

Auditors' Report

SGW[2012]No.:A476

To all shareholders of Weifu High-Technology Group Co., Ltd.,:

We have audited the accompanying financial statements of Weifu High-Technology Group Co., Ltd. ("the Company"), including consolidated balance sheet and balance sheet of parent company of 31 December 2011, and consolidated profit statement and profit statement, and consolidated cash flow statement and cash flow statement for the year ended, consolidated statement on changes of shareholders' equity and statement on changes of shareholders' equity, and notes to the financial statements for the year ended.

I. Management's responsibility for the financial statements

Management of the Company is responsible for prepare and present financial statement of the Company, which including: (1) Prepare financial statements with fair presentation in line with Accounting Standards for Business Enterprises; (2) Designing, executed and maintaining necessary internal control in order to prevent fundamental miscarrying in financial statement from fraudulent or errors.

II. Auditor's responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We performed our audit in accordance with Chinese Certified Public Accountants' Auditing Standards. Those standards require us to comply with professional ethics of Chinese CPA, and to plan and perform our audit so as to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures of the financial statements. The selective audit procedures depend on auditor's judgment, including the evaluation of the risk of material misstatement of the consolidated financial statements due to frauds or errors. When evaluating risk, CPA considers internal control related to preparation and presentation of financial statements, in order to design auditing procedures, but not for the purpose of expressing an opinion on the internal control's effectiveness. An audit also includes assessing the appropriateness of the accounting policies adopted and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that we have obtained sufficient and appropriate audit evidences to provide a basis for our audit opinion.

III. Auditing opinion

In our opinion, the Company's financial statements have been prepared in accordance with the Enterprises Accounting Standards, and they fairly present, in all material respects, the financial position of consolidated and parent company as of December 31, 2011, and its operation results and cash flows for the year ended.

Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd.
Wuxi, P.R.China

Chinese CPA: Bo Lingjing
Chinese CPA: He Xiaofeng
16 April 2012

Balance Sheet

Prepared by Weifu High-Technology Group Co., Ltd.

2011-12-31

In RMB

| Items | Balance at period-end | | Balance at year-begin | |
|--|-----------------------|------------------|-----------------------|------------------|
| | Merger | Parent Company | Merger | Parent Company |
| Current assets: | | | | |
| Monetary funds | 855,053,599.38 | 189,135,416.49 | 596,958,764.21 | 149,943,763.55 |
| Settlement provisions | | | | |
| Capital lent | | | | |
| Transaction finance asset | | | | |
| Notes receivable | 1,227,018,757.27 | 440,248,528.54 | 835,266,266.32 | 291,611,147.00 |
| Accounts receivable | 1,167,123,155.04 | 822,357,590.99 | 999,798,439.30 | 567,607,398.18 |
| Accounts paid in advance | 183,407,859.04 | 58,227,907.25 | 105,176,780.11 | 42,468,803.76 |
| Insurance receivable | | | | |
| Reinsurance receivables | | | | |
| Contract reserve of reinsurance receivable | | | | |
| Interest receivable | | | | |
| Dividend receivable | | | | 8,496,690.22 |
| Other receivables | 11,983,410.88 | 167,045,153.49 | 6,892,216.92 | 137,067,355.21 |
| Purchase restituted finance asset | | | | |
| Inventories | 883,582,090.78 | 296,385,165.44 | 917,694,296.54 | 277,723,002.78 |
| Non-current asset due within one year | | | | |
| Other current assets | 10,235,025.21 | | 9,210,782.24 | |
| Total current assets | 4,338,403,897.60 | 1,973,399,762.20 | 3,470,997,545.64 | 1,474,918,160.70 |
| Non-current assets: | | | | |
| Granted loans and advances | | | | |
| Finance asset available for sales | | | | |
| Held-to-maturity securities | | | | |
| Long-term account receivable | | | | |
| Long-term equity investment | 1,786,481,972.85 | 2,576,168,955.22 | 1,892,112,152.46 | 2,558,225,582.62 |
| Investment property | 4,352,211.86 | | 4,965,879.52 | |
| Fixed assets | 1,357,509,509.59 | 689,680,279.76 | 1,110,068,115.28 | 538,628,218.28 |
| Construction in progress | 98,288,407.69 | 56,239,272.06 | 142,256,732.63 | 125,932,175.31 |
| Engineering material | | | | |
| Disposal of fixed asset | | | | |
| Productive biological asset | | | | |
| Oil and gas asset | | | | |
| Intangible assets | 249,921,186.58 | 187,843,427.92 | 85,655,823.12 | 26,733,764.37 |
| Expense on Research and Development | | | | |
| Goodwill | 1,784,086.79 | | 1,784,086.79 | |
| Long-term expenses to be apportioned | 9,144,280.20 | | 7,473,629.75 | |
| Deferred income tax asset | 83,331,883.03 | 47,881,534.77 | 46,308,844.71 | 16,198,870.70 |
| Other non-current asset | | | | |
| Total non-current asset | 3,590,813,538.59 | 3,557,813,469.73 | 3,290,625,264.26 | 3,265,718,611.28 |
| Total assets | 7,929,217,436.19 | 5,531,213,231.93 | 6,761,622,809.90 | 4,740,636,771.98 |

Balance Sheet (Contd)

Prepared by Weifu High-Technology Group Co., Ltd.

2011-12-31

In RMB

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Current liabilities: | | | | |
| Short-term loans | 495,000,000.00 | 465,000,000.00 | 270,000,000.00 | 240,000,000.00 |
| Loan from central bank | | | | |
| Absorbing deposit and interbank deposit | | | | |
| Capital borrowed | | | | |
| Transaction financial liabilities | | | | |
| Notes payable | 164,301,719.94 | 85,000,000.00 | 389,985,533.69 | 200,278,487.00 |
| Accounts payable | 1,297,893,239.74 | 632,112,594.66 | 1,195,053,077.84 | 766,617,178.72 |
| Accounts received in advance | 55,289,941.25 | 8,150,899.35 | 42,271,899.15 | 20,438,892.15 |
| Selling financial asset of repurchase | | | | |
| Commission charge and commission payable | | | | |
| Wage payable | 278,771,987.97 | 175,803,158.72 | 269,751,945.96 | 168,133,427.32 |
| Taxes payable | 77,737,123.74 | 25,748,688.27 | 107,903,963.31 | 28,582,184.41 |
| Interest payable | 930,000.00 | 780,000.00 | 490,000.00 | 320,000.00 |
| Dividend payable | 3,444,762.15 | | 18,696,539.18 | |
| Other accounts payable | 83,991,571.43 | 69,856,690.02 | 62,501,613.74 | 56,125,853.06 |
| Reinsurance payables | | | | |
| Insurance contract reserve | | | | |
| Security trading of agency | | | | |
| Security sales of agency | | | | |
| Non-current liabilities due within 1 year | 3,000,000.00 | | | |
| Other current liabilities | 34,608,609.47 | | 24,330,259.35 | |
| Total current liabilities | 2,494,968,955.69 | 1,462,452,031.02 | 2,380,984,832.22 | 1,480,496,022.66 |
| Non-current liabilities: | | | | |
| Long-term loans | | | 3,000,000.00 | |
| Bonds payable | | | | |
| Long-term account payable | 18,840,000.00 | | 15,670,000.00 | |
| Special accounts payable | | | | |
| Projected liabilities | | | | 1,481,745.84 |
| Deferred income tax liabilities | 2,689,975.40 | | 2,801,008.40 | |
| Other non-current liabilities | 72,330,000.00 | 56,830,000.00 | 13,350,000.00 | |
| Total non-current liabilities | 93,859,975.40 | 56,830,000.00 | 34,821,008.40 | 1,481,745.84 |
| Total liabilities | 2,588,828,931.09 | 1,519,282,031.02 | 2,415,805,840.62 | 1,481,977,768.50 |
| Owner's equity (or shareholders' equity): | | | | |
| Paid-in capital (or share capital) | 567,275,995.00 | 567,275,995.00 | 567,275,995.00 | 567,275,995.00 |
| Capital public reserve | 895,918,416.59 | 923,981,806.57 | 895,918,416.59 | 923,981,806.57 |
| Less: Inventory shares | | | | |
| Reasonable reserve | | | | |
| Surplus public reserve | 283,637,997.50 | 283,637,997.50 | 283,637,997.50 | 283,637,997.50 |
| Provision of general risk | | | | |
| Retained profit | 3,317,227,992.26 | 2,237,035,401.84 | 2,359,375,974.53 | 1,483,763,204.41 |
| Balance difference of foreign currency translation | | | | |
| Total owner's equity attributable to parent company | 5,064,060,401.35 | 4,011,931,200.91 | 4,106,208,383.62 | 3,258,659,003.48 |
| Minority interests | 276,328,103.75 | | 239,608,585.66 | |
| Total owner's equity | 5,340,388,505.10 | 4,011,931,200.91 | 4,345,816,969.28 | 3,258,659,003.48 |
| Total liabilities and owner's equity | 7,929,217,436.19 | 5,531,213,231.93 | 6,761,622,809.90 | 4,740,636,771.98 |

Profit statement and profit distribution statement

Prepared by Weifu High-Technology Group Co., Ltd.

January – December 2011

In RMB

| Items | Amount in this period | | Amount in last period | |
|--|-----------------------|------------------|-----------------------|------------------|
| | Merger | Parent Company | Merger | Parent Company |
| I. Total operating income | 5,898,113,089.49 | 2,788,219,421.85 | 5,371,213,196.45 | 2,740,148,715.35 |
| Including: Operating income | 5,898,113,089.49 | 2,788,219,421.85 | 5,371,213,196.45 | 2,740,148,715.35 |
| Interest income | | | | |
| Insurance gained | | | | |
| Commission charge and commission income | | | | |
| II. Total operating cost | 5,035,288,701.55 | 2,524,397,344.82 | 4,575,399,369.81 | 2,518,148,150.69 |
| Including: Operating cost | 4,314,627,953.07 | 2,212,560,781.97 | 3,879,197,923.08 | 2,160,670,478.65 |
| Interest expense | | | | |
| Commission charge and commission expense | | | | |
| Cash surrender value | | | | |
| Net amount of expense of compensation | | | | |
| Net amount of withdrawal of insurance contract reserve | | | | |
| Bonus expense of guarantee slip | | | | |
| Reinsurance expense | | | | |
| Operating tax and extras | 33,003,660.27 | 8,863,173.41 | 31,979,087.88 | 12,733,210.70 |
| Sales expenses | 226,887,211.67 | 123,385,639.56 | 123,454,157.96 | 59,298,338.33 |
| Administration expenses | 427,945,464.77 | 164,282,347.00 | 457,166,602.80 | 220,770,095.02 |
| Financial expenses | 26,348,164.48 | 13,352,081.65 | 33,354,876.99 | 21,866,382.01 |
| Losses of devaluation of asset | 6,476,247.29 | 1,953,321.23 | 50,246,721.10 | 42,809,645.98 |
| Add: Changing income of fair value (Loss is listed with “-”) | | | | |
| Investment income (Loss is listed with “-”) | 497,941,948.54 | 753,513,412.15 | 690,474,746.82 | 666,107,945.71 |
| Including: Investment income on affiliated company and joint venture | 497,916,948.54 | 442,582,074.71 | 684,229,162.07 | 615,827,725.94 |
| Exchange income (Loss is listed with “-”) | | | | |
| III. Operating profit (Loss is listed with “-”) | 1,360,766,336.48 | 1,017,335,489.18 | 1,486,288,573.46 | 888,108,510.37 |
| Add: Non-operating income | 43,504,340.10 | 33,522,956.65 | 24,118,213.10 | 14,918,166.13 |
| Less: Non-operating expense | 7,464,890.23 | 3,021,812.21 | 10,552,280.58 | 5,190,129.95 |
| Including: Disposal loss of non-current asset | 527,580.86 | 953.44 | 2,458,935.02 | 939,330.17 |
| IV. Total Profit (Loss is listed with “-”) | 1,396,805,786.35 | 1,047,836,633.62 | 1,499,854,505.98 | 897,836,546.55 |
| Less: Income tax | 141,294,928.46 | 47,799,378.36 | 118,493,892.84 | 24,325,578.92 |
| V. Net profit (Net loss is listed with “-”) | 1,255,510,857.89 | 1,000,037,255.26 | 1,381,360,613.14 | 873,510,967.63 |
| Net profit attributable to owner's equity of parent company | 1,204,617,075.56 | 1,000,037,255.26 | 1,340,291,115.79 | 873,510,967.63 |
| Minority shareholders' gains and losses | 50,893,782.33 | | 41,069,497.35 | |
| VI. Earnings per share | | | | |
| i. Basic earnings per share | 2.12 | | 2.36 | |
| ii. Diluted earnings per share | 2.12 | | 2.36 | |
| VII. Other consolidated income | | | | |
| VIII. Total consolidated income | 1,255,510,857.89 | 1,000,037,255.26 | 1,381,360,613.14 | 873,510,967.63 |
| Total consolidated income attributable to owners of parent company | 1,204,617,075.56 | 1,000,037,255.26 | 1,340,291,115.79 | 873,510,967.63 |

| | | | | |
|---|---------------|--|---------------|--|
| Total consolidated income attributable to minority shareholders | 50,893,782.33 | | 41,069,497.35 | |
|---|---------------|--|---------------|--|

Combined party realized net profit before consolidation amounting to RMB 0.00, enterprise mergering under same control occurred in this period.

Cash Flow Statement

Prepared by Weifu High-Technology Group Co., Ltd. January – December 2011 In RMB

| Items | Amount in this period | | Amount in last period | |
|---|-----------------------|------------------|-----------------------|------------------|
| | Merger | Parent Company | Merger | Parent Company |
| I. Cash flows arising from operating activities: | | | | |
| Cash received from selling commodities and providing labor services | 6,179,261,861.00 | 2,835,762,966.41 | 5,768,065,163.37 | 3,069,277,986.66 |
| Net increase of customer deposit and interbank deposit | | | | |
| Net increase of loan from central bank | | | | |
| Net increase of capital borrowed from other financial institution | | | | |
| Cash received from original insurance contract fee | | | | |
| Net cash received from reinsurance business | | | | |
| Insured savings and net increase of investment | | | | |
| Net increase of disposal of transaction financial asset | | | | |
| Cash received from interest, commission charge and commission | | | | |
| Net increase of capital borrowed | | | | |
| Net increase of returned business capital | | | | |
| Write-back of tax received | 42,845,986.04 | | 23,295,670.45 | |
| Other cash received concerning operating activities | 114,351,139.35 | 85,541,273.42 | 26,195,516.08 | 8,901,264.84 |
| Subtotal of cash inflow arising from operating activities | 6,336,458,986.39 | 2,921,304,239.83 | 5,817,556,349.90 | 3,078,179,251.50 |
| Cash paid for purchasing commodities and receiving labor service | 4,537,241,612.23 | 2,636,686,703.84 | 4,077,287,781.12 | 2,091,667,974.56 |
| Net increase of customer loans and advances | | | | |
| Net increase of deposits in central bank and interbank | | | | |
| Cash paid for original insurance contract compensation | | | | |
| Cash paid for interest, commission charge and commission | | | | |
| Cash paid for bonus of guarantee slip | | | | |
| Cash paid to/for staff and workers | 490,323,372.96 | 179,874,189.59 | 454,429,383.50 | 189,701,729.36 |
| Taxes paid | 540,546,746.70 | 174,390,851.86 | 392,206,044.31 | 144,769,438.55 |
| Other cash paid concerning operating activities | 442,078,069.43 | 251,643,819.28 | 357,461,288.89 | 248,829,159.99 |
| Subtotal of cash outflow arising from operating activities | 6,010,189,801.32 | 3,242,595,564.57 | 5,281,384,497.82 | 2,674,968,302.46 |
| Net cash flows arising from operating activities | 326,269,185.07 | -321,291,324.74 | 536,171,852.08 | 403,210,949.04 |
| II. Cash flows arising from investing activities: | | | | |

| | | | | |
|---|------------------|------------------|------------------|------------------|
| Cash received from recovering investment | | | 37,139,800.00 | |
| Cash received from investment income | 597,910,850.97 | 900,735,529.77 | 267,625,427.77 | 297,707,919.61 |
| Net cash received from disposal of fixed, intangible and other long-term assets | 12,609,512.82 | 9,764,638.07 | 16,126,313.17 | 9,833,661.24 |
| Net cash received from disposal of subsidiaries and other units | | | | |
| Other cash received concerning investing activities | | | | |
| Subtotal of cash inflow from investing activities | 610,520,363.79 | 910,500,167.84 | 320,891,540.94 | 307,541,580.85 |
| Cash paid for purchasing fixed, intangible and other long-term assets | 552,572,233.28 | 314,127,091.63 | 230,865,180.42 | 147,888,573.56 |
| Cash paid for investment | 21,211,563.49 | 179,018,800.00 | 107,743,689.89 | 223,130,000.00 |
| Net increase of mortgaged loans | | | | |
| Net cash received from subsidiaries and other units | | | | |
| Other cash paid concerning investing activities | | | | |
| Subtotal of cash outflow from investing activities | 573,783,796.77 | 493,145,891.63 | 338,608,870.31 | 371,018,573.56 |
| Net cash flows arising from investing activities | 36,736,567.02 | 417,354,276.21 | -17,717,329.37 | -63,476,992.71 |
| III. Cash flows arising from financing activities | | | | |
| Cash received from absorbing investment | 9,954,090.00 | | 2,960,650.00 | |
| Including: Cash received from absorbing minority shareholders' investment by subsidiaries | 9,954,090.00 | | 2,960,650.00 | |
| Cash received from loans | 1,101,480,514.61 | 1,041,480,514.61 | 1,642,609,959.36 | 1,562,609,959.36 |
| Cash received from issuing bonds | | | | |
| Other cash received concerning financing activities | | | | |
| Subtotal of cash inflow from financing activities | 1,111,434,604.61 | 1,041,480,514.61 | 1,645,570,609.36 | 1,562,609,959.36 |
| Cash paid for settling debts | 876,480,514.61 | 816,480,514.61 | 1,905,595,885.08 | 1,789,595,885.08 |
| Cash paid for dividend and profit distributing or interest paying | 317,400,862.44 | 274,096,700.68 | 120,736,813.87 | 113,369,474.10 |
| Including: Dividend and profit of minority shareholder paid by subsidiaries | 42,771,255.10 | | 8,414,199.98 | |
| Other cash paid concerning financing activities | | | | |
| Subtotal of cash outflow from financing activities | 1,193,881,377.05 | 1,090,577,215.29 | 2,026,332,698.95 | 1,902,965,359.18 |
| Net cash flows arising from financing activities | -82,446,772.44 | -49,096,700.68 | -380,762,089.59 | -340,355,399.82 |
| IV. Influence on cash due to fluctuation in exchange rate | | | | |
| V. Net increase of cash and cash equivalents | 280,558,979.65 | 46,966,250.79 | 137,692,433.12 | -621,443.49 |
| Add: Balance of cash and cash equivalents at the period -begin | 465,219,784.57 | 85,169,165.70 | 327,527,351.45 | 85,790,609.19 |
| VI. Balance of cash and cash equivalents at the period -end | 745,778,764.22 | 132,135,416.49 | 465,219,784.57 | 85,169,165.70 |

Consolidated Statement on Changes of Owners' Equity

Prepared by Weifu High-Technology Group Co., Ltd.

Year of 2011

In RMB

| Items | Amount in this report period | | | | | | | | | |
|--|---|------------------|----------------------|--------------------|------------------|------------------------|------------------|-------------------------------|------------------------|------------------|
| | Owners' equity attributable to the parent company | | | | | | | Minority shareholders' equity | Total equity of owners | |
| | Paid-up capital (Share capital) | Capital reserves | Less: Treasury Stock | Reasonable reserve | Surplus reserves | General risk provision | Retained profit | | | Others |
| I. Balance at the end of the last year | 567,275,995.00 | 895,918,416.59 | | | 283,637,997.50 | | 2,359,375,974.53 | | 239,608,585.66 | 4,345,816,969.28 |
| Add: Changes of accounting policy | | | | | | | | | | |
| Error correction of the last period | | | | | | | | | | |
| Others | | | | | | | | | | |
| II. Balance at the beginning of this year | 567,275,995.00 | 895,918,416.59 | | | 283,637,997.50 | | 2,359,375,974.53 | | 239,608,585.66 | 4,345,816,969.28 |
| III. Increase/ Decrease in this year (Decrease is listed with “-”) | | | | | | | 957,852,017.73 | | 36,719,518.09 | 994,571,535.82 |
| (I) Net profit | | | | | | | 1,204,617,075.56 | | 50,893,782.33 | 1,255,510,857.89 |
| (II) Other consolidated income | | | | | | | | | | |
| Subtotal of (I) and (II) | | | | | | | 1,204,617,075.56 | | 50,893,782.33 | 1,255,510,857.89 |
| (III) Owners' devoted and decreased capital | | | | | | | | | 13,348,460.37 | 13,348,460.37 |
| 1. Owners' devoted capital | | | | | | | | | 13,348,460.37 | 13,348,460.37 |
| 2. Amount calculated into owners' equity paid in shares | | | | | | | | | | |
| 3. Others | | | | | | | | | | |
| (IV) Profit distribution | | | | | | | -246,765,057.83 | | -27,522,724.61 | -274,287,782.44 |
| 1. Withdrawal of surplus reserves | | | | | | | | | | |
| 2. Withdrawal of general risk provisions | | | | | | | | | | |
| 3. Distribution for owners (shareholders) | | | | | | | -246,765,057.83 | | -27,522,724.61 | -274,287,782.44 |
| 4. Others | | | | | | | | | | |
| (V) Carrying forward internal owners' equity | | | | | | | | | | |
| 1. Capital reserves converted to capital (share capital) | | | | | | | | | | |

| | | | | | | | | | |
|--|----------------|----------------|--|--|----------------|--|------------------|----------------|------------------|
| 2. Surplus reserves converted to capital (share capital) | | | | | | | | | |
| 3. Remedying loss with surplus reserve | | | | | | | | | |
| 4. Others | | | | | | | | | |
| (VI) Reasonable reserve | | | | | | | | | |
| 1. Withdrawal in the report period | | | | | | | | | |
| 2. Usage in the report period | | | | | | | | | |
| (VII) Others | | | | | | | | | |
| IV. Balance at the end of the last year | 567,275,995.00 | 895,918,416.59 | | | 283,637,997.50 | | 3,317,227,992.26 | 276,328,103.75 | 5,340,388,505.10 |

Consolidated Statement on Changes of Owners' Equity (Contd)

Prepared by Weifu High-Technology Group Co., Ltd.

Year of 2011

In RMB

| Items | Amount in last year | | | | | | | | |
|--|---|------------------|----------------------|--------------------|------------------|------------------------|------------------|-------------------------------|------------------------|
| | Owners' equity attributable to the parent company | | | | | | | Minority shareholders' equity | Total equity of owners |
| | Paid-up capital (Share capital) | Capital reserves | Less: Treasury Stock | Reasonable reserve | Surplus reserves | General risk provision | Retained profit | | |
| I. Balance at the end of the last year | 567,275,995.00 | 907,580,308.28 | | | 283,637,997.50 | | 1,104,176,257.99 | 229,582,790.54 | 3,092,253,349.31 |
| Add: Changes of accounting policy | | | | | | | | | |
| Error correction of the last period | | | | | | | | | |
| Others | | | | | | | | | |
| II. Balance at the beginning of this year | 567,275,995.00 | 907,580,308.28 | | | 283,637,997.50 | | 1,104,176,257.99 | 229,582,790.54 | 3,092,253,349.31 |
| III. Increase/ Decrease in this year (Decrease is listed with "-") | | -11,661,891.69 | | | | | 1,255,199,716.54 | 10,025,795.12 | 1,253,563,619.97 |
| (I) Net profit | | | | | | | 1,340,291,115.79 | 41,069,497.35 | 1,381,360,613.14 |
| (II) Other consolidated income | | | | | | | | | |
| Subtotal of (I) and (II) | | | | | | | 1,340,291,115.79 | 41,069,497.35 | 1,381,360,613.14 |
| (III) Owners' devoted and decreased capital | | -11,661,891.69 | | | | | | -19,165,166.10 | -30,827,057.79 |
| 1. Owners' devoted capital | | | | | | | | -19,165,166.10 | -19,165,166.10 |
| 2. Amount calculated into owners' equity | | | | | | | | | |

| | | | | | | | | | | |
|--|----------------|----------------|--|--|----------------|--|------------------|--|----------------|------------------|
| paid in shares | | | | | | | | | | |
| 3. Others | | -11,661,891.69 | | | | | | | | -11,661,891.69 |
| (IV) Profit distribution | | | | | | | -85,091,399.25 | | -11,878,536.13 | -96,969,935.38 |
| 1. Withdrawal of surplus reserves | | | | | | | | | | |
| 2. Withdrawal of general risk provisions | | | | | | | | | | |
| 3. Distribution for owners (shareholders) | | | | | | | -85,091,399.25 | | -11,878,536.13 | -96,969,935.38 |
| 4. Others | | | | | | | | | | |
| (V) Carrying forward internal owners' equity | | | | | | | | | | |
| 1. Capital reserves converted to capital (share capital) | | | | | | | | | | |
| 2. Surplus reserves converted to capital (share capital) | | | | | | | | | | |
| 3. Remedying loss with surplus reserve | | | | | | | | | | |
| 4. Others | | | | | | | | | | |
| (VI) Reasonable reserve | | | | | | | | | | |
| 1. Withdrawal in the report period | | | | | | | | | | |
| 2. Usage in the report period | | | | | | | | | | |
| (VII) Others | | | | | | | | | | |
| IV. Balance at the end of the last year | 567,275,995.00 | 895,918,416.59 | | | 283,637,997.50 | | 2,359,375,974.53 | | 239,608,585.66 | 4,345,816,969.28 |

Statement on Changes of Owners' Equity of Parent Company

Prepared by Weifu High-Technology Group Co., Ltd.

