

无锡威孚高科技股份有限公司

WUXI WEIFU HIGH-TECHNOLOGY CO., LTD. ANNUAL REPORT 2006

April 19, 2007

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WEIFU HIGH-TECHNOLOGY CO., LTD.

ANNUAL REPORT 2006

Section I. Important Notes

Board of Directors and Supervisory of Committee of Wuxi Weifu High-Technology Co., Ltd. (hereinafter referred to as the Company) and its directors, supervisors and senior executives hereby confirm that there are no any fictitious statements, misleading statements, or important omissions carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents.

The domestic Jiangsu Gongzheng Certified Public Accountants Co., Ltd. and the overseas PricewaterhouseCoopers Zhongtian Certified Public Accountants Co., Ltd. issued the standard unqualified Auditors' Report for the Company respectively.

Mr. Xu Liangfei, legal representative of the Company, Mr. Han Jiangming, General Manager of the Company, and Ms. Sun Qingxian, Deputy General Manager as well as person in charge of Financing confirm that the Financial Report enclosed in the Annual Report 2006 is authentic and complete.

Section II. Company Profile

1. Legal Name of the Company:

In Chinese: 无锡威孚高科技股份有限公司

Abbreviation: 威孚高科、苏威孚B

In English: WUXI WEIFU HIGH-TECHNOLOGY CO., LTD.

Abbreviation: WFHT

2. Legal Representative: Mr. Xu Liangfei

3. Secretary of Board of Directors: Mr. Zhou Weixing

Authorized Representative of Stock Affairs: Mr. Gu Yiming

Contact Address: No.107, Renmin (W) Road, Wuxi, Jiangsu, China

Tel: (86) 510-82719579

Fax: (86) 510-82751025

E-mail: wfjt @ public1.wx.js.cn

4. Registered Address: Plot 46, Wuxi National High-Tech Industrial Development Zone

Head Office: No.107, Renmin West Road, Wuxi

Postal Code: 214031

Homepage: <http://www.weifu.com.cn>

E-mail: web@weifu.com.cn

5. Information Disclosure Media: Securities Times, China Securities and Wen Wei Po

Internet Web Site Designated by CSRC for Publishing the Annual Report: <http://www.cninfo.com.cn>

The Place Where the Annual Report Is Prepared and Placed: Securities Dept. of the Company

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of the Stock: Weifu High- Tech, Su Weifu-B

Stock Code: 000581, 200581

7. Other Related Information of the Company

(1) Initial registration date: Oct. 22, 1988

Address: No.107, Renmin West Road, Wuxi

Registration Date after Change: Sep. 28, 1995

Address: Plot 46, Wuxi National High-Tech Industrial Development Zone

(2) Registration Number of enterprise legal person's business license: 3200001103404 (2/2)

(3) Registration Number of taxation: 320208250456967

(4) Certified Public Accountants engaged by the Company:

Domestic: Jiangsu Gongzheng Certified Public Accountants Co., Ltd.

Address: No.28, Liangxi Road, Wuxi

Overseas: PricewaterhouseCoopers Zhongtian Certified Public Accountants Co., Ltd.

Address: 12th Floor, Shui On Plaza, 333 Huaihai (M). Road, Shanghai, P.R.C.

Section III. Summary of Accounting and Business

Data

I. Major accounting data

1. Major accounting data of 2006

Unit:

RMB'000

Total profit	145,688
Net profit	105,570
Profit from main operations	626,311
Other operating profit	4,160
Operating profit	235,435
Investment income	-25,153
Net cash flow arising from operating activities	468,431
Net increase in cash and cash equivalents	83,298

2. Balance of net profit calculated according to international and domestic accounting standards and regulations, and explanations

Unit: RMB'0000

Amount calculated based on Chinese Accounting Standards	8,828.00
Issues adjusted based on International Accounting Standards	
Investment income adjusted in affiliated company (Loss)	-238.30
Switching back goodwill amortization from purchasing affiliated company according to International Financial Report Standard NO.3	249.70
Confirming income from offsetting homemade equipments as deferred tax and carrying out amortization	64.70
Government subsidy of unconfirmed income	622.60
Deferred tax development	399.00
Confirming negative goodwill from establishing affiliated enterprise as income in very year	408.40
Unrealized gross profit of inventory purchased from unconsolidated subsidiaries	553.60
Employees' rewards and welfare funds	-61.60
Influence of the aforesaid adjustments on minority interests	-249.10
Amount calculated based on International Financial Report Standards	10,577.00

II. Key accounting data and financial indexes over the previous three years

Indexes/ items	Unit	2006	2005	2004
Income from main operations	RMB'000	2,513,966	2,842,021	2,118,745
Net profit	RMB'000	105,570	183,379	227,287
Total assets	RMB'000	4,897,317	4,482,217	4,195,117
Shareholder's equity (excluding minority interests)	RMB'000	2,205,161	2,326,301	2,186,558
Earnings per share (Diluted)	RMB/share	0.19	0.32	0.52
Earnings per share (Weighted)	RMB/share	0.19	0.37	0.52
Net assets per share	RMB/share	3.89	4.10	5.01
Net assets per share after adjustment	RMB/share	3.88	4.10	5.01
Net cash flow per share arising operating activities	RMB/share	0.95	-0.87	0.41
Return on net assets (Diluted)	%	4.79	7.88	10.39
(weighted)	%	4.62	8.12	10.74
Net cash rising from operation activities	RMB'000	535,575	-410,974	179,736

III. Weighted average return on net assets calculated based on the net profit after deducting non-recurring gains and losses of 2006 in accordance with Editing and Reporting Rules No. 9 Regarding Information Disclosure for Companies Publicly Issuing Securities promulgated by China Securities Regulatory Commission

Items	Profit in the report period (RMB'000)	Return on net assets (%)		Earnings per share (RMB)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from main operations	626,311	28.40	28.40	1.09	1.09
Operating profit	235,435	9.37	9.37	0.30	0.30
Net profit	105,570	4.79	4.79	0.16	0.16

IV. Changes in shareholders' equity and relevant explanations

Unit: RMB'000

Items	Share capital	Capital reserve	Surplus reserve	Statutory welfare funds	Retained profit	Total shareholder's equity
Amount at the period-begin	567,276	911,496	177,642	88,022	580,080	2,513,417
Increase in this period	0		111,347			
Decrease in this period	0			88,022	-144,465	84,932
Amount at the Period-end	567,275,995.00	911,496	288,989	0	435,615	2,428,485
Reason for change		Withdrawal in 2006	Withdrawal in 2006	Withdrawal in 2006	Gains in 2006 and distribution	Gains in 2006 and distribution

Section IV. Changes in Share Capital and Shareholders

I. Change in shares

Unit: share

	Before the change		Increase or decrease of this time (+)			After the change	
	Amount	Proportion (%)	Bonus share	Others	Subtotal	Amount	Proportion (%)
I. Restricted share	171,651,235	30.26	-47,719,809	+10,000	-47,709,809	123,941,426	21.85
1. state-owned share							
2. state-owned legal share	170,203,995	30.00	-47,359,802		-47,359,802	122,844,193	21.66
3. other inner capital share	1,447,240	0.26	-360,007	+10,000	-350,007	1,097,233	0.19
Including:							
Domestic legal person share	1,352,000	0.24	-376,198		-376,198	975,802	0.17
Domestic natural person share	95,240	0.02	+16,191	+10,000	+26,191	121,431	0.02
4. foreign capital share							
Including:							
overseas legal person share							
Overseas natural person share							

II. unrestricted share	395,624,760	69.74	+47,719,809	-10,000	+47,709,809	443,334,569	78.15
1. RMB Common share	280,704,760	49.48	+47,719,809	-10,000	+47,709,809	328,414,569	57.89
2. domestically listed foreign capital share	114,920,000	20.26				114,920,000	20.26
3. overseas listed foreign capital share							
4. other							
II. Total share	567,275,995	100				567,275,995	100

In the report period, due to the implementation of Share Merger Reform of the Company: Under premises of unchanged total amount of 56727.5995 ten thousand shares, the whole non-tradable shareholders of the Company offered 4773.6 ten thousand shares to the whole tradable shareholders of A-stock enregistered in registration date in proportions; namely, tradable shareholders of A-stock each holding ten tradable shares obtained price computation of 1.7 shares. Thus, the amount of shares with restricted conditions held by the non-tradable shareholders of the Company decreased in the report period.

The details on Share Merger Reform of the Company please refer to Section X of the Annual Report-Significant Events.

II. Particulars about issuance and listing of shares

1. The previous three year ended the period-end; the Company issued neither new share nor derived securities.

2. In August 2006, the Company implemented the distribution plan of offering RMB 4 for each 10 shares.

3. There existed no inner employees' shares in the Company.

III. Particulars about shareholders

1. Total Number of Shareholders at the end of report period: 44384

2. Ended the report period, particulars about the top ten shareholders of the Company: (Unit: share)

Total shareholders at the end of report period		In the end of report period, the Company's shareholders totaled 44384 (including A-share shareholders 38444 and B-share shareholders 5940)			
Particulars about shares held by the top ten shareholders					
Names of shareholders	Nature of shareholder	Proportion of share held (%)	Amount of share held	Amount of restricted shares held	Shares pledged or frozen
1. WUXI WEIFU GROUP COMPANY LIMITED	Legal person's shareholder	20.11	114061978	114061978	0
2. ROBERT BOSCH GMBH	Foreign shareholder	3.24	18387200	0	Unknown
3. INDUSTRIAL AND COMMERCIAL BANK OF CHINA-KAIYUAN SECURITIES INVESTMENT FUND	A-share shareholder	2.71	15378384	0	Unknown
4. BANK OF COMMUNICATIONS-HSBC JINXIN LONGTENG STOCK AND OPEN SECURITIES INVESTMENT FUND	A-share shareholder	1.25	7100000	0	Unknown
5. HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD	Foreign capital shareholder	1.15	6545854	0	Unknown

6.SHANGHAI BAOSTEEL ENGINEERING & EQUIPMENT CO.,LTD.	A-share shareholder	1.06	5990000	0	Unknown
7.VALUE PARTNERS HIGH-DIVIDEND STOCKS FUNDS	Foreign capital shareholder	1.04	5873891	0	Unknown
8 . BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Foreign capital shareholder	0.99	5600000	0	Unknown
9.INDUSTRIAL AND COMMECIALBANK OF CHINA-SOUTHERN WENJIAN GROWTH NO.2 SECURITIES INVESTMENT FUND	A-share shareholder	0.94	5354343	0	Unknown
10. SCHRODER INTL SELECTION FD-GREATER CN FD GTI 25287	Foreign capital shareholder	0.92	5212200	0	Unknown
Particulars about shares held by the top ten unrestricted shareholders					
Name of shareholder		Amount of unrestricted shares held		Type of share	
1.ROBERT BOSCH GMBH		18387200		B-share	
2.INDUSTRIAL AND COMMECIALBANK OF CHINA-KAIYUAN SECURITIES INVESTMENT FUND		15378384		A-share	
3.BANK OF COMMUNICATIONS-HSBC JINXIN LONGTENG STOCK AND OPEN SECURITIES INVESTMENT FUND		7100000		A-share	
4.HTHK-VALUE PARTNERS INTELLIGENT FD-CHINA B SHS FD		6545854		B-share	
5.SHANGHAI BAOSTEEL ENGINEERING & EQUIPMENT CO.,LTD.		5990000		A-share	
6.VALUE PARTNERS HIGH-DIVIDEND STOCKS FUNDS		5873891		B-share	
7. BBH BOS S/A FIDELITY FD - CHINA FOCUS FD		5600000		B-share	
8.INDUSTRIAL AND COMMECIALBANK OF CHINA-SOUTHERN WENJIAN GROWTH NO.2 SECURITIES INVESTMENT FUND		5354343		A-share	
9. SCHRODER INTL SELECTION FD-GREATER CN FD GTI 25287		5212200		B-share	
10 . MERRILL LYNCH PIERCE FENNER & SMITH INC		4397510		B-share	
Explanation on associated relationship or consistent actions among the above shareholders			Unknown		
Explanation on the appointed period of holding shares which strategic investor or general legal person participates in the allotment of new shares			Naught		

Amount of shares held by the top ten restricted shareholder and its restriction

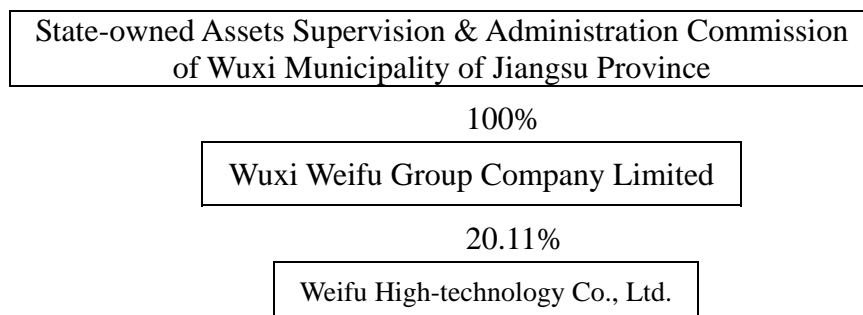
Order	Name of restricted shareholder	Amount of restricted shares held	Listing date	Amount of shares new listed	Restriction
1	Wuxi Weifu Group Limited Company	114,061,978	April 5, 2011	28,363,800	Non-circulating shares of Weifu Hi-tech held by Weifu Group could not listed or transferred within 60 months since possessing of listing right. After the expiry of the commitment period, original non-circulating shares would be listed for sale in Shenzhen Stock Exchange, the proportion of sales volume to total share equity of Weifu Hi-tech could not exceed 5% within 12 months as well as 10% within 24 months, and sales price ought not to less than RMB 10 per share (the lowest impairment price of shares holding would be calculated ex-right at the same time if share price ought to ex-right according to regulation).
			April 5, 2012	28,363,800	
			April 5, 2013	57,334,738	
2	Wuxi Xinzhongya Investment & Development Co.	2,439,504	April 5, 2007	2,439,504	Ought not to be listed or transferred within 12 months since possessing of listing right
3	State Investment Machinery and Light Industrial Co., Ltd.	1,829,628	April 5, 2007	1,829,628	Ought not to be listed or transferred within 12 months since possessing of listing right
4	Shanghai Automotive Industry Corporation (Group)	1,829,628	April 5, 2007	1,829,628	Ought not to be listed or transferred within 12 months since possessing of listing right
5	Wuxi Weifu Industry Corporation	1,097,777	April 5, 2007	1,097,777	Ought not to be listed or transferred within 12 months since possessing of listing right
6	Wuxi Xitong Property Management Co., Ltd	975,802	April 5, 2007	975,802	Ought not to be listed or transferred within 12 months since possessing of listing right
7	Guolian Trust & Investment Co., Ltd.	975,802	April 5, 2007	975,802	Ought not to be listed or transferred within 12 months since possessing of listing right
8	Machinery Assets Management Co., Ltd of Jiangsu Province	609,876	April 5, 2007	609,876	Ought not to be listed or transferred within 12 months since possessing of listing right

3. Particulars about the holding shareholder and actual controller of the Company

A shareholder who has the actual holding right to the Company is Wuxi Weifu Group Company Limited, as well as state-owned sole enterprise, whose legal representative is Mr. Xu Liangfei. The said company was founded on Dec. 14,

1994, its registered capital was RMB 134,830,000, and it was mainly engaged in Processing and manufacturing of general machinery, instruments and meters, import and export. In the report period, the holding shareholder remained unchanged.

