	247,881
Minority interests	26	<u>(6,664)</u>	<u>(8,324)</u>
Net profit		<u><u>227,287</u></u>	<u><u>239,557</u></u>
Earnings per share	8		
- Basic		<u>RMB 0.52</u>	<u>RMB 0.55</u>
- Diluted		<u>Not applicable</u>	<u>Not applicable</u>

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

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2004

(All amounts in RMB thousands)

	Notes	31 December 2004	31 December 2003
ASSETS			
Non-current assets			
Leasehold land	10	73,614	49,706
Property, plant and equipment	11	854,015	906,002
Intangible assets	12	70,207	32,370
Investments in associates	13	802,093	475,365
Investments in unconsolidated subsidiaries	14	46,678	41,769
Available-for-sale investments	15	29,520	43,520
Held-to-maturity investments	16	3,000	-
Deferred tax assets	7(b)	5,851	-
Total non-current assets		<u>1,884,978</u>	<u>1,548,732</u>
Current assets			
Inventories	17	670,671	354,845
Due from related parties	29(e)	27,760	1,165
Dividend receivable		91,173	-
Prepayments		32,492	5,032
Trade and other receivables	18	673,081	491,920
Cash and bank deposits	27(b)	814,962	487,257
Total current assets		<u>2,310,139</u>	<u>1,340,219</u>
Total Assets		<u><u>4,195,117</u></u>	<u><u>2,888,951</u></u>

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS OF 31 DECEMBER 2004

(All amounts in RMB thousands)

	Notes	31 December 2004	31 December 2003
EQUITY AND LIABILITIES			
Shareholders' equity			
Ordinary shares	23	436,366	436,366
Reserves	24	1,134,212	1,094,407
Retained earnings	25	615,980	515,771
Total shareholders' equity		<u>2,186,558</u>	<u>2,046,544</u>
Minority interests	26	<u>143,974</u>	<u>77,310</u>
Non-current liabilities			
Long-term bank borrowings	21(b)	225,000	160,000
Long-term payables	22	56,822	47,538
Total non-current liabilities		<u>281,822</u>	<u>207,538</u>
Current liabilities			
Trade and other payables	19	1,000,747	333,144
Current tax liabilities		(28,991)	5,846
Due to related parties	29(e)	7,780	9,564
Dividend payable		416	416
Short-term bank borrowings	21(a)	552,830	195,500
Accruals and other current liabilities	20	14,981	13,089
Current portion of long-term bank borrowings	21(b)	35,000	-
Total current liabilities		<u>1,582,763</u>	<u>557,559</u>
Total liabilities		<u>1,864,585</u>	<u>765,097</u>
Total Equity and Liabilities		<u><u>4,195,117</u></u>	<u><u>2,888,951</u></u>

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

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

(All amounts in RMB thousands)

	Notes	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	27(a)	227,508	40,530
Interest paid		(28,414)	(14,463)
Income tax paid		(19,358)	(17,408)
Net cash from operating activities		<u>179,736</u>	<u>8,659</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of leasehold land		(25,612)	(5,836)
Purchase of Intangible assets		(8,575)	-
Purchase of property, plant and equipment		(217,478)	(239,552)
Proceeds from disposals of property, plant and equipment	27(c)	6,875	137,386
Increase in investments in associates	13	(152,732)	-
Increase in available-for-sale investments	15	(5,000)	-
Purchase of held-to-maturity investments		(3,000)	-
Proceeds from disposals of trading investments		-	6
Interest received		7,496	4,447
Dividends received		70,605	66,307
Net cash used in investing activities		<u>(327,421)</u>	<u>(37,242)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in short-term bank borrowings		357,330	38,000
Increase in long-term bank borrowings		100,000	160,000
Cash injection from minority shareholders		60,000	-
Dividends paid		(87,273)	(87,065)
Cash received from government grants		11,823	28,740
Increase in long-term payable		1,710	-
Net cash from financing activities		<u>443,590</u>	<u>139,675</u>
Net increase in cash and cash equivalents		295,905	111,092
Cash and cash equivalents at beginning of year		<u>487,257</u>	<u>376,165</u>
Cash and cash equivalents at end of year	27(b)	<u><u>783,162</u></u>	<u><u>487,257</u></u>

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

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands)

	Reserves					Total reserves	Retained earnings	Total equity
	Share capital	Capital surplus	Statutory surplus reserve fund	Statutory public welfare fund	Discretionary surplus reserve fund			
	Note 23	Note 24(a)	Note 24(b)	Note 24(c)			Note 25	
Balance as at 1 January, 2003	436,366	911,496	94,013	47,081	1,785	1,054,375	403,519	1,894,260
Dividends declared after 1 January, 2003 from retained earnings as of 31 December 2002 (Note 9)	-	-	-	-	-	-	(87,273)	(87,273)
Net profit for 2003	-	-	-	-	-	-	239,557	239,557
Appropriations:								
- statutory surplus reserve fund	-	-	26,688	-	-	26,688	(26,688)	-
- statutory public welfare fund	-	-	-	13,344	-	13,344	(13,344)	-
Balance as at 31 December 2003	436,366	911,496	120,701	60,425	1,785	1,094,407	515,771	2,046,544
Dividends declared after 1 January, 2004 from retained earnings as of 31 December 2003 (Note 9)	-	-	-	-	-	-	(87,273)	(87,273)
Net profit for 2004	-	-	-	-	-	-	227,287	227,287
Appropriations:								
- statutory surplus reserve fund	-	-	26,536	-	-	26,536	(26,536)	-
- statutory public welfare fund	-	-	-	13,269	-	13,269	(13,269)	-
Balance as at 31 December 2004	<u>436,366</u>	<u>911,496</u>	<u>147,237</u>	<u>73,694</u>	<u>1,785</u>	<u>1,134,212</u>	<u>615,980</u>	<u>2,186,558</u>

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

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

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 2,520 and 3,454 employees as of 31 December 2004 and 2003 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 consolidated financial statements of the Group are set out below:

(a) Basis of preparation

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 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 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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2. ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

The Group adopted IFRS 3 "Business Combinations", International Accounting Standard ("IAS") 36 "Impairment of Assets" (revised 2003) and IAS 38 "Intangible Assets" (revised 2003) in relation to the business combinations for which the agreement date is on or after 31 March 2004. The effect of adopting these standards is disclosed in Note 2(b)(1), 2(g)(3) and 2(h). There is no impact on opening retained earnings as at 1 January 2004 from the adoption of these standards.