Year of 2011

In RMB

| Items | Amount in this report period | | | | | | | |
|--|------------------------------------|---------------------|---------------------------------|---------------------------------|------------------|-----------------------------------|------------------|---------------------------|
| | Paid-up capital (Share capital) | Capital reserves | Less: Treas- ury Stock | Reaso- nable reserv- e | Surplus reserves | General risk provisio- n | Retained profit | Total equity of owners |
| I. Balance at the end of the last year | 567,275,995.00 | 923,981,806.57 | | | 283,637,997.50 | | 1,483,763,204.41 | 3,258,659,003.48 |
| Add: Changes of accounting policy | | | | | | | | |
| Error correction of the last period | | | | | | | | |
| Others | | | | | | | | |
| II. Balance at the beginning of this year | 567,275,995.00 | 923,981,806.57 | | | 283,637,997.50 | | 1,483,763,204.41 | 3,258,659,003.48 |
| III. Increase/ Decrease in this year (Decrease is listed with "-") | | | | | | | 753,272,197.43 | 753,272,197.43 |
| (I) Net profit | | | | | | | 1,000,037,255.26 | 1,000,037,255.26 |
| (II) Other consolidated income | | | | | | | | |
| Subtotal of (I) and (II) | | | | | | | 1,000,037,255.26 | 1,000,037,255.26 |
| (III) Owners' devoted and decreased capital | | | | | | | | |
| 1. Owners' devoted capital | | | | | | | | |
| 2. Amount calculated into owners' equity paid in shares | | | | | | | | |
| 3. Others | | | | | | | | |
| (IV) Profit distribution | | | | | | | -246,765,057.83 | -246,765,057.83 |
| 1. Withdrawal of surplus reserves | | | | | | | | |
| 2. Withdrawal of general risk provisions | | | | | | | | |
| 3. Distribution for owners (shareholders) | | | | | | | -246,765,057.83 | -246,765,057.83 |
| 4. Others | | | | | | | | |
| (V) Carrying forward internal owners' equity | | | | | | | | |
| 1. Capital reserves converted to capital (share capital) | | | | | | | | |
| 2. Surplus reserves converted to capital (share capital) | | | | | | | | |
| 3. Remedying loss with profit surplus | | | | | | | | |

| | | | | | | | | |
|---|----------------|----------------|--|--|----------------|--|------------------|------------------|
| 4. Others | | | | | | | | |
| (VI) Reasonable reserve | | | | | | | | |
| 1. Withdrawal in the report period | | | | | | | | |
| 2. Usage in the report period | | | | | | | | |
| (VII) Other | | | | | | | | |
| IV. Balance at the end of the report period | 567,275,995.00 | 923,981,806.57 | | | 283,637,997.50 | | 2,237,035,401.84 | 4,011,931,200.91 |

Statement on Changes of Owners' Equity of Parent Company (Contd)

Prepared by Weifu High-Technology Group Co., Ltd.

Year of 2011

In RMB

| Items | Amount in last year | | | | | | | Total equity of owners |
|--|------------------------------------|---------------------|---------------------------------|---------------------------------|------------------|------------------------------|-----------------|------------------------|
| | Paid-up capital (Share capital) | Capital reserves | Less: Treas- ury Stock | Reaso- nable reserv- e | Surplus reserves | General risk provision | Retained profit | |
| I. Balance at the end of the last year | 567,275,995.00 | 923,981,806.57 | | | 283,637,997.50 | | 695,343,636.03 | 2,470,239,435.10 |
| Add: Changes of accounting policy | | | | | | | | |
| Error correction of the last period | | | | | | | | |
| Others | | | | | | | | |
| II. Balance at the beginning of this year | 567,275,995.00 | 923,981,806.57 | | | 283,637,997.50 | | 695,343,636.03 | 2,470,239,435.10 |
| III. Increase/ Decrease in this year (Decrease is listed with "-") | | | | | | | 788,419,568.38 | 788,419,568.38 |
| (I) Net profit | | | | | | | 873,510,967.63 | 873,510,967.63 |
| (II) Other consolidated income | | | | | | | | |
| Subtotal of (I) and (II) | | | | | | | 873,510,967.63 | 873,510,967.63 |
| (III) Owners' devoted and decreased capital | | | | | | | | |
| 1. Owners' devoted capital | | | | | | | | |
| 2. Amount calculated into owners' equity paid in shares | | | | | | | | |
| 3. Others | | | | | | | | |
| (IV) Profit distribution | | | | | | | -85,091,399.25 | -85,091,399.25 |

| | | | | | | | | |
|--|----------------|----------------|--|--|----------------|--|------------------|------------------|
| 1. Withdrawal of surplus reserves | | | | | | | | |
| 2. Withdrawal of general risk provisions | | | | | | | | |
| 3. Distribution for owners (shareholders) | | | | | | | -85,091,399.25 | -85,091,399.25 |
| 4. Others | | | | | | | | |
| (V) Carrying forward internal owners' equity | | | | | | | | |
| 1. Capital reserves converted to capital (share capital) | | | | | | | | |
| 2. Surplus reserves converted to capital (share capital) | | | | | | | | |
| 3. Remedying loss with profit surplus | | | | | | | | |
| 4. Others | | | | | | | | |
| (VI) Reasonable reserve | | | | | | | | |
| 1. Withdrawal in the report period | | | | | | | | |
| 2. Usage in the report period | | | | | | | | |
| (VII) Other | | | | | | | | |
| IV. Balance at the end of the report period | 567,275,995.00 | 923,981,806.57 | | | 283,637,997.50 | | 1,483,763,204.41 | 3,258,659,003.48 |

Notes to Financial Statement

Note I. Basic information of the Company

1. History development of the Company

By the approval of STGS (1992) No. 130 issued by Jiangsu Economic Restructuring Committee, Weifu High-Technology Group Co., Ltd. (hereinafter referred to “the Company” or “Company”) was established as a company of limited liability with funds raised from targeted sources, and registered at Wuxi Administration for Industry & Commerce in October 1992. The original share capital of the Company totaled RMB 115.4355 million, including state-owned share capital amounting to RMB 92.4355 million, public corporate share capital amounting to RMB 8 million and inner employee share capital amounting to RMB 15 million.

In the year of 1994 and 1995, the Company was restructured and became a holding subsidiary of Wuxi Weifu Group Co., Ltd (hereinafter referred to as “Weifu Group”).

By the approval of Jiangsu ERC and Shenzhen Securities Administration Office in August 1995, the Company issued 68 million special ordinary shares (B-share) with value of RMB 1.00 for each, and the total value of those shares amounted to RMB 68 million. After the issuance, the Company’s total share capital increased to RMB 183.4355 million.

By the approval of CSRC in June 1998, the Company issued 120 million RMB ordinary shares (A-share) at Shenzhen Stock Exchange through on-line pricing and issuing. After the issuance, the total share capital of the Company amounted to RMB 303.4355 million.

In the middle of 1999, deliberated and approved by the Board and Shareholders’ General Meeting, the Company implemented the plan of granting 3 bonus shares for each 10 shares. After that, the total share capital of the Company amounted to RMB 394.46615 million, of which state-owned shares amounted to RMB 120.16615 million, public corporate shares RMB 10.4 million, foreign-funded shares (B-share) RMB 88.40 million, RMB ordinary shares (A-share) RMB 156 million and inner employee shares RMB 19.5 million.

In the year 2000, by the approval of the CSRC and based upon the total share capital of 303.4355 million shares after the issuance of A-share in June 1998, the Company allotted 3 shares for each 10 shares, with a price of RMB 10 for each allotted share. Actually 41.9 million shares was allotted, and the total share capital after the allotment increased to RMB 436.36615 million, of which state-owned corporate shares amounted to RMB 121.56615 million, public corporate shares RMB 10.4 million, foreign-funded shares (B-share) RMB 88.4 million and RMB ordinary shares (A-share) RMB 216 million.

In April 2005, Board of Directors of the Company has examined and approved 2004 Profit Pre-distribution Plan, and examined and approved by 2004 Shareholders’ General Meeting , the Company distributed 3 shares for each 10 shares to the whole shareholders totaling to 130,909,845 shares in 2005.

The Company registered at the Wuxi High and New Technology Development Zone and the registration number was 320200000014926. The Company belongs to the mechanical industry and mainly engages in the manufacture and sales of oil injection system and its accessories.

According to the Share Merger Reform Scheme of the Company that passed by related shareholders’ meeting of Share Merger Reform and SGZF [2006] No.61 Reply on Questions about State-owned Equity Management in Share Merger Reform of Weifu High-Technology Co., Ltd. issued by State-owned Assets Supervision & Administration Commission of Jiangsu Province, the Weifu Group etc. 8 non-circulating shareholders arranged pricing with granting 1.7 shares for each 10 shares to circulating A-share shareholders (totally granted 47,736,000 shares), so as to realize the originally non-circulating shares can be traded on market when satisfied certain conditions, the scheme has been implemented on April 5, 2006.

On 27 May 2009, Weifu Group satisfied the consideration arrangement by dispatching 0.5 shares for each 10 shares based on the number of circulating A shares as prior to Share Merger Reform, according to the aforesaid Share Merger Reform, with an aggregate of 14,039,979 shares dispatched. Subsequent to implementation of dispatch of consideration shares, Weifu Group then

held 100,021,999 shares of the Company, representing 17.63% of the total share capital of the Company.

Pursuant to the document (XGZQ(2009)No.46) about “Approval for Merger of Wuxi Weifu Group Co., Ltd. by Wuxi Industry Development Group Co., Ltd.” issued by the State-owned Assets Supervision and Administration Commission of Wuxi City Government, Wuxi Industry Development Group Co., Ltd. (hereinafter referred to as Wuxi Industry Group) acquired Weifu Group. After the merger, Weifu Group was then revoked, and its assets and credits & debts were transferred to be under the name of Wuxi Industry Group. Accordingly, Wuxi Industry Group became the first largest shareholder of the Company since then.

2. Registered place, organization structure and head office of the Company

Registered place and head office of the Company: Wuxi, Jiangsu.

The Company sets up Shareholders’ General Meeting, the Board of Directors and the Supervisory Committee.

The Company sets up Administration Department, Engineering Technology Research Institution, Human Resources Department, Marketing Department, Finance Control Department, Project Purchase Department, MS Business Segment, AC Business Segment, and subsidiaries such as Wuxi Weifu Leader Catalytic Converter Co., Ltd. (referred to as Weifu Leader), Nanjing Weifu Jinning Co., Ltd. (referred to as Weifu Jinning), and Wuxi Weifu Diesel System Co., Ltd. (referred to as Weifu Diesel System).

3. Business nature and major operation activities of the Company

Operation scope of parent company: manufacture of engine fuel oil system products, fuel oil system testers and equipments; sales of energy-oriented machinery, hardware & electric materials, chemical products and raw materials (other than chemical dangerous). Auto spare parts, autos (other than autos under-9 seats); repair of engine, technological development and consultancy service of machinery industry; import and export business in respect of diversified commodities and technologies (other than those commodities and technologies limited or forbidden by the State for import and export) by self-operation and works as agent for such business

Major subsidiaries respectively activate in production and sales of engine accessories, auto spare parts, mufflers, and purifiers.

4. Relevant party offering approval reporting of financial statements and date thereof

Financial statements of the Company were approved by the Board of Directors for reporting dated 16 April 2012.

Note II: Major Accounting Policies, Accounting Estimation and Previous Errors of the Company

1. Basis of preparation of financial statements

The financial statement were stated in compliance with Accounting Standard for Enterprises No.30-Presentation of Financial Statement, with recognitions and measurements made by reference to Accounting Standard for Enterprises and Application Instruments thereof promulgated by the Ministry of Finance dated 15 February 2006 in respect of the actual transactions and proceedings, on a basis of ongoing operation.

2. Statement on observation of Accounting Standard for Enterprises

Financial statements prepared by the Company were in accordance with requirements of Accounting Standard for Enterprises, which truly and completely reflected the financial information of the Company, such as financial position, operation achievements and cash

flow.

3. Accounting period

The accounting period of the Company comprises of annual period and interim period, among which, the annual period commences from 1 January to 31 December, and interim period includes monthly, quarterly and half-year.

4. Standard currency for accounting

The Company takes Renminbi as its standard currency for accounting.

5. Accounting treatment methods for business combination under and not under the same control

(1) Business combination under the same control

Business combination under the same control: consideration paid by acquirer for combination and net assets acquired by him shall all be measured with carrying value. Difference between carrying values of net assets and combination consideration respectively obtained and paid by acquirer over total par value of shares in issue shall be used to adjust capital reserve; when capital reserve is insufficient for offset, then retained profit shall be adjusted. All direct related expenses arising from business combination, including auditing expenses paid for combination, evaluation expenses and law service expenses, shall be recorded in current gains and losses upon occurrence; while procedure charge and commission arising from issuance of equity securities or bonds in relation to business combination shall be accounted in initial measurement amount of shareholders' equity or liabilities.

(2) Business combination not under the same control

Business combination not under the same control: combination cost paid by acquirer and net recognizable assets obtained from combination shall be measured at fair value. In the event that difference between combination costs over fair value of net recognizable assets obtained from combination is positive, thus such difference shall be recognized as goodwill; if negative, and then shall be accounted in current gains and losses. All direct related expenses arising from business combination including auditing expenses paid for combination, evaluation expenses and law service expenses shall be recorded in business combination cost; while procedure charge and commission arising from issuance of equity securities or bonds in relation to business combination shall be accounted in initial measurement amount of shareholders' equity or liabilities.

6. Preparation method for consolidated statements

(1) Confirmation principle of consolidation scope

Preparation of the consolidation financial statement of the Company mainly complied with the consolidation scope recognized by Parent Company Theory, details consolidation scope as:

① More than half of the equity capital of the investee enterprise that owned by Parent company, directly/indirectly and jointly owned more than half of the equity capital by indirectly and directly included;

② Other investee enterprises control by Parent company including:

A. Holding more than half of voting right of the investee through agreement with other investors of the investee enterprises; ;

B. Having the rights of financial and operation strategy controlled according to Article of Association or Agreement;

C. Having the rights of appointment and dismissal on majority personnel's in Board or in

similar power institution of the enterprise; ;

D. Having more than half of the rights to vote in Board or similar power institution of the enterprise.

(2) measures used in consolidation

①The Company consolidations permit since the day of actual control right obtained; cease consolidation since the day of control right lost. Consolidation financial statement based on the financial statement of the Company and other relevant information of vary subsidiaries that joint in the consolidation scope, adjusted long-term equity investment to subsidiaries according to equity method, off-setting the investment, transaction and contacts between the Company and vary subsidiaries that in the consolidation scope, consolidated for preparation after minority shareholders' gains/loss and minority shareholders' equity calculation.

②Concerning the different accounting policy or accounting period between the Company and subsidiaries, consolidating after adjustment on subsidiaries' financial statement based on the Company's accounting policy or accounting period.

③Concerning the subsidiary obtained under combination with different control, adjusted several financial statement of the subsidiary based on the fair value of recognizable net assets on purchased day while financial statement consolidation; concerning the subsidiary obtained under combination with same control, considered current status of being control by ultimate controller for consolidation while financial statement consolidation.

7. Standard for recognition of cash equivalents when preparing cash flow statement

Cash equivalent represents such kind of investment featuring with short term (generally due within 3 months since purchase day), active liquidity, being easy for converting to cash with already-known amount, as well as tiny exposure to value change risks.

8. Foreign currency business

Foreign currency business is accounted with amount denominated in RMB as translated at the spot exchange rate as of the occurrence day of such business. The occurred foreign currency exchange business or transactions with foreign currency exchange involved shall be translated at the effective exchange rate (i.e. exchange rate adopted by banks for such transactions) adopted by such transaction. As at balance sheet date, division between foreign currency monetary items and foreign currency non-monetary items are dealt with according the to following principles:

Foreign currency monetary items are translated at spot exchange rate as of balance sheet date, and then recorded in current gains and losses when happening during normal operation period; exchange gains and losses related to borrowings for purchasing fixed assets are disposed with principle of capitalization of borrowing expense. Monetary item represents the monetary capital, and assets or liabilities respectively received or paid at fixed or insurable amount, among other things, stock cash, bank deposit, account receivables, other receivables, long-term receivables, short-term loans, account payables, other payables, long-term loans, bond payables and long-term payables, etc.

Foreign currency non-monetary items are translated at spot exchange rate as of transaction date, with no change in its amount accounted in standard currency. Non-monetary items represent items except for monetary items.

As for foreign currency non-monetary items measured at fair value, translation is subject to the spot exchange rate as of the date when fair value is recognized. Difference between the accounted standard currency amount subsequent to translation and its original accounted standard currency amount is dealt with as movement in fair value (movement in exchange rate included), and then recorded in current gains and losses.

9. Financial instruments

(1) Recognition of financial assets

In the case that when a company constitutes one party to financial instrument agreement, one item of financial asset or financial liability shall then be recognized.

(2) Division and measurement for financial assets and financial liabilities

In terms of investment purposes and economic natures, the Company divides its financial assets into transactional financial assets, financial assets available for sale, account receivables and held-to-maturity investments, among which, transactional financial asset is measured at fair value and movement of its fair value is recorded in current gains and losses; financial asset available for sale is measured at fair value and movement of its fair value is recorded in shareholders' equity; account receivables and held-to-maturity investments are measured at amortized cost.

In terms of economic nature, the Company divides its financial liabilities into two groups, namely financial liabilities at fair value through gains and losses and other financial liabilities at amortized cost.

(3) Recognition of fair values of financial assets and financial liabilities

♢ In case of an active market, financial assets or financial liabilities which are respectively held and proposed to be undertaken by the Company are subject to the prevailing offer price of such market, and financial assets or financial liabilities which are respectively proposed to be held and undertaken by the Company are subject to the prevailing asked price of such market. In case of absence of such prevailing offer or asked prices, market quotation of the latest transaction or adjusted market quotation of the latest transaction shall be adopted, except that there is clear evidence showing that such market quotation is not fair value.

♢ In case of absence of an active market, the Company recognizes fair value by reference to valuation technology which includes reference to the price adopted by parties who are willing to make business and knowing conditions quite well in their latest transactions, reference to prevailing fair values of other financial instruments with similar essence, discount cash flow method and option pricing pattern.

(4) Recognition and measurement of financial assets transfer

That the Company grants or delivers financial assets to party other than the issuer of such financial assets equals transfer of financial assets. Financial assets transferred could be the entire or part of such financial assets. Two forms are listed as follows:

♢ Transfer of right for collecting cash flow of financial assets to another party;

♢ Transfer financial assets to another party, while the aforementioned right is retained, with obligation of paying such cash flow to final collector.

In the even that the Company has transferred almost all risks and remunerations arising from ownership of all or part financial assets to another party, accordingly, recognition for such entire or part financial assets shall be ceased. Gains and losses are determined by the received consideration less the carrying value of the transferred financial assets. Meanwhile, the original accumulated gains or losses of financial assets recognized in the owners' equity shall transferred to gains and losses; when all risks and remunerations attached to ownership are retained, recognition for such entire or part financial assets shall continue, and the consideration received shall be viewed as financial liabilities.

As for the financial assets which the Company has neither transferred nor retained all risks and remunerations attached to ownership of such financial assets, while control upon such financial assets still exists, recognition shall be conducted in light of the degree of its continuous involvement in the transferred financial assets. Accordingly, relevant liabilities shall be recognized.

(5) Discontinued recognition of financial assets and financial liabilities

Upon satisfaction of one of the following condition, financial assets will immediately experience discontinued recognition:

① Right entitled by contract in respect of collection of cash flow from such financial asset

terminates.

②Such financial assets have been transferred and meet discontinued recognition condition for financial assets as regulated by Accounting Standard for Enterprise No.23-Transfer of Financial Assets.

Only when present obligations under financial liability have been released entirely or partly, could cease recognition of such financial liability or part thereof.

(6) Impairment of financial assets

The Company conducts inspection on carrying values of financial assets, except for transactional financial assets, as at balance sheet date. If there is objective evidence indicating that impairment has happened to financial assets, impairment reserve then shall be provided. Financial asset with great amount in single item is subject to separate impairment test. In case of any objective evidence indicating that impairment has happened to such financial asset, impairment loss shall be recognized and recorded in current gains and losses. As for the financial assets with no great amount in single item and those which prove to be not impaired after separate test, the Company will conduct impairment test on basis of credit portfolio which is determined in light of customers' credit records and historical bad debts, so as to recognize impairment loss.

Objective evidence indicating impairment happens to financial assets means the proceedings meeting the three characteristics: actually occurred subsequent to initial recognition of such financial assets, bring influence over the estimated future cash flow of such financial assets, and such influence could be reliably measured by the Company.

The followings are included in objective evidences indicating impairment happens to financial assets:

A: Serious financial difficulty happens to issuer or debtor;

B: Breach of terms of contract by debtor, such as breach or overdue in repaying interest or principal;

C: Creditor makes concession for debtors who experience financial trouble in light of consideration for economy or laws;

D: Debtor is very likely to experience bankrupt or financial reorganization;

E: Financial assets are not able to be traded in active market since material financial difficulty happens to issuer;

F: It is unable to judge whether cash flow from certain asset in a group of financial assets has decreased, while it is finally found that the estimated future cash flow of such financial asset has actually decreased since its initial recognition and the decrease can be reliably measured by reference to the general valuation based on open data. For example, payment capacity of debtor of such financial assets portfolio gradually worsens, or unemployment in country or region where the debtor locates risen, price of guaranty falls greatly in the place where it locate, and the industry in which it belongs to is unpromising;

G: Material negative changes happen to technologies, markets, economy or law environment in which debtor operates, which leads to that equity instrument investor is not likely to be able to recover investment cost;

H: Fair value of equity instrument investment experiences severe or non-temporary falling;

I: Other objective evidence indicating impairment happens to financial assets.

In the event of impairment in financial asset at amortized cost, impairment loss is calculated based on the difference between carrying value and present value of estimated future cash flow discounted at effective interest rate.

After impairment loss is recognized for financial asset at amortized cost, if there is objective evidence indicating value of such financial asset has recovered, which is objectively related to proceedings occurred after recognition of such loss, the original impairment loss shall be reversed and recorded in current gains and losses. However, the carrying value subsequent to such reversal shall not exceed the amortized cost of such financial asset as at the reversal

date on assumption that such impairment loss had not been provided.
For impairment in financial assets available for sale, the original accumulated loss through owners' equity directly arising from falling fair value shall be reversed to current gains and losses.

10. Account receivables

(1) Recognition standard and provision method for bad debt provision of account receivables with significant amount in single item:

| | |
|---|--|
| Recognition standard for bad debt provision of account receivables with significant amount in single item | The Company's account receivables with above RMB 1 million in single item is defined as account receivables with significant amount in single item. Such kind of account receivables are recognized as bad debts in case of impossible collection though with bankrupt properties or heritages of debtors due to their bankrupt or death, or in the even that debtors haven't implemented their repayment obligations over 3 years upon expiration and there are obvious evidences indicating impossible collection. |
| Provision method for bad debt provision of account receivables with significant amount in single item | As for account receivables with significant amount in single item which can not be directly recognized as bad debts, debt provision shall be provided according to the Company's policies by aged analysis method. 100% bad debt provision shall be provided for those account receivables with great amount in single item which can be directly recognized as bad debts |

(2) Recognition standard and provision method for bad debt provision of account receivables whose single amount are not significant, but the portfolio risk is significant after grouped by credit risk feature

| | | | |
|--|--|---|------|
| Credit risk feature | | | |
| Recognition evidence for group by credit risk feature | Account receivable meeting the following conditions: account receivable whose single amount is not significant, impossible collection though with bankrupt properties or heritages of debtors due to their bankrupt or death, debtors haven't implemented their repayment obligations over 3 years upon expiration and there are obvious evidences indicating impossible collection. | | |
| Provision method confirmed by portfolio of credit risk feature | | | |
| Provision percentage for percentage of total accounts receivable outstanding (%) | 100% | Provision percentage for percentage of total other receivable outstanding (%) | 100% |

(3) Aged analysis method

| Book age | Provision percentage for accounts receivable | Provision percentage for other receivable |
|--------------------|---|---|
| Within 6 months | No provision | No provision |
| 6 months to 1 year | 10% | 10% |
| 1 year to 2 years | 20% | 20% |
| 2 years to 3 years | 40% | 40% |
| Over 3 years | 100% | 100% |
| Explanation for | Bad debt loss is calculated by allowance method. Separate impairment test is provided for account receivable whose single amount is significant, its bad debt | |

| | |
|------------------------|---|
| provision for bad debt | provision is subject to the difference between the present value of estimated future cash flow and carrying value of such account receivable; bad debt provision is fully provided for account receivables whose single amount are not significant, but the portfolio risk is significant after grouped by credit risk feature; provision is offered on the basis of period-end balances by aged analysis method for account receivables whose single amounts are significant and not impaired and account receivable whose single amount is not significant, and which is not grouped by credit risk feature to the portfolio whose risk is significant. Bad debt provision withdrew is accounted in current gains and losses. |
|------------------------|---|

11. Inventories

(1) Classification of inventories

The Company's inventories are categorized into stock materials, product in process and stock goods ect.

(2) Pricing for delivered inventories

A. Generally, stock materials are calculated at planned cost. Material cost difference is individually set according to classification of grant types. Pursuant to the difference between the planned cost of the received or delivered raw materials and the material cost the aforesaid cost should share after carrying forward at period-end, the Company adjusts the planned cost to effective cost; finished products are priced at effective costs, and carried forward to operating cost by weighted average method when being delivered;

B. Products in process are priced at effective costs, and carried forward to finished products at actually occurred cost;

C. Finished self-produced products are priced at effective costs, and carried forward to operating cost by weighted average method; external purchase goods (from import and export trades) are carried forward to sales cost by individual pricing method.

(3) Recognition evidence for net realizable value of inventories and withdrawal method for inventory impairment provision

Inventories as at period-end are priced at the lower of costs and net realizable values; at period end, on the basis of overall clearance about inventories, inventory impairment provision is withdrew for uncollectible part of costs of inventories which result from destroy of inventories, out-of-time of all and part inventories, or sales price lowering than cost. Inventory impairment provision for stock goods and quantity of raw materials is subject to the difference between costs of single inventory item over its net realizable value. As for other raw materials with large quantity and comparatively low unit prices, inventory impairment provision is withdrawn pursuant to categories.

As for inventories such as stock goods and materials available for direct sales, their net realizable values are determined by their estimated selling prices less estimated sales expenses and relevant taxes. For material inventories held for purpose of production, their net realizable values are determined by the estimated selling prices of finished products less estimated costs, estimated sales expenses and relevant taxes accumulated till completion of production. As for inventories held for implementation of sales contracts or service contracts, their net realizable values are calculated on the basis of contract prices. In the event that inventories held by a company exceed order amount as agreed in sales contracts, net realizable values of the surplus part are calculated on the basis of normal sale price.

(4) Inventory system

Inventory system is perpetual inventory system.

(5) Amortization method for low value consumables

Low value consumables are subject to one-off amortization when being received.

12. Long-term equity investment

(1) Recognition of initial investment cost

Long-term equity investment mainly includes the equity investments made to subsidiaries, joint ventures and associates, and the equity investment which couldn't entitle the Company to conduct control, common control or significant influence over the invested units and which have no quotation price in active market and whose fair value could not be able to measured surely.

Initial investment cost of long-term equity investment of the Company is recognized by the following ways based on different acquisition ways:

① In situation of a long-term equity investment acquired through business combination under common control, the carrying value of the owners' equity of the acquired company as at the combination date is deemed as initial investment cost for this long-term equity investment; difference between acquisition cost and initial investment cost is used to adjust capital reserve. In case of insufficient capital reserve for offset, retained profit shall be then adjusted.