4. Block diagram for property right and controlling relationship among actual controllers and the Company:



III. In the report period, there were no changes on controlling shareholders of the Company.

Section V. Particulars about Directors, Supervisors, Senior Administrative Personnel and Workers

I. Directors, supervisors and senior administrative personnel

1. Basic information

Name	Gender	Age	Position	Office term	Shares held at the year-begin	Shares held at the year-end	Reason for change	Total payment (RMB'0000)
Xu Liangfei	Male	62	Chairman of the Board	Jun., 2005 - Jun., 2008	16640	19469	Share Merger Reform	Drew no payment in the Company
Han Jiangming	Male	55	Vice Chairman of the Board & General Manager	Jun., 2005 - Jun., 2008	16640	19469	Share Merger Reform	35.51
Wang Weiliang	Male	41	Director	Jun., 2005 - Jun., 2008	10400	12168	Share Merger Reform	Drew no payment in the Company
Gao Guoyuan	Male	52	Director	Jun., 2005 - Jun., 2008	8450	9886	Share Merger Reform	Drew no payment in the Company
Ge Songping	Male	52	Director	Jun., 2005 - Jun., 2008	20900	24453	Share Merger Reform	Drew no payment in the Company
Shi Xingyuan	Male	44	Director & Deputy General Manager	Jun., 2005 - Jun., 2008	2600	3042	Share Merger Reform	24.27
Chen Zhaolin	Male	49	Director	Jun., 2005 - Jun., 2008	-	-		Drew no payment in the Company

								Company
Zhang Xiaoyu	Male	62	Independent Director	Jun., 2005 - Jun., 2008	-	-		5
Ouyang Minggao	Male	48	Independent Director	Jun., 2005 - Jun., 2008	-	-		5
Chen Qilong	Male	56	Independent Director	Jun., 2005 - Jun., 2008	-	-		5
Chen Juchang	Male	67	Independent Director	Jun., 2005 - Jun., 2008	-	-		5
Chen Xuejun	Male	39	Chairman of the Supervisory Committee	Jun., 2005 - Jun., 2008	2600	3042	Share Merger Reform	24.17
Li Guodong	Male	57	Supervisor	Jun., 2005 - Jun., 2008	-	-		Drew no payment in the Company
Zhang Jiming	Male	37	Supervisor	Jun., 2005 - Jun., 2008	-	-		Drew no payment in the Company
Ou Jianbin	Male	40	Supervisor	Jun., 2005 - Jun., 2008	500	10585	Purchased from Share Merger Reform	20.08
You Jianzhong	Male	39	Supervisor	Jun., 2005 - Jun., 2008	8320	9734	Share Merger Reform	4.28
Sun Qingxian	Female	53	Deputy General Manager & Financial Chief	Jun., 2005 - Jun., 2008	-	-		24.33
Miao Yuming	Male	43	Deputy General Manager	Jun., 2005 - Jun., 2008	-	-		24.29
Wang Yawei	Male	51	Deputy General Manager	Jun., 2005 - Jun., 2008	-	-		27.57
Deng Xijiang	Male	43	Deputy GM	Jun., 2005 - Jun., 2008	6240	7301	Share Merger Reform	24.25
Zhou Weixing	Male	43	Secretary of the Board	Jun., 2005 - Jun., 2008	1950	2282	Share Merger Reform	13.16

2. Directors and Supervisors holding the position in Shareholding Companies

Name	Shareholding companies	Position in shareholding companies	Office term
Xu Liangfei	Wuxi Weifu Group Company Limited	Chairman of the Board, General Manager	Till now
Wang Weiliang	Wuxi Weifu Group Company Limited	Director, Deputy General Manager	Till now
Gao Guoyuan	Wuxi Weifu Group Company Limited	Director, Deputy General Manager	Till now
Ge Songping	Wuxi Weifu Group Company Limited	Director, Deputy General Manager	Till now
Chen Zhaolin	Bosch (China) Investment Co., Ltd.	CEO	Till now
Li Guodong	Wuxi Guolian Development Group Co., Ltd.	Manager of the Investment Management Dept.	Till now
Zhang Jiming	State Investment Machinery and Light Industrial Co., Ltd.	Senior Manager of Automobile Parts Investment Dept.	Till now

3. Main work experiences of the directors, supervisors and senior administrative

personnel in the latest five years and position and part-time job in other organ excluding shareholder's company

(1) Main work experiences in the latest five years

Mr. Xu Liangfei: he has served successively as the Chairman of the Board, General Manager and Secretary of CPC of Wuxi Weifu Group Co., Ltd.; now he took post of Chairman of the Board of the Company, Chairman of the Board, General Manager, Secretary of CPC of Wuxi Weifu Group Co., Ltd and Deputy to the National People's Congress.

Mr. Han Jiangming: he has successively as Vice Chairman of the Board and General Manager of the Company; he is now in charge of Vice Chairman of the Board and General Manager of the Company.

Mr. Wang Weiliang: Director: He has served successively as Director and concurrently Deputy General Manager of Wuxi Weifu Group Co., Ltd.; now he is in charge of Director and concurrently Deputy General Manager of Wuxi Weifu Group Co., Ltd. and Director of the Company.

Mr. Gao Guoyuan: he has served successively as Deputy General Manager of the Company and Director and concurrently Deputy General Manager of Director Wuxi Weifu Group Co., Ltd.; At present, he is Director and Deputy General Manager of Wuxi Weifu Group Co., Ltd. and Director of the Company.

Mr. Ge Songping: he has served successively as Deputy General Manger of the Company and Director & concurrently Deputy General Manager of Wuxi Weifu Group Co., Ltd.; At present, he is Director and Deputy General Manager of Wuxi Weifu Group Co., Ltd. and Director of the Company.

Mr. Shi Xingyuan: he has served successively as Director and concurrently Deputy General Manger of the Company; he is now Director and Deputy General Manager of the Company.

Mr. Chen Zhaolin: he has served successively as Director of the Company and General Supervisor of Business Development of Bosch (China) Investment Co., Ltd.

Mr. Zhang Xiaoyu: he has served successively as Independent Director of the Company, Executive Vice-president of China Machinery Industry Federation, Director-General of Society of Automobile Engineers of China (SAE China), Honorary Director General of China Association of Automobile Manufacturers, Director General of Chinese Society for Internal Combustion Engines (CSICE) and Committee member of China Association for Science & Technology; now he is Independent Director of the Company, Executive Vice-president of China Machinery Industry Federation, Director-General of Society of Automobile Engineers of China (SAE China), Honorary Director General of China Association of Automobile Manufacturers, Director General of Chinese Society for Internal Combustion Engines (CSICE) and Committee member of China Association for Science & Technology.

Mr. Ouyang Minggao: he has served successively as Independent Director of the

Company, Appointed Professor of Cheung Kung Scholars of Ministry of Education of PRC, Dean of the Automobile Engineering Department of Tsinghua University, Director of the State-level Lab of Automotive Security and Energy-Saving, and concurrently Director of Engine Institute of SAE China and as well as member of the (Electricity-Powered Automobile) Priority Expert Group of the “10th Five-Year Plan” 863 Program; now he is in charge of Independent Director of the Company, Appointed Professor of Cheung Kung Scholars of Ministry of Education of PRC, Dean of the Automobile Engineering Department of Tsinghua University, Director of the State-level Lab of Automotive Security and Energy-Saving, and concurrently Director of Engine Institute of SAE China and as well as member of the (Electricity-Powered Automobile) Priority Expert Group of the “10th Five-Year Plan” 863 Program and standing member of committee of CPPCC National Committee.

Mr. Chen Qilong: he has served successively as Independent Director of the Company and General Manager of Wuxi United Small and Medium Enterprises Guarantee Company; and now he is Independent Director of the Company and General Manager of Wuxi United Small and Medium Enterprises Guarantee Company.

Mr. Chen Juchang, he has served successively as Independent Director of the Company and President of Wuxi Association of Automobile Manufacturers; he is now in charge of Independent Director of the Company and President of Wuxi Association of Automobile Manufacturers.

Mr. Chen Xuejun: he has served successively as Chairman of Supervisory Committee, Secretary of CPC, and Secretary of the Commission for Disciplinary Inspection of the Company; he now took post of Chairman of Supervisory Committee, Secretary of CPC, and Secretary of the Commission for Disciplinary Inspection of the Company.

Mr. Li Guodong: he has served successively as supervisor of the Company and General of Investment Management Department of State-owned Assets Investment & Development Corporation of Wuxi Municipality; now he holds the post of supervisor of the Company and General of Investment Management Department of State-owned Assets Investment & Development Corporation of Wuxi Municipality.

Mr. Zhang Jiming: he has served successively as Supervisor of the Company and Senior General of State Investment Machinery and Light Industrial Co., Ltd.; he now holds the post of Supervisor of the Company and Senior General of State Investment Machinery and Light Industrial Co., Ltd.

Mr. Ou Jianbin: he has served successively as Chairman of the Board and General Manager of Wuxi Weifu Lida Catalytic Converter Co., Ltd.; now he is in charge of Supervisor of the Company and General Manager of Wuxi Weifu Lida Catalytic Converter Co., Ltd.

Mr. You Jianzhong: he has served successively as Supervisor of the Company, Branch Union President of Oil Pump Plant; now he takes the post of Supervisor of the Company, Branch Union President of Oil Pump Plant.

Ms. Sun Qingxian: she has served successively as Deputy General Manager and concurrently financial charger of the Company; now she is Deputy General Manager and concurrently financial charger of the Company.

Mr. Miao Yuming: he has served successively as Assistant to the General Manager and Deputy General Manager of the Company; he now takes the post of Deputy General Manager of the Company.

Mr. Deng Xijiang: he has served successively Supervisor, assistant to General Manager and Deputy General Manager of the Company; now he is Deputy General Manager of the Company.

Mr. Zhou Weixing: he has served as chief director of Securities Department of the Company; now he is Secretary of the Board and chief director of Securities Department of the Company.

(2) Position and part-time job in other organ excluding shareholder's company:

Name	Position and part-time job organ	Relationship with the Company	Title
Xu Liangfei	Wuxi Weifu Automotive Diesel System Co., Ltd.	Holding subsidiary of the Company	Chairman of the Board
	Nanjing Weifu Jinning Co., Ltd.	Holding subsidiary of the Company	Chairman of the Board
	Wuxi Weifu Lida Catalytic Converter Co., Ltd	Holding subsidiary of the Company	Vice Chairman of the Board
	Bosch Automotive Diesel System Co., Ltd.	Joint stock company of the Company	Chairman of the Board
	Wuxi Weifu World Trade Co., Ltd	Joint stock company of the Company	Chairman of the Board
	Zhonglian Automotive Electronic Systems Co., Ltd.	Joint stock company of the Company	Vice Chairman of the Board
	Wuxi Wandu Power Engineering Group Co., Ltd.	No relation	Chairman of the Board
Han Jiangming	Wuxi Weifu Automotive Diesel System Co., Ltd.	Holding subsidiary of the Company	Director
	Nanjing Weifu Jinning Co., Ltd.	Holding subsidiary of the Company	Vice Chairman of the Board
	Wuxi Weifu Lida Catalytic Converter Co., Ltd	Holding subsidiary of the Company	Director
	Wuxi Weifu Mashan Fuel Injection Equipment Co., Ltd.	Holding subsidiary of the Company	Director
	Bosch Automotive Diesel System Co., Ltd.	Joint stock company of the Company	Director
Wang Weiliang	Wuxi Weifu Automotive Diesel System Co., Ltd.	Holding subsidiary of the Company	Director
	Bosch Automotive Diesel System Co., Ltd.	Joint stock company of the Company	Director
Gao Guoyuan	Wuxi Weifu World Trade Co., Ltd	Joint stock company of the Company	Director & General Manager
Ge Songping	Wuxi Weifu Lida Catalytic Converter Co., Ltd	Holding subsidiary of the Company	Director
	Bosch Automotive Diesel System Co., Ltd.	Joint stock company of the Company	Supervisor

	Wuxi Wandu Power Engineering Group Co., Ltd.	No relation	Director
	Wuxi Xitong Property Management Co., Ltd	No relation	Chairman of the Board
Shi Xingyuan	Nanjing Weifu Jinning Co., Ltd.	Holding subsidiary of the Company	Director
Sun Qingxian	Wuxi Weifu Chang'an Fuel Injection Equipment Co., Ltd.	Holding subsidiary of the Company	Director
	Wuxi Weifu Lida Catalytic Converter Co., Ltd	Holding subsidiary of the Company	Director
	Wuxi Weifu Automotive Diesel System Co., Ltd.	Holding subsidiary of the Company	Director
	Nanjing Weifu Jinning Co., Ltd.	Holding subsidiary of the Company	Supervisor
	Wuxi Weifu Mashan Fuel Injection Equipment Co., Ltd.	Holding subsidiary of the Company	Supervisor
Miao Yuming	Wuxi Weifu Automotive Diesel System Co., Ltd.	Holding subsidiary of the Company	Director
Deng Xijiang	Wuxi Weifu World Trade Co., Ltd	Joint stock company of the Company	Director
Chen Xuejun	Nanjing Weifu Jinning Co., Ltd.	Holding subsidiary of the Company	Director
	Wuxi Weifu Automotive Diesel System Co., Ltd.	Holding subsidiary of the Company	Supervisor
Ou Jianbin	Wuxi Weifu Lida Catalytic Converter Co., Ltd	Holding subsidiary of the Company	Director & General Manager
	Wuxi Weifu World Trade Co., Ltd	Joint stock company of the Company	Director

4. Annual Remuneration for Directors, Supervisors and Senior Executives

(1) Procedure and reference of decision-making for directors, supervisors and senior executives:

Payments for senior executives of the Company depends on relevant wages and remuneration policy of state and province and performance situation of the Company's benefit, confirmed referring to measures of assessment on state-owned large and medium enterprise of city government. Annual remuneration was divided into two parts of post wages and wages based on benefits. The former is confirmed by post title and the later is directly connected to economic benefits and paying according to various benefit indexes performance situations.