(b) Group accounting

(1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries for which the agreement date is before 31 March 2004 in accordance with IAS 22 "Business Combination". The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. (See Note 2(g)(3) for the accounting policy on goodwill).

The Group adopted IFRS 3 "Business Combinations" to account for the acquisition of subsidiaries by the Group for which the agreement date is on or after 31 March 2004. In applying the purchase method of accounting as determined by IFRS 3, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (See Note 2(g)(3)).

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2. ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(1) Subsidiaries (Continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(2) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(3) Joint ventures

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2. ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(3) Joint ventures (Continued)

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. Under this method the Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

(c) Foreign currency translation

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The consolidated financial statements are presented in RMB, which is the measurement currency of each entity in 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 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 term leasehold land and is classified as operating leases. The prepaid lease payments are amortized over the lease period (thirty to fifty years) on a straight-line basis.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2 ACCOUNTING POLICIES (Continued)

(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	20-35 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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2. ACCOUNTING POLICIES (Continued)

(g) Intangible assets

Intangible assets are recognised 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. Intangible assets are measured initially at cost. Cost includes the fair value of the consideration given to acquire the assets and any costs directly attributable to the transaction. After initial recognition, intangible assets are carried at cost less any accumulated amortisation, when applicable, and any accumulated impairment losses. Intangible assets are amortized unless they have an indefinite useful life. Amortisation is calculated on a straight-line basis over the best estimate of the useful lives of the intangible assets. The useful lives and the amortisation method are re-assessed at every year end to ensure its consistency with the expected pattern of economic benefits from intangible assets. Intangible assets with definite useful lives are considered for impairment where there is an indicator that the asset has been impaired. Intangible assets with indefinite useful lives should be tested annually for impairment and whenever there is an indication of impairment.

(1) Trademarks, licences and proprietary technologies

Trademarks, licences and proprietary technologies are initially measured at historical cost, which comprises its purchase price and other directly attributable costs.

Trademarks, licences and proprietary technologies have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks, licences and proprietary technologies over their estimated useful lives (10-30 years).

The trademark was purchased from the related party – Wuxi Weifu Group Co., Ltd. by the Company's subsidiary – Nanjing Weifu Jinning Company Limited and 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;

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2 ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(2) Research and development costs (Continued)

- 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 2004, 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 / associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associate.

Goodwill arising from business combinations for which the agreement dated is before 31 March 2004 is amortized to the income statement 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. In accordance with the transitional provision of IFRS3, from 1 January 2005, the Group will discontinue the amortisation of those previously recognised goodwill and eliminate the carrying amount of the related accumulated amortisation with a corresponding decrease in Goodwill. In addition, they will be tested annually for impairment thereafter. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is not amortized but tested annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2 ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(3) Goodwill (Continued)

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary / associate over the cost of an acquisition. Negative goodwill arising from business combinations for which the agreement date is before 31 March 2004 is amortized using the straight-line method over their estimated useful lives and recognised in the income statement. Management determines the estimated useful lives of negative goodwill based on the remaining weighted average useful lives of the identifiable acquired depreciable/amortizable assets of the respective business at the time of the acquisition. In accordance with the transitional provision of IFRS3, the negative goodwill previously recognised will be derecognised on 1 January 2005, with a corresponding adjustment to the retained earnings as at 1 January 2005. For negative goodwill arising from business combinations for which the agreement date is on or after 31 March 2004, the Group reassesses the identification and measurement of the identifiable assets and liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess of the fair value of the Group's share of net assets of the subsidiary / associate over the cost of the acquisition after that reassessment is recognised immediately in profit or loss.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell 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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2 ACCOUNTING POLICIES (Continued)

(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. 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. 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 investments are included in the consolidated income statement in the period in which they arise. Unrealised gain and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. For the available-for-sales 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-sales investments that the fair value can not be reliably determined, are carried at cost less impairment.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in RMB thousands unless otherwise stated)

2 ACCOUNTING POLICIES (Continued)

(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.

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(All amounts in RMB thousands unless otherwise stated)

2 ACCOUNTING POLICIES (Continued)

(n) Borrowings and borrowing costs

Borrowings are initially recognised 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 recognised 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. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. 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 has no obligation for the payment of pension benefits beyond the contribution described above. These defined contributions are recognised as employee benefit expense when they are due.

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2 ACCOUNTING POLICIES (Continued)

(q) Government grants

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

Government grants relating to the acquisition of property, plant and equipment are set off against their initial cost, resulting in being effectively credited to the consolidated income statement over the periods and in the proportions in which depreciation on these assets is charged.

(r) Provisions

A provision is recognised 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 value-added tax, volume rebates and trade 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 recognised on the following basis:

(i) Sales of goods

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2 ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(ii) Interest income

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

(iii) Dividend income

Dividend income is recognised 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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing 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.

(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 recognised 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 recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
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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 and limit the amount of credit exposure to any financial institution.

(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 21. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(4) Foreign exchange risk

The Group purchases certain raw materials from Germany, therefore, the Group is exposed to foreign exchange risk primarily with respect to the EUR dollar ("EUR").

