



**上海柴油机股份有限公司**  
**SHANGHAI DIESEL ENGINE CO., LTD.**

## **Acknowledgment**

1. The Board of Directors, Supervisory Committee and their respective members, as well as the senior management of the Company acknowledge there was no false or misleading information or material misstatement including omission in this report and holds responsible for the true and fair presentations and completeness of the report.

2. All members of Board of Directors of the Company have attended the board meeting.

3. The independent auditors' of the Company, Ernst & Young Hua Ming LLP has issued an unqualified auditors' report on the financial statements of the Company for the year ended 31 December 2012.

4. Chairman of the Board, Mr. Xiao Guo Pu and that in-charge of the accounting functions, Mr. Jiang Bao Xin and Mr. Sun Yu acknowledge this report is truly and fairly presented.

5. The plan of profit distribution or plan of transferring reserve to share capitals reviewed and approved by the board of directors:

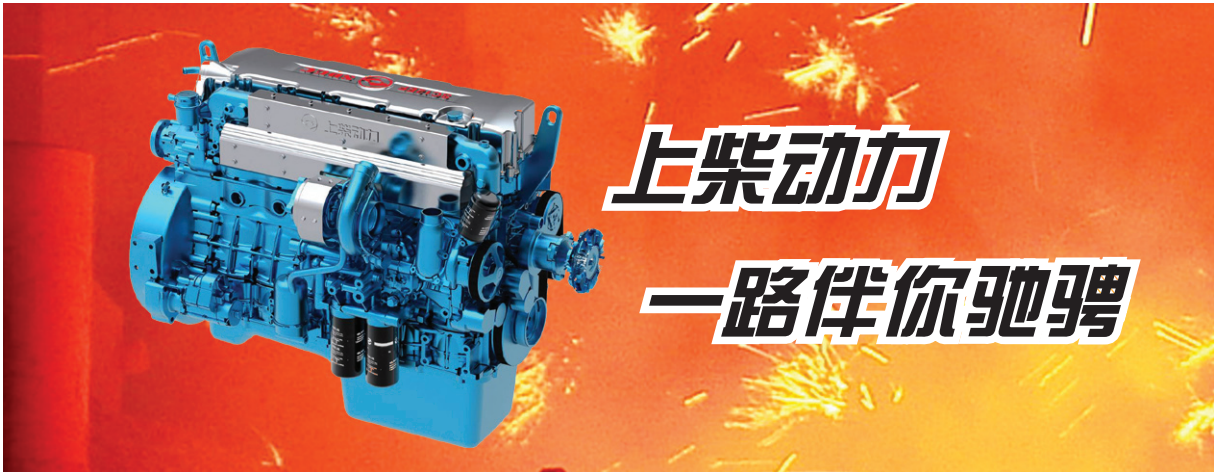
As audited by Ernst & Young Hua Ming LLP, the consolidated net profit attributable to parent company is RMB203,709,733.71, and the net profit of the parent company is RMB214,261,216.68 for the year 2012, being distributed to statutory surplus reserves of RMB21,426,121.67, added with the prior years' retained earnings of RMB445,948,184.81, deducted by the distribution of cash dividend of RMB27,159,141.55 for the year 2011, the retained earnings available for distribution to shareholders are RMB611,624,138.27 at the end of year 2012. The capital reserve of the parent company is RMB1,128,380,986.31 at the end of year 2012.

The Company's 2013 First Provisional Shareholders' Meeting reviewed and passed the resolution on the repurchase of the Company's B-shares, pursuant to the related regulations, the shares which are repurchased, since being transferred to the special repurchase account, are no longer entitled to its original rights, including the profit distribution, transferring reserve to shares, issuance and allotment of shares, pledge, voting in the general meeting and etc. The current number of the Company's shares is 869,092,530, and the Company's 2012 profit distribution plan is to allot cash dividend at RMB0.71 (tax inclusive) per 10 shares based on the total share capital at the date of registration for profit distribution, deducted by the B shares which have been repurchased and transferred into the special repurchase account. The undistributed earnings are carried forward for future distribution. The proposal is to be approved by the 2012 Annual General Meeting.

6. The perspective statement described in this report, such as future plans and development strategy etc., does not constitute the Company's substantial commitment to investors, and we kindly alert investors aware of the investment risk.

7. There was no deployment of the fund for non-business purposes by the Controlling Shareholder or its related companies.

8. There was no non-compliance with the Company's policy in relation to granting guarantee to external parties.



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## Section I. Definitions and reminder of major risks

### I. Definitions

In this report, unless the context suggests otherwise, the following terms have the following meaning:

Definitions

SDEC, the Company	refer to	Shanghai Diesel Engine Co., Ltd.
Controlling Shareholder, SAIC	refer to	SAIC Motor Corporation Limited
Reporting Period	refer to	Year 2012
Articles of Association	refer to	the Articles of Association of Shanghai Diesel Engine Co., Ltd.
RMB	refer to	Renminbi Yuan

### II. Reminder of major risks

The Company's future business prospects predicted in this report is based on the current macroeconomics and market conditions. It doesn't constitute performance commitments made by the Company. The Company has elaborated the risk factors in this report. Please refer to content of the risk that the Company may encounter in the section "Discussion and analysis of Prospects for Company's Future Development" in the Board of Directors' report.

## Section II. Corporate Information

### I. Corporate Profile

Company's legal Chinese name:	上海柴油机股份有限公司
Chinese abbreviation	上柴股份
Company's legal English name	Shanghai Diesel Engine Co., Ltd.
English abbreviation	SDEC
Legal representative	Mr. Xiao Guo Pu

### II. Contacts

	Board Secretary	Representative on security matters
Name	Wang Hong Bin	Zhang Jiang
Address	2636 Jun Gong Road, Yang Pu District, Shanghai	
Telephone	(021) 60652288	(021) 60652207
Fax	(021) 65749845	
Email address	sdecsh@sdec.com.cn	

### III. Address

Registered address	2636 Jun Gong Road, Yang Pu District, Shanghai
Zip code of registered address	200438
Office address	2636 Jun Gong Road, Yang Pu District, Shanghai
Zip code of office address	200438
Website	www.sdec.com.cn
Email	sdecsh@sdec.com.cn

### IV. Information disclosure and the place for inspection

Appointed news papers for information disclosure	Shanghai Securities News, Hongkong Wen Wei Po
The website appointed by China Securities Regulatory Committee for publication of annual report	Shanghai Stock Exchange - www.sse.com.cn
The place for inspecting annual report	The office of Board Secretary

### V. Stock Information

Stock Information			
Category	Stock Exchange	Share Abbreviation	Share Code
A share	Shanghai Stock Exchange	Shanghai Diesel	600841
B share	Shanghai Stock Exchange	Shanghai Diesel B	900920

### VI. The Changes of Registration during the Reporting Period

(I) Basic Information	
Date of registration	27 December 2012
Registered address	Shanghai Administration for Industry & Commerce
Corporate Business License	310000400070424 (Municipal)
Tax registration number	310110607234882
Organization Code	60723488-2

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### (II) Initial Registration's Information

On 27 December 1993, the Company was incorporated and the registration number of the Company's business license was "Gong Shang Qi Gu Fen Hu Zi 00023". The registered capital of the Company was RMB329,424.4 thousand when the Company was founded. Please refer to the Basic Information in this report for the detailed information of the initial registration.

### (III) The changes of main business since the Company became public

The main business hasn't changed since the Company became public.

### (IV) The changes of Controlling Shareholder since the Company became public

The Company was incorporated on 27 December 1993 as approved by Shanghai Economic Committee and Shanghai Securities Management Office in Hu Jing Qi (1993) No.411 and Hu Zheng Ban (1993) No. 111. The Company was incorporated after the reorganization and restructure, initiated by the sole founder Shanghai Diesel Engine Factory. The Company's original shareholder was Shanghai Dongfeng Machinery (Group) Company Ltd. ("Dongji Group"). Pursuant to the approval of related authority, the state-owned shares of the Company were transferred from Dongji Group to Shanghai Electric (Group) Corporation ("SHE Group Corporation") in 2003 upon the reorganization of SHE Group Corporation.

In 2004, pursuant to the related authority's approval, the state-owned share of the Company was transferred from SHE Group Corporation to Shanghai Electric Group Co., Ltd. ("SHE Group") (on 27 October 2004, SHE Group Corporation was reorganized to be Shanghai Electric Group Co., Ltd., "SE Group"). After the transaction, the state-owned shareholder of the Company changed to SHE Group.

In December 2008, SHE Group transferred its 50.32% of the Company's equity to SAIC Motor Corporation Limited ("SAIC"). After this transaction, SAIC became the controlling shareholder of the Company and Shanghai Automotive Industry Corporation ("SAI Corporation") has been the ultimate controller of the Company.

## VII. Other information

The accounting firm appointed by the Company (domestic)

Name	Ernst & Young Hua Ming LLP
Addresses	Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dong Cheng District, Beijing
Name of CPA	Zhou Lin, Li Bo

The sponsor fulfilling the continuous supervisory responsibilities during the Reporting Period

Name	Dong Guan Securities Co., Ltd
Addresses of sponsor	Jinyuan Center, No 1 South Ke Yuan Road, Dongguan City, Guangdong Province.
Name of sponsor representatives	Yao Genfa, Pan Yunsong
Period of continuous supervision	From the effective date of the sponsorship agreement, through the remaining period after the completion of non-public offering of shares, to the end of the next complete financial year.

### Section III. Financial Highlights

#### I. Three-year financial highlights

(I) Major Accounting Data (Unit: RMB)

Major Accounting Data	2012	2011	Change (%)	2010
Revenue	3,029,962,800.96	4,634,955,294.75	-34.63	4,831,398,471.85
Net profit attributable to shareholders	203,709,733.71	207,306,920.41	-1.74	136,325,336.38
Net profit attributable to shareholders excluding extraordinary items	163,507,041.12	189,287,099.23	-13.62	123,686,216.00
Net cash flow from operating activities	394,284,437.94	473,599,269.06	-16.75	349,460,914.86
	2012-12-31	2011-12-31	Change (%)	2010-12-31
Owners' equity attributable to shareholders	3,173,829,812.00	2,180,981,146.66	45.52	2,029,115,704.95
Total assets	4,965,717,042.89	4,010,856,413.12	23.81	4,046,865,484.96

(II) Key Financial Data

Key Financial Indices	2012	2011	Change (%)	2010
Basic earnings per share (RMB/Share)	0.24	0.27	-10.52	0.18
Diluted earnings per share (RMB/Share)	NA	NA	NA	NA
Basic earnings per share excluding profit from extraordinary items (RMB/Share)	0.19	0.25	-21.34	0.16
Weighted average return on net assets (%)	7.07	9.80	Decrease by 2.73 percentage points	6.99
Weighted average return excluding extraordinary items on net assets (%)	5.67	8.95	Decrease by 3.28 percentage points	6.34

Note: During the Reporting Period, the Company completed the non-public offering of shares and the 2011 profit distribution and transfer of capital reserve to share capital. The total share capital changed from 480,309,280 shares to 869,092,530 shares. According to the relevant requirements of the accounting standards, the Company recalculated the earnings per share based on the adjusted weighted average number of shares.

**II. Extraordinary items:** Unit: RMB

	2012	2011	2010
Loss on disposal of non-current assets	5,305,580.46	24,130.45	693,369.69
Government grants and subsidies (exclusive of those relating to ordinary business, standard government grants and subsidies )	36,680,416.44	2,326,000.00	3,536,000.00
Changes in the fair value of holding the financial assets and financial liabilities, and investment profit from disposal of financial assets and financial liabilities, and held for sale financial assets except for the effective hedging related to the normal business	-	5,773,599.04	731,802.36
Reversal of impairment provision for accounts receivable which was separately tested for impairment	5,321,276.18	2,258,282.19	5,521,205.48
Gains from entrusted loan			3,026,700.00
Other non-operating income besides the above items	-137,193.00	112,897.67	1,875,292.18
Other P&L items according with non-recurring profit and loss		10,526,377.14	
Equity attributable to minority interest	864,893.97	501,314.03	-201,542.03
Taxation impact	-7,832,281.46	-3,502,779.34	-2,543,707.30
<b>Total</b>	<b>40,202,692.59</b>	<b>18,019,821.18</b>	<b>12,639,120.38</b>

**III. Financial instruments at fair value** (Unit: RMB)

Items	Opening balance	Closing balance	Movement	Impact on current year profit
Available for sale financial assets	44,442,355.00	38,512,872.50	-5,929,482.50	0.00
Other current assets	0.00	16,433,490.00	16,433,490.00	0.00
<b>Total</b>	<b>44,442,355.00</b>	<b>54,946,362.50</b>	<b>10,504,007.50</b>	<b>0.00</b>

## Section IV. Board of Directors' Report

### I. Discussion and analysis on the operating results of the Company during the Reporting Period by Board of Directors

#### 1. Operations

In 2012, affected by the weakness of the international economic situation, the domestic real estate macro-control and the structure adjustment of the national economy, China's national economy maintained continuous and rapid growth. But the speed of growth slowed down. Gross domestic product (GDP) achieved 7.8% growth as compared to last year. There is slowdown in growth in automotive industry. The construction machinery industry presented the overall declining trend. Considering market segments, the total sales of commercial vehicles decreased 3.27 million units in volume, by 7.5% compared to last year. In the case of macro-economic slowdown in the growth of a substantial decline in investment, heavy truck declines the most, down 28.1% compared to last year. Under the dual pressure of shrinking demand and digest inventory, the engineering machinery manufacturer performed poorly in production and sales data compared to last year. Among which, excavators, loaders, bulldozers, mobile cranes fell 35.2%, 29.6%, 22.3% and 36.6% respectively.

Faced with severe and complex situation, the Company thoroughly applied and implemented the scientific outlook on development; strengthened the scientific decision-making and standardised operation; constantly strived to improve the level of governance, based on the work theme of "transfer the thought to catch opportunities; solve the key problem to be the best; fight in the market to seek development". Faced with the overall decline in the market of engine machinery and vehicle-diesel, the Company (1) consolidate and expand the market, actively layout of the sales of the new product; (2) accelerate the pace of car diesel engine project program, and steadily promote the production capacity; (3) pay close attention to product quality management, improve the quality of both new and existing products; (4) establish a standard production system and further improve lean production; (5) optimize the allocation of human resource and enhance the skill of the staff; (6) adjust and optimize the business structure, and steadily promote the reform and development; (7) implement capital financing successfully, and broaden the investment business platform. All the key work was carried out steadily with the effort of all staffs of the Company.

The Company sold diesels of 64,038 units in current year with a 36% decrease as compared to last year, of which, the sales of construction machinery, the sales of trucks, the sales of ship power and the exports declined, on the contrary, the sales of passenger cars increased a lot.

In 2012, the operating revenue amounted to RMB3,030 million and decreased by 34.63% as compared to last year. In the Reporting Period, the Company continued to deduct the cost and enhance the budget controls, as a result, various expenses declined. The operating profit was RMB180,575.9 thousand and decreased by 18.61% as compared to last year. In the meantime, government grants and other non-operating income increased, the net profit attributable to the parent company amounted to RMB203,709.7 thousand, decreased by 1.74% as compared to last year.

At the end of 2012, the total assets of the Company amounted to RMB4,966 million, increased by 23.81% as compared to last year; the shareholder's equity attributable to the parent company amounted to RMB3,174 million, increased by 45.52% compared with last year. The main reason for the increase of both total assets and net assets was that the Company completed the non-public offering of shares, so that cash and bank, share capital and capital reserves increased consequently.

#### 2. 2011 non-public offering of A shares

The Company started the non-public offering of A shares in 2011. All the funds raised would be used on heavy vehicle-diesel engine project, medium-light diesel engine project and development and manufacturing of light diesel engine project. On 23 March 2012, the issuance of shares has been completed. The Company issued, in a way of non-public offering, 62,873,551 ordinary shares at RMB13.46 per share, and raised net fund of RMB818,149,600.84, after deducting various issue expenses. Up to the disclosure of this report, all three projects have been constructed in progress.



### 3. Cash Dividend and capital reserve plan in 2011

On 18 May 2012, the 2011 Annual General Meeting was held and approved the proposal of 2011 profit distribution to allot cash dividend at RMB0.50 (tax inclusive) per 10 shares based on the total share capital of 543,182,831 shares, and to transfer the capital reserve into share capital at 6 additional shares per 10 current shares. Consequently, the total cash dividend amounted to RMB27,159,141.55 (tax inclusive), the increased share capital was 325,909,699 shares due to the transfer of capital reserve, and the undistributed earnings were carried forward for future distribution. The above cash dividend and transfer to share capital were completed on 15 June 2012, and the share capital of the Company changed from the original 543,182,831 shares to 869,092,530 shares.

#### (I). Analysis of main business

##### 1. Analysis of changes of income statement and cash flow statement

Unit: RMB

subject	2012	2011	Fluctuation(%)
Operating Revenue	3,029,962,800.96	4,634,955,294.75	-34.63
Operating Cost	2,404,784,827.59	3,714,319,236.74	-35.26
Operating Expenses	157,469,783.41	253,139,571.59	-37.79
General and administrative expenses	328,266,597.59	450,674,873.85	-27.16
Financial expenses	-37,667,397.50	-24,038,909.20	NA
Net cash flows from operating activities	394,284,437.94	473,599,269.06	-16.75
Net cash flows from investing activities	-639,027,723.22	-374,252,116.25	NA
Net cash flows from financing activities	820,337,659.29	-105,910,759.00	NA
R&D expenditure	133,701,398.55	165,576,140.90	-19.25

- 1) Decrease of operating revenue as compared to last year was mainly due to the influence of decline in industry. Reduction of sale of diesel engines caused the decreasing of operating revenue.
- 2) Decrease of operating cost as compared to last year was mainly due to decline in operating revenue led to less cost incurred.
- 3) Decrease of operating expenses as compared to last year was mainly due to the reduction of product warranties.
- 4) Decrease of general and administrative expenses as compared to last year was mainly due to the reduction of personnel termination cost, as well as the cost control strengthened by the Company.
- 5) Decrease of finance expenses as compared to last year was mainly due to the increase in interest income.
- 6) Decrease of net cash flows from operating activities as compared to last year was mainly due to the decrease in receivables and increase in inventory movements.
- 7) Decrease of net cash flows from investing activities decreased as compared to last year was mainly due to the increased fixed assets expenditure on the projects of new products and of casting base project.
- 8) Increase of net cash flows from financing activities as compared to last year was mainly due to the funds raised from the non-public offering of A shares.
- 9) Decrease of R&D expenditure as compared to last year was mainly due to the reduction of R&D projects.

##### 2. Revenue

###### (1) Analysis of factors which drove the revenue fluctuation

The Company's core products are the diesel engines and its accessories. The sales of diesel engines were mainly affected by the construction machinery industry and automotive industry. In 2012, the overall decline in construction machinery industry caused the Company's revenue lower than last year.

## (2) Analysis of fluctuation in revenues based on physical sales of products

project	Production (unit)			Sales (unit)			Inventory (unit)		
	2012	2011	Fluctuation (%)	2012	2011	Fluctuation (%)	2012	2011	Fluctuation (%)
Diesel engine	63,633	95,244	-33.19	64,038	100,177	-36.08	5,236	5,641	-7.18
Total	63,633	95,244	-33.19	64,038	100,177	-36.08	5,236	5,641	-7.18

## (3) Analysis of order

The Company has three kinds of sales model, including OEM, regional agency and direct sales from sales department. The Company planned and operated the production according to the sales volume, and the sales orders were closely related to the conditions of the industry.

## (4) Major Customers

Unit: RMB

Name of Customers	Operating Revenue	The proportion to total Sales (%)
First	694,550,019.70	22.92
Second	227,759,129.58	7.52
Third	153,093,666.49	5.05
Fourth	120,735,846.06	3.98
Fifth	111,774,829.19	3.69
Total	1,307,913,491.02	43.16

The sales of the five major customers amounted to RMB1,308 million, accounting for 43.16% of the total sales.

## 3. Cost

## (1) Analysis of cost

Unit: RMB

## By Industry

	Cost Structures	2012	Proportion of all costs (%)	2011	Proportion of all costs (%)	Fluctuation (%)
Diesel engines and its accessories	Raw Materials	206,754.45	87.13	323,324.10	88.49	-36.05
Diesel engines and its accessories	Labour Cost	14,438.99	6.08	19,965.08	5.46	-27.68
Diesel engines and its accessories	Fuel and Power	3,178.96	1.34	4,291.97	1.17	-25.93
Diesel engines and its accessories	Manufacturing Overhead	12,937.93	5.45	17,820.70	4.88	-27.40

## By Products

	Cost Structures	2012	Proportion of all costs (%)	2011	Proportion of all costs (%)	Fluctuation (%)
Diesel engines and its accessories	Raw Materials	206,754.45	87.13	323,324.10	88.49	-36.05
Diesel engines and its accessories	Labour Cost	14,438.99	6.08	19,965.08	5.46	-27.68
Diesel engines and its accessories	Fuel and Power	3,178.96	1.34	4,291.97	1.17	-25.93
Diesel engines and its accessories	Manufacturing Overhead	12,937.93	5.45	17,820.70	4.88	-27.40

(2) Major Suppliers Unit: RMB

Name of Suppliers	Purchase amount	Proportion to total purchase (%)
First	131,551,823.00	4.07
Second	67,174,090.49	2.08
Third	62,353,005.13	1.93
Fourth	59,151,464.88	1.83
Fifth	53,437,113.92	1.65
Total	373,667,497.42	11.57

The purchases from the five major suppliers amounted to RMB373,667,497.42, accounting for 11.57% of the total purchases.

4. Expenses Unit: RMB

	Jan- Dec 2012	Jan- Dec 2011	Fluctuation (%)
Operating expenses	157,469,783.41	253,139,571.59	-37.79
General and administrative expenses	328,266,597.59	450,674,873.85	-27.16
Financial expenses	-37,667,397.50	-24,038,909.20	NA

- 1) Decrease of operating expenses as compared to last year was mainly due to the reduction of product warranties.
- 2) Decrease of general and administrative expenses as compared to last year was mainly due to the reduction of personnel termination cost, as well as the cost control strengthened by the Company.
- 3) Decrease of finance expenses as compared to last year was mainly due to the increase in interest income.

## 5. R&amp;D expenditure

(1) Summary of expenditure Unit: RMB

R&D expenditure charged to profit and loss in current period	133,701,398.55
R&D expenditure in total	133,701,398.55
Proportion to net asset (%)	4.21
Proportion to operating revenue (%)	4.41

- (2) Description: The wages of R&D staff are included in the R&D expenditure.

6. Cash flow Unit: RMB

	Jan- Dec 2012	Jan- Dec 2011	Fluctuation (%)
Net cash flows from operating activities	394,284,437.94	473,599,269.06	-16.75%
Net cash flows from investing activities	-639,027,723.22	-374,252,116.25	NA
Net cash flows from financing activities	820,337,659.29	-105,910,759.00	NA

- 1) Decrease of net cash flows from operating activities as compared to last year was mainly due to the decrease in receivables and increase in inventory movements.
- 2) Decrease of net cash flows from investing activities decreased as compared to last year was mainly due to the increased fixed assets expenditure on the projects of new products and of casting base project.
- 3) Increase of net cash flows from financing activities as compared to last year was mainly due to the funds raised from the non-public offering of A shares.

## 7. Other Information

- (1) Details in changes of profit composition or sources of profit  
 In 2012, there is no significant change in the Company's profit composition or sources of profit.
- (2) Details in progress of the Company's financing events and major asset restructures  
 The Company completed the 2011 non-public offering of A shares on 23 March 2012. The Company issued, in a way of non-public offering, 62,873,551 ordinary shares, and raised net fund of RMB818,149,600.84. Up to the end of the report period, all three projects have been constructed in progress.
- (3) Details in developing strategies and progress of operating plan  
 The Company adhered to the core value of "create the market-oriented demand, meet the customer-centralized demand, serve the employee-fundamental demand", made the strategy of simultaneous development of both construction machinery diesel engines and vehicle engines, steadily push forward the development of the Company by developing the products and reengineering the process.  
 The Company put forward a plan with operating revenue of 4,535 million at the beginning of 2012, and the actual operating revenue was 3,030 million in 2012. The main reason for not achieving the target was the decline in industry; the reduction of sales of diesel engines caused the decrease of operating revenue correspondingly.

**(II) Operating activities analysis by industry, product or region**

**1. Principal operating activities by industry and product**

Unit: RMB

Principal operating activities by industry						
Industry	Operating revenue	Operating cost	Profit margin (%)	Operating revenue change (%)	Operating cost change (%)	Profit margin change (%)
Diesel engine and parts	2,985,867,771.41	2,373,103,313.06	20.52	-34.28	-35.05	Increased by 0.95 percent point

Principal operating activities by product						
Product	Operating revenue	Operating cost	Profit margin (%)	Operating revenue change (%)	Operating cost change (%)	Profit margin change (%)
Diesel engine	2,643,258,337.60	2,101,427,553.25	20.50	-36.45	-37.26	Increased by 1.02 percent point
Parts and others	342,609,433.81	271,675,759.81	20.70	-10.72	-10.85	Increased by 0.11 percent point

**2. Principal operating activities by region**

Unit: RMB'0000

Region	Operating income	Operating income change (%)
Domestic	290,418.88	-33.06
Foreign	8,167.90	-34.31

**(III) Analysis of Assets and liabilities****1. Analysis of Assets and liabilities**

Unit: RMB

Accounts	Year end 2012	Proportion to total assets (%)	Year end 2011	Proportion to total assets (%)	Fluctuation (%)
Cash and bank	1,976,954,447.34	39.81	1,401,312,456.16	34.94	41.08
Other current assets	16,582,645.00	0.33	170,858.45	0.00	9,605.49
Construction in progress	873,452,413.60	17.59	403,143,769.62	10.05	116.66
Taxes payable	-45,342,697.11	NA	-7,013,952.84	NA	NA
Other payables	154,733,717.96	3.12	83,101,151.96	2.07	86.20
Share capital	869,092,530.00	17.50	480,309,280.00	11.98	80.94
Capital reserves	1,129,251,227.77	22.74	704,954,097.71	17.58	60.19
Equity attributable to parent company	3,173,829,812.00	63.91	2,180,981,146.66	54.38	45.52

- 1) Increase of cash and bank as compared to last year was mainly due to the issuance of shares, which led to an increase in net cash flows from financing activities.
- 2) Increase of other current assets as compared to last year was mainly because the Company subscribed for additional Xia Gong Shares, which were expected to be sold in the short term.
- 3) Increase of construction in progress as compared to last year was mainly due to the increased expenditure on the projects of new and current products and of casting base project.
- 4) Decrease of taxes payable as compared to last year was mainly due to the increase in purchase of raw materials and equipments, which led to the increase of deductible payable VAT (input tax).
- 5) Increase of other payables as compared to last year was mainly due to the expansion of new product projects, which led to the increase of payables for equipments & engineering.
- 6) Increase of share capital as compared to last year was mainly due to both the non-public offering of shares and the transfer of capital reserves to share capital.
- 7) Increase of capital reserves as compared to last year was mainly due to the non-public offering of shares which led to increase of share premium.
- 8) Increase in equity attributable to parent company as compared to last year was mainly due to the non-public offering of shares and the profit made in the current period.

**2. Assets measured at fair value and measurement changes of prime assets**

Unit: RMB

	Opening balance	Closing balance	Fluctuation
Available-for-sale financial assets	44,442,355.00	38,512,872.50	-5,929,482.50
Other current assets	0.00	16,433,490.00	16,433,490.00
Total	44,442,355.00	54,946,362.50	10,504,007.50

Note: The Company subscribed for additional Xia Gong Shares, which were expected to be sold in the short term. So they were presented as other current assets.

**(IV) Core competence analysis**

The Company's principal operating activities are the design, production and sales of diesel engines for construction machinery, vehicles or ships, and generator sets. Our main products are D Series, G Series and C Series diesel engine throughout the field of construction machinery, trucks, buses, agricultural machinery, ships, mobile power station □ The diesel engine produced by the Company has advantages of high power, high torque, high reliability, low fuel consumption, low emission, low noise and high cost performance, etc., becoming the preferred driving forces by domestic and foreign machine (car) manufacturers. In recent years, the Company actively promotes sustainable

development, and has developed some green, energy-saving and environment friendly engines reaching the country IV emission standards, such as the natural gas engine, the DME engine and hybrid engines.

#### **1. Brand advantage**

The Company was formerly known as Shanghai Diesel Engine Factory, founded in April 1947. In 1958, the Company's own design and manufacture of China's first 6135 diesel engine, initially laid the basic position of the Company in the construction machinery industry, creating a precedent for China's middle-bore diesel engine. China's first No.50 loader large, bulldozer heavy truck and many other devices were all equipped with the engine of the Company. The Company has been committed to the development and production of the internal combustion engine, in the forefront of the industry throughout the country in terms of advances in technology, product innovation, process quality and enterprise scale. The Company's products are brand-name products. Brand of Dongfeng is well-known in China. The Company also won the "brand-name products in Jiangsu, Zhejiang, Anhui and Jiangxi Shanghai 50 Best Enterprise", "Shanghai Foreign Investment Enterprise", "National Machinery Industry civilized unit", "the best industrial enterprises in Shanghai image unit" and so on, more than 10 times continuously was named "Shanghai Model Unit".

#### **2. Advantages in R&D**

The Company has a state-level technology center and post-doctoral workstations, has a strong R&D team with strong R&D strength. The Company has a number of invention patents and utility model patents and design patents. In recent years, the Company pays high attention to technological innovation and patent protection; conforms to the pace of technological progress in diesel engines; promotes product innovation and technology upgrading in the result of all main products are up to the requirements of the national emission standard, and new progress in research and development, which laid a good foundation for the Company's sustainable development.

#### **3. Marketing advantage**

At present, the Company's marketing network has coverage in all prefecture-level cities, major cities and important regions. In addition, the Company's overseas service network has taken shape. The Company has established the functional central system whose core service is to service network planning and service on-site management; implemented managing methods based on control of unsatisfied servicing ratio as key performance indicators; strengthen the analysis and solution of the problem of unsatisfactory, so that pieces of work can be done in closed loop. In the mean time, through the coaching, etc, the Company help the dealers to expand sales and improve profitability, promotes win-win situation on both sides. The Company continually holds ongoing customer satisfaction activities, oriented to the market and customer needs, and strives to establish a rapid response mechanism, fast and efficient solution for the demand and quality feedback from both the dealers and the consumers, and constantly improve the level of quality of service, to provide the customers with better services. The Company introduced in recent years a service called "easy + people", which is fast, professional and sentimental. The service builds good reputation in users, builds a harmonious customer relationship. "easy + people" brand has a well-known reputation in the market.