② In situation of a long-term equity investment acquired through business combination not under common control, the initial investment cost of long-term equity investment is determined at the fair value of assets involved at trading dated, equity instrument issued as well as liabilities occurred or undertaken. Realizable assets and liabilities undertaken by such assets (include contingent liabilities) of the party being combined as at the combination date are all measured at fair values, without consideration to amount of minority interests. The surplus of combination cost less fair value net realizable assets of the party being combined is recorded as goodwill, and the deficit is directly recognized in the consolidated statement of gains and losses.

③ Long-term investments obtained through other ways

A. Initial investment cost of long-term equity investment obtained through cash payment is determined according to actual payment for purchase.

B. Initial investment cost of long-term equity investment obtained through issuance of equity securities is determined at fair value of such securities.

C. Initial investment cost of long-term equity investment injected by investor is determined at the agreed value in investment contract or agreement. In case of an unfair contract or agreement value, measurement shall be conducted at fair value.

D. Initial investment cost of long-term equity investment (exchanged-in) obtained through exchange with non-monetary assets, which is of commercial nature, is determined at fair value of the assets exchanged-out; otherwise determined at carrying value of the assets exchanged-out if it is not of commercial nature.

E. Initial investment cost of long-term equity investment obtained through debt reorganization is determined at fair value of such investment.

(2) Recognition method for subsequent measurement and gains and losses

① Investment to subsidiaries is calculated under cost method

It is referred to the equity investment made to subsidiaries held by the Company which can conduct control upon invested unit. If the Company holds over 50% equities of an entity or has control power in such entity though equity holding is fewer than 50%, such entity comprises a subsidiary of the Company.

② Investment to joint ventures or associates is calculated under equity method

It is referred to the equity investment made to joint ventures held by the Company which can conduct common control upon the joint venture with other joint parties; It is referred to the equity investment made to associates held by the Company which has material influence upon such associates. In the event that the Company holds equities of an entity from 20% to 50% and no essential control exists in such entity meanwhile or that though the Company holds equities of an entity fewer than 20% while it has material influence upon such entity,

then the entity shall be deemed as a joint venture or associate of the Company.

When recognizing its share in net gains and losses of the invested unit, the Company shall achieve recognition based on fair values of various realizable assets of such invested unit upon obtaining such investment after adjustment in net profit of such invested unit.

In case of any inconsistency of the accounting policies and accounting periods adopted by invested unit and the Company, financial statements of such invested unit shall be subject to adjustment in compliance with accounting policies and accounting periods adopted by the Company, so as to recognize investment gains and losses on that basis.

As for treatment for other movement of owners' equity other than net gains and losses of invested unit, carrying value of long-term equity investment shall be subject to adjustment which shall be then recorded in owners' equity.

③ Long-term equity investment to entities where the Company has no control, common control or material influence

Long-term equity investment which has no quotation in active market and whose fair value could not be reliably measured is calculated under cost method.

Long-term equity investment which has quotation in active market or whose fair value could be reliably measured is presented under item of financial asset available for sale, and is measured at fair value, and fair value movement thereof shall be recorded in shareholders' equity.

(3) Reference for confirmation of common control and material influence in invested unit

Common control over invested unit means common control over certain economic activity pursuant to contract agreement, and only exists when investors who need to share control power on material financial and operation decisions related to such economic activity make unanimous agreement. That a party has material influence upon invested unit means that such party has power to join decision-making related to finance and operation decisions of the invested unit, while no ability of control or joint control with other parties upon establishment of such decisions.

(4) Impairment test method and withdrawal method for impairment provision

If any impairment indication is found in long-term equity investment by the Company in its period-end inspection, the recoverable amount shall be estimated. In case of such recoverable amount lowering than its carrying value, impairment provision shall be withdrawn for long-term investment by reference to the difference of the aforesaid two items.

As for long-term equity investment which has no quotation in active market and whose fair value could not be reliably measured, its impairment loss is determined by reference to its carrying value less the amount recognized through discounting future cash flow at the prevailing market yield ratio of similar financial assets, and then recorded in current gains and losses.

As for long-term equity investment except for financial assets available for sale, its impairment provision will not be reversed during asset permanent period once it is withdrawn. Impairment loss of financial assets available for sale can be reversed through equities.

13. Investment real estate

Investment real estate is stated at cost. During which, the cost of externally purchased properties held-for-investment includes purchasing price, relevant taxes and surcharges and other expenses which are directly attributable to the asset. Cost of self construction of properties held for investment is composed of necessary expenses occurred for constructing those assets to a state expected to be available for use. Properties held for investment by investors are stated at the value agreed in an investment contract or agreement, but those under contract or agreement without fair value are stated at fair value.

The Company adopts cost methodology amid subsequent measurement of properties held for investment, while depreciation and amortization is calculated using the straight-line method according to their estimated useful lives.

The basis of provision for impairment of properties held for investment is referred to the

provision for impairment of relevant fixed assets.

14. Fixed assets

(1) Recognition of fixed assets

Fixed assets refer to the buildings, machinery and equipment, transportation vehicle and other equipments related to operation with useful lives of more than one year and held for production of products, provision of labor, lease or operation. A fixed asset is recognized when it is Contingent that the relevant economic benefits flow into the enterprise and the cost of the fixed assets can be reliably measured.

(2) Depreciation of fixed assets

| Classification | Depreciation time | Residual rate | Annual depreciation rate |
|------------------------|-------------------|---------------|--------------------------|
| House and Building | 20 - 35 years | 5% | 2.71%-4.75% |
| Machinery equipment | 10 years | 5% | 9.50% |
| Transportation vehicle | 4-5 years | 5% | 19.00%-23.75% |
| Electronic equipment | 3-5 years | 5% | 19.00%-31.67% |
| Other equipment | 5-10 years | 5% | 9.50%-19.00% |

(3) Impairment testing of fixed assets and provision for impairment

At the end of the Reporting Period, the Company carries out a review on fixed assets. If the following conditions exist, the Company shall value the recoverable amount of fixed assets in order to determine whether there is any impairment of fixed assets. For fixed assets with recoverable amount falling below the carrying amount, the Company will make a provision for impairment loss on fixed asset equals to an amount of the difference between the recoverable amount and the carrying amount. Provision is made based on a single item basis, and based on a group of assets to which the assets belong to if it is hard to estimate the recoverable amount of the single assets. The impairment provision cannot be reversed in the period of duration of the assets once it is provided.

①There is a significant decrease in the market price of fixed assets. Such decrease is beyond any decrease to the large extent in the market price as time goes by or any expected decrease from normal use of fixed assets;

②Fixed assets are obsolete and damaged;

③There is a significant negative change to the intended use of fixed assets, such as idleness or forthcoming idleness of the fixed assets, termination or restructuring of the operating business to which the fixed assets belong to and disposal of fixed assets earlier than the end of its useful life, thereby resulting in negative influence on the Company;

④There is a significant current or recent change in the economic, technological and legal environment in which the Company operates and in the market in which fixed assets are, thereby resulting in negative influence on the Company;

⑤There is a significant increase in the market interest rate or return on investment in other markets, posing a potential impact on the discount rate on the calculation of the present value of the estimated future cash flows, thereby resulting in significant decrease in recoverable amount of fixed assets;

⑥There is evidence from internal reports of the enterprise that the economic benefits of the fixed assets have been lower or will be lower than expected, for example, the net cash flows or operating profits (or losses) of the fixed assets are far lower (or higher) than the expected amount;

⑦Other circumstances showing an indication of impairment of fixed assets.

(4) Basis of recognition and method of measurement of fixed assets by financing lease

The assets will be classified as fixed assets by financing lease if the Company satisfies one or more of the following conditions:

①As stipulated in the lease agreement (or a reasonable judgment made pursuant to relevant

conditions at the commencement date of the lease), the ownership of fixed assets by financing lease can be passed to the Company when the lease expires;

②As the Company has a option to acquire the leased fixed assets and the agreed price of purchase is far below the fair value of leased fixed assets at the time of exercise of the option, it is certain that the Company will exercise the option at the commencement date of the lease;

③Despite that the ownership of fixed assets is not transferable, the lease period represents 75% or more of the useful life of leased fixed assets;

④The present value of the minimum lease payment by the Company at the commencement date of lease is equal to 90% or more of the fair value of leased fixed assets at the commencement date of lease. The present value of the minimum lease payment received by the lesser at the commencement date of lease is equal to 90% or more of the fair value of leased fixed assets at the commencement date of lease;

⑤ Due to the special nature of the leased assets, those assets can be used only by the Company if without any substantial renovation;

⑥The fixed assets by financing lease is carried at the lower of the fair value of the leased fixed assets at the commencement date of lease and the present value of the minimum lease payment.

15. Construction in process

(1) Calculation of construction prices of construction in process:

Project costs are determined on the basis of the expenses actually occurred. Projects for own account are measured on the basis of direct materials, direct wages, direct work commencement expenses, etc. Subcontracted projects are measured on the basis of project prices payable. Costs of equipment installation projects are determined on the basis of the value of the equipment installed, installation fees, and expenses occurred by project debugging, etc. The costs of projects under construction also include the capitalized borrowing expenses and exchange gains and losses.

(2) Standard and timing of converting projects under construction into fixed assets: From the date on which the fixed assets built by the Company come into an expected usable state, the projects under construction are converted into fixed assets on the basis of the estimated value of project estimates or pricing or project actual costs, etc. Depreciation is calculated from the next month. Further adjustments are made to the difference of the original value of fixed assets after final accounting is completed upon completion of projects; however, the original depreciation is not adjusted.

(3) Recognition and provision for impairment of construction in process:

The Company carries out a comprehensive inspection of projects under construction at the conclusion of each year. Where there is an indication of impairment, the recoverable amount is estimated and impairment is provided on the basis of the difference between the amount recoverable by a project and the carrying amount of such project. Impairment provision is not reversed during the period of duration of the assets once it is provided.

16. Borrowing costs

(1) Recognition of capitalization of borrowing costs

Borrowing costs comprise interest occurred, amortization of discounts or premiums, ancillary costs and exchange differences in connection with foreign currency borrowings. The borrowing costs of the Company, which incur from the special borrowings occupied by the fixed assets that need more than one year (including one year) for construction, development of investment properties or inventories or from general borrowings, are capitalized and recorded in relevant assets costs; other borrowing costs are recognized as expenses and recorded in the profit or loss in the period when they are occurred. Relevant borrowing costs start to be capitalized when all of the following three conditions are met:

(a) Capital expenditure has been occurred;

(b) Borrowing costs have been occurred;

(c) Acquisition or construction necessary for the assets to come into an expected usable state has

been carried out.

(2) Period of capitalization of borrowing costs:

The borrowing costs in relation to acquisition or construction of fixed assets, investment properties and inventories, incurring before the assets reach an expected usable state or saleable state, are recorded in the costs of the assets when the above conditions of capitalization are met. When acquisition or construction of fixed assets undergo abnormal suspension, and the suspension lasts for more than 3 months consecutively, then the capitalization of suspension borrowing ceases and will be recognized as current expenses, until the acquisition or construction of assets start again. When the expected usable state or saleable state is achieved, capitalization of borrowing costs ceases, and the borrowing costs incurring subsequently are directly recorded into financial expenses in the period when they are occurred.

(3) Calculation of capitalized amounts of borrowing costs:

In respect of the special borrowings borrowed for acquisition, construction or production and development of the assets qualified for capitalization, the amount of interests expenses of the special borrowings actually occurred in the period less interest income derived from unused borrowings deposited in banks or less investment income derived from provisional investment, are recognized.

With respect to the general borrowings occupied for acquisition, construction or production and development of the assets qualified for capitalization, the capitalized interest amount for general borrowings is calculated and recognized by multiplying a weighted average of the accumulated expenditure on the assets in excess of the expenditure on the some assets of the special borrowings, by a capitalization rate for general borrowings. The capitalization rate is determined by calculation of the weighted average interest rate of the general borrowings.

17. Intangible assets

(1) Measurement of intangible assets:

The intangible assets of the Company include land use rights etc.

The cost of a purchased intangible asset shall be determined by the expenditure actually occurred and other related costs.

The cost of an intangible asset contributed by an investor shall be determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair.

The intangible assets acquired through exchange of non-monetary assets, which is commercial in substance, is carried at the fair value of the assets exchanged out; for those not commercial in substance, they are carried at the carrying amount of the assets exchanged out.

The intangible assets acquired through debt reorganization, are recognized at the fair value.

Expenditure in the research stage of the intangible assets with independent research and development should be included in the profit or loss for the current period in which they are occurred; expenditure in the development stage should be recognized as intangible assets (patent technologies and non-patent technologies) when all of the following conditions are met:

① It is technically feasible that the intangible assets are completed for the purpose of their uses or sales;

② The Company has an intention to complete the intangible assets for their uses or the sale;

③ Ways of creating economic benefits by intangible assets include proof of existing market of the products manufactured by use of intangible assets or the existing market of intangible assets and the proof of the use if the intangible assets are only for the Company's internal use;

④ The Company has sufficient technical and financial resources and other supporting resources to complete the research and development of such intangible assets and are capable of using or selling such intangible assets;

⑤Expenditure occurred in the development stage of such intangible assets can be accurately calculated;

⑥The cycle of the product produced with the intangible assets is above one year.

(2) Amortization and duration of intangible assets:

The land use rights of the Company are amortized evenly over the period of the grant since the date of commencement of the grant (the date of acquisition of the land use rights).

(3) Recognition and provision of impairment of intangible assets:

The Company tests impairment of the intangible assets with indefinite benefit years such as goodwill annually and estimates their recoverable amounts and impairment of the intangible asset is provided at the difference between the estimated recoverable amount and the carrying amount of such intangible assets.

A year-end review is conducted to other intangible assets. When there is an indication of impairment, the recoverable amount is estimated and impairment of the intangible asset is provided at the difference between the estimated recoverable amount and the carrying amount of such intangible assets. The impairment provision is not reversed during the duration of the assets once it is provided.

①The intangible assets have been replaced by other new technology so that there is a material adverse effect on their capacity to generate economic benefits for the Company;

②The market value has fallen substantially in the current period and is not expected to recover in the remaining amortization period;

③ The intangible assets have exceeded the term protected by laws but some of them can still be used;

④Other circumstances sufficient to prove that impairment has been made actually.

18. Long-term expenses to be amortized

Long-term expenses to be amortized of the Company the expenses that are already charged and with the beneficial term of more than one year are evenly amortized over the beneficial term. For the long-term deferred expense items cannot benefit the subsequent accounting periods, the amortized value of such items is all recorded in the profit or loss during recognition.

19. Estimated liabilities

(1) Principles of recognition:

An obligation related to a contingency, such as guarantees provided to outsiders, pending litigations or arbitrations, product warranties, redundancy plans, onerous contracts, reconstructing, expected disposal of fixed assets, etc. shall be recognized as an estimated liability when all of the following conditions are satisfied:

①the obligation is a present obligation of the Company;

② it is Contingent that an outflow of economic benefits will be required to settle the obligation;

③the amount of the obligation can be measured reliably.

(2) Measurement: to measure on the basis of the best estimates of the expenses necessary for paying off the contingencies.

On the balance sheet date, the carrying amount of estimated liabilities is reviewed. If there is obvious evidence that the carrying amount cannot actually reflect the current best estimates, then the carrying amount is adjusted according to the current best estimates.

20. Revenue

The Company's revenue is mainly from sale of goods.

(1) Principles of recognition of revenue from sale of goods:

①the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

②the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- ③ the amount of revenue can be measured reliably;
- ④ it is Contingent that the associated economic benefits will flow into the Company;
- ⑤ The associated costs occurred or to be occurred can be measured reliably.

(2) Principles of recognition of revenue from the rendering of services:

Revenue from the rendering of services shall be recognized only when all of the following conditions are satisfied: the amount of revenue and costs occurred or to be occurred for the transaction involving the rendering of services can be measured reliably; the associated economic benefits can flow into the Company; the stage of completion of the transaction can be measured reliably.

(3) Principles of recognition of assignment of asset use rights:

Revenue from use by others of enterprise assets shall be recognized only when the associated economic benefit can flow into the Company, and the amount of revenue can be measured reliably.

21. Government grants

The government grants related to earnings are recognized as deferred earnings if they are used for compensating the relevant expenses or losses of the Company in subsequent periods, and are recorded in the profit or loss in the period of recognition of relevant expenses; if they are used to compensate the relevant expenses or losses occurred of the Company, they are directly recorded in the profit or loss.

Asset-related government grants are recognized as deferred income, and are allocated evenly over the useful life of related assets and are included in the current profit and loss. However, the government grants measured at the nominal amount is recorded directly in the profit or loss.

22. Deferred income tax assets and deferred income tax liabilities

A deferred tax asset and deferred tax liability shall be determined by a difference between the carrying amount of an asset or liability and its tax base at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

The Company recognizes deferred tax assets to the extent that the taxable income that the Company can possibly obtain to deduct the deductible temporary differences. On the balance sheet date, when there is obvious evidence that it is Contingent that sufficient taxable income can be obtained in the future to deduct the deductible temporary differences, the deferred income tax assets not recognized in previous accounting periods are recognized.

On the balance sheet date, the Company reviews the carrying amount of deferred tax assets. If the Company cannot possibly obtain sufficient taxable income in future to deduct the benefits of deferred tax assets, the carrying amount of deferred tax assets is written down accordingly. When it is Contingent that sufficient taxable income is obtained, then the written-down amount is reversed.

23. Lease

Finance lease refers to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset, no matter whether the ownership of it has been transferred eventually.

The finance lease assets are carried at the lower of the fair value of the leased assets and the present value of the minimum lease payments on the lease beginning date, and the minimum lease payments are recorded in long-term payables, with the difference as unrecognized finance expenses. The initial direct costs arising from finance lease of the Company are recorded in the value of the leased assets. Depreciation and impairment are provided for the finance lease assets according to the policies of the Company.

Where there is reasonable assurance that the ownership of the leased assets can be obtained when the lease term expires, depreciation is provided for the leased assets over the estimated useful life. Otherwise, depreciation is provided for the leased assets at the lower of the lease term and the estimated useful life of the leased assets.

The Company allocates the unrecognized financing expenses over the lease term by using

the effective interest rate method and in accordance with the principles of borrowing costs. On the balance sheet date, the Company lists the difference of the long-term payables related to finance lease less unrecognized financing expenses as finance lease payable and non-current liabilities due within one year respectively. Operating lease refers to other lease other than finance lease. The rental expenses of the operating leased assets are recognized as relevant assets costs or expenses over the lease term on a straight-line basis.

24. Other significant accounting policies, accounting estimates and preparation of financial statements

(1) Goodwill

In the business combination not under the same control, the difference of the merger cost in excess of the fair value of net identifiable assets of the acquired party is recognized as the goodwill.

Goodwill listed alone in financial statement, while conducting impairment testing, amortized book value of the goodwill to assets group or assets combination benefit from synergy effect of expected enterprise combination. If the recoverable amount of assets group or assets combination, that with goodwill amortized, lower its book value, than recognized as impairment losses correspondingly. Impairment losses should deducting book value of goodwill, amortized to assets group or assets combination, than deducting other book value of vary assets by proportion in line with ratio of book value of vary assets other than goodwill in such assets group or assets combination.

(2) Employees' remuneration

Employees' remuneration includes: employees' salaries, bonus, allowance and subsidies; welfare provision; social insurance such as pension insurance, unemployment insurance and work injury insurance etc.; housing reserve fund, labor union expenditures and staff education expenditures; benefits not in monetary value; compensation paid for the termination of employment contracts with employees; relevant expenditures relating to the provision of other services by employees.

In the accounting period in which employees provide service to the Company, payable employees' remuneration is recognized as liabilities. Other than the compensation for termination of the labor relationship with employees, the employees' remuneration is recorded in fixed assets costs, intangible assets costs, product costs or labor costs respectively according to the beneficiaries of the services provided by employees. The employees' remuneration other than the above is directly recorded in the profit or loss.

Prior to the expiry of the labor contracts of employees, the compensation for termination of the labor relationship with employees or encouraging employees to accept to be laid off is recognized as estimated liabilities and recorded in the profit or loss.

(3) Accounting for income tax

The Company applies the balance sheet liability method for accounting of income tax. Current income tax and deferred income tax is recorded in the profit or loss as income tax expenses or gains, but the income tax arising from the following conditions is excluded:

- 1) Business combination;
- 2) The transaction events directly recognized in the owner's equity.

Note III: Taxation

Major taxes and tax rates

| Tax | Basis | Tax rate |
|--------------|--------------------|---|
| VAT | Sale of goods | Tax rate for sale of goods is 17%; rate for exported commodities is stipulated by the state with declaration of export tax rebate, rate of tax may be "exempted, credited and refunded" |
| Business tax | Revenue from lease | 5% |

| | | |
|--|----------------------|----------------------------|
| Urban maintenance and construction tax | Turnover tax payable | 7% |
| Education fee surcharges | Turnover tax payable | 5% |
| Corporate income tax | Taxable income | 15% for the parent company |

Corporate income taxes of subsidiaries:

The Company and its subsidiaries Weifu Jinning, Weifu Diesel System, Weifu Leader and Ningbo Weifu Tianli Pressurized Technology Co., Ltd.(Weifu Tianli for short) are all high-tech enterprises, and enjoy a preferential tax rate of 15% according to relevant state regulations on income taxation.

The income tax of Wuxi Weifu Mashan Oil Pump and Oil Nozzle Co., Ltd. (hereinafter referred to as “Weifu Mashan”), Wuxi Weifu Chang’an Fuel Co., Ltd. (hereinafter referred to as “Weifu Chang’an), Wuxi Weifu International Trade Co., Ltd. (hereinafter referred to as “Weifu International Trade”), Jiangsu Weifu Nano Technology Co., Ltd. (hereinafter referred to as “Weifu Nano”), Wuxi Weifu ITM Booster Technology Co., Ltd.(former Wuxi Weifu ITM Information Machinery Development Co., Ltd. ; hereinafter referred to as “Weifu ITM”), Wuxi Weifu Schmitter Power System Parts and Components Co., Ltd. (hereinafter referred to as “Weifu Schmitter”), Chaoyang Weifu Jialin Machinery Manufactures Co., Ltd. (hereinafter referred to as “Weifu Jialin”), Kunming Xitong Machinery Co., Ltd. (hereinafter referred to as “Kunming Xitong”), Anhui Weifu Tianshi Machinery Co., Ltd. (hereinafter referred to as “Weifu Tianshi”) and Wuxi Weifu Jida New Material Technology Development Co., Ltd. (hereinafter referred to as “Weifu Jida”) is 25%.

Note 4: Enterprise merger and consolidated financial reports

1. Particulars about subsidiaries at period-end

(1) Subsidiaries acquired by means of establishment or investment

| Name of company | Type of company | Registration Place | Nature of business | Registered capital (RMB'0000) | Business scope | Actual investment amount at the period end(RMB'0000) | Balances of other projects actually constituting net amount of investment in subsidiaries | Equity held (%) | Proportion of vote right (%) | Whether consolidate report or not |
|---------------------|-------------------------|--------------------|--------------------|-------------------------------|--|--|---|-----------------|------------------------------|-----------------------------------|
| Weifu Mashan | Wholly-owned subsidiary | Wuxi | Manufacturing | 4,500.00 | Accessories and matching parts of internal combustion engine | 4,869 | -- | 100.00 | 100.00 | Yes |
| Weifu Chang'an | Wholly-owned subsidiary | Wuxi | Manufacturing | 6,000.00 | Accessories and matching parts of internal combustion engine | 7,090 | -- | 100.00 | 100.00 | Yes |
| Weifu Nano | Controlling subsidiary | Wuxi | Manufacturing | 3,000.00 | Metal nano powder | 2,400 | -- | 80.00 | 80.00 | Yes |
| Weifu Diesel System | Wholly-owned subsidiary | Wuxi | Manufacturing | 30,000.00 | Accessories and matching parts of internal combustion engine | 26,019 | -- | 100.00 | 100.00 | Yes |
| Weifu Schmitter | Controlling subsidiary | Wuxi | Manufacturing | 1,800.00 | Accessories and matching parts of internal combustion engine | 810 | -- | 45.00 | 45.00 | Yes |
| Weifu Tianshi | Controlling subsidiary | Quanjiao | Manufacturing | 1,000.00 | Accessories and matching parts of internal combustion engine | 520 | -- | 52.00 | 52.00 | Yes |

(2) Subsidiaries acquired by means of enterprise merger under common control

| Company name | Type of company | Registration Place | Nature of business | Registered capital (RMB'0000) | Business scope | Actual investment amount at the period end(RMB'0000) | Balances of other projects actually constituting net amount of investment in subsidiaries | Equity held (%) | Proportion of vote right (%) | Whether consolidate report or not |
|---------------------------|------------------------|--------------------|--------------------|-------------------------------|--|--|---|-----------------|------------------------------|-----------------------------------|
| Weifu Jinning | Controlling subsidiary | Nanjing | Manufacturing | 34,628.70 | Accessories and matching parts of internal combustion engine | 17,864 | -- | 80.00 | 80.00 | Yes |
| Weifu Leader | Controlling subsidiary | Wuxi | Manufacturing | 26,000.00 | Cleaner, muffler | 23,011 | -- | 94.81 | 94.81 | Yes |
| Weifu International Trade | Controlling subsidiary | Wuxi | Trade | 3,000.00 | International trade | 3,033 | -- | 100.00 | 100.00 | Yes |

(3) Subsidiaries acquired by means of enterprise merger under different controls

| Company name | Type of company | Registration Place | Nature of business | Registered capital (RMB'0000) | Business scope | Actual investment amount at the period end(RMB'0000) | Balances of other projects actually constituting net amount of investment in subsidiaries | Equity held (%) | Proportion of vote right (%) | Whether consolidate report or not |
|----------------|-------------------------|--------------------|--------------------|-------------------------------|---|--|---|-----------------|------------------------------|-----------------------------------|
| ITM Machinery | Wholly-owned subsidiary | Wuxi | Manufacturing | 16,000.00 | Accessories and matching parts of internal combustion | 16,700 | -- | 100.00 | 100.00 | Yes |
| Weifu Tianli | Controlling subsidiary | Ningbo | Manufacturing | 10,469.00 | Accessories and matching parts of internal combustion | 9,023 | -- | 51.00 | 51.00 | Yes |
| Weifu Jialin | Controlling subsidiary | Chaoyang | Manufacturing | 800.00 | Accessories and matching parts of internal combustion | 469 | -- | 51.00 | 51.00 | Yes |
| Kunming Xitong | Controlling subsidiary | Kunming | Manufacturing | 400.00 | Accessories and matching parts of internal combustion | 570 | -- | 70.00 | 70.00 | Yes |

4) Minority shareholders' equity

| Name of the Company | 2011-12-31 | 2010-12-31 |
|---------------------|----------------|----------------|
| Weifu Nano | 5,804,580.03 | 5,804,006.33 |
| Weifu Jinning | 135,110,823.91 | 116,464,358.53 |
| Weifu Schmitter | 6,237,526.45 | 2,380,977.80 |
| Weifu Leader | 25,379,569.00 | 24,011,182.68 |
| Weifu Tianli | 91,414,006.03 | 86,056,321.83 |
| Weifu Jialin | 5,142,084.87 | 4,891,738.49 |
| Weifu Tianshi | 4,451,860.27 | — |
| Kunming Xitong | 2,787,653.19 | — |
| Total | 276,328,103.75 | 239,608,585.66 |

2. Explanation on the change in the consolidation range

| Name of company | Whether it is consolidated in this year or not | Whether it was consolidated in last year or not |
|--------------------------|--|---|
| Weifu Mashan | Yes | Yes |
| Weifu Chang'an | Yes | Yes |
| Weifu Jida [Note 1] | Yes | Yes |
| Weifu Nano | Yes | Yes |
| Weifu Diesel System | Yes | Yes |
| Weifu Jinning | Yes | Yes |
| Weifu Leader | Yes | Yes |
| Weifu Internal Trade | Yes | Yes |
| Weifu Schmitter [Note 2] | Yes | Yes |
| Weifu ITM | Yes | Yes |
| Weifu Tianli | Yes | Yes |
| Weifu Jialin | Yes | Yes |
| Weifu Tianshi [Note 3] | Yes | No |
| Kunming Xitong [Note 4] | Yes | No |

Note 1

Weifu Jida: has been cancelled in September 2011. Profit statement and cash flow statement from period-begin to cancellation date of Weifu Jida has reckoned into consolidation financial statement of the Company.