Foreign exchange risk arises from future commercial transactions, recognised liabilities denominated in EUR. The Group has not used any forward contracts or currency borrowings to hedge its exposure to foreign exchange risks.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
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3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Accounting for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

An embedded derivative is separated from the host contract and accounted for as a derivative only if:

- (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (iii) the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss.

If the fair value of an embedded derivative can not be determined reliably, the entire hybrid instrument are treated as held for trading and carried at fair value.

(c) Fair value estimation

The fair value of publicly traded trading securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term borrowings. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

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4 Revenue and other operating income

	<u>2004</u>	<u>2003</u>
Sales of goods	<u>2,118,745</u>	<u>1,640,793</u>
Other operating income -		
Government Grant (Note 22)	5,410	8,226
Income from trading investment	-	6
Dividend income	<u>605</u>	<u>407</u>
	<u>6,015</u>	<u>8,639</u>

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

5 Finance costs, net

	<u>2004</u>	<u>2003</u>
Interest income		
- Bank deposits	<u>7,496</u>	<u>4,458</u>
Interest on		
- Bank borrowings	28,414	14,463
Less: amount capitalized in construction-in-progress (Note 11)	<u>(2,310)</u>	<u>(2,516)</u>
	26,104	11,947
- Cash discount on sales	<u>12,648</u>	<u>20,765</u>
	<u>38,752</u>	<u>32,712</u>
	<u>(31,256)</u>	<u>(28,254)</u>

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6 Profit from operation

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

	<u>2004</u>	<u>2003</u>
Depreciation on property, plant and equipment (Note 11)	77,774	61,328
(Reversal of) provision for impairment of property, plant and equipment (Note 11)	(5,100)	9,666
Loss on disposal of property plant and equipment (included in " Other operating expenses ")(Note 27 (c))	23,899	4,254
Amortisation of intangible assets		
- Goodwill (Note 12)	2,093	594
- Trademark (Note 12)	876	876
- Licences (Note 12)	1,711	-
- Proprietary technology (Note 12)	274	-
Amortisation of leasehold land (Note 10)	1,704	1,472
Research and development expenditures	24,248	28,641
Repairs and maintenance and overhaul costs of property, plant and equipment	29,535	26,536
Foreign exchange losses (included in " Other operating expenses ")	21,566	-
Operating lease rental payable-plant and machinery	5,727	-
Inventory		
- Cost of inventories recognised as expense	1,286,211	1,040,318
- (Reversal) write-down of inventory cost	(2,909)	5,110
Impairment charge for bad and doubtful debts	8,215	23,712
Staff costs		
- Salaries and wages	121,450	117,472
- Staff and workers' bonus and welfare fund	19,042	16,309
- Contribution to statutory pension scheme	25,179	24,510
- Provision for housing fund	11,725	9,436

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%-12%
Unemployment fund	2%
Statutory pension fund	21%-22%

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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 purchase of raw materials and other production materials can be net 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 statement comprised:

	<u>2004</u>	<u>2003</u>
Current tax	25,384	20,830
Deferred tax (Note 7 (b) (3))	(5,851)	-
Share of tax of associates	4,658	6,307
Income tax expense	<u>24,191</u>	<u>27,137</u>

The Company and its subsidiaries - Wuxi Weifu Leader Catalytic Converter Company Limited. (" Weifu Leader ") and Wuxi Weifu Automotive Diesel System Company Limited. (" WADS ") are high-technology enterprises registered in Wuxi Hi-tech Industrial Development Zone and are subject to EIT at a reduced rate of 15%. In accordance with Su Guo Shui Fa [2003] No.101 issued by local tax bureau on 20 May 2003, WADS, being a high-technology company incorporated in Wuxi Hi-tech Industrial Development Zone, is entitled to two years' exemption from income taxes commencing from the first cumulative profit-making year net off losses carried forward, therefore, the applicable EIT rate is zero for the year ended 31 December 2004.

The Company's Subsidiary - Nanjing Weifu Jingning Company Limited. (" 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%.

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7 Taxation (Continued)

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

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

	2004	2003
Accounting profit before tax and minority interest	258,142	275,018
Tax calculated at the effective tax rate of 15% (2003: 15%)	38,721	41,253
Tax effect of Utilisation of tax losses of subsidiaries	467	(359)
Tax effect of expenses that are not deductible in determining taxable profit	733	5,053
Tax effect of income that are not taxable in determining taxable profit	(15,730)	(18,810)
	<u>24,191</u>	<u>27,137</u>

(3) Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates which are enacted or substantively enacted by the balance sheet date.

The movement of the deferred tax assets is as follows:

	2004	2003
As at 1 January 2004	-	-
Income statement credit	5,851	-
As at 31 December 2004	<u>5,851</u>	<u>-</u>
Provided for in respect of :		
Provision for impairment of receivables	2,517	-
Write-down of inventory	923	-
Provision for impairment of property, plant and equipment	704	-
Write-down of pre-operating expenses	198	-
Housing subsidies not deductible for tax	459	-
Accrued expenses not deductible for tax	1,050	-
	<u>5,851</u>	<u>-</u>

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7 Taxation (Continued)

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

The amounts shown in the balance sheet include the following:

	<u>2004</u>	<u>2003</u>
-Deferred tax assets to be recovered after more than 12 months	1,055	-
-Deferred tax assets to be recovered within 12 months	4,796	-
	<u>5,851</u>	<u>-</u>

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>2004</u>	<u>2003</u>
Net profit	227,287	239,557
Weighted average number of ordinary shares in issue ("000")	436,366	436,366
Basic earnings per share (RMB yuan)	<u>0.52</u>	<u>0.55</u>

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

9 Dividends

At the meeting of the board of directors dated 19 April 2005, the directors proposed a final dividend of RMB 0.1 per share, totalling RMB 43,636,615, together with a bonus issue of 3 bonus shares for every 10 shares, totalling RMB 130,909,845, calculated based on the ordinary shares of 436,366,150 shares in issue as at 31 December 2004 (Note 34). These consolidated financial statements do not reflect this dividend payable or record the bonus issue as an increase of share capital, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2005.