#### **4. Management advantage**

The Company's senior management has a high level of expertise and extensive experience in management; operate and manage in strict accordance with the modern enterprise system; adhering to the market-oriented management philosophy, making the Company maintained a clear competitive advantage. The Company has successfully implemented SAP projects, including sales management, project management, materials management, financial management and other core modules; established a logistics system with simple and efficient planning and control; established a financial system with strict and standard accounting and financial management, to integrate a core system platform to better support the Company's future business development. The Company used value chain

management tools and TOC (Theory of Constraints) to optimize key business processes from order to delivery, and refined through a number of process indicators, increase evaluation efforts, and effectively improve the overall operational efficiency.

## (V) Investment Analysis

### 1. Overall Analysis on Equity Investment

Unit: RMB

Investee	Accounting method	Closing Balance	movement	Opening Balance	Shareholding percentage (%)
Tianjin Lovol Heavy Machinery Co., Ltd.	Cost method	10,000,000.00		10,000,000.00	2.19
Shanghai Bank	Cost method	28,392.00		28,392.00	
Shanghai MHI Turbocharger Co., Ltd. ("MHI Turbo")	Equity method	45,502,727.93	8,760,601.27	36,742,126.66	40
Total	/	55,531,119.93	8,760,601.27	46,770,518.66	/

Notes: 1) Increasing in long-term equity investment as compared to the beginning of the year was mainly due to the profit shared from MHI Turbo, which was accounted for with the equity method.

2) Tianjin Lovol Co., Ltd changed its name to Tianjin Lovol Heavy Machinery Co., Ltd. in February 2012.

### (1) Shareholding of stocks of other listed company

Code	Abbreviation	Initial Investment cost	The proportion of the investee's equity (%)	Book value at year end	Profit or loss	Equity changes	Account	Source of shares
600815	Xia Gong Share	43,809,000.00	0.54	36,026,460.00	515,400.00	-4,950,417.00	Available for sales financial asset	Subscribe private placement
600815	Xia Gong Share	15,093,420.00	0.25	16,433,490.00	0.00	1,139,059.50	Other current assets	Subscribe public issues
600845	Bao Xin Software	550,000.00	0.05	2,486,412.50	26,812.50	-89,643.13	Available for sales financial asset	Former corporate restricted shares
Total		59,452,420.00	/	54,946,362.50	542,212.50	-3,901,000.63	/	/

### (2) Trading of shares of other listed company

Abbreviation	Opening balance (shares)	Shares bought during the Reporting Period	The amount of cash used (RMB)	Closing balance (shares)
Xia Gong Share	5,154,000	2,351,000	15,093,420.00	7,505,000

## 2. Non-financial corporation's trust management and investment in derivatives

### (1) Trust management

During the Reporting Period, the Company had no trust management.

### 3. Use of raised fund

(1) Overall status of use of raised fund Unit: RMB'0000

Year Raised	Way of Raised	The total funds raised	Funds used in current year	Accumulative funds used	Funds unused	The Usage and Destination of the Unused funds
2012	Non-public offering	81,814.96	61,914.00	61,914.00	20,652.05	According to the "tripartite regulatory agreement on special account for raised funds", entered into among the Company, the sponsor Dongguan Securities Co., Ltd and Ningbo Bank Co., Ltd., Shanghai Xuhui Branch, the Company has opened a special account for storage and use of raised funds in 2011 non-public offering of A shares.
Total	/	81,814.96	61,914.00	61,914.00	20,652.05	/

The Company's 2011 non-public offering of A shares:

- 1). On 23 March 2012, the Company published an announcement of "result of non-public offering of shares and changes in share capital". Based on the result of non-public offering of shares, the Company issued, in a way of non-public offering, 62,873,551 ordinary shares and raised fund of RMB846,277,996.46, after deducting underwriting fees of RMB21,156,949.91 and other issue expenses of RMB6,971,445.71, the net amount of raised fund was RMB818,149,600.84. The non-public offering of shares has been audited by Ernst & Young Hua Ming in verification report "Ernst & Young Hua Ming (2012) Yan Zi No. 60462488\_B02".
- 2). To ensure the invested projects construct smoothly, the Company used its own funds for pre-investment before the non-public offering funds in place. From 1 March 2011 to 10 April 2012, the pre-investment expenditure was RMB353,224.9 thousand in the Company's own fund. On 25 April 2012, the Board of Directors of the Company, in the second extraordinary Board Meeting of year 2012, reviewed and approved the proposal of "replacement of own fund used for pre-investment with funds raised by non-public offering of shares", decided to replace the Company's own fund of RMB353,224.9 thousand with funds raised by non-public offering of shares. Ernst & Young Hua Ming conducted a special audit and issued a special audit report "Ernst & Young Hua Ming (2012) Zhuan Zi No. 60462488\_B02" for the verification of the own fund used in the pre-investment.
- 3). By the end of 31 December 2012, the Company has used the funds from non-public offering of shares amounting to RMB619,140.0 thousand (including the replacement of RMB353,224.9 thousand), and the remaining unused balance was RMB206,520.5 thousand (including interest income of RMB7,510.9 thousand).

(2) Raised fund used on committed projects Unit: RMB'0000

Project name	Changes in Projects	Planned input amount of raised funds	Usage of raised funds in current period	Accumulative usage of raised funds	Whether comply with planned progress	Progress of the project
Heavy vehicle-diesel engine project	No	37,318.02	29,113.89	29,113.89	Yes	NA
Medium-light diesel engine project	No	30,393.62	19,816.23	19,816.23	Yes	NA
Development and Manufacturing of light diesel engine project	No	14,103.32	12,983.88	12,983.88	Yes	NA
Total	/	81,814.96	61,914.00	61,914.00	/	/

Up to the disclosure of this report, all above three projects have been constructed in progress.



## 4. Analysis of major subsidiaries

Unit: RMB'0000

Company name	Major business	Registered capital	Total assets	Net assets	Net profit
Dongfeng Diesel Engine Sales	Sales of diesel and spare parts	500.00	8,659.23	11,646.23	895.43
Shanghai Yihua Power Station Engineering Co., Ltd.	Manufacturing and selling diesel generator	2,000.00	7,239.08	7,028.86	204.48
Shanghai Shangchai Car Trading Co., Ltd.	Sales of cars and spare parts	470.00	66.73	-59.62	-8.71
Dalian Shangchai Diesel Power Co., Ltd.	Manufacturing and selling diesel engines	30,000.00	5,332.92	2,564.34	-1,034.86
Shanghai Diesel Hai'an Power Co., Ltd.	Manufacturing and selling casting products	30,000.00	30,898.44	28,895.44	-730.31

## 5. Projects constructed with own funds

Unit: RMB'0000

Project Name	Project Amount	Project Progress	Investment in current period	Accumulative investment
Brought-forward investment projects in fixed assets	14,717	In progress	1,493	10,064
New investment project in fixed assets	36,090	In progress	2,618	2,618
Sporadic investment in fixed assets	9,178	In progress	4,130	4,130
Equipment renewal project	1,358	In progress	787	787
Public facilities renovation project	912	Not started	0	0
Hai'an cast base project	57,496	In progress	22,593	29,049
Total	119,751	/	31,621	46,648

## II. Discussion and analysis of Prospects for Company's Future Development

## (I) Development Trend and Market Competition Patterns in the industry

In 2012, the national economy improved steadily, and GDP exceeded RMB50 trillion with an increase of 7.8% as compared to last year. In 2013, the favourable aspect is that in general, the overall tone of the national macroeconomic policy is still maintaining the continuity and stability, predicted growth of 7.5%. In general the growth of GDP will bring a certain degree of opportunities to the Company's future development. As the continuing application of the fiscal policy and prudent monetary policy, new investment will keep on expanding and the establishing of urbanisation of Midwest will continue, which will bring new developing opportunities to the Company. On the other hand, the environment the Company met is still severe and a variety of risks still exist under global economic. The economic restructuring and the policy-orientation of the macro-control switch to adjust the domestic estate and fix assets is still going on. The competition in domestic engine industry is increasingly fierce, as a result, the external environment faced by the Company is pretty serious.

## (II) Company development strategy

The Company will continuously insist core values of "create the market-oriented demand, meet the customer-centralized demand, serve the employee-fundamental demand", realize the development strategy of simultaneously developing the mechanical engineering diesel engines and vehicle diesel engines, improve the development of company steadily through the products development and process reengineering.

## (III) Operating Plan

In 2013, the Company will continue to adhere to the scientific development conception, fully implement the Party's

policies and decisions of 18th national conference, around the working theme of “enhancing the strength through improving innovation, promoting the development through improving the strain, preventing the risk through improving the management and control.” In 2013, the Company will make effort to increase the strength and depth to continuously enhancing the comprehensive ability around providing new products to the market; promoting lean production through producing high quality products; improving restructuring adjustment through implementation of cost efficiency; tamping the foundation of management through improve internal control system etc. in order to enhance the core competitiveness of products, and strive for a good operational performance in the coming year. In 2013, the Company plans to achieve the sales of 77 thousand units of diesel engines, revenue of RMB3.3 billion and operating cost of RMB2.7 billion.

**(IV) Financing demand for maintaining current business and completing ongoing investments**

According to the development strategy of the Company, in order to protect the financing demand of operation and project construction, the Company will solve the problem of funds required for future development through its own funds and applications for bank loans.

The Company will run the fund operation rationally according to the production and operation of the demand and turnover situation, strengthen the management of capital turnover, in order to ensure prompt arrangement of funding requirements of each projects.

**(V) Potential risks**

Along with the saturation and homogenization in domestic engine industry, the Company faces increasing pressure from the market. The scale of operation is too small, the internal management including human resources, quality, etc and the enterprise culture construction is still behind the goal of the Company development strategy. All weaknesses need to be enhanced and improved in the future.

**III. The explanation of “non-standard audit report” by the board of directors**

**(I). The explanation of “non-standard audit report” by the board of directors and the board of supervisors**

N/A

**(II). Analysis of the impact of changes in accounting policies, accounting estimates and accounting methods by the board of directors**

N/A

**(III). Analysis of the reasons and impact of adjustment of previous period by the board of directors**

N/A

**IV. Profit distribution and capital reserve increase plan**

**(I). Formulation, application and adjustment of cash dividends**

1. The Company has always cared about reasonable return to the investor, and the articles of association regulated that the Company's profit distribution should pay much attention to the reasonable return on investor. The profit distribution policy should maintain continuity and stability on the basis of net assets and cash flows can ensure the business operation. The Company can carry out interim or annual dividend distribution in cash if the Company making profit and the cash flow meets the needs of normal operation and long-term investment planning development. If the Company making profit but with no distribution, the board of directors should disclose the reason and the purposes of holding the capital in the annual report. The distribution of the dividend is standard and the proportion is clear, the process and mechanism of related decision-making is completed, independent directors gave opinions on the board, the Company protected the interests of small and medium-sized shareholders by listening to advices on telephone. The Company will combine the practical situation and the wills of the investors, refine the dividend distribution policy to improve the transparency by refining the related rules and regulations, strictly stick to the

relevant procedures, keep the stability and sustainability of dividend distribution policy, make investors have clear expectations about the future dividends, increase returns to shareholders.

2. On 18 May 2012, the 2011 Annual General Meeting was held and approved the proposal of 2011 profit distribution to allot cash dividend at RMB0.50 (tax inclusive) per 10 shares based on the total share capital of 543,182,831 shares, and to transfer the capital reserve into share capital at 6 additional shares per 10 current shares. Consequently, the Company paid a total cash dividend of RMB27,159,141.55, and the undistributed earnings were carried forward for future distribution. During the Reporting Period, the above cash dividend and transfer to share capital were completed.

**(II) The Company should disclose the detail reasons, usage and usage plan of undistributed profit if the undistributed profit is positive but there is no plan of cash dividends.**

N/A

**(III) Resolutions or proposals on profit distribution or transfer of capital reserve into share capital in prior three years**

Unit: RMB

Year	No. of bonus shares per 10 shares (shares)	Dividend per 10 shares (tax inclusive)	No. of transferred shares from capital reserves (shares)	Cash dividends (tax inclusive)	Consolidated net profit attributed to shareholders during the year	Ratio to consolidated net profit attributable to shareholders (%)
2012 (Note)	0	0.71	0	61,705,569.63	203,709,733.71	30.29
2011	0	0.50	6	27,159,141.55	207,306,920.41	13.10
2010	0	0.50	0	24,015,464.00	136,325,336.38	17.62

Note: The Company's 2013 First Provisional Shareholders' Meeting reviewed and passed the resolution on the repurchase of the Company's B-shares, the shares which are repurchased, since being transferred to the special repurchase account, are no longer entitled to its original rights, including the profit distribution, transferring reserve to shares, issuance and allotment of shares, pledge, voting in the general meeting and etc. The current number of the Company's shares is 869,092,530, and the Company's 2012 profit distribution plan is to allot cash dividend at RMB0.71 (tax inclusive) per 10 shares based on the total share capital at the date of registration for profit distribution, deducted by the B shares which have been repurchased and transferred into the special repurchase account. The undistributed earnings are carried forward for future distribution. The proposal is to be approved by the 2012 Annual General Meeting. The amount of cash dividends and ratios in the above table may be affected by the actual repurchase number of B-shares.

**V. The condition of actively fulfilling the social responsibilities.**

**(I). The condition of fulfilling the social responsibilities**

Details please refer to the report of "Social Responsibilities of Shanghai Diesel Engine Co., Ltd. in 2012" published in the Shanghai Stock Exchange website ([www.sse.com.cn](http://www.sse.com.cn)) on 28 March 2013.

**VI. Other disclosure matters**

1. The subsidiary of the Company, Shanghai Ying Da Xin Auto Electronic Co, Ltd. ("YDX"), due to the insolvency and inability to operate normally, has been applied to the People's Court of Qing Pu District, Shanghai for bankruptcy liquidation. Due to all cashed assets of YDX was unable to cover the bankruptcy expenses, the People's Court of Qing Pu District, Shanghai terminated YDX's bankruptcy and liquidation procedures with the civil ruling order "No. (2010) Qing Min Er (Shang) Po Zi 2-4", and YDX was no longer consolidated into the Company's consolidated financial statements.

## Section V. Significant Events

### I. Significant litigation, arbitration and events media widely questioned

There are no significant litigation, arbitration and events media widely questioned during the Reporting Period.

### II. Situation of funds occupied and repaid progress in the Reporting Period.

N/A

### III. Bankruptcy, restructuring and related events

There is no bankruptcy, restructuring and related events during the Reporting Period.

### IV. Asset transactions enterprise merger events

N/A

### V. Company equity incentive conditions and their influence

N/A

### VI. Significant related party transactions

#### (I) Related party transactions related to daily operations

Unit: RMB

Related party	Relations	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
Shanghai Automotive Import and Export Co., Ltd (“Automobile Import and Export”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	227,296,400.01	7.04
MHI Turbo	Associate	Purchase of goods	Purchase of goods and receiving services	Market price	54,078,563.41	1.67
Anyue Automotive Materials Co., Ltd (“Anyue Automotive Materials”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	23,909,542.66	0.74
Shanghai Anyue Energy-saving technology Co., Ltd (“Anyue Energy-saving”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	14,734,799.28	0.46
Shanghai Valeo Automotive Electrical System Co., Ltd. (“Valeo”)	Jointly controlled entity of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	9,179,123.12	0.28
Federal-Mogul Shanghai Bearing Co., Ltd. (“Federal-Mogul”)	Associate of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	8,720,210.75	0.27
Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (“Sanden Behr”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	6,101,450.56	0.19
Shanghai Xingfu Motorcycle Co. Ltd. (“Xingfu Motor”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	3,778,558.93	0.12
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co., Ltd (Pierburg Nonferrous Components”)	Associate of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	3,466,342.08	0.11
Shanghai Kolbenschmidt Piston Co., Ltd. (“Kolben”)	Jointly controlled entity of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	2,836,584.00	0.09

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Related party	Relations	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
China Spring Corporation Limited (“China Spring”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	2,126,613.26	0.07
Shanghai Sachs Power Assembly parts system Co., Ltd. (“Sachs Power”)	Jointly controlled entity of the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	1,602,462.97	0.05
Shanghai Automotive Gear Works No. 3 (“SAIC Gear”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	1,373,796.17	0.04
Anyue (Shanghai) Management and Consulting Co., Ltd. (“Anyue Management and Consulting”) (note2)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	1,222,081.34	0.04
Shanghai Automotive Powder Metallurgy Co., Ltd. (“Automotive Powder”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	697,329.60	0.02
Shanghai Anji Celebrities Auto Service Co., Ltd. (“Anji Celebrities”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	601,709.40	0.02
Shanghai Automotive Industry Activity Center Co., Ltd. (“SAIC Activity Center”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	497,083.26	0.02
Shanghai Automotive Information Industry Investment Co., Ltd. (“Information Industry Investment”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	238,090.63	0.01
Shanghai Anji Trading Automotive Sale Services Co., Ltd. (“Anji Trading”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	232,088.63	0.01
Shanghai Anji Automotive Parts Logistics Co., Ltd. (“Anji Automotive”)	Company controlled by the parent company	Purchase of goods	Purchase of goods and receiving services	Market price	189,276.13	0.01
SAIC Commercial Vehicle Co., Ltd. (“SAIC Commercial Vehicle”)	Company controlled by the parent company	Sales of goods	Sale of diesels	Market price	153,093,666.49	5.05
Shanghai Sunwin Bus Co., Ltd. (“Sunwin Bus”)	Jointly controlled entity of the parent company	Sales of goods	Sale of diesels	Market price	48,587,003.97	1.60
Shanghai Pengpu Machine Building Plant Co., Ltd. (“Pengpu Machine”)	Company controlled by the parent company	Sales of goods	Sale of diesels	Market price	5,055,603.33	0.17
SAIC Iveco Hongyan Commercial Vehicle Co., Ltd. (“Iveco Hongyan”)	Jointly controlled entity of the parent company	Sales of goods	Sale of diesels	Market price	13,403,712.96	0.44
Nanjing Iveco Automotive Co., Ltd. (“Nanjing Iveco”)	Jointly controlled entity of the parent company	Sales of goods	Sale of diesels	Market price	532,658.11	0.02
Shanghai Anji Trading Automotive Sale Services Co., Ltd. (“Anji Trading”)	Company controlled by the parent company	Other income	Lease of property	Market price	500,000.00	19.24
SAIC Motor Corporation Limited (“SAIC”)	Controlling Shareholder	Other expenditure	Lease of land	Market price	9,500,000.00	100

Related party	Relations	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
SAIC Finance Co., Ltd. ("SAIC Finance")	Company controlled by the parent company	Other income	Interest on bank deposit	Deposit rate of People's Bank of China	3,037,059.02	8.52
Shanghai Anji Automotive Parts Logistics Co., Ltd. ("Anji Automotive")	Company controlled by the parent company	Receiving services	Freight	Market price	864,520.24	14.86
Shanghai Automotive Group Company Limited Training Center ("Training Center")	Branch of Parent Company	Receiving services	Training expense	Market price	193,370.00	9.60
Shanghai Automotive Industry Activity Center Co., Ltd. ("SAIC Activity Center")	Company controlled by the parent company	Receiving services	Ticket agency	Market price	3,365,729.69	20.92
Shanghai Anji Trading Automotive Sale Services CO., Ltd. ("Anji Trading")	Company controlled by the parent company	Rendering services	Power Sales	Market price	105,141.25	7.02
Shanghai Automotive News Co., Ltd. ("SAIC News")	Company controlled by the parent company	Other expenditure	Advertisement expenses	Market price	89,622.64	1.42
Total				/	601,210,193.89	-

- On May 18, 2012, the 2011 Annual General Meeting reviewed and approved the Proposal of Entering into Framework Agreement on Related Party Transactions and Daily Related Party Transactions in 2012. Pursuant to this, it was estimated that the regular transaction amount is RMB544.40 million under "Framework Agreement on Supply of Accessories and Spare Parts", RMB435.43 million under "Framework Agreement on Production Service", RMB10.00 million with daily average bank balances no more than RMB300.00 million under "Framework Agreement on Financial Services", RMB10.00 million under "Framework Agreement on Lease of Land and Building" and RMB101.00 million with MHI Turbo etc.. To summaries, the total amount of related party transaction was estimated to be RMB1,085.83 million. In year 2012, the Company's actual related party transactions amounted to RMB601,210.2 thousand, of which, supple of accessories and spare parts amounting to RMB260,555.1 thousand,. rendering of production service amounting to RMB273,539.5 thousand, financial service with SAIC Finance amounting to RMB3,037.1 thousand, lease of land and building amounting to RMB10,000.0 thousand and the transactions with MHI Turbo amounting to RMB54,078.5 thousand.
- SAIC International Goods Transportation Agency Co., Ltd. changed its name to Anyue Management and Consulting in 2012.

## VII. Significant contracts and its implementation

### (I) Mandate, contract and lease events

- Mandate  
There is no mandate events occurred during the year.
- Contract  
There is no contract events occurred during the year.

3. Lease Unit: RMB'0000

Name of Lessor	Name of Lessee	Leased Assets	Amount of Leased Assets	Begging date of Lease	Termination date of Lease	Whether is related party transactions	Relationship to the Company
SAIC	the Company	land-use right	950	1 January 2012	12 December 2031	Yes	Controlling Shareholder

In 2012, the Company entered into the Land Lease Agreement with the Controlling Shareholder, SAIC. The Company leased several pieces of land located on No.2636 Jun Gong Road, No. 200 and No.148 Yin Hang Road, with 610,676.6 square meters in aggregate, from 1 January 2012 to 31 December 2031 with annual rental of RMB9.50 million. The rental would be adjusted every three years. The land rental for year 2012 was RMB9.5 million.

**(II) Guarantee commitments**

N/A

**(III) Other significant contracts**

There are no other significant contracts during the year.

**VIII. Implementation of commitments****(1) The commitments made by the Company, shareholders with more than 5% shares interest in the Company, Controlling Shareholder and actual controllers of the Company in the Reporting Period or brought forward to the Reporting Period**

Commitment background	Commitment types	Committed Party	Contents of commitments	Period	Whether the performance period	Whether seriously performed timely
Commitments made in acquisition report or equity movement report	Resolve horizontal competition	SAIC	As long as SAIC is the Controlling Shareholder of SDEC, SAIC should take the following ways to avoid the horizontal competition: (1) The potential immaterial horizontal competition between SDEC and SAIC Fiat Powertrain Hongyan Co., Ltd. ("SAIC Powertrain") does not constitute a horizontal competition relationship between the listed company and its parent company itself and its subsidiaries. SAIC would not damage the interest of SDEC and its minority shareholders via the horizontal competition. (2) Except for SAIC Powertrain, SAIC and its subsidiaries would no longer involve in any business that competes with SDEC.	Long-term	Yes	Yes
	Resolve horizontal competition	SAI Corporation	As long as SAI Corporation continues to serve as the Controlling Shareholder of SAIC, also SAIC completes the equity acquisition of SDEC and continues to serve as the Controlling Shareholder of SDEC, SAI Corporation would no longer involve in any business that competes with SDEC, and ensure that SAI Corporation's wholly-owned, controlling subsidiaries would no longer operate any business which competes with SDEC. In addition, SAI Corporation will continue to strictly comply with the commitment to avoid horizontal competition with SAIC made during the reorganization of SAIC.	Long-term	Yes	Yes

Commitment background	Commitment types	Committed Party	Contents of commitments	Period	Whether the performance period	Whether seriously performed timely
Commitments made in acquisition report or equity movement report	Resolve related party transactions	SAIC	Except for the regular related party transactions between SAIC and SDEC to meet the daily operation requirement, they should try their best to avoid any irregular related party transactions; for those regular and unavoidable irregular related party transactions with reasonable causes, SAIC commits to complying with the principle of impartiality, fairness and openness, and entering into the agreement pursuant to the law, fulfilling the legal procedures and obligations of information disclosure according to related laws and regulations and the relevant provisions made by Shanghai Stock Exchange. SAIC should assure that interests of SDEC and other shareholders would not be impaired.	Long-term	Yes	Yes
	Resolve related party transactions	SAI Corporation	As long as SAI Corporation continues to serve as the Controlling Shareholder of SAIC, as well as SAIC completes the acquisition of SDEC and continues to serve as the Controlling Shareholder of SDEC: (1) except for the regular related party transactions to meet the daily operation requirement, SAI Corporation itself should try its best to avoid any irregular related party transactions with SAIC and SDEC. SAI Corporation would also require its wholly-owned, controlling subsidiaries to do so; for those regular and unavoidable irregular related party transactions with reasonable causes, SAI Corporation commits to complying with the principle of impartiality, fairness and openness, and entering into the agreement pursuant to the law, fulfilling the legal procedures and obligations of information disclosure according to related laws and regulations and the relevant provisions made by Shanghai Stock Exchange. SAI Corporation should assure that interests of the listed companies and other shareholders would not be impaired. (2) SAI Corporation should urge SAIC and SDEC further improve their corporate governance structures, comply with the related laws and regulations and the requirements of regulatory authorities about the related transactions. At the same time, SAI Corporation will conscientiously fulfil the obligation of recusal to ensure the norm of consideration procedure about the related transactions. (3). SAI Corporation should urge SAIC and SDEC to further improve the transparency of related party transactions' disclosure, strengthen the supervision of related transactions, disclose the decision procedures, price-making principles, price-making method and its impacts etc. of the related party transactions, which have significant impacts on the operating results or operating development, in a timely manner according to the regulators' requirements, so as to protect the medium and minority shareholders' interests.	Long-term	Yes	Yes



**IX. Appointment and dismissal of auditors**

Unit: RMB'0000

Auditors changed or not	No	
	Former appointment	Current appointment
Domestic auditors	Ernst & Young Hua Ming LLP	Ernst & Young Hua Ming LLP
Remuneration to domestic auditors		100
Service years of domestic auditors		9
	Current appointment	Remuneration
Internal control auditors	Ernst & Young Hua Ming LLP	30

**X. Punishment and rectification of the Company and its Directors, Supervisors, Senior Management, Shareholders holding more than 5% of the shares and Actual Controllers**

During the year, the Company and its Directors, Supervisors, Senior Management, Shareholders holding more than 5% of the shares and Actual Controllers were not subject to the inspection, administrative punishment, publicly criticism by the China Securities Regulatory Commission or publicly being condemnation by the Shanghai Stock Exchange.

**XI. Other significant matters**

There are no other significant matters during the year

## Section VI. Changes in share capital and shareholders information

### I. Changes in share capital

#### (I) Changes in share capital

##### 1. Changes in share capital

(Unit:share)

	Before change		Increase/(decrease)				After change		
	Quantity	Percentage (%)	New share	Bonus share	Reserves increase capital	Others	Subtotal	Quantity	Percentage (%)
I. Restricted shares			62,873,551		37,724,131		100,597,682	100,597,682	11.57
1. State shares									
2. State-owned legal person shares			18,573,551		11,144,131		29,717,682	29,717,682	3.42
3. Other domestic shares			44,300,000		26,580,000		70,880,000	70,880,000	8.15
Of which: Domestic non-State-owned legal person shares			40,600,000		24,360,000		64,960,000	64,960,000	7.47
Domestic natural person shares			3,700,000		2,220,000		5,920,000	5,920,000	0.68
II. Tradable shares	480,309,280	100.00			288,185,568		288,185,568	768,494,848	88.43
1. A share	263,309,280	54.82			157,985,568		157,985,568	421,294,848	48.48
2. B share	217,000,000	45.18			130,200,000		130,200,000	347,200,000	39.95
III.Total	480,309,280	100.00	62,873,551		325,909,699		388,783,250	869,092,530	100.00

##### 2. Description of changes in share capital

###### (1) The approval of changes in share capital

- a) Non-public offering: On 17 January 2012, the Company obtained the approval document of Zheng Jian Xu Ke [2012] No.59 “Approval on Shanghai Diesel Engine Co., Ltd. of Non-public Offering” issued by China Securities Regulatory Commission, pursuant to which, the Company, on 23 March 2012, completed the issuance of 62,873,551 ordinary A-shares to six specific investors including SAIC in a way of non-public offering. Accordingly, the Company’s total share capital became 543,182,831 shares after the issuance.
- b) Transfer of capital reserve into share capital: On 18 May 2012, the 2011 Annual General Meeting was held and approved the proposal of 2011 profit distribution and transfer of capital reserve into share capital, pursuant to which, the Company allotted cash dividend at RMB0.50 (tax inclusive) per 10 shares based on the total share capital of 543,182,831 shares, and transferred the capital reserve into share capital at 6 additional shares per 10 current shares, and the undistributed earnings were carried forward for future distribution. The above cash dividend and transfer to share capital were completed on 15 June 2012, and the Company’s total share capital became 869,092,530 shares after the transfer.

###### (2) The transfer of changed share capital

- a) Non-public offering: On 22 March 2012, the Company completed the shares registration of non-public offering at the China Securities Depository and Clearing Co., Ltd., Shanghai Branch.
- b) Transfer of capital reserve into share capital: According to the implementation announcement of the Company's 2011 annual profit distribution and transfer of capital reserve into share capital, the equity rights registration date was 1 June 2012 and 6 June 2012 for A-shares and B-shares (the last trading date of B-share was 1 June 2012), respectively. The ex-right (ex-dividend) date was 4 June 2012. The trading date was 5 June 2012 and 8 June 2012 for new

unrestricted tradable A-shares and B-shares, respectively. Pursuant to the regulation by China Securities Depository and Clearing Co., Ltd., Shanghai Branch, the transferred share capital was recorded automatically in proportion through the network, based on the number of shares which were recorded on the equity rights registration date.

- 3). The impact of share capital change on the latest year and the latest period of earnings per share, net assets per share and other financial indicators

As the Company transferred the capital reserve into share capital during the Reporting Period, in accordance with the related accounting standards, the Company re-calculated the earnings per share for last year based on the adjusted weighted average shares. Please refer to “Three-year financial highlights” for details.

