

**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)  
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**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

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****CONSOLIDATED BALANCE SHEET  
AS OF 31 DECEMBER 2006**

(All amounts in RMB thousands)

		As at 31 December	
	Notes	2006	2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
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		<u>2,209,605</u>	<u>2,052,842</u>
<b>Current assets</b>			
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		<u>2,687,712</u>	<u>2,429,375</u>
<b>Total Assets</b>		<u><u>4,897,317</u></u>	<u><u>4,482,217</u></u>

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****CONSOLIDATED BALANCE SHEET (CONTINUED)****AS OF 31 DECEMBER 2006**

(All amounts in RMB thousands)

		As at 31 December	
	Notes	2006	2005
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
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>
<b>Minority interests</b>		223,324	187,116
<b>Total Equity</b>		<u>2,428,485</u>	<u>2,513,417</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
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>
<b>Current liabilities</b>			
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>
<b>Total Equity and Liabilities</b>		<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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

**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>
<b>Gross profit</b>		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>
<b>Operating profit</b>		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>
<b>Profit before income tax</b>		145,688	236,141
Income tax expense	23(b)	<u>(4,402)</u>	<u>(9,620)</u>
<b>Profit for the year</b>		141,286	226,521
<b>Attributable to:</b>			
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>
<b>Earnings per share for profit attributable to the equity holders of the company</b>			
- 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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

**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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

**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
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
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)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
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)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
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.

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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 Intragroup Transactions
IAS 39 (Amendment)	The Fair Value Option
IAS 39 & IFRS 4 (Amendments)	Financial Guarantee Contracts
IFRS 1 & 6 (Amendments)	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC-Int 4	Determining whether an Arrangement contains a Lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	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 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment
IFRIC-Int 11	Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Arrangements

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

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.



## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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.



## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

## **WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

#### **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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**5 Leasehold land**

	<u>2006</u>	<u>2005</u>
Beginning Net book value	71,577	73,614
Additions	<u>12,089</u>	<u>-</u>
Current year amortisation	<u>(2,113)</u>	<u>(2,037)</u>
Ending Net book value	<u><u>81,553</u></u>	<u><u>71,577</u></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).

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**6 Property, plant and equipment**

	Buildings	Machinery and equipment	Construction-in- progress	Total
<b>At 31 December 2004</b>				
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>
<b>Year 2005</b>				
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>
<b>At 31 December 2005</b>				
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>
<b>Year 2006</b>				
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>
<b>At 31 December 2006</b>				
Cost	415,330	1,234,012	155,822	1,805,164
Accumulated depreciation	(86,701)	(431,451)	-	(518,152)
Accumulated Impairment losses	-	(2,853)	-	(2,853)
Net book value	<u>328,629</u>	<u>799,708</u>	<u>155,822</u>	<u>1,284,159</u>

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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).

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**7 Intangible assets**

	<u>Trade-mark</u>	<u>Goodwill</u> Note(iii)	<u>Licences</u> Note(i)	<u>Proprietary technology</u> Note(ii)	<u>Computer Software</u> Note(iv)	<u>Total</u>
<b>At 31 December 2004</b>						
Cost	26,356	8,374	34,216	8,575	-	77,521
Accumulated amortisation	<u>(5,329)</u>	<u>-</u>	<u>(1,711)</u>	<u>(274)</u>	<u>-</u>	<u>(7,314)</u>
Beginning Net book value	<u>21,027</u>	<u>8,374</u>	<u>32,505</u>	<u>8,301</u>	<u>-</u>	<u>70,207</u>
<b>Year 2005</b>						
Beginning Net book Value	21,027	8,374	32,505	8,301	-	70,207
Addition	-	-	2,894	-	5,308	8,202
Amortisation	<u>(876)</u>	<u>-</u>	<u>(3,856)</u>	<u>(858)</u>	<u>(299)</u>	<u>(5,889)</u>
Ending Net book value	<u>20,151</u>	<u>8,374</u>	<u>31,543</u>	<u>7,443</u>	<u>5,009</u>	<u>72,520</u>
<b>At 31 December 2005</b>						
Cost	26,356	8,374	37,110	8,575	5,308	85,723
Accumulated amortisation	<u>(6,205)</u>	<u>-</u>	<u>(5,567)</u>	<u>(1,132)</u>	<u>(299)</u>	<u>(13,203)</u>
Beginning Net book value	<u>20,151</u>	<u>8,374</u>	<u>31,543</u>	<u>7,443</u>	<u>5,009</u>	<u>72,520</u>
<b>Year 2006</b>						
Beginning Net book Value	20,151	8,374	31,543	7,443	5,009	72,520
Addition	-	8,959	-	-	1,017	9,976
Amortisation	<u>(876)</u>	<u>-</u>	<u>(3,713)</u>	<u>(858)</u>	<u>(1,077)</u>	<u>(6,524)</u>
Ending Net book value	<u>19,275</u>	<u>17,333</u>	<u>27,830</u>	<u>6,585</u>	<u>4,949</u>	<u>75,972</u>
<b>At 31 December 2006</b>						
Cost	26,356	17,333	37,110	8,575	6,325	95,699
Accumulated amortisation	<u>(7,081)</u>	<u>-</u>	<u>(9,280)</u>	<u>(1,990)</u>	<u>(1,376)</u>	<u>(19,727)</u>
Beginning Net book value	<u>19,275</u>	<u>17,333</u>	<u>27,830</u>	<u>6,585</u>	<u>4,949</u>	<u>75,972</u>

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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).