(2) In the report period, there were 10 directors, supervisors and senior executives drew remuneration from the Company and totaled to RMB 2,219,100.

(3) In the report period annual allowance of independent directors amounted to RMB 50,000 (After tax), applying for reimburse of traveling charges for attending Board meeting and Shareholders' General Meeting on fact.

5. Changes on Directors, Supervisors and senior executives

In the report period, there were no changes on director, supervisors and senior executives.

II. Staff of the Company

1. Numbers of the staff

Dated Dec.31, 2006, the total number of the registered workers of the Company was 2385.

2. Classification of the staff

Unit: Person

Classification	Number of the staff	Percentage (%)
Production	1644	68.93
Sales and marketing	143	6.00
Technology	258	10.82
Finance	48	2.01
Administration	175	7.34
Others	117	4.91

3. Education degree of the staff

Unit: Person

Education degree	Number of staff	Percentage (%)
Senior high school	1548	64.91
Technical secondary school	267	11.19
Junior college	374	15.68
Bachelor	175	7.34
Master	21	0.88

4. Particulars about the retirees

The payments for the retirees are born by the society endowment insurance.

Section VI. Management of the Company

I. 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 the corresponding normative systems of Corporate Supervisory. Therefore the Company has been up to the relevant requirements on listed companies by the State Securities Regulatory Commission in terms of the corporate supervisory system.

Performance of the Independent Directors

II. Implementations by independent directors

Conformity to the requirements by Administration rules on Listed Companies and the Guideline Opinion for Establishing Independent Director System among Listed Companies, the Company has engaged 4 independent directors. In accordance with the requirement of "the Guideline Opinion", the independent directors of the Company could consciously performed their duties to express independent opinions with regard to the significant policy decision upon attending the Board meetings and relevant meetings in 2006.

Particulars about independent directors attending Board Meeting:

Name	Times are supposed to be attended	Present in person	Entrusted presence	Absence	Remark
Zhang Xiaoyu	4	3	1	0	
Ouyang Minggao	4	3	1	0	
Chen Juchang	4	4	0	0	
Chen Qilong	4	4	0	0	

Particulars about objection on relevant issues presented by independent director:

Name	Issues presented objection	Contents of the objection presented	Remark
Zhang Xiaoyu	Naught	Naught	
Ouyang Minggao	Naught	Naught	
Chen Juchang	Naught	Naught	
Chen Qilong	Naught	Naught	

III. Separation between the Company and principal shareholders in business, assets, personnel, organizations, and finance

1) Business Independence

The Company has its own completed production system, supply chain and sales channels. It has the ability to operate facing to the market. It's not been restricted by principal shareholders.

2) Assets Independence

At the time of the Company's B Shares issuance in 1995, 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 Wuxi Weifu Group Co., Ltd.

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 Independence

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, and there existed no Directors or General Manager nominated by government institutions; there existed no intervention about the engagement and disengagement decision-making of the Board of Directors and Shareholders' General Meeting by Wuxi Weifu Group Co., Ltd. and government institutions.

5) Functional Organization

The Company has its own integrated legal person's administration structure and daily organized running institutions.

4. Performance Assessment, Incentive Mechanism and implementation on senior executives by the Company

The Company democratically conducted the performance assessments for its senior executives with emphasis on the innovation and working results. The payment was confirmed by the assessing result.

Section VII. Particulars about Shareholders' General Meeting

In the report period, the Company held one shareholders' general meeting and one shareholders' meeting in relation to share merger reform, the details are as follows:

On Mar.27, 2006, the Company held shareholders' meeting in relation to share merger reform, the public notice of resolutions of the meeting has been published on Securities Times, China Securities, Shanghai Securities and Juchao website (www.cninfo.com.cn) dated Mar.28, 2006.

On Jun.20, 2006, the Company held annual shareholders' general meeting 2005, the public notice of resolutions of the meeting has been published on Securities Times, China Securities, Hong Kong Wen Wei Po and Juchao website (www.cninfo.com.cn) dated Jun.21, 2006.

Section VIII. Report of the Board of Directors

I. Discussion of the Board of Directors

(I) Review on operations in the report period

1. In 2006, the commercial vehicle which takes diesel as power material appeared recovery growth after experienced rapid adjustment in 2005, which brought new opportunity to production and operation of the Company. In order to ensure the sustainable and steady development of the Company, the board of directors carried out arrangement in time, adjusted products structure of the Company and reasonably allotted various production elements, overcame rising material price and short-term benefit pressure resulting from joint stock and cooperation so as to maintain comparatively steady of economic benefits of the Company.

2. Particulars about main business and operations of the Company

The Company belongs to machinery manufacturer enterprise, mainly engaging in production and sales of diesel & fuel oil injection system products.

The Company realized revenue from main business and profit from main business respectively amounting to RMB'000 2,519,660 and RMB'000626,311 in the full year, decreased by 11.54% and 2.05% respectively over last year, and realized net profit amounting to RMB'000 105,570 and decreased by 42.43% over last year.

Revenue from main operation decreased by 11.10% was because subsidiary Wuxi Weifu Automotive Diesel System Co., Ltd in consolidated statement decreased revenue from main operation. Profit from main business decreased by 0.61% was because Wuxi Weifu Automotive Diesel System Co., Ltd decreased in profit from main operation. Net profit decreased by 51.47% was due to: rising price in raw material; Decrease of investment benefits, Bosch Automotive Diesel System Co., Ltd. invested by the Company was still under construction, the Company undertook investment losses amounting to RMB 72.1 million.

i. Main operations classified according to products

Unit: RMB'0000

Items	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Fittings and accessories of internal combustion engine	227,099.54	167,960.88	26.04	-14.81	-18.59	3.43
Catalyst and muffler	21,016.19	16,945.62	19.37	68.03	69.62	-0.76

ii. Formation of main operations and its market share

Unit: RMB'0000

Categories	Income from main operations	Market share (%)	Place in the industry
PS 7100	51,006.76	50.29	No. 1
PW 2000	24,830.90		
PW pump	19,204.35	40.00	No. 2
VE pump	47,581.58	100.00	No. 1
A pump	15,439.59	49.42	No. 1
I pump (including PL, IW and PM pump)	28,711.89	40.84	No. 1
Single plunger pump	5,838.33	28.73	No. 2
Injector	10,085.67	16.47	No. 2
Precision pump parts	16,346.10	26.60	No. 1

Data Source: Statistics Association of China's Machinery Industry, Fuel Injection Sub-branch (2006) Statistical Data Collection in Fuel Injection Equipment Industry.

(III) Main suppliers and customers

Unit: RMB'0000

The total purchase amount from the top five suppliers	76,175.62	Accounting for total purchase amount %	45.11%
The total sales amount to the top five customers	117,424.16	Accounting for total sales amount %	47.33%

3. Explanation on assets composition and material change in items of profit statement in the report period

i. Account receivable: amount at period-end amounting to RMB 648,323,700, decreased 47,680,600 over period-begin, mainly because subsidiary Wuxi Weifu Automotive Diesel System Co., Ltd. in consolidated statement decreased account receivable at period-end compared with period-begin.

ii. Note receivable: amount at period-end amounting to RMB 452,893,400, increased RMB 281,092,700 over period-begin, which was mainly owing to the increase in commercial acceptance bill.

iii. Long-term equity investment: amount at period-end amounting to RMB 778,608,700, decreased RMB 185,242,900 over period-begin, which was mainly owing to holding subsidiaries Wuxi Weifu Mashan Fuel Injection Equipment Co., Ltd. and Wuxi Weifu Changan Fuel Injection Equipment Co., Ltd. have been brought into scope of consolidation since 2006.

iv. Construction in progress: amount at period-end amounting to RMB 152,840,400, increased RMB 83,962,500 over period-begin, which was mainly due to purchasing land and workshop of Bosch Automotive Diesel System Co., Ltd. in No.50 plot.

v. Short-term loan: amount at period-end amounting to RMB 1,464,069,600, increased 375,155,900 over period-begin, which was mainly due to the capitalized investment expansion of the Company, and the capital demand increased.

vi. Account payable: amount at period-end amounting to RMB 548,934,700,

increased RMB 244,462,900 over period-begin, which was mainly due to subsidiary Wuxi Weifu Automotive Diesel System Co., Ltd. in consolidated statement and parent company increased account payable.

vii. Long-term liability within one year: amount at period-end amounting to RMB 73 million, decreased 72 million over period-begin, which was mainly owing to the parent company repaid long-term liability within one year at term in the report period.

viii. Operating profit: amount in the report period amounting to RMB 167,567,000, decreased RMB 74,372,100 over the same period of last year, which was mainly owing to the increased price of raw material and increased operating expense.

ix. Cost of main operation: amount in the report period amounting to RMB 1,849,064,900, decreased RMB 314,062,700 and 14.52% over the same period of last year, which was mainly due to the decrease in main business.

x. Operating expenses: amounting to RMB 121,668,900 increased RMB 36,528,400 and 42.90% over the same period of last year, which was mainly due to subsidiary Wuxi Weifu Automotive Diesel System Co., Ltd. in consolidated statement (The content brand use expense and warranty expense increased).

xi. Investment benefit: amounting to RMB -28,465,400 in the report period, decreased RMB 3,504.47 over the same period of last year, which was mainly due to the influence by increased R & D expenses of Bosch Automotive Diesel System Co., Ltd., there occurred great loss in current year.

4. Material changes in cash flow composition in the report period

i. Net cash flow arising from operation activities: amounting to RMB 406,031,600 but amounted to RMB -282,094,900 in last year, which was mainly owing to the account payable of holding subsidiary Wuxi Weifu Automotive Diesel System Co., Ltd. sharply decreased.

ii. Net cash flow arising from investment activities: amounting to RMB -183,359,500 but amounted to RMB -148,078,000 in last year. Mainly due to purchasing the land and workshop of Bosch Automotive Diesel System Co., Ltd. in No.50 plot in the report period.

iii. Net cash flow arising from finance activities: amounting to RMB -190,479,800, but amounted to RMB 389,402,400 in last year. Mainly due to paying back the partial loans of bank.

iv. Net increase in cash and cash equivalents: amounting to RMB 32,492,200, but amounted to RMB -40,770,600 in last year, this was mainly due to the cash flow arising from operation activities increased.

5. Utilization of equipments, obtain of orders, sales or overstock of products and change of technology personnel

(1) In the report period, production equipments worked well and operating factor of main equipments was up to 95%.

(2) In the report period, the products inventory of the Company increased RMB 3,849,100 over period-begin.

(3) In the report period, technology personnel of the Company remain unchanged.

6. Operation status of main holding company and share-holding company

i. Nanjing Weifu Jinning Co., Ltd., whose 80% equity was held by the Company, was mainly engaged in the production of diesel and fuel injecting system

products (the core product was VE distribution pump) with its registered capital amounting to RMB 256 million. At the end of year 2006 its total assets amounted to RMB 654,052,400 and its net profit was RMB 44,243,300 in 2006.

ii. Wuxi Weifu Lida Catalytic Converter Co., Ltd., whose 94.81% equity was held by the Company, was mainly engaged in the production of such products as cleaners and mufflers of tail gas etc. with registered capital amounting to RMB 260 million. At the end of 2006, its total assets amounted to RMB 344,990,800 and its net profit was RMB 19,753,200 in 2006.

iii. Bosch Automobile Diesel System Co., Ltd., whose 31.5% equity was held by the Company, It was mainly engaged in the production of electrical control diesel oil system series, and P and S series injectors and nozzles with registered capital amounting to USD 200 million, total asset amounting to RMB 2,509,890,800 at the end of 2006, and it realized net profit amounting to RMB -240,333,500 in 2006.

iv. Zhonglian Automobile Electronics Co., whose 20% equity was held by the Company, was mainly engaged in the production of automobile electronic control system products with registered capital amounting to RMB 600.62 million. Total capital amounted to RMB 10,712,046,331,000 at the end of 2006 and its net profit was RMB 2,627,534,687,800 in 2006.

v. Wuxi Weifu Automotive Diesel System Co., Ltd., whose 70% equity was held by the Company, was mainly engaged in the production of diesel oil and fuel oil system series products, with registered capital amounting to RMB 200 million. At the end of 2006, its total assets amounted to RMB 1,008,487,700 and its net profit was RMB 81,453,200 in 2006.

(II) Outlook on future development of the Company

1. Analysis on industry trends

The Company belongs to machinery manufacturer enterprise, its products fuel injection system is core part of diesel automotive engine, is typical technology-intensive and capital-intensive industry. At present, comprehensive market share of products of the Company accounting for 50% or so. With gradually strict of the state's emission regulations and real demand of energy saving, bring new opportunity for development of the Company. Due to existing in the upgrading stage of industry technology platform, the said industry still remains turning point of development in 2007.

2. Future developing strategy of the Company

According to arrangement of implementation of the state's emission regulations and real demand of energy saving, it estimated that China would performance nation's No.III Emission Regulation in Jul, 2007. The Company started to fully cooperate with German Bosch in order to meeting implementation of the nation's No.III Emission Regulation and demand of energy saving in 2004, establish joint stock enterprise, to produce products satisfying the nation's No.III Emission Regulation or above, at present, investment and various technologies have all been set and put into market in small batches. Through cooperation with Bosch Corporation, the Company's own technology platform also obtained upgrading, shortening the distance with international Multinational Corporation and laying the foundation for further development of the Company.

3. Capital demand for future development of the Company, financing and utilization plan

Because projects of future development of the Company had been put in, there is no capital demand in the near future, capitalized expenses in every year could be

solved through its own accumulation; nowadays the Company establishes close relationship with bank so that current capital demanding for production could be completely solved through bank.

4. Risks existed in future development

Fuel injection system industry is severely influenced by nation's policy, especially the national macro adjustment and control as well as automotive industry.