**(II) Changes in restricted shares** (Unit: share)

Shareholders	Year-beginning restricted shares	Released restricted shares	Increase restricted shares	Year-end restricted shares	Restricted reason	Relieve date
SAIC	0	0	29,717,682	29,717,682	Subscribed the Company's shares in a way of non-public offering, the restricted period is 36 months starting from 23 March 2012, expected to be tradable on 23 March 2015	23 March 2015
Wu Xi Weifu High-Technology Group Co., Ltd.	0	0	23,680,000	23,680,000	Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
China Universal Asset Management Co., Ltd. - China Merchants Bank - China Resources SZITIC Trust Co., Ltd.	0	0	17,600,000	17,600,000	Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Yantai Plains Real Estate Co., Ltd.	0	0	11,840,000	11,840,000	Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Shenzhen Pingan Innovation Capital Investment Co. Ltd.	0	0	11,840,000	11,840,000	Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Zhang Song Mei	0	0	5,920,000	5,920,000	Subscribed the Company's shares in a way of non-public offering, the restricted period is 12 months starting from 23 March 2012, became tradable on 25 March 2013	25 March 2013
Total	0	0	100,597,682	100,597,682	/	/

## II. Issuance and listing of shares

### (I) Issuance information within the latest three years up to the end of the Reporting Period:

(Unit: share) RMB

Types of stock and derivative securities	Release date	Issue price (or Interest rate)	The number of issued stock	Listing date	Approved number of listing transactions
Types of stock					
A-share	22 March 2012	13.46	62,873,551	23 March 2012	62,873,551

### (II) Total number of shares, share structures and assets and liabilities structures:

On 23 March 2012, the Company completed the issuance of 62,873,551 ordinary A-shares to six specific investors including SAIC in a way of non-public offering. Accordingly, the Company's total share capital became 543,182,831 shares after the issuance.

At the same time, the Company's asset-liability ratio decreased due to the increase of total assets and owners' equity after the non-public offering.

### (III) Employee-held shares:

There were no employee-held shares at the end of the Reporting Period.

## III. Information of shareholders and actual controllers

### (I) The number of shareholders and their holding positions

(Unit: Share)

Number of shareholders as of the Reporting Period	38,128
Number of shareholders at the end of the fifth trading day before the annual report announcement	39,433

Shareholding information of the top ten largest shareholders						
Name of shareholder	Nature of shareholder	% of shares held	Number of shares held	Movement during the year	Restricted shares held	Pledged or frozen shares
SAIC	State-owned	47.92	416,452,530	174,743,250	29,717,682	None
Wuxi Weifu High-Technology Group Co., Ltd.	Others	2.72	23,680,000	23,680,000	23,680,000	Unknown
China Universal Asset Management Co., Ltd. - China Merchants Bank - China Resources SZITIC Trust Co., Ltd.	Others	2.03	17,600,000	17,600,000	17,600,000	Unknown
Yantai Plains Real Estate Co., Ltd.	Others	1.36	11,840,000	11,840,000	11,840,000	Unknown
Shenzhen Pingan Innovation Capital Investment Co. Ltd.	Others	1.36	11,840,000	11,840,000	11,840,000	Unknown
Liu Zhi Qiang	Others	0.71	6,200,000	2,604,724	0	Unknown
Zhang Song Mei	Others	0.68	5,920,000	5,920,000	5,920,000	Unknown
Platinum Broking Company Limited	Others	0.65	5,678,496	2,178,496	0	Unknown
Boci Securities Limited	Others	0.52	4,537,685	3,811,355	0	Unknown
Xu Qian	Others	0.47	4,084,656	4,084,656	0	Unknown

Shareholding information of the top ten largest shareholders of tradable shares		
Name of Shareholders	Number of tradable shares held	Type of share
SAIC	386,734,848	A share
Liu Zhi Qiang	6,200,000	B share
Platinum Broking Company Limited	5,678,496	B share
Boci Securities Limited	4,537,685	B share
Xu Qian	4,084,656	B share
Diao Jing Sha	3,939,318	B share
BNP Paribas Wealth Management Singapore Branch	2,697,165	B share
China Merchants Securities (HK) Co., Ltd.	2,350,401	B share
Zhao Jie	2,080,000	B share
SCBHK A/C KG Investments Asia Limited	2,018,304	B share

Note: Between SAIC and the other 9 largest shareholders, there is no related party relationship or joint action as regulated by the “Administration of the Takeover of Listed Companies Procedures”. It is unknown whether there is related party relationship or joint action among the other 9 largest shareholders.

#### Shareholding information of the top ten largest shareholders of restricted shares

Name of Shareholders	Number of restricted shares held	Marketable Status		Trading Limited Conditions
		Marketable Time	Additional Marketable Number	
SAIC	29,717,682	23 May 2015	29,717,682	The transfer is prohibited in 36 months since the non-public offering.
Wuxi Weifu High-Technology Group Co., Ltd.	23,680,000	25 March 2013	23,680,000	The transfer is prohibited in 12 months since the non-public offering.
China Universal Asset Management Co., Ltd. - China Merchants Bank - China Resources SZITIC Trust Co., Ltd.	17,600,000	25 March 2013	17,600,000	The transfer is prohibited in 12 months since the non-public offering.
Yantai Plains Real Estate Co., Ltd.	11,840,000	25 March 2013	11,840,000	The transfer is prohibited in 12 months since the non-public offering.
Shenzhen Pingan Innovation Capital Investment Co. Ltd.	11,840,000	25 March 2013	11,840,000	The transfer is prohibited in 12 months since the non-public offering.
Zhang Song Mei	5,920,000	25 March 2013	5,920,000	The transfer is prohibited in 12 months since the non-public offering.

Note:

1. Between SAIC and the other 5 largest shareholders, there is no related party relationship or joint action as regulated by the “Administration of the Takeover of Listed Companies Procedures”. It is unknown whether there is related party relationship or joint action among the other 5 largest shareholders.
2. The Company initiated non-public offering of ordinary shares (A shares) in February 2011 and completed this on 23 March 2012 with 62,873,551 shares issued. Except that the restricted shares held by SAIC would become tradable on 23 March 2015, all other restricted shares became tradable on 25 March 2013.

#### IV. Information of Controlling Shareholder and Actual controller

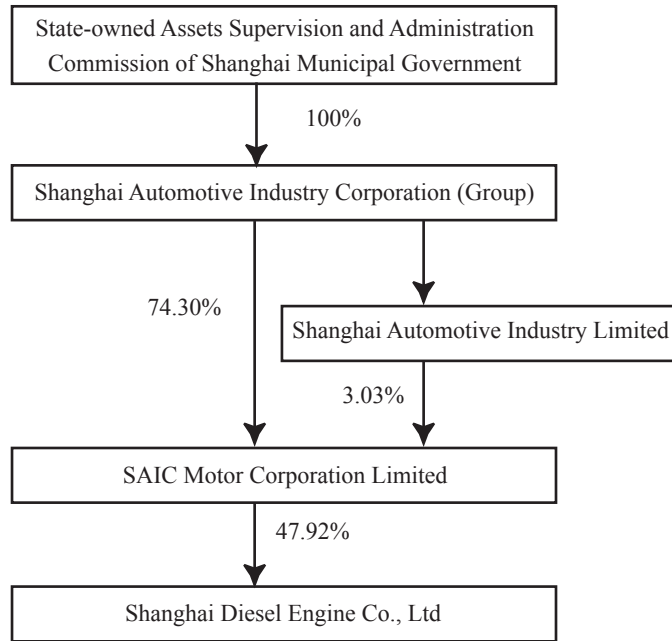
##### (I). Controlling Shareholder

1. Legal Person		RMB
Name	SAIC	
Corporate representative	Mr. Hu Mao Yuan	
Date of incorporation	24 November 1997	
Incorporation code	13226025-0	
Registered capital	11,025,566,629	
Principal activities	Manufacturing and sales of automobiles, motorcycles, tractors and related machineries and accessories; domestic trading (except for specific regulation); consultancy service; exportation of self-produced products and technologies and the importation of self-used machinery, accessories, raw /auxiliary materials and technologies (except for goods or technologies forbidden by the government for trading, exportation or importation); the Company, including the members controlled by the Company, also engaged in automotive and machinery leasing, investment, publication, advertising on self-owned medias, and the exportation and importation of goods and technologies (When need the allowance from government, according to the government approval documents).	
Operating result	SAIC achieved the sales of vehicles of 4.49 million sets in volume, representing an increase of 12% as compared to last year, and continuously kept its leading advantage in domestic vehicle market, and ranked 130 of Fortune 500 for the eighth time, by its 2011 consolidated sales revenue of USD67,254 million. Details please refer to the 2012 annual report of SAIC (600104).	
Financial position	Details please refer to the 2012 annual report of SAIC (600104).	
Cash flow and future development strategy	Details please refer to the 2012 annual report of SAIC (600104).	
Companies controlled and invested during the Reporting Period	Domestic listed company controlled: Huayu Automotive Systems Co., Ltd.	

##### (II). Actual Controller

1. Legal Person	
Name	SAI Corporation
Corporate representative	Mr. Hu Mao Yuan
Date of incorporation	1 March 1996
Incorporation code	13222217-4
Registered capital	21,599,175,737
Principal activities	Manufacturing research and development, sales and investment in automobile, tractor and motorcycle; operating and management of state owned assets; domestic trading (except for special regulations); and consulting service.
Operating result	SAI Corporation achieved the consolidated sales revenue of RMB435.6 billion and the consolidated net profit attributable to parent company of RMB13.3 billion in year 2011.
Financial position	The consolidated total assets of SAI Corporation were RMB324.6 billion and the consolidated owners' equity attributable to parent company RMB79.6 billion at the end of 2011.
Cash flow and future development strategy	The cash and cash equivalents of SAI Corporation itself were RMB0.5 billion at the end of 2011.
Companies controlled and invested during the Reporting Period	Domestic listed company controlled: SAIC

2. Relationship between the Company and the actual controller



V. Other legal person shareholders who hold more than 10% of total shares.

There were no other legal person shareholders who held more than 10% of the Company's shares as at the year end.

## Section VII. Board of Directors, Supervisor Committee, Senior Management and Employees

### I. Change of shareholding and remuneration

#### (I). Shareholding and remuneration details of Directors, Supervisors and Senior Management

(Unit:share)

Name	Position	Gender	Age	Term of office	Shares held at beginning of the year	Shares held at end of the year	Movement during the year	Reason for the movement	Remuneration obtained from the Company (RMB'10K) (Per-tax)	Remuneration from shareholders or related companies (RMB'10K)
Xiao Guo Pu	Chairman of the Board	Male	58	2012.5.18-2015.5.17	0	0			0	108
Gu Feng	Director	Male	40	2012.5.18-2015.5.17	0	0			0	93.06
Cheng Jing Lei	Director	Male	45	2012.5.18-2015.5.17	0	0			0	84.11
Gu Qing	Director	Male	46	2012.5.18-2015.5.17	0	0			0	84.11
Wang Xiao Qiu	Director and General Manager	Male	49	2012.5.18-2015.5.17	0	32,000	32,000	Note	65.16	0
Jiang Bao Xin	Director and Chief Financial Controller	Male	43	2012.5.18-2015.5.17	0	16,000	16,000	Note	46.61	0
Ou Yang Ming Gao	Independent Director	Male	54	2012.5.18-2015.5.17	0	0			6	0
Yan Yi Ming	Independent Director	Male	49	2012.5.18-2015.5.17	0	0			6	0
Chen Wen Hao	Independent Director	Male	59	2012.5.18-2013.1.18	0	0			6	0
Zhou Lang Hui	Chairman of the Supervisor Committee	Male	41	2012.5.18-2015.5.17	0	0			0	99.9
Zhu Xian	Supervisor	Male	58	2012.5.18-2015.5.17	0	0			0	84.11
Shi Yi Meng	Supervisor	Male	57	2012.5.18-2015.5.17	0	16,000	16,000	Note	58.64	0
Jin Gang	Vice General Manager	Male	40	2012.5.18-2015.5.17	0	16,000	16,000	Note	46.61	0
Zhu Jian Kang	Vice General Manager	Male	48	2012.5.18-2015.5.17	0	16,000	16,000	Note	46.61	0
Qian Jun	Vice General Manager	Male	51	2012.5.18-2015.5.17	0	16,000	16,000	Note	52.13	0
Wang Hong Bin	Board Secretary	Male	39	2012.5.18-2015.5.17	0	16,000	16,000	Note	26.21	0
Total	/	/	/	/	0	128,000	128,000	/	359.97	553.29

Note: Confident of the Company's future development, these people bought in shares with their own fund, and the transfer of capital reserve into share capital also increased their shares during the Reporting Period.

**Xiao Guo Pu:** once being the General Manager and Vice Chairman of the Communist Party of SAIC-Volkswagen Sales Co., Ltd. and the Vice President of SAI Corporation. Presently acting as the Vice President of SAIC.

**Gu Feng:** once being the deputy manager of Finance Department of SAI Corporation; once being the Deputy Manager of Finance Department and the Executive Director of Capital Operation Department of SAIC. Presently acting as the Chief Financial Controller of SAIC.

**Cheng Jing Lei:** once being the Manager of Technology Quality Department of SAI Corporation; the Vice President of Automotive Engineering Institute; the Manager of Technology Quality Department of SAIC; Deputy Executive Dean, Vice Chief Engineer and the Dean of Automotive Engineering Institute. Presently acting as the Vice Chief Engineer, Executive Director of Strategy and Business Planning Department of SAIC.



**Gu Qing:** once being the Vice General Manager of Shanghai Sun Win Bus Co., Ltd.; Vice Director of Chief Engineer Office and Vice Leader of New Energy Promoting Team of SAIC; Vice Director of Commercial Vehicle Business Department and Vice Director and Director of Commercial Vehicle Technical Center of SAIC. Presently acting as the Chairman of the Communist Party of Commercial Vehicle Technical Center of SAIC.

**Wang Xiao Qiu:** Once being the Vice General Manager of Shanghai Automobile Co., Ltd; General Manager of Shanghai Automobile Manufacturing Co., Ltd; Vice General Manager and General Manager of SAIC Passenger Car Branch. Presently acting as the General Manager of SDEC.

**Jiang Bao Xin:** once being the Senior Financial Manager of Shanghai General Automobile Co., Ltd. Bei Sheng Branch; Executive Financial Controller and the Chief Financial Controller of Ssangyong Motor Co., Ltd.; Chief Financial Controller of SAIC Commercial Vehicle Business Department. Presently acting as the Director and the Chief Financial Controller of SDEC.

**Ou Yang Ming Gao:** once being the Associate Professor, Professor and the Tutor of Ph.D of Tsinghua University. Presently acting as the Special Engaged Professor of Chang Jiang Scholar of Ministry of Education; member of the Administration Committee and the Deputy Director of Academy Committee of Tsinghua University; Professor and the Tutor of Ph.D of Tsinghua University; Director of Auto Safety and Energy Saving State Key Laboratory; the member of the Standing Committee of the Chinese People's Political Consultative Conference; Vice Executive Director of Society of Automotive Engineers of China; Leader of the National "863" Planning Energy Saving & New Energy Auto Important Project General Professional Team.

**Yan Yi Ming:** once being the partner of Shanghai All Bright Law Offices and being the Director of Shanghai YanYiMing Law office since 2005.

**Chen Wen Hao:** once being the Professor, Director of Financial Institute, Financial School and Accounting School. Presently acting as the Professor of Accounting School and the Tutor of Ph.D. Passed away on January 18th, 2012.

**Zhou Lang Hui:** once being the Minister of Cadres' Organization, Vice Director of Communist Party, Director of Discipline Inspection Commission of SAI Corporation; Vice Director of Communist Party and Director of Discipline Inspection Commission of SAIC and the General Manager of Shanghai Kolben Schmitt Pistons Co., Ltd., Presently acting as the Vice President of SAIC.

**Zhu Xian:** once being the Vice Finance Officer of Shanghai General Motors Co., Ltd.; Vice General Manager of Shanghai Automotive Asset Management Co., Ltd.; Vice President of Ssangyong Motor Co., Ltd. Presently acting as the Supervisor, Director of Audit Office of SAIC.

**Shi Yi Meng:** once being the Minister of the Publicity Ministry, Director of Communist Party office, Vice Minister and Minister of Communist Affairs Department, Vice Chairman of Communist Party, Chairman of Union, Chairman of Discipline Inspection Commission of SDEC. Presently acting as the Chairman of the Communist Party of SDEC.

**Jin Gang:** once being the General Manager, Manager of Overseas Department of SDEC. Presently acting as the Vice General Manager of SDEC.

**Zhu Jian Kang:** Once being the Leader of the Labor & Material Department, Minister of the Production and Manufacturing Department and the Minister of Purchase Department. Presently acting as the Vice General Engineer and Vice General Manager of SDEC.

**Qian Jun:** once being the Deputy Manager of the Quality Department of Shanghai General Motors Co., Ltd.; Manager of the Quality and After Sales Service Department of Shanghai General Motors Co., Ltd.; Chief Officer of the Motor Plant of Manufacturing Department of the Business Vehicle Branch of SAIC. Presently acting as the Vice General Manager of SDEC.

**Wang Hong Bin:** once being the technology engineer, Senior Project Manager, Representative on security matters of SDEC. Presently acting as the Board Secretary of SDEC.

Note:

1. During the Reporting Period, there were general elections in the Board of Directors and the Supervisor Committee, and the Directors, supervisors and senior management of the seventh session did not change after the elections.
2. Chen Wen Hao, the independent director of the Company, passed away of illness on 18 January 2013.

## II. Positions held by the Directors in holding company

Name	Shareholder Name	Position	Date of appointment
Xiao Guo Pu	SAIC	Vice President	24 May 2012
Gu Feng	SAIC	Chief Financial Controller	24 May 2012
Cheng Jing Lei	SAIC	Vice General Engineer, Executive Director of Strategy and Business Planning Department	June 2005
Gu Qing	SAIC	Director of Communist Party of Commercial Vehicle Technology Center	8 September 2010
Zhou Lang Hui	SAIC	Vice President	24 May 2012
Zhu Xian	SAIC	Supervisor, Director of Audit Office	24 May 2012

## III. Remunerations of Directors, Supervisors and Senior Management

Decision procedures for remunerations of Directors, Supervisors and Senior Management	Remunerations of Directors and Supervisors are decided by the Annual General Meeting; Remuneration to Senior Management is decided according to the remuneration policy of the Company and reviewed by the Board of Remuneration and Examination Committee.
The basis of remuneration of Directors, Supervisors and Senior Management	(1). The remuneration of the Directors, Supervisors and Senior Management are determined according to actual position with reference to the remuneration policy of the Company; (2). After being appointed by the Company, the Independent Directors' annual allowance is RMB60,000 for each.
Accrued payment of remuneration to Directors, Supervisors and Senior Management	Refer to "Shareholding and remuneration details of Directors, Supervisors and Senior Management".
Actual payment of remuneration to Directors, Supervisors and Senior Management during the Reporting Period	RMB3,599.7 thousand

## IV. Appointment and resignation of directors, supervisors and senior management

No directors, supervisors and senior management appointed or resigned during the Reporting Period.

## V. Appointment and resignation of core team member and key technical personnel

No core team member and key technical personnel appointed or resigned during the Reporting Period.

## VI. Employee information of parent company and significant subsidiaries

### (I). Employee information

Number of employees of the parent company	2,280
Number of employees of the significant subsidiaries	14
Total number of employees	2,294
Number of retired employees whom the parent company and significant subsidiaries need to afford expenses	0

Specialization		
Category		Headcount
Production		1,131
Sales		190
Technician		490
Finance		36
Management and others		447
Total		2,294
Education		
Category		Headcount
Doctor degree		5
Master degree		45
Bachelor degree		493
Technical or mechanical degree		465
Secondary technical degree and below		1,286
Total		2,294

**(II). Remuneration policy**

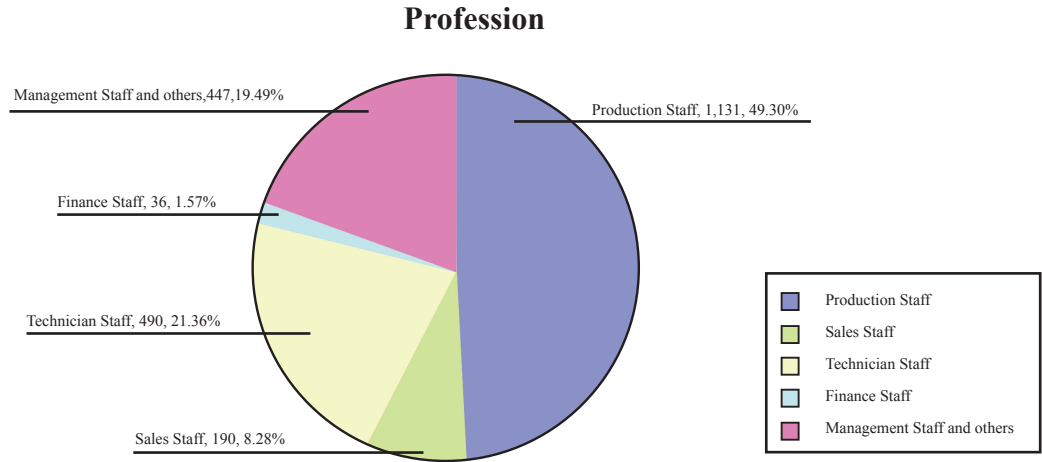
According to the policy of the salary increase of Shanghai working staff, as well as the Company's economic results and salary level etc., the Company has been gradually implementing the remuneration allocation policy, establishing the reasonable allocation of remuneration, stable increase in a long period and harmony working relationship, through the systematic remuneration management, so as to improve the Company's sustainable development. The Company made and launched the "Remuneration Management Regulations" in a democratic way, to make the remuneration allocation policy and remuneration structure clear, and instruct the remuneration allocation.

**(III). Training program**

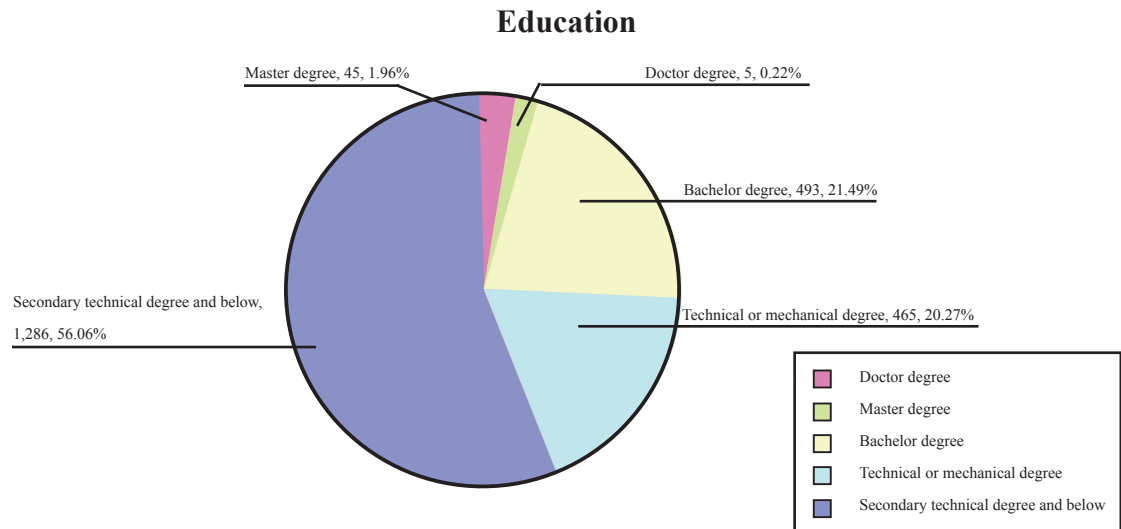
The Company respects the inherent demand of qualified personnel, and play the guidance role of the skilled staff's career development, and evaluates performance of professional skills. The grading system helped employees to combine company's requirement and personal needs and stimulate employees to improve their professional knowledge.

It's the key point to emphasize the "core qualifications" for employees' development and focus on managements' overall abilities, production staffs' efficiency and technicians' operating skills in Details. There were 7,955 staff (man-time basis) taking the training programs with 108,783 class hours in aggregate.

(IV). Profession chart:



(V). Education chart:



## Section VIII. Corporate governance

### 1. Status of corporate governance and registration of insiders

During the Reporting Period, the Company strengthened the corporate governance according to the “Company Law”, the “Securities Law” and other relevant laws, regulations and requirements; the Annual General Meeting, the Board of Directors, the Supervisor Committee and Management of the Company were all properly operated within the regulation of the relevant laws and requirements; the publication of information and management of investor relationship, insider registration etc. were also operated properly which helps the Company to achieve a smooth and quick development in corporate governance.

### 1. Shareholders and general meeting

During the Reporting Period, the Company held 1 general meeting, i.e. 2011 Annual General Meeting. The relevant procedures of convention and holding of the Annual General Meeting complied with the relevant provisions of the Articles of Association and the “Rules of the Annual General Meeting”. The legal interest of the shareholders is protected. The resolutions passed during the Annual General Meeting have been strictly executed.

### 2. Directors and Board of Directors

During the Reporting Period, the Company held 8 board meetings. The Directors fulfilled their duty with conscientiousness, honesty and diligence. The three Independent Directors of the Company also did their duty with conscientiousness and diligence, and expressed the independent opinions on the nomination of Directors and Senior Management, daily related party transactions and the appointment of the auditors etc. to ensure a scientific decision of the Board of Directors.

### 3. Supervisors and the supervisory committee

During the Reporting Period, the Supervisor Committee held 6 meetings. The Supervisors fulfilled their duty with conscientiousness, honesty and diligence; held the Supervisor meetings regularly, attended the Board meetings and provided suggestion and advices accordingly; inspected and examined independently and effectively on the execution of duties by Directors and Senior Management and the corporate finance.

### 4. Information disclosure and transparency

The Company disclosed information in accordance with the “Company law”, the “Rules of Securities Exchange” and the related provisions and regulations strictly. All information which should be disclosed has been disclosed in compliance with the rules. The Company also welcomed the visiting and inquires from the shareholders.

### 5. Special activity of corporate governance

Based on the results of special activities performed in previous period, the Company continuously strengthened the internal control system of the Company, improved the consciousness of standard operation and management level to promote the healthy and standard development of the Company.

## II. Annual General Meeting

Session	Held date	Proposal details	Resolution results	Disclosure newspapers	Disclosure date
2011 Annual General Meeting	18 May 2012	2011 Board of Directors' Report, 2011 Supervisor Committee's Report, 2011 Finance Results Report and 2012 Financial Budget Report, 2011 Profit Distribution and Transfer to Capital Reserve into Share Capital Plan, 2011 Annual Report and the Abstracts, the Proposal to Engage Auditors for 2012 Financial Statement Audit, the Proposal to Engage Auditors for 2012 Internal Control Audit, the Framework Agreement on Related Party Transactions and Daily Related Party Transactions in 2012, the Proposal to Change the Registered Capital and to Amend the Article of Association of the Company, the General Election of Board of Directors, the General Election of Supervisor Committee, the Proposal to adjust the Independent Directors' Annual Allowance.	Reviewed and approved all proposals. Among them, the Proposal to Change the Registered Capital and to Amend the Article of Association of the Company, as the special proposal, was approved by over two thirds of the voting rights of shareholders and shareholder agents attending the Annual General Meeting, and the rest proposals, as common proposals, were approved by over half of the voting rights of shareholders and shareholder agents attending the Annual General Meeting, of which the Framework Agreement on Related Party Transactions and Daily Related Party Transactions in 2012 was the related party transaction proposal and the related withdrew from voting.	Shanghai Securities News <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	19 May 2012

## III. Fulfilment of the duty of Directors

### (I). Attendance of the Board meeting and Annual General Meeting

Name of director	Attendance of the Board meeting							Attendance of the Annual General Meeting
	Independent directors or not	Number of Board meetings Directors should attend	Presence in person	Presence via tele-conference	Presence by proxy	Absence	Absence for two consecutive meetings	Number of Board meetings attended
Xiao Guo Pu	No	8	8	5	0	0	No	1
Gu Feng	No	8	8	5	0	0	No	1
Cheng Jing Lei	No	8	8	5	0	0	No	1
Gu Qing	No	8	8	5	0	0	No	1
Wang Xiao Qiu	No	8	8	5	0	0	No	1
Jiang Bao Xin	No	8	8	5	0	0	No	1
Ou Yang Ming Gao	Yes	8	7	5	1	0	No	1
Yang Yi Ming	Yes	8	8	5	0	0	No	1
Chen Wen Hao	Yes	8	8	5	0	0	No	1

Number of board meetings during the year	8
Including: On-spot meetings	3
Tele-conference meetings	5

**(II). Situations that Independent Directors disagree with the Company’s proposals**

During the Reporting Period, the Independent Directors did not raise objection to any board or non-board proposals of the Company.

**IV. The set-up and improvement of the working protocol of Audit Committee and its main work and duty fulfilment report**

During the Reporting Period, Board Strategy Committee, the Audit Committee, Nomination Committee, the remuneration and Evaluation Committee in accordance with the provisions of the articles of Association and in the work of the Special Committee rules work seriously, the specialized Committee observations and recommendations have been made by the Board of Directors adopt.

**V. Board of supervisors discovering the Company’s existing risks**

During the Reporting Period, the Supervisor Committee did not raise objection on matters of supervision.

**VI. Performance evaluation and motivation system for Senior Management**

The Company applies Annual Salary System to its Senior Management. The annual salary is determined by the Board of Remuneration and Examination Committee based on the annual performance assessment of the Senior Management which effectively motivated the Senior Management.

## **Section IX. Internal Control**

### **I. Board of Directors' statement on responsibility for internal control and establishment of internal control system**

1. Board of Directors' statement on responsibility for internal control: The Board of Directors is responsible for the establishment and improvement of the Company's internal control system related to financial reporting. The objective of internal control related to financial reporting is to ensure that the financial reporting information is true, complete and reliable; and to prevent the risk of material misstatement. Due to the inherent limitations in internal control, only reasonable assurance could be provided.
2. Board of Directors' statement on establishment of internal control system: Board of Directors has evaluated internal control related to financial reporting in accordance with Basic Standards for Enterprise Internal Control, and believed it was efficient at 31 December 2012 (base date). In the process of self-assessment, the Company did not identify any material deficiencies in the design and implementation of internal control, and the internal control system is complete and effectively implemented. There are no major flaw on the design or implementation of internal control noted during the self assessment process (Details refer to "Shanghai Diesel Engine Co., Ltd. Self-evaluation Report on the Internal Control for 2012"). Ernst & Young Hua Ming LLP has been appointed to evaluate the effectiveness of the internal control over the financial reporting and issued a standard unqualified audit opinion.

### **II. Related information explanation over the internal control audit report**

Detailed information please refer to "Internal Control Audit Report" issued by Ernst & Young Hua Ming LLP, disclosed on the Shanghai Stock Exchange Website ([www.sse.com.cn](http://www.sse.com.cn)) on 28 March 2013.

### **III. The establishment of Responsibility Inquisition System for material mistaken noted in the annual report information disclosure**

It is regulated in "Measures on Information Disclosure Matters" that the responsible person for material misstatements in annual report which materially impact the Company or investors or cause material losses should be investigated and be punished in both administration and economy perspectives. During the Reporting Period, there were no correction of material accounting errors, omission of significant information and modification to operating performance forecast.



