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I. Corporate Information

1. 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

2. Contacts

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

3. Address

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

4. 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

5. 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

6. Other information

Date of registration	27 December 1993		
Registered address	2748 Pu Dong Avenue, Shanghai		
Modifications	Date of modification:	25 February 2009	
	New registered address:	2636 Jun gong Road, Shanghai	
	Corporate Business License:	310000400070424	
	Tax registration number:	310110607234882	
	Organization Code:	60723488-2	
Name of auditors	Ernst & Young Hua Ming		
Addresses of auditors	16F, No.1 Chang An Street, Beijing, PRC		

II. Financial Highlights

1. Key financial figures

(Unit: RMB)

	Amount
Operating profit	221,869,181.39
Profit before taxation	224,332,209.51
Net profit attributable to shareholders	207,306,920.41
Net profit attributable to shareholder excluding extraordinary items	189,287,099.23
Net cash flows from operating activities	473,599,269.06

2. Extraordinary items:

(Unit: RMB)

	2011	2010	2009
Loss on disposal of non-current assets	24,130.45	693,369.69	-2,557,861.78
Government grants and subsidies (exclusive of those relating to ordinary business, standard government grants and subsidies)	2,326,000.00	3,536,000.00	6,851,000.00
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	1,130,834.79
Reversal of impairment provision for accounts receivable which was separately tested for impairment	2,258,282.19	5,521,205.48	4,775,271.56
Gains from entrusted loan	0	3,026,700.00	1,325,125.00
Other non-operating income besides the above items	112,897.67	1,875,292.18	366,290.82
Other P&L items according with non-recurring profit and loss	10,526,377.14	0	2,216,165.85
Equity attributable to minority interest	501,314.03	-201,542.03	74,081.57
Taxation impact	-3,502,779.34	-2,543,707.30	-3,042,206.30
Total	18,019,821.18	12,639,120.38	11,138,701.51

Note: Other P&L items according with non-recurring profit and loss represent the gain arising from disposal of subsidiaries during the transition period.

3. Three-year financial highlights

(Unit: RMB)

	2011	2010	Change (%)	2009
Revenue	4,634,955,294.75	4,831,398,471.85	-4.07	3,377,549,168.24
Operating profit	221,869,181.39	112,741,768.15	96.79	34,555,359.97
Profit before taxation	224,332,209.51	118,846,430.02	88.76	42,132,849.31
Net profit attributable to shareholders	207,306,920.41	136,325,336.38	52.07	69,550,000.32
Net profit attributable to shareholder excluding extraordinary items	189,287,099.23	123,686,216.00	53.04	58,411,298.81
Net cash flow from operating activities	473,599,269.06	349,460,917.86	35.52	419,872,064.01
	2011-12-31	2010-12-31	Change (%)	2009-12-31
Total assets	4,010,856,413.12	4,046,865,484.96	-0.89	3,233,950,528.31
Total Liabilities	1,812,230,023.16	1,994,746,577.48	-9.15	1,279,197,697.19
Owners' equity attributable to shareholder	2,180,981,146.66	2,029,115,704.95	7.48	1,895,997,259.05
Total Share capital	480,309,280.00	480,309,280.00	0	480,309,280.00

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Key Financial Indices	2011	2010	Change (%)	2009
Basic earning per share (RMB/Share)	0.43	0.28	52.07	0.14
Diluted earning per share (RMB/Share)	NA	NA	NA	NA
Earning per share based on the latest share capital (RMB/Share)	0.38	0.25	52.07	0.13
Basic earning per share excluding profit from extraordinary items (RMB/Share)	0.39	0.26	53.04	0.12
Weighted average return on net assets (%)	9.80	6.99	Increase by 2.81 percentage point	3.69
Weighted average return excluding extraordinary items on net assets (%)	8.95	6.34	Increase by 2.61 percentage point	3.10
Net cash flow from operating activities per share (RMB/Share)	0.99	0.73	35.52	0.87
	2011-12-31	2010-12-31	Change (%)	2009
Net assets attributable to shareholder per share (RMB/Share)	4.54	4.22	7.48	3.95
Ratio of liabilities to assets (%)	45.18	49.29	Decrease by 4.11 percentage point	39.56

4. Financial instruments at fair value

(Unit: RMB)

Items	Opening balance	Closing balance	Movement	Impact on current year profit
Available for sale financial assets	85,096,475.10	44,442,355.00	-40,654,120.10	5,773,599.04
Total	85,096,475.10	44,442,355.00	-40,654,120.10	5,773,599.04

III. Changes in share capital and shareholders information

1. Changes in share capital

(i) Changes in share capital (Unit:Share)

	Before		Increase/(decrease)					After	
	Quantity	Percentage (%)	New share	Bonus share	Reserves increase capital	Others	Subtotal	Quantity	Percentage (%)
Restricted shares	0	0	0	0	0	0	0	0	0
Tradable shares	480,309,280	100	0	0	0	0	0	480,309,280	100
A share	263,309,280	54.82	0	0	0	0	0	263,309,280	54.82
B share	217,000,000	45.18	0	0	0	0	0	217,000,000	45.18
Total	480,309,280	100						480,309,280	100

(ii) Changes in restricted shares: No changes in restricted shares during the financial year.