Note 2

Weifu Schmitter -- Sino-foreign equity joint venture jointly funded and established by the Company, Germany Schmitter Group Aktiengesellschaft and Shanghai Weishi Automobile Technology Development Co., Ltd. obtained Business License for Legal Entity (No. 320200400033433) granted by Jiangsu Wuxi Industrial and Commercial Administration Bureau on Sep. 17th, 2009. The registered capital of the Company was RMB 18 million, among which, Company funded RMB 7.2 million, accounting for 40% of the total capital, and Shanghai Weishi Automobile Technology Development Co., Ltd. funded RMB 2.7 million, accounting for 15% of the total capital. During this year, the Company invested RMB 2.7 million as the investment fund for the first time. As the biggest shareholder owning a majority of vote rights of the Board of Directors of Weifu Schmitter, the Company had taken it into consolidation range as a subsidiary since its establishment.

Note 3

Weifu Tianshi: was a joint venture set up by the Company and Anhui Quanchai Power Co., Ltd. in

April 2011. Register capital amounting to RMB 10 million, the Company invested RMB 5.2 million, a 52.00% in total register capital of this company. The company reckoned into consolidation range of the financial statement of the Company since date of establishment.

Note 4

Kunming Xitong: former affiliated company of the Company. In this year, 20% equity of Kunming Xitong held by Kunming Jinlida Machinery Co., Ltd. was transferred, the Company held 70% of the company and Kunming Xitong turns controlling subsidiary of the Company. Kunming Xitong completed its changes in industry and commerce in May 2011 and reckoned into consolidation range of financial statement since May of 2011.

3. Subsidiaries newly taken into consolidation range during this period

Unit: RMB'000

| Name | Net assets at period-end | Net profit in this period |
|----------------|--------------------------|---------------------------|
| Weifu Tianshi | 9,274,708.90 | -725,291.10 |
| Kunming Xitong | 9,292,177.30 | 2,267,591.32 |

Note 5: Commentary on items of consolidated financial statements

(There is no specific explanation for the following items and the amount for items is taking RMB as unit.)

5-01 Momentary capital

| Item | 2011-12-31 | | | 2010-12-31 | | |
|--------------------------|----------------------------|-----------------|-----------------------|----------------------------|-----------------|-----------------------|
| | Amount in foreign currency | Converting rate | Amount in RMB | Amount in foreign currency | Converting rate | Amount in RMB |
| Cash: | | | | | | |
| RMB | | | 425,963.50 | -- | -- | 543,965.44 |
| Bank deposit: | | | | | | |
| RMB | | | 740,740,138.08 | -- | -- | 441,692,764.33 |
| Euro | 560,896.20 | 8.1625 | 4,578,315.24 | 962,162.47 | 8.8065 | 8,473,054.80 |
| USD | 5,451.19 | 6.3009 | 34,347.40 | | -- | -- |
| Other currency capitals: | | | | | | |
| RMB | | | 109,274,835.16 | -- | -- | 145,314,381.79 |
| Euro | -- | -- | -- | 106,125.91 | 8.8065 | 934,597.85 |
| Total | | | 855,053,599.38 | | | 596,958,764.21 |

Funds with limited application, funds deposited abroad and funds with latent recovery risks due to mortgage, pledge or freezing:

| Item | 2011-12-31 | 2010-12-31 |
|--|----------------|----------------|
| Bank acceptance bill, L/C and other collateral | 109,274,835.16 | 131,738,979.64 |

5-02 Notes receivable

(1) Classification of notes receivable

| Category | 2011-12-31 | 2010-12-31 |
|----------------------------|-------------------------|-----------------------|
| Commercial acceptance bill | 48,430,000.00 | 68,900,000.00 |
| Bank acceptance bill | 1,178,588,757.27 | 766,366,266.32 |
| Total | 1,227,018,757.27 | 835,266,266.32 |

(2) Notes receivable already pledged by the Company at the end of the period (top five)

| Drawer | Expiration date | Amount(RMB'0000) |
|--|-----------------------------|------------------|
| Shanxi Heavy Automobile Co., Ltd. | Before end of February 2012 | 2,000 |
| Guangzhou Huake Auto Trade Service Co., Ltd. | Before end of January 2012 | 770 |
| Guangxi Nanning Mindian Auto Sales Service Co., Ltd. | Before end of February 2012 | 600 |
| Dongfeng Xiangfan Travel Vehicle Co., Ltd. | Before end of February 2012 | 571 |
| Nanjing Xugong Automobile Manufacture Co., Ltd. | Before end of January 2012 | 500 |
| Total | | 4,441 |

Among the bills receivable at the end of the period, bank acceptance bill of RMB 60.5149 million served as pledge for drawing payable bills.

(3) Undue notes already endorsed by the Company to other parties at the end of period (top five)

| Drawer | Expiration date | Amount(RMB'0000) |
|---|-------------------------|------------------|
| Anhui Jianghui Automobile Co., Ltd. Engine Branch | Before end of June 2012 | 2,290 |
| Dongfeng Automobile Co., Ltd. | Before end of June 2012 | 2,000 |
| Zhejiang Geely Automobile Co., Ltd. | Before end of June 2012 | 1,600 |
| Hubei Changtong Economy Trading Development Co., Ltd. | Before end of June 2012 | 1,500 |
| Dongfeng Xiaokang Automobile Co., Ltd. | Before end of June 2012 | 1,119 |
| Total | | 8,509 |

5-03 Accounts receivable

(1) Accounts receivable disclosed according to account nature:

| Category | 2011-12-31 | | | |
|--|-------------------------|----------------|-------------------------|----------------------|
| | Book value | | Provision for bad debts | |
| | Amount | Proportion (%) | Amount | Accrual proportion % |
| Significant single amount and withdrawal bad debt provision single | 6,919,976.11 | 0.58 | 6,919,976.11 | 100.00 |
| Withdrawal bad debt provision based on age combination | 1,172,628,088.90 | 98.63 | 5,504,933.86 | 0.47 |
| Minor single amount but withdrawal bad debt provision single | 9,402,820.72 | 0.79 | 9,402,820.72 | 100.00 |
| Total | 1,188,950,885.73 | 100.00 | 21,827,730.69 | 1.84 |

| Category | 2010-12-31 | | | |
|--|------------------|----------------|-------------------------|----------------------|
| | Book value | | Provision for bad debts | |
| | Amount | Proportion (%) | Amount | Accrual proportion % |
| Significant single amount and withdrawal bad debt provision single | 47,076,783.84 | 4.41 | 47,076,783.84 | 100.00 |
| Withdrawal bad debt provision | 1,003,974,627.56 | 94.00 | 4,176,188.26 | 0.42 |

| | | | | |
|--|-------------------------|---------------|----------------------|-------------|
| based on age combination | | | | |
| Minor single amount but withdrawal bad debt provision single | 17,017,368.74 | 1.59 | 17,017,368.74 | 100.00 |
| Total | 1,068,068,780.14 | 100.00 | 68,270,340.84 | 6.39 |

Explanation on categories of accounts receivable

Account receivable with significant amount in single item indicated account with single item amount above RMB 1 million. For account receivable with significant amount in single item, as no objective evidence showing that the potential devaluation would exceed the provision for bad debts withdrawn by aging analysis was found, so the provision was still withdrawn in the same way.

(2) Account receivable with significant single amount and withdrawal bad debt provision single at period end:

| Account receivable | Book balance | Bad debt amount | Withdrawal ratio (%) | Reasons |
|---|--------------|-----------------|----------------------|--------------------------------------|
| Liuzhou Special Diesel Engine Plant | 1,612,018.00 | 1,612,018.00 | 100.00 | Difficult in recover due to long age |
| Shaoyang Shenfeng Power Manufacture Co., Ltd. | 1,589,871.23 | 1,589,871.23 | 100.00 | Long age, un-recover after suit |
| Changchai Wanchou Diesel Engine Co., | 1,500,000.00 | 1,500,000.00 | 100.00 | Difficult in recover due to long age |
| Yuejin Light Automobile Co., Ltd. | 1,218,086.88 | 1,218,086.88 | 100.00 | Difficult in recover due to long age |
| Henan Agricultural Machinery Co., | 1,000,000.00 | 1,000,000.00 | 100.00 | Long age, un-recover after suit |
| Total | 6,919,976.11 | 6,919,976.11 | 100.00 | |

(3) Account receivable with minor single amount but withdrawal bad debt provision single at period end:

| Account receivable | Book balance | Bad debt amount | Withdrawal ratio (%) | Reasons |
|--|--------------|-----------------|----------------------|--------------------------------------|
| Changchai Wanchou Diesel Engine Co., | 837,472.95 | 837,472.95 | 100.00 | Difficult in recover due to long age |
| Hubei Duoling Power Machinery Co., Ltd. | 775,624.61 | 775,624.61 | 100.00 | Difficult in recover due to long age |
| Henna Xinxiang Internal-Combustion Engine Plant | 753,754.25 | 753,754.25 | 100.00 | Difficult in recover due to long age |
| Yunnan Jinma Diesel Machine General Plant | 579,210.11 | 579,210.11 | 100.00 | Difficult in recover due to long age |
| Dongfeng Nanchon Motor Co., Ltd. | 569,974.38 | 569,974.38 | 100.00 | Difficult in recover due to long age |
| Tianma Automobile Group Co., Ltd. | 509,370.00 | 509,370.00 | 100.00 | Difficult in recover due to long age |
| Guangxi Liuzhou Zhongxing Power Plant | 474,895.94 | 474,895.94 | 100.00 | Difficult in recover due to long age |
| Zhejiang Agricultural Machinery Accessory Co., | 457,800.00 | 457,800.00 | 100.00 | Difficult in recover due to long age |
| Jiangmen Zhongyu Material Supply Co.,Ltd. | 411,734.00 | 411,734.00 | 100.00 | Difficult in recover due to long age |
| Jiangsu Changtong Hi-Tech Heavy Co., Ltd. | 396,817.37 | 396,817.37 | 100.00 | Difficult in recover due to long age |
| Changchai Group Jintan Diesel General Plant | 375,035.52 | 375,035.52 | 100.00 | Difficult in recover due to long age |
| Fujian Longma Agricultural Vehicle Manufacture Co., Ltd. | 365,169.92 | 365,169.92 | 100.00 | Difficult in recover due to long age |
| Kunming Zhongantong Technology-Trade Co., Ltd. | 328,425.01 | 328,425.01 | 100.00 | Difficult in recover due to long age |
| Beijing Pinyang Highway Traffic Equipmetn Co., Ltd. | 308,588.58 | 308,588.58 | 100.00 | Difficult in recover due to long age |
| Other Scattered companies | 2,258,948.08 | 2,258,948.08 | 100.00 | Difficult in recover due |

| | | | | |
|-------|--------------|--------------|----|-------------|
| | | | | to long age |
| Total | 9,402,820.72 | 9,402,820.72 | -- | -- |

(4) Account receivable withdrawal bad debt provision based on age combination

| Account age | 2011-12-31 | | | | |
|-----------------|------------------|----------------|--------------------|--|------------------------|
| | Amount | Proportion (%) | Bad debt provision | Withdrawal ratio of bad debt provision (%) | Net account receivable |
| Within 6 months | 1,141,043,177.04 | 97.31 | -- | -- | 1,141,043,177.04 |
| 6 months-1 year | 22,677,232.78 | 1.93 | 2,267,723.28 | 10.00 | 20,409,509.50 |
| 1-2 years | 4,756,969.14 | 0.41 | 951,393.83 | 20.00 | 3,805,575.31 |
| 2-3 years | 3,108,155.32 | 0.26 | 1,243,262.13 | 40.00 | 1,864,893.19 |
| Over 3 years | 1,042,554.62 | 0.09 | 1,042,554.62 | 100.00 | -- |
| Total | 1,172,628,088.90 | 100.00 | 5,504,933.86 | 0.47 | 1,167,123,155.04 |

| Account age | 2010-12-31 | | | | |
|-----------------|------------------|----------------|--------------------|--|------------------------|
| | Amount | Proportion (%) | Bad debt provision | Withdrawal ratio of bad debt provision (%) | Net account receivable |
| Within 6 months | 984,880,007.28 | 98.10 | -- | -- | 984,880,007.28 |
| 6 months-1 year | 7,893,360.34 | 0.79 | 789,336.03 | 10.00 | 7,104,024.31 |
| 1-2 years | 9,200,119.79 | 0.92 | 1,840,023.95 | 20.00 | 7,360,095.84 |
| 2-3 years | 827,033.76 | 0.08 | 372,721.89 | 40.00 | 454,311.87 |
| Over 3 years | 1,174,106.39 | 0.11 | 1,174,106.39 | 100.00 | -- |
| Total | 1,003,974,627.56 | 100.00 | 4,176,188.26 | 0.42 | 999,798,439.30 |

(5) No arrears of shareholders (units) holding over 5% (include 5%) vote-right share of the Company in accounts receivable at period-end.

(6) The top five units in term of amount of account receivable

| Name of Unit | Relationship with the Company | Amount(RMB'0000) | Time limit | Proportion to the total amount of account receivable (%) |
|--------------|-------------------------------|------------------|---------------|--|
| Client 1 | Client | 19,917.12 | within 1 year | 16.75 |
| Client 2 | Client | 13,744.12 | within 1 year | 11.56 |
| Client 3 | Client | 8,253.06 | within 1 year | 6.94 |
| Client 4 | Client | 7,950.08 | within 1 year | 6.69 |
| Client 5 | Client | 6,311.66 | within 1 year | 5.31 |
| Total | | 56,176.04 | | 47.25 |

(7) Related party's account in accounts receivable

| Name | Relationship with the Company | Amount(RMB'0000) | Proportion in total account receivable (%) |
|--|-------------------------------|------------------|--|
| Bosch Automobile Diesel System Co., Ltd. | Associated company | 3,810.51 | 3.20 |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | Joint-venture | 42.86 | 0.04 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Joint-venture | 502.85 | 0.42 |

| | | | |
|-------|--|----------|------|
| Total | | 4,356.22 | 3.66 |
|-------|--|----------|------|

Bosch Automobile Diesel System Co., Ltd.: hereinafter as “Bosch Diesel System”

(8) Actual write-off of account receivable in this report period

| Name of Unit | Nature of account | write-off amount | Reason for write-off | Caused by related transaction or not |
|--|-------------------|------------------|--|--------------------------------------|
| Yangdong Co., Ltd. | Account for goods | 26,556,176.31 | Undercover due to bankruptcy restructure | No |
| Hunan Power Plant | Account for goods | 4,297,149.16 | Unrecover due to bankruptcy | No |
| Jiangxi Diesel Plant | Account for goods | 3,560,515.78 | Unrecover due to bankruptcy | No |
| Bengby Diesel Plant | Account for goods | 3,317,712.05 | Unrecover due to bankruptcy | No |
| Wuxi Sida Xingxing Diesel Co., Ltd. | Account for goods | 1,191,034.40 | Unrecover due to bankruptcy | No |
| Zhejiang Haofeng Power Manufacture Co., Ltd | Account for goods | 625,143.00 | Unrecover due to bankruptcy | No |
| Jintan Shunfeng Agriculture Accessory Co.,Ltd. | Account for goods | 566,983.74 | The account was too old to collect | No |
| Nantong Tieniu Power Plant | Account for goods | 556,425.50 | The account was too old to collect | No |
| Urumqi Xinhengchang Pump Equipment Co.,Ltd. | Account for goods | 671,860.71 | The account was too old to collect | No |
| Changzhou Atima Power Machinery Co., Ltd. | Account for goods | 353,258.01 | The account was too old to collect | No |
| Yunnan Dehongzhou Tongyong Machinery Co., Ltd | Account for goods | 339,988.31 | The account was too old to collect | No |
| Other Scattered companies | Account for goods | 4,522,128.07 | The account was too old to collect | No |
| Total | | 46,558,375.04 | | |

5-04 Accounts paid in advance

(1) Accounts paid in advance listed according to account age

| Account age | 2011-12-31 | | 2010-12-31 | |
|---------------|-----------------------|----------------|-----------------------|----------------|
| | Amount | Proportion (%) | Amount | Proportion (%) |
| Within 1 year | 171,369,448.54 | 93.44 | 101,673,185.58 | 96.67 |
| 1 to 2 years | 10,928,451.50 | 5.96 | 2,514,288.15 | 2.39 |
| 2 to 3 years | 734,482.92 | 0.40 | 865,858.46 | 0.82 |
| above 3 years | 375,476.08 | 0.20 | 123,447.92 | 0.12 |
| Total | 183,407,859.04 | 100.00 | 105,176,780.11 | 100.00 |

(2) The top five units in term of amount of account paid in advance

| Name of Unit | Relationship with the Company | Amount | Terms | Reason for not settling account |
|--------------|-------------------------------|--------|-------|---------------------------------|
|--------------|-------------------------------|--------|-------|---------------------------------|

| | | | | |
|---|-------------------|-----------------|---------------|---|
| High Hope Int'l Group Jiangsu Native Produce Imp&Exp Corp. Ltd. | Non-related party | 3,432.58 | Within 1 year | Prepaid goods payment, goods had not been delivered |
| Jiangsu Sumeida Tongyong Equipment Trade Consultant Co., Ltd. | Non-related party | 2,634.28 | Within 1 year | Prepaid goods payment, goods had not been delivered |
| Wuxi Property Exchange Co., Ltd. | Non-related party | 2,235.00 | Within 1 year | Prepaid equity transfer amount |
| Shanghai Baosteel Special Metal Material Co., Ltd | Non-related party | 816.83 | Within 1 year | Prepaid goods payment, goods had not been delivered |
| SUNLAY (HONG KONG) DEVELOPMENT TRADING LIMITED | Non-related party | 687.84 | Within 1 year | Prepaid goods payment, goods had not been delivered |
| Total | | 9,806.53 | | |

(3) No accounts paid in advance in this report period involved no shareholder (unit) holding more than 5% vote right share (include 5%) of the Company at period-end

5-05 Other accounts receivable

(1) Other accounts receivable disclosed according to category

| Category | 2011-12-31 | | | |
|--|----------------------|----------------|------------------------|---------------------------|
| | Book balance | | Provision for bad debt | |
| | Amount | Proportion (%) | Amount | Withdrawal proportion (%) |
| Significant single amount and withdrawal bad debt provision single | 2,000,000.00 | 12.08 | 2,000,000.00 | 100.00 |
| Withdrawal bad debt provision based on age combination | 12,152,541.53 | 73.42 | 169,130.65 | 1.39 |
| Minor single amount but withdrawal bad debt provision single | 2,400,000.00 | 14.50 | 2,400,000.00 | 100.00 |
| Total | 16,552,541.53 | 100.00 | 4,569,130.65 | 27.60 |

| Category | 2010-12-31 | | | |
|--|----------------------|----------------|------------------------|---------------------------|
| | Book balance | | Provision for bad debt | |
| | Amount | Proportion (%) | Amount | Withdrawal proportion (%) |
| Significant single amount and withdrawal bad debt provision single | 2,000,000.00 | 17.57 | 2,000,000.00 | 100.00 |
| Withdrawal bad debt provision based on age combination | 6,983,936.59 | 61.35 | 91,719.67 | 1.31 |
| Minor single amount but withdrawal bad debt provision single | 2,400,000.00 | 21.08 | 2,400,000.00 | 100.00 |
| Total | 11,383,936.59 | 100.00 | 4,491,719.67 | 39.46 |

Explanation on categories of other accounts receivable

Other accounts receivable with amount in single item above RMB 1 million indicated other accounts receivable with significant amount in single item from which provision for bad debt was still drawn based on account age analysis method, as no objective evidence showed that the potential depreciation would exceed provision for bad debt drawn by age analysis.

(2) Account receivable with major single amount and withdrawal bad debt provision alone at period-end:

| Content of account receivable | Book balance | Bad debt amount | Accrual proportion (%) | Reasons |
|-------------------------------|--------------|-----------------|------------------------|---------|
|-------------------------------|--------------|-----------------|------------------------|---------|

| | | | | |
|--|--------------|--------------|--------|------------------------------------|
| Jiangsu Techniques and Technology Center | 2,000,000.00 | 2,000,000.00 | 100.00 | The account was too old to collect |
|--|--------------|--------------|--------|------------------------------------|

(3) Account receivable with minor single amount but withdrawal bad debt provision alone at period-end:

| Content of account receivable | Book balance | Bad debt amount | Accrual proportion (%) | Reasons |
|--|---------------------|---------------------|------------------------|------------------------------------|
| Nanjing University | 600,000.00 | 600,000.00 | 100.00 | The account was too old to collect |
| Southeast University | 600,000.00 | 600,000.00 | 100.00 | The account was too old to collect |
| Nanjing University of Science and Technology | 600,000.00 | 600,000.00 | 100.00 | The account was too old to collect |
| Nanjing University of Technology | 600,000.00 | 600,000.00 | 100.00 | The account was too old to collect |
| Total | 2,400,000.00 | 2,400,000.00 | -- | -- |

(4) Account receivable with bad debt provision withdrawal by age combination:

| Book age | 2011-12-31 | | | | |
|--------------------|----------------------|---------------|--------------------|---|------------------------|
| | Amount | Ratio (%) | Bad debt provision | Accrual ratios for bad debt provision (%) | Net account receivable |
| Within 6 months | 11,420,349.73 | 93.97 | -- | -- | 11,420,349.73 |
| 6 months to 1 year | 271,263.60 | 2.23 | 27,126.36 | 10.00 | 244,137.24 |
| 1-2 years | 392,729.88 | 3.23 | 78,545.97 | 20.00 | 314,183.91 |
| 2-3 years | 7,900.00 | 0.07 | 3,160.00 | 40.00 | 4,740.00 |
| Over 3 years | 60,298.32 | 0.50 | 60,298.32 | 100.00 | -- |
| Total | 12,152,541.53 | 100.00 | 169,130.65 | 1.39 | 11,983,410.88 |

| Book age | 2010-12-31 | | | | |
|--------------------|---------------------|---------------|--------------------|---|------------------------|
| | Amount | Ratio (%) | Bad debt provision | Accrual ratios for bad debt provision (%) | Net account receivable |
| Within 6 months | 6,485,218.32 | 92.86 | -- | -- | 6,485,218.32 |
| 6 months to 1 year | 338,483.30 | 4.85 | 33,848.33 | 10.00 | 304,634.97 |
| 1-2 years | 98,044.61 | 1.40 | 19,608.92 | 20.00 | 78,435.69 |
| 2-3 years | 39,879.91 | 0.57 | 15,951.97 | 40.00 | 23,927.94 |
| Over 3 years | 22,310.45 | 0.32 | 22,310.45 | 100.00 | -- |
| Total | 6,983,936.59 | 100.00 | 91,719.67 | 1.31 | 6,892,216.92 |

(5) No arrears held by shareholder (unit) holding more than 5% vote right share (include 5%) of the Company at period-end

(6) The top five units in term of amount of other accounts receivable at period-end

| Name of unit | Amount (RMB'0000) | Time limit | Proportion to total amount of other accounts receivable (%) | Remark |
|--|-------------------|-----------------|---|----------------------------------|
| Nanjing Yinkun Tongchan Assets Operational Co., Ltd. | 324.40 | Within 6 months | 19.60 | No bad debt provision withdrawal |

| | | | | |
|--|--------|-----------------|-------|---|
| Jiangsu Techniques and Technology Center | 200.00 | Over 3years | 12.08 | Provision for bad debt had been withdrawn in full amount. |
| Nanjing Shanquan Bio-Tech Co., Ltd. | 110.56 | Within 6 months | 6.68 | No bad debt provision withdrawal |
| Nanjing University | 60.00 | Over 3years | 3.62 | Provision for bad debt had been withdrawn in full amount. |
| Southeast University | 60.00 | Over 3years | 3.62 | Provision for bad debt had been withdrawn in full amount. |
| Nanjing University of Science and Technology | 60.00 | Over 3years | 3.62 | Provision for bad debt had been withdrawn in full amount. |
| Nanjing University of Technology | 60.00 | Over 3years | 3.62 | Provision for bad debt had been withdrawn in full amount. |
| Total | 874.96 | | 52.84 | |

5-06 Inventories

(1) Classification for inventories

| Item | 2011-12-31 | | | 2010-12-31 | | |
|---------------------|-----------------------|---------------------------|-----------------------|-------------------------|---------------------------|-----------------------|
| | Book balance | Provision for devaluation | Book value | Book balance | Provision for devaluation | Book value |
| Inventory materials | 194,619,066.60 | 44,694,662.30 | 149,924,404.30 | 230,606,966.36 | 59,436,820.99 | 171,170,145.37 |
| Goods in production | 154,676,188.96 | 4,220,541.89 | 150,455,647.07 | 141,356,002.63 | 893,843.23 | 140,462,159.40 |
| Inventory goods | 638,730,126.78 | 55,528,087.37 | 583,202,039.41 | 666,605,351.81 | 60,543,360.04 | 606,061,991.77 |
| Total | 988,025,382.34 | 104,443,291.56 | 883,582,090.78 | 1,038,568,320.80 | 120,874,024.26 | 917,694,296.54 |

(2) Provision for depreciation of inventory price

| Inventory category | 2010-12-31 | Increase in this period | Decrease in this period | | 2011-12-31 |
|---------------------|-----------------------|-------------------------|-------------------------|----------------------|-----------------------|
| | | | Transfer-in | Transfer-out | |
| Inventory materials | 59,436,820.99 | -- | -- | 14,742,158.69 | 44,694,662.30 |
| Goods in production | 893,843.23 | 3,332,819.21 | -- | 6,120.55 | 4,220,541.89 |
| Inventory goods | 60,543,360.04 | 2,373,424.42 | -- | 7,388,697.09 | 55,528,087.37 |
| Total | 120,874,024.26 | 5,706,243.63 | -- | 22,136,976.33 | 104,443,291.56 |