The dividends declared in respect of 2003 were RMB 87,273,230.

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10 Leasehold land

	<u>2004</u>	<u>2003</u>
<u>Cost</u>		
Beginning of year	56,424	33,038
Additions	25,612	23,386
End of year	<u>82,036</u>	<u>56,424</u>
<u>Accumulated amortisation</u>		
Beginning of year	6,718	5,246
Charge for the year	1,704	1,472
End of year	<u>8,422</u>	<u>6,718</u>
<u>Net book value</u>		
End of year	<u>73,614</u>	<u>49,706</u>
Beginning of year	<u>49,706</u>	<u>27,792</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.

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11 Property, plant and equipment

	2004			Total
	Buildings	Machinery and equipment	Construction-in-progress	
<u>Cost</u>				
Beginning of year	202,894	787,122	236,672	1,226,688
Additions	35	92,701	211,023	303,759
Disposals	(10)	(396,225)	(3,768)	(400,003)
Transfer	74,527	265,120	(339,647)	-
End of year	<u>277,446</u>	<u>748,718</u>	<u>104,280</u>	<u>1,130,444</u>
<u>Accumulated depreciation</u>				
Beginning of year	48,287	252,062	-	300,349
Charge for the year	6,508	71,266	-	77,774
Disposals	-	(109,328)	-	(109,328)
End of year	<u>54,795</u>	<u>214,000</u>	<u>-</u>	<u>268,795</u>
<u>Accumulated Impairment losses</u>				
Beginning of year	-	20,337	-	20,337
Reversal	-	(5,100)	-	(5,100)
Disposals	-	(7,603)	-	(7,603)
End of year	<u>-</u>	<u>7,634</u>	<u>-</u>	<u>7,634</u>
<u>Net book value</u>				
End of year	<u>222,651</u>	<u>527,084</u>	<u>104,280</u>	<u>854,015</u>
Beginning of year	<u>154,607</u>	<u>514,723</u>	<u>236,672</u>	<u>906,002</u>

For the year ended 31 December 2004, borrowing cost capitalised as property, plant and equipment amounted to approximately RMB 2,310,000 (2003: RMB 2,516,000), capitalisation rate is 5.51% per annum (2003: 5.49%).

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11. Property, plant and equipment (Continued)

	2003			Total
	Buildings	Machinery and equipment	Construction-in-progress	
<u>Cost</u>				
Beginning of year	197,385	647,339	325,953	1,170,677
Additions	5,866	2,639	237,058	245,563
Disposals	(1,487)	(24,571)	(163,494)	(189,552)
Transfer	1,130	161,715	(162,845)	-
End of year	<u>202,894</u>	<u>787,122</u>	<u>236,672</u>	<u>1,226,688</u>
<u>Accumulated depreciation</u>				
Beginning of year	42,802	210,863	-	253,665
Charge for the year	5,521	55,807	-	61,328
Disposals	(36)	(14,608)	-	(14,644)
End of year	<u>48,287</u>	<u>252,062</u>	<u>-</u>	<u>300,349</u>
<u>Accumulated impairment losses</u>				
Beginning of year	-	11,104	2,407	13,511
Additions	-	9,666	-	9,666
Disposals	-	(433)	(2,407)	(2,840)
End of year	<u>-</u>	<u>20,337</u>	<u>-</u>	<u>20,337</u>
<u>Net book value</u>				
End of year	<u>154,607</u>	<u>514,723</u>	<u>236,672</u>	<u>906,002</u>
Beginning of year	<u>154,583</u>	<u>425,372</u>	<u>323,546</u>	<u>903,501</u>

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12 Intangible assets

	2004				Total
	Trademark	Goodwill Note(iii)	Licences Note(i)	Proprietary technology Note(ii)	
<u>Cost</u>					
Beginning of year	26,356	23,926	-	-	50,282
Additions	-	-	34,216	8,575	42,791
End of year	26,356	23,926	34,216	8,575	93,073
<u>Accumulated amortisation</u>					
Beginning of year	4,453	13,459	-	-	17,912
Charge for the year	876	2,093	1,711	274	4,954
End of year	5,329	15,552	1,711	274	22,866
<u>Net book value</u>					
End of year	21,027	8,374	32,505	8,301	70,207
Beginning of year	21,903	10,467	-	-	32,370

- i. Pursuant to an agreement entered between the Company and Robert Bosch GmbH ("Bosch"), the Company shall pay to Bosch at an amount of EUR 3,333,333, approximates to RMB 34,215,997 to acquire the right to manufacture certain licensed products for 10 years from July 2004 to July 2014.
- ii. The Group's joint venture – Wuxi Weifu Environmental Catalyst Co., Ltd. (" Weifu Environmental Catalyst ") paid RMB 17,500,000 to acquire the proprietary technology in relation to the production of environmental catalyst products. The amount included in the consolidated balance sheet represents the Group's 49% share of the intangible asset. Management estimated the useful life of the proprietary technology is 10 years.
- iii. Goodwill was resulted from the acquisition of Weifu Leader in December 2003.