## Section X. Financial Statements

Annual financial statements of the Company for the year ended 31 December 2012 has been audited by Certified Public Accountants, Ms. Zhou Lin and Mr. Li Bo of Ernst & Young Hua Ming LLP and expressed a standard unqualified audit opinion.

### 1. Auditors' Report

#### Auditors' Report

Ernst & Young Hua Ming Shen Zi (2013) No 60462488\_B01

##### To the shareholders of Shanghai Diesel Engine Company Limited

We have audited the accompanying financial statements of Shanghai Diesel Engine Company Limited, which comprise the consolidated and the Company's balance sheets as at 31 December 2012, and the consolidated and the Company's income statements, the consolidated and the Company's statements of changes in equity and the consolidated and the Company's cash flow statements for the year then ended and notes to the financial statements.

##### Management's Responsibility for the Financial Statements

The management is responsible for preparation and fair presentation of the financial statements. This responsibility includes (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

##### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

##### Opinion

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of Shanghai Diesel Engine Company Limited as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP  
Beijing, the People's Republic of China

Chinese Certified Public Accountant: Zhou Lin  
Chinese Certified Public Accountant: Li Bo

26 March 2013

**2. Financial Statements**
**CONSOLIDATED BALANCE SHEET**

31 December 2012

Shanghai Diesel Engine Co., Ltd.

RMB

Item	Note	2012	2011
<b>Current assets:</b>			
Cash	1	1,976,954,447.34	1,401,312,456.16
Notes receivables	2	932,626,267.69	1,100,827,260.00
Accounts receivable	3	158,012,085.68	217,807,613.47
Prepayments	4	2,287,553.69	1,735,169.19
Other receivables	5	1,828,251.87	2,434,484.43
Inventories	6	309,377,078.67	270,133,402.71
Other current assets	7	16,582,645.00	170,858.45
Total current assets		3,397,668,329.94	2,994,421,244.41
<b>Non-current assets:</b>			
Available-for-sale financial assets	8	38,512,872.50	44,442,355.00
Long-term equity investments	10	55,531,119.93	46,770,518.66
Investment properties	11	1,005,826.89	1,009,098.58
Fixed assets	12	503,098,002.75	413,804,561.57
Construction in progress	13	873,452,413.60	403,143,769.62
Intangible assets	14	15,875,858.69	16,311,266.81
Goodwill	15	0	0
Deferred tax assets	16	80,572,618.59	90,953,598.47
Total non-current assets		1,568,048,712.95	1,016,435,168.71
Total assets		4,965,717,042.89	4,010,856,413.12
<b>Current liabilities:</b>			
Notes payable	18	152,755,633.05	168,166,112.97
Accounts payable	19	610,012,168.57	625,394,593.99
Advance from customers	20	22,751,910.28	26,684,941.97
Employees' remuneration payable	21	107,470,273.28	144,584,867.20
Taxes payable	22	-45,342,697.11	-7,013,952.84
Other payables	23	154,733,717.96	83,101,151.96
Other current liabilities	24	572,229,792.11	579,406,203.99
Total current liabilities		1,574,610,798.14	1,620,323,919.24
<b>Long-term liabilities:</b>			
Long-term borrowings	25	30,000,000.00	-
Other non-current liabilities	26	174,711,163.67	191,906,103.92
Total non-current liabilities		204,711,163.67	191,906,103.92
Total liabilities		1,779,321,961.81	1,812,230,023.16
<b>Owners' equity:</b>			
Share capital	27	869,092,530.00	480,309,280.00
Capital reserves	28	1,129,251,227.77	704,954,097.71
Special reserves	29	3,829,901.90	-
Surplus reserves	30	454,565,088.41	433,138,966.74
Retained earnings	31	717,091,063.92	562,578,802.21
Equity attributable to parent company		3,173,829,812.00	2,180,981,146.66
Minority interests	32	12,565,269.08	17,645,243.30
Total owners' equity		3,186,395,081.08	2,198,626,389.96
Total liabilities and owners' equity		4,965,717,042.89	4,010,856,413.12

 Xiao Guo Pu  
 Legal Representative

 Jiang Bao Xin  
 Principal in Charge of Accountancy

 Sun Yu  
 Principal in Charge of Accounting  
 Departments

## BALANCE SHEET

31 December 2012

Shanghai Diesel Engine Co., Ltd.

RMB

	Note	2012	2011
<b>Current assets:</b>			
Cash		1,889,849,962.82	1,145,636,193.91
Notes receivables		932,226,267.69	1,091,919,731.00
Accounts receivables	1	161,423,793.00	241,025,000.06
Prepayments		1,896,981.69	939,980.34
Other receivables	2	1,647,059.46	2,176,286.36
Inventories		306,874,855.54	265,030,406.72
Other current assets		16,444,790.00	27,943.45
Total current assets		3,310,363,710.20	2,746,755,541.84
<b>Non-current assets:</b>			
Available-for-sale financial assets		38,512,872.50	44,442,355.00
Long-term equity investments	3	404,023,074.83	395,283,835.40
Investment properties		1,005,826.89	1,009,098.58
Fixed assets		473,139,493.51	375,489,364.23
Construction in progress		564,350,875.63	320,431,786.10
Intangible assets		154,691.50	212,791.54
Deferred tax assets		99,844,566.55	110,225,546.43
Total non-current assets		1,581,031,401.41	1,247,094,777.28
Total assets		4,891,395,111.61	3,993,850,319.12
<b>Current liabilities:</b>			
Notes payable		152,755,633.05	168,166,112.97
Accounts payable		666,101,219.30	685,219,733.67
Advance from customers		18,463,171.71	22,018,544.99
Employees' remuneration payable		107,390,273.28	144,437,102.92
Taxes payable		5,895,641.03	30,472,814.04
Other payables		126,937,761.46	100,663,891.49
Other current liabilities		571,647,603.22	579,012,115.43
Total current liabilities		1,649,191,303.05	1,729,990,315.51
<b>Long-term liabilities:</b>			
Other non-current liabilities		174,711,163.67	191,906,103.92
Total non-current liabilities		174,711,163.67	191,906,103.92
Total liabilities		1,823,902,466.72	1,921,896,419.43
<b>Owners' equity:</b>			
Share capital		869,092,530.00	480,309,280.00
Capital reserves		1,128,380,986.31	712,557,468.14
Special reserves		3,829,901.90	-
Surplus reserves		454,565,088.41	433,138,966.74
Retained earnings		611,624,138.27	445,948,184.81
Total owners' equity		3,067,492,644.89	2,071,953,899.69
Total liabilities and owners' equity		4,891,395,111.61	3,993,850,319.12

Xiao Guo Pu  
Legal Representative

Jiang Bao Xin  
Principal in Charge of Accountancy

Sun Yu  
Principal in Charge of Accounting  
Departments

**CONSOLIDATED INCOME STATEMENT**

2012

Shanghai Diesel Engine Co., Ltd.

RMB

	Note	2012	2011
Revenue	33	3,029,962,800.96	4,634,955,294.75
Including: Operating revenue	33	3,029,962,800.96	4,634,955,294.75
Cost	33	2,858,667,266.74	4,434,414,379.94
Including: Operating cost	33	2,404,784,827.59	3,714,319,236.74
Business tax and surcharges	34	7,950,114.34	19,344,684.67
Operating expenses	35	157,469,783.41	253,139,571.59
General and administrative expenses	36	328,266,597.59	450,674,873.85
Financial expenses	37	-37,667,397.50	-24,038,909.20
Impairment losses on assets	38	-2,136,658.69	20,974,922.29
Add: Investment income	39	9,280,392.85	21,328,266.58
Including: investment income from associates and jointly controlled entities		8,760,601.27	4,471,640.40
Operating profit/(loss)		180,575,927.07	221,869,181.39
Add: Non-operating income	40	48,314,516.88	5,563,274.29
Less: Non-operating expenses	41	6,465,712.98	3,100,246.17
Including: loss on disposal of non-current assets		6,292,768.98	3,071,935.63
Total profit		222,424,730.97	224,332,209.51
Less: Income tax expense	42	23,785,816.41	22,383,248.33
Net profit		198,638,914.56	201,948,961.18
Net profit attributable to parent company		203,709,733.71	207,306,920.41
Minority interests		-5,070,819.15	-5,357,959.23
Earnings per share	43		
Basic earnings per share		0.24	0.27
Dilute earnings per share		NA	NA
Other comprehensive income	44	-5,069,220.78	-31,426,014.70
Total comprehensive income		193,569,693.78	170,522,946.48
Total comprehensive income attributable to parent company		198,640,512.93	175,880,905.71
Total comprehensive income attributable to minority shareholders		-5,070,819.15	-5,357,959.23

Xiao Guo Pu  
 Legal Representative

Jiang Bao Xin  
 Principal in Charge of Accountancy

Sun Yu  
 Principal in Charge of Accounting  
 Departments

## INCOME STATEMENT

2012

Shanghai Diesel Engine Co., Ltd.

RMB

	Note	2012	2011
Operating revenue:	4	3,004,463,066.11	4,585,880,656.60
Less: Operating cost	4	2,388,061,332.70	3,678,352,467.67
Business tax and surcharges		7,727,610.71	19,066,702.98
Operating expenses		153,288,269.05	248,735,447.48
General and administrative expenses		309,491,767.99	435,263,948.30
Financial expenses		-35,623,069.20	-22,376,707.72
Impairment losses on assets		2,367,157.27	21,502,691.77
Add: Investment income	5	9,280,392.85	21,328,266.58
Including: investment income from associates and jointly controlled entities		8,760,601.27	4,471,640.40
Operating profit/(loss)		188,430,390.44	226,664,372.70
Add: Non-operating income		55,885,128.77	3,207,185.67
Less: Non-operating expenses		4,700,623.25	2,064,596.60
Including: loss on disposal of non-current assets		4,689,179.25	2,036,286.06
Total profit		239,614,895.96	227,806,961.77
Less: Income tax expense		25,353,679.28	19,973,098.71
Net profit		214,261,216.68	207,833,863.06
Other comprehensive income		-5,069,220.78	-31,426,014.70
Total comprehensive income		209,191,995.90	176,407,848.36

Xiao Guo Pu  
 Legal Representative

Jiang Bao Xin  
 Principal in Charge of Accountancy

Sun Yu  
 Principal in Charge of Accounting  
 Departments

**CONSOLIDATED CASH FLOW STATEMENT**

2012

Shanghai Diesel Engine Co., Ltd.

RMB

	Note	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from sale of goods or rendering of services		3,755,816,939.27	5,541,558,263.89
Cash received relating to other operating activities	45	70,085,392.96	85,832,653.82
Sub-total of cash inflows from operating activities		3,825,902,332.23	5,627,390,917.71
Cash paid for purchase of goods and services		2,675,509,475.14	4,030,375,096.57
Cash paid to and on behalf of employees		376,214,062.21	448,748,213.81
Cash paid for all types of taxes		112,356,545.43	326,080,237.14
Cash paid relating to other operating activities	45	267,537,811.51	348,588,101.13
Sub-total of cash outflows from operating activities		3,431,617,894.29	5,153,791,648.65
Net cash flows from operating activities	46	394,284,437.94	473,599,269.06
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash received from sale of investments		-	9,455,937.13
Cash received from return on investments		542,212.50	556,650.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		27,978,297.87	6,597,175.11
Sub-total of cash inflows from investing activities		28,520,510.37	16,609,762.24
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		652,454,813.59	390,861,878.49
Cash paid for investments		15,093,420.00	-
Sub-total of cash outflows from investing activities		667,548,233.59	390,861,878.49
Net cash flows from investing activities		-639,027,723.22	-374,252,116.25
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash received by investors		818,149,600.84	-
Cash received from borrowings		30,000,000.00	80,000,000.00
Sub-total of cash inflows from financing activities		848,149,600.84	80,000,000.00
Cash repayments of borrowings		-	160,000,000.00
Cash paid for distribution of dividends or profits and for interest expenses		27,811,941.55	25,910,759.00
Sub-total of cash outflows from financing activities		27,811,941.55	185,910,759.00
Net cash flows from financing activities		820,337,659.29	-105,910,759.00
<b>EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>		47,617.17	-989,914.25
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		575,641,991.18	-7,553,520.44
Add: Opening balance of cash and cash equivalents		1,401,312,456.16	1,408,865,976.60
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>	47	1,976,954,447.34	1,401,312,456.16

Xiao Guo Pu  
 Legal Representative

Jiang Bao Xin  
 Principal in Charge of Accountancy

Sun Yu  
 Principal in Charge of Accounting  
 Departments

## CASH FLOW STATEMENT

2012

Shanghai Diesel Engine Co., Ltd.

RMB

	Note	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from sale of goods or rendering of services		3,721,941,541.60	5,429,477,495.10
Cash received relating to other operating activities		65,081,965.61	81,652,777.36
Sub-total of cash inflows from operating activities		3,787,023,507.21	5,511,130,272.46
Cash paid for goods and services		2,665,230,355.58	3,953,477,176.03
Cash paid to and on behalf of employees		373,611,796.84	442,336,447.88
Cash paid for all types of taxes		98,407,402.46	295,778,283.48
Cash paid relating to other operating activities		295,023,649.10	285,189,465.66
Sub-total of cash outflows from operating activities		3,432,273,203.98	4,976,781,373.05
Net cash flows from operating activities	6	354,750,303.23	534,348,899.41
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash received from sale of investments		-	9,455,937.13
Cash received from return on investments		542,212.50	556,650.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		27,292,496.65	7,585,071.40
Sub-total of cash inflows from investing activities		27,834,709.15	17,597,658.53
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		414,315,899.93	336,668,613.93
Cash paid for acquisition of investments		15,093,420.00	300,000,000.00
Sub-total of cash outflows from investing activities		429,409,319.93	636,668,613.93
Net cash flows from investing activities		-401,574,610.78	-619,070,955.40
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash received by absorbing investments		818,149,600.84	-
Cash received from borrowings		-	80,000,000.00
Sub-total of cash inflows from financing activities		818,149,600.84	80,000,000.00
Cash repayments of borrowings		-	160,000,000.00
Cash paid for distribution of dividends or profits and for interest expenses		27,159,141.55	25,910,759.00
Sub-total of cash outflows from financing activities		27,159,141.55	185,910,759.00
Net cash flows from financing activities		790,990,459.29	-105,910,759.00
<b>EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>		47,617.17	-989,914.25
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		744,213,768.91	-191,622,729.24
Add: Opening balance of cash and cash equivalents		1,145,636,193.91	1,337,258,923.15
<b>CLOSING BALANCE OF CASH AND CASH EQUIVALENTS</b>		1,889,849,962.82	1,145,636,193.91

Xiao Guo Pu  
Legal Representative

Jiang Bao Xin  
Principal in Charge of Accountancy

Sun Yu  
Principal in Charge of Accounting  
Departments

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

2012

Shanghai Diesel Engine Co., Ltd.

RMB

	2012							Total Owners' equity
	Attributable to parent company					Retained earnings	Minority interests	
	Share capital	Capital reserves	Special Reserve	Surplus reserves				
I. Closing balance in 2011	480,309,280.00	704,954,097.71		433,138,966.74	562,578,802.21	17,645,243.30	2,198,626,389.96	
II. Opening balance in 2012	480,309,280.00	704,954,097.71		433,138,966.74	562,578,802.21	17,645,243.30	2,198,626,389.96	
III. Changes during the year	388,783,250.00	424,297,130.06	3,829,901.90	21,426,121.67	154,512,261.71	-5,079,974.22	987,768,691.12	
(I). Net profit					203,709,733.71	-5,070,819.15	198,638,914.56	
(II). Other comprehensive income		-5,069,220.78					-5,069,220.78	
Subtotal (I) & (II)		-5,069,220.78			203,709,733.71	-5,070,819.15	193,569,693.78	
(III). Capital injected and decreased by shareholders	62,873,551.00	755,276,049.84				-9,155.07	818,140,445.77	
1. Capital injected by shareholders	62,873,551.00	755,276,049.84					818,149,600.84	
2. Others						-9,155.07	-9,155.07	
(IV). Profit distribution				21,426,121.67	-48,585,263.22		-27,159,141.55	
1. Appropriation to surplus reverses				21,426,121.67	-21,426,121.67		-	
2. Distribution to shareholders					-27,159,141.55		-27,159,141.55	
(V). Internal transfer	325,909,699.00	-325,909,699.00					-	
1. Transfer of capital reserve into share capital	325,909,699.00	-325,909,699.00					-	
(VI). Special reserve			3,829,901.90				3,829,901.90	
1. Accrual			6,484,604.32				6,484,604.32	
2. Use			-2,654,702.42				-2,654,702.42	
(VII). Others					-612,208.78		-612,208.78	
IV. Closing balance in 2012	869,092,530.00	1,129,251,227.77	3,829,901.90	454,565,088.41	717,091,063.92	12,565,269.08	3,186,395,081.08	

 Xiao Guo Pu  
 Legal Representative

 Jiang Bao Xin  
 Principal in Charge of Accountancy

 Sun Yu  
 Principal in Charge of Accounting Departments



RMB

	2011						Total Owners' equity
	Attributable to parent company				Minority interests	Total Owners' equity	
	Share capital	Capital reserves	surplus reserves	Retained earnings			
I. Closing balance in 2010	480,309,280.00	736,380,112.41	412,355,580.43	400,070,732.11	23,003,202.53	2,052,118,907.48	
II. Opening balance in 2011	480,309,280.00	736,380,112.41	412,355,580.43	400,070,732.11	23,003,202.53	2,052,118,907.48	
III. Changes during the year		-31,426,014.70	20,783,386.31	162,508,070.10	-5,357,959.23	146,507,482.48	
(I). Net profit				207,306,920.41	-5,357,959.23	201,948,961.18	
(II). Other comprehensive income		-31,426,014.70				-31,426,014.70	
Subtotal (I) & (II)		-31,426,014.70		207,306,920.41	-5,357,959.23	170,522,946.48	
(III). Profit distribution			20,783,386.31	-44,798,850.31		-24,015,464.00	
1. Appropriation to surplus reverses			20,783,386.31	-20,783,386.31		-	
2. Distribution to shareholders				-24,015,464.00		-24,015,464.00	
IV. Closing balance in 2011	480,309,280.00	704,954,097.71	433,138,966.74	562,578,802.21	17,645,243.30	2,198,626,389.96	

Xiao Guo Pu

Legal Representative

Jiang Bao Xin

Principal in Charge of Accountancy

Sun Yu

Principal in Charge of Accounting Departments

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

2012

Shanghai Diesel Engine Co., Ltd.

RMB

	2012					
	Share capital	Capital reserves	Special Reserve	surplus reserves	Retained earnings	Total Owners' equity
I. Closing balance in 2011	480,309,280.00	712,557,468.14		433,138,966.74	445,948,184.81	2,071,953,899.69
II. Opening balance in 2012	480,309,280.00	712,557,468.14		433,138,966.74	445,948,184.81	2,071,953,899.69
III. Changes during the year	388,783,250.00	415,823,518.17	3,829,901.90	21,426,121.67	165,675,953.46	995,538,745.20
(I). Net profit					214,261,216.68	214,261,216.68
(II). Other comprehensive income		-5,069,220.78				-5,069,220.78
Subtotal (I) & (II)		-5,069,220.78			214,261,216.68	209,191,995.90
(III). Capital injected and decreased by shareholders	62,873,551.00	755,276,049.84				818,149,600.84
I. Capital injected by shareholders	62,873,551.00	755,276,049.84				818,149,600.84
(IV). Profit distribution				21,426,121.67	-48,585,263.22	-27,159,141.55
1. Appropriation to surplus reverses				21,426,121.67	-21,426,121.67	-
2. Distribution to shareholders					-27,159,141.55	-27,159,141.55
(V). Internal transfer	325,909,699.00	-325,909,699.00				-
1. Transfer of capital reserve into share capital	325,909,699.00	-325,909,699.00				-
(VI). Special reserve			3,829,901.90			3,829,901.90
1. Accrual			6,484,604.32			6,484,604.32
2. Use			-2,654,702.42			-2,654,702.42
(VII). Others		-8,473,611.89				-8,473,611.89
IV. Closing balance in 2012	869,092,530.00	1,128,380,986.31	3,829,901.90	454,565,088.41	611,624,138.27	3,067,492,644.89

Xiao Guo Pu

Legal Representative

Jiang Bao Xin

Principal in Charge of Accountancy

Sun Yu

Principal in Charge of Accounting Departments

RMB

	2011					Total Owners' equity
	Share capital	Capital reserves	surplus reserves	Retained earnings		
I. Closing balance in 2010	480,309,280.00	743,983,482.84	412,355,580.43	282,913,172.06		1,919,561,515.33
II. Opening balance in 2011	480,309,280.00	743,983,482.84	412,355,580.43	282,913,172.06		1,919,561,515.33
III. Changes during the year		-31,426,014.70	20,783,386.31	163,035,012.75		152,392,384.36
(I). Net profit				207,833,863.06		207,833,863.06
(II). Other comprehensive income		-31,426,014.70				-31,426,014.70
Subtotal (I) & (II)		-31,426,014.70		207,833,863.06		176,407,848.36
(III). Profit distribution			20,783,386.31	-44,798,850.31		-24,015,464.00
1. Appropriation to surplus reverses			20,783,386.31	-20,783,386.31		
2. Distribution to shareholders				-24,015,464.00		-24,015,464.00
IV. Closing balance in 2011	480,309,280.00	712,557,468.14	433,138,966.74	445,948,184.81		2,071,953,899.69

Xiao Guo Pu

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Sun Yu

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### III. Corporate information

#### 1. Company History:

Shanghai Diesel Engine Company Limited (“the Company”) was incorporated in the People’s Republic of China (the “PRC”) on 27 December 1993 as approved by Shanghai Economic Committee and Shanghai Securities Management Office in Hu Jing Qi (1993) No.411 and Hu Zheng Ban (1993) No. 111. The Company was incorporated after the reorganization and restructure initiated by the sole founder Shanghai Diesel Engine Factory. Up to 31 December 2012, the Company’s registration number is 310000400070424 (Municipal Bureau). The Company’s legal representative is Xiao Guo Pu.

The Company’s original shareholder was Shanghai Dongfeng Machinery (Group) Company Ltd. (“Dongji Group”). Pursuant to the approval of related authority, the stated owned shares of the Company were transferred from Dongji Group to Shanghai Electric (Group) Corporation (“SHE Group Corporation”) in 2003 upon the reorganization of SHE Group Corporation.

In 2004, pursuant to the related authority’s approval, the state-owned share of the Company was transferred from SHE Group Corporation to Shanghai Electric Group Co., Ltd. (“SHE Group”) (on 27 October 2004, SHE Group Corporation was reorganized to be Shanghai Electric Group Co., Ltd., “SE Group”). After the transaction, the state-owned shareholder of the Company changed to SHE Group.

In December 2008, SHE Group transferred its 50.32% of the Company’s equity to SAIC Motor Corporation Limited (“SAIC”). After this transaction, SAIC became the Controlling Shareholder of the Company and Shanghai Automotive Industry Corporation (“SAI Corporation”) has been the ultimate controller of the Company. At this time, the Company’s registered capital and share capital were both RMB480,309,280.00.

In March 2012, pursuant to the approval document of Zheng Jian Xu Ke [2012] No.59 “Approval on Shanghai Diesel Engine Co., Ltd. of non-public offering” issued by China Securities Regulatory Commission, the Company issued, in a way of non-public offering, 62,873,551 ordinary shares (RMB1 per share as face amount) at RMB13.46 per share. Accordingly, the Company share capital increased to RMB543,182,831.00.

In May 2012, the Company transferred the capital reserves into share capital at 6 additional shares for every 10 current 543,182,831 shares. After the transfer, the Company’s share capital increased to RMB869,092,530.00.

The domestically listed Renminbi shares (A shares) and domestically listed foreign currency shares (B shares) have been listed on the Shanghai Stock Exchange. Please see the note “share capital” for detailed information of the Company’s share capital structures as at 31 December 2012.

#### 2. Industry and business scope

Industry : Manufacturing

Business scope: Diesel engine, construction machinery and equipment, oil pump and spare parts; diesel power station, vessel-used machinery set and spare parts; installation of machinery; truck transportation and fixation; investment (subject to operation permits when needed).

#### 3. Main products

The principal activities of the Company and its subsidiaries (the “Group”) are the manufacture and sale of diesel engine and related spare parts under the brand of “Dongfeng” and “Shanghai Power”.

#### 4. Approval of the financial statements

The financial statements have been approved by board of director on 26 March 2013. According to the article of association of the Company, the financial statements shall be reviewed and approved by Annual General Meeting.

### IV. Significant accounting policies and estimates

#### 1. Preparation basis of the financial statements

The financial statements are prepared based on “Accounting Standards for Business Enterprises - Basic Standards”, 38 specific standards promulgated by the Ministry of Finance Peoples’ Republic of China in February 2006 and subsequently issued implementation guidance and other relevant provisions (known as “Accounting Standards for Business Enterprises”).

The financial statements are prepared on going concern basis.

Except for financial assets held for trading and available-for-sale financial assets which are accounted for in fair value and the fixed assets recorded based on assets revaluation results during the reorganization of the Company to be the corporation, all others are accounted for based on historical cost. If the assets are impaired, impairment provision is provided according to the related regulations.

## **2. Declaration on compliance with the Accounting Standards for Business Enterprises**

The financial statements present fairly, in all material aspects, the consolidated and company's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

## **3. Accounting period**

The accounting year of the Group is calendar year, i.e. from 1 January to 31 December.

## **4. Functional currency**

Group's functional and reporting currency is the Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is Yuan.

## **5. Business combinations under common control and non-common control**

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations involving entities not under common control.

### **Business combination involving entities under common control**

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same entity or entities both before and after the combination, and the control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the acquiring party; while the other entity participating in the combination is a party being acquired. Combination date is the date on which the acquiring party effectively obtains control of the party being acquired.

Assets and liabilities that are obtained by the acquiring party in a business combination shall be measured at their carrying value as recorded by the party being acquired at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to stock reserve in capital reserve, i.e. the balance transferred from capital reserve under the old standards. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

### **Business combination involving entities not under common control**

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same entity or entities both before and after the combination. For a business combination involving entities not under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while the other entity participating in the combination is the acquiree. Acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date.

Where the sum of the fair value of consideration paid (or the fair value of equity securities issued) and the fair value of the acquiree's shares held by the acquirer before acquisition date exceeds the acquirer's portion in the fair value of the acquiree's

identifiable net assets, the difference shall be recognized as goodwill. Goodwill is subsequently measured at cost deducting its cumulative impairment. Where the sum of the fair value of consideration paid (or the fair value of equity securities issued) and the fair value of the acquiree's shares held by the acquirer before acquisition date is less than the acquirer's portion in the fair value of the acquiree's identifiable net assets, the difference shall be accounted for according to the following sequence: (i) the acquirer shall reassess the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and the fair value of consideration paid (or the fair value of equity securities issued) and the fair value of the acquiree's shares held by the acquirer before acquisition date; (ii) if after the reassessment, the sum of the fair value of consideration paid (or the fair value of equity securities issued) and the fair value of the acquiree's shares held by the acquirer before acquisition date is still less than the acquirer's portion in the fair values of the acquiree's identifiable net assets, the acquirer shall recognize the remaining difference immediately in the income statement for the current period.

#### **6. Preparation of consolidated financial statements**

The scope of consolidation of consolidated financial statements is determined based on control, includes the financial statements of the Company and its subsidiaries. A subsidiary is an enterprise or entity that is controlled by the Company.

Consolidated financial statements are prepared using uniform Reporting Periods and accounting policies. All intercompany transactions, balances and unrealized profits and dividends within the Group are eliminated on consolidation.

Where the current loss born by the minority shareholders of subsidiaries exceeds the initial minority interests in the subsidiaries, the minority interests are deducted accordingly. Where the Company maintains control on the subsidiaries, the changes on the minority interests are deemed as equity transaction.

With respect to subsidiaries acquired through business combinations involving entities not under common control, the operating results and cash flows of the acquiree should be included in the consolidated financial statements from the day that the group obtains the control until the ceases the control. While preparing the consolidated financial statements, the acquirer should adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

With respect to subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the party being acquired should be included in the consolidated financial statements from the beginning of the period in which the combination occurs. When preparing the comparative consolidated financial statements, the financial statements of comparative period should be adjusted accordingly as if the reporting entity formed during the combination always exists since the ultimate controller obtained the control.

#### **7. Recognition of cash and cash equivalents**

Cash includes cash on hand and deposits which are ready to be used for payment when needed. Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value.

#### **8. Foreign currency translation and translation of report prepared in foreign currency**

The amount of foreign currency transactions occurred is translated into functional currency.

The foreign currency transactions are recorded, on initial recognition in the functional currency, by applying to the foreign currency amount at the spot exchange rate as at the transaction dates. Foreign currency monetary items are translated using the spot exchange rate quoted by the People's Bank of China at the balance sheet date. The exchange gains or losses arising from occurrence of transactions and exchange of currencies, except for those relating to foreign currency borrowings specifically for construction and acquisition of fixed assets capitalized, are dealt with in the profit and loss accounts. Non-monetary foreign currency items measured at historical cost remain to be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency should not be changed. Non-monetary foreign currency items measured at fair value should be translated at the spot exchange rate prevailing on the date when the fair values are determined. The exchange difference thus resulted should be charged to the current income or capital reserves account of the current period.

Foreign currency cash flows should be translated using the average exchange rate prevailing on the transaction month during which the cash flows occur. The amount of the effect on the cash arising from the change in the exchange rate should be separately presented as an adjustment item in the cash flow statement.

## 9. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### Recognition and de-recognition

The Group recognizes a financial asset or a financial liability on its balance sheet, when the Group becomes a party to the contractual provision of the instrument.

The Group derecognizes a financial asset when:

- 1) The contractual rights to the cash flows from the financial asset expire; or
- 2) It transfers the contractual rights to the cash flows from the financial asset, or undertakes the obligation to timely make payment of the cash flows it received to the third party in full pursuant to the "pass-through" contract; and (a) substantially transfers nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, or (b) gives up its control over the financial asset, though it does not substantially transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset.

If the obligation relating to a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If the existing financial liability is replaced by the same creditor, with another financial liability that has terms with an almost completely different nature, or if almost all the terms of the existing liability are substantially revised, such replacement or revision is accounted for as the de-recognition of the original liability and the recognition of a new liability, and the difference thus resulted is recognized in the income statement of the current period.