(3) Provision for inventory devaluation

| Item | Basis for withdrawing provision for inventory devaluation | Reason for return and charge-offs of provision for inventory devaluation in this period | Proportion of charge-off amount in this period to the period-end amount of inventory in this item (%) |
|---------------------|--|---|---|
| Inventory goods | Compared cost of inventory at period-end with its net realizable value by single item comparison method and withdrew provision for price drop according to the balance | Charge-off mainly due to the sales for external | 7.57% |
| Goods in production | | | -- |

| | | | |
|----------------|---|--|-------|
| Stock products | between the net realizable value and cost. As the country improved standard for vehicle exhaust emission, the Company had correspondingly withdrawn provision for devaluation for products and relevant raw materials failing to meet new standard. | | 1.16% |
|----------------|---|--|-------|

5-07 Other current assets

| Item | 2011-12-31 | 2010-12-31 |
|-------------------------------|----------------------|---------------------|
| Receivable export tax rebates | 10,199,548.21 | 9,126,643.52 |
| Others | 35,477.00 | 84,138.72 |
| Total | 10,235,025.21 | 9,210,782.24 |

5-08 Investment in joint ventures and associated ventures

| Investee | Type of enterprise | Registration place | legal person representative | Nature of business |
|--|----------------------------|--------------------|-----------------------------|--|
| I. Joint venture | | | | |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | Sino-foreign joint venture | Wuxi | Gao Guoyuan | Automotive spare parts |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Sino-foreign joint venture | Wuxi | Ou Jianbin | Catalyst |
| II. Associated company | | | | |
| Bosch Diesel System | Sino-foreign joint venture | Wuxi | BOHLER KLAUS | Accessories and matching parts of internal combustion engine |
| Zhonglian Automobile Electronic Co., Ltd. | Limited company | Shanghai | Chen Hong | Accessories and matching parts of internal combustion engine |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Limited company | Wuxi | Chen Haojun | Accessories and matching parts of internal combustion engine |
| Wuxi ITM Engine Co., Ltd. | Limited company | Wuxi | Wang Weiliang | Accessories and matching parts of internal combustion engine |

| Investee | Registered capital(in ten thousand yuan) | Equity held (%) | Proportion of vote right (%) | Net assets value at period-end(in ten thousand yuan) |
|--|---|-----------------|------------------------------|---|
| I. Joint venture | | | | |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | USD1,000 | 50.00 | 50.00 | 16,360 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | 5,000 | 49.00 | 49.00 | 78,606 |
| II. Associated company | | | | |

| | | | | |
|--|-----------|-------|-------|---------|
| Bosch Diesel System | USD20,000 | 31.50 | 31.50 | 518,824 |
| Zhonglian Automobile Electronic Co., Ltd. | 60,062 | 20.00 | 20.00 | 222,366 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 1,200 | 20.00 | 20.00 | 28,644 |
| Wuxi ITM Engine Co., Ltd. | 1,000 | 40.00 | 40.00 | 993 |

| Investee | Total value of liability at period-end(in ten thousand yuan) | Total value of net assets at period-end (in ten thousand yuan) | Total operating value of this period(in ten thousand yuan) | Net profit of this period (in ten thousand yuan) |
|--|---|---|---|---|
| I. Joint venture | | | | |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 3,725 | 12,635 | 16,871 | 3,335 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | 39,368 | 39,238 | 100,734 | 8,477 |
| II. Associated company | | | | |
| Bosch Diesel System | 204,978 | 313,846 | 504,439 | 74,475 |
| Zhonglian Automobile Electronic Co., Ltd. | 18,263 | 204,103 | 23,678 | 96,986 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 13,670 | 14,974 | 30,125 | 6,356 |
| Wuxi ITM Engine Co., Ltd. | -- | 993 | 152 | 54 |

5-09 Long-term equity investment

(1) Detail List of long-term equity investment

| Investee | calculating method | Investment cost (in ten thousand yuan) | 2010-12-31 | Increase/decrease | 2011-12-31 | Cash bonus |
|--|--------------------|---|-------------------------|------------------------|-------------------------|-----------------------|
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | Equity | 3,784.21 | 60,056,783.99 | 4,622,842.19 | 64,679,626.18 | 12,050,000.00 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Equity | 2,450.00 | 150,730,804.20 | 41,536,932.73 | 192,267,736.93 | -- |
| Kunming Xitong Machinery Co., Ltd. | Equity | 423.50 | 4,278,649.95 | -4,278,649.95 | -- | -- |
| Subtotal of joint ventures | | | 215,066,238.14 | 41,881,124.97 | 256,947,363.11 | 12,050,000.00 |
| Bosch Diesel System | Equity | 54,955.70 | 1,108,776,001.04 | -116,637,638.30 | 992,138,362.74 | 348,145,325.96 |
| Zhonglian Automobile Electronic Co., Ltd. | Equity | 12,012.40 | 439,766,893.01 | -41,678,388.92 | 398,088,504.09 | 235,650,525.01 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Equity | 200.00 | 18,787,646.00 | 10,609,360.55 | 29,397,006.55 | 2,040,000.00 |
| Wuxi ITM Engine Co., Ltd. | Equity | 400.00 | 3,775,374.27 | 195,362.09 | 3,970,736.36 | -- |
| Subtotal of associated ventures | | | 1,571,105,914.32 | -147,511,304.58 | 1,423,594,609.74 | 585,835,850.97 |
| Guolian Securities Co., Ltd. | Cost | 1,200.00 | 12,000,000.00 | -- | 12,000,000.00 | -- |
| Guangxi Liufa Co., Ltd. | Cost | 160.00 | 1,600,000.00 | -- | 1,600,000.00 | -- |

| | | | | | | |
|--|------|----------|-------------------------|------------------------|-------------------------|-----------------------|
| Financial Company of Changchai Co., Ltd. | Cost | 80.00 | 800,000.00 | -- | 800,000.00 | -- |
| H&J Vanguard Investment Co., Ltd. | Cost | 3,300.00 | 33,000,000.00 | -- | 33,000,000.00 | -- |
| Nanjing Hengtai Insurance and Broker Co., Ltd. | Cost | 100.00 | 1,000,000.00 | -- | 1,000,000.00 | 25,000.00 |
| Jiangsu HSBC Insurance Agents Limited | Cost | 50.00 | 500,000.00 | -- | 500,000.00 | -- |
| Yangdong Co., Ltd. | Cost | 235.59 | 2,355,900.00 | -- | 2,355,900.00 | -- |
| Henan Gushi Weining Oil Pump & Nozzle Co., Ltd. etc. | Cost | 203.31 | 2,033,106.95 | -- | 2,033,106.95 | -- |
| Yangdong Co., Ltd. (Weifu Jinning) | Cost | 20.00 | 200,000.00 | -- | 200,000.00 | -- |
| Wuxi Venture Capital Limited Company | Cost | 300.00 | 3,000,000.00 | -- | 3,000,000.00 | -- |
| Beijing Foton Environmental Engine Co., Ltd. | Cost | 8,694.00 | 86,940,000.00 | -- | 86,940,000.00 | -- |
| Wuxi Xidong Technological Industry Park Co., Ltd. | Cost | 500.00 | 5,000,000.00 | -- | 5,000,000.00 | -- |
| Shanghai IMS Automotive Electronic System Co., Ltd. | Cost | 1,000.00 | 10,000,000.00 | -- | 10,000,000.00 | -- |
| Subtotal of other investments | | | 158,429,006.95 | -- | 158,429,006.95 | 25,000.00 |
| Total of long-term equity investment | | | 1,944,601,159.41 | -105,630,179.61 | 1,838,970,979.80 | 597,910,850.97 |

| Investee | Equity held (%) | Proportion of vote right (%) | Explanation for discrepancy between equity-holding proportion and vote right proportion | Depreciation provision at period-end | Depreciation provision withdrawn in this period |
|--|-----------------|------------------------------|---|--------------------------------------|---|
| Guolian Securities Co., Ltd. | 1.20 | 1.20 | -- | -- | -- |
| Guangxi Liufa Co., Ltd. | 1.22 | 1.22 | -- | 1,600,000.00 | -- |
| Financial Company of Changchai Co., Ltd. | | | -- | 800,000.00 | -- |
| H&J Vanguard Investment Co., Ltd. | 11.72 | 11.72 | -- | 33,000,000.00 | -- |
| Nanjing Hengtai Insurance and Broker Co., Ltd. | 1.85 | 1.85 | -- | 1,000,000.00 | -- |
| Jiangsu HSBC Insurance Agents Limited | 10.00 | 10.00 | -- | 500,000.00 | -- |
| Yangdong Co., Ltd. | 1.18 | 1.18 | -- | 2,555,900.00 | -- |
| Henan Gushi Weining Oil Pump & Nozzle Co., Ltd. etc. | | | -- | 2,033,106.95 | -- |

| | | | | | |
|---|--------|--------|----|----------------------|----|
| Wuxi Venture Capital Limited Company | 1.4118 | 1.4118 | -- | -- | -- |
| Beijing Foton Environmental Engine Co., Ltd. | 13.44 | 13.44 | -- | 11,000,000.00 | -- |
| Wuxi Xidong Technological Industry Park Co., Ltd. | 1.43 | 1.43 | -- | -- | -- |
| Shanghai IMS Automotive Electronic System Co., Ltd. | 18.52 | 18.52 | -- | -- | -- |
| Total | | | | 52,489,006.95 | -- |

(2) No significant limited on the wired investment income of investee

(3) Commentary on long-term equity investment

[Note1] Kunming Xitong: former affiliated company of the Company. In this year, 20% equity of Kunming Xitong held by Kunming Jinlida Machinery Co., Ltd. was transferred, the Company held 70% of the company and Kunming Xitong turns controlling subsidiary of the Company. Kunming Xitong completed its changes in industry and commerce in May 2011 and reckoned into consolidation range of financial statement since May of 2011.

[Note 2] Bosch Diesel System: register capital amounting to USD 0.2 billion. The Company invested USD 60 million, a 30% in total registered capital while Weifu Jinning invested USD 3 million, a 1.5% in total registered capital.

5-10 Investment real estate

| | Book balance at period-begin | Increase in this period | Decrease in this period | Book balance at period-end |
|---|------------------------------|-------------------------|-------------------------|----------------------------|
| I. The original book value | | | | |
| House and building | 24,381,403.72 | -- | 289,920.97 | 24,091,482.75 |
| II. Accumulated depreciation | | | | |
| House and building | 19,415,524.20 | 504,793.72 | 181,047.03 | 19,739,270.89 |
| III. Book value of investment real estate | | | | |
| House and building | 4,965,879.52 | | | 4,352,211.86 |

Investment real estate of the Company calculated based on cost method.

5-11 Fixed assets

(1) Particulars about fixed assets

| | 2010-12-31 | Increase in this period | Decrease in this period | 2011-12-31 |
|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| I. The original book value | | | | |
| Include: buildings | 701,361,060.29 | 48,612,287.14 | -- | 749,973,347.43 |
| General equipment | 164,858,636.53 | 23,818,430.52 | 2,139,552.30 | 186,537,514.75 |
| Special equipment | 1,033,810,628.42 | 272,646,331.16 | 19,103,309.64 | 1,287,353,649.94 |
| Transportation equipment | 23,286,321.04 | 3,829,214.88 | 5,187,819.45 | 21,927,716.47 |
| Other equipment | 206,116,090.10 | 39,063,179.60 | 9,365,810.02 | 235,813,459.68 |
| Original book value in total | 2,129,432,736.38 | 387,969,443.30 | 35,796,491.41 | 2,481,605,688.27 |
| II. Accumulated depreciation | | | | |
| Include: buildings | 153,236,208.16 | 18,033,910.23 | -- | 171,270,118.39 |

| | | | | |
|--|-------------------------|-----------------------|----------------------|-------------------------|
| General equipment | 95,545,559.20 | 20,074,083.79 | 1,657,840.98 | 113,961,802.01 |
| Special equipment | 527,713,934.32 | 79,051,562.83 | 10,107,588.70 | 596,657,908.45 |
| Transportation equipment | 15,980,679.17 | 2,343,833.54 | 4,073,826.22 | 14,250,686.49 |
| Other equipment | 120,555,656.09 | 11,433,060.16 | 8,272,683.29 | 123,716,032.96 |
| Accumulated depreciation in total | 913,032,036.94 | 130,936,450.55 | 24,111,939.19 | 1,019,856,548.30 |
| III. Provision for fixed assets devaluation | | | | |
| General equipment | 20,414,030.15 | -- | 318,127.92 | 20,095,902.23 |
| Special equipment | 77,318,227.64 | 576,827.79 | 2,173,090.79 | 75,721,964.64 |
| Transportation equipment | 134,401.36 | -- | -- | 134,401.36 |
| Other equipment | 8,465,925.01 | -- | 178,562.86 | 8,287,362.15 |
| Total provision for fixed assets devaluation | 106,332,584.16 | 576,827.79 | 2,669,781.57 | 104,239,630.38 |
| IV. Book value of fixed assets | | | | |
| Include: buildings | 548,124,852.13 | | | 578,703,229.04 |
| General equipment | 48,899,047.18 | | | 52,479,810.51 |
| Special equipment | 428,778,466.46 | | | 614,973,776.85 |
| Transportation equipment | 7,171,240.51 | | | 7,542,628.62 |
| Other equipment | 77,094,509.00 | | | 103,810,064.57 |
| Total book value of fixed assets | 1,110,068,115.28 | | | 1,357,509,509.59 |

The accumulated depreciation value increased RMB130,936,450.55 in this period, among which, accumulated depreciation value of RMB 641,933.73 from Kunming Xitong at the beginning of merger period was included, and depreciation value withdrawal in this period amounted to RMB 130,294,516.82.

Original fixed assets value in the period including RMB 1,840,610.64 original fixed assets value from Kunming Xitong at beggning of the merger. Construction in process tranfered RMB 335,705,693.49 into original value of fixed assets, others were refered to purchase directly.

(2) No fixed assets rented by means of financing lease at period-end

(3)No pledged fixed assets at period-end

(4) Fixed assets whose property right certificate had not been issued?

| Item | Original value of fixed assets | Reasons why property right certificate had not been issued | Estimated time to obtain property right certificate |
|--|--------------------------------|--|---|
| Plants and office buildings of Weifu Chang'an | 59.89 million yuan | In the process of handling | 2012 |
| Plants in Huishan Development Zone of parent company | 32.45 million yuan | Newly-built plant, and in the process of handling | 2012 |

5-12 Project in construction

(1)Specific projects

| Project | 2011-12-31 | | | 2010-12-31 | | |
|---------|--------------|------------------------|----------------|--------------|------------------------|----------------|
| | Book balance | Depreciation provision | Net book value | Book balance | Depreciation provision | Net book value |

| | | | | | | |
|---|----------------|--------------|---------------|----------------|--------------|----------------|
| Project of High Pressure Common Rail | -- | -- | -- | 500,360.00 | -- | 500,360.00 |
| R&D of WAPS, industrialization, productivity expansion of diesel common rail system parts | 35,734,087.26 | -- | 35,734,087.26 | 33,326,479.21 | | 33,326,479.21 |
| Construction project in industrial zone | 7,652,729.49 | -- | 7,652,729.49 | -- | -- | -- |
| Industrialization of tail treatment system | 5,609,392.60 | -- | 5,609,392.60 | -- | -- | -- |
| Research institution project | 11,308,448.56 | -- | 11,308,448.56 | 39,315,584.15 | -- | 39,315,584.15 |
| Miscellaneous Projects | 42,452,871.45 | 4,469,121.67 | 37,983,749.78 | 73,783,607.77 | 4,669,298.50 | 69,114,309.27 |
| Total | 102,757,529.36 | 4,469,121.67 | 98,288,407.69 | 146,926,031.13 | 4,669,298.50 | 142,256,732.63 |

(2) Changes in significant projects in construction

| Project | Amount at period-begin | Increase in this period | Fixed assets converted in this period | Amount at period-end | Project process | fund resource |
|---|------------------------|-------------------------|---------------------------------------|----------------------|-----------------|-------------------|
| R&D of WAPS, industrialization, productivity expansion of diesel common rail system parts | 33,326,479.21 | 169,317,634.07 | 166,910,026.02 | 35,734,087.26 | 31.00% | Self-raised funds |
| Construction project in industrial zone | -- | 16,386,609.83 | 8,733,880.34 | 7,652,729.49 | 1.00% | Self-raised funds |
| Industrialization of tail treatment system | -- | 20,205,004.07 | 14,595,611.47 | 5,609,392.60 | 8.00% | Self-raised funds |
| Research institution project | 39,315,584.15 | 26,212,652.05 | 54,219,787.64 | 11,308,448.56 | 99.00% | Self-raised funds |
| Total | 72,642,063.36 | 232,121,900.02 | 244,459,305.47 | 60,304,657.91 | | |

The aforesaid projects all contained no capitalized interest.

5-13 Intangible assets

(1) Particulars about intangible assets

| Item | 2010-12-31 | Increase in this period | Decrease in this period | 2011-12-31 |
|--------------------------------------|---------------|-------------------------|-------------------------|----------------|
| I. Original book value | | | | |
| Land use right of the parent company | 30,452,575.50 | 163,689,589.10 | -- | 194,142,164.60 |

| | | | | |
|--|-----------------------|-----------------------|---------------------|-----------------------|
| Permitted trademark use right of Weifu Jinning | 26,355,900.00 | -- | -- | 26,355,900.00 |
| Land use right of Weifu Jinning | 28,751,600.00 | -- | -- | 28,751,600.00 |
| Software of Weifu Jinning | 346,000.00 | -- | 346,000.00 | -- |
| Land use right of Weifu Diesel oil System | 13,231,740.00 | -- | -- | 13,231,740.00 |
| Software of Weifu Diesel oil System | 6,281,404.06 | 166,666.66 | 4,961,925.00 | 1,486,145.72 |
| Land use right of ITM Machinery | 17,136,659.60 | -- | -- | 17,136,659.60 |
| Land use right of the WeifuTianli | 13,968,816.80 | -- | -- | 13,968,816.80 |
| Non-patent technology of WeifuTianli | 2,640,000.00 | -- | 2,640,000.00 | -- |
| Software of WeifuTianli | 860,623.89 | 1,844,756.37 | -- | 2,705,380.26 |
| Land use right of Weifu Jialin | 1,150,072.22 | -- | -- | 1,150,072.22 |
| Non-patent technology of Weifu Schmitter | -- | 3,539,793.05 | -- | 3,539,793.05 |
| Software of Weifu Leader | -- | 589,743.58 | -- | 589,743.58 |
| Total | 141,175,392.07 | 169,830,548.76 | 7,947,925.00 | 303,058,015.83 |
| II. Accumulative amortization | | | | |
| Land use right of the parent company | 3,718,811.13 | 2,579,925.55 | -- | 6,298,736.68 |
| Permitted trademark use right of Weifu Jinning | 9,709,000.00 | -- | -- | 9,709,000.00 |
| Land use right of Weifu Jinning | 12,218,607.56 | 958,272.00 | --- | 13,176,879.56 |
| Software of Weifu Jinning | 346,000.00 | -- | 346,000.00 | -- |
| Land use right of Weifu Diesel oil System | 1,807,359.67 | 282,083.46 | -- | 2,089,443.13 |
| Software of Weifu Diesel oil System | 5,530,463.22 | 243,190.14 | 4,961,925.00 | 811,728.36 |
| Land use right of ITM Machinery | 2,599,060.08 | 342,733.20 | -- | 2,941,793.28 |
| Land use right of Weifu Tianli | 227,242.40 | 342,263.59 | -- | 569,505.99 |
| Non-patent technology of WeifuTianli | 2,327,365.60 | 312,634.40 | 2,640,000.00 | -- |
| Software of WeifuTianli | 278,560.73 | 230,221.55 | -- | 508,782.28 |
| Land use right of Weifu Jialin | 110,198.56 | 24,043.32 | -- | 134,241.88 |

| | | | | |
|--|----------------------|---------------------|---------------------|-----------------------|
| Non-patent technology of Weifu Schmitter | -- | 147,491.40 | -- | 147,491.40 |
| Software of Weifu Leader | -- | 102,326.69 | -- | 102,326.69 |
| Total | 38,872,668.95 | 5,565,185.30 | 7,947,925.00 | 36,489,929.25 |
| III. Devaluation provision for intangible assets | | | | |
| Permitted trademark use right of Weifu Jinning | 16,646,900.00 | -- | -- | 16,646,900.00 |
| IV. Book value of intangible assets | | | | |
| Land use right of the parent company | 26,733,764.37 | | | 187,843,427.92 |
| Permitted trademark use right of Weifu Jinning | -- | | | -- |
| Land use right of Weifu Jinning | 16,532,992.44 | | | 15,574,720.44 |
| Software of Weifu Jinning | -- | | | -- |
| Land use right of Weifu Diesel oil System | 11,424,380.33 | | | 11,142,296.87 |
| Software of Weifu Diesel oil System | 750,940.84 | | | 674,417.36 |
| Land use right of Weifu ITM | 14,537,599.52 | | | 14,194,866.32 |
| Land use right of Weifu Tianli | 13,741,574.40 | | | 13,399,310.81 |
| Non-patent technology of Weifu Tianli | 312,634.40 | | | -- |
| Software of Weifu Tianli | 582,063.16 | | | 2,196,597.98 |
| Land use right of Weifu Jialin | 1,039,873.66 | | | 1,015,830.34 |
| Non-patent technology of Weifu Schmitter | -- | | | 3,392,301.65 |
| Software of Weifu Leader | -- | | | 487,416.89 |
| Total | 85,655,823.12 | | | 249,921,186.58 |

RMB 5,565,185.30 amortized in this period.

Commentary on intangible assets;

Land use right of parent company: land use right in this year refers to the land purchased by the Company located in New district of Wuxi.

Permitted trademark use right of Weifu Jinning: refers to the former trademark license of Weifu Group. Relevant products have no market due to implementation of new emission standards. Book value has been totally withdrawal for depreciation provision in 2009.

5-14 Goodwill

| Item | 2011-12-31 | 2010-12-31 |
|--------------|--------------|--------------|
| Weifu Tianli | 1,784,086.79 | 1,784,086.79 |

Goodwill of Weifu Tianli: Weifu Tianli was controlling merged by cash investment from the Company in 2010, goodwill refers to the parts that consolidation cost larger than its fair value of identifiable net assets of Weifu Tianli. Weifu Tianli has a normal operation status and achieved profit in year of 2010 and 2011, no sign of depreciation been found.

5-15 Deferred income tax assets

(1) Confirmed deferred income tax assets

| Item | 2011-12-31 | 2010-12-31 |
|--|----------------------|----------------------|
| Provision for assets devaluation | 37,032,532.19 | 40,718,248.30 |
| Operating losses of subsidiaries | 2,390,241.42 | 1,399,687.24 |
| Deferred income | 8,847,000.00 | -- |
| Profit not realized internally | 4,458,291.48 | -- |
| Salary payable, three-guarantee paid withdrawal and others | 30,603,817.94 | 4,190,909.17 |
| Subtotal | 83,331,883.03 | 46,308,844.71 |

(2) Assets causing temporary difference or temporary difference of liabilities items

| Item | 2011-12-31 | 2010-12-31 |
|---|-----------------------|-----------------------|
| Provision for bad debt | 26,396,861.34 | 72,762,060.51 |
| Devaluation provision for inventory | 104,443,291.56 | 120,874,024.26 |
| Impairment provision of long-term equity investment | 52,489,006.95 | 52,489,006.95 |
| Devaluation provision for fixed assets | 104,239,630.38 | 106,332,584.16 |
| Devaluation provision for projects in construction | 4,469,121.67 | 4,669,298.50 |
| Devaluation provision for intangible | 16,646,900.00 | 16,646,900.00 |
| Deficit from subsidiaries | 24,147,907.52 | 23,341,031.22 |
| Deferred income | 58,980,000.00 | -- |
| Profit not realized internally | 24,645,429.09 | -- |
| Other | 204,025,452.84 | 27,939,394.46 |
| Total | 620,483,601.35 | 425,054,300.06 |

(3) Specific deferred income tax assets unconfirmed

| Item | 2011-12-31 | 2010-12-31 | Note |
|--|----------------------|----------------------|---|
| Deductible temporary difference--provision for bad debt (parent company) | 16,426,231.77 | 57,026,651.93 | The indetermination of evidence obtained in line with taxation bureau, hard to list out before taxation |
| Deductible losses -Weifu ITM | 14,586,941.82 | 17,742,282.27 | There were uncertainties in the potential of generating enough taxable income. |
| Total | 31,013,173.59 | 74,768,934.20 | |

(4) The deductible losses of unconfirmed deferred income tax assets would fall due in the year as follow

| Expire year | 2011-12-31 | 2010-12-31 | Note |
|-------------|---------------|---------------|--|
| 2013 | 14,586,941.82 | 17,742,282.27 | ITM Machinery have un-recover losses in 2008 |

5-16 Provision for assets devaluation

| Item | 2010-12-31 | Increase in this period | Decrease in this period | | 2011-12-31 |
|------------------------|---------------|-------------------------|-------------------------|---------------|---------------|
| | | | Transfer-in | Transfer-out | |
| Provision for bad debt | 72,762,060.51 | 855,031.73 | 661,855.86 | 46,558,375.04 | 26,396,861.34 |

| | | | | | |
|--|-----------------------|---------------------|-------------------|----------------------|-----------------------|
| Devaluation provision for inventory | 120,874,024.26 | 5,706,243.63 | -- | 22,136,976.33 | 104,443,291.56 |
| Devaluation provision for long-term | 52,489,006.95 | -- | -- | -- | 52,489,006.95 |
| Devaluation provision for fixed assets | 106,332,584.16 | 576,827.79 | -- | 2,669,781.57 | 104,239,630.38 |
| Devaluation provision for projects in construction | 4,669,298.50 | -- | -- | 200,176.83 | 4,469,121.67 |
| Devaluation provision for intangible assets | 16,646,900.00 | -- | -- | -- | 16,646,900.00 |
| Total | 373,773,874.38 | 7,138,103.15 | 661,855.86 | 71,565,309.77 | 308,684,811.90 |

5-17 Short-term loans

| Item | 2011-12-31 | 2010-12-31 |
|---------------------|-----------------------|-----------------------|
| Credit loan | 465,000,000.00 | 270,000,000.00 |
| Factoring borrowing | 30,000,000.00 | -- |
| Total | 495,000,000.00 | 270,000,000.00 |

Factoring borrowing: borrowing obtained with guarantee of part of account receivable by Weifu Chang'an

5-18 Notes payable

| Type | 2011-12-31 | 2010-12-31 |
|----------------------------|-----------------------|-----------------------|
| Bank acceptance bill | 164,301,719.94 | 309,985,533.69 |
| Commercial acceptance bill | -- | 80,000,000.00 |
| Total | 164,301,719.94 | 389,985,533.69 |

Commentary on notes payable;

For the purpose of issuing bank acceptance bill, guaranty deposits for notes payable at period-end should sum up to RMB 107.19 million and pledged notes receivable should be worth RMB 60.5149 million

5-19Accounts payable

(1) Account age of account payable

| Item | 2011-12-31 | 2010-12-31 |
|---------------|-------------------------|-------------------------|
| Within 1 year | 1,281,117,377.51 | 1,177,028,889.96 |
| 1 to 2 years | 4,115,809.28 | 7,744,905.06 |
| 2 to 3 years | 5,183,739.67 | 5,539,165.60 |
| Above 3 years | 7,476,313.28 | 4,740,117.22 |
| Total | 1,297,893,239.74 | 1,195,053,077.84 |

(2) No accounts should pay for shareholders holding more than 5% (include 5%) vote right share of the Company among accounts payable in this report period

(3) Accounts of other related parties among accounts payable in this report period

In ten thousand yuan

| Name of Unit | Related relationship | 2011-12-31 | 2010-12-31 |
|--|-----------------------|------------|------------|
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Affiliated enterprise | 1,934 | 3,212 |
| Bosch Diesel System | Affiliated enterprise | 3,897 | 562 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Joint-venture | 14,379 | 1,753 |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | Joint-venture | 463 | 21 |
| Total | | 20,673 | 5,548 |

(4) Commentary on huge accounts payable with account age above 1 year

There was no huge account payable with account age above 1 year.