The continuous rising of the raw material increased the cost of the Company and influenced the operation achievements of the Company.

The shortage of the energy and rising of price directly influenced the needs of commercial vehicles, thus influenced the sales of the Company.

According to the aforesaid risks and disadvantages, the Company took the following measures:

i. In regarding of the changes of the national policy, the Company will strengthen the analysis to the tendency of the changes of the national macro-policy, timely grasp the policy guide and establish the correspondent countermeasures.

Transform the marketing idea, strengthen the quality senses, and strive for winning customers with high quality products and service.

ii. Further perfect the work of tendering (bidding) on material purchase, establish the long-term stable strategic partnership with the suppliers of high quality, and reduce the cost on the purchase of raw material.

iii. Perfect the product designing, further reduce the energy consumption to meet the demands on energy-saving of the customer on the basis of improving the reliability of products.

(III) The possible changes in accounting policy, accounting estimate and the influences on financial and operational results of the Company after implementation of New Accounting Standards in 2007

1. Analysis on the differences of shareholders' equity between existing accounting standards and new accounting standards on first implementation date of new accounting standards on Jan.1, 2007:

According to the regulation of CK [2006] No.3 Notice on Print and Distribute 38 Specific Guidelines including Enterprise Accounting Standards No.1 – Inventory etc. promulgated by Ministry of Finance on Feb.15, 2006, the Company has implemented new accounting standards since Jan.1, 2007. At present, the differences between existing accounting standards and new accounting standards on first implementation date on Jan.1, 2007 which the Company has already estimated in accordance with regulations of new accounting standards are as follows:

i. Long-term equity investment balance

According to existing accounting standards, the Company confirmed acceptance of equity investment balance resulted from equity transformation of Wuxi Weifu Lida Catalytic Converter Co., Ltd., ended Dec.31, 2006, the equity investment balance that hasn't been amortized yet amounted to RMB 4,186,949.66. According to the regulations of new accounting standards, the not yet amortized balance of long-term equity investment debit balance resulted from the combination of enterprises under the same control should be totally offset, which correspondingly decreased shareholders' equity amounting to RMB 4,186,949.66 on Jan.1, 2007.

ii. Income tax

In accordance with existing accounting standards and accounting policy, accounting estimate of the Company, the Company appropriated various

provisions for assets depreciation. According to the regulations of new accounting standards, the balance of assets whose assets book value is lower than the basis of tax calculation of assets should be recorded into deferred income tax assets, which correspondingly increased the shareholders' equity amounting to RMB 9,243,968.41 as Jan.1, 2007, including: shareholders' equity attributable to parent company increasing RMB 8,493,477.10, minority shareholders' equity attributable to subsidiaries increasing RMB 750,491.31.

In accordance with existing accounting standards and accounting policy of the Company, the Company recorded the paid employee housing allowance into current profit or loss in 2005 and 2006, but the tax treatment required it to be offset in amortization before tax. According to the regulations of new accounting standards, the balance of assets whose assets book value is lower than the basis of tax calculation of assets should be recorded into deferred income tax assets, which correspondingly increased the shareholders' equity amounting to RMB 501,794.08 as Jan.1, 2007.

iii. Minority shareholders' equity

In the consolidated financial statement of the Company on Dec.31, 2006 compiled according to existing accounting standards, the minority shareholders' equity amounted to RMB 219,874,967.00, which should be recorded into shareholders' equity under new accounting standards. In addition, the deferred income tax assets resulted from provision appropriation for assets depreciation attributable to minority shareholders' equity amounting to RMB 750,491.31, and minority shareholders' equity amounted to RMB 220,625,458.31 under new accounting standards.

2. The possible alterations in accounting policy, accounting estimation after implementation of new accounting standards and its influences on financial and operation results of the Company:

i. According to the regulations of Accounting Standard for Business Enterprises No.2—Long-term Equity Investments, the Company will transfer the calculation method of the Company under existing policy from equity method to cost method, the alteration will influence the current investment profit and loss of parent company, but not influence on consolidated statement of the Company.

ii. According to the regulations of Enterprise Accounting Standards No.18-Income Tax, the Company transferred the income tax calculation method from taxes payable method to debt method of balance sheet which will influence the income tax expenses in current period, and will consequently influence the profit in current period and shareholders' equity of the Company.

iii. According to the regulations of New Accounting Standards No.33-Consolidation of Financial Statements, the Company changed the minority shareholders' equity separately listed in balance sheet previously to minority shareholders' equity item listed under the item of shareholders' equity in consolidated balance sheet, therefore will influence the shareholders' equity of the Company.

II. Investments

In the report period, the Company's total investment in the technical reform projects and external investment was RMB 192.7376 million.

1. Use of the raised proceeds

In the report period, the Company didn't raise proceeds. Raised proceeds last time were all used in the relevant investment projects approved by Shareholders' General Meeting.

2. Investment with non-raised proceeds

In the report period, the investments of non-raised proceeds of the Company were as follows:

- i. The Company purchased the land and workshop of Bosch Automotive Diesel System Co., Ltd. in No.50 plot, National High New Technology Industry Development Area, Wuxi, which totally amounted to RMB 72.5 million.
- ii. In May 2006, the Company and Chaoyang Jialin Machinery Manufacturing Co., Ltd. together funded to establish Chaoyang Weifu Jialin Machinery Manufacturing Co., Ltd. with the registered capital of RMB 8 million, the equity ratio of the Company was 50%, and the Company has invested RMB 4 million.

III. Routine work of the board of directors

(I) Meetings and resolutions of the board of directors

1. On Jan.6, 2006, the board of directors of the Company held the 4th meeting of the 5th board of directors, the contents of the meeting was discussing the share merger reform scheme of the Company, and operation position and countermeasures of the Company in 2006.
2. On Apr.18, 2006, the board of directors of the Company held the 5th meeting of the 5th board of directors, the contents of the meeting has been published respectively on China Securities, Securities Times, Hong Kong Wen Wei Po and Juchao website (www.cninfo.com.cn) dated Apr.21, 2006.
3. On Aug.15, 2006, the board of directors of the Company held the 6th meeting of the 5th board of directors, the contents of the meeting has been published on China Securities, Securities Times, Hong Kong Wen Wei Po and Juchao website (www.cninfo.com.cn) dated Aug.18, 2006.
4. On Oct.26, 2006, the board of directors of the Company held the 7th meeting of the 5th board of directors, the contents of the meeting has been published on China Securities, Securities Times, Hong Kong Wen Wei Po and Juchao website (www.cninfo.com.cn) dated Oct.30, 2006.

(II) Implementations of resolutions of the Shareholders' General Meeting

The proposal of distribution of bonus and dividend confirmed by 2005 Annual Shareholders' General Meeting was implemented on Aug.7, 2006.

IV. Profit distribution preplan for 2006

As audited by Jiangsu Gongzheng Certified Public Accountants Co., Ltd., the Company realized net profit totally RMB 88,279,700 in 2006, plus the retained profit carried forward from pervious years amounting to RMB 582,007,300, the accumulated distributable profit for shareholders was RMB 670,287,000 in current year. According to the regulation of Articles of Association of the Company, in the report period, 10% was appropriated as public reserve funds amounting to RMB 21,572,700. Lida Environment Protection Corporation withdrew totally RMB 2,368,900 according to the accumulated distributable profits, of which 10% were appropriated as the reserve fund, 5% as rewards fund for workers and staff, and 5% as fund for enterprise development. After withdrawal of the aforesaid funds, according to the legal account in accordance with CAS, the distributable profits for shareholders amounted to RMB 646,345,400. In 2005, the Company realized the profit distribution amounting to RMB 226,910,400; at the end of 2006, the surplus undistributed profit amounted to RMB 419,435,000.

The preplan for 2006 profit distribution: The Company plan to take the total

shares at the end of 2006 amounting to 567,275,995 as the cardinal number, and distribute 0.6 cash bonus for each 10 share to all the shareholders (including the tax).

Section IX. Report of the Supervisory Committee

I. Work of the Supervisory Committee

The Supervisory Committee held two meetings in the report period:

1. The 3rd meeting of the 5th Supervisory Committee was held on Apr.18, 2006 and the examined topics were Work Report of the Supervisory Committee 2005, 2005 Annual Report of the Company and its Summary, Report of Financial Settlement and Profit Distribution Preplan for 2005 of the Company and the 1st Quarterly Report in 2006 of the Company;
2. The 4th meeting of the 5th Supervisory Committee was held on Aug.15, 2006 and the examined topics were Interim Report in 2006 of the Company and its Summary, Interim Profit Distribution Preplan 2006 of the Company, and Report of Proposal on External Guarantee of the Company.

II. Independent opinion expressed by the Supervisory Committee for the following events:

1. Operations according to law.

The Supervisory Committee believed that every decision-making procedure of the Company in the report period had been in accordance with laws, regulations and Articles of Association. While the Company's directors and senior executives executed authorities, there found neither behavior of breaking laws, regulations and Articles of Association nor abusing authorities and damaging the interest of the Company and the Shareholders.

2. Check of the Company's financial status. The members of the Supervisory Committee attended every meeting of the Board of Directors this year and examined annual, semiannual and quarterly report and other documents submitted by the Board of Directors. The Supervisory Committee believed that the financial report in every period reflected objectively and truly the financial situation and operation result of the Company.

3. Related transactions. The Supervisory Committee believed that the related transaction occurred in the report period had been conducted according to the Related Transactions Agreement signed between Wuxi Weifu Group Co., Ltd and the Company, and through the approval of the Shareholders' General Meeting, related transactions could reflect the principle of market trading without doing harm to the interest of the Company.

Section X. Significant Events

I. In the report period, the Company has no significant lawsuits and arbitrations.

II. In the report period, the Company has no significant purchase, sale and disposal of assets.

The Company purchased the land factory building in Lot No.50 located in Wuxi National High-Tech Industrial Development Zone of Bosch Automotive Diesel Systems Co., Ltd. at the price of RMB 7,250 ten thousand.

III. The related transactions between the Company and its principal shareholder, Wuxi Weifu Group Co., Ltd. in 2006

Unit: RMB'0000

Items	Amount in 2006	Amount in 2005
Purchase of goods	899.50	3,399.80
Sales of goods	19,476.80	21,473.60
Purchase of fixed assets	809.30	-
Land and trademark fees	464.70	490.30
Guarantee amount for the loans of Company and subsidiaries	17,000.00	42,000.00
Guarantee amount for the bank acceptance furnished by the Company		-

The above associated transactions were executed strictly according to the associated contracts signed by the two parties and had no change in the respect of trading price, trading way and settlement.

IV Significant contracts and implementation

1. In the report period, the Company had no entrustment, contracting or leasing from other companies; or other companies had no entrustment, contracting or leasing from the Company;
2. In the report period, the Company provided guarantee amounting to RMB 90 million for its controlling subsidiary Nanjing Weifu Jinning Co., Ltd, provided guarantee amounting to RMB 50 million for its controlling subsidiary Wuxi Weifu Chang'an Fuel Injection Equipment Co., Ltd., provided guarantee amounting to RMB 37 million for its controlling subsidiary Wuxi Weifu Mashan Fuel Injection Equipment Co., Ltd., and provided guarantee amounting to RMB 5 million for its controlling subsidiary Wuxi Weifu Lida Catalytic Converter Co., Ltd.; thus the total amount for guarantee the Company provided was RMB 182 million, and there was no guarantee breaking the rule.
3. In the report period, the Company did not entrust others to conduct management of cash and assets.

V. Commitment events of the principal shareholder

The principal shareholders holding over 5% equity of the Company had no commitment events except share merger reform commitments in the report period or lasting to the report period.

VI. Engagement and disengagement of Certified Public Accountants

In the report period, Jiangsu Gongzheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Zhongtian Certified Public Accountants Co., Ltd. were reengaged as auditing institutions of the Company in 2006 and the remuneration that the Company paid to the Certified Public Accountants was: the auditing expense of 2006 (all expenses) for Jiangsu Gongzheng Certified Public Accountants Co., Ltd. was RMB 550,000 and this CPA had provided services for the Company for 15 years; the auditing expense of 2006 (all expenses) for PricewaterhouseCoopers Zhongtian Certified Public Accountants Co., Ltd. was RMB 1.05 million and this CPA had provided services for the Company for 11 years

VII. In the report period, the Company, its Board of Directors and directors received no inspection and administrative penalty by CSRC, criticism by

circulating a notice by CSRC, or public condemnation by Shenzhen Stock Exchange.

VIII. Relevant Particulars about the Receptions of the Company on Investigation and Interview

In order to further regulate the actions of information disclosure of listed companies, the Company received investigation and media interview with criterion and in strict accordance with relevant regulations of Guidance for Information Disclosure of Listed Companies formulated by Shenzhen Stock Exchange and Management System of Investor Relations of the company. In the report period, the Company respectively received the investigation and interview from investors in some institutions such as fund companies, securities companies, insurance companies, etc. and common investors; meanwhile, the company communicated adequately with vast investors through forms of investor consultative calls, the interactive platform of investor relations, etc. and answered the questions the investors raised seriously, accurately and timely. During the reception, both the Company and relevant person for information disclosure, in strict accordance with relevant laws and regulations and related provisions of Information Disclosure Measure of the Company, followed the fair, open and just principle, without implementing discriminated treatment and without disclosing, revealing or betraying non-public and significant information selectively and privately to specific objects, and received 250 visiting investors all the year.