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12 Intangible assets (Continued)

	2003				Total
	Trademark	Goodwill	Licences	Proprietary technology	
<u>Cost</u>					
Beginning of year	26,356	13,459	-	-	39,815
Additions	-	10,467	-	-	10,467
End of year	26,356	23,926	-	-	50,282
<u>Accumulated amortisation</u>					
Beginning of year	3,577	12,865	-	-	16,442
Charge for the year	876	594	-	-	1,470
End of year	4,453	13,459	-	-	17,912
<u>Net book value</u>					
End of year	21,903	10,467	-	-	32,370
Beginning of year	22,779	594	-	-	23,373

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13 Investments in associates

	<u>2004</u>	<u>2003</u>
Beginning of year	475,365	384,787
Addition in investments in associates	346,408	-
Share of results before tax	145,991	162,785
Share of tax of associates (Note 7(b))	(4,658)	(6,307)
Dividend declared	<u>(161,013)</u>	<u>(65,900)</u>
End of year	<u><u>802,093</u></u>	<u><u>475,365</u></u>

As of 31 December 2004, the Group had the following associates:

Name	Place of registration	Principal activities	Carrying amount		Percentage of equity interest			
			31 December 2004	31 December 2003	31 December 2004		31 December 2003	
					Directly	Indirectly	Directly	Indirectly
Bosch Automotive Diesel Systems Co., Ltd. (*RBOD*, formerly known as Wuxi Europe Asia Diesel Fuel Injection Co., Ltd. "Wuxi Europe Asia" (note (i)))	Wuxi, PRC	Development, manufacture and sale of Diesel system.	559,352	245,198	48%	-	30%	1.5%
Zhonglian Automobile Electronics Co., Ltd.	Shanghai, PRC	Manufacture and sale of automobile electronic equipment	236,748	227,862	20%	-	20%	-
Wuxi Weifu Mechanism Manufacturing Co., Ltd. (*Weifu Mechanism Manufacturing*)	Wuxi, PRC	Manufacture and sale of diesel fuel injection, automotive components	3,126	2,305	28.98%	-	28.98%	-
Wuxi Weifu International Trading Co., Ltd. (*Weifu International trading*)	Wuxi, PRC	Import and export of commodities and technologies	2,667	-	-	-	15%	30%
Wuxi Long Sheng technology Co., Ltd. (*Wuxi Long Sheng*)	Wuxi, PRC	Development, manufacture and sale of automotive components	200	-	-	-	-	20%
			<u><u>802,093</u></u>	<u><u>475,365</u></u>				

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13 Investments in associates(Continued)

- (i). On 31 July 2004, the Group, together with other investors, increased the registered capital of Wuxi Europe Asia from USD 30,200,000 to USD 200,000,000. As approved by the government, Wuxi Europe Asia was transformed to a joint stock company with foreign investment and changes its name as Bosch Automotive Diesel Systems Co., Ltd. After the additional capital injection, the Group held 31.5% equity interest in RBCD collectively. The excess of the cost of the investment over the fair value of the Group's share of the associate's identifiable net assets, amounting to RMB 6,801,187(Note 28), is recorded as goodwill and included in the carrying amount of the investment. In accordance with the provision of IFRS 3, the goodwill is not amortised and included in the entire carrying amount of the investment for impairment testing.

14 Investments in unconsolidated subsidiaries

	<u>2004</u>	<u>2003</u>
Beginning of year	41,769	37,826
Share of results	<u>4,909</u>	<u>3,943</u>
End of year	<u><u>46,678</u></u>	<u><u>41,769</u></u>

As of 31 December 2004, the Group had the following unconsolidated subsidiaries:

Name	Place of registration	Principal activities	Carrying amount		Percentage of equity interest	
			31 December 2004	31 December 2003	Directly	Indirectly
Wuxi Weifu Mashan Fuel Injection Equipment Factory (" Weifu Mashan ")	Wuxi, PRC	Manufacture and sale of fuel injection equipment	10,924	10,780	72.78%	12.22%
Wuxi Weifu Chang'an Fuel Injection Co., Ltd. (" Weifu Chang'an ")	Wuxi, PRC	Manufacture and sale of injection equipment for diesel	33,716	28,546	85%	-
Wuxi Weifu Jida New Material Development Co., Ltd. (" Weifu Jida ")	Wuxi, PRC	Manufacture and development of metallic and non-metallic materials	<u>2,038</u>	<u>2,443</u>	70%	-
			<u><u>46,678</u></u>	<u><u>41,769</u></u>		

15 Available-for-sale investments

	<u>2004</u>	<u>2003</u>
At beginning of year	57,686	57,686
Additions	<u>5,000</u>	<u>-</u>
At end of year	62,686	57,686
Less: Accumulated impairment losses	<u>(33,166)</u>	<u>(14,166)</u>
	<u><u>29,520</u></u>	<u><u>43,520</u></u>

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15 Available-for-sale investments(Continued)

Available-for-sale investments comprise: (a) marketable investments in open-ended fund amounting RMB 2,000,000 which are stated at fair value; and (b) other investments in unlisted equity instruments, whose fair value cannot be reliably determined and are therefore carried at cost less impairment. As of 31 December 2004, impairments provided to those available-for-sale investments amounted to RMB 33,166,437.

16 Held-to-maturity investments

Held-to-maturity investments represent the debt securities with maturities of 5 years that the management has the positive intention and ability to hold to maturity.

The interest rates of the debt securities are variable with reference to the basic interest rate of one-year time deposit as promulgated by the People's Bank of China, plus 1.92% per annum. The issuer has early repayment option under the agreement. The derivatives embedded in these debt instruments are not separately accounted for because their risks and characteristics are considered to be closely related to the debt instruments.