The financial asset traded in normal way, which represents the financial asset being acquired to delivered within the period prescribed by the law or prevailing practice pursuant to the terms of the contract, is recognised and derecognised according to the accounting method on the transaction day. The transaction day is the day the Group commits to buy in or sell out the financial asset.

### Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit and loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognized.

The subsequent measurement of financial assets depends on its classification:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset held for trading is the financial asset that meets one of the following conditions: 1) the financial asset is acquired for the purpose of selling in a short term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits; 3) the financial asset is a derivative financial instrument. For such kind of financial assets, fair values are adopted for subsequent measurement. All the realized or unrealized gains or losses on these financial assets are recognized in the income statement of the current period.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if one of the following criteria is met:

- 1) The designation eliminates or significantly reduces the inconsistency in the measurement or recognition of relevant gains or losses that would otherwise arise from measuring the financial instruments on a different basis.

- 2) A group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.
- 3) The financial asset involves a hybrid instrument that contains one or more embedded derivatives, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.
- 4) The financial asset contains an embedded derivative that would need to be separately recorded and cannot be separately measured when acquired or at the subsequent balance sheet date.

Investments in equity instruments, which have no quoted market price in active markets and whose fair values cannot be reliably measured, should not be designated as financial assets at fair value through profit or loss.

If the financial assets are, on initial recognition, classified into financial assets at fair value through profit or loss, it couldn't be reclassified into other categories; and other categories couldn't be classified into financial assets at fair value through profit or loss.

There are no financial assets at fair value through profit or loss in the period under review of the Group.

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest method. Gains or losses arising from de-recognition, impairment or amortization are recognized in current profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables shall be measured at amortized cost using the effective interest method. Gains or losses arising from de-recognition, impairment or amortization are recognized in the income statement.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at fair value. The premium/ discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized in a separate component of capital reserve, except for impairment losses and foreign exchange gains and losses resulted from monetary financial assets, until the financial asset is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recognized in capital reserve shall be removed from capital reserve and recognized in the income statement. Interests and dividends relating to an available-for-sale financial asset are recognized in the income statement for the period they relate to.

When equity instrument investments have no quoted prices in an active market and the fair value cannot be reliably measured, such investments are stated at cost.

#### Classification and measurement of financial liabilities

The financial liabilities are, upon initial recognition, classified as financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in the income statement of the current period, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

The subsequent measurement of financial liabilities depends on its classification:

#### *Financial liabilities at fair value through profit or loss*



Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated as at fair value through profit or loss. A financial liability held for trading is the financial liability that meets one of the following conditions:

- 1) the financial liability is assumed for the purpose of repurchasing in a short term;
- 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits;
- 3) the financial liability is a derivative financial instrument.

For such kind of financial liabilities, fair values are adopted for subsequent measurement. All the realized or unrealized gains or losses on these financial liabilities are recognized in the income statement of the current period.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss only when one of the following criteria is met:

- 1) the designation eliminates or significantly reduces the inconsistency in the measurement or recognition of relevant gains or losses that would otherwise arise from measuring the financial instruments on a different basis.
- 2) a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.
- 3) the financial liability involves a hybrid instrument that contains one or more embedded derivatives, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.
- 4) the financial liability contains an embedded derivative that would need to be separately recorded and cannot be separately measured when acquired or at the subsequent balance sheet date.

If an enterprise has classified a financial liability as financial liability at fair value through profit or loss, the financial liability cannot be reclassified into other financial liabilities; other financial liabilities cannot be reclassified into financial liability at fair value through profit or loss, either.

Based on the terms above, the Group holds forward foreign exchange contracts of financial liabilities at fair value through profit or loss in the period under review.

#### *Other financial liabilities*

After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

#### Fair value of financial instruments

If there is an active market for a financial asset or financial liability, the Group determines the fair value by using the quoted prices. If no active market exists for a financial instrument, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

#### Impairment of financial assets

The Group assesses the carrying amount of a financial asset, at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Group makes provision for the impairment losses. Objective evidence that a financial asset is impaired is evidence arising from one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset which can be reliably estimated.

#### *Financial assets carried at amortized cost*

If objective evidence shows that the financial assets carried at amortized cost are impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flow (excluding future credit losses that have

not been incurred). The amount of reduction is recognized as impairment losses in the income statement. Present value of estimated future cash flow is discounted at the financial asset's original effective interest rate and includes the value of any related collateral.

If a financial asset is individually significant, the Group assesses the asset individually for impairment, and recognizes the amount of impairment in the income statement if there is objective evidence of impairment. For a financial asset that is not individually significant, the Group can include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment [or assess the asset individually for impairment]. For financial assets that are not impaired upon individual tests (including financial assets that are individually significant or insignificant), impairment tests should be conducted on them again by including them in the group of financial assets. Assets for which impairment losses are individually recognized will not be included in a collective assessment of impairment.

If, subsequent to the recognition of impairment losses on a financial asset carried at amortized cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment losses are reversed and recognized in the income statement. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

If objective evidence shows that the financial assets carried at cost are impaired, the difference between the present value discounted at the prevailing rate of return of similar financial assets and the book value of the financial asset are provided as a provision. The impairment losses recognized cannot be reversed.

For long-term equity investments, which are accounted for according to the cost method set out by Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments and has no quoted market price in active markets, and whose fair values cannot be reliably measured, their impairment should also be treated in accordance with the above principle.

#### *Available-for-sale financial assets*

When there is objective evidence that the asset is impaired, the cumulative loss from declines in fair value that had been recognized directly in capital reserve are removed from equity and recognized in the income statement. The amount of the cumulative loss that is removed from capital reserves and recognized in the income statement (net of any principal repayment and amortization) and current fair value, less any impairment losses on that financial asset previously recognized in the income statement.

The objective evidence of available-for-sale financial assets' impairment includes significant or non-temporary decline in fair value. When defining "significant" or "non-temporary", it needs judgement. "Significant" is judged by the degree of how fair value is less than cost, while "non-temporary" by the length of period when fair value is less than cost. Impairment losses of available-for-sale financial assets shall not be reversed through profit or loss. Instead, the increase in fair value after impairment shall be directly recognized in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase is objectively related to an event occurring after the impairment was recognized in the income statement, the previously recognized impairment loss shall be reversed with the amount of the reversal recognized in the income statement.

#### *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on a financial asset carried at cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed. For the long-term equity investment which has no quoted prices in an active market and the fair value cannot be reliably measured, carried at cost in accordance with "Business Accounting Standard No. 2 – Long-term Equity Investment", its impairment is accounted for by referring to above.

#### Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognizes

the financial asset; and if the Group retains substantially all the risks and rewards of the financial asset, the Group does not derecognize the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case: (i) if the Group has not retained control, it derecognizes the financial asset and recognizes separately as assets or liabilities any rights and obligations created not retained in the transfer; (ii) if the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

#### **10. Accounts receivable**

The Group assesses the accounts receivable individually for impairment with aging more than one year or exceeding the credit term, and provides bad debt provision, with reference to the difference between the present value of the estimated future cash inflow and its book value, in the income statement if there is objective evidence to show that the group cannot recover the balance of accounts receivable in accordance with original terms. For the accounts receivable that is not individually significant, the Group includes the accounts receivable in a group of accounts receivable with similar credit risk characteristics and collectively assess them for impairment.

#### **11. Inventory**

(1). Type:

Inventory includes raw materials, work in progress, finished goods and low-value consumables.

(2). Measurement:

Weighted average method:

Inventory is initially carried at the actual cost. Inventory costs comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition. Weighted average method is assigned to the determination of actual costs of inventories.

(3). Net realisable value and provision:

At the balance sheet date, the inventory is stated at the lower of cost and net realizable value. If the cost is higher than the net realizable value, provision for the inventory should be made through profit or loss. If factors that resulted in the provision for the inventory have disappeared and made the net realizable value higher than their book value, the amount of the write-down should be reversed, to the extent of the amount of the provision for the inventory, and the reversed amount should be recognized in the income statement for the current period.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The impairment provision should be made on a basis of each item of finished goods according to the difference between cost and net realizable value. For large numbers of inventories at relatively low unit prices, the provision for loss on decline in value of inventories should be made by category.

(4). Stock-take system:

Perpetual inventory system:

The Group applies a perpetual inventory system.

(5). Amortisation of low-value consumables and packaging materials

Low-value consumables: One-off writing off method

Packaging materials: One-off writing off method

#### **12. Long-term equity investments**

(1). Measurement of initial cost:

Long-term equity investments include investments in subsidiaries, joint ventures, associates and investments in equity

instruments, which have no quoted market price in active markets and whose fair values cannot be reliably measured.

The long-term investments are initially recorded at cost on acquisition. For the business combination under common control, the initial cost of the long-term equity investment is the book value of the acquired portion of the owner's equity of the acquiree. For the business combination not under common control, the initial cost of the long-term equity investment is the acquisition cost (for business combination completed in more than one transactions, the initial cost of the long-term equity investment is the total of the carrying value of the equity investment on the acquiree before the acquisition date and the additional investment cost on the acquisition date). The acquisition costs include the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in the exchange for the control on the acquiree. Except for the long-term equity investment acquired in a business combination, the initial cost of a long-term equity investment obtained by other means shall be measured as follows:

- When investment is obtained through cash payment, the initial cost includes the consideration actually paid, the expenses incurred directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses;
- When investment is obtained through issuance of equity securities, the initial cost is the fair value of the securities issued; and
- When investment is injected by the investors, the initial cost is the value stipulated in the investment agreement or contract unless the value stipulated in the agreement or contract is not fair.

(2). Subsequent measurement:

Under cost method, the long-term equity investment is valued at the cost of the initial investment. Profit or cash dividends declared by the invested enterprise are recognized as investment income for the current period. The amount of investment income recognized is limited to the amount distributed out of accumulated net profit of the invested enterprise that arises after the investment is made. The amount of profit or cash dividends declared by the invested enterprise in excess of the above threshold is treated as return on investment cost, and netted against the carrying amount of investments.

The equity method is applied to account for long-term equity investments, when the Group has jointly control, or significant influence on the investee companies.

Under equity method, when the initial investment cost of a long-term equity investment exceeds the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference between them is accounted for as an initial cost. As to the initial investment cost is less than the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference shall be charged to the income statement for the current period, and the cost of the long-term equity investment shall be adjusted accordingly.

Under equity method, the Group recognizes its share of post-acquisition equity in the investee enterprise for the current period as a gain or loss on investment, and also increases or decreases the carrying amount of the investment. When recognizing its share in the net profit or loss of the investee entities, the Group should, based on the fair values of the identifiable assets of the investee entity when the investment is acquired, in accordance with the Group's accounting policies and periods, after eliminating the portion of the profits or losses, arising from internal transactions with joint ventures and associates, attributable to the investing entity according to the share ratio (but losses arising from internal transactions that belong to losses on the impairment of assets, should be recognized in full), recognize the net profit of the investee entity after making appropriate adjustments. The book value of the investment is reduced to the extent that the Group's share of the profit or cash dividend declared to be distributed by the investee enterprise.

However, the share of net loss is only recognized to the extent that the book value of the investment is reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group shall adjust the carrying amount of the long-term equity investment for other changes in owners' equity of the investee enterprise (other than net profits or losses), and include the corresponding adjustments in equity.

On settlement of a long-term equity investment, the difference between the proceeds actually received and the carrying amount shall be recognized in the income statement for the current period. When disposal the long-term equity investment accounted for under equity method, the related portion previously recorded in the owner's equity shall be transferred to the current profits and losses.

## (3). Impairment:

Refer to Note “Other significant accounting policies and estimates” for the method of impairment testing and of provision for impairment of long-term equity investments to subsidiaries, joint venture companies and associate companies. Refer to Note “Financial instrument” for the method of impairment testing and of provision for impairment of other long-term equity investments which have no quoted market price in active markets and whose fair values cannot be reliably measured.

**13. Investment property**

Investment property is the property held for generating rent and/or capital appreciation, including rented right to the use of land, the right to the use of land which is held and prepared for transfer after appreciation, and the right to the use of rented building.

The initial measurement of the investment property shall be made at its actual cost. The follow-up expenses pertinent to an investment property shall be included in the cost of the investment property, if the economic benefits pertinent to this real estate are likely to flow into the enterprise, and, the cost of the investment property can be reliably measured. Otherwise, they should be included in the current profits and losses upon occurrence.

The group adopts the cost pattern to make follow-up measurement to the investment property. The buildings are depreciated under straight-line method. The rights to the use of land are amortized under straight-line method within its useful life. The use term, residual value and annual depreciation rates for the investment property are as follows:

	Use term	Residual rate	Annual depreciation rate
Rental buildings	20~35 years	10%	2.57%-4.50%

Refer to Note “Other significant accounting policies and estimates” for the method of impairment testing and provision of impairment for investment property.

**14. Fixed assets**

## (1). Measurement and depreciation:

Fix assets are the tangible assets with higher unit value, held for producing, labour service rendering, leasing or operating management, and to be used over one year.

Fixed assets are initially measured at actual cost on acquisition. Fixed assets are depreciated on straight-line basis starting from the next month immediately after the assets are ready for use.

## (2). Depreciation table:

The estimated useful lives, estimated residual values and annual depreciation rates for each category of fixed assets are as follows:

	Estimated useful life	Estimated residual rate	Annual depreciation rate
Buildings	20~35 years	3%-10%	2.57%~4.85%
Machinery equipment	10~15 years	2%-10%	5.3%~9.7%
Transport equipment	5~6 years	3%-10%	15%~19.4%
Electronic equipment	5 years	2%-10%	18%~19.4%

## (3). Impairment:

Refer to Note “Other significant accounting policies and estimates” for the method of impairment testing and provision of impairment for fixed assets.

## (4). Other information:

A fixed asset should be recognized only when the economic benefits associated with the asset will likely flow to the Company and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meet the recognition criteria should be included in the cost of the fixed asset, and the book value of the component of the fixed asset that is

replaced should be derecognized. Otherwise, such expenditure should be recognized in the income statement in the period in which they are incurred.

Fixed assets are initially measured at cost, taking into consideration of the estimated retirement cost. The cost of purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure in bringing the asset to the working condition for its intended use.

Different depreciation rate is applied for components of fixed assets which have different useful lives or generate economic benefits in different ways.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at the end of each year and makes adjustments if necessary.

### **15. Construction in progress**

The cost of construction in progress is determined according to the actual expenditure for the construction, including all necessary construction expenditure incurred during the construction period, borrowing costs that should be capitalized before the construction reaches the condition for intended use and other relevant expenses.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Refer to Note “Other significant accounting policies and estimates” for the method of impairment testing and provision of impairment for construction in progress.

### **16. Borrowing costs**

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of the funds. Borrowing costs include interest, amortization of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. A qualifying asset is an asset (an item of property, plant and equipment and inventory etc.) that necessarily takes a substantial period of time to get ready for its intended use of sale.

The capitalization of borrowing costs are as part of the cost of a qualifying asset shall commence when:

- (a) expenditure for the asset is being incurred;
- (b) borrowing costs are being incurred; and
- (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale. And subsequent borrowing costs are recognized in the income statement.

During the capitalization period, the amount of interest to be capitalized for each accounting period shall be determined as follows:

- (a) where funds are borrowed for a specific-purpose, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds;
- (b) where funds are borrowed for a general-purpose, the amount of interest to be capitalized on such borrowings is determined by applying a weighted average interest rate to the weighted average of the excess amounts of cumulative expenditure on the asset over and above the amounts of specific-purpose borrowings.

During the construction or manufacture of assets that are qualified necessary for their reaching the expected useful conditions, happens, and the duration of the discontinuance is over three months, the capitalization of the borrowing costs is suspended. Borrowing costs incurred during the discontinuance are recognized as expense and charged to the income statement of the current period, till the construction or manufacture of the assets resumes.

### **17. Intangible assets**

Intangible assets are initially recognized at cost when the economic benefits related to intangible assets are likely to flow into the Group and the cost of intangible assets can be measured reliably. However, intangible assets obtained during a business

combination are recognized at fair value if the fair value can be measured reliably.

The useful life of the intangible assets shall be assessed according to the estimated beneficial period expected to generate economic benefits. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

The useful lives of the intangible assets are as follow:

	Useful life
Land use right	50years
Non-patent technology	10years
Software	5years

Land use rights that are purchased or acquired through the payment of land use fees are accounted for as intangible assets. With respect to Self-developed properties, the corresponding land use right and buildings should be recorded as intangible and fixed assets separately. As to the purchased properties, if encountered the reasonable allocation of outlays between land and buildings, all assets purchased will be recorded as fixed assets.

The cost of a finite useful life intangible asset is amortized using the straight-line method during the estimated useful life. For an intangible asset with a finite useful life, the Group reviews the estimated useful life and amortization method at least at the end of each year and adjusts if necessary.

An intangible asset with an indefinite useful life are tested for impairment at least at the end of each year, irrespective of whether there is any indication that the asset may be impaired. The cost of this kind of intangible asset is not amortized and its useful life is reviewed in every accounting period. If there is evidence indicating that its useful life is finite, the accounting treatment of it shall be in accordance with the above said accounting policies for finite useful life intangible assets.

The Group divides the cost of research and development into cost of research and cost of development.

Research refers to the creative and planned investigation to acquire and understand new scientific or technological knowledge. Development refers the application of research achievements and other knowledge to a certain plan or design, prior to the commercial production or use, so as to produce any new material, device or product, or substantially improved material, device and product. All research costs are charged to the income statement as incurred. Expenditure on the development phase is recognized if, and only if, the Group can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible assets itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (v) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Expenditure on the development phase that does not meet the above criteria shall be charged to the income statements as incurred.

Refer to Note "Other significant accounting policies and estimates" for the method of impairment testing and provision of impairment for intangible assets.

## 18. Estimated liabilities

Except for the contingent liability and contingent consideration in a business combination, the Group recognizes an estimated liability when the obligation arising from a contingency meets the following conditions:

- the obligation is a present obligation of the Group;
- it is probable that an outflow of economic benefits from the Group will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Estimated liabilities are initially measured according to the current best estimate for the expenditure necessary for the performance of relevant present obligations, with comprehensive consideration given to factors such as the risks, uncertainty

and time value of money relating to contingencies. The book value of the estimated liabilities should be reviewed at each balance sheet date. If there is definite evidence showing that the book value cannot reflect the present best estimate, the book value should be adjusted according to the best estimate.

## **19. Revenue**

Revenue is recognized only when an inflow of economic benefits is probable, the amount of which can be reliably measured, and all of the following conditions are qualified.

### Revenue from the sale of goods

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing management involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably. The proceeds earned from sale of goods are determined based on the amount received or receivable as stipulated in the contract or agreement, but not including the case when the amount received or receivable as stipulated in the contract or agreement is not fair; if the amount received or receivable as stipulated in the contract or agreement is collected in a deferment method, it includes the financing element and should be determined according to the fair value of the amount received or receivable as stipulated in the contract or agreement.

### Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue associated with the transaction is recognized using the percentage of completion method, or otherwise, the revenue is recognized to the extent of costs incurred that are expected to be recoverable. The outcome of a transaction involving rendering of services can be estimated reliably when all of the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; the stage of completion of the transaction can be measured reliably; the costs incurred and to be incurred for the transaction can be measured reliably. The Group determines the stage of completion of a transaction involving the rendering of services by using the proportion of services performed to date to the total services to be performed. The proceeds earned from rendering of services are determined based on the amount received or receivable as stipulated in the contract or agreement, but not including the case when the amount received or receivable as stipulated in the contract or agreement is not fair.

When a contract or agreement signed between the Group and other enterprises contains both sales of goods and rendering of services, the revenue shall be accounted respectively if the two portions can be distinguished from each other and measured separately. If the portions cannot be distinguished from each other or can be distinguished from each other but cannot measured separately, the contract or agreement is accounted as sales of goods.

### Interest income

It should be measured based on the length of time for which the Group's cash is used by others and the applicable effective interest rate.

### Use fee income

It should be measured based on the time and method of charges agreed in relevant contracts.

### Rental income

Rental income from operating leases is recognized by the lesser in the income statement on a straight-line basis over the lease term.

## **20. Government Grants**

Government grants are recognized when they meet attached conditions and can be received. Government grants are measured by received or granted amount when they are recorded as monetary assets, and by fair value as non-monetary assets, or



by nominal amount if their fair value is not reliable. Government grants are recognized as deferred income when they are related to gains to compensate recorded expense or loss in following periods when they are recognized in gains and losses. Government grants related to assets are recognized as deferred income, which shall be recorded in current year's gains and loss evenly due to the useful life of the asset. Government grants measured by nominal amount are recorded in current year's gains and losses.

## 21. Income taxes

Income tax comprises current and deferred tax. Income tax is recognized as an income or an expense and include in the income statement for the current period, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid to (or recovered from) the tax authorities according to the requirements of the tax laws.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their book values, and temporary differences between the book values and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognized as assets and liabilities, deferred taxes are provided using the liability method.

A deferred tax liability is recognized for all taxable temporary differences, except:

- 1) to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; and (ii) at the time of the transaction, it affects neither the accounting profit nor taxable profit or loss.
- 2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly-controlled enterprises, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- 1) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- 2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the balance sheet date, to recover the assets or settle the liabilities.

At the balance sheet date, the Group reviews the book value of deferred tax assets. If it is probable that sufficient taxable income cannot be generated to use the tax benefits of deferred tax assets, the book value of deferred tax assets should be reduced. When it is probable that sufficient taxable income can be generated, the amount of such reduction should be reversed.

If the Company is entitled to the right to settle the current income tax assets and current income tax liabilities at net balance, and the deferred tax relates to the same tax payer and the same tax authorities, deferred tax assets and deferred tax liabilities can be displayed at net balance basis after netted off with each other.

## 22. Leases

A finance lease is a lease that transfers in substance all the risks and benefits incident to ownership of an asset. An operating lease is a lease other than a finance lease.

The Group recording the operating lease as a lessee

Lease payments under an operating lease are recognized by a lessee on a straight-line basis over the lease term, and either included in the cost of another related asset or charged to the income statement for the current period.

The Group recording the operating lease as a lesser

Rental income under a finance lease is recognized by a lesser on a straight-line basis over the lease term, through profit or loss.

There is no financial lease through profit or loss in the Reporting Period of the Group.

**23. Changes in accounting policy and estimates:** None

**24. Corrections of prior accounting errors:** None

**25. Other significant accounting policies and estimates**

Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventory, deferred income taxes, financial assets, and long-term equity investment which is measured by employing the cost method, for which there is no offer in the active market and of which the fair value cannot be reliably measured, using the following methods:

The Group assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset and performs impairment tests. Goodwill arising from a business combination and an intangible asset with an indefinite useful life are tested for impairment at least at the end of every year, irrespective of whether there is any indication that the asset may be impaired. Intangible asset that is not ready for use is also tested for impairment at the end of every year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. Identification of an asset group is based on whether major cash flows generated by the asset group are largely independent of the cash flows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The impairment of asset is provided for and the impairment losses are recognized in the income statement for the current period.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated, on a reasonable basis, to related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related sets of asset groups. Each of the related asset groups or related sets of asset groups is a group or set of asset group that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

When an impairment test is conducted on an asset group or a set of asset groups that contains goodwill, if there is any indication of impairment, the Group firstly tests the asset group or the set of asset groups excluding the amount of goodwill allocated for impairment, i.e., it determines and compares the recoverable amount with the related carrying amount and then recognize impairment losses if any. Thereafter, the Group tests the asset group or set of asset groups including goodwill for impairment, the carrying amount (including the portion of the carrying amount of goodwill allocated) of the related asset group or set of asset groups is compared to its recoverable amount. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment losses are firstly eliminated by and amortized to the book value of the goodwill included in the asset group or set of asset groups, and then eliminated by the book value of other assets according to the proportion of the book values of assets other than the goodwill in the asset group or set of asset groups.

Once the above impairment losses are recognized, it cannot be reversed in subsequent periods.

Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditure incurred by the Group in exchange for service rendered by employees. During the accounting period that the employees render services to the Group, the employee benefits payable is recognized as a liability. When the termination benefits fall due more than 1 year after the balance sheet date, if the discounted value is material, it is reflected in present value.

The employees of the Group participate in social insurance, such as pension insurance, medical insurance, non-employment insurance, etc., and housing accumulation fund, which is managed by local government and the relevant expenditure, is recognized, when incurred, in the costs of relevant assets or the profit and loss for the current period.

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized for the compensation arising from termination of employment relationship with employees, with a corresponding charge to the income statement for the current period, when both of the following conditions are satisfied: (a) the Group has a formal plan for termination of employment relationship, or has made an offer for voluntary redundancy, which will be implemented immediately; (b) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

The same principle is applied to the early retirement plan, as it is for the above-mentioned termination benefits. The salaries, social insurance premiums, etc., to be paid for the early retired employees, during the period from the date when the employees stop rendering service to the normal retirement date, should be recognized as employee benefits payable and charged to the income statement of the current period, when the above conditions for recognizing the termination benefit plan are satisfied.

#### Profit distribution

Cash dividends of the Company are recorded as liabilities after approved by the shareholders' meeting.

#### Related party

When a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the related party relationships are constituted.

#### Cost for safety production

The cost for safety production is accrued, in accordance with relevant regulations, and debited into cost of the products or current profit and loss, and credited into the special reserves. When the cost used, it should consider whether the fixed assets are formed or not: if it belongs to the cost of spending, there will be direct write-off in special reserves; otherwise, it will be accumulated and capitalized into fixed assets when the fixed assets are ready for use, and reverse the special reserves as well as recognize the accumulated depreciation in an equivalent amount.

#### Significant accounting judgments and estimates

The financial statements are presented on accounting judgments and estimates by the management. These accounting judgments and estimates will impact the amount and disclosure of revenue, expense, assets and liabilities as of the balance sheet date. The result of the estimation uncertainty may have the significant adjustment on the amount of assets or liabilities affected in the future.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

#### *Operating lease as a lesser*

The Group entered into the lease agreements of the investment property. The Group considers that according to the terms of the lease agreements, the Group reserve in substance all the risks and benefits incident to ownership of the investment property. Therefore, the Group considers that the lease is operating lease.

#### *Development expenditures*

The Group makes judgment on whether the expenses occurred in development phase satisfied the conditions of capitalization or else the expenses should be charged to the income statement of the current period when occurred.

#### Uncertainty of accounting estimates

The crucial assumptions of significant accounting estimates in future and other crucial sources of estimated uncertainty, which may result in the significant adjustments to the book value of the subsequent accounting period, are as the following:

#### *Impairment of available-for-sale financial assets*

The Group classified some certain assets as available-for-sale financial assets. A gain or loss arising from a change in the fair value of the available-for-sale financial assets is recognized in equity. When the fair value declines, management will make the assumptions on the declines and make a decision whether there is objective evidence that the asset is impaired and the loss from declines in fair value should be recognized in the income statement.

#### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicator of impairment for all non-financial assets at the balance sheet date. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. The asset or asset group are considered to be impaired when the carrying amount is higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. The fair value less costs to sell is determined by deducting incremental cost the directly related to the assets disposal, from the market value with reference to the arm's length market transactions of another instrument which is substantially the same or observable market price. When calculating the present value of expected future cash flows, the management shall estimate the expected future cash flows from the asset or asset group and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Impairment of receivables*

Impairment of accounts receivable and other receivables with aging over one year or exceeding the credit term is identified based on an individual basis. The Group assesses the recoverability of the receivables based on the debtor's financial and operating positions, cash flow position, the credit history, the disputes between the debtor and the Group and other related information to determine the impairment for each individual receivable record.

#### *Deferred Tax Assets*

The Group should recognize the deferred income tax assets arising from all the existing unutilized tax deficits and deductible temporary differences to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary differences. Enormous accounting judgments, as well as the tax planning are compulsory for management to estimate the time and amount of prospective taxable profits and thus determine the appropriate amount of the deferred tax assets concerned.

#### *Estimated liabilities*

Estimated liabilities are recognized by the Group according to the current best estimate for the expenditure necessary for the performance of relevant present obligations. The recognition requires definite evidence and management estimation. The difference between actual result and initial estimation will be reflected in current expenses.

#### *Early retirement benefits*

For employees who enjoy early retirement scheme, the Company provides liabilities of their salaries and benefits for the period from the initial of early retirement to the statutory retirement, based upon the official early retirement scheme, salary growth rate, and the discount rate.

## V. Tax

### 1. The major categories of taxes applicable to the Group and the respective tax rates are as follows:

Tax	Tax basis	Rate
Value added tax	VAT is levied at 4%, 6% and 17% on the invoiced value of sales, and charged on a basis after deducting current deductible input VAT.	4%, 6% and 17%
Business tax	The Group is subject to a business tax of 5% on its revenue	5%
City maintenance and Construction surtax	It is levied at 7% on the turnover taxes paid.	7%
Corporate income tax	In accordance with the relevant tax laws in the PRC, the Group is subject to a corporate income tax rate of 25% on its taxable income from 2008.	25%
Educational surcharge	It is levied at 3% on the turnover taxes paid.	3%
Local educational surcharge	It is levied at 2% on the turnover taxes paid.	2%

### 2. Tax holiday and approval

After 2008, the Company obtained another "Hi-tech Enterprise Certificate" (Certificate No.: GF201131000456) and was recognised as a high-tech company for another 3 years. According to the national tax policy regarding to high-tech companies, the applicable income tax rate for the Company is 15% in 3 years (2011-2013) since the Company was recognised as a high-tech company.

### 3. Others

The Company's sales of products are subject to value added tax. The applicable output tax rate is 17% for domestic sales; and the rebate rate is 13%-17% for export sales in a way of "exemption, credit, refund".

## VI. Business combination and consolidated financial statements

### 1. Subsidiaries' information

#### (1). Subsidiaries under establishment or investment

RMB

Name	Subsidiary type	Registered address	Business Nature	Registered capital	Business scope	The actual amount of investment	Shareholding (%)	Consolidated	Minority interest
Shanghai Dongfeng Diesel Engine Trading Co., Ltd.	Wholly-owned subsidiary	Shanghai	Trade	5,000,000	Trading of Diesel engine, spare parts	5,000,000	100	Yes	
Shanghai Yihua Electrical Co., Ltd.	Wholly-owned subsidiary	Shanghai	Manufacture	20,000,000	Manufacture and sale of power generators	20,000,000	100	Yes	
Shanghai Diesel Car Trading Co., Ltd.	Wholly-owned subsidiary	Shanghai	Trade	4,700,000	Trading of cars and components	4,700,000	100	Yes	
Dalian Diesel Engine Co., Ltd. ("Dalian Diesel")	Owned subsidiary	Dalian	Manufacture	300,000,000	Manufacture and sale of diesel engines	153,000,000	51	Yes	12,565,269.08
Shanghai Diesel Hai'an Power Co., Ltd.	Wholly-owned subsidiary	Hai'an	Manufacture	300,000,000	Manufacture and sale of casting products	300,000,000	100	Yes	

## 2. Changes in consolidation scope

Shanghai Ying Da Xin Auto Electronic Co, Ltd. (“YDX”) completed the cancellation process on 28 August 2012 and was no longer included in the consolidation scope. The consolidation scope remains unchanged except for YDX.