IX. In the report period, the Company accomplished the Share Merger Reform. Special commitments made by original non-tradable shareholder in process of Share Merger Reform and its implementation

Name of shareholders	Special commitment	Implementation
Wuxi Weifu Group Co., Ltd	<p>I. Commitment on additionally delivering shares</p> <p>Weifu Group which participated in the Share Merger Reform had committed: after implementation of share reform, if its operation performance could not reach to the planned target, Weifu Hi-tech would additionally deliver shares one time to A-share tradable shareholders (the said commitment would cease to be in force till additionally delivering ended).</p> <p>i. Triggering condition of additionally delivering shares: 1. according to audited annual financial report of Weifu Hi-tech, its total net profit realized from 2006 to 2008 was less than RMB 0.85 billion (because in 2006 and 2007 automotive effluent standards was in turning period; Bosch Automotive Diesel System Co., Ltd. was in a state of losses in input period turning into profit, and it was difficult to accurately predict the large margin growth point of the Company's performance, and operation performance in 2006 was unsteady); or 2. Weifu Hi-tech's net profit realized in 2008 was less than RMB 0.34 billion; or 3. Any annual financial report from 2006 to 2008 of Weifu Hi-tech was issued auditing opinion except standard unqualified opinion.</p> <p>ii. Amount of additionally delivering shares: based on tradable A shares before the share reform, arranging value of delivering 0.5 shares per 10 shares, the total amount of additional delivering shares was 14,040,000 shares. If there were share delivering, capitalization of share equity or share shrinking in Weifu Hi-tech, delivering shares volume comparably increase or decrease based on the aforesaid; if the Company's share equity changed due to some share alteration such as additional issuance, share allotting, transferable bond and share certificate, etc. in order that the capital stock of original non-tradable and tradable shareholders comparably changed, so additional arranged value totaling 14,040,000 shares remained unchanged, the total amount of additional price computation arrangement of 14,040,000 shares</p> <p>iii. Date of additionally delivering shares: within 20 working days after approval of Weifu Hitech Annual Report in the year of triggering condition of additionally delivering shares by shareholders' general meeting, Weifu Group would implement commitment of additionally delivering shares according to related process.</p> <p>iv. Target of additionally delivering shares: all unrestricted tradable A-share shareholders of the Companies registered in the registration date of additionally delivering share equity after the notice date of Weifu Hi-tech Annual Report in the year of triggering condition of additionally delivering shares is disclosed.</p> <p>v. implementing guarantee for commitment of additionally delivering shares: within the period of validity of the commitment of additionally delivering shares, Weifu Group would authorize Shenzhen Stock Exchange and Registering & Clearing Corp. to provisionally safeguard the 14,040,000 shares which were used to implement guarantee for commitment of additionally delivering shares in its possessed non- tradable shares of Weifu Hi-tech from the date of implementation of Share Merger Reform, and technically guarantee the performance of the aforesaid commitment.</p>	It has not reached the performance condition.
	<p>II. Commitment on restricted period and the lowest price for shares held deduction</p> <p>Non-tradable shares of Weifu Hi-tech held by Weifu Group could not listed for sale or transferred within 60 months after acquiring listing right. After the expiry of the commitment period, original non-tradable shares would be listed for sale in Shenzhen Stock Exchange, the proportion of sales volume in total share equity of Weifu Hi-tech could not exceed 5% within 12 months, 10% within 24 months, and sales price ought not to be less than RMB 10 per share (the lowest deduction price of shares holding would be calculated ex-right at the same time if share price ought to be ex-right according to regulation).</p>	The commitment is being performed and there is no deduction of shares held.
	<p>III. Commitment on Bonus Plan</p> <p>After the implementation of Share Merger Reform of the Company, Weifu Group would make a proposal and vote for it: cash dividend of Weifu Hi-tech in 2005 are not less than RMB 4, proportion of cash dividend from 2006 to 2008 are not less than 50% of distributable profit for investors realized by the Company in current year.</p>	The commitment is being performed. "Weifu Group would make a proposal and vote for it: cash dividend of Weifu Hi-tech in 2005 is not less than RMB 4 has been completely performed.

IV. Commitment on arrangement of incentive system in the administrative level

In order to promote the listed company's steady and healthy development, and fully mobilize senior executives so as to ensure the combination of the administrative level, shareholders, and the interests of the Company, Weifu Group committed: after the accomplishment of Share Merger Reform, under related regulations of state and Wuxi government in terms of incentive system in the administrative level of listed company, Weifu Hi-tech would actively promote the plan for the incentive system in administrative level of Weifu Group.

The commitment is being performed, and will be implemented after related policy appears on the stage.

X. Capital occupied by the controlling shareholder and subsidiaries

Dated the report period, the controlling shareholders and subsidiaries didn't occupy capital.

XI. Special explanation and independent opinions of external guarantee of the Company provided by independent directors:

In the report period, the Company can strictly implement the regulations of ZJF [2003] No.56 Document. After we verified the relevant financial information of the Company, the explanations of the external guarantee of the Company were as follows:

1. Dated the end of the report period, the Company didn't provide guarantee for controlling shareholders, its subsidiaries, other related parties of which the Company held less than 50% share equity, any non-legal units or individuals;
2. Dated the end of the report period, the total amount of external guarantee amounted to RMB182 million, of which the amount of guarantee of the parent company for the controlling subsidiary was RMB 182 million;
3. Ended the report period, the Company had no direct or indirect guarantees for warrantees whose assets liability ratio exceeded 70%.
4. Dated the end of the report period, the Company had no guarantee getting out of line.

XII. Periodically report and provisional report of the Company in the report period are as follows:

Order of notice	Contents of notice	Date of notice	Name of newspapers
2006-001	Notification of holding relevant shareholder's meetings of A-share market for Share Merger Reform	Feb.13, 2006	China Securities Securities Times Shanghai Securities News
2006-002	Collecting letter of voting entrustment for Share Merger Reform	Feb.13, 2006	China Securities Securities Times Shanghai Securities News
2006-003	Suggestive notice of Share Merger Reform	Feb.13, 2006	Hong Kong Ta Kung Pao China Securities
2006-004	Notice on communication and negotiation on deferred disclosure of Share Merger Reform plan and its result	Feb.22, 2006	Securities Times Shanghai Securities News
2006-005	Notice on communication and negotiation on Share Merger Reform plan and adjustment of Share Merger Reform plan	Mar.4, 2006	China Securities Securities Times Shanghai Securities News
2006-006	The first suggestive notice on holding relevant shareholder's meetings of A-share market for Share Merger Reform	Mar.17, 2006	China Securities Securities Times Shanghai Securities News
2006-007	Notice on approval of Share Merger Reform by GZW	Mar.22, 2006	China Securities Securities Times Shanghai Securities News
2006-008	The second suggestive notice on holding relevant shareholder's meetings of A-share market for Share Merger Reform	Mar.23, 2006	China Securities Securities Times Shanghai Securities News
2006-009	Notice on voting result of relevant shareholder's meetings of A-share market for Share Merger Reform	Mar.28, 2006	China Securities Securities Times Shanghai Securities News
2006-010	Notice on implementation of Share Merger Reform plan	Apr.1, 2006	China Securities

2006-011	Notice on change of stock abbreviation	Apr.5, 2006	Securities Times Shanghai Securities News China Securities Securities Times
2006-012	Notice on change of shares' structure	Apr.21, 2006	Shanghai Securities News China Securities Securities Times
2006-013	Notice on resolutions of the 5 th meeting of the 5 th Board	Apr.21, 2006	Shanghai Securities News China Securities Securities Times
2005-014	Notice on holding Shareholders' General Meeting of 2005	Apr., 21, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-015	Notice on resolutions of the 3 rd meeting of the 5 th Supervisory Committee	Apr.21, 2006	Hong Kong Wen Wei Po China Securities Securities News
2006-016	Notice on estimation of 2006 routine related transaction	Apr.21, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-017	The summary of Annual Report 2005	Apr.21, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-018	The First Quarterly Report of 2006	Apr.21, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-019	Notice on resolutions of 2005 Annual Shareholders' General Meeting	Jun.21, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-020	Notice on implementation of bonus distribution of 2005	Jul.31, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-021	Notice on resolutions of the 6 th meeting of the 5 th Board	Aug.18, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-022	The summary of Interim Report 2006	Aug.18, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-023	Notice on performance forenotice	Aug.18, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-024	The Third Quarterly Report of 2006	Oct.30, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-025	Notice on resolutions of the 7 th meeting of the 5 th Board	Oct.30, 2006	Hong Kong Wen Wei Po China Securities Securities Times
2006-026	Notice on performance forenotice	Oct.30, 2006	Hong Kong Wen Wei Po China Securities Securities Times

The aforesaid documents were all published on the website engaged by CSRC:
<http://www.cninfo.com.cn>

Section XI. Financial Statement

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED
(Registered in the People's Republic of China)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

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.

Independent auditor's report

2007/SH-077/YZQ/XQIE

To the shareholders of Weifu High-Technology Company Limited

Report of the financial statements

We have audited the accompanying consolidated financial statements of Weifu High-Technology Company Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Managements' responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit.

Independent auditor's report (continued)

2007/SH-077/YZQ/XQIE(continued)

2/2

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material aspects of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Ltd. Co.

16 April 2007

Shanghai, The People's Republic of China

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006
(All amounts in RMB thousands)

	Notes	As at 31 December	
		2006	2005
ASSETS			
Non-current assets			
Leasehold land	5	81,553	71,577
Property, plant and equipment	6	1,284,159	947,416
Intangible assets	7	75,972	72,520
Investments in associates	8	680,643	761,387
Investments in unconsolidated subsidiaries	9	-	113,310
Deferred tax assets	23(b)	15,262	11,272
Available-for-sale investments	10	72,016	75,360
Total non-current assets		2,209,605	2,052,842
Current assets			
Inventories	11	726,758	720,762
Prepayments		24,209	10,217
Trade and other receivables	12	751,950	427,887
Due from related parties	27(e)	364,376	492,678
Cash and bank deposits	26(b)	820,419	777,831
Total current assets		2,687,712	2,429,375
Total Assets		4,897,317	4,482,217

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS OF 31 DECEMBER 2006
(All amounts in RMB thousands)

	Notes	As at 31 December	
		2006	2005
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	13	567,276	567,276
Reserves	14	1,202,270	1,178,945
Retained earnings	15	435,625	580,080
		<u>2,205,161</u>	<u>2,326,301</u>
Minority interests		<u>223,324</u>	<u>187,116</u>
Total Equity		<u>2,428,485</u>	<u>2,513,417</u>
LIABILITIES			
Non-current liabilities			
Long-term bank borrowings	18(b)	-	73,000
Long-term payables	19	25,595	47,827
Total non-current liabilities		<u>25,595</u>	<u>120,827</u>
Current liabilities			
Trade and other payables	16	801,433	568,631
Current tax liabilities		1,440	(3,368)
Short-term bank borrowings	18(b)	1,464,070	1,088,914
Current portion of long-term bank borrowings	18(a)	73,000	145,000
Dividend payable		416	416
Due to related parties	27(e)	54,499	30,035
Accruals and other current liabilities	17	48,379	18,345
Total current liabilities		<u>2,443,237</u>	<u>1,847,973</u>
Total liabilities		<u>2,468,832</u>	<u>1,968,800</u>
Total Equity and Liabilities		<u>4,897,317</u>	<u>4,482,217</u>

The notes on page 8 to 56 are an integral part of these consolidated financial statements.

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

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

	Notes	For the year ended 31 December	
		2006	2005
Revenue	27	2,513,966	2,842,021
Cost of sales		<u>(1,887,655)</u>	<u>(2,202,603)</u>
Gross profit		626,311	639,418
Distribution costs		(121,669)	(85,140)
Administrative expenses		(273,367)	(248,832)
Other operating income	20	11,590	6,378
Other operating expenses		<u>(7,430)</u>	<u>(21,748)</u>
Operating profit		235,435	290,076
Finance costs	21	(64,594)	(63,851)
Share of results of associates	8	(25,153)	25,556
Income/(loss) from unconsolidated subsidiaries	9	-	(4,640)
Impairment loss of investments		<u>-</u>	<u>(11,000)</u>
Profit before income tax		145,688	236,141
Income tax expense	23(b)	<u>(4,402)</u>	<u>(9,620)</u>
Profit for the year		141,286	226,521
Attributable to:			
Equity holders of the Company		105,770	183,379
Minority interests		<u>35,516</u>	<u>43,142</u>
		<u>141,286</u>	<u>226,521</u>
Earnings per share for profit attributable to the equity holders of the company			
- Basic	24	<u>RMB 0.19</u>	<u>RMB 0.32</u>
- Diluted		<u>Not applicable</u>	<u>Not applicable</u>

The notes on page 8 to 56 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands)

	Attributable to equity holders of the company								
	Share capital Note 13	Capital surplus Note 14(a)	Statutory surplus reserve fund Note 14(b)	Statutory public welfare fund Note 14(c)	Discretion- ary surplus reserve fund	Total reserves	Retained earnings Note 15	Minority interests	Total equity
Balance as at 1 January, 2005	436,366	911,496	147,237	73,694	1,785	1,134,212	615,980	143,974	2,330,532
Dividends declared after 1 January, 2005 from retained earnings as of 31 December 2004	130,910	-	-	-	-	-	(174,546)	-	(43,636)
Net profit for 2005	-	-	-	-	-	-	183,379	43,142	226,521
Appropriations:									
- statutory surplus reserve fund	-	-	30,405	-	-	30,405	(30,405)	-	-
- statutory public welfare fund	-	-	-	14,328	-	14,328	(14,328)	-	-
Balance as at 31 December 2005	567,276	911,496	177,642	88,022	1,785	1,178,945	580,080	187,116	2,513,417
Dividends declared after 1 January, 2006 from retained earnings as of 31 December 2005 (Note 25)	-	-	-	-	-	-	(226,910)	-	(226,910)
Net profit for 2006	-	-	-	-	-	-	105,770	35,516	141,286
Other changes	-	-	-	-	-	-	-	692	692
Appropriations:									
- statutory surplus reserve fund	-	-	23,325	-	-	23,325	(23,325)	-	-
- statutory public welfare fund	-	-	88,022	(88,022)	-	-	-	-	-
Balance as at 31 December 2006	567,276	911,496	288,989	-	1,785	1,202,270	435,615	223,324	2,428,485

The notes on page 8 to 56 are an integral part of these consolidated financial statements.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**
(All amounts in RMB thousands)

	Notes	For the year ended 31 December	
		2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from/(used in) operations	26(a)	537,575	(410,974)
Interest paid		(61,888)	(62,216)
Income tax paid		(7,256)	(17,817)
Net cash generated from/(used in) operating activities		468,431	(491,007)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of leasehold land		(12,098)	-
Purchase of property, plant and equipment		(482,677)	(154,031)
Proceeds from disposals of property, plant and equipment	26(c)	31,231	7,150
Purchase of Intangible assets		(1,017)	(6,502)
Increase in investments in unconsolidated subsidiaries	9	-	(71,272)
Increase in available-for-sale investments	10	-	(56,940)
Proceeds from disposal of available-for-sale investments	10	3,344	100
Proceeds from disposals of held-to-maturity investments		-	3,107
Interest received		4,192	9,997
Dividends received		55,592	158,187
Net cash used in investing activities		(401,433)	(110,204)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in short-term bank borrowings		375,156	536,084
Net decrease in long-term bank borrowings		(145,000)	(42,000)
Cash received from government grants		17,674	9,182
Increase/(decrease) in long-term payables		(4,619)	1,140
Dividends paid		(226,911)	(43,636)
Net cash generated from financing activities		16,300	460,770
Net increase/(decrease) in cash and cash equivalents		83,298	(140,441)
Cash and cash equivalents at beginning of year		642,721	783,162
Cash and cash equivalents at end of year	26(b)	726,019	642,721

The notes on page 8 to 56 are an integral part of these consolidated financial statements.