17 Inventories

	31 December 2004	31 December 2003
Raw materials	130,252	24,475
Work-in-progress	108,728	106,294
Finished goods	431,691	224,076
	<u>670,671</u>	<u>354,845</u>

18 Trade and other receivables

	31 December 2004	31 December 2003
Notes receivables	111,441	172,382
Accounts receivables	587,298	342,264
Other receivables	35,739	33,613
	<u>734,478</u>	<u>548,259</u>
Less: Provision for bad and doubtful debts	<u>(61,397)</u>	<u>(56,339)</u>
	<u>673,081</u>	<u>491,920</u>

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19 Trade and other payables

	31 December 2004	31 December 2003
Notes payables	72,107	24,800
Trade payables	839,266	259,297
Other payables	89,374	49,047
	<u>1,000,747</u>	<u>333,144</u>

20 Accruals and other current liabilities

	31 December 2004	31 December 2003
Accrued expenses	4,974	3,537
Welfare payable	4,400	6,121
Advances from customers	3,428	3,198
Other levies payables	2,179	233
	<u>14,981</u>	<u>13,089</u>

21 Borrowings

(a) Short-term bank borrowings

	31 December 2004	31 December 2003
Unsecured bank borrowings	434,830	136,500
Secured bank borrowings	118,000	59,000
	<u>552,830</u>	<u>195,500</u>

Short-term bank borrowings bear interest at rates ranging from 4.35% to 5.58% (2003: 4.536% to 5.040%) per annum, of which RMB 118,000,000 were guaranteed by a related company – Weifu Group Co., Ltd. ("WFGC") (2003: RMB 59,000,000 were guaranteed by WFGC).

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21 Borrowings (Continued)

(b) Long-term bank borrowings

	31 December 2004	31 December 2003
Secured bank borrowings	260,000	160,000
Less: Amounts due within one year	(35,000)	-
	<u>225,000</u>	<u>160,000</u>

Long-term bank borrowings are guaranteed by WFGC and bear interest rates ranging from 5.49% to 5.58% (2003: 5.49%) per annum. The long-term borrowings are repayable within the period from year 2006 to year 2007.

As at 31 December 2004, the carrying amount of long-term bank borrowings approximates their fair value as these borrowings bear quoted market interest rates.

22 Long-term payables

	31 December 2004	31 December 2003
Deferred government grants (i)	35,408	30,658
Deferred income (ii)	5,824	-
Leasehold land payables (iii)	12,000	15,000
Long-term government borrowings	3,590	1,880
	<u>56,822</u>	<u>47,538</u>

(i) Government grants represent funds received relating to acquisition and construction of property, plant and equipment as well as expenditures relating to certain research and development projects. The movement of government grants for the year ended 31 December 2004 were as follows:

	2004	2003
Beginning of year	30,658	12,660
Receipt during the year	11,823	28,740
Amount recognised as income	(4,763)	(8,226)
Amount allocated to offsetting initial costs of related construction-in-progress.	(2,310)	(2,516)
End of year	<u>35,408</u>	<u>30,658</u>

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22 Long-term payables (continued)

- (ii) Deferred income represents investment tax credit granted to the Company on purchase of certain qualified equipments. It is recognised as income over the periods and in the proportions in which depreciation on these assets is charged. The movement of deferred income for the year ended 31 December 2004 was as follows:

	<u>2004</u>	<u>2003</u>
Beginning of year	-	-
Granted during the year	6,471	-
Recognised as income	(647)	-
End of year	<u>5,824</u>	<u>-</u>

- (iii) The Group acquired a parcel of leasehold land in Nanjing Hi-tech Development Zone at the cost of RMB 19,500,000, of which 12,000,000 will be repayable within the period from year 2006 to year 2007.

23 Ordinary shares

As of 31 December 2004 and 2003, 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 2004</u>	<u>31 December 2003</u>	<u>31 December 2004</u>	<u>31 December 2003</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>

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24 Reserves

(a) Capital surplus

	31 December 2004	31 December 2003
Share premium	908,919	908,919
Other capital surplus	2,577	2,577
	<u>911,496</u>	<u>911,496</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.

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 utilised to offset prior years' losses or to issue bonus shares.

Other capital surplus mainly represents the Company's share of post – acquisition movements in reserves of the subsidiaries. These capital surplus can be utilized to issue bonus share when the Company disposes its investments in relevant 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.

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24 Reserves (Continued)

(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 utilised 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.

25 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 2004, the earnings available for distribution were RMB 615,980,000 (2003: RMB 512,005,000)

26 Minority interests

	<u>2004</u>	<u>2003</u>
Beginning of year	77,310	58,519
Increase of minority interests arising from the capital increase of the subsidiary	-	10,467
Cash injection from minority shareholders	60,000	-
Share of net profit of subsidiaries	<u>6,664</u>	<u>8,324</u>
End of year	<u><u>143,974</u></u>	<u><u>77,310</u></u>

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27 Cash generated from operations

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

	2004	2003
Net profit	227,287	239,557
Adjustments for:		
Minority interest	6,664	8,324
Income tax	24,191	27,137
Provision for doubtful debts and write-off of uncollectible accounts receivable	8,215	23,712
(Reversal) write-down of inventory	(2,909)	5,110
Loss on disposal of property, plant and equipment	23,899	4,254
Depreciation of property, plant and equipment	77,774	61,328
(Reversal of) Provision for impairment loss of property, plant and equipment	(5,100)	9,666
Amortisation of intangible assets	4,954	1,470
Amortisation of leasehold land	1,704	1,472
Government grants recognised as income	(5,410)	(8,226)
Share of results of associates before tax	(145,991)	(162,785)
Income from unconsolidated subsidiaries	(4,909)	(3,943)
Income from trading investments	-	(6)
Provision for impairment loss of available-for-sale investments	19,000	-
Dividend income	(605)	(407)
Interest expense	26,104	11,947
Interest income	(7,496)	(4,458)
Changes in working capital (excluding the effects of acquisition of subsidiaries)	247,372	214,152
Increase in inventories	(312,917)	(38,805)
Increase in pledged deposit	(31,800)	-
Increase in trade and other receivables	(189,536)	(182,405)
Decrease (Increase) in prepayments	(27,460)	3,135
Decrease (Increase) in due from related parties	(8,962)	16,668
Increase (decrease) in trade and other payables	622,312	(30,081)
Increase (decrease) in due to related companies	(1,784)	54,908
Increase (decrease) in taxes payable	(34,393)	6,284
Decrease in accrual and other current liabilities	(35,324)	(3,326)
Cash generated from operations	<u>227,508</u>	<u>40,530</u>