## 3. Increase and decrease of consolidated entities

(1). Decrease of consolidated entities RMB

Name	Net assets on the date of disposal	Net Profit from 2012-1-1 to the date of disposal
YDX	30,516.90	-

## VII. Notes to the consolidated financial statements

1. Cash and cash equivalents RMB

	2012			2011		
	Original currency	Ex. rate	Equivalent RMB	Original currency	Ex. rate	Equivalent RMB
Cash:			88,177.84			19,839.13
RMB			88,177.84			19,839.13
Cash in bank:			1,976,835,079.75			1,400,713,775.04
RMB			1,929,544,895.52			1,378,228,714.62
USD	6,473,742.97	6.2855	40,690,711.44	2,629,992.48	6.3009	16,571,319.62
EUR	793,434.74	8.3176	6,599,472.79	724,501.17	8.1625	5,913,740.80
Other cash equivalent:			31,189.75			578,841.99
RMB			31,189.75			578,841.99
Total			1,976,954,447.34			1,401,312,456.16

Interest income earned on current deposits is calculated by current deposit interest rate. The period for short-term deposits is between 90 and 180 days, determined by the demand of the Group, and the Group obtains interest income based on deposit interest rate.

## 2. Notes receivable

Type analysis RMB

Type	2012	2011
Bank acceptance	869,676,940.40	1,100,827,260.00
Trade acceptance	62,949,327.29	-
Total	932,626,267.69	1,100,827,260.00

On 31 December 2012, within the balance of note receivable, there was no amount transferred to account receivable because of drawers lack of ability to perform obligation. (31 December 2011: Nil)

On 31 December 2012, within the balance of note receivable, there were no notes discounted or pledged for a short-term loan. (31 December 2011: Nil)

On 31 December 2012, within the balance of note receivable, there was no amount due from shareholders that hold 5% or more of the Parent Company’s voting shares. (31 December 2011: Nil)

Please refer to Note “Amounts due from/to related parties” for the amount of notes receivable of the group due from related parties.

## 3. Accounts receivable

## 1) Type analysis:

RMB

Type	2012				2011			
	Book value		Provision		Book value		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant items	30,519,517.62	16.89	15,259,758.81	50.00	25,950,956.57	10.80	15,295,014.35	58.94
Tested for impairment on the basis of group								
Tested for impairment on the basis of risk portfolio	138,589,560.55	76.72		0.00	201,844,756.16	83.95	0.00	0.00
Subtotal	138,589,560.55	76.72		0.00	201,844,756.16	83.95	0.00	0.00
Individually insignificant but individually tested for impairment	11,546,692.80	6.39	7,383,926.48	63.95	12,629,778.29	5.25	7,322,863.20	57.98
Total	180,655,770.97	/	22,643,685.29	/	240,425,491.02	/	22,617,877.55	/

The credit period of account receivable is usually 1 to 2 months. Account receivable is free of interest.

On 31 December 2012, the bad debt provided to individually significant items is as follows

RMB

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	12,397,110.27	6,198,555.13	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	11,165,407.50	5,582,703.75	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	6,956,999.85	3,478,499.93	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	30,519,517.62	15,259,758.81	/	/

On 31 December 2012, the bad debt provided to individually insignificant but individually tested for impairment is as follows:

RMB

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	3,773,483.21	2,052,991.61	54.41	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	2,415,099.64	1,207,549.82	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	1,754,315.56	1,395,315.57	79.54	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 4	1,122,187.43	561,093.72	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 5	991,367.20	923,367.20	93.14	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Others	1,490,239.76	1,243,608.56	83.45	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	11,546,692.80	7,383,926.48	/	/

2) In 2012, the significant reversals of bad debt provision of accounts receivable are as follows: RMB

	Reason for reversal	Reason for provision of bad debt provision	Bad debt provided Before reversal	Received amount	Reversed Amount
Client 1	Received	The chance of recovering the balance is remote due to long aging	4,639,072.13	4,287,059.91	4,287,059.91
Client 2	Received	The chance of recovering the balance is remote due to long aging	1,145,439.85	666,000.00	666,000.00
Others	Received	The chance of recovering the balance is remote due to long aging	448,366.27	368,216.27	368,216.27
Total	/		6,232,878.25	5,321,276.18	5,321,276.18

3) In 2012, the written-off of accounts receivable is as follows: RMB

Name	Nature	Amount	Reason for write-off	Related party transaction
Client 1	Loans	479,439.85	Partly written-off for the chance of recovering partial balance is remote due to long aging	No

The written off of accounts receivables in 2012 has been approved by management.

Accounts receivable valued in foreign currencies as follows:

	2012			2011		
	Original currency	Ex. rate	Equivalent RMB	Original currency	Ex. Rate	Equivalent RMB
Accounts receivable-USD:	603,064.42	6.2855	3,790,561.41	597,035.59	6.3009	3,761,861.55

4) On 31 December 2012, within the balance accounts receivable, there is no amount due from shareholders that hold 5% or more of the Parent Company's voting shares.

5) Top five accounts receivable balance RMB

Name	Relationship	Amount	Aging	Percentage of total balance (%)
No.1	Third party	25,565,131.40	Within 1 year	14.15
No.2	Third party	12,874,405.73	Within 1 year	7.13
No.3	Third party	12,397,110.27	Within 1 year	6.86
No.4	Third party	11,165,407.50	Within 1 year	6.18
No.5	Third party	10,861,067.83	Within 1 year	6.01
Total	/	72,863,122.73	/	40.33

6) Accounts receivable due from related parties RMB

Name	Relationship	Amount	Percentage of total balance (%)
Shanghai Pengpu Machine Building Plant Co., Ltd.	Company controlled by the parent company	4,866,301.13	2.69
SAIC Commercial Vehicle Co., Ltd.	Company controlled by the parent company	4,298,882.03	2.38
SAIC-Iveco Hongyan Commercial Vehicle Co. Ltd.	Jointly-controlled entity ("JCE") of Parent Company	3,999,944.03	2.21
Shanghai Sunwin Bus Co., Ltd.	Jointly-controlled entity ("JCE") of Parent Company	118.32	0.00
Total	/	13,165,245.51	7.28



## 4. Other receivables

## 1) Type analysis:

RMB

	2012				2011			
	Book value		Provision		Book value		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Tested for impairment on the basis of group								
Tested for impairment on the basis of risk portfolio	1,828,251.87	99.73	0.00	0.00	2,434,484.43	95.87	0.00	0.00
Subtotal	1,828,251.87	99.73	0.00	0.00	2,434,484.43	95.87	0.00	0.00
Individually insignificant but individually tested for impairment	5,000.00	0.27	5,000.00	100.00	105,000.00	4.13	105,000.00	100.00
Total	1,833,251.87	/	5,000.00	/	2,539,484.43	/	105,000.00	/

On 31 December 2012, the bad debt provided to individually insignificant but individually tested for impairment is as follows:

RMB

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client1	5,000.00	5,000.00	100.00	The individual balance is small and the chance of recovering these balances is remote due to long aging.
Total	5,000.00	5,000.00	/	/

## 2) In 2012, the written-off of other receivables is as follows:

RMB

	Amount	Reason	Related party transaction
Client 1	100,000.00	The chance of recovering total balance is remote due to long aging	No
Total	100,000.00	/	/

3) On 31 December 2012, within the balance of other receivables, there is no amount due from shareholders that hold 5% or more of the Parent Company's voting shares.

## 4) Top five other receivable balance

RMB

Name	Relationship	Amount	Aging	Percentage of total balance (%)
No.1	Third party	1,176,198.04	Within 3 years	64.16
NO2	Third party	250,000.00	Within 3 years	13.64
No.3	Third party	57,000.00	Within 1 years	3.11
No.4	Third party	30,000.00	Within 1 year	1.64
No.5	Third party	10,000.00	Within 1 year	0.55
Total	/	1,523,198.04	/	83.10

## 5. Prepayments:

1) Aging analysis RMB

	2012		2011	
	Amount	Percentage(%)	Amount	Percentage(%)
Within 1 year	1,882,761.66	82.30	1,294,686.75	74.62
1 to 2 years	82,731.23	3.62	128,455.46	7.40
2 to 3 years	10,033.82	0.44	312,026.98	17.98
Above 3 years	312,026.98	13.64	0.00	0.00
Total	2,287,553.69	100.00	1,735,169.19	100.00

2) Top five prepayment balance RMB

Name	Relationship	Amount	Aging	Reason
No.1	Third party	1,221,213.40	Within 1 year	Tax invoice not received
No.2	Third party	538,750.00	Within 1 year	Goods not received
No.3	Third party	199,673.03	above 3 years	Goods not received
No.4	Third party	117,000.00	Within 1 year	Goods not received
No.5	Third party	81,878.43	1 to 2 years	Goods not received
Total	/	2,158,514.86	/	/

3) On 31 December 2012, within the balance of prepayments, there is no amount due from shareholders that hold 5% or more of the Parent Company's voting shares.

## 6. Inventory

1) Type analysis: RMB

	2012			2011		
	Amount	Provision	Net Value	Amount	Provision	Net Value
Raw Material	102,711,508.32	23,940,474.28	78,771,034.04	108,268,790.80	26,045,332.66	82,223,458.14
Work in progress	37,390,629.85	0.00	37,390,629.85	36,516,118.67	226,495.93	36,289,622.74
Commodity stock	206,814,639.06	13,599,224.28	193,215,414.78	168,293,942.74	16,673,620.91	151,620,321.83
Total	346,916,777.23	37,539,698.56	309,377,078.67	313,078,852.21	42,945,449.50	270,133,402.71

2) Provision analysis RMB

	Opening balance	Increase	Decrease		Closing balance
			Reversal	Write-off	
Raw Material	26,045,332.66	18,154.74	36,756.05	2,086,257.07	23,940,474.28
Work in progress	226,495.93	0.00	0.00	226,495.93	-
Commodity stock	16,673,620.91	0.00	2,623,304.97	451,091.66	13,599,224.28
Total	42,945,449.50	18,154.74	2,660,061.02	2,763,844.66	37,539,698.56

3) Inventory provision			RMB
	Original reason for inventory provision	Reason for reversal	Percentage to the inventory (%)
Raw Material	The shortfall of book value lower than net realizable value	Net realizable value increased	0.04
Commodity stock	The shortfall of book value lower than net realizable value	Net realizable value increased	1.27

<b>7. Other current assets</b>		RMB
	2012	2011
Available-for-sale financial assets	16,433,490.00	0.00
Prepaid expense	149,155.00	170,858.45
Total	16,582,645.00	170,858.45

Available-for-sale equity instruments are stock investments in listing companies to be disposed of within one year.

<b>8. Available-for-sale financial assets</b>		RMB
	Fair value at 2012.12.31	Fair value at 2011.12.31
Available-for-sale equity instruments	38,512,872.50	44,442,355.00
Total	38,512,872.50	44,442,355.00

Available-for-sale equity instruments are stock investments in listing companies.

<b>9. Major financial information of jointly-controlled entities and associates</b>						RMB
Investee Name	Share holding percentage (%)	Closing balance of assets	Closing balance of liabilities	Closing balance of net assets	Revenue in 2012	Net profit in 2012
Associate:						
Shanghai MHI Turbocharger Co., Ltd. ("MHI Turbo")	40	394,578,517.55	280,821,697.73	113,756,819.82	436,698,279.20	21,901,503.17

#### 10. Long-term equity investment

Cost method						RMB
Investee Name	The initial investment cost	Beginning Balance	Increase/Decrease	Closing Balance	Shareholding percentage (%)	
Tianjin Lovol Heavy Machinery Co., Ltd (Note)	10,000,000.00	10,000,000.00		10,000,000.00	2.19	
Shanghai Bank	28,392.00	28,392.00		28,392.00		

Note: Tianjin Lovol Co., Ltd changed its name to Tianjin Lovol Heavy Machinery Co., Ltd in February 2012.

Equity method						RMB
Investee Name	The initial investment cost	Beginning Balance	Increase/Decrease	Closing Balance	Shareholding percentage (%)	
MHI Turbo	28,142,480.00	36,742,126.66	8,760,601.27	45,502,727.93	40	

## 11. Investment properties:

1) Investment properties valued at cost					RMB
	Opening balance	Increase	Decrease	Closing balance	
1.Original price:	9,932,854.34			9,932,854.34	
1)Buildings	9,932,854.34			9,932,854.34	
2)Land use rights					
2.Accumulated amortisation	8,923,755.76	3,271.69		8,927,027.45	
1) Buildings	8,923,755.76	3,271.69		8,927,027.45	
2) Land use rights					
3.Net book value	1,009,098.58	-3,271.69		1,005,826.89	
1) Buildings	1,009,098.58	-3,271.69		1,005,826.89	
2) Land use rights					
4.Impairment					
1) Buildings					
2) Land use rights					
5.Net value	1,009,098.58	-3,271.69		1,005,826.89	
1) Buildings	1,009,098.58	-3,271.69		1,005,826.89	
2) Land use rights					

The amortisation in 2012: RMB3,271.69.

At 31 December 2012 and 2011, no impairment for investment properties was accrued, respectively. The investment properties are leased to third parties in the form of operating leases.

## 12. Fixed assets

1) fixed assets analysis					RMB
	Opening balance	Increase	Decrease	Closing balance	
1.Original price	1,618,863,109.66	177,342,050.98	143,975,012.47	1,652,230,148.17	
Including: Buildings	579,065,224.53	18,686,605.00	1,513,404.22	596,238,425.31	
Machinery	894,922,462.13	132,530,151.35	128,736,903.56	898,715,709.92	
Vehicles	28,694,256.61	2,584,677.20	7,028,152.15	24,250,781.66	
Office and other equipment	116,181,166.39	23,540,617.43	6,696,552.54	133,025,231.28	
		Addition	Accrual		
2.Accumulated depreciation	1,110,119,326.85	66,830,433.92	120,254,383.71	1,056,695,377.06	
Including: Buildings	377,884,758.03	16,992,675.46	1,255,958.67	393,621,474.82	
Machinery	633,352,983.82	38,884,425.72	106,935,175.73	565,302,233.81	
Vehicles	21,942,396.30	1,234,734.68	5,980,332.58	17,196,798.40	
Office and other equipment	76,939,188.70	9,718,598.06	6,082,916.73	80,574,870.03	
3.Net book value	508,743,782.81	/		595,534,771.11	
Including: Buildings	201,180,466.50	/		202,616,950.49	
Machinery	261,569,478.31	/		333,413,476.11	
Vehicles	6,751,860.31	/		7,053,983.26	
Office and other equipment	39,241,977.69	/		52,450,361.25	

	Opening balance	Increase	Decrease	Closing balance
4. Impairment	94,939,221.24		2,502,452.88	92,436,768.36
Including: Buildings	50,671,649.82			50,671,649.82
Machinery	43,750,578.06		2,461,911.16	41,288,666.90
Vehicles	226,499.21		15,900.00	210,599.21
Office and other equipment	290,494.15		24,641.72	265,852.43
5. Net value	413,804,561.57			503,098,002.75
Including: Buildings	150,508,816.68			151,945,300.67
Machinery	217,818,900.25			292,124,809.21
Vehicles	6,525,361.10			6,843,384.05
Office and other equipment	38,951,483.54			52,184,508.82

The depreciation in 2012: RMB66,830,433.92.

The fixed asset transferred from construction in progress in 2012: RMB177,342,050.98.

## 2) Fixed assets temporarily idled

RMB

	Original price	Accumulated depreciation	Impairment	Net value
Buildings	83,400,417.00	21,608,008.78	44,687,260.32	17,105,147.90
Machinery	73,455,068.20	47,780,781.83	20,265,725.33	5,408,561.04
Vehicles	2,233,186.01	1,865,700.24	13,990.00	353,495.77
Office and other equipment	1,532,212.40	1,355,316.47	0.00	176,895.93
	160,620,883.61	72,609,807.32	64,966,975.65	23,044,100.64

## 3) Fixed assets leased through operating lease

RMB

	Book value
Buildings	2,574,708.96
Machinery	100,231.17
Total	2,674,940.13

On 31 December 2012, buildings with the net value of RMB377,139.56 are not certificated. (31 December 2011: RMB459,627.75). After Shanghai adopted the policy of combining land and property certificates into one, the buildings mentioned above can't be certificated by the Company because the original land certification with the name of Shanghai diesel engine factory.

## 13. Construction in progress

### 1) Construction in progress analysis

RMB

	2012			2011		
	Book value	Impairment	Net book value	Book value	Impairment	Net book value
Construction in progress	960,076,616.53	86,624,202.93	873,452,413.60	489,767,972.55	86,624,202.93	403,143,769.62

## 2) Movement of major construction in process

RMB

Project	Opening balance	Additions	Transfer into Fixed assets	Other decrease	Accumulated capitalization of interest	Including: the capitalization of interest during the current period	Source of Capital	Closing balance
Technical renovation	294,305,270.98	405,428,049.66	140,154,701.63				Own fund and raised fund	559,578,619.01
Technical foundation	17,801,804.86	7,523,501.00	25,299,664.83				Own fund	25,641.03
Dalian production line and building	99,647,222.86	105,185.60		1,860,000.00			Own	97,892,408.46
Hai'an production lines and plant	66,552,775.61	228,144,368.85			652,800.00	652,800.00	Own	294,697,144.46
Others	11,460,898.24	8,309,589.85	11,887,684.52				Own fund	7,882,803.57
<b>Total</b>	<b>489,767,972.55</b>	<b>649,510,694.96</b>	<b>177,342,050.98</b>	<b>1,860,000.00</b>	<b>652,800.00</b>	<b>652,800.00</b>	<b>/</b>	<b>960,076,616.53</b>

The other decrease was mainly due to the disposal of construction in process by Dalian Diesel.

## 3) Provision for the impairment of construction in progress

RMB

Project	Opening balance	Closing balance	Reason for provision
Dalian production line and building	83,488,014.95	83,488,014.95	Suspended
Others	3,136,187.98	3,136,187.98	Suspended
<b>Total</b>	<b>86,624,202.93</b>	<b>86,624,202.93</b>	<b>/</b>

**14. Intangible assets**

RMB

Project	Opening balance	Additions	Deductions	Closing balance
1.Original price	35,104,044.48		15,512,835.97	19,591,208.51
Land use rights	18,865,401.00			18,865,401.00
Non-patent technology	15,512,835.97		15,512,835.97	
Computer software	725,807.51			725,807.51
2.Accumulated amortization	17,730,277.67	435,408.12	14,450,335.97	3,715,349.82
Land use rights	2,766,925.73	377,308.08		3,144,233.81
Non-patent technology	14,450,335.97		14,450,335.97	
Computer software	513,015.97	58,100.04		571,116.01
3.Net book value	17,373,766.81	-435,408.12	1,062,500.00	15,875,858.69
Land use rights	16,098,475.27	-377,308.08		15,721,167.19
Non-patent technology	1,062,500.00		1,062,500.00	
Computer software	212,791.54	-58,100.04		154,691.50
4.Impairment provision	1,062,500.00		1,062,500.00	0.00
Land use rights				
Non-patent technology	1,062,500.00		1,062,500.00	
Computer software				
5.Net value	16,311,266.81	-435,408.12		15,875,858.69
Land use rights	16,098,475.27	-377,308.08		15,721,167.19
Non-patent technology				
Computer software	212,791.54	-58,100.04		154,691.50

The amortisation in 2012: RMB435,408.12.

15. Goodwill					RMB
	Opening Balance	Addition	Decrease	Closing Balance	Impairment
Ying Da Xin	5,761,244.35	0.00	5,761,244.35	0.00	0.00
Total	5,761,244.35	0.00	5,761,244.35	0.00	0.00

In 2012, YDX completed the cancellation of the industry and commerce and the goodwill was reversed accordingly.

#### 16. Deferred tax assets/liabilities

(1). Deferred tax assets and liabilities were not listed with net amount after offsetting.

1). Recognised deferred tax assets/liabilities			RMB
Items	2012	2011	
Deferred tax assets:			
Provision for assets impairment	11,412,773.62	12,443,313.90	
Accrued expense	8,610,791.73	9,896,468.44	
Warranty	31,604,018.17	35,606,962.05	
Employees' remuneration payable (including: over one year)	28,718,512.34	34,620,299.97	
Changes in fair value of available-for-sale financial assets	966,370.50	293,778.00	
Subtotal	81,312,466.36	92,860,822.36	
Deferred tax liabilities:			
Changes in fair value of available-for-sale financial assets	290,461.88	306,281.26	
Revaluation of fixed assets	449,385.89	1,600,942.63	
Subtotal	739,847.77	1,907,223.89	

2). Unrecognised deferred tax assets			RMB
Items	2012	2011	
Deductible temporary differences	163,164,197.67	164,952,968.12	
Deductible loss	83,789,657.01	87,697,394.97	
Total	246,953,854.68	252,650,363.09	

3). Deductible loss which is not recognized as deferred tax assets will be due in the following years:			RMB
Items	2012	2011	
2012		21,699,802.60	
2013	18,568,559.19	19,620,335.63	
2014	15,495,674.37	15,495,674.37	
2015	16,200,581.26	16,200,581.26	
2016	14,681,001.11	14,681,001.11	
2017	18,843,841.08		
Total	83,789,657.01	87,697,394.97	

4). Recognised/Unrecognised taxable differences and deductible differences items: RMB

Items	2012
Taxable differences items:	
Changes in fair value of available-for-sale financial assets	1,936,412.50
Revaluation of fixed assets	2,995,905.90
subtotal	4,932,318.40
Deductible differences items:	
Provision for assets impairment	239,249,355.14
Accrued expense	57,405,278.23
Contingent liabilities	210,693,454.50
Employees' remuneration payable (over one year inclusive)	191,456,748.97
Changes in fair value of available-for-sale financial assets	6,442,470.00
Tax losses	83,789,657.01
<b>Total</b>	<b>789,036,963.85</b>

**17. Impairment provision** RMB

Project	Opening balance	Addition	Deduction		Closing balance
			Reversal	Write-off	
1.Bad debt provision	22,722,877.55	5,826,523.77	5,321,276.18	579,439.85	22,648,685.29
2.Provision for obsolete inventory	42,945,449.50	18,154.74	2,660,061.02	2,763,844.66	37,539,698.56
3.Impairment for available-for-sale financial assets					
4.Impairment for held-to-maturity investments					
5.Impairment for long-term investment					
6.Impairment for investment property					
7. Impairment for fixed assets	94,939,221.24			2,502,452.88	92,436,768.36
8. Impairment for project materials					
9. Impairment for construction in progress	86,624,202.93				86,624,202.93
10. Impairment for intangible assets	1,062,500.00			1,062,500.00	0.00
11. Impairment for goodwill	5,761,244.35			5,761,244.35	0.00
12. Others					
<b>Total</b>	<b>254,055,495.57</b>	<b>5,844,678.51</b>	<b>7,981,337.20</b>	<b>12,669,481.74</b>	<b>239,249,355.14</b>

**18. Notes payable** RMB

	2012	2011
Bank acceptance	31,853,248.00	0.00
Trade acceptance	120,902,385.05	168,166,112.97
<b>Total</b>	<b>152,755,633.05</b>	<b>168,166,112.97</b>

Notes payable with the book value of RMB152,755,633.05 (31 December 2011: RMB168,166,112.97) will be due in the next accounting period.



**19. Accounts payable**

1) Accounts payable		RMB
	2012	2011
Loans	610,012,168.57	625,394,593.99
<b>Total</b>	<b>610,012,168.57</b>	<b>625,394,593.99</b>

2). On 31 December 2012, accounts payable from shareholders that hold 5% or more of the Company's voting shares or from related parties included in this account balance is nil (31 December 2011: Nil).

On 31 December 2012, there are no significant account payables with aging over one year.

On 31 December 2012, all account payables free of interest and will be settled within two months.

Please refer to Note "Amounts due from/to related parties" for the amount of accounts payable of the group due to related parties.

**20. Advance from customers**

1) Advance from customers		RMB
	2012	2011
Diesel advance deposit	22,751,910.28	26,684,941.97
<b>Total</b>	<b>22,751,910.28</b>	<b>26,684,941.97</b>

2) On 31 December 2012, the advance receipts from shareholders that hold 5% or more of the Company's voting shares or from related parties included in this account balance is nil.

3) On 31 December 2012, there are no significant advance from customers with aging over one year.

Advance from customers valued in foreign currencies as follows:

	2012			2011		
	Original currency	Ex. rate	Equivalent RMB	Original currency	Ex. rate	Equivalent RMB
Advance from customers	331,733.31	6.2855	2,085,109.72	726,346.02	6.3009	4,576,633.64
-USD:						

**21. Employees' remuneration payable**

					RMB
Item	Opening balance	Accrual	Payment	Closing balance	
1. Salary, bonus, allowance and subsidy	27,134,221.60	197,634,265.35	198,368,486.95	26,400,000.00	
2. Employee benefit	0.00	11,823,905.02	11,823,905.02	0.00	
3. Social insurance premium	0.00	71,564,136.00	71,564,136.00	0.00	
Medical insurance premiums	0.00	23,219,458.00	23,219,458.00	0.00	
Basic pension insurance		42,556,124.20	42,556,124.20	0.00	
Unemployment insurance	0.00	3,278,552.80	3,278,552.80	0.00	
Work injury insurance	0.00	967,152.40	967,152.40	0.00	
Maternity insurance	0.00	1,542,848.60	1,542,848.60	0.00	
4. Housing accumulation fund	0.00	13,169,947.00	13,169,947.00	0.00	
5. Staff severance costs	100,897,054.76	12,542,065.07	48,704,440.40	64,734,679.43	

Item	Opening balance	Accrual	Payment	Closing balance
6.Others				
7.Early retirement benefits	15,795,438.85	15,647,238.12	15,668,328.09	15,774,348.88
8.Labor-union expenditure and employee education expense	758,151.99	3,780,167.73	3,977,074.75	561,244.97
9.Additional housing accumulating fund	0.00	12,937,744.00	12,937,744.00	0.00
Total	144,584,867.20	339,099,468.29	376,214,062.21	107,470,273.28

In 2012, the addition in labour-union expenditure and employee education expense are RMB3,780,167.73; and the compensation due to termination of labour relationship is RMB12,852,065.07.

As at 31 December 2012, among the total ending balance, there is RMB64,734,679.43 (31 December 2011: RMB100,897,054.76) which will due within one year while there is RMB4,080,000.00 (31 December 2011: RMB3,770,000.00) which will due over one year and is recorded in other non-current liabilities.

As at 31 December 2012, among the total ending balance, there is RMB15,774,348.88 (31 December 2011: RMB15,795,438.85) which will due within one year while there is RMB80,423,240.58 (31 December 2011: RMB83,205,284.56) which will due over one year and is recorded in other non-current liabilities. When estimating the early retirement benefits, the Company adopts the wage growth rate of 11.54% (2011: 11.00%), based on the minimum wage level of Shanghai in the past 5 years, and the discount rate of 3.25% (2011: 3.30%).

As at 31 December 2012, the employees' remuneration payable arising from wage arrears is nil (31 December 2011: Nil).

## 22. Tax payable

Item	RMB	
	2012	2011
Value-added tax	-66,557,186.71	-42,857,213.83
Business tax	0.00	63,048.43
Corporate income tax	14,925,430.18	30,428,170.97
Individual income tax	1,809,452.43	1,584,603.39
City maintenance and construction surtax	14,605.82	9,191.60
Others	4,465,001.17	3,758,246.60
Total	-45,342,697.11	-7,013,952.84

Refer to the note "taxes" for the tax bases and rates of major taxes.

## 23. Other payables

1) Other payables		RMB	
Item	2012	2011	
Equipment payment	114,930,841.69	41,650,740.77	
Others	39,802,876.27	41,450,411.19	
Total	154,733,717.96	83,101,151.96	

2) On 31 December 2012, the other payables due to shareholders that hold 5% or more of the Company's voting shares or to related parties included in this account balance are nil (2011:nil).

3) On 31 December 2012, significant other payables longer than 1 year are as follows: RMB

Name	Amount	Reason
Dalian machine tool group marketing Co., Ltd	15,399,500.06	construction suspended

The foresaid other payables aged more than 1 year remained unsettled after balance sheet date.

#### 24. Other current liabilities RMB

Item	2012	2011
Accrued expense	361,536,337.59	334,807,590.08
Accured liabilities	210,693,454.52	244,598,613.91
Total	572,229,792.11	579,406,203.99

Details of accrued expense are as follows: RMB

	2012	2011	Reason
Sales bonus and promotion	303,548,870.47	268,437,045.28	Not yet settled
Raw material mark-up allowance	44,270,687.62	44,653,999.35	Not yet settled
Boat-diesel survey fee	5,826,813.80	9,177,852.00	Not yet settled
Rent on Jun Gong Road	0.00	6,480,000.00	Not yet settled
Others	7,889,965.70	6,058,693.45	Not yet settled
Total	361,536,337.59	334,807,590.08	/

In 2012, changes of accrued liabilities are listed as follows: RMB

	Opening	Addition	Deduction	Closing
Warranty provision and maintenance (Note)	237,379,747.02	95,538,897.65	122,225,190.15	210,693,454.52
Product sales commitment	7,218,866.89	0.00	7,218,866.89	0.00
Total	244,598,613.91	95,538,897.65	129,444,057.04	210,693,454.52

Note: Warranty provision and maintenance cost is the expense based in product contract including quality assurance liability and term to afford in quality assurance period.

#### 25. Long-term borrowings

1) Classification of Long-term borrowings: RMB

Item	2012	2011
Credit Loans	30,000,000.00	0.00
Total	30,000,000.00	0.00

On 31 December 2012, there were no due Long-term borrowings without payment (31 December 2011: Nil).