5-20 Account received in advance

(1) Account age of account received in advance

| Item | 2011-12-31 | 2010-12-31 |
|---------------|----------------------|----------------------|
| Within 1 year | 47,368,413.18 | 32,914,886.15 |
| 1 to 2 years | 3,977,350.52 | 5,057,949.80 |
| 2 to 3 years | 1,624,236.70 | 2,338,947.23 |
| Above 3 years | 2,319,940.85 | 1,960,115.97 |
| Total | 55,289,941.25 | 42,271,899.15 |

(2) No accounts of shareholders (units) holding more than 5% (include 5%) vote right share of the Company among other accounts received in advance in this report period.

(3) Accounts of other related unites among accounts received in advance in this report period

In ten thousand yuan

| Name of Unit | Related relationship | 2011-12-31 | 2010-12-31 |
|--|---|------------|------------|
| Kunming Xitong Machinery Co., Ltd. | Former joint venture of the Company, turns controlling subsidiary of the Company in this year | -- | 907 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Associated enterprise | 359 | 32 |
| Total | | 359 | 939 |

Commentary on huge accounts received in advance with account age above 1 year:

There were no huge accounts received in advance with account age exceeding 1 year.

5-21 Employees' wage payable

| Item | 2010-12-31 | Increase in this period | Decrease in this period | 2011-12-31 |
|---|-----------------------|-------------------------|-------------------------|-----------------------|
| I. Salary, bonus, allowance and subsidy | 164,241,567.33 | 342,393,889.46 | 304,566,957.96 | 202,068,498.83 |
| II. Employees' welfare | -- | 30,899,191.25 | 30,899,191.25 | -- |
| III. Social insurance | 37,354,882.55 | 90,080,839.18 | 91,692,947.75 | 35,742,773.98 |
| IV. Housing Fund Social Insurance | 3,446,168.59 | 26,158,597.00 | 28,058,125.00 | 1,546,640.59 |
| V. Housing allowance for employees | 28,201,581.46 | 1,790,116.88 | 5,836,370.93 | 24,155,327.41 |
| VI. Labor union expenditure and Personnel education expenditure | 15,326,618.03 | 7,681,402.73 | 8,156,552.00 | 14,851,468.76 |
| VII. Others | 21,181,128.00 | 339,378.47 | 21,113,228.07 | 407,278.40 |
| Total | 269,751,945.96 | 499,343,414.97 | 490,323,372.96 | 278,771,987.97 |

No payment of arrears among employees' salary payable.

Arrangements about the estimated distribution time and amount, etc. for employees' salary payable:

The Company distributed employees' bonus for 2011 before the end of April of 2012. The reward fund withdrawn by parent company according to resolutions of Shareholders' General Meeting was contained in salary, bonus, allowance and subsidy. The Company would apply the reward fund in conformity with the arrangement of the Board of Directors.

5-22 Taxes payable

| Item | 2011-12-31 | 2010-12-31 |
|-----------------------------|----------------------|-----------------------|
| Value-added tax | 5,769,272.41 | 7,489,683.61 |
| Tax for city construction | 1,898,229.84 | 1,196,683.03 |
| Enterprise income tax | 64,506,553.13 | 92,570,027.89 |
| Extras of education expense | 902,190.56 | 683,850.70 |
| Individual income tax | 553,621.27 | 1,490,857.37 |
| Others | 4,107,256.53 | 4,472,860.71 |
| Total | 77,737,123.74 | 107,903,963.31 |

5-23 Dividend payable

| Item | 2011-12-31 | 2010-12-31 |
|--|---------------------|----------------------|
| Minority shareholders' dividend of Weifu Leader | 3,444,762.15 | -- |
| Minority shareholders' dividend of Weifu Diesel System | -- | 3,405,524.92 |
| Minority shareholders' dividend of Weifu International Trade | -- | 58,811.23 |
| Minority shareholders' dividend of Weifu Tianli | -- | 15,232,203.03 |
| Total | 3,444,762.15 | 18,696,539.18 |

5-24 Other accounts payable

(1) Account age of other account payable

| Item | 2011-12-31 | 2010-12-31 |
|---------------|----------------------|----------------------|
| Within 1 year | 73,196,628.69 | 50,119,391.33 |
| 1 to 2 years | 2,941,318.76 | 3,419,976.97 |
| 2 to 3 years | 2,251,679.81 | 3,628,563.69 |
| Above 3 years | 5,601,944.17 | 5,333,681.75 |
| Total | 83,991,571.43 | 62,501,613.74 |

(2) No accounts of shareholders (units) holding more than 5% (include 5%) vote right share of the Company among other accounts payable in this report period.

(3) Commentary on other accounts payable with account age exceeding 1 year:

| Item | 2011-12-31 | Remark |
|------|------------|--------|
|------|------------|--------|

| | | |
|--|--------------|------------------|
| Nanjing Electromechanical Industry (Group) Co., Ltd. | 4,500,000.00 | Current accounts |
|--|--------------|------------------|

5-25 Non-current liability/long-term loans due within one year

(1) Classification of long-term loans

| Item | 2011-12-31 | 2010-12-31 |
|--|--------------|--------------|
| Credit loans | 3,000,000.00 | 3,000,000.00 |
| Including: non-current liability due within one year | 3,000,000.00 | -- |

(2) Top five amount of long-term loans

| Unit | Starting date for loan | Expired dated for loans | Currency | Rate | 2011-12-31 | 2010-12-31 |
|--|------------------------|-------------------------|----------|------|--------------|--------------|
| Jiangsu International Trust Corp. Ltd. | 2009-11-27 | 2012-5-27 | RMB | 0.3% | 3,000,000.00 | 3,000,000.00 |

Explanation of long-term loans:

According to Loan Contract signed with Jiangsu International Trust Corporation Limited, Weifu Jinning borrowed RMB 3 million for the project "Industrialization of Electricity-controlled High-pressure VE Jetting Pump System of Low-emission Diesel Engine".

5-27 Long-term accounts payable

| | Item | 2011-12-31 | 2010-12-31 |
|--|---------------------------------------|----------------------|----------------------|
| Nanjing Finance Bureau Hi-tech Branch [Note 1] | Financial supporting fund (year 2004) | 1,710,000.00 | 1,710,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 2] | Financial supporting fund (year 2005) | 1,140,000.00 | 1,140,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 3] | Financial supporting fund (year 2006) | 1,250,000.00 | 1,250,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 4] | Financial supporting fund (year 2007) | 1,230,000.00 | 1,230,000.00 |
| Loan transferred from treasury bond [Note 5] | | 3,730,000.00 | 5,600,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 6] | Financial supporting fund (year 2008) | 2,750,000.00 | 2,750,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 7] | Financial supporting fund (year 2009) | 1,030,000.00 | 1,030,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 8] | Financial supporting fund (year 2010) | 960,000.00 | 960,000.00 |
| Nanjing Finance Bureau Hi-tech Branch [Note 9] | Financial supporting fund (year 2011) | 5,040,000.00 | -- |
| Total | | 18,840,000.00 | 15,670,000.00 |

[Note 1] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 5 August 2004 to 4 August 2012. Provided that the operation period in the zone is less than 15 years, financial supporting

capital will be reimbursed.

[Note 2] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 20 October 2005 to 20 October 2020. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

[Note 3] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 20 July 2006 to 20 July 2021. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

[Note 4] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 17 September 2007 to 17 September 2022. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

[Note 5] National debt transferred to loan: is the transferred national debt capital received by Weifu Jinning in 2007. The amount necessary without return back has transferred into non-operation income.

[Note 6] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 10 November 2008 to 10 November 2023. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

[Note 7] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 27 October 2009 to 27 October 2024. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

[Note 8] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 27 December 2010 to 27 December 2025. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

[Note 9] To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use, the term is from 28 December 2011 to 28 December 2026. Provided that the operation period in the zone is less than 15 years, financial supporting capital will be reimbursed.

5-27Deferred income tax liability

(1) Recognized deferred income tax liability

| Item | 2011-12-31 | 2010-12-31 |
|--|--------------|--------------|
| The evaluation of Weifu Tianli appreciated | 2,689,975.40 | 2,801,008.40 |

(2) Corresponding temporary difference arising from assets or liabilities

| Item | 2011-12-31 | 2010-12-31 |
|--|---------------|---------------|
| The evaluation of Weifu Tianli appreciated | 17,933,169.30 | 18,673,389.28 |

5-28 Other non-current liabilities

| Items | 2011-12-31 | 2010-12-31 |
|--|----------------------|----------------------|
| Appropriation on industrialization project of electrical control and high voltage jet VE system of low emissions diesel | 12,000,000.00 | 11,125,000.00 |
| Subsidy for R&D of new products | 48,530,000.00 | -- |
| Appropriation on reforming of production line technology and R&D ability of common rail system for diesel by distributive high-voltage | 7,100,000.00 | -- |
| Other | 4,700,000.00 | 2,225,000.00 |
| Total | 72,330,000.00 | 13,350,000.00 |

Explanation on other non-current liabilities, including various obtained government subsidies and end amounts related to assets and incomes in this period:

1. Appropriation on industrialization project of electrical control and high voltage jet VE system of low emissions diesel: in September 2009, Weifu Jinning signed "Project Contract of Technology Outcome Transferring Special Capital in Jiangsu Province" with Nanjing Technical Bureau, according to which Weifu Jinning received appropriation RMB 6.35 million in 2009, RMB 4.775 million received in 2010 and RMB 0.875 million received in 2011. According to the contract, the attendance date of this project was: from October of 2009 to March of 2012. This contract agreed 62% of newly increased investment in project would be spent in fixed assets investment.
2. Subsidy for R&D of new products: subsidy for R&D of new products from 2012 to 2013 was received by the Company allocated from Wuxi New District Financial Bureau
3. Appropriation on reforming of production line technology and R&D ability of common rail system for diesel by distributive high-voltage: in 2011, specific fund RMB 7.1 million was allocated from Wuxi New Zone Financial Bureau.

5-29 Share capital

(1) Change of share capital in the report period

In ten thousand yuan

| | 2010-12-31 | Increase and decrease in the period(+, -) | | | | | 2011-12-31 |
|--------------------------------------|------------------|---|-------------|------------------------------|-----------|-----------|------------------|
| | | New issued share | Bonus issue | Capitalized surplus reserves | Others | Subtotal | |
| Restricted equity | 10,007.52 | -- | -- | -- | -2,836.66 | -2,836.66 | 7,170.86 |
| -Domestic legal person shares | 10,002.20 | -- | -- | -- | -2,836.38 | -2,836.38 | 7,165.82 |
| Shares by senior executors | 5.32 | -- | -- | -- | -0.28 | -0.28 | 5.04 |
| Circulating share capital | 46,720.08 | -- | -- | -- | 2,836.66 | 2,836.66 | 49,556.74 |
| Circulating share capital (A Shares) | 35,228.08 | -- | -- | -- | 2,836.66 | 2,836.66 | 38,064.74 |
| Circulating share capital (B Shares) | 11,492.00 | -- | -- | -- | -- | -- | 11,492.00 |
| Total | 56,727.60 | -- | -- | -- | -- | -- | 56,727.60 |

(2) Explanation on relevant particulars of share capitals

Wuxi Industry Group was the first largest shareholder of the Company with 100,021,999 shares held, which accounting 17.63% of total share capital of the Company. In 2011, 28,363,800 shares of the Company held by Wuxi Industry Group were transferred to circulating shares.

5-30 Capital reserve

| Items | 2010-12-31 | Increase in the period | Decrease in the period | 2011-12-31 |
|-----------------------|-----------------------|------------------------|------------------------|-----------------------|
| Other capital reserve | 19,083,331.38 | -- | -- | 19,083,331.38 |
| Capital premium | 876,835,085.21 | -- | -- | 876,835,085.21 |
| Total | 895,918,416.59 | -- | -- | 895,918,416.59 |

5-31 Surplus public reserve

(1) Increase and decrease of surplus public reserve in the report period

| Item | 2010-12-31 | Increase in the period | Decrease in the period | 2011-12-31 |
|----------------------------------|----------------|------------------------|------------------------|----------------|
| Statutory surplus public reserve | 283,637,997.50 | -- | -- | 283,637,997.50 |

(2) Relevant explanation on surplus public reserve

Accrue statutory surplus public reserve according to 10% of net profit after tax of parents company.

This year, the Company wouldn't accrue surplus public reserve till it reached 50% of registered capital (share capital).

5-32 Undistributed profit

| Item | 2011-12-31 | 2010-12-31 | Proportion of extraction or distribution |
|--|-------------------------|-------------------------|---|
| Pre-adjustment undistributed profit of the end of last year | 2,359,375,974.53 | 1,104,176,257.99 | -- |
| Adjusting total amount of undistributed profit of beginning of the year (increase+, decrease-) | -- | -- | -- |
| Post-adjustment undistributed profit at the beginning of the year | 2,359,375,974.53 | 1,104,176,257.99 | -- |
| Add: profit attributable to owners of parent company in this period | 1,204,617,075.56 | 1,340,291,115.79 | -- |
| Subtract: extract statutory surplus public reserve | -- | -- | |
| Payable cash dividend | 246,765,057.83 | 85,091,399.25 | RMB 4.35 per 10 shres in this year while RMB 1.50 per 10 shares last year |
| Undistributed profit in the end of year | 3,317,227,992.26 | 2,359,375,974.53 | |

Explanation on distributing profit

According to preplan of profit distribution of 2010 issued by the Board of Directors in March 2011, the general meeting of shareholders of 2010 decided that the Company would distribute cash dividend RMB 4.35 (tax included) per 10 shares based on share capital on Dec 31st of 2010, total distributed share capital of common stock was RMB 246.77 million.

This year, the Company wouldn't accrue surplus public reserve till it reached 50% of registered capital (share

capital).

5-33 Operating income, operating cost

(1) Operating income, operating cost

| Item | 2011 | 2010 |
|-----------------------------------|-------------------------|-------------------------|
| Income arising from main business | 5,347,067,379.20 | 4,841,997,727.71 |
| Income from other business | 551,045,710.29 | 529,215,468.74 |
| Total business income | 5,898,113,089.49 | 5,371,213,196.45 |
| Cost of main business | 3,803,310,436.35 | 3,408,377,230.61 |
| Cost of other business | 511,317,516.72 | 470,820,692.47 |
| Total business cost | 4,314,627,953.07 | 3,879,197,923.08 |

(2) Main business (according to industry)

| Industry | 2011 | | 2010 | |
|--------------------|------------------|------------------|------------------|------------------|
| | Operating income | Operating cost | Operating income | Operating cost |
| Vehicle components | 5,347,067,379.20 | 3,803,310,436.35 | 4,841,997,727.71 | 3,408,377,230.61 |

(3) Main business (according to products)

| Products | 2011 | | 2010 | |
|----------------------------|-------------------------|-------------------------|------------------|------------------|
| | Operating income | Operating cost | Operating income | Operating cost |
| Auto fuel injection system | 4,329,702,932.55 | 2,970,273,532.15 | 4,172,135,736.03 | 2,840,272,353.35 |
| Intake system | 153,136,685.96 | 95,554,255.03 | 43,293,134.30 | 35,551,685.88 |
| Tail treatment system | 864,227,760.69 | 737,482,649.17 | 626,568,857.38 | 532,553,191.38 |
| Total | 5,347,067,379.20 | 3,803,310,436.35 | 4,841,997,727.71 | 3,408,377,230.61 |

(4) Main business (according to region)

| Region | 2011 | | 2010 | |
|----------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Operating income | Operating cost | Operating income | Operating cost |
| Domestic sales | 5,082,298,199.57 | 3,543,049,039.31 | 4,650,921,237.36 | 3,228,885,688.30 |
| Overseas sales | 264,769,179.63 | 260,261,397.04 | 191,076,490.35 | 179,491,542.31 |
| Total | 5,347,067,379.20 | 3,803,310,436.35 | 4,841,997,727.71 | 3,408,377,230.61 |

(5) Particulars of operating income of top five clients of the Company

| Clients | Operating income(in ten thousand yuan) | Proportion in operating income (%) |
|----------|--|------------------------------------|
| Client 1 | 69,159.31 | 11.73 |
| Client 2 | 50,416.74 | 8.55 |
| Client 3 | 32,747.01 | 5.55 |
| Client 4 | 30,561.02 | 5.18 |
| Client 5 | 30,514.95 | 5.17 |
| Total | 213,399.03 | 36.18 |

5-34 Business tax and extra

| Item | 2011 | 2010 |
|--|---------------|---------------|
| Urban maintenance and construction tax | 18,771,763.26 | 20,003,424.86 |

| | | |
|-----------------------|----------------------|----------------------|
| Educational surcharge | 13,012,773.42 | 11,440,419.30 |
| Business tax | 1,219,123.59 | 535,243.72 |
| Total | 33,003,660.27 | 31,979,087.88 |

5-35 sales expense

| Item | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Salary and expense related to salary | 27,118,345.36 | 19,415,891.83 |
| Consumption of office materials and business | 8,922,917.25 | 6,411,306.11 |
| Transportation | 15,658,263.13 | 14,207,288.85 |
| Warehouse | 7,970,411.59 | 8,370,905.21 |
| Three-guarantee | 150,068,764.30 | 52,415,625.06 |
| Other | 17,148,510.04 | 22,633,140.90 |
| Total | 226,887,211.67 | 123,454,157.96 |

5-36 Administrative expense

| Item | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Salary and expense related to salary | 153,150,038.59 | 160,128,941.92 |
| Depreciation expense and long-term assets amortized | 31,608,060.44 | 26,633,941.77 |
| Consumption of office materials and business | 23,544,669.10 | 26,505,090.59 |
| Taxes | 13,802,415.12 | 13,652,965.12 |
| Other | 205,840,281.52 | 230,245,663.39 |
| Total | 427,945,464.77 | 457,166,602.80 |

5-37 Financial expense

| Item | 2011 | 2010 |
|--------------------------------------|----------------------|----------------------|
| Interest expense | 28,304,549.51 | 30,687,449.47 |
| Interest expense of notes discounted | 4,004,514.28 | 10,048,820.88 |
| Interest expense of deposit | -9,609,457.15 | -7,116,775.94 |
| Exchange gains and losses | 2,399,121.76 | -1,286,822.98 |
| Commission expense | 1,249,436.08 | 1,022,205.56 |
| Total | 26,348,164.48 | 33,354,876.99 |

5-38 Losses from impairment of assets

| Item | 2011 | 2010 |
|---|---------------------|----------------------|
| Bad debt losses | 193,175.87 | 807,913.06 |
| Loss on depreciation of inventories | 5,706,243.63 | 4,992,638.38 |
| Impairment losses on fixed assets | 576,827.79 | 39,977,047.99 |
| Impairment losses in the construction in progress | -- | 4,469,121.67 |
| Total | 6,476,247.29 | 50,246,721.10 |

5-39 Investment income

(1) Details situation of investment income

| Item | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Long term equity investment income of cost accounting method | 25,000.00 | 5,485,000.00 |
| Long term equity investment income of equity accounting method | 497,916,948.54 | 684,229,162.07 |
| Equity transfer receipts | -- | 760,584.75 |
| Total | 497,941,948.54 | 690,474,746.82 |

(2) Long term equity investment income of equity accounting method (Top 5)

| Investee | 2011 | 2010 | Reason for increase or decrease of current period compared to last period |
|--|-----------------------|-----------------------|---|
| Bosch Diesel System | 233,894,626.17 | 409,746,443.42 | Profit downs suffered by automobile industry |
| Zhonglian Automobile Electronic Co., Ltd. | 193,972,136.09 | 199,557,650.02 | Profit downs suffered by automobile industry |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | 40,830,350.48 | 49,113,859.97 | Profit downs suffered by automobile industry |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 16,672,842.19 | 17,221,397.20 | Profit downs suffered by automobile industry |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 12,627,288.30 | 8,102,556.20 | Profit growth due to expansion of the company scale |
| Total | 497,997,243.23 | 683,741,906.81 | |

(3) Explanation on investment income:

There was no significant restriction on investment income of the Company.

5-40 Non-operating income

(1) Details of non-operating income

| Item | 2011 | | 2010 | |
|--|----------------------|---|----------------------|---|
| | Amount | Amount reckoned into current non-recurring gains/losses | Amount | Amount reckoned into current non-recurring gains/losses |
| Net income from disposal of fixed assets | 4,283,158.05 | 4,283,158.05 | 6,072,948.22 | 6,072,948.22 |
| Government grants | 34,526,848.90 | 34,526,848.90 | 15,440,800.00 | 15,440,800.00 |
| Other | 4,694,333.15 | 4,694,333.15 | 2,604,464.88 | 2,604,464.88 |
| Total | 43,504,340.10 | 43,504,340.10 | 24,118,213.10 | 24,118,213.10 |

(2) Details of government grants:

In ten thousand yuan

| Item | 2011 | Note |
|---|----------|--|
| Subsidy for technological innovation | 2,540.00 | Subsidy for technological innovation in latest three years received by the Company allocated from Wuxi New District Financial Bureau |
| Loan from national debt | 187.00 | Part of the capital unnecessary to return in loans transfer from national debt received in 2007 by Weifu Jinning |
| Guidance capital for transformation and upgrading of industry | 120.00 | Wuxi Municipal Economy Development Bureau XXGJF[2011] No.: 404 Wuxi Municipal Bureau of Finance XXGCF[2011] No.: 147 |

| | | |
|--|-----------------|---|
| Project grant for 863(Qinghua University) | 95.00 | R &D expenses for 863 project revived by the Company in line with contract signed between the Company and Qinghua University |
| Allocation for 863 project(Yuchai Machinery) | 92.00 | Based on contract signed between Weifu Leader and Guangxi Yuchai Machinery Co., Ltd., Weifu Leader responsible in the development of DPF system for diesel vehicle, which requires the State IV emission standards. Allocation of the project was paid by Guangxi Yuchai Machinery Co., Ltd |
| Supporting capital for innovation of scientifically enterprise | 103.00 | Science & Technology Bureau of Jiangbei Distric, Ningbo Municipal; Finance Bureau of Jiangbei District, Ningbo BQKJ[2011] No.: 13 |
| Subsidy of innovation for SME with scientifically type | 112.00 | Ningbo Municipal Bureau of Finance YCZJ[2011] No.: 1134 |
| Other | 203.68 | |
| Total | 3,452.68 | |

| Item | 2010 | Note |
|---|--------|--|
| Grants for basic conconstruction | 500.00 | Based on relevant agreement signed with Wuxi New-Zone Management Committee |
| Project grants for diesel engine, high-pressure common rail fuel injector | 406.00 | Wuxi Municipal Bureau of Finance XCQ No.[2009]133 |
| Fiscal supporting fund | 188.00 | To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use. Provided that the financial supporting capital will not be reimbursed if operation period in the zone is over 10 years |
| Grants for basic conconstruction affiliated | 144.00 | Received from Ningbo Financial Bureau of Jiangbei Distric received by WeifuTianli |
| Project grant for 863(Qinghua University) | 58.00 | Based on the contract between Weifu Leader and Qinghua University, Weifu Leader responsible in the research and development of the oxidation catalyst, purifier integration, demonstration operating and industrialization of diesel car plan 863. grants from Qinghua University |
| technology reformation and capital of fixed assets newly constructed | 50.00 | Wuxi Municipal Bureau of Finance XCQ No.[2009]17 |
| Allocation for 863 project(Yuchai Machinery) | 23.00 | Based on contract signed between Weifu Leader and Guangxi Yuchai Machinery Co., Ltd., Weifu Leader responsible in the development of DPF system for diesel vehicle, which requires the State IV emission standards. Allocation of the project was paid by Guangxi Yuchai Machinery Co., Ltd |
| Team price of enterprise technology innovation | 20.00 | Jiangbei District Committee of CPC, People's Government of Jiangbei DistrictBQWF [2010] No. 43 |
| Guided capital for the development of key industry in Wuxi | 17.00 | Wuxi Economic and Information Committee XJXZH [2010] No. 4; Financial Bureau of Wuxi XCGM [2010] No. 117 |
| Fiscal supporting fund | 14.00 | To encourage Weifu Jinning to enter Nanjing High-tech Technology Industry Development Zone, financial supporting capital is allotted by High-tech branch of Finance Bureau of Nanjing for supporting use. Provided that the financial supporting capital will not be reimbursed if operation period in the zone is over 10 years |
| Funds for technology projects | 12.00 | Science & Technology Bureau of Jiangbei District, Ningbo; Financial Bureau of Jiangbei Distric, Ningbo BQKJ [2010] No. 36 |
| Grant for environmental | 12.00 | Environmental Bureau of Nanjing NHC [2010] No. 39 |

| | | |
|--|-----------------|--|
| Grant for environmental | 10.00 | Environmental Bureau of Nanjing NHC [2010] No.9; Financial Bureau of Nanjing NCJ [2010] No. 207 |
| Project grants for 863 plan(Weichai Power) | 6.00 | Based on the contract between Weifu Leader and Weichai Power, Weifu Leader responsible in the development of advance technology” diesel engine for carUsed with high-power” in modern traffic technology. Grants from Weichai Power Engine Co., Ltd. |
| Patent example enterprise grant | 5.00 | Office of People’s Government of Jiangbei District , Ningbo BQZBF [2010] No. 138 |
| Other | 79.08 | |
| Total | 1,544.08 | |

Explanation of non-operation income

Other non-operating income was mainly written off account payable with long account age.