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(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.

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

In accordance with the resolution of shareholder meeting dated on 27 March 2006, together with the statistics results voting online from period 23 March 2006 to 27 March 2006, the Weifu High-technology Company Limited share reform was approved. The Company implemented the share merger reform on 5 April 2006. The listed A share number on registration date is 280,800,000 shares. The listed A shareholders can acquire 1.7 A shares for every 10 listed A shares from unlisted shareholders with the total share number of 47,736,000 shares. The registration date is 4 April 2006 and the listing date for those shares paid is 5 April 2006. As at the issuance of the audit report, the Company has not proceeded the supplementary considerations in the share form.

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

These group consolidated financial statements were authorised for issue by the Board of Directors on 16 April 2007.

WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

(1) Standards, amendments and interpretations effective in 2006

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast
IAS 39 (Amendment)	Intragroup Transactions
IAS 39 & IFRS 4 (Amendments)	The Fair Value Option
IFRS 1 & 6 (Amendments)	Financial Guarantee Contracts
IFRS 6	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRIC-Int 4	Exploration for and Evaluation of Mineral Resources
IFRIC-Int 5	Determining whether an Arrangement contains a Lease
IFRIC-Int 6	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(2) Interpretations to existing standards that are not yet effective:

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods:

IAS 23 (Revised)	Borrowing costs
IFRS 7	Financial Instruments: Disclosures
IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
IFRIC-Int 7	Applying the Restatement Approach under IAS 29
IFRIC-Int 8	Financial Reporting in Hyperinflationary Economies
IFRIC-Int 9	Scope of IFRS 2
IFRIC-Int 10	Reassessment of Embedded Derivatives
IFRIC-Int 11	Interim Financial Reporting and Impairment
IFRIC-Int 12	Group and Treasury Share Transactions
	Service Concession Arrangements

The Group is still assessing the impact of these standards, amendments and interpretations on its results of operations and financial position.

2. ACCOUNTING POLICIES (Continued)

(b) Consolidation

(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 by the Group. 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(2) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to 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.

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.

(4) 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 using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

2. ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(4) Associates (Continued)

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.

(c) Segment reporting

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 are subject to risks and returns that are different from those of segments operating in other economic environments.

As the Group only engaged in providing pump and nozzle for internal-combustion engine and its geographical segment is very unitary, there is no need to provide segment reporting.

(d) Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the Currency of the primary economic environment in which the entity operates ('the functional Currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation Currency.

2. ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(2) Transactions and balances

Foreign Currency transactions are translated into the functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(e) 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.

(f) Property, plant and equipment and depreciation

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their estimated residual values over their estimated useful lives. The estimated lives are as follows:

Buildings	20-35 years
Equipment	10-16 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals or damage are determined by comparing the proceeds with the carrying amount and are recognised within other gains/(losses) – net, in the income statement.

2. ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment and depreciation (Continued)

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 transferred to fixed assets when the assets ready for their intended use, and depreciation begins from the following month.

(g) Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

In accordance with the transitional provision of IFRS 3, from 1 January 2005, the Group discontinued the amortisation of those previously recognised goodwill and eliminated the carrying amount of the related accumulated amortisation with a corresponding decrease in Goodwill. In addition, they are 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.

2. ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(1) 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. In accordance with the transitional provision of IFRS 3, the negative goodwill previously recognised is 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.

(2) Trademarks

Acquired trademarks are shown at historical cost. Trademarks are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

The trademark was purchased from the related party – Wuxi Weifu Group Co., Ltd (“Nanjing Weifu”), 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. ACCOUNTING POLICIES (Continued)

(g) Intangible assets (Continued)

(3) 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 2006, there was no capitalized expenditure on development.

2 ACCOUNTING POLICIES (Continued)

(h) Impairment of subsidiaries, joint ventures, associates and non-financial 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 (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other (losses)/gains – net, in the period in which they arise.

2. ACCOUNTING POLICIES (Continued)

(i) Available-for-sale financial assets (Continued)

If the market for a financial asset is not active and the fair value can not be measured reliably, the financial assets are stated at historical costs. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of the fair value of the financial asset's below its cost is considered as an indicator that the financial assets are impaired. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the loss is recognised in the income statement.

2 ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(m) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(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 income statement over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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.

2. ACCOUNTING POLICIES (Continued)

(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 consolidated financial statements. However, the deferred income tax is not accounted for if it 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. Deferred income tax is determined using tax rates (and laws) 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 income 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) 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.

(q) 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.

2 ACCOUNTING POLICIES (Continued)

(r) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(s) Revenue recognition

Revenue includes revenue from sales of goods, interest income and dividend income. Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (i) Revenue from sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.
- (ii) Interest income is recognised on a time proportion basis, using the effective rate method.
- (iii) Dividend income is recognised when the right to receive payment is established.

2 ACCOUNTING POLICIES (Continued)

(t) Operating leases

Leases of fixed assets where all the risks and rewards incident to ownership of the assets are not in substance transferred to the lessees 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.

(u) Dividends

Cash dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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 18. 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. To manage their foreign exchange risk arising from future commercial transactions and recognized liabilities, the Group uses forward contracts. As at 31 December 2006, the Group had no unsettled forward contracts.

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. The Company uses forward currency contracts to manage the exposure of its foreign currency payables. These forward currency contracts do not meet the requirements stipulated in the IAS 39 for the application of hedge accounting. Accordingly changes in the fair value of the forward currency contracts are recognised immediately in the income statement.

(c) Fair value estimation

The mature date of the following financial assets and liabilities are within recent period, its carrying amount of individual item is basically equal with its fair value, including cash and cash equivalents, trade receivables and payables, other receivables, prepayment and short-term loan.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(e). The recoverable amount is the higher of an asset's value in use and fair value less costs to sell, which is based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal, or cash to be generated from continuously using the assets.

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generated units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(d) Deferred tax assets

Deferred 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 tax assets is realised or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

(e) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassess the provision on each of the balance sheet date.

5 Leasehold land

	2006	2005
Beginning Net book value	71,577	73,614
Additions	12,089	-

Current year amortisation	<u>(2,113)</u>	<u>(2,037)</u>
Ending Net book value	<u>81,553</u>	<u>71,577</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.

For the year ended 31 December 2006, the Group recorded RMB 2,113 thousands for amortisation expense of leasehold land in administrative expenses (2005: RMB 2,037 thousands).

6 Property, plant and equipment

	Buildings	Machinery and equipment	Construction-in-pr ogress	Total
At 31 December 2004				
Cost	277,446	748,718	104,280	1,130,444
Accumulated depreciation	(54,795)	(214,000)	-	(268,795)
Accumulated Impairment losses	-	(7,634)	-	(7,634)
Net book value	<u>222,651</u>	<u>527,084</u>	<u>104,280</u>	<u>854,015</u>
Year 2005				
Beginning Net book Value	222,651	527,084	104,280	854,015
Transfer from construction in progress	61,735	117,509	(179,244)	-
Current year other addition	16,166	18,967	144,057	179,190
Current year deduction	-	(11,282)	(215)	(11,497)
Current year depreciation	(8,191)	(66,058)	-	(74,249)
Current year impairment	-	(43)	-	(43)
Ending Net book Value	<u>292,361</u>	<u>586,177</u>	<u>68,878</u>	<u>947,416</u>
At 31 December 2005				
Cost	355,347	861,453	68,878	1,285,678
Accumulated depreciation	(62,986)	(268,885)	-	(331,871)
Accumulated Impairment losses	-	(6,391)	-	(6,391)
Net book value	<u>292,361</u>	<u>586,177</u>	<u>68,878</u>	<u>947,416</u>
Year 2006				
Beginning Net book Value	292,361	586,177	68,878	947,416
Transfer from construction in progress	16,779	155,143	(171,922)	-
Current year other addition	50,614	158,465	268,852	477,931
Current year deduction	(12,398)	(11,286)	(9,986)	(33,670)
Current year depreciation	(18,727)	(88,703)	-	(107,430)
Current year impairment	-	(88)	-	(88)
Ending Net book Value	<u>328,629</u>	<u>799,708</u>	<u>155,822</u>	<u>1,284,159</u>
At 31 December 2006				
Cost	<u>415,330</u>	<u>1,234,012</u>	<u>155,822</u>	<u>1,805,164</u>

Accumulated depreciation	(86,701)	(431,451)	-	(518,152)
Accumulated Impairment losses	-	(2,853)	-	(2,853)
Net book value	328,629	799,708	155,822	1,284,159

6 Property, plant and equipment (Continued)

i) For the year ended 31 December 2006, borrowing cost attributable to property, plant and equipment amounted to RMB 420 thousands (2005: RMB 1,491 thousands) and the capitalized interest rate is 5.76% (2005:5.59%)(Note 19,21).

ii) For the year ended 31 December 2006, government grants relating to the acquisition of property, plant and equipment credited to the depreciation on related fixed assets amounted to approximately RMB 7,557 thousands (2005: RMB 7,308 thousands) (Note 19).

iii) For the year ended 31 December 2006, depreciation expense RMB 80,322 thousands is recorded in cost of inventory (including cost of sales goods sold), (2005: RMB 7,308 thousands); depreciation expense RMB 188 thousands is recorded in distribution costs(2005: RMB 11 thousands), depreciation expense RMB 19,363 thousands is recorded in administrative expenses (2005: RMB 20,958 thousands).

7 Intangible assets

	Trade-mark	Goodwill Note(iii)	Licences Note(i)	Proprietary technology Note(ii)	Computer Software Note(iv)	Total
At 31 December 2004						
Cost			34,2			
	26,356	8,374		8,575	-	77,521
Accumulated amortisation						
	(5,329)	-		(274)	-	(7,314)
Beginning Net book value			32,5			
	21,027	8,374		8,301	-	70,207
Year 2005						
Beginning Net book Value			32,5			
	21,027	8,374		8,301	-	70,207
Addition	-	-	2,894	-	5,308	8,202
Amortisation	(876)	-	(3,856)	(858)	(299)	(5,889)
Ending Net book value			31,5			
	20,151	8,374		7,443	5,009	72,520
At 31 December 2005						
Cost			37,1			
	26,356	8,374		8,575	5,308	85,723
Accumulated amortisation			(5,5)			(13,20)
	(6,205)	-		(1,132)	(299)	
Beginning Net book value			31,5			
	20,151	8,374		7,443	5,009	72,520
Year 2006						

Beginning Net book Value			31,5			
	20,151	8,374		7,443	5,009	72,520
Addition	-	8,959	-	-	1,017	9,976
Amortisation	(876)	-	(3,713)	(858)	(1,077)	(6,524)
Ending Net book value		17,33	27,8			
	19,275			6,585	4,949	75,972
At 31 December 2006						
Cost			37,1			
	26,356	17,33		8,575	6,325	95,699
Accumulated amortisation			(9,2)			(19,72)
	(7,081)	-		(1,990)	(1,376)	
Beginning Net book value		17,33	27,8			
	19,275			6,585	4,949	75,972

7 Intangible assets (Continued)

- i. Pursuant to an agreement entered between the Company and Robert Bosch GmbH (“Bosch”), the Company shall pay to Bosch to acquire the right to manufacture certain licensed products and the effective period lasts for 10 years.
- 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. In accordance with the provision of IFRS 3, from 1 January 2005, the Group discontinued the amortisation of those previously recognised goodwill and eliminated the carrying amount of the related accumulated amortisation.

For the year ended 31 December 2006, the Group includes the unconsolidated subsidiary within consolidation scope which leads to the increase of goodwill.

- iv. Computer software was SAP and other financial management software, which was amortized using the straight-line method over 5 years.

For the year ended 31 December 2006, the amortization expense of intangible assets with the amount of RMB 6,524 thousands is recorded in administrative expenses (2005: RMB 5,889 thousands).

8 Investments in associates

	2006	2005
Beginning of year	761,387	802,093
Share of results	(25,153)	25,556
Dividend declared	(55,591)	(66,262)
End of year	<u>680,643</u>	<u>761,387</u>

As of year end, the Group had the following associates:

Name	Place of registration	Principal activities	Carrying amount		Percentage of equity interest			
			31 December 2006	31 December 2005	31 December 2006		31 December 2005	
					Directly	Indirectly	Directly	Indirectly
Bosch Automotive Diesel Systems Co., Ltd. ("RBCD", 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.	449,714	527,300	30%	1.5%	30%	1.5%
Zhonglian Automobile Electronics Co., Ltd.	Shanghai, PRC	Manufacture and sale of automobile electronic equipment	221,548	226,631	20%	-	20%	-
Wuxi Weifu Mechanism Manufacturing Co., Ltd. ("Weifu Mechanism Manufacturing")	Wuxi, PRC	Manufacture and sale of diesel fuel injection, automotive components	5,063	4,112	20%	-	20%	-
Wuxi Weifu International Trading Co., Ltd. ("Weifu International trading")	Wuxi, PRC	Import and export of commodities and technologies	3,313	3,044	15%	30%	15%	30%
Wuxi Long Sheng technology Co., Ltd. ("Wuxi Long Sheng")	Wuxi, PRC	Development, manufacture and sale of automotive components	1,005	300	-	20%	-	20%
			<u>680,643</u>	<u>761,387</u>				

(i) 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 thousands 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.

9 Investments in unconsolidated subsidiaries

For the year ended 31 December 2006, the Group adopts to include the unconsolidated entities of prior years within the consolidation scope.

10 Available-for-sale investments

	<u>2006</u>	<u>2005</u>
Beginning of year	119,526	62,686
Additions for the year	-	56,940
Disposal for the year	<u>(3,344)</u>	<u>(100)</u>
End of year	116,182	119,526
Less: Accumulated impairment losses	<u>(44,166)</u>	<u>(44,166)</u>
	<u><u>72,016</u></u>	<u><u>75,360</u></u>

Available-for-sale investments comprise investments in unlisted equity instruments, for which there is no active market and whose fair value cannot be reliably determined and are therefore carried at cost less accumulated impairment.