On 31 December 2012, Long-term borrowings are listed as follows: RMB

	Start Date	End Date	Interest rate			
ICBC	2012.8.7	2016.6.30	RMB	10% below benchmark interest rates for 3-5years loans	7,500,000.00	
ICBC	2012.8.7	2016.9.30	RMB	10% below benchmark interest rates for 3-5years loans	11,250,000.00	
ICBC	2012.8.7	2016.12.30	RMB	10% below benchmark interest rates for 3-5years loans	11,250,000.00	
					30,000,000.00	

**26. Other non-current liabilities:**

RMB

Item	2012	2011
Deferred income	79,576,092.49	94,298,988.76
Early retirement benefits over 1 year (Note 1)	80,423,240.58	83,205,284.56
Staff severance costs over 1 year (Note 1)	4,080,000.00	3,770,000.00
Special fund entrusted loans (Note 2)	10,631,830.60	10,631,830.60
Total	174,711,163.67	191,906,103.92

Note 1: Refer to Note "Employees' remuneration payable".

Note 2: The special fund entrusted loans are granted by Shanghai Automobile Development Fund through ICBC Shanghai Branch. The loans are unsecured, free of interest and will be waived if the condition allowed. As at 31 December 2012, the condition did not allow.

Government Grant related to asset/income are listed as follows:

RMB

	2012	2011
Special fund for national key industry development and technology transformation	47,000,000.00	47,000,000.00
Special fund for municipal key technology transformation	25,330,000.00	25,330,000.00
Special fund for science and new energy	3,194,672.32	7,430,224.62
Special fund for enterprise technology innovation	0.00	3,532,101.40
Special fund for financial support	0.00	2,959,232.00
Others	4,051,420.17	8,047,430.74
Total	79,576,092.49	94,298,988.76

**27. Share capital:**

RMB

	2011	Movement				Subtotal	2012
		New Issue of shares	Share dividends	Transferred from reserves	Others		
Number of shares	480,309,280.00	62,873,551.00		325,909,699.00	388,783,250.00	869,092,530.00	

	Opening balance	Movements	Closing balance
Restricted shares			
A-share		100,597,682.00	100,597,682.00
Tradable shares			
A-share	263,309,280.00	157,985,568.00	421,294,848.00
B-share	217,000,000.00	130,200,000.00	347,200,000.00
Subtotal	480,309,280.00	288,185,568.00	768,494,848.00
Total	480,309,280.00	388,783,250.00	869,092,530.00

Notes to change of share capital:

In March 2012, the Company issued 62,873,551 ordinary shares (face amount: RMB1 per share) in a way of non-public offering. The shares are not tradable on Shanghai Stock Exchange until the expiry of the related lock period prescribed by corresponding regulations and commitments. After the issuance of shares, the Company's share capital increased to 543,182,831 shares, which have been audited by Ernst & Young Hua Ming in the verification report "Ernst & Young Hua Ming (2012) Yan Zi No. 60462488\_B02".

In May 2012, the Company transferred capital reserves into 325,909,699 shares. After the transfer, the Company's share capital increased to 869,092,530 shares, which have been audited by Ernst & Young Hua Ming in the verification report "Ernst & Young Hua Ming (2012) Yan Zi No. 60462488\_B03".

#### 28. Special reserves:

RMB

	2012	2011
Expenses for Safety Production		
Opening Balance		
Accrual	6,484,604.32	-
Use	2,654,702.42	-
Closing Balance	3,829,901.90	-

#### 29. Capital reserves:

RMB

Item	Opening balances	Increase	Decrease	Closing balances
Shares premium	634,226,947.24	755,276,049.84	325,909,699.00	1,063,593,298.08
Other capital reserves	4,267,873.87			4,267,873.87
Change in fair value of available-for-sale financial assets	70,851.75		3,901,000.62	-3,830,148.87
Transferred from the capital reserves under the original system	66,388,424.85		1,168,220.16	65,220,204.69
Total	704,954,097.71	755,276,049.84	330,978,919.78	1,129,251,227.77

In 2012, the increase on capital reserves is due to share premium of capital invested by shareholders; the decrease on capital reserves is due to the transfer of capital reserve into capital shares, the movements of the fair value of available-for-sale financial assets and disposal of fixed assets.

#### 30. Surplus reserves

RMB

	Opening balance	Increase	Decrease	Closing balance
Statutory surplus	160,264,795.91	21,426,121.67		181,690,917.58
Discretionary surplus	272,874,170.83			272,874,170.83
Total	433,138,966.74	21,426,121.67		454,565,088.41

According to the provisions of both the Company Law and the Company's articles of association, surplus reserves are appropriated at 10% of the net profit. When surplus reserves received 50% of registered capital, it can be stopped to accrue. After accruing statutory surplus, the Company can accrue discretionary surplus. As approved, discretionary surplus can make up for loss for previous years or increase share capital

### 31. Retained earnings

	Amount	Portion (%)
Before adjustment-- Closing balance of 2011	562,578,802.21	/
After adjustment—Opening balance of 2012	562,578,802.21	/
Add: Net profit attributable to parent company	203,709,733.71	/
Less: Appropriation to statutory surplus reserves	21,426,121.67	10
Dividends distributed to share capital	27,159,141.55	
Others	612,208.78	
Retained earnings at the year end	717,091,063.92	/

On 18 May 2012, the 2011 Annual General Meeting was held and approved the proposal of 2011 profit distribution to allot the total cash dividends of RMB27,159,141.55, based on RMB0.50 (tax inclusive) per 10 shares.

### 32. Operating revenue and operating cost

1) Operating revenue and operating cost	2012	2011
Principal operating revenue	2,985,867,771.41	4,543,250,556.10
Other operating revenue	44,095,029.55	91,704,738.65
Operating cost	2,404,784,827.59	3,714,319,236.74

2) Principal operating revenue by industry	2012		2011	
	Sales	Cost of Sales	Sales	Cost of sales
Diesels and parts	2,985,867,771.41	2,373,103,313.06	4,543,250,556.10	3,654,018,563.99
Total	2,985,867,771.41	2,373,103,313.06	4,543,250,556.10	3,654,018,563.99

3) Principal operating revenue by products	2012		2011	
	Sales	Cost of Sales	Sales	Cost of sales
Diesels	2,643,258,337.60	2,101,427,553.25	4,159,498,478.10	3,349,266,674.08
Parts and others	342,609,433.81	271,675,759.81	383,752,078.00	304,751,889.91
Total	2,985,867,771.41	2,373,103,313.06	4,543,250,556.10	3,654,018,563.99

4) The top five customers' sales details			RMB
Customer name	Operating revenue	Percentage of total revenue (%)	
No.1	694,550,019.70		22.92
No.2	227,759,129.58		7.52
No.3	153,093,666.49		5.05
No.4	120,735,846.06		3.98
No.5	111,774,829.19		3.69
Total	1,307,913,491.02		43.16

Operating revenue by types:			RMB
	2012		2011
Sales of products	2,972,671,454.33		4,532,733,019.38
Sale of raw materials and wastes	41,535,414.78		79,667,317.17
Rendering labour services	7,886,148.58		5,458,222.35
Storage revenue	2,090,224.33		6,439,773.65
Rental income	2,598,661.40		2,463,131.20
Others	3,180,897.54		8,193,831.02
Total:	3,029,962,800.96		4,634,955,294.75

The Group operates mainly with diesel engines and accessory sales and related services. The Group generated 97% (2011: 97%) of revenue from domestic customers. Therefore, it is not required to provide segment reporting information.

33. Business tax and surcharges				RMB
	2012	2011	Tax basis	
Business tax	133,435.28	456,478.41	It is levied at 5% on the revenue subject to business tax.	
City maintenance and construction surtax	4,558,447.68	11,093,043.98	It is levied at 7% on the turnover taxes paid.	
Educational surcharge	3,254,874.18	7,787,193.65		
Others	3,357.20	7,968.63		
Total	7,950,114.34	19,344,684.67	/	

Refer to the note "taxes" for the tax basis of business tax and surcharges.

34. Operating expenses			RMB
	2012		2011
Product warranty and maintenance fee	95,538,897.65		173,790,665.93
Salary and welfare	29,512,997.30		39,445,311.38
Travel and business expenses	14,426,670.98		12,222,890.82
Advertising and marketing expenses	6,309,369.29		12,147,654.37
Freight	5,817,370.28		8,959,949.92
Office expenses	5,223,836.29		4,510,604.62
Others	640,641.62		2,062,494.55
Total	157,469,783.41		253,139,571.59

**35. General and administrative expenses**

RMB

	2012	2011
Salary and welfare	143,416,411.13	136,737,140.72
Staff severance costs	12,852,065.07	47,750,409.65
Early retirement benefits	12,865,194.14	65,029,846.73
R&D expenses	86,466,361.41	122,487,189.55
Maintenance and transformation cost	18,941,564.11	17,632,547.67
Depreciation and amortization	15,680,119.83	15,764,836.17
Professional service fee	6,850,896.69	7,881,805.80
Cost for safety production	6,484,604.32	0.00
Office expenses	2,444,515.67	5,027,945.69
Taxes	5,660,261.80	8,140,592.96
Utilities	3,268,961.11	4,074,728.84
Land use fees	3,020,000.00	6,684,130.00
Property management and sanitation fees	2,986,648.07	2,233,752.55
Ship inspection fees	2,102,517.80	3,272,867.80
Entertainment expenses	1,969,792.67	2,009,215.70
Travel expenses	1,662,579.58	2,014,017.49
Insurance fee	1,504,672.15	1,829,094.79
Others	89,432.04	2,104,751.74
<b>Total</b>	<b>328,266,597.59</b>	<b>450,674,873.85</b>

**36. Financial expenses**

RMB

	2012	2011
Interest expense	652,800.00	1,895,295.00
Interest income	-35,628,883.78	-21,125,743.34
Interest capitalization	-652,800.00	0.00
Exchange gain or loss	-93,455.77	1,325,736.74
Others (note)	-1,945,057.95	-6,134,197.60
<b>Total</b>	<b>-37,667,397.50</b>	<b>-24,038,909.20</b>

Capitalized interest has been recorded into the construction in progress.

Note: Among others, cash discount from suppliers arising from payment in advance amounted to RMB3,062,211.46 in 2012 (2011: RMB7,087,755.80)

**37. Investment income**

1) Investment income

RMB

	2012	2011
Long-term equity investment gain/(loss) measured by equity method	8,760,601.27	4,471,640.40
Gain from disposal of long-term equity investment	-22,420.92	
Investment income acquired by holding available for sale financial assets	542,212.50	556,650.00
Gain from disposal of available for sale financial assets		5,773,599.04
Others (note)		10,526,377.14
<b>Total</b>	<b>9,280,392.85</b>	<b>21,328,266.58</b>



2) Gain from long-term equity investment measured under equity method			RMB
	2012	2011	Reason of increase in current year
MHI Turbo	8,760,601.27	4,471,640.40	Net profit of MHI Turbo increased
Total	8,760,601.27	4,471,640.40	

Note: The transfer procedures of equities of Shanghai Pudong EV fuel limited Co., LTD and Shanghai Hino Engine Co., LTD originally held by the Company completed on 28 April 2008 and 26 March 2008, respectively. In 2011, equity trading sides reached final agreement about gains of the transitional period and the personnel relocation expense, and the Company recognised the related income of RMB10,526,377.14.

As at 31 December 2012, there were no significant restrictions on the remitting of the Group's investment income.

38. Impairment losses on assets			RMB
	2012	2011	
1.Bad debt loss	505,247.59	14,171,537.58	
2.Value loss on inventory	-2,641,906.28	1,572,883.16	
3.Impairment losses on available for sale financial assets			
4.Impairment losses on holding to maturity investment			
5.Impairment losses on long-term equity investment			
6.Impairment losses on investment property			
7.Impairment losses on fixed assets		5,230,501.55	
8.Impairment losses on project material			
9.Impairment losses on construction in progress			
10.Impairment losses on intangible assets			
11.Impairment losses on goodwill			
12.Others			
Total	-2,136,658.69	20,974,922.29	

### 39. Non-operating income

1) Non-operating income			RMB
	2012	2011	Amount recorded in non-recurring profit and loss
Gain on the disposal of non-current assets	11,598,349.44	3,096,066.08	11,598,349.44
Including: gains on disposal of fixed assets	11,598,349.44	3,096,066.08	11,598,349.44
Government grants	36,680,416.44	2,326,000.00	36,680,416.44
Others	35,751.00	141,208.21	35,751.00
Total	48,314,516.88	5,563,274.29	48,314,516.88

2) Government grants details		RMB
	2012	2011
Industry development and science & technology support fund by Yang Pu District	19,321,000.00	322,000.00
Special fund for financial support	4,509,940.19	
Special fund for science and new energy	5,030,413.45	
Special fund for enterprise technology innovation	3,532,101.40	
Small and medium-size enterprises support fund	666,000.00	2,004,000.00
Others	3,620,961.40	
<b>Total</b>	<b>36,680,416.44</b>	<b>2,326,000.00</b>

40. Non-operating expenses		RMB	
	2012	2011	Amount recorded in non-recurring profit and loss
Loss on the disposal of non-current assets	6,292,768.98	3,071,935.63	6,292,768.98
Including: loss on disposal of fixed assets	6,292,768.98	3,071,935.63	6,292,768.98
Others	172,944.00	28,310.54	172,944.00
<b>Total</b>	<b>6,465,712.98</b>	<b>3,100,246.17</b>	<b>6,465,712.98</b>

41. Income tax expense:		RMB	
	2012	2011	
Current tax expense	12,716,424.65	41,004,753.29	
Deferred tax expense	11,069,391.76	-18,621,504.96	
<b>Total</b>	<b>23,785,816.41</b>	<b>22,383,248.33</b>	

#### 42. Calculations of basic and diluted earnings per share

The calculation of earnings per share		RMB
Item	Serial Number	2012
Net profit attributable to parent company	A	203,709,733.71
Non-recurring Profit and Loss	B	40,202,692.59
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and loss	C=A-B	163,507,041.12
Opening Balance of Capital shares	D	480,309,280.00
Shares increase due to capitalization of capital reserves or share dividends	E	325,909,699.00
Shares increase due to issuing of new shares or capitalization of debts	F	62,873,551.00
Accumulated months from the next month since the increase of shares to the end of the Reporting Period	G	9
Decrease in shares due to repurchase	H	-
Accumulated months from the next month since the decrease of shares to the end of the Reporting Period	I	-
<b>Diluted shares during the Reporting Period</b>	<b>J</b>	<b>-</b>

Item	Serial Number	2012
Months of Reporting Period	K	12
Proportion of share dividends to ordinary shares	L	60%
Weighted average number of outstanding ordinary shares	$M=D+(E-D*L)^*$ $G/K+D*L+F*G/$ $K-H*I/K-J$	843,943,109
Earnings per share	$N=A/M$	0.24
Earnings per share after deducting non-recurring profit and loss	$O=C/M$	0.19

The basic earnings per share are calculated by dividing the net profit of the current period attributable to the ordinary shareholders of the Company by the weighted average number of outstanding ordinary shares. Newly issued ordinary shares should be calculated from the date of the consideration receivables (typically the date of the issue of the shares) according to the terms of the contract of issuance.

The Company has no dilutive potential ordinary shares.

The Company increased the ordinary shares to 869,092,530 shares, after new issuance of 62,873,551 ordinary shares in March 2012, and transfer of capital reserve into 325,909,699 shares in May 2012. Therefore, the earnings per share are calculated based on the adjusted number of shares.

There is no event from balance sheet day to financial statement authorised day that changes the number of ordinary shares or potential ordinary shares.

#### 43. Other comprehensive income

	RMB	
	2012	2011
1. Gain/(loss) generated from available for sale financial assets	-4,589,412.50	-32,017,790.00
Less: Tax effect arising from available for sale financial assets	-688,411.88	-4,802,668.50
Subtotal	-3,901,000.62	-27,215,121.50
2. Others	-	-
Less: Transfer into gain or loss from other comprehensive income, in net	1,168,220.16	4,210,893.20
Subtotal	-1,168,220.16	-4,210,893.20
Total	-5,069,220.78	-31,426,014.70

#### 44. Notes to the consolidated cash flow statements

1) Cash received relating to other operating activities	RMB
	Amount
Deferred income related to government grant	2,000,520.17
Subsidy income	23,161,491.32
Interest received from bank	35,628,883.78
Rent received	4,688,885.73
Others	4,605,611.96
Total	70,085,392.96

2) Cash paid relating to other operating activities	RMB
	Amount
Product Warranty and Maintenance Fees	95,729,301.55
R&D expenses	79,424,168.38
Advertising and marketing expenses	10,793,693.54
Others	81,590,648.04
Total	267,537,811.51

#### 45. Supplementary information of cash flow statement

1) Supplementary information of cash flow statement	RMB	
Supplementary information	2012	2011
1.Reconciliation of net profit to cash flows from operating activities		
Net profit	198,638,914.56	201,948,961.18
Add: Impairment for assets	-2,136,658.69	20,974,922.29
Depreciation on fixed assets	66,833,705.61	69,611,868.33
Amortisation of intangible assets	435,408.12	435,408.12
Amortisation on long-term deferred expense		
Loss/(gain) on the disposal of fixed assets, intangible assets and other long-term assets	-5,305,580.46	-24,130.45
Loss arising from the write-off of fixed assets		
Fair value losses		
Financial expenses	-47,617.17	2,885,209.25
Investment loss/(gain)	-9,280,392.85	-21,328,266.58
Decrease/(increase) in deferred tax assets	11,069,391.76	-18,621,504.96
Increase/(decrease) in deferred tax liabilities		
Decrease/(increase) in inventory	-36,601,769.68	184,585,394.19
Decrease/(increase) in recurrent receivables	226,923,039.25	126,941,564.54
Increase/(decrease) in recurrent payables	-60,073,904.41	-93,810,156.85
Others	3,829,901.90	
Net cash flows from operating activities	394,284,437.94	473,599,269.06
2.Significant non-cash investing and financing activities:		
Debt converted to capital		
Convertible bonds due within one year		
Finance lease of fixed assets		
3.The movement of cash and cash equivalents		
Balance of cash at year end	1,976,954,447.34	1,401,312,456.16
Less: Opening balance of cash	1,401,312,456.16	1,408,865,976.60
Add: Balance of cash equivalents at year end		
Less: Opening balance of cash equivalents		
The net increase/(decrease) of cash and cash equivalents	575,641,991.18	-7,553,520.44

2) Cash and cash equivalents		RMB	
Item		2012	2011
1. Cash		1,976,954,447.34	1,401,312,456.16
including: Cash on hand		88,177.84	19,839.13
Bank deposits that can be used for payment whenever necessary		1,976,835,079.75	1,400,713,775.04
Other monetary capital that can be used for payment whenever necessary		31,189.75	578,841.99
2. Cash equivalents			
Including: Bond investment due within 3 months			
3. Balance of cash and cash equivalents at year end		1,976,954,447.34	1,401,312,456.16

### VIII. Related party and transaction

#### 1. Details of the Company's investor

RMB'million

Name of the parent	Type of the Company	Registered address	Corporate representative	Business Nature	registered capital	Proportion of shares (%)	Ultimate controlling party	Company Code
SAIC	Stock company	563 Songtao Rd, Shanghai	Hu Mao Yuan	Production and sales of automobile and accessor	11,026	47.92	SAI Corporation	13226025-0

#### 2. Major financial information of jointly controlled entities and associates

USD'0000

Investee Name	Type of the Company	Registered address	Corporate representative	Business Nature	registered capital	Proportion of shares (%)	Company Code
Associate:							
Shanghai MHI Turbocharger Co., Ltd.	Joint venture	Shanghai	Wang Xiao Qiu	Manufacture and sell diesel parts	850	40	757923480

#### 3. Other related parties

Name of other related parties	Relationship
Shanghai Automotive Group Company Limited Training Center ("Training Center")	Branch of Parent Company
SAIC Finance Co., Ltd. ("SAIC Finance")	Company controlled by the parent company
Shanghai Automotive Industry Activity Center Co., Ltd. ("SAIC Activity Center")	Company controlled by the parent company
Shanghai Pen Pu Machine Building Plant Co., Ltd. ("Pen Pu Machine")	Company controlled by the parent company
SAIC Commercial Vehicle Co., Ltd. ("SAIC Commercial Vehicle")	Company controlled by the parent company
Anyue Automotive Materials Co., Ltd. ("Anyue Automotive Materials")	Company controlled by the parent company
Shanghai Anyue Energy-saving technology Co., Ltd. ("Anyue Energy-saving")	Company controlled by the parent company
Shanghai Anji Trading Automotive Sale Services Co., Ltd. ("Anji Trading")	Company controlled by the parent company
Shanghai Automotive Import and Export Co., Ltd. ("Automobile Import and Export")	Company controlled by the parent company
Shanghai Anji Automotive Parts Logistics Co., Ltd. ("Anji Automotive")	Company controlled by the parent company
Shanghai Xingfu Motorcycle Co. Ltd. ("Xingfu Motor")	Company controlled by the parent company
China Spring Corporation Limited ("China Spring")	Company controlled by the parent company

Name of other related parties	Relationship
Shanghai Automotive Powder Metallurgy Co., Ltd. (“Automotive Powder”)	Company controlled by the parent company
Shanghai Automotive Information Industry Investment Co., Ltd. (“Information Industry Investment”)	Company controlled by the parent company
Shanghai Automotive Asset Management Co., Ltd. (“Asset Management”)	Company controlled by the parent company
Shanghai Automotive News Co., Ltd. (“SAIC News”)	Company controlled by the parent company
Shanghai Automotive Gear Works No. 3 (“SAIC Gear”)	Company controlled by the parent company
Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (“Sanden Behr”)	Company controlled by the parent company
Shanghai Anji Celebrities Auto Service Co., Ltd. (“Anji Celebrities”)	Company controlled by the parent company
Anyue (Shanghai) Management and Consulting Co., Ltd. (“Anyue Management and Consulting”) (note)	Company controlled by the parent company
Shanghai Valeo Automotive Electrical System Co., Ltd. (“Valeo”)	Jointly controlled entity of the parent company
Shanghai Sachs Power Assembly parts system Co., Ltd. (“Sachs Power”)	Jointly controlled entity of the parent company
SAIC Iveco Hongyan Commercial Vehicle Co., Ltd. (“Iveco Hongyan”)	Jointly controlled entity of the parent company
Shanghai Sunwin Bus Co., Ltd. (“Sunwin Bus”)	Jointly controlled entity of the parent company
Nanjing Iveco Automotive Co., Ltd. (“Nanjing Iveco”)	Jointly controlled entity of the parent company
Shanghai Kolbenschmidt Piston Co., Ltd. (“Kolben”)	Jointly controlled entity of the parent company
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co., Ltd. (Pierburg Nonferrous Components”)	Associate of the parent company
Shanghai Aichi Forging Co., Ltd. (“Aichi Forging”)	Associate of the parent company
Shanghai Tenneco Exhaust System Co., Ltd. (“Tenneco Exhaust”)	Associate of the parent company
Federal-Mogul Shanghai Bearing Co., Ltd. (“Federal-Mogul”)	Associate of the parent company
Shanghai Internal Combustion Engine Research Institute (“SICERI”)	Subsidiary of the ultimate controlling company

Note: SAIC International Goods Transportation Agency Co., Ltd. changed its name to Anyue Management and Consulting in 2012.

#### 4. Related party transactions

##### 1) Purchase goods or receive services

RMB

Related party	Type of transaction	Pricing principles of related party transactions	2012		2011	
			Amount	Percentage (%)	Amount	Percentage (%)
Automobile Import and Export	Purchase goods or receive services	Market price	227,296,400.01	7.04	27,791,906.07	0.90
MHI Turbo	Purchase goods or receive services	Market price	54,078,563.41	1.67	86,672,948.16	2.82
Anyue Automotive Materials	Purchase goods or receive services	Market price	23,909,542.66	0.74	67,442,308.10	2.19
Anyue Energy-saving	Purchase goods or receive services	Market price	14,734,799.28	0.46	818,410.28	0.03
Valeo	Purchase goods or receive services	Market price	9,179,123.12	0.28	17,379,256.07	0.57
Federal-Mogul	Purchase goods or receive services	Market price	8,720,210.75	0.27	15,560,895.96	0.51
Sanden Behr	Purchase goods or receive services	Market price	6,101,450.56	0.19	0.00	
Xingfu Motor	Purchase goods or receive services	Market price	3,778,558.93	0.12	1,225,480.28	0.04

Related party	Type of transaction	Pricing principles of related party transactions	2012		2011	
			Amount	Percentage (%)	Amount	Percentage (%)
Pierburg Nonferrous Components	Purchase goods or receive services	Market price	3,466,342.08	0.11	0.00	
Kolben	Purchase goods or receive services	Market price	2,836,584.00	0.09	1,036,214.00	0.03
China Spring	Purchase goods or receive services	Market price	2,126,613.26	0.07	3,158,671.23	0.10
Sachs Power	Purchase goods or receive services	Market price	1,602,462.97	0.05	548,748.00	0.02
SAIC Gear	Purchase goods or receive services	Market price	1,373,796.17	0.04	0.00	
Anyue Management and Consulting (note)	Purchase goods or receive services	Market price	1,222,081.34	0.04	581,014.00	0.02
Automotive Powder	Purchase goods or receive services	Market price	697,329.60	0.02	264,693.51	0.01
Anji Celebrities	Purchase goods or receive services	Market price	601,709.40	0.02	0.00	
SAIC Activity Center	Purchase goods or receive services	Market price	497,083.26	0.02	0.00	
Information Industry Investment	Purchase goods or receive services	Market price	238,090.63	0.01	910,179.50	0.03
Anji Trading	Purchase goods or receive services	Market price	232,088.63	0.01	206,800.00	0.01
Anji Automotive	Purchase goods or receive services	Market price	189,276.13	0.01	0.00	
Asset Management	Purchase goods or receive services	Market price	0.00		4,495,726.50	0.15
Aichi Forging	Purchase goods or receive services	Market price	0.00		1,254,280.44	0.04
Tenneco Exhaust	Purchase goods or receive services	Market price	0.00		86,976.28	

## Sell goods or provide services

RMB

Related party	Type of transaction	Pricing principles of related party transactions	2012		2011	
			Amount	Percentage (%)	Amount	Percentage (%)
SAIC Commercial Vehicle	Sell diesel	Market price	153,093,666.49	5.05	45,891,915.67	0.99
Sunwin Bus	Sell diesel	Market price	48,587,003.97	1.60	38,268,482.19	0.83
Pengpu Machine	Sell diesel	Market price	5,055,603.33	0.17	10,704,497.66	0.23
Iveco Hongyan	Sell diesel	Market price	13,403,712.96	0.44	9,713,752.22	0.21
Nanjing Iveco	Sell diesel	Market price	532,658.11	0.02	605,649.58	0.01

## 2) Lease between related-party

## (i) The Company as lessor

RMB

Lessor	Lessee	Type	Start day	Ending day	Pricing principles of lease	Rental income in 2012
Shanghai Diesel Engine Co., Ltd	Shanghai Anji Trading Automotive Sale Services Co., Ltd	Building	1 October 2011	no specific ending day	Market price	500,000.00

(ii) The Company as lessee RMB

Lessor	Lessee	Typt	Start day	Ending day	Rental expense in 2012
SAIC	Shanghai Diesel Engine Co., Ltd	land use rights	1 January 2012	31 December 2031	9,500,000.00

In the year 2012, the Company entered into the lease agreement with SAIC on the land use rights of six pieces of land, including 2636 Jun Gong Road, Shanghai where the Company's mainly located in. The leasing period was from 1 January 2012 to 31 December 2031. The minimum lease payments for non-cancellable leases are as follows:

	2012	2011
Within 1 year(1 year inclusive)	9,500,000.00	
1 to 2 years (2 years inclusive)	9,500,000.00	
2 to 3 years (3 years inclusive)	9,500,000.00	
Over 3 years	152,000,000.00	
	180,500,000.00	

3) Other major related party transactions: RMB

Item	Note	2012	Percentage (%)	2011	Percentage (%)
Interest income	(a)	3,037,059.02	8.52	2,224,195.61	10.52
R&D expense	(b)	0.00	-	295,000.00	0.18
Key management personnel's remuneration	(c)	3,599,700.00	1.01	2,983,000.00	0.68
Freight	(d)	864,520.24	14.86	1,176,617.06	8.73
Training expense	(e)	193,370.00	9.60	40,000.00	3.31
Ticket agency	(f)	3,365,729.69	20.92		
Power sales	(g)	105,141.25	7.02		
Advertising expense	(h)	89,622.64	1.42		

Notes:

(a) In 2012, the Group's interest income from SAIC Finance amounted to RMB3,037,059.02 (2011: RMB2,224,195.61). Interest is calculated based on PBOC's deposit rate.

(b) In 2012, the Group did not incur any R&D expenses with SICERI (2011: RMB295,000.00).

(c) In 2012, the remuneration of key management personnel which included the salary in monetary, material or other forms amounted to RMB3,599,700 (2011:RMB2,983,000.00).

(d) In 2012, the Freight paid to Anji Automotive amounted to RMB864,520.24 (2011: RMB1,176,617.06).

(e) In 2012, the training expense paid to Shanghai Automotive Training Center amounted to RMB193,370.00 (2011: RMB40,000.00).

(f) In 2012, the airfare ticket expense paid to SAIC Activity Center amounted to RMB3,365,729.69 (2011: Nil).

(g) In 2012, the power sales income from Anji Trading amounted to RMB105,141.25 (2011: Nil).

(h) In 2012, the advertising expense paid to SAIC News amounted to RMB89,622.64 (2011: Nil).

Cash deposited in related-party

	2012	2011
SAIC Finance	57,183,810.72	134,332,098.34



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At 31 December 2012, the three-month time deposits in SAIC Finance amounted to RMB40,000,000.00 with 2.86% annual interest rate (31 December 2011: three-month time deposits of RMB40,000,000.00 with 3.10% annual interest rate); the rest was demand deposit with 0.35% annual interest rate (2011: 0.50%).