5-41 Non-operating expense

| Item | 2011 | | 2010 | |
|--|---------------------|---|----------------------|---|
| | Amount | Amount reckoned into current non-recurring gains/losses | Amount | Amount reckoned into current non-recurring gains/losses |
| Net loss from disposal of fixed assets | 527,580.86 | 527,580.86 | 2,458,935.02 | 2,458,935.02 |
| Donation expenditure | -- | -- | 1,213,500.00 | 1,213,500.00 |
| Local funds etc. | 6,078,638.46 | -- | 5,732,997.02 | -- |
| Other expense | 858,670.91 | 858,670.91 | 1,146,848.54 | 1,146,848.54 |
| Total | 7,464,890.23 | 1,386,251.77 | 10,552,280.58 | 4,819,283.56 |

5-42 Income tax expense

| Item | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Income tax payable | 178,428,999.78 | 119,540,313.00 |
| Increased assets from deferred income tax | -37,023,038.32 | -346,881.06 |
| Increased of deferred income tax liability | -111,033.00 | -699,539.10 |
| Income tax expense | 141,294,928.46 | 118,493,892.84 |

5-43 Calculation of basic earnings per share and diluted earnings per share

Basic earnings per share = $P_0 \div S$

$S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$

Among which: P_0 is the net profit attributable to the shareholders of ordinary shares of the Company or the net profit attributable to the shareholders of ordinary shares after the deduction of non-recurring gains and losses; S is the weighted average number of ordinary shares outstanding; S_0 is the total number of shares at the beginning of the period; S_1 is the number of increased shares due to reserve’s conversion into share capital or distribution of dividends in the reporting period; S_i is the number of increased shares due to issue of new shares or debt-to-equity in the reporting period; S_j is the number of decreased shares due to repurchase in the reporting period; S_k is the number of contraction of shares in the reporting period; M_0 is the number of months in the reporting period; M_i is the number of accumulated months from the next month of shares increase to the end of the reporting period; M_j is the number of accumulated months from

the next month of shares decrease to the end of the reporting period.

Diluted earnings per share= $P_1/(S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{The weighted average number of ordinary shares increased due to call warrants, share options and convertible bonds etc.})$

Among which, P_1 is the net profit attributable to the shareholders of ordinary shares of the Company or the net profit attributable to the shareholders of ordinary shares after the deduction of non-recurring gains and losses, as adjusted according to Enterprise Accounting Standards and relevant regulations after the effect of diluted potential ordinary shares is taken into account. In the calculation of diluted earnings per share, the Company shall taken the effect of all diluted potential ordinary shares on the net profit attributable to the shareholders of ordinary shares of the Company or the net profit attributable to the shareholders of ordinary shares after the deduction of non-recurring gains and losses and the weighted average number of shares and into account of the diluted earnings per share according to the extent of dilution in sequence until the diluted earnings per share reaches the minimum.

5-44 Notes of cash flow statement

(1) Tax returned received

| Item | In ten thousand yuan | |
|--|----------------------|----------|
| | 2011 | 2010 |
| Export tax refund received by Weifu International Trade etc. | 4,284.60 | 2,329.57 |

(2) Received other cash related to operating activities

| Item | In ten thousand yuan | |
|----------------------------------|----------------------|-----------------|
| | 2011 | 2010 |
| Interest income on bank deposits | 960.95 | 711.68 |
| Government subsidy | 9,667.68 | 1,605.58 |
| Others | 806.48 | 302.29 |
| Total | 11,435.11 | 2,619.55 |

(3) Other cash paid related to operating activities

| Item | In ten thousand yuan | |
|----------------------------|----------------------|------------------|
| | 2011 | 2010 |
| Operating expense in cash | 19,945.43 | 10,048.88 |
| Management expense in cash | 22,937.99 | 24,833.00 |
| Others | 1,324.39 | 864.25 |
| Total | 44,207.81 | 35,746.13 |

5-45 Additional information of consolidated cash flow statement

(1) Additional information of consolidated cash flow statement

| Item | 2011 | 2010 |
|--|------------------|------------------|
| 1. Net profit subject to cash flow arising from operating activities | | |
| Net profit | 1,255,510,857.89 | 1,381,360,613.14 |
| Add: Provision for assets devaluation | 6,476,247.29 | 50,246,721.10 |
| Depreciation of fixed assets, oil and gas assets, and productive biological assets | 130,799,310.54 | 135,532,228.42 |
| Amortization of intangible assets | 5,565,185.30 | 3,297,748.62 |
| Allocations of long-term expenses to be amortized | 2,147,742.86 | 1,257,682.56 |
| Losses from disposal of fixed, intangible and other long-term assets | -3,637,192.02 | -3,804,703.89 |
| Losses from obsolete fixed assets | -118,385.17 | 190,690.69 |

| | | |
|--|-----------------|-----------------|
| Financial expenses | 28,304,549.51 | 30,687,449.47 |
| Losses from investment | -497,941,948.54 | -690,474,746.82 |
| Decrease of deferred income tax | -37,023,038.32 | -346,881.06 |
| Increase of deferred income tax liability | -111,033.00 | -699,539.10 |
| Decrease of inventory | 64,512,177.37 | -288,923,298.51 |
| Decrease of operating receivables | -580,830,542.06 | -604,350,187.63 |
| Increase of operating payables | -47,384,746.58 | 522,198,075.09 |
| Net cash generated from operations | 326,269,185.07 | 536,171,852.08 |
| 2. Net increase in cash /cash equivalent | | |
| Balance of cash at period-end | 745,778,764.22 | 465,219,784.57 |
| Less: Balance of cash at period-beginning | 465,219,784.57 | 327,527,351.45 |
| Add: Balance of cash equivalent at period-end | | |
| Less: Balance of cash equivalent at period-beginning | | |
| Net increase in cash /cash equivalent | 280,558,979.65 | 137,692,433.12 |

(2) The composition of cash and cash equivalents

| Item | 2011-12-31 | 2010-12-31 |
|---|----------------|----------------|
| 1. Cash | | |
| Including: cash in treasury | 425,963.50 | 543,965.44 |
| Bank deposit for payment at any time | 745,352,800.72 | 450,165,819.13 |
| Other monetary capital for pay at any time | -- | 14,510,000.00 |
| 2. Cash equivalents | | |
| Including: investment on bonds due in 3 months | | |
| 3. Balance of cash and cash equivalents in period-end | 745,778,764.22 | 465,219,784.57 |

Note 6: Related party relationships and related transactions (in ten thousand yuan)

6-01 Particulars about parent company of the Company

| Parent company | Related relationships | Business type | Registration area | Legal representative | Nature of business | Registered capital |
|---------------------|-----------------------|-------------------------|-------------------|----------------------|---------------------------------|--------------------|
| Wuxi Industry Group | Parent company | State-owned exclusively | Wuxi | Jiang Guoxiong | Operation of state-owned assets | 325,720 |

| Parent company | Parent company's shareholding ratio of the Company (%) | Proportion of parent company's voting rights of the company (%) | Ultimate controlling party of the enterprise | Organization code |
|---------------------|--|---|--|-------------------|
| Wuxi Industry Group | 17.63 | 17.63 | Wuxi State-owned Assets Supervision & Administration Commission of State Council | 13600265-4 |

Explanation on particulars of parent company

Wuxi Industry Group was solely state-owned enterprise funded and established by Wuxi Municipal People's Government which mainly took responsibility of authorizing the state-owned assets operation within a certain areas, investment management of significant project, investment and development of manufacturing and services and venture capital in high-tech achievement transformation.

6-02 Particulars of subsidiaries of the Company

| Full name of subsidiaries | Subsidiary type | Enterprise type | Registration area | Legal representative | Nature of business |
|---------------------------|------------------------|-----------------|-------------------|----------------------|------------------------------|
| Weifu Jinning | Controlling subsidiary | Limited company | Nanjing | Wang Weiliang | Engine parts |
| Weifu Leader | Controlling subsidiary | Limited company | Wuxi | Wang Weiliang | Automobile exhaust purifier, |

| | | | | | |
|---------------------------|-------------------------|-----------------|----------|---------------|------------------------|
| | | | | | muffler |
| Weifu Mashan | Wholly-owned subsidiary | Limited company | Wuxi | Gao Guoyuan | Engine parts |
| Weifu Chang'an | Wholly-owned subsidiary | Limited company | Wuxi | Han Jiangming | Engine parts |
| Weifu Jida | Controlling subsidiary | Limited company | Wuxi | Xu Liangfei | Metallic Nanoparticles |
| Weifu Nano | Controlling subsidiary | Limited company | Wuxi | Xu Liangfei | anomaterials |
| Weifu Diesel System | Wholly-owned subsidiary | Limited company | Wuxi | Wang Weiliang | Engine parts |
| Weifu International Trade | Controlling subsidiary | Limited company | Wuxi | Gao Guoyuan | International trade |
| Weifu ITM | Wholly-owned subsidiary | Limited company | Wuxi | Wang Weiliang | Engine parts |
| Weifu Schmitter | Controlling subsidiary | Limited company | Wuxi | Wang Weiliang | Engine parts |
| Weifu Tianli | Controlling subsidiary | Limited company | Ningbo | Wang Weiliang | Engine parts |
| Weifu Jialin | Controlling subsidiary | Limited company | Chaoyang | Miao Yuming | Engine parts |
| Weifu Tianshi | Controlling subsidiary | Limited company | Quanjiao | Wang Weiliang | Engine parts |
| Kunming Xitong | Controlling subsidiary | Limited company | Kunming | Chen Xuejun | Engine parts |

| Full name of subsidiaries | Registered capital | Equity ratio (%) | Voting rights ratio (%) | Organization code |
|---------------------------|--------------------|------------------|-------------------------|-------------------|
| Weifu Jinning | 34,629 | 80.00 | 80.00 | 13497754-6 |
| Weifu Leader | 26,000 | 94.81 | 94.81 | 13600159-8 |
| Weifu Mashan | 4,500 | 100.00 | 100.00 | 13625011-3 |
| Weifu Changan | 6,000 | 100.00 | 100.00 | 70354868-9 |
| Weifu Jida | 500 | 70.00 | 70.00 | 72223147-6 |
| Weifu Nano | 3,000 | 80.00 | 80.00 | 74066428-3 |
| Weifu Diesel System | 30,000 | 100.00 | 100.00 | 76418029-1 |
| Weifu International Trade | 3,000 | 100.00 | 100.00 | 76103151-4 |
| Weifu ITM | 16,000 | 100.00 | 100.00 | 72418270-0 |
| Weifu Schmitter | 1,800 | 45.00 | 45.00 | 69449050-9 |
| Weifu Tianli | 10,469 | 51.00 | 51.00 | 73424810-1 |
| Weifu Jialin | 800 | 51.00 | 51.00 | 78877120-5 |
| Weifu Tianshi | 1,000 | 52.00 | 52.00 | 57301523-4 |
| Kunming Xitong | 400 | 70.00 | 70.00 | 77554741-5 |

6-03 Particulars of other related parties of this enterprise

| Name of other related parties | Relationship between other related parties and the Company | Organization code |
|-----------------------------------|--|-------------------|
| Wuxi Weifu-Autocam Fine Machinery | Joint Venture | 77540714-8 |

| | | |
|--|---------------------------------|------------|
| Co. LTD. | | |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Joint venture of Weifu Leader | 75969849-1 |
| Bosch Diesel System | Associated companies | 60791796-6 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Associated companies | 73944370-7 |
| Wuxi ITM Engine Co., Ltd. | Associated company of Weifu ITM | 77540703-3 |

6-04 Particulars of related transactions

(1) Related transactions of purchasing goods, providing and accepting service

Related detailed situation of goods purchasing of the Company from related party was as follows:

| Enterprises | Pricing | 2011 | | 2010 | |
|---|--------------|---------|---|---------|---|
| | | Amounts | Proportion in amount of similar transaction | Amounts | Proportion in amount of similar transaction |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Market price | 13,212 | 3.06 | 11,858 | 3.06 |
| Bosch Diesel System | Market price | 25,898 | 6.00 | 29,163 | 7.52 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Market price | 53,255 | 12.34 | 42,796 | 11.03 |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | Market price | 1,626 | 0.38 | 24 | 0.006 |
| Wuxi ITM Engine Co., Ltd. | Market price | -- | -- | 51 | 0.01 |
| Kunming Xitong (become controlling subsidiary of the Company in this year) | Market price | 86 | 0.02 | 552 | 0.14 |

Related detailed situation of goods selling of the Company from related party was as follows:

| Enterprises | Pricing | 2011 | | 2010 | |
|--|--------------|---------|---|---------|---|
| | | Amounts | Proportion in amount of similar transaction (%) | Amounts | Proportion in amount of similar transaction (%) |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Market price | 2,569 | 0.44 | 2,192 | 0.41 |
| Bosch Diesel System | Market price | 32,786 | 5.56 | 50,717 | 9.44 |

| | | | | | |
|--|--------------|-------|------|-------|------|
| Weifu Jialin(become controlling subsidiary since October 2010) | Market price | -- | -- | 5,359 | 1.00 |
| Kunming Xitong (become controlling subsidiary since May 2011) | Market price | 3,778 | 0.64 | 132 | 0.02 |
| Wuxi Weifu Environment Catalyst Co.,Ltd. | Market price | 1,120 | 0.19 | 1,291 | 0.24 |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | Market price | 422 | 0.07 | 275 | 0.05 |

[Note] Kunming Xitong contained in the consolidated statement since May 2011. Related transaction was RMB 37.78 million from January to April in 2011

(2) Equity transferring in 2010

| | |
|---|--|
| A. According to the Agreement of Equity Transformation between the Company and Wuxi Industry Group, fifty percent equity of Kunming Xitong held by Wuxi Industry Group was transferred by the Company. After transferred, Kunming Xitong came into the joint-venture of the Company. Transfer price was RMB 4.235 million. | |
| B. According to the Agreement of Equity Transformation between the Company and Wuxi Industry Group, thirty percent equity of Weifu Diesel System held by Wuxi Industry Group was transferred by the Company. After transferred, Weifu Diesel System came into the wholly-owned subsidiary of the Company. Transfer price was RMB 120.1875 million. | |
| C. According to the Agreement of Equity Transformation between the Company and Wuxi Industry Group, 9.17 percent equity of Weifu International Trade held by Wuxi Industry Group was transferred by the Company. After transferred, the Company held 95% equity of the company while Weifu Leader held 5% equity of the company. Transfer price was RMB 3.0784 million. | |
| Value of the above said equity was valued by professional institution and amount for transferring was based on the valuation results from professional institution. | |

(3) Other Related transactions

| Project | Related parties | 2011 | 2010 |
|---|--|-------|-------|
| Service and technical service fees payable etc. | Bosch Diesel System | 1,271 | 1,445 |
| Inspection fee payable | Bosch Diesel System | 37 | -- |
| Leasing fee payable | Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 156 | 131 |
| Rents receivable | Wuxi Weifu Environment Catalyst Co.,Ltd. | 131 | 96 |
| Purchase of fixed assets | Bosch Diesel System | 6 | -- |
| Sales of fixed assets | Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 11 | 90 |
| Sales of fixed assets | Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 15 | 7 |
| Purchase of fixed assets | Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | -- | 100 |
| Land and trademark fees | Wuxi Industry Group | 861 | 852 |

| | | | |
|---------------------------|--|-----|----|
| receivable | | | |
| Guarantee fees receivable | Wuxi Weifu Environment Catalyst Co.,Ltd. | 43 | 46 |
| Purchase of fixed assets | Wuxi ITM Engine Co., Ltd. | 157 | |

6-05 Receivables and payables of related party

| Item | Related parties | 2011-12-31 | 2010-12-31 |
|------------------------------------|--|------------|------------|
| Accounts receivable | | | |
| | Bosch Diesel System | 3,811 | 5,538 |
| | Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 43 | 98 |
| | Wuxi Weifu Environment Catalyst Co.,Ltd. | 503 | -- |
| | Kunming Xitong(become controlling subsidiary of the Company in this year) | -- | 0.50 |
| Account paid in advance | | | |
| | Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | -- | 84 |
| | Wuxi Weifu Environment Catalyst Co.,Ltd. | 31 | 17 |
| Note payable | | | |
| | Wuxi Weifu Environment Catalyst Co.,Ltd. | -- | 8,000 |
| Accounts payable | | | |
| | Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 1,934 | 3,212 |
| | Wuxi Weifu Environment Catalyst Co.,Ltd. | 14,379 | 1,753 |
| | Bosch Diesel System | 3,897 | 562 |
| | Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 463 | 21 |
| Account received in advance | | | |
| | Kunming Xitong(become controlling subsidiary since May 2011) | -- | 907 |
| | Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 359 | 32 |

Note 7: Contingent matters

7-01 There was no significant contingent liability and its financial influence arising from pending litigation and arbitration till Dec 31st of 2011

7-02 Contingent liability and its financial influence arising from provision of debt guarantees for other units:

| |
|-----|
| N/A |
|-----|

7-03 Other contingent events

Till Dec 31st of 2011, situation of assets mortgage or pledge were as follows:

1. The Company offered RMB 109.2748 million of bank deposit as margin for issuing bank acceptance and letter of credit.
2. The Company pledged bank acceptance bills receivable RMB 60.5149 million to bank as margin for issuing bank acceptance.

Note 8: Commitments

8-01 Significant commitments

1. Plans of shares private placement

Decision by the 14th, 15th Meeting of 6th Session of the Board, the Company plans to shares private placement with issue price of RMB 25.83 per share. The Company will adjust the relevant ex-right and ex-dividend of issued price if events of ex-right and ex-dividend as dividend payout, bonus share, capitalizing from reserves occurred during the period from price based date to issued date.

On 24 September 2011, issuance price for privately offering changed from RMB 25.83/ Share to RMB 25.395/Share in 20th Meeting of 6th Session of the Board.

The Company plans to offering no more than 112.858 million shares (112.858 million shares include) privately, Wuxi Industry Group increase its holding of the Company's A-stock 36.0176 million shares, proportion of shares held turns to 20% after overweight; ROBERT BOSCH GMBH("German Bosch Company") plans to increase its holding of the Company's A-stock 76.8404 million shares with 14% of shares held after shares increased. Offering quantity should be adjusted correspondingly if there has dividend-distributed, bonus shares, shares capital converted from capital reserves and other DR events occurred in period from pricing basis dated to initial issuing date.

After the private placement, shares purchased by largest shareholder—Wuxi Industry Group and foreign strategy investor—German Bosch should no be transferred with 36 months since the date of issued closed. The target placement will trade in Shenzhen Stock Exchange after the lock-in period.

Shareholders before/after private placement should enjoy the accumulated retained profit before placement after the placement finished.

The target for this placement will be largest shareholder—Wuxi Industry Group and foreign strategy investor—German Bosch. The targets all purchase the share in cash.

The effective term will within 12 months since the approval date of 2nd Extraordinary Shareholders' General Meeting of 2010 for Private Placement. The Company will adjust the private placement if there have updated regulations or rules concerning the private placement. The pre-plan for this private placement should approve by CSRC for implementation and will implement based on the final plan approved from CSRC.

The fund raised from private placement plans to use in the followed projects: R&D and industrialization of WAPS, productivity of diesel common-rail system, industrialization production of exhaust emission, engineering R&D, Industrial Zone construction, battery material of engines, R&D of battery, equity acquisition and liquid assets supplementation etc.

Proposal of private placement have approved by 2nd Extraordinary Shareholders' General Meeting of 2010.

2. The Company will change to limited company with foreign capital according to the situation of private placement.

3. Plans to purchase one percent equity to Bosch Diesel System held by German Bosch.

According to the Equity Transformation Agreement Signed Between Weifu High-Technology Group Co., Ltd. and ROBERT BOSCH GMBH, the Company plans to purchase one percent equity of Bosch Diesel System held by German Bosch with part of the raised fund from this private placement.

4. Plans to purchase one point five percent equity of Bosch Diesel System held by Wuxi Industry Group.

According to the Equity of Bosch Vehicle Diesel System Co., Ltd Transformation Agreement

Signed Between Weifu High-Technology Group Co., Ltd. and Wuxi Industry Group, the Company plans to purchase one point five percent equity of Bosch Diesel System held by Wuxi Industry Group with part of the raised fund from this private placement.

8-02 Particulars of previous commitments

Application of privately share offering of the Company was obtained conditional pass from issuance and auditing committee of CSRC in November 2011. The Company received no official reply from CSRC ended as 31 December 2011.

Note 9: Events occurring after the balance sheet date

9-01 Explanation on profit distribution after the balance sheet date:

According to the resolution of 3rd Meeting of 7th Session of the Board held on 16 April 2012, plans to payout cash bonus RMB 3 (tax included) for every 10 shares to all shareholders on base of new total share capital 680,133,995 shares with RMB 204.0402 million(tax included) cash distributed in total.

9-02 Other events

1. In January 2012, the “Reply on Approval of Privately Share Offering of Weifu High-Technology Group Co., Ltd.” (ZJXX[2012] No. 109) issued by CSRC was received by the Company. The privately share offering completed in February 2012 with 112.858 million shares offered for RMB 25.395/Share. Net capital actually raised amounting to RMB 2,850,124,252.93 after deducting issuing expenses; new register capital (share capital) increased RMB 112,858,000 while capital reserves as RMB 2,737,266,252.93.
2. In February 2012, the “proposal of related-party guarantee for stock jointly company” was deliberated and approved in 22nd Meeting of 6th Session of the Board for offering loan guarantee to Bosch Diesel System with RMB 0.66 billion limit.
3. In March of 2012, the “proposal of foreign investment” was deliberated and approved in 23rd Meeting of 6th Session of the Board. The Company subscribed privately share offer of Shanghai Diesel Engine Co., Ltd. 14,800,000 shares with RMB 13.46/Share, and promised not to transfer the shares within 12 months after subscription.
4. Being consent by shareholders’ meeting of Wuxi ITM Engine Co., Ltd., the company completed its cancellation procedures for industry and commerce in March 2012.

Note10: Explanation about main projects on financial sheet of parent company

(No special explanation on the following projects, unit: RMB’0000)

10-01 Accounts receivable

(1) Disclose accounts receivable by type

| Type | 2011-12-31 | | | |
|--|-----------------------|---------------|-------------------------|----------------------|
| | Book balance | | Provision for bad debts | |
| | Amount | Ratio (%) | Amount | Withdrawal ratio (%) |
| Significant single amount and withdrawal bad debt provision singly | 6,919,976.11 | 0.83 | 6,919,976.11 | 100.00 |
| Bad debt provision withdrawal by combination | 824,202,531.61 | 98.56 | 1,844,940.62 | 0.22 |
| Including: age group | 509,026,479.48 | 60.87 | 1,844,940.62 | 0.36 |
| Subsidiary group | 315,176,052.13 | 37.69 | -- | -- |
| Minor single amount but withdrawal bad debt provision singly | 5,106,255.66 | 0.61 | 5,106,255.66 | 100.00 |
| Total | 836,228,763.38 | 100.00 | 13,871,172.39 | 1.66 |

| Type | 2010-12-31 | | | |
|--|-----------------------|---------------|-------------------------|----------------------|
| | Book balance | | Provision for bad debts | |
| | Amount | Ratio (%) | Amount | Withdrawal ratio (%) |
| Significant single amount and withdrawal bad debt provision singly | 45,885,749.44 | 7.38 | 45,885,749.44 | 100.00 |
| Bad debt provision withdrawal by combination | 568,908,680.60 | 91.53 | 1,301,282.42 | 0.23 |
| Including: age group | 446,179,750.61 | 71.79 | 1,301,282.42 | 0.29 |
| Subsidiary group | 122,728,929.99 | 19.74 | -- | -- |
| Minor single amount but withdrawal bad debt provision singly | 6,740,902.51 | 1.09 | 6,740,902.51 | 100.00 |
| Total | 621,535,332.55 | 100.00 | 53,927,934.37 | 8.68 |

Explanation on types of accounts receivable

Accounts receivable with over RMB 1 million of single amounts is accounts receivable of significant single amount. To accounts receivable of significant single amount, provision for bad debts is still made by aging analysis method because no objective evidence can manifest that Contingent depreciation will exceed provision for bad debts by aging analysis method. Account receivable from subsidiaries is not withdrawal bad debt provision by the Company.

(2) Account receivable with major single amount and withdrawal bad debt provision singly at period-end:

| Content of account receivable | Book balance | Bad debt | Withdrawal ratio (%) | Reasons |
|--|--------------|--------------|----------------------|---|
| Liuzhou Special Diesel Plant | 1,612,018.00 | 1,612,018.00 | 100.00 | Hard to recover for long book age |
| Shaoyang Shengfeng Power Manufacture Co., Ltd. | 1,589,871.23 | 1,589,871.23 | 100.00 | Long book age, un-recover after lawsuit |
| Changchai Wanchou Diesel Engine Co., | 1,500,000.00 | 1,500,000.00 | 100.00 | Hard to recover for long book age |
| Yuejin Light Automobile Co., Ltd. | 1,218,086.88 | 1,218,086.88 | 100.00 | Hard to recover for long book age |
| Henan Agriculture and Machinery Co.,ltd. | 1,000,000.00 | 1,000,000.00 | 100.00 | Long book age, un-recover after lawsuit |
| Total | 6,919,976.11 | 6,919,976.11 | 100.00 | |

(3) Account receivable with minor single amount but withdrawal bad debt provision singly at period-end:

| Content of account receivable | Book balance | Bad debt | Withdrawal ratio (%) | Reasons |
|--|---------------------|---------------------|----------------------|-----------------------------------|
| Hubei Duoling Power Machinery Co., Ltd. | 775,624.61 | 775,624.61 | 100.00 | Hard to recover for long book age |
| Henna Xinxiang Internal-Combustion Engine Plant | 753,754.25 | 753,754.25 | 100.00 | Hard to recover for long book age |
| Yunnan Jinma Diesel Machine General Plant | 579,210.11 | 579,210.11 | 100.00 | Hard to recover for long book age |
| Dongfeng Nanchon Motor Co., Ltd. | 569,974.38 | 569,974.38 | 100.00 | Hard to recover for long book age |
| Guangxi Liuzhou Zhongxing Power Plant | 474,895.94 | 474,895.94 | 100.00 | Hard to recover for long book age |
| Zhejiang Agricultural Machinery Accessory Co., | 457,800.00 | 457,800.00 | 100.00 | Hard to recover for long book age |
| Changchai Group Jintan Diesel General Plant | 375,035.52 | 375,035.52 | 100.00 | Hard to recover for long book age |
| Fujian Longma Agricultural Vehicle Manufacture Co., Ltd. | 365,169.92 | 365,169.92 | 100.00 | Hard to recover for long book age |
| Other Scattered companies | 754,790.93 | 754,790.93 | 100.00 | Hard to recover for long book age |
| Total | 5,106,255.66 | 5,106,255.66 | -- | -- |

(4) Account receivable withdrawal bad debt provision by age group:

| Book age | 2011-12-31 | | | 2010-12-31 | | |
|--------------------|-----------------------|---------------|---------------------|-----------------------|---------------|---------------------|
| | Amount | Ratio (%) | Bad debt provision | Amount | Ratio (%) | Bad debt provision |
| Within 6 months | 501,365,421.98 | 98.50 | -- | 440,413,729.89 | 98.71 | -- |
| 6 months to 1 year | 4,876,407.60 | 0.96 | 487,640.76 | 1,775,196.91 | 0.40 | 177,519.69 |
| 1- 2 years | 209,433.24 | 0.04 | 41,886.65 | 3,416,901.67 | 0.76 | 683,380.33 |
| 2-3 years | 2,099,672.42 | 0.41 | 839,868.97 | 222,566.23 | 0.05 | 89,026.49 |
| Over 3 years | 475,544.24 | 0.09 | 475,544.24 | 351,355.91 | 0.08 | 351,355.91 |
| Total | 509,026,479.48 | 100.00 | 1,844,940.62 | 446,179,750.61 | 100.00 | 1,301,282.42 |

(5) There are no arrears from shareholders holding over 5% (5% included) of voting shares of the Company.