11 Inventories

	<u>31 December 2006</u>	<u>31 December 2005</u>
Raw materials	171,425	187,621
Work-in-progress	151,898	89,168
Finished goods	<u>475,587</u>	<u>477,861</u>
	798,910	754,650
Less: Inventory provision	<u>(72,152)</u>	<u>(33,888)</u>
	<u><u>726,758</u></u>	<u><u>720,762</u></u>

Inventory provision's movement is listed as follows:

	<u>31 December 2006</u>	<u>31 December 2005</u>
Beginning of year	33,888	16,098
Charge for the year	40,262	19,437
Write-off for the year	<u>(1,998)</u>	<u>(1,647)</u>
End of year	<u><u>72,152</u></u>	<u><u>33,888</u></u>

12 Trade and other receivables

	31 December 2006	31 December 2005
Notes receivables	452,893	171,801
Accounts receivables	476,983	290,156
Other receivables	17,076	40,924
	946,952	502,881
Less: Provision for bad and doubtful debts	(69,314)	(74,994)
	<u>877,638</u>	<u>427,887</u>

Bad debts' provision's movement is listed as follows:

	31 December 2006	31 December 2005
Beginning of year	74,994	61,397
Charge/reverse for the year	(3,697)	15,793
Write-off for the year	(1,983)	(2,196)
End of year	<u>69,314</u>	<u>74,994</u>

Trade and other receivables are all interest free and with no secured or collateralised items.

13 Share capital

As of 31 December 2006 and 2005, the details of share capital (par value of RMB 1 each) were as follows:

	31 December 2005		Current year change		31 December 2006	
	Number of shares in shares thousands	Amount in RMB thousands	Number of shares in shares thousands	Amount in RMB thousands	Number of shares in shares thousands	Amount in RMB thousands
State-owned legal person shares	158,036	158,036	(43,974)	(43,974)	114,062	114,062
State-owned legal person shares	13,520	13,520	(3,762)	(3,762)	9,758	9,758
A shares	280,800	280,800	47,736	47,736	328,536	328,536
B shares	114,920	114,920	-	-	114,920	114,920
	<u>567,276</u>	<u>567,276</u>	<u>-</u>	<u>-</u>	<u>567,276</u>	<u>567,276</u>

13 Share capital (Continued)

In accordance with the resolution of shareholder meeting dated on 27 March 2006, together with the statistics results voting online from period 23 March 2006 to 27 March 2006, the share reform of the Company was approved. The Company implemented the share merger reform on 5 April 2006 (Note 1).

14 Reserves

(a) Capital surplus

	31 December 2006	31 December 2005
Share premium	908,919	908,919
Other capital surplus	2,577	2,577
	<u>911,486</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) Share of post-acquisition movements in reserves of the subsidiaries;
- (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.

14 Reserves (Continued)

(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.

For year ended 31 December 2006, the Company appropriate 10% of their annual statutory net profit according to the relevant financial regulations of the PRC to a statutory surplus reserve amount of RMB 8,859 thousands (For year ended 31 December 2005: 10% equal to RMB 18,453 thousands).

For year ended 31 December 2006, the subsidiaries of the Company appropriated to statutory surplus reserve fund amount of RMB 14,466 thousands (For year ended 31 December 2005: RMB 18,453 thousands).

(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.

Pursuant to "Company Law of People's Republic of China" revised on 27 October 2005 and effectively implemented from 1 January 2006, the Company ceased the appropriation of the statutory common welfare fund upon 1 January 2006. In accordance with the instruction published by Ministry of Finance in 15 March 2006 as to "The accounting treatment after the implementation of Company Law", the balance brought forward from 31 December 2005 of Company was transferred to statutory surplus reserve.

15 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.

At the meeting of the board of directors dated 16 April 2007, the directors proposed a final dividend plan of the year 2006 as follows:

The company accrued reserves as the 10% of its annual statutory net profit prepared in accordance with the PRC accounting regulations, which is RMB 8,848 thousands(2005: RMB 27,680 thousands), minus statutory surplus reserve of the subsidiaries with the amount of RMB14,466 thousands (2005: RMB 23,103 thousands). The attributable profit to shareholders is RMB 646,345 thousands. The plan is RMB 0.6 (with tax) per 10 share.

16 Trade and other payables

	31 December 2006	31 December 2005
Notes payable	151,652	178,110
Trade payables	558,771	304,473
Other payables	133,927	86,048
	<u>844,350</u>	<u>568,631</u>

Trade payables are all interest free and with no secured or collateralised items.

17 Accruals and other current liabilities

	31 December 2006	31 December 2005
Accrued expenses	10,007	4,320
Salary and welfare payable	29,467	8,817
Advances from customers	6,705	3,025
Other levies payable	2,200	2,183
	<u>48,379</u>	<u>18,345</u>

18 Borrowings

(a) Long-term bank borrowings

	31 December 2006	31 December 2005
Secured bank borrowings (i)	70,000	215,000
Collateralised bank borrowings (ii)	3,000	3,000
Less: Amounts due within one year	(73,000)	(145,000)
	<u>-</u>	<u>73,000</u>

Long-term bank borrowings bear interest at rates ranging from 5.58% to 5.76% (2005: 5.49% to 5.76%) per annum.

(i) For the year ended 31 December 2006, long-term bank borrowings RMB 70,000 thousands are guaranteed by a related party – Weifu Group Co., Ltd. (“WFGC”). (For the year ended 31 December 2005, long-term bank borrowings RMB 215,000 thousands are guaranteed by a related party –WFGC”).

(ii) For the year ended 31 December 2006, long-term borrowings are collateralised by bank deposits of RMB 3,400 thousands (at 31 December 2005, the long-term borrowings are collateralised by bank deposits of RMB 3,400 thousands).

For the year ended 31 December 2006, the carrying amount of long-tem bank borrowings approximates their fair value as these borrowings bear quoted market interest rates.

18 Borrowings (Continued)

(b) Short-term bank borrowings

	31 December 2006	31 December 2005
Unsecured bank borrowings	1,282,070	842,046
Secured bank borrowings (i)	182,000	205,000
Collateralised bank borrowings (ii)	-	41,868
	<u>1,464,070</u>	<u>1,088,914</u>

Short-term bank borrowings bear interest at rates ranging from 4.65% to 6.20% (2005: 2.89% to 5.75%) per annum.

(i) For the year ended 31 December 2006, short-term bank borrowings RMB 182,000 thousands is guaranteed by WFGC (For the year ended 31 December 2005, short-term bank borrowings RMB 205,000 thousands is guaranteed by WFGC);

(ii) For the year ended 31 December 2006, the group has no short-term collateralised bank borrowings (For the year ended 31 December 2005, the short-term borrowings amount of RMB 41,868 thousands are collateralised by bank deposits of RMB 45,000 thousands).

(iii) Foreign currency loan:

	31 December 2006	31 December 2005
	USD	
Unsecured bank borrowings	<u>5,000 thousands</u>	<u>-</u>

19 Long-term payables

	31 December 2006	31 December 2005
Deferred government grants (i)	13,246	30,920
Deferred income (ii)	6,229	5,177
Leasehold land payables	-	7,000
Long-term government borrowings (iii)	6,120	4,730
	<u>25,595</u>	<u>47,827</u>

19 Long-term payables (Continued)

(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 were as follows:

	<u>2006</u>	<u>2005</u>
Beginning of year	30,920	35,408
Receipt during the year	1,396	9,182
Amount recognised as income(Note 20)	<u>(8,084)</u>	<u>(4,871)</u>
Amount allocated to offsetting initial costs of related construction-in-progress(Note 6)	<u>(420)</u>	<u>(1,491)</u>
Amount allocated to other operating expenses	<u>(3,009)</u>	<u>-</u>
Amount allocated to credit depreciation of related fixed assets. (Note 6)	<u>(7,557)</u>	<u>(7,308)</u>
End of year	<u><u>13,246</u></u>	<u><u>30,920</u></u>

(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 were as follows:

	<u>2006</u>	<u>2005</u>
Beginning of year	5,177	5,824
Granted during the year	1,700	-
Recognised as income (Note 20)	<u>(648)</u>	<u>(647)</u>
End of year	<u><u>6,229</u></u>	<u><u>5,177</u></u>

(iii) Long-term government borrowings are the supporting fund received from the government. According to the regulation, if the Group's operating period in Nanjing High-technology development zone is less than the ordain year, the fund should be returned to the government.

20 Other operating income

	<u>2006</u>	<u>2005</u>
Government Grant	1,618	-
Income of government special fund (Note 19)	8,084	4,871
Income of deferred income (Note 19)	648	647
Income from disposal of held-to-maturity investments	-	107
Dividend income	360	753
Tax refund	880	-
	<u>11,590</u>	<u>6,378</u>

21 Finance costs

	<u>2006</u>	<u>2005</u>
Interest income		
- Bank deposits	<u>13,130</u>	<u>9,997</u>
Interest expense		
- Bank borrowings	(67,376)	62,216
Less: amount capitalized in construction-in-progress (Note 6)	<u>420</u>	<u>1,491</u>
	(66,956)	(60,725)
- Cash discount on sales	<u>(10,768)</u>	<u>(13,123)</u>
	<u>(77,724)</u>	<u>(73,848)</u>
	<u>(64,594)</u>	<u>(63,851)</u>

22 Cost and Expense

	<u>2006</u>	<u>2005</u>
Raw material consumption	1,599,508	1,986,486
Salary	218,060	182,550
Utility	29,209	32,556
Amortisation of leasehold land	2,113	2,037
Amortisation of intangible assets	6,524	5,889
Depreciation on property, plant and equipment	99,873	66,941
Write-down of inventory cost	31,846	13,434
Warranty fee	46,070	31,170
Bad debt provision	(3,697)	15,793
Research and development expenditures	69,004	35,900
Other cost and expense	184,181	163,819
	<u>2,282,691</u>	<u>2,536,575</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%~12%
Unemployment fund	2%
Statutory pension fund	21%-22%

23 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.

23 Taxation (Continued)

(b) Enterprise Income Tax (“EIT”)

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

	<u>2006</u>	<u>2005</u>
Current tax	8,392	15,041
Deferred tax (Note 23 (b) (3))	<u>(3,990)</u>	<u>(5,421)</u>
Income tax expense	<u>4,402</u>	<u>9,620</u>

The Company and subsidiaries' income tax rate:

	<u>Applicable income tax rate</u>	<u>Actual income tax rate</u>
The Company (i)	15%	15%
Nanjing Weifu Jinning Company Limited (ii)	15%	15%
Wuxi Weifu Leader Catalytic Converter Company Limited (iii)	15%	15%
Jiangsu Weifu Nanometer Technology Company Limited (iv)	33%	0%
Wuxi Weifu Automotive Diesel System Company Limited (v)	15%	0%
Wuxi Weifu Chang'an Fuel Injection Co., Ltd. (vi)	Simplified collections	Simplified collections
Wuxi Weifu Mashan Fuel Injection Equipment Factory	33%	33%
Wuxi Weifu Autocam Precision Machinery Co., Ltd. (vii)	15%	0%
Chao yang Weifu Jialin Machinery Co., Ltd.	15%	0%
Wuxi Weifu Jida New Material Development Co., Ltd. (viii)	Simplified collections	Simplified collections

23 Taxation (Continued)

(b) Enterprise Income Tax (“EIT”) (Continued)

(i) The Company is high-technology enterprises registered in Wuxi Hi-tech Industrial Development Zone and are subject to EIT at a reduced rate of 15%. In 2006, the actual EIT rate is 15% (2005: 15%).

(ii) The Company’s Subsidiary - Nanjing Weifu Jinning Company Limited. (“ Nanjing Weifu ”), being a high-technology company registered in Nanjing Hi-tech Development Zone is subject to EIT at a reduced rate of 15%. In 2006, the actual income tax rate is 15% (2005: 15%).

(iii) Wuxi Weifu Leader Catalytic Converter Company Limited is high-technology enterprises registered in Wuxi Hi-tech Industrial Development Zone and is subject to EIT at a reduced rate of 15%. In 2006, the actual income tax rate is 15% (As it was in accumulated loss in 2005, the actual EIT rate of 2005 was 0%).

(iv) Jiangsu Weifu Nanometer Technology Company Limited is subjected to EIT at the rate of 33%. As the Company suffered loss in 2006, the actual EIT rate is 0% (2005: It suffered loss in year 2005 and the actual EIT rate was 0%).

(v) Wuxi Weifu Automotive Diesel System Company Limited. (“ WADS ”) is 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. 2006 is second year exemption from EIT, thus actual EIT rate is 0% (2005: 0%)

(vi) The EIT of Wuxi Weifu Chang’an Fuel Injection Co., Ltd., is determined with revenue under the simplified collection method (2005: simplified collection method).

(vii) Wuxi Weifu Autocam Precision Machinery Co., Ltd. is a foreign invested production enterprise established in Wu xi, where the prevailing enterprise and local income taxes rate is 33% and entitled to a two year free of EIT and three year 50% tax reduction from the first cumulative profit-making year net off losses carried forward. As it suffered a loss in year 2006, the actual EIT rate is 0%(2005: It is in pre-operating period and there is no taxable income, the actual EIT rate was 0%).

(viii) Chao yang Weifu Jialin Machinery Co., Ltd. registered in 2006 is subjected to EIT at a rate of 33%. It suffered losses in 2006, thus actual EIT rate is 0% (2005: It has not been set up yet, so there was no applicable EIT rate).

23 Taxation (Continued)

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

(viii) The EIT of Wuxi Weifu Jida New Material Development Co., Ltd., is determined with revenue under the simplified collection method (2005: simplified collection method).