### 5. Amounts due from/to related parties

Accounts Receivable & Notes Receivable RMB

Item	Related party	2012		2011	
		Amount	Provision	Amount	Provision
Notes Receivable	SAIC Commercial Vehicle	57,234,779.20		45,214,136.00	
Notes Receivable	Sun Win Bus	53,710,531.00		43,898,416.93	
Notes Receivable	Iveco Hongyan	10,690,700.00		4,000,000.00	
Accounts Receivable	Pengpu Machine	4,866,301.13		5,351,245.25	
Accounts Receivable	SAIC Commercial Vehicle	4,298,882.03		7,619,455.33	
Accounts Receivable	Iveco Hongyan	3,999,944.03		1,223,844.41	
Accounts Receivable	Sun Win Bus	118.32		6,208,334.51	
Accounts Receivable	Nanjing Iveco			587,960.02	

Accounts Payable, Notes Payable & Other Payable RMB

Item	Related party	2012	2011
Accounts Payable	MHI Turbo	11,274,471.00	9,432,744.01
Accounts Payable	Valeo	2,533,602.53	3,008,617.33
Accounts Payable	Sanden Behr	860,885.63	0.00
Accounts Payable	Federal-Mogul	680,200.03	1,057,382.59
Accounts Payable	China Spring	578,891.21	591,695.95
Accounts Payable	Xingfu Motor	320,000.00	1,222,509.06
Accounts Payable	Kolben	239,424.82	19,123.30
Accounts Payable	Automotive Powder	157,837.27	87,870.60
Accounts Payable	Tenneco Exhaust	50,000.00	50,000.00
Accounts Payable	Anji Automotive	41,580.00	60,250.00
Accounts Payable	SAIC Gear	1,553.88	0.00
Accounts Payable	Sachs Power	0.00	600,000.00
Accounts Payable	Aichi Forging	0.00	58,978.15

**IX. Share-base Payment:** None

**X. Contingencies:** None

### XI. Commitments

Significant commitments RMB

Capital commitments	2012	2011
Contracted, but not provided for	540,234,106.69	749,648,650.71

		RMB
Investment commitments	2012	2011
Contracted, but not provided for	130,409,877.55	0.00

## XII. Events after balance sheet date

(1) On 21 January 2013, the Company and Mitsubishi Heavy Industries, Ltd. (“MHI”) jointly incorporated a joint venture Shanghai MHI Engine Co., Ltd. with registered capital of RMB200 million. The Company and MHI hold 50% of equity interest in the joint venture. The business scope is design and manufacturing of engines, engine generator sets and related components; sales of self-made products; wholesale and import and export of Engine parts and generating set; provide relevant technical support and after-sales service.

(2) On 22 February 2013, the Company’s 2013 first provisional Shareholders’ Meeting approved the plan to repurchase the Company’s B-shares.

(3) On 26 March 2013, the third meeting of the seventh Board of Directors was held and approved the proposal of 2012 profit distribution: as audited by Ernst & Young Hua Ming LLP, the consolidated net profit attributable to parent company is RMB203,709,733.71, and the net profit of the parent company is RMB214,261,216.68 for the year 2012, being distributed to statutory surplus reserves of RMB21,426,121.67, added with the prior years’ retained earnings of RMB445,948,184.81, deducted by the distribution of cash dividend of RMB27,159,141.55 for the year 2011, the retained earnings available for distribution to shareholders are RMB611,624,138.27 at the end of year 2012. The capital reserve of the parent company is RMB1,128,380,986.31 at the end of year 2012. The Company’s 2013 First Provisional Shareholders’ Meeting reviewed and passed the resolution on the repurchase of the Company’s B-shares, pursuant to the related regulations, the shares which are repurchased, since being transferred to the special repurchase account, are no longer entitled to its original rights, including the profit distribution, transferring reserve to shares, issuance and allotment of shares, pledge, voting in the general meeting and etc. The current number of the Company’s shares is 869,092,530, and the Company’s 2012 profit distribution plan is to allot cash dividend at RMB0.71 (tax inclusive) per 10 shares based on the total share capital at the date of registration for profit distribution, deducted by the B shares which have been repurchased and transferred into the special repurchase account. The undistributed earnings are carried forward for future distribution. The proposal is to be approved by the 2012 Annual General Meeting.

## XIII. Other Significant Events

### 1. Leasing Arrangement

The Company as a lessor

Operating lease: on 31 December 2012, the minimum lease payments made by lessee from operating lease are as follows:

		RMB
	2012	2011
Within 1 year (1 year inclusive)	3,783,329.20	1,023,521.40
1 to 2 years (2 years inclusive)	3,828,475.00	740,374.20
2 to 3 years (3 years inclusive)	3,064,619.00	570,000.00
Over 3 years	3,108,000.00	3,316,333.33
Total	13,784,423.20	5,650,228.93

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The Company as a lessee

According to the lease contracts signed with the lesser, the minimum lease payments for non-cancellable leases are as follows:

	RMB	
	2012	2011
Within 1 year (1 year inclusive)	10,116,170.00	373,014.17
1 to 2 years (2 years inclusive)	9,873,035.00	300,070.00
2 to 3 years (3 years inclusive)	9,500,000.00	129,343.33
Over 3 years	152,000,000.00	0.00
<b>Total</b>	<b>181,489,205.00</b>	<b>802,427.50</b>

### 2. Assets and liabilities measured at fair value

	RMB				
Item	Opening	Change in fair value through gain and loss	Cumulative fair value changes through equity	Provision for impairment	Closing
Financial assets					
1. Held for trading financial assets					
2. Derivative financial assets					
3. Available for sale financial assets	44,442,355.00		-5,846,127.50		38,512,872.50
Subtotal	44,442,355.00		-5,846,127.50		38,512,872.50
Other			1,340,070.00		16,433,490.00
<b>Total</b>			<b>-4,506,057.50</b>		<b>54,946,362.50</b>

### 3. Others

Financial instruments and their risks:

The Group's principal financial instruments comprise bank loans, bonds payables, cash, etc. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk.

Classification of financial instruments

On 31 December 2012, the book value of different classes of financial instrument is as below:

	2012			RMB
Financial assets	Financial assets measured by fair value with fair value changes through profit and loss	Loan and account receivable	Available for sale financial assets	Total
Cash and cash equivalent	-	1,976,954,447.34		1,976,954,447.34
Notes receivable	-	932,626,267.69		932,626,267.69
Accounts receivable	-	158,012,085.68		158,012,085.68
Other receivable	-	1,828,251.87		1,828,251.87
Other current assets			16,433,490.00	16,433,490.00
Available for sale financial assets	-		38,512,872.50	38,512,872.50
<b>Total</b>	<b>-</b>	<b>3,069,421,052.58</b>	<b>54,946,362.50</b>	<b>3,124,367,415.08</b>

Financial liabilities	Other Financial Liabilities
Notes payable	152,755,633.05
Account payable	610,012,168.57
Employees' remuneration payable	107,470,273.28
Other payables	154,733,717.96
Accrued expenses	361,536,337.59
Other non-current liabilities	84,503,240.58
Long-term borrowings	30,000,000.00
<b>Total</b>	<b>1,501,011,371.03</b>

2011 RMB

Financial assets	Financial assets measured by fair value And their changes through profit and loss	Loan and account receivable	Available for sale financial assets	Total
Cash and cash equivalent	-	1,401,312,456.16		1,401,312,456.16
Notes receivable	-	1,100,827,260.00		1,100,827,260.00
Accounts receivable	-	217,807,613.47		217,807,613.47
Other receivable	-	2,434,484.43		2,434,484.43
Available for sale Financial assets	-		44,442,355.00	44,442,355.00
<b>Total</b>	-	<b>2,722,381,814.06</b>	<b>44,442,355.00</b>	<b>2,766,824,169.06</b>

Financial liabilities	Other Financial Liabilities
Notes payable	168,166,112.97
Account payable	625,394,593.99
Employees' remuneration payable	144,584,867.20
Other payables	83,101,151.96
Accrued expense	334,807,590.08
Other non-current liabilities	86,975,284.56
<b>Total</b>	<b>1,443,029,600.76</b>

**Credit risk:**

Credit risk is the risk of loss on one party of a financial instrument, due to the failure of another party to meet its obligations. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the special department of credit control.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, notes receivable and other receivables, the Group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments, listed as book value of financial assets in consolidated financial statements.

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No gage is required since the Group trades only with recognized, creditworthy third parties. Credit risks are managed by clients, geographic regions, and industries collectively. On 31 December 2012, among the Group's collections with specific credit risk, 22.37% (2011: 24.78%) of accounts receivables of the Group are due from largest client and top five clients respectively.

Please refer to Note "Account receivable and other receivable" for quantitative data arising from credit risk exposure due to accounts receivables and other receivables of the Group.

On 31 December 2012, the amounts of the Group's financial assets not overdue or impaired, and the maturity profile of the Group's financial assets overdue but not impaired, are as follows:

2012		RMB			
	Total	Not overdue or impaired	Overdue		
			Within 1 year	1-2 years	Over 2 years
Accounts receivable	932,626,267.69	932,626,267.69			
Other receivable	158,012,085.68	144,379,150.02	7,931,470.63	5,699,465.03	2,000.00
Notes receivable	1,828,251.87	109,001.96	15,000.00	838,833.60	865,416.31

2011		RMB			
	Total	Not overdue or impaired	Overdue		
			Within 1 year	1-2 years	Over 2 years
Accounts receivable	1,100,827,260.00	1,100,827,260.00			
Other receivable	217,807,613.47	151,899,222.89	64,934,280.01	156,213.20	817,897.37
Notes receivable	2,434,484.43	683,596.50	884,502.60	866,385.33	

On 31 December 2012, non-overdue or impaired accounts receivables are related to independent clients without recently default records.

On 31 December 2012, overdue but not impaired accounts receivables are related to independent clients having satisfactory transaction records with the group. Based on previous experience, since credit quality has no significant changes and the receivables can be fully recovered, the Group considers no impairment provision should be made to them. The Group does not hold any gage from or enhance credit limit to these clients.

### Liquidity risk

Liquidity risk is the potential that an enterprise is unable to raise enough funds, to repay the debts related to financial instruments.

The Groups adopts cycle liquidity planning instrument to manage capital shortage risks. The instrument takes into consideration the maturity date of financial instruments plus estimated cash flow from the Group's operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility and sufficient cash to support operating capital through financing functions by the use of bank loans, debentures, etc.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on the non-discounted cash flow of the contracts:

2012 RMB

Financial assets	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	No deadline	Total
Cash and cash equivalents	903,878,745.51	265,000,000.00	808,075,701.83			1,976,954,447.34
Notes receivable		300,457,067.86	632,169,199.83			932,626,267.69
Accounts receivable		158,012,085.68				158,012,085.68
Other current assets		16,433,490.00				16,433,490.00
Available for sale financial assets					38,512,872.50	38,512,872.50
Other receivable		1,727,283.12		100,968.75		1,828,251.87
	903,878,745.51	741,629,926.66	1,440,244,901.66	100,968.75	38,512,872.50	3,124,367,415.08

Financial Liabilities	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	No deadline	Total
Notes payable		84,726,608.42	68,029,024.63			152,755,633.05
Accounts payable		286,638,365.35	323,373,803.22			610,012,168.57
Employees' remuneration payable	26,961,244.97	4,291,692.34	76,217,335.97			107,470,273.28
Other payables		71,942,416.66	82,791,301.30			154,733,717.96
Accrued expenses		57,987,467.12	303,548,870.47			361,536,337.59
Other non-current liabilities				84,503,240.58		84,503,240.58
Long-term borrowings				30,000,000.00		30,000,000.00
	26,961,244.97	505,586,549.89	853,960,335.59	114,503,240.58		1,501,011,371.03

2011 RMB

Financial assets	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	No deadline	Total
Cash and cash equivalents	832,299,429.20	519,013,026.96	50,000,000.00			1,401,312,456.16
Notes receivable		362,694,431.63	738,132,828.37			1,100,827,260.00
Accounts receivable		217,807,613.47				217,807,613.47
Available for sale financial assets					44,442,355.00	44,442,355.00
Other receivable		2,434,484.43				2,434,484.43
	832,299,429.20	1,101,949,556.49	788,132,828.37		44,442,355.00	2,766,824,169.06

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Financial Liabilities	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	No deadline	Total
Notes payable		99,741,249.29	68,424,863.68			168,166,112.97
Accounts payable		228,320,775.21	397,073,818.78			625,394,593.99
Employees' remuneration payable	27,892,373.59	5,464,237.89	111,228,255.72			144,584,867.20
Other payables		66,436,864.48	16,664,287.48			83,101,151.96
Accrued expense		66,370,544.80	268,437,045.28			334,807,590.08
Other non-current liabilities				86,975,284.56		86,975,284.56
	27,892,373.59	466,333,671.67	861,828,270.94	86,975,284.56		1,443,029,600.76

### Market risk

Market risk is the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks mainly include interest rate risk and foreign currency risk.

### Interest rate risk

Interest rate risk refers to the risk when the fair value or future cash flows of financial instruments due to floating market interest rate. The Group's exposures to fluctuation in market interest rate mainly arise from holding long-term financial liabilities bearing floating interest rate.

### Foreign currency risk

Foreign currency risk is the risk that the fair values and future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group's exposures to fluctuation in foreign currency exchange rate mainly arise from operating activities where transactions are settled in currencies other than the units' functional currency and net investment to offshore subsidiary. The Group has transactional currency exposures of 2.60% (2011: 2.37%) of the Group's total revenue that is valued in currencies other than the units' functional currency.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and forward foreign exchange contract):

2012	Exchange rate increase/(decrease)	Net Profit increase/(decrease)
If RMB weakens against USD	5%	1,801,836.93
If RMB strengthens against USD	5%	(1,801,836.93)
If RMB weakens against EUR	5%	280,477.59
If RMB strengthens against EUR	5%	(280,477.59)

2011	Exchange rate increase/(decrease)	Net Profit increase/(decrease)
If RMB weakens against USD	5%	864,160.20
If RMB strengthens against USD	5%	(864,160.20)
If RMB weakens against EUR	5%	251,333.98
If RMB strengthens against EUR	5%	(251,333.98)

#### Equity instruments investment price risk

Equity instruments investment price risk is the risk of equity instrument fair value decrease with changes by share index and individual security value. Please refer to notes about available for sale financial assets under equity instruments investment price risk. The equity instruments the Group holding were listed in the Shanghai Stock Exchange and measured in the market value as at the balance sheet day.

As follows are market stock index which is closest to the balance sheet day and highest and lowest closing price in 2012 and 2011:

	2012.12.31	2012 highest/lowest	2011.12.31	2011 highest/lowest
Shanghai—A stock index	2,376	2,578/2,052	2,304	3,202/2,269

Following table shows the sensitivity of the Group's stakeholders equity against the fair value of equity instrument investment per 5% change (the balance sheet date based on book value) given all other variables remain unchanged and the impact of any tax situation is not taken into account.

2012			RMB
Equity instrument investment	Book value	Net Profit increase/ (decrease)	Stakeholder equity increase/(decrease)*
Shanghai—Available for sale equity instrument investment	54,946,362.50		2,335,220.41

2011			RMB
Equity instrument investment	Book value	Net Profit increase/ (decrease)	Stakeholder equity increase/(decrease)*
Shanghai—Available for sale equity instrument investment	44,442,355.00		1,888,800.09

Note: Retained earnings are not included.

#### Fair value

On 31 December 2012, methods and hypotheses the group estimated financial instruments are as follows:

- 1) Equity security: its fair value is estimated by market value
- 2) Other assets and liabilities: its book value is close to the fair value.

There is no significant difference between group's financial instrument fair value and book value.



## XIV. Notes to the corporate financial statements

## 1. Accounts receivable

## 1) Type analysis

RMB

Type	2012				2011			
	Book value		Provision		Book value		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant items	30,519,517.62	16.64	15,259,758.81	50	21,311,884.44	8.18	10,655,942.22	50.00
Tested for impairment on the basis of group								
Tested for impairment on the basis of risk portfolio	142,001,267.87	77.41		0.00	225,061,083.67	86.38		0.00
Subtotal	142,001,267.87	77.41		0.00	225,061,083.67	86.38		0.00
Individually insignificant but individually tested for impairment	10,910,860.80	5.95	6,748,094.48	61.85	14,167,017.59	5.44	8,859,043.42	62.53
Total	183,431,646.29	/	22,007,853.29	/	260,539,985.70	/	19,514,985.64	/

On 31 December 2012, the bad debt provided to individually significant items and individually tested for impairment is as follows:

RMB

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	12,397,110.27	6,198,555.13	50	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	11,165,407.50	5,582,703.75	50	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	6,956,999.85	3,478,499.93	50	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	30,519,517.62	15,259,758.81	/	/

On 31 December 2012, the bad debt provided to individually insignificant items but individually tested for impairment is as follows:

RMB

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	3,773,483.21	2,052,991.61	54.41	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	2,415,099.64	1,207,549.82	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	1,754,315.56	1,395,315.57	79.54	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 4	1,122,187.43	561,093.72	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 5	991,367.20	923,367.20	93.14	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Others	854,407.76	607,776.56	71.13	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	10,910,860.80	6,748,094.48	/	/

2) 2012, the significant reversals of bad debt provision of accounts receivable are as follows:

					RMB
	Reason for reversal	Reason for provision of bad debt provision	Bad debt provided Before reversal	Received amount	Reversed amount
Client 1	Received	The chance of recovering total balance is remote due to long aging.	1,145,439.85	666,000.00	666,000.00
Others	Received	The chance of recovering total balance is remote due to long aging.	188,216.27	188,216.27	188,216.27
Total	/		1,333,656.12	854,216.27	854,216.27

3) In 2012, the accounts receivable written off are as follows:

				RMB
Name	Nature	Amount	Reason for written-off	
Client 1	Derived from sales	2,000,000.00	Cancellation of a subsidiary	
Client 2	Derived from sales	479,439.85	The chance of recovering the balance is remote due to long aging.	
Total	/	2,479,439.85	/	

The written-off of accounts receivable has been approved by the Company's management.

4) On 31 December 2012, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the parent company's voting shares.

5) Top five Accounts Receivable balance

					RMB
Name	Relationship	Amount	Aging	Percentage of balance (%)	
No.1	Third party	25,565,131.40	Within 1 year	13.94	
No.2	Third party	12,874,405.73	Within 1 year	7.02	
No.3	Third party	12,397,110.27	Within 1 year	6.76	
No.4	Third party	11,165,407.50	Within 1 year	6.09	
No.5	Third party	10,861,067.83	Within 1 year	5.92	
Total	/	72,863,122.73	/	39.73	

6) Accounts receivable from related parties

				RMB
Name	Relationship	Amount	Percentage of balance (%)	
Dalian Diesel	Subsidiary	1,967,450.79	1.07	
Shanghai Diesel Car Trading Co., Ltd.	Subsidiary	1,263,489.43	0.69	
Yi Hua Electrical	Subsidiary	480,198.81	0.26	
Shanghai Diesel Hai'an	Subsidiary	8,906.00	0.00	
Pengpu Machine	Controlled by parent company	4,866,301.13	2.65	
SAIC Commercial Vehicle	Controlled by parent company	4,298,882.03	2.34	
IVECO Hongyan	Jointly controlled entity of the parent company	3,999,944.03	2.18	
Sunwin Bus	Jointly controlled entity of the parent company	118.32	0.00	
Total	/	16,885,290.54	9.19	

## 2. Other receivable

### 1) Type analysis:

RMB

Type	2012				2011			
	Book value		Provision		Book value		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Tested for impairment on the basis of group								
Tested for impairment on the basis of risk portfolio	1,647,059.46	100.00	0.00	0.00	2,176,286.36	100.00	0.00	0.00
Subtotal	1,647,059.46	100.00	0.00	0.00	2,176,286.36	100.00	0.00	0.00
Total	1,647,059.46	/	0.00	/	2,176,286.36	/	0.00	/

2) On 31 December 2012, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Parent Company's voting shares.

### 3) Top five Other Receivable balance

RMB

Name	Relationship	Amount	Aging	Percentage of OR (%)
No.1	Third party	1,176,198.04	Within 3 year	71.41
No.2	Third party	250,000.00	Within 3 years	15.18
No.3	Third party	57,000.00	Within 1 year	3.46
No.4	Third party	30,000.00	Within 1 year	1.82
No.5	Third party	10,000.00	Within 1 year	0.61
Total	/	1,523,198.04	/	92.48

### (3) Long-term equity investment

#### Cost method

RMB

Investee Name	The initial investment cost	Beginning Balance	Increase or decrease in current year	Closing Balance	Impairment	Impairment of current year	Shareholding percentage (%)
Tianjin Lovol Heavy Machinery Co., Ltd.	10,000,000.00	10,000,000.00		10,000,000.00			2.19
Shanghai Dongfeng Diesel Engine Trading Co., Ltd.	5,000,000.00	5,000,000.00		5,000,000.00			100.00
Shanghai Yihua Electrical Co., Ltd.	16,000,000.00	16,000,000.00		16,000,000.00			80.00
Shanghai Diesel Car Trading Co., Ltd.	3,000,000.00	3,000,000.00		3,000,000.00			63.83
Dalian Diesel Engine Co., Ltd.	153,000,000.00	153,000,000.00		153,000,000.00	128,479,653.10		51.00
Shanghai Ying Da Xin Auto Electronic Co, Ltd.		10,359,861.82	-10,359,861.82			-10,338,499.98	
Shanghai Diesel Hai'an power Co., Ltd.	300,000,000.00	300,000,000.00		300,000,000.00			100.00

#### Equity method

RMB

Investee Name	The initial investment cost	Beginning Balance	Increase or decrease in current year	Closing Balance	Provision
MHI Turbo	28,142,480.00	36,742,126.66	8,760,601.27	45,502,727.93	40.00

YDX was cancelled in 2012, and the Company wrote off the impairment of long-term equity investment accordingly.

#### 4. Operating revenue and operating cost

1) Operating revenue and operating cost		RMB	
	2012	2011	
Principal operating revenue	2,960,285,177.87	4,493,908,918.10	
Other operating revenue	44,177,888.24	91,971,738.50	
Operating cost	2,388,061,332.70	3,678,352,467.67	

2) Principal operating revenue by industry		RMB			
	2012		2011		
	Sales	Cost of Sales	Sales	Cost of sales	
Diesel and Parts	2,960,285,177.87	2,356,296,959.48	4,493,908,918.10	3,617,784,795.07	
Total	2,960,285,177.87	2,356,296,959.48	4,493,908,918.10	3,617,784,795.07	

3) Principal operating revenue by products		RMB			
	2012		2011		
	Sales	Cost of Sales	Sales	Cost of sales	
Diesels	2,623,429,501.00	2,085,630,391.62	4,117,316,460.33	3,314,590,496.52	
Parts and others	336,855,676.87	270,666,567.86	376,592,457.77	303,194,298.55	
Total	2,960,285,177.87	2,356,296,959.48	4,493,908,918.10	3,617,784,795.07	

4) The top five customers' sales details		RMB	
Customer name	Operating revenue	Percentage of total revenue(%)	
No.1	694,550,019.70	23.12	
No.2	227,759,129.58	7.58	
No.3	153,093,666.49	5.10	
No.4	120,735,846.06	4.02	
No.5	111,774,829.19	3.72	
Total	1,307,913,491.02	43.54	

Operating revenue by Types:		RMB	
	2012	2011	
Sale of products:	2,947,209,657.95	4,489,913,270.19	
Sale of raw materials and wastes	41,535,414.78	80,337,585.65	
Rendering labour services	7,758,546.48	3,995,647.91	
Storage revenue	2,090,224.33	6,439,773.65	
Rental income	2,598,661.40	2,463,131.20	
Others	3,270,561.17	2,731,248.00	
Total	3,004,463,066.11	4,585,880,656.60	

**5. Investment income**

1) Investment income		RMB	
	2012	2011	
Long-term equity investment gain/(loss) measured by equity method	8,760,601.27	4,471,640.40	
Loss from disposal of long-term equity investment	-22,420.92	0.00	
Investment income acquired by holding available for sale financial assets	542,212.50	556,650.00	
Gain from disposal of available for sale financial assets	0.00	5,773,599.04	
Others	0.00	10,526,377.14	
<b>Total</b>	<b>9,280,392.85</b>	<b>21,328,266.58</b>	

2) Long-term equity investment gain/(loss) measured by equity method RMB

Name	2012	2011	Reason for increase in current year
MHI Turbo	8,760,601.27	4,471,640.40	Net profit of MHI Turbo increased
<b>Total</b>	<b>8,760,601.27</b>	<b>4,471,640.40</b>	/

**6. Supplement information of cash flow statement**

		2012	2011
1.Reconciliation of net profit to cash flows from operating activities			
Net profit		214,261,216.68	207,833,863.06
Add: Impairment for assets		2,367,157.27	21,502,691.77
Depreciation on fixed assets		58,694,959.46	61,311,357.21
Amortisation of intangible assets		58,100.04	58,100.04
Amortisation on long-term deferred expense			
Loss/(gain) on the disposal of fixed assets, intangible assets and other long-term assets		-6,909,170.19	-1,033,551.61
Loss arising from the write-off of fixed assets			
Fair value losses			
Financial expenses		-47,617.17	2,885,209.25
Investment loss/(gain)		-9,280,392.85	-21,328,266.58
Decrease/(increase) in deferred tax assets		11,069,391.76	-18,621,504.96
Increase/(decrease) in deferred tax liabilities			
Decrease/(increase) in inventory		-39,239,298.59	183,720,996.61
Decrease/(increase) in recurrent receivables		233,910,172.79	87,331,113.53
Increase/(decrease) in recurrent payables		-105,490,505.98	10,688,891.09
Others		-4,643,709.99	
Net cash flows from operating activities		354,750,303.23	534,348,899.41
2.Significant non-cash investing and financing activities:			
Debt converted to capital			
Convertible bonds due within one year			
Finance lease of fixed assets			

	2012	2011
3.The movement of cash and cash equivalents		
Balance of cash at year end	1,889,849,962.82	1,145,636,193.91
Less: Opening balance of cash	1,145,636,193.91	1,337,258,923.15
Add: Balance of cash equivalents at year end		
Less: Opening balance of cash equivalents		
The net increase/(decrease) of cash and cash equivalents	744,213,768.91	-191,622,729.24

## XV. Supplementary Materials

### 1. Non-recurring items

Items	RMB		
	2012	2011	2010
Profit and loss arising from disposal of non-current assets	5,305,580.46	24,130.45	693,369.69
Government grants (regular and continuous grants excluded)	36,680,416.44	2,326,000.00	3,536,000.00
Profit and loss from fair value changes		5,773,599.04	731,802.36
Reversal of bad debt provision for receivables that are individually tested for impairment	5,321,276.18	2,258,282.19	5,521,205.48
Gain or loss from loan by mandate			3,026,700.00
Non-operating income and expenses other than above items	-137,193.00	112,897.67	1,875,292.18
Other P&L items according with Non-recurring profit and loss		10,526,377.14	
Effect on minority shareholders	864,893.97	501,314.03	-201,542.03
Effect on income tax	-7,832,281.46	-3,502,779.34	-2,543,707.30
Total	40,202,692.59	18,019,821.18	12,639,120.38

### 2. Return on equity and earnings per share

Profit in 2012	Weighted average	Earnings per share	
	return on equity (%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	7.07	0.24	NA
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and loss	5.67	0.19	NA

### 3. Explanation about unusual situation and reason of corporate main Financial Statement items

Balance Sheet (Consolidated):			RMB
items	2012	2011	Fluctuation (%)
Cash and bank	1,976,954,447.34	1,401,312,456.16	41.08%
Other current assets	16,582,645.00	170,858.45	9605.49%
Construction in progress	873,452,413.60	403,143,769.62	116.66%
Taxes payable	-45,342,697.11	-7,013,952.84	N/A
Other payables	154,733,717.96	83,101,151.96	86.20%
Share capital	869,092,530.00	480,309,280.00	80.94%
Capital reserves	1,129,251,227.77	704,954,097.71	60.19%
Equity attributable to parent company	3,173,829,812.00	2,180,981,146.66	45.52%

- 1) Increase of cash and bank as compared to last year was mainly due to the issuance of shares, which led to an increase in net cash flows from financing activities;
- 2) Increase of other current assets as compared to last year was mainly because the Company subscribed for additional shares of Xia Gong Share, which was expected to be sold in the short term.;
- 3) Increase of construction in progress as compared to last year was mainly due to the increased expenditure on the projects of new and current products and of casting base project;
- 4) Decrease of taxes payable as compared to last year was mainly due to the increase in purchase of raw materials and equipments, which led to the increase of deductible payable VAT (input tax);
- 5) Increase of other payables as compared to last year was mainly due to the expansion of new product projects, which led to the increase of payables for equipments & engineering;
- 6) Increase of share capital as compared to last year was mainly due to both the non-public offering of shares and the transfer of capital reserves to share capital;
- 7) Increase of capital reserves as compared to last year was mainly due to the non-public offering of shares which led to increase of share premium;
- 8) Increase in equity attributable to parent company as compared to last year was mainly due to the non-public offering of shares and the profit made in the current period.

## Income Statement (Consolidated):

RMB

items	2012	2011	Fluctuation (%)
Operating revenue	3,029,962,800.96	4,634,955,294.75	-34.63%
Operating cost	2,404,784,827.59	3,714,319,236.74	-35.26%
Operating expenses	157,469,783.41	253,139,571.59	-37.79%
General and administrative expenses	328,266,597.59	450,674,873.85	-27.16%
Financial expenses	-37,667,397.50	-24,038,909.20	N/A
Non-operating income	48,314,516.88	5,563,274.29	768.45%

- 1) Decrease of operating revenue as compared to last year was mainly due to the influence of decline in industry. Reduction of sale of diesel engines caused the decreasing of operating revenue;
- 2) Decrease of operating cost as compared to last year was mainly due to decline in operating revenue led to less cost incurred;
- 3) Decrease of operating expenses as compared to last year was mainly due to the reduction of product warranties;
- 4) Decrease of general and administrative expenses as compared to last year was mainly due to the reduction of personnel termination cost, as well as the cost control strengthened by the Company;
- 5) Decrease of finance expenses as compared to last year was mainly due to the increase in interest income;
- 6) Increase of non-operating income as compared to last year was mainly due to the government grant received and recognized during the year.

## Cash Flow Statement (Consolidated):

RMB

items	2012	2011	Fluctuation(%)
Net cash flows from operating activities	394,284,437.94	473,599,269.06	-16.75%
Net cash flows from investing activities	-639,027,723.22	-374,252,116.25	N/A
Net cash flows from financing activities	820,337,659.29	-105,910,759.00	N/A

- 1) Decrease of net cash flows from operating activities as compared to last year was mainly due to the decrease in receivables and increase in inventory movements;
- 2) Decrease of net cash flows from investing activities decreased as compared to last year was mainly due to the increased fixed assets expenditure on the projects of new products and of casting base project;
- 3) Increase of net cash flows from financing activities as compared to last year was mainly due to the funds raised from the non-public offering of A shares.

## Section XI. References

1. Financial statements signed and stamped by the legal representative, principal in charge of accountancy and principal in charge of accounting departments.
2. Original copy of auditors' report signed and chopped by the auditors and Certified Public Accountants;
3. Original copies of all publications and announcements published in newspapers designated by China Securities Regulatory Commission during the Reporting Period.

Chairman of the Board: Xiao Guo Pu

Shanghai Diesel Engine Co., Ltd.

28 March 2013

The report has Chinese and English versions. If there any discrepancies between the two, please to Chinese version.