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27 Cash generated from operations (Continued)

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

	31 December 2004	31 December 2003
Cash on hand	151	134
Bank deposits	814,811	487,123
	<u>814,962</u>	<u>487,257</u>
Less: Pledged deposits	(31,800)	-
Cash and cash equivalents	<u>783,162</u>	<u>487,257</u>

The Group's bank deposit of amount of RMB 31,800,000 was pledged as security for issuing notes payables.

(c) Other information

Proceeds from disposal of property, plant and equipment comprise

	2004	2003
Net book value	283,072	172,068
Less: Loss on sales of property, plant and equipment	(23,899)	(4,254)
Increase in trade and other receivables	(18,547)	(6,428)
Increase in due from related parties	(3,857)	(24,000)
Decrease in trade and other payable	(36,218)	-
In exchange of shares of an associate (Note 28)	(193,676)	-
Proceeds from disposal of property plant and equipment	<u>6,875</u>	<u>137,386</u>

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28 Acquisition

On 31 July, 2004, the Group, together with other investors, increased the registered capital of Wuxi Europe Asia from USD 30,200,000 to USD 200,000,000. As approved by the government, Wuxi Europe Asia was transformed to a joint stock Company with foreign investment and changes its name as Bosch Automotive Diesel Systems Co., Ltd ("RBCD"). The Group acquired 31.5% of the share capital of RBCD in exchange of (i) the Group's 48% equity interest in Wuxi Europe Asia; (ii) certain equipments and machineries; and (iii) a cash consideration of RMB 150,282,141.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
- Cash paid	150,282
- Fair value of property, plant and equipment given	193,676
- Fair value of 48% equity interest in Wuxi Europe Asia given	205,950
	<u>549,908</u>
Fair value of net assets acquired	<u>(543,107)</u>
Goodwill (Note13 (i))	<u>6,801</u>

The assets and liabilities arising from the acquisition are as follow:

Cash and cash equivalents	1,151,358
Property, plant and equipment	468,788
Leasehold land	10,774
Intangible and other assets	10,591
Inventories	88,270
Receivables and prepayments	257,301
Payables and accruals	(73,821)
Dividends payable	(189,111)
Interests of other shareholders	(1,181,043)
Fair value of net assets acquired	<u>543,107</u>

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29 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
RBCD	Associated company
Zhonglian Automobile Electronics Company Limited	Associated company
Weifu Mechanism Manufacturing	Associated company
Weifu International Trading	Associated company
Weifu Longsheng	Associated company
Weifu Mashan	Unconsolidated subsidiaries
Weifu Chang'an	Unconsolidated subsidiaries
Weifu Jida	Unconsolidated subsidiaries

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

(1) 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.

(2) Land use right leasing agreement

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

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29 Related party transactions (Continued)

(c) Significant transactions with WFGC for the year ended 31 December 2003 are as follows:

Except as disclosed in Note 21, significant transactions with WFGC for the year ended 31 December 2004 are as follows:

	<u>2004</u>	<u>2003</u>
Purchases of materials	19,485	1,125
Sales of products	194,840	163,630
Purchases of property, plant and equipment	-	459
Sales of property, plant and equipment	9,164	-
Fees for use of land and trademark	4,501	4,063
Bank deposit of WFGC pledged as security for the Company to issue notes payable	<u>19,600</u>	<u>-</u>

(d) Significant transactions with other related companies for the year ended 31 December 2004 are as follows:

	<u>2004</u>	<u>2003</u>
Purchase of materials from		
- Weifu Mechanism Manufacturing	85,552	62,046
- Weifu Mashan	71,812	55,773
- Weifu Chang'an	121,557	99,295
- RBCD	112,302	114,879
- Weifu International Trading	<u>243</u>	<u>-</u>
Sales of products to		
- Weifu Mechanism Manufacturing	24,068	18,002
- Weifu Mashan	21,035	11,112
- Weifu Chang'an	17,114	7,750
- RBCD	<u>95,907</u>	<u>64,210</u>
Rental of equipments and machineries from RBCD	<u>5,727</u>	<u>-</u>
Sales of property, plant and equipment to		
- Weifu Mechanism Manufacturing	3,510	-
- Weifu Chang'an	<u>5,890</u>	<u>-</u>
Purchases of property, plant and equipment from		
- RBCD	<u>3,879</u>	<u>-</u>

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29 Related party transactions (Continued)

(d) Significant transactions with other related companies for the year ended 31 December 2004 (Continued)

	<u>2004</u>	<u>2003</u>
Guarantee for loan		
- Weifu Chang'an	<u>50,000</u>	<u>-</u>

(e) Balances with related parties

	<u>31 December 2004</u>	<u>31 December 2003</u>
Due to related parties		
- WFGC	7,371	368
- RBCD	-	9,196
-Weifu Jida	409	-
	<u>7,780</u>	<u>9,564</u>
Due from related parties		
- Weifu Mechanism Manufacturing	2,502	1,165
- Weifu Chang'an	14,463	-
- Weifu Mashan	9,037	-
- RBCD	1,758	-
	<u>27,760</u>	<u>1,165</u>

The amounts due to/from related companies arose from the above transactions and were unsecured, interest-free and had no fixed repayment terms.