**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**8 Investments in associates**

	<u>2006</u>	<u>2005</u>
Beginning of year	761,387	802,093
Share of results	(25,153)	25,556
Dividend declared	<u>(55,591)</u>	<u>(66,262)</u>
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	<u>1,005</u>	<u>300</u>	-	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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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>72,016</u>	<u>75,360</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>726,758</u>	<u>720,762</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>72,152</u>	<u>33,888</u>

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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
	<u>946,952</u>	<u>502,881</u>
Less: Provision for bad and doubtful debts	<u>(69,314)</u>	<u>(74,994)</u>
	<u><u>877,638</u></u>	<u><u>427,887</u></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	<u>(1,983)</u>	<u>(2,196)</u>
End of year	<u><u>69,314</u></u>	<u><u>74,994</u></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	<u>114,920</u>	<u>114,920</u>	<u>-</u>	<u>-</u>	<u>114,920</u>	<u>114,920</u>
	<u><u>567,276</u></u>	<u><u>567,276</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>567,276</u></u>	<u><u>567,276</u></u>

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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	<u>2,577</u>	<u>2,577</u>
	<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.

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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.

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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>

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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	<u>(73,000)</u>	<u>(145,000)</u>
	<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-term bank borrowings approximates their fair value as these borrowings bear quoted market interest rates.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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>



## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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)	(8,084)	(4,871)
Amount allocated to offsetting initial costs of related construction-in-progress(Note 6)	(420)	(1,491)
Amount allocated to other operating expenses	(3,009)	-
Amount allocated to credit depreciation of related fixed assets. (Note 6)	<u>(7,557)</u>	<u>(7,308)</u>
End of year	<u>13,246</u>	<u>30,920</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>6,229</u>	<u>5,177</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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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>

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 22 Cost and Expense

	2006	2005
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:

	Percentage
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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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><u>4,402</u></u>	<u><u>9,620</u></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

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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).

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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>

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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).

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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)



**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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	<u>820,187</u>	<u>777,686</u>
	820,419	777,831
Less: Pledged deposits (Note 18)	<u>(94,400)</u>	<u>(135,110)</u>
Cash and cash equivalents	<u><u>726,019</u></u>	<u><u>642,721</u></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	-	<u>(3,233)</u>
Proceeds from disposal of property, plant and equipment	<u><u>31,231</u></u>	<u><u>7,150</u></u>

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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	<u>4,647</u>	<u>4,903</u>

**(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	<u>14,410</u>	<u>28,153</u>

(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	<u>14,410</u>	<u>1,800,108</u>

(iii) Rental of equipments and machineries from

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

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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>

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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")	Nanjing, PRC	Manufacture and sale of diesel engines, machinery, electronic products and automotive components.	256,000	256,000	80%	-
Wuxi Weifu Leader Catalytic Converter Company Limited ("Weifu Leader")	Wuxi, PRC	Manufacture and sale of catalytic converter, catalyzer and automotive components	260,000	260,000	94.81%	-
Jiangsu Weifu Nanometer Technology Company Limited ("Weifu Nanometer")	Wuxi, PRC	Manufacture and sale of nanometer material and products	30,000	30,000	80%	-
Wuxi Weifu Automotive Diesel System Company Limited ("WADS")	Wuxi, PRC	Manufacture and sale of diesel engines, development of mechanical technology	200,000	200,000	70%	-
Wuxi Weifu Mashan Fuel Injection Equipment Factory ("Weifu Mashan")	Wuxi, 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")	Wuxi, 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")	Wuxi, PRC	Manufacture and development of metallic and non-metallic materials	5,000	5,000	70%	-

## WEIFU HIGH-TECHNOLOGY COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

#### 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
<b>Assets:</b>		
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>
<b>Liabilities:</b>		
Current liabilities	30,688	3,782
Long term liabilities	1,176	-
	<u>31,864</u>	<u>3,782</u>
<b>Net assets:</b>	<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>

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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>
<b>Assets:</b>		
Property, plant and equipment	11,314	-
Current assets	<u>3,853</u>	<u>3,639</u>
	<u>15,167</u>	<u>3,639</u>
<b>Liabilities:</b>	<u>3,556</u>	<u>-</u>
<b>Net assets</b>	<u>11,611</u>	<u>3,639</u>
Revenue	161	-
Expenses	<u>(2,935)</u>	<u>-</u>
<b>Profit after income tax</b>	<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>
<b>Assets:</b>		
Property, plant and equipment	2,179	-
Intangible assets	600	-
Current assets	<u>4,980</u>	<u>-</u>
	<u>7,759</u>	<u>-</u>
<b>Liabilities:</b>	<u>3,874</u>	<u>-</u>
<b>Net assets</b>	<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.



**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**

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

(All amounts in RMB thousands unless otherwise stated)

**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.

**WEIFU HIGH-TECHNOLOGY COMPANY LIMITED**  
**SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

(All amounts in RMB thousands unless otherwise stated)

**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	<u>105,770</u>	<u>183,379</u>	<u>2,205,161</u>	<u>2,326,301</u>