(6) Particulars about accounts receivable of top 5 units

| Unit | Relationship with the Company | Amount(in ten thousand yuan) | Terms | Proportion in total accounts receivables (%) |
|---|-------------------------------|------------------------------|---------------|--|
| Weichai Power spare resources(Weifang) Co., Ltd. | Client | 13,625.63 | Within 1 year | 16.29 |
| Weifu Chang'an | Subsidiary | 10,558.50 | Within 1 year | 12.63 |
| Dongfeng Cummins Engine Co., Ltd. | Client | 10,329.09 | Within 1 year | 12.35 |
| Weifu Mashan | Subsidiary | 9,322.52 | Within 1 year | 11.15 |
| FAW Jiefang Automotive Co., Ltd. Wuxi Diesel Engine Factory | Client | 5,854.17 | Within 1 year | 7.00 |
| Total | | 49,689.91 | | 59.42 |

(7) Account receivable verified in this period actually

| Units | Nature | Amount verified | Reasons | Generated from related transaction Y/N |
|---|------------------|-----------------|--|--|
| Yangdong Co., Ltd. | Amount for goods | 26,556,176.31 | Unrecover due to bankruptcy reorganization | N |
| Hunan Power Plant | Amount for goods | 4,297,149.16 | Unrecover due to bankruptcy | N |
| Jiangxi Diesel Plant | Amount for goods | 3,560,515.78 | Unrecover due to bankruptcy | N |
| Bengby Diesel Plant | Amount for goods | 3,317,712.05 | Unrecover due to bankruptcy | N |
| Urumqi Xinhengchang Pump Equipment Co.,Ltd. | Amount for goods | 365,561.71 | Hard to recover for long book age | N |
| Yunnan Dehongzhou Tongyong Machinery Co., Ltd | Amount for goods | 339,988.31 | Hard to recover for long book age | N |
| Other Scattered companies | Amount for goods | 1,618,720.30 | Hard to recover for long book age | N |

| | | | | |
|-------|--|---------------|--|--|
| Total | | 40,055,823.62 | | |
|-------|--|---------------|--|--|

10-02 Other account receivables

(1) Disclose other account receivables by types:

| Types | 2011-12-31 | | | |
|--|-----------------------|---------------|-------------------------|----------------------|
| | Book balance | | Provision for bad debts | |
| | Amount | Ratio (%) | Amount | Withdrawal ratio (%) |
| Significant single amount and withdrawal bad debt provision singly | 2,000,000.00 | 1.17 | 2,000,000.00 | 100.00 |
| Bad debt provision withdrawal by combination | 167,045,153.49 | 97.43 | -- | -- |
| Including: age group | 4,401,258.80 | 2.57 | -- | -- |
| Subsidiary group | 162,643,894.69 | 94.86 | -- | -- |
| Minor single amount but withdrawal bad debt provision singly | 2,400,000.00 | 1.40 | 2,400,000.00 | 100.00 |
| Total | 171,445,153.49 | 100.00 | 4,400,000.00 | 2.57 |

| Types | 2010-12-31 | | | |
|--|-----------------------|---------------|-------------------------|----------------------|
| | Book balance | | Provision for bad debts | |
| | Amount | Ratio (%) | Amount | Withdrawal ratio (%) |
| Significant single amount and withdrawal bad debt provision singly | 2,000,000.00 | 1.41 | 2,000,000.00 | 100.00 |
| Bad debt provision withdrawal by combination | 137,067,355.21 | 96.89 | -- | -- |
| Including: age group | 1,400,950.84 | 0.99 | -- | -- |
| Subsidiary group | 135,666,404.37 | 95.90 | -- | -- |
| Minor single amount but withdrawal bad debt provision singly | 2,400,000.00 | 1.70 | 2,400,000.00 | 100.00 |
| Total | 141,467,355.21 | 100.00 | 4,400,000.00 | 3.11 |

Explanation on types of other account receivables:

Other accounts receivable with over RMB 1 million of single amount is other receivables of significant single amount. To other receivables of significant single amount, provision for bad debts is still made by aging analysis method because no objective evidence can manifest that Contingent depreciation will exceed provision for bad debts by aging analysis method. Account receivable from subsidiaries is not withdrawal bad debt provision by the Company.

(2) There are no arrears from shareholders holding over 5% (5% included) of voting share of the Company in the report period

(3) Particulars of amount of other receivables of top 5 units

| Unit | 2011-12-31 | Terms | Proportion in total amount of other receivables (%) | Note |
|--|----------------|---------------|---|--|
| Weifu Leader | 153,915,159.60 | 1-2 years | 89.78 | Subsidiary |
| Weifu Schmitter | 8,728,735.09 | Within 1 year | 5.09 | Subsidiary |
| Jiangsu Techniques and Technology Center | 2,000,000.00 | Over 3 years | 1.17 | Full provision for bad debts had been made |

| | | | | |
|--|-----------------------|--------------|--------------|--|
| Nanjing University | 600,000.00 | Over 3 years | 0.35 | Full provision for bad debts had been made |
| Southeast University | 600,000.00 | Over 3 years | 0.35 | Full provision for bad debts had been made |
| Nanjing University of Science and Technology | 600,000.00 | Over 3 years | 0.35 | Full provision for bad debts had been made |
| Nanjing University of Technology | 600,000.00 | Over 3 years | 0.35 | Full provision for bad debts had been made |
| Total | 167,043,894.69 | | 97.44 | |

10-03 Long-term equity investments

| Investee | Accounting Method | Investment cost | 2010-12-31 | Increase or | 2011-12-31 |
|--|-------------------|-------------------------|-------------------------|------------------------|-------------------------|
| Weifu Jinning | Cost | 178,639,593.52 | 178,639,593.52 | -- | 178,639,593.52 |
| Weifu Leader | Cost | 230,113,855.00 | 230,113,855.00 | -- | 230,113,855.00 |
| Weifu Nano | Cost | 24,000,000.00 | 24,000,000.00 | -- | 24,000,000.00 |
| Weifu Jida | Cost | 3,500,000.00 | 3,500,000.00 | -3,500,000.00 | -- |
| Weifu Diesel System | Cost | 260,187,500.00 | 260,187,500.00 | -- | 260,187,500.00 |
| Weifu Masan | Cost | 48,693,380.51 | 48,693,380.51 | -- | 48,693,380.51 |
| Wei-Fu Chang'an | Cost | 70,902,037.30 | 70,902,037.30 | -- | 70,902,037.30 |
| Weifu International Trade | Cost | 30,999,996.22 | 30,999,996.22 | -- | 30,999,996.22 |
| Weifu ITM | Cost | 167,000,000.00 | 17,000,000.00 | 150,000,000.00 | 167,000,000.00 |
| Weifu Schmitter | Cost | 8,100,000.00 | 8,100,000.00 | -- | 8,100,000.00 |
| Weifu Tianli | Cost | 90,229,100.00 | 90,229,100.00 | -- | 90,229,100.00 |
| Weifu Jialin | Cost | 4,685,868.73 | 4,685,868.73 | -- | 4,685,868.73 |
| Kunming Xitong | Cost | 5,471,793.17 | -- | 5,471,793.17 | 5,471,793.17 |
| Weifu Tianshi | Cost | 5,200,000.00 | -- | 5,200,000.00 | 5,200,000.00 |
| Subtotal of subsidiary | | 1,127,723,124.45 | 967,051,331.28 | 157,171,793.17 | 1,124,223,124.45 |
| Weifu Autocam | Equity | 37,842,087.00 | 60,056,783.99 | 4,622,842.19 | 64,679,626.18 |
| Kunming Xitong | Equity | 4,235,000.00 | 4,278,649.95 | -4,278,649.95 | -- |
| Subtotal of joint venture | | 42,077,087.00 | 64,335,433.94 | 344,192.24 | 64,679,626.18 |
| Bosch Diesel System | Equity | 523,694,767.37 | 1,056,284,278.39 | -111,917,492.19 | 944,366,786.20 |
| Zhonglian Automobile | Equity | 120,124,000.00 | 439,766,893.01 | -41,678,388.92 | 398,088,504.09 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | Equity | 2,000,000.00 | 18,787,646.00 | 10,523,268.30 | 29,310,914.30 |
| Subtotal of affiliated | | 645,818,767.37 | 1,514,838,817.40 | -143,072,612.81 | 1,371,766,204.59 |
| Guolian Securities Co., Ltd. | Cost | 12,000,000.00 | 12,000,000.00 | -- | 12,000,000.00 |
| Guangxi Liufa Co., Ltd. | Cost | 1,600,000.00 | 1,600,000.00 | -- | 1,600,000.00 |
| Financial Company of | Cost | 800,000.00 | 800,000.00 | -- | 800,000.00 |
| H&J Vanguard | Cost | 33,000,000.00 | 33,000,000.00 | -- | 33,000,000.00 |

| | | | | | |
|---|------|-------------------------|-------------------------|----------------------|-------------------------|
| Nanjing Hengtai Insurance and Broker Co., Ltd. | Cost | 1,000,000.00 | 1,000,000.00 | -- | 1,000,000.00 |
| Jiangsu HSBC Insurance Agents Limited | Cost | 500,000.00 | 500,000.00 | -- | 500,000.00 |
| Yangdong Co., Ltd. | Cost | 2,355,900.00 | 2,355,900.00 | -- | 2,355,900.00 |
| Wuxi Xindong Technology Park Industry Co., Ltd. | Cost | 5,000,000.00 | 5,000,000.00 | -- | 5,000,000.00 |
| Subtotal of other equity investment | | 56,255,900.00 | 56,255,900.00 | -- | 56,255,900.00 |
| Total | | 1,871,874,878.82 | 2,602,481,482.62 | 14,443,372.60 | 2,616,924,855.22 |

| Invested unit | Equity ratio in invested unit (%) | Voting rights ratio in invested unit (%) | Explanation on difference between equity ratio and voting rights ratio in invested unit | Impairment provision accrual or charge-off in this period | Accumulated provision for impairment | Cash dividend |
|--|-----------------------------------|--|---|---|--------------------------------------|----------------|
| Weifu Jinning | 80.00 | 80.00 | -- | -- | -- | 81,395,301.49 |
| Weifu Leader | 94.81 | 94.81 | -- | -- | -- | 62,928,304.37 |
| Weifu Nano | 80.00 | 80.00 | -- | -- | 1,500,000.00 | -- |
| Weifu Jida | 70.00 | 70.00 | -- | -3,500,000.00 | -- | -- |
| Weifu Diesel System | 100.00 | 100.00 | -- | -- | -- | 159,352,883.69 |
| Weifu Masan | 100.00 | 100.00 | -- | -- | -- | -- |
| Weifu Chang'an | 100.00 | 100.00 | -- | -- | -- | 1,548,659.29 |
| Weifu International Trade | 100.00 | 100.00 | -- | -- | -- | 1,862,195.36 |
| Weifu ITM | 100.00 | 100.00 | -- | -- | -- | -- |
| Weifu Schmitter | 45.00 | 45.00 | -- | -- | -- | -- |
| Weifu Jialin | 51.00 | 51.00 | -- | -- | -- | 408,681.26 |
| Weifu Tianli | 51.00 | 51.00 | -- | -- | -- | 2,127,764.06 |
| Kunming Xitong | 70.00 | 70.00 | -- | -- | -- | 1,282,547.92 |
| Weifu Tianshi | 52.00 | 52.00 | -- | -- | -- | -- |
| Weifu Autocam | 50.00 | 50.00 | -- | -- | -- | 12,050,000.00 |
| Bosch Diesel System | 30.00 | 30.00 | -- | -- | -- | 331,566,977.10 |
| Zhonglian Automobile Electronic Co., Ltd. | 20.00 | 20.00 | -- | -- | -- | 235,650,525.01 |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 20.00 | 20.00 | -- | -- | -- | 2,040,000.00 |
| Guolian Securities Co., Ltd. | 1.20 | 1.20 | -- | -- | -- | -- |
| Guangxi Liufa Co., Ltd. | 1.22 | 1.22 | -- | -- | 1,600,000.00 | -- |

| | | | | | | |
|---|-------|-------|----|----|----------------------|-----------------------|
| Financial Company of Changchai Co., Ltd. | | | -- | -- | 800,000.00 | -- |
| H&J Vanguard Investment Co., Ltd. | 11.72 | 11.72 | -- | -- | 33,000,000.00 | -- |
| Nanjing Hengtai Insurance and Broker Co., Ltd. | 1.85 | 1.85 | -- | -- | 1,000,000.00 | 25,000.00 |
| Jiangsu HSBC Insurance Agents Limited | 10.00 | 10.00 | -- | -- | 500,000.00 | -- |
| Yangdong Co., Ltd. | | | -- | -- | 2,355,900.00 | -- |
| Wuxi Xidong Technological Industry Park Co., Ltd. | 1.43 | 1.43 | -- | -- | -- | -- |
| Total | | | | -- | 40,755,900.00 | 892,238,839.55 |

Explanation on long-term equity investment:

1. Weifu Schmitter: Weifu Schmitter is a Sino-foreign joint venture jointly set up by the Company, Germany-based Schmitter Group Aktiengesellschaft and Shanghai Weishi Automobile Technology Development Co., Ltd., which obtained the No. 320200400033433 Corporate Business License issued by Wuxi Administration for Industry and Commerce, Jiangsu Province on Sept. 17, 2009. The registered capital of this company was RMB 18 million, where the Company invested RMB 8.10 million, representing 45% of the registered capital; Germany-based Schmitter Group Aktiengesellschaft invested RMB 7.20 million, representing 40% of the registered capital; Shanghai Weishi Automobile Technology Development Co., Ltd. invested RMB 2.70 million, representing 15% of the registered capital. The RMB 2.70 million contributions from the Company during the year was the first contribution. The Company was the first largest shareholder of this company and held majority of voting rights in its board of directors; therefore, the Company consolidated it into the consolidated financial statements as a subsidiary since the date of its inception.
2. Kunming Xitong: According to the equity transfer agreement entered into between the Company and Kunming Jinlida Machinery Co., Ltd., the company turns to controlling shareholders of the Company after 20% equity of Kunming Xitong held by Kunming Jinlida Machinery Co., Ltd was transferred by the Company. The equity transfer amount RMB 1.4688 million was paid by the Company.
3. Weifu Tianshi: a joint-venture set up by the Company and Anhui Quanchai Power Co., Ltd. with register capital of RMB 10 million. The Company invested RMB 5.2 million for 52% in total register capital.
4. Weifu Jida: the company was cancelled in September 2011, impairment provision withdrawal originally has verified.

10-04 Operating income

(1) Operating income

| Item | 2011 | 2010 |
|------------------------|-------------------------|-------------------------|
| Main business income | 2,343,066,027.18 | 2,292,591,281.30 |
| Other business income | 445,153,394.67 | 447,557,434.05 |
| Total operating income | 2,788,219,421.85 | 2,740,148,715.35 |
| Cost of main business | 1,827,548,247.30 | 1,796,731,651.97 |
| Cost of other business | 385,012,534.67 | 363,938,826.68 |
| Total operating cost | 2,212,560,781.97 | 2,160,670,478.65 |

(2) Main business (according to industry)

| Industry | 2011 | | 2010 | |
|------------------|------------------|------------------|------------------|------------------|
| | Operating income | Operating cost | Operating income | Operating cost |
| Automobile parts | 2,343,066,027.18 | 1,827,548,247.30 | 2,292,591,281.30 | 1,796,731,651.97 |

(3) Main business (according to product)

| Product | 2011 | | 2010 | |
|----------------------------|------------------|------------------|------------------|------------------|
| | Operating income | Operating cost | Operating income | Operating cost |
| Auto fuel injection system | 2,343,066,027.18 | 1,827,548,247.30 | 2,292,591,281.30 | 1,796,731,651.97 |

(4) Main business (according to region)

| region | 2011 | | 2010 | |
|----------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Operating income | Operating cost | Operating income | Operating cost |
| Domestic sales | 2,343,066,027.18 | 1,827,548,247.30 | 2,282,219,003.98 | 1,789,606,204.14 |
| Overseas sales | -- | -- | 10,372,277.32 | 7,125,447.83 |
| Total | 2,343,066,027.18 | 1,827,548,247.30 | 2,292,591,281.30 | 1,796,731,651.97 |

(5) Particulars about operating income of top 5 clients

| Client | Operating income(in ten thousand yuan) | Proportion in operating income (%) |
|----------|--|------------------------------------|
| Client 1 | 34,606.93 | 12.41 |
| Client 2 | 33,467.19 | 12.00 |
| Client 3 | 23,931.33 | 8.58 |
| Client 4 | 19,851.49 | 7.12 |
| Client 5 | 15,269.12 | 5.48 |
| Total | 127,126.06 | 45.59 |

10-05 Investment income

(1) Details of investment income

| Item | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Long-term equity investment income in cost method | 310,931,337.44 | 50,280,219.77 |
| Long-term equity investment income in equity method | 442,582,074.71 | 615,827,725.94 |
| Total | 753,513,412.15 | 666,107,945.71 |

(2) Long-term equity investment income in cost method (Top 5)

| Investee | 2011 | 2010 | Reason for increase and decrease of this period compared to the last period |
|---------------------------|-----------------------|----------------------|---|
| Weifu Diesel System | 159,352,883.69 | 12,663,185.27 | Bonus increased due to sharply benefit growth in 2010 |
| Weifu Jinning | 81,395,301.49 | 25,174,804.06 | Bonus increased due to sharply benefit growth in 2010 |
| Weifu Leader | 62,928,304.37 | -- | Bonus increased due to sharply benefit growth in 2010 |
| Weifu Tianli | 2,127,764.06 | -- | Bonus increased due to sharply benefit growth in 2010 |
| Weifu International Trade | 1,862,195.36 | 1,476,572.77 | Bonus increased due to sharply benefit growth in 2010 |
| Total | 307,666,448.97 | 39,314,562.10 | -- |

Note: Only show invested units whose investment income takes over 5% of total amount of profit, or top 5 invested units whose ratio of total amount of profit is biggest

(3) Long-term equity investment income in equity method (Top 5)

| Investee | 2011 | 2010 | Reason for increase and decrease of this period |
|----------|------|------|---|
|----------|------|------|---|

| | | | compared to the last period |
|--|-----------------------|-----------------------|--|
| Bosch Diesel System | 219,649,484.91 | 390,234,708.02 | Profit downs in this year suffered by influence of automobile industry |
| Zhonglian Automobile Electronic Co., Ltd. | 193,972,136.09 | 199,557,650.02 | Profit downs in this year suffered by influence of automobile industry |
| Wuxi Weifu-Autocam Fine Machinery Co. LTD. | 16,672,842.19 | 17,221,397.20 | Profit downs in this year suffered by influence of automobile industry |
| Wuxi Weifu Precision Machinery Manufacturing Co., Ltd. | 12,563,268.30 | 8,102,556.20 | Profit growth due to the expansion of company's scale |
| Kunming Xitong | -275,656.78 | 43,649.95 | Profit downs in this year suffered by influence of automobile industry |
| Total | 442,582,074.71 | 615,159,961.39 | |

Note: Only show invested units whose investment income takes over 5% of total amount of profit, or top 5 invested units whose ratio of total amount of profit is biggest.

10-06 Supplementary materials of cash flow statement

| Item | 2011 | 2010 |
|---|------------------------|-----------------------|
| 1. Net profit subject to cash flow arising from operating activities | | |
| Net profit | 1,000,037,255.26 | 873,510,967.63 |
| Add: Provision for assets devaluation | 1,953,321.23 | 42,809,645.98 |
| Depreciation of fixed assets, oil assets and productive biological assets | 62,305,664.80 | 76,403,478.04 |
| Amortization of intangible assets | 2,579,925.55 | 670,213.68 |
| Losses from disposal of fixed, intangible and other long-term assets(Income is listed with "-") | -3,464,944.05 | -3,728,853.16 |
| Financial expenses(Income is listed with "-") | 27,791,642.85 | 27,978,074.85 |
| Losses from investment(Income is listed with "-") | -753,513,412.15 | -666,107,945.71 |
| Decrease of deferred income tax(Increase is listed with "-") | -31,682,664.07 | -4,238,690.82 |
| Decrease of inventory(Increase is listed with "-") | -20,039,594.46 | -91,368,321.05 |
| Decrease of operating receivables(Increase is listed with "-") | -426,773,537.76 | -224,820,629.09 |
| Increase of operating payables(Decrease is listed with "-") | -180,484,981.94 | 372,103,008.69 |
| Net cash generated from operating activities | -321,291,324.74 | 403,210,949.04 |
| 2. Net increase in cash /cash equivalent | | |
| Balance of cash at period-end | 132,135,416.49 | 85,169,165.70 |
| Less: Balance of cash at period-beginning | 85,169,165.70 | 85,790,609.19 |
| Add: Balance of cash equivalent at period-end | | |
| Less: Balance of cash equivalent at period-beginning | | |
| Net increase in cash /cash equivalent | 46,966,250.79 | -621,443.49 |
| 3. Constitution of cash and cash equivalents | 2011-12-31 | 2010-12-31 |
| Cash balance listed in balance sheet | 189,135,416.49 | 149,943,763.55 |
| Less: Guarantee of bank acceptance bill not conforming to the definition of cash | 57,000,000.00 | 64,774,597.85 |
| Balance of cash and cash equivalents listed in cash flow statement | 132,135,416.49 | 85,169,165.70 |

Note 11: Supplementary information

11-01 Non-recurring gains and losses

In ten thousand yuan

| Items | 2011 | 2010 |
|--|-----------------|-----------------|
| Gains and losses from the disposal of non-current assets | 375.56 | 437.46 |
| Governmental subsidy calculated into current gains and losses, while closely related with the business of the Company, excluding the fixed-amount or fixed-proportion governmental subsidy according to the unified national standard | 3,452.68 | 1,544.08 |
| Gains arising from investment cost, obtained from subsidiaries, affiliated enterprises and joint ventures, which is less than fair value of identifiable net assets, that deserves to enjoy in invested units while investment obtained. | 72.80 | -- |
| Switch-back of impairment of account receivable that | 443.59 | -- |
| Other non-operating income and expenditure except | 310.77 | 24.41 |
| Subtotal | 4,655.40 | 2,005.95 |
| Less: Impact on income tax | 701.94 | 306.56 |
| Net non-recurring gains and losses | 3,953.46 | 1,699.39 |
| The net non-recurring gains and losses attributable to | 178.42 | 130.92 |
| The net non-recurring gains and losses attributable to | 3,775.04 | 1,568.47 |
| Net profit attributable to common shareholders | 116,686.67 | 132,460.64 |
| Impact on net profit from net non-recurring profit and | 3.13 | 1.17 |

Note: The "+" in table means the revenue and income, "-" indicates losses or expenses.

11-02 Return on equity and earnings per share

| Profit in the report period | Weighted average ROE (%) | EPS | |
|--|--------------------------|-----------|-------------|
| | | Basic EPS | Diluted EPS |
| Net profit attributable to common shareholders of the Company | 26.27 | 2.12 | 2.12 |
| Net profit attributable to common stockholders of the Company deducting non-recurring gains and loss | 25.45 | 2.06 | 2.06 |

11-03 Exception of major accounting statements items and explanation on reasons

1. Monetary fund: year-end of 2011 has an increase of RMB 258.0948 million over that of year-end of 2010 with 43.23% up. Mainly because net cash flow of operation increased in this year.
2. Note receivable: year-end of 2011 has an increase of RMB 391.7525 million over that of year-end of 2010 with 46.90% up. Mainly because note receivable increase along with the increase of income in business.
3. Account paid in advance: year-end of 2011 has an increase of RMB 78.2311 million over that of year-end of 2010 with 74.38% up. Mainly because account paid in advance for equipment increased for fixed assets' reconstruction in Weifu ITM.
4. Other account receivable: year-end of 2011 has an increase of RMB 5.1686 million over that of year-end of 2010 with 45.40% up. Mainly because confirmation of housing leasing amount receivable of Weifu Jinning, calculated based on accounting standards increased.
5. Construction in progress: year-end of 2011 has a decrease of RMB 43.9683 million over that of year-end of 2010 with 30.91% down. Mainly because part of the projects have been completed and transferred into fixed assets in this period.
6. Intangible assets: year-end of 2011 has an increase of RMB 164.2654 million over that of year-end of 2010 with 191.77% up. Mainly because land uses right located in Xin District of Wuxi, was purchased by the Company.

7. Deferred income tax assets: year-end of 2011 has an increase of RMB 37.023 million over that of year-end of 2010 with 79.55% up. Mainly because the impairment provision, expenses withdrawal in advance, deferred income and profit un-realized are increased, than deferred income tax assets increased correspondingly.
8. Short-term loans: year-end of 2011 has an increase of RMB 225 million over that of year-end of 2010 with 83.33% up. Mainly because capital requirements increased.
9. Note payable: year-end of 2011 has a decrease of RMB 225.6838 million over that of year-end of 2010 with 57.87% down. Mainly because reduced the settlement of note payable.
10. Other account payable: year-end of 2011 has an increase of RMB 21.49 million over that of year-end of 2010 with 34.28% up. Mainly because margins received by the clients increased.
11. Other non-current liability: year-end of 2011 has an increase of RMB 58.95 million. Mainly because government subsidy increased in this year.
12. Sales expenses: year-end of 2011 has an increase of RMB 103.4331 million over that of year-end of 2010 with 83.78% up. Mainly because expenses of “Three-Guarantee” increased.
13. Impairment of assets: year-end of 2011 has a decrease of RMB 43.7705 million over that of year-end of 2010 with 87.11% down. Mainly because eliminated fixed assets was accrual the impairment of assets in last year.
14. Non-operation income: year-end of 2011 has an increase of RMB 19.3861 million over that of year-end of 2010 with 80.38% up. Mainly because government subsidy received in this year increased.