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30 Principal subsidiaries

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 2004, the consolidated financial statements include the financial statements of the subsidiaries as follows:

Name of subsidiary	Place of registration	Principal activities	Registered capital (RMB'000)		Percentage of equity interest	
			2004	2003	Directly	Indirectly
Consolidated						
Nanjing Weifu Jingning Company Limited. ("Nanjing Weifu")	Nanjing, PRC	Manufacture and sale of diesel engines, machinery, electronic products and automotive components.	256,000	256,000	80%	-
Wuxi Weifu Leader Catalytic Converter Company Limited ("Weifu Leader")	Wuxi, PRC	Manufacture and sale of catalytic converter, catalyzer and automotive components	260,000	260,000	94.81%	-
Jiangsu Weifu Nanometer Technology Company Limited ("Weifu Nanometer")	Wuxi, PRC	Manufacture and sale of nanometer material and products	30,000	30,000	80%	-
Wuxi Weifu Automotive Diesel System Company Limited ("WADS")	Wuxi, PRC	Manufacture and sale of diesel engines, development of mechanical technology	200,000	-	70%	-

Name of subsidiary	Place of registration	Principal activities	Registered capital (RMB'000)		Percentage of equity interest	
			2004	2003	Directly	Indirectly
Unconsolidated						
Wuxi Weifu Mashan Fuel Injection Equipment Factory ("Weifu Mashan")	Wuxi, PRC	Manufacture and sale of fuel injection equipment	12,237	12,237	72.78%	12.22%
Wuxi Weifu Chang'an Fuel Injection Co., Ltd. ("Weifu Chang'an")	Wuxi, PRC	Manufacture and sale of injection equipment for diesel	21,490	21,490	85%	-
Wuxi Weifu Jida New Material Development Co., Ltd. ("Weifu Jida")	Wuxi, PRC	Manufacture and development of metallic and non-metallic materials	5,000	5,000	70%	-

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31 Interest in joint venture

As of 31 December 2004, the consolidated financial statements include the Group's share of the assets and liabilities, and income and expenses and cash flows of its joint venture as follows:

Name of the joint venture	Place of registration	Principal activities	Registered capital (RMB'000)		Percentage of equity interest	
			2004	2003	Directly	Indirectly
Wuxi Weifu Environmental Catalyst Co., Ltd. (“Weifu Environmental Catalyst”)	Wuxi PRC	Development, Manufacture and sale of environmental catalyst products	50,000	-	-	49%

The following amounts represent the Group's 49% share of the assets and liabilities, and sales and results of the joint venture:

	2004	2003
Assets:		
Property, plant and equipment	5,293	-
Intangible assets	8,301	-
Current assets	14,796	-
	<u>28,390</u>	<u>-</u>
Liabilities:		
Current liabilities	1,381	-
Net assets	<u>27,009</u>	<u>-</u>
Revenue	13,337	-
Expenses	(10,829)	-
Profit after income tax	<u>2,508</u>	<u>-</u>
Proportionate interest in joint venture's commitments	<u>-</u>	<u>-</u>

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venturer itself.

32 Contingent and liabilities

Except as disclosed in Note 29(d), the Group had no significant contingent liabilities as of 31 Decemeber 2004

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33 Commitments

Except as disclosed in Note 29(b), as of 31 December 2004, the Group had the following significant commitments:

- (1) Commitment to acquire property, plant and equipment amounting to approximately RMB 82,700,000 (2003: RMB 215,570,000).
- (2) Commitment of investment in the unconsolidated subsidiaries - Weifu Chang'an and Weifu Mashan amounting to RMB 38,510,000 and RMB 32,762,351 respectively.

34 Subsequent events

At the meeting of the board of directors dated 19th April, 2005, the directors proposed a final dividend of RMB 0.1 per share, totalling RMB 43,636,615, together with a bonus issue of 3 bonus shares for every 10 shares, totalling RMB 130,909,845, calculated based on the ordinary shares of 436,366,150 shares in issue as at 31 December 2004 (Note 9).

At the meeting of the board of directors dated 19 April 2005, the directors resolved to revise the long term land use right leasing agreement with WFGC. According to the revised agreement, the Group will pay an annual leasing fee of RMB 1,200,000 for the period from 1 January 2005 to 31 December 2014 and any leasing fee for the subsequent periods are to be determined according to the market price then.

At the meeting of the board of directors dated 19 April 2005, the directors resolved to extend the trademark licensing agreement with WFGC for another 10 years for the period from 1 May 2005 to 30 April 2015.

35 Approval of financial statements

The consolidated financial statements were approved for issuance by the board of directors of the Company on 19 April 2005.

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED AND ITS SUBSIDIARIES
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2004

(All amounts in RMB thousands unless otherwise stated)

Impact of IFRS adjustments on net profit and net assets

	Net profit		Shareholders' equity	
	2004	2003	31 December 2004	31 December 2003
As reported in the statutory accounts	235,069	238,104	2,201,310	2,042,779
Adjustment on income from associates	8,537	1,453	12,302	3,765
Adjustment for investment in associates arises from setting off government grant against the initial cost of leasehold land of an associate	-	-	(10,618)	-
Reversal of amortisation of goodwill arising from the acquisition of an associate in accordance with IFRS 3	1,324	-	1,324	-
Loss on disposal of property, plant and equipment in exchange for the share capital of the associate	(5,966)	-	(5,966)	-
Amortisation of investment tax credit recognised as deferred income	(5,824)	-	(5,824)	-
Government grant not recognised as income	(11,091)	-	(11,091)	-
Provision for deferred tax	5,851	-	5,851	-
Negative goodwill arising from the incorporation of the joint venture recognised in income statement	230	-	-	-
Effect on minority interests as a result of the above adjustments	(843)	-	(730)	-
As restated under IFRS	<u>227,287</u>	<u>239,557</u>	<u>2,186,558</u>	<u>2,046,544</u>