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

	<u>2006</u>	<u>2005</u>
Accounting profit before tax	<u>145,688</u>	<u>236,141</u>
Tax calculated at the applicable tax rate of 15% (2005: 15%)	21,853	35,421
Tax effect of utilisation of tax losses of subsidiaries	-	27
Tax effect of expenses that are not deductible in determining taxable profit	7,320	11,163
Tax effect of income that are not taxable in determining taxable profit	<u>(24,771)</u>	<u>(36,991)</u>
	<u>4,402</u>	<u>9,620</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 listed as follows:

	<u>2006</u>	<u>2005</u>
As at 1 January 2006	11,272	5,851
Income statement credit	<u>3,990</u>	<u>5,421</u>
As at 31 December 2006	<u>15,262</u>	<u>11,272</u>
Provided for in respect of :		
Provision for impairment of receivables	3,656	4,408
Write-down of inventory	9,158	3,937
Provision for impairment of property, plant and equipment	89	511
Write-down of pre-operating expenses	186	186
Housing subsidies not deductible for tax	261	1,067
Accrued expenses not deductible for tax	<u>1,912</u>	<u>1,163</u>
	<u>15,262</u>	<u>11,272</u>

23 Taxation (Continued)

(b) Enterprise Income Tax (“EIT”) (Continued)

The amounts shown in the balance sheet include the following:

	<u>2006</u>	<u>2005</u>
-Deferred tax assets to be recovered after more than 12 months	1,155	1,524
-Deferred tax assets to be recovered within 12 months	14,107	9,748
	<u>15,262</u>	<u>11,272</u>

24 Earnings per share

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

	<u>2006</u>	<u>2005</u>
Net profit	105,770	183,379
Weighted average number of ordinary shares in issue (“000”)	<u>567,276</u>	<u>567,276</u>
Basic earnings per share (RMB yuan)	<u>0.19</u>	<u>0.32</u>

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

25 Dividends

The shareholder meeting was held on 20 June 2006 and approved the profit appropriations for year 2005. In accordance with the resolution, 0.4 RMB dividend is declared per share, with the total dividend amount of RMB 226,910,398 among which cash dividend is RMB 43,636,615 and bonus share is RMB 130,909,845.

At the eighth board meetings for the fifth turn of directors dated 16 April 2007, the directors proposed a final dividend plan of the year 2006 (Note 15).

26 Cash generated from operations

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

	For the year ended 31 December	
	2006	2005
Net profit	105,770	183,379
Adjustments for:		
Minority interest	35,516	43,142
Income tax	4,402	9,620
(Reversal)/Provision for doubtful debts	(3,697)	15,793
Write-down of inventory	40,262	19,437
Loss on disposal of property, plant and equipment	3,091	554
Depreciation of property, plant and equipment	99,873	66,941
Provision for impairment loss of property, plant and equipment	88	43
Amortisation of intangible assets	6,524	5,889
Amortisation of leasehold land	2,113	2,037
Government grants recognised as income	(8,732)	(5,518)
Share of results of associates	25,153	(25,556)
Loss from unconsolidated subsidiaries	-	4,640
Income from held-to-maturity investments	-	(107)
Provision for impairment loss of available-for-sale investments	-	11,000
Dividend income	(360)	(753)
Interest expense	66,956	60,725
Interest income	(13,130)	(9,997)
Changes in working capital	363,829	381,269
Decrease/(Increase) in inventories	44,290	(69,528)
Decrease/(Increase) in pledged deposits	40,720	(103,310)
(Increase)/decrease in trade and other receivables	(373,945)	229,401
(Increase)/decrease in prepayments	(13,992)	22,275
(Increase)/decrease in due from related parties	128,302	(464,358)
Increase/(decrease) in trade and other payables	275,718	(432,532)
(Decrease)/increase in due to related companies	(24,464)	25,904
Increase in taxes payable	4,808	28,399
Increase/(decrease) in accrual and other current liabilities	92,309	(28,494)
Cash generated from/(used in) operations	537,575	(410,974)

26 Cash generated from operations (Continued)**(b) Analysis of the balances of cash and cash equivalents**

	31 December 2006	31 December 2005
Cash on hand	232	145
Bank deposits	820,187	777,686
	820,419	777,831
Less: Pledged deposits (Note 18)	(94,400)	(135,110)
Cash and cash equivalents	<u>726,019</u>	<u>642,721</u>

For the year ended 31 December 2006, the Group's bank deposits of amount of RMB 91,000 thousands were pledged for issuing notes payables and amount of RMB 3,400 thousands were pledged as security for bank loans (For the year ended 31 December 2005, the Group's bank deposits of amount of RMB 86,710 thousands were pledged as security for issuing notes payables and amount of RMB 48,400 thousands were pledged as security for bank loans).

(c) Other information

Proceeds from disposal of property, plant and equipment comprise

	2006	2005
Net book value	33,670	11,497
Less: Loss on sales of property, plant and equipment	(3,091)	(554)
Increase in trade and other receivables	652	-
Increase in due from related parties	-	(560)
Decrease in due to related parties	-	(3,233)
Proceeds from disposal of property, plant and equipment	<u>31,231</u>	<u>7,150</u>

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
RBCD	Associated company
Zhonglian Automobile Electronics Company Limited	Associated company
Weifu Mechanism Manufacturing	Associated company
Weifu International Trading	Associated company
Weifu Longsheng	Associated company

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

(1) Trademark licensing agreement

The agreement is for a twenty-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 thousands.

(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%.

The agreement was revised at the meeting of the Board of Directors dated 19 April 2005. 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 fees for the subsequent periods are to be determined according to the market price then.

27 Related party transactions (Continued)**(c) Significant transactions with WFGC are as follows:**

Except as disclosed in Note 18, significant transactions with WFGC for the year ended 31 December 2006 are as follows:

	<u>2006</u>	<u>2005</u>
Purchases of materials	9,572	32,481
Sales of products	194,768	214,736
Purchase of fixed assets	8,093	
Purchases of services	-	1,517
Fees for use of land and trademark	4,647	4,903

(d) Significant transactions with other related companies are as follows:**(i) Purchase of materials from**

	<u>2006</u>	<u>2005</u>
- Weifu Mechanism Manufacturing	90,673	95,296
- RBCD	31,450	136,809
- Weifu International Trading	123	1,019
- Other state-owned companies	14,410	28,153

(ii) Sales of products to

	<u>2006</u>	<u>2005</u>
- Weifu Mechanism Manufacturing	93,821	19,554
- RBCD	32,266	10,664
- Weifu International Trading	2,608	1,643
- Other state-owned companies	14,410	1,800,108

(iii) Rental of equipments and machineries from

	<u>2006</u>	<u>2005</u>
- RBCD	-	689

27 Related party transactions (Continued)**Significant transactions with other related companies (Continued)**

(iv) Sales of property, plant and equipment to

	<u>2006</u>	<u>2005</u>
- Weifu Mechanism Manufacturing	<u>-</u>	<u>622</u>

(v) Purchases of property, plant and equipment from

	<u>2006</u>	<u>2005</u>
- RBCD	72,500	-
- Other state-owned companies	<u>-</u>	<u>19,292</u>

(vi) Sales of services

	<u>2006</u>	<u>2005</u>
- RBCD	<u>-</u>	<u>4,000</u>

(vii) Purchase of services

	<u>2006</u>	<u>2005</u>
- Weifu Mechanism Manufacturing	-	483
- Weifu International Trading	-	361
- RBCD	<u>8,410</u>	<u>6,319</u>

(viii) Interest income

	<u>2006</u>	<u>2005</u>
- State-owned bank	<u>13,130</u>	<u>9,997</u>

(ix) Interest expenses paid

	<u>2006</u>	<u>2005</u>
- State-owned bank	<u>66,965</u>	<u>60,725</u>

27 Related party transactions (Continued)**(e) Balances with related parties**

(i) Due to related parties

	31 December 2006	31 December 2005
- WFGC	2,735	13,879
- Weifu International Trading	31	128
- RBCD	51,695	2,991
- Weifu Mechanism Manufacturing	38	-
- Other state-owned companies	-	46

(ii) Due from related parties

	31 December 2006	31 December 2005
- Weifu Mechanism Manufacturing	3,111	10,241
- Weifu International Trading	275	-
- RBCD	143,690	176
- Other state-owned companies	217,300	475,796

(iii) Bank deposits balance

	31 December 2006	31 December 2005
- State-owned bank	820,419	777,831

28 Principal subsidiaries

As of year end, the consolidated financial statements include the financial statements of the subsidiaries as follows:

Name of subsidiary Consolidated	Place of registration	Principal activities	Registered capital		Percentage of equity interest	
			2006	2005	Directly	Indirectly
Nanjing Weifu Jinning Company Limited. ("Nanjing Weifu")	Nanj ing, 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")	Wux i, 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")	Wux i, PRC	Manufacture and sale of nanometer material and products	30,000	30,000	80%	-
Wuxi Weifu Automotive Diesel System Company Limited ("WADS")	Wux i,PR C	Manufacture and sale of diesel engines, development of mechanical technology	200,000	200,000	70%	-
Wuxi Weifu Mashan Fuel Injection Equipment Factory ("Weifu Mashan")	Wux i, PRC	Manufacture and sale of fuel injection equipment	45,000	45,000	92.6%	7.4%
Wuxi Weifu Chang'an Fuel Injection Co., Ltd. ("Weifu Chang'an")	Wux i, PRC	Manufacture and sale of injection equipment for diesel	60,000	60,000	94.63%	5.37%
Wuxi Weifu Jida New Material Development Co., Ltd. ("Weifu Jida")	Wux i, PRC	Manufacture and development of metallic and non-metallic materials	5,000	5,000	70%	-

29 Interest in joint venture

As of year end, the consolidated financial statements include the Group's share of the assets and liabilities, and income and expenses and cash flows of its joint ventures as follows:

(i) Name of the joint venture	Place of registration	Principal activities	Registered capital		Percentage of equity interest	
			2006	2005	Directly	Indirectly
Wuxi Weifu Environmental Catalyst Co., Ltd. ("Weifu Environmental Catalyst")	Wuxi PRC	Development, Manufacture and sale of environmental catalyst products	50,000	50,000	-	49%
Wuxi Weifu Autocam Precision Machinery Co., Ltd. ("Autocam")	Wuxi PRC	Development, Manufacture and sale of Precision accessory for automobile	USD 6mil	USD 6mil	50%	-
Chao yang Weifu Jialin Machinery Co., Ltd. ("Jialin")	Wuxi PRC	Manufacture, sales of fuel products for gas engine, diesel supercharger, automotive spare parts and other machinery	8,000	-	50%	-

The following amounts represent the Group's 49% share of the assets and liabilities, and sales and results of the Weifu Environmental Catalyst:

	2006	2005
Assets:		
Property, plant and equipment	13,766	7,219
Intangible assets	6,586	7,443
Current assets	59,407	25,307
	<u>79,759</u>	<u>39,969</u>
Liabilities:		
Current liabilities	30,688	3,782
Long term liabilities	1,176	-
	<u>31,864</u>	<u>3,782</u>
Net assets:	<u>47,895</u>	<u>36,187</u>
Revenue	77,826	46,386
Expenses	(65,502)	(36,592)
Profit after income tax	<u>12,324</u>	<u>9,794</u>
Proportionate interest in joint venture's commitments	<u>-</u>	<u>-</u>

29 Interest in joint venture (Continued)

The following amounts represent the Group's 50% share of the assets and liabilities, and sales and results of Autocam:

	<u>2006</u>	<u>2005</u>
Assets:		
Property, plant and equipment	11,314	-
Current assets	<u>3,853</u>	<u>3,639</u>
	<u>15,167</u>	<u>3,639</u>
Liabilities:	<u>3,556</u>	<u>-</u>
Net assets	<u>11,611</u>	<u>3,639</u>
Revenue	161	-
Expenses	<u>(2,935)</u>	<u>-</u>
Profit after income tax	<u>(2,774)</u>	<u>-</u>
Proportionate interest in joint venture's commitments	<u>-</u>	<u>-</u>

The following amounts represent the Group's 50% share of the assets and liabilities, and sales and results of Jialin:

	<u>2006</u>	<u>2005</u>
Assets:		
Property, plant and equipment	2,179	-
Intangible assets	600	-
Current assets	<u>4,980</u>	<u>-</u>
	<u>7,759</u>	<u>-</u>
Liabilities:	<u>3,874</u>	<u>-</u>
Net assets	<u>3,885</u>	<u>-</u>
Revenue	2,653	-
Expenses	<u>(2,768)</u>	<u>-</u>
Profit after income tax	<u>(115)</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 venture itself.

30 Contingent and liabilities

The Group had no significant contingent liabilities as of 31 December 2006.

31 Commitments

Except as disclosed in Note 27(b), as of 31 December 2006, the Group had the following significant commitments:

- (1) Commitment to acquire property, plant and equipment amounting to RMB 40,350 thousands (2005: RMB 132,860 thousands);
- (2) Commitment to pay land lease to Wuxi Huishang District Yanqiao town Houcun Council amounting to RMB 5,964 thousands (2005: nil);
- (3) Commitment to invest RMB 120,000 thousands for the localization of spare parts in Bosch products, to invest RMB 23,000 thousands for the vertical pump project, to invest RMB 12,500 thousands for the high-pressure pump controlled by electronics.

Impact of IFRS adjustments on net profit and net assets attributable to equity holders of the Company

	Net profit		Shareholders' equity	
	2006	2005	31 December 2006	31 December 2005
As reported in the statutory accounts	88,280	181,905	2,204,347	2,341,982
Adjustment on income/(loss) from associates	(2,383)	3,050	12,966	15,352
Adjustment for investment in associates arises from setting off government grant against the initial cost of leasehold land of an associate	-	-	(10,618)	(10,618)
Reversal of amortisation of goodwill in accordance with IFRS 3	2,497	4,590	351	5,914
Loss on disposal of property, plant and equipment in exchange for the share capital of the associate	-	-	-	(5,966)
Amortisation of investment tax credit recognised as deferred income	647	647	(4,529)	(5,177)
Government grant not recognised as income	6,226	(6,785)	(13,349)	(17,876)
Provision for deferred tax	3,990	5,421	15,262	11,272
Negative goodwill recognised in income statement	4,084	3,018	6,178	-
Unrealized profit result from purchase of goods from the unconsolidated subsidiaries	5,536	(6,461)	(4,168)	(6,461)
Staff welfare fund appropriated	(616)	(615)	-	-
Effect on minority interests as a result of the above adjustments	(2,491)	(1,391)	(1,279)	(2,121)
As restated under IFRS	105,770	183,379	2,205,161	2,326,301

SECTION XII DOCUMENTS FOR REFERENCE

1. Financial Statements carrying the signatures and seals of the Company's legal representative, person in charge of financial affairs and person in charge of accounting;
2. Original Auditors' Report carrying the seals of the accounting firms, the signatures and seals of the certified public accountants;
3. Originals of all released documents and announcements disclosed on the newspapers designated by the State Securities Regulatory Commission during this report period.

**Board of Directors of
Wuxi Weifu High-Technology Co., Ltd.**
Apr. 19, 2007