2. Issuance and listing of shares

- (i) Issuance information within the past three years: Neither issuance of new shares nor any listing incurred in the past three years.
- (ii) Total number of shares and share structures: Neither bonus share nor rights share issuance occurred during the financial year which would cause the changes in the total number of shares or share structures.
- (iii) Employee-held shares: No employee-held shares as at the financial year end.

3. Information of Shareholders and Actual Controllers

(i) The number of Shareholders and their holding position (Unit:Share)

Number of shareholders as of 31 December 31 2011	38,979
Number of shareholders at the end of the month before the annual report announcement	38,334

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 MOTOR CORPORATION LIMITED	State-owned	50.32	241,709,280	0	0	None
ASIAHUB OVERSEAS LIMITED	Others	1.25	5,999,694	3,999,774	0	Unknown
LIU ZHI QIANG	Others	0.75	3,595,276	2,686,976	0	Unknown
PLATINUM BROKING COMPANY LIMITED	Others	0.73	3,500,000	3,500,000	0	Unknown
FIRST SHANGHAI SECURITIES LTD.	Others	0.31	1,502,044	1,500,844	0	Unknown
CHINA MERCHANTS SECURITIES (HK) CO., LTD.	Others	0.29	1,375,543	1,357,343	0	Unknown
ZHAO JIE	Others	0.27	1,300,000	-456,927	0	Unknown
DBS VICKERS (HONG KONG) LTD A/C CLIENT	Others	0.27	1,299,258	1,285,258	0	Unknown
CHINA PORTUNITIES H-B FUND	Others	0.27	1,280,071	580,071	0	Unknown
WEI WEI WEI	Others	0.24	1,172,300	585,300	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 MOTOR CORPORATION LIMITED	241,709,280	A share
ASIAHUB OVERSEAS LIMITED	5,999,694	B share
LIU ZHI QIANG	3,595,276	B share
PLATINUM BROKING COMPANY LIMITED	3,500,000	B share
FIRST SHANGHAI SECURITIES LTD.	1,502,044	B share
CHINA MERCHANTS SECURITIES (HK) CO., LTD.	1,375,543	B share
ZHAO JIE	1,300,000	B share
DBS VICKERS (HONG KONG) LTD A/C CLIENT	1,299,258	B share
CHINA OPPORTUNITIES H-B FUND	1,280,071	B share
WEI WEI WEI	1,172,300	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.

(ii) Information of controlling shareholder and Actual controller

a. Controlling shareholder

○ Legal Person

Name	SAIC Motor Corporation Limited
Corporate representative	Mr. Hu Mao Yuan
Date of incorporation	24 November 1997
Registered capital (in RMB)	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).

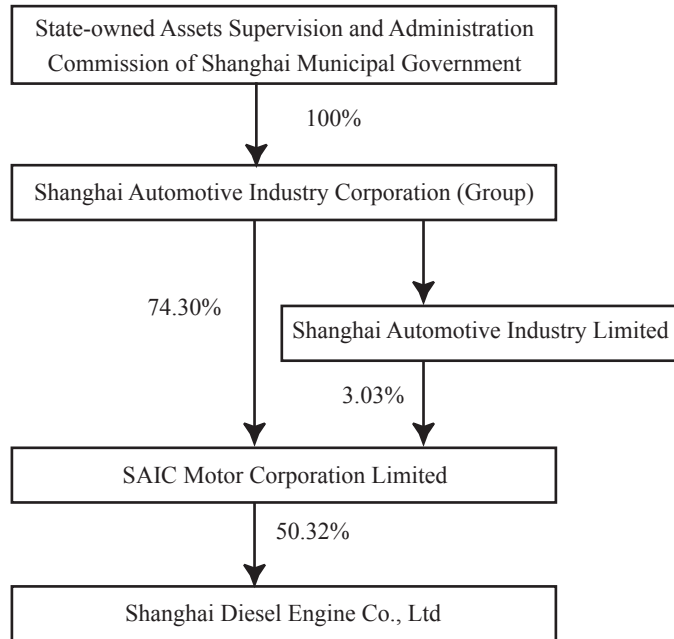
b. Actual Controlling

○ Legal Person

Name	Shanghai Automotive Industry Corporation
Corporate representative	Mr. Hu Mao Yuan
Date of incorporation	1 March 1996
Registered capital (in RMB)	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 .

- c. Change of the controlling shareholder and actual controller: There was no change of controlling shareholder and actual controller during the financial year.

Relationship between the Company and the actual controller



- (iii) 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.

IV. Board of Directors, Supervisor Committee and Senior Management

1. 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	Remuneration obtained from the Company (RMB'10K)(Per-tax)	Whether receiving remuneration from shareholders or related companies
Xiao Guo Pu	Chairman of the Board	Male	57	2009.5.19-2012.5.18	0	0	0	Yes
Gu Feng	Director	Male	39	2009.5.19-2012.5.18	0	0	0	Yes
Cheng Jing Lei	Director	Male	44	2009.5.19-2012.5.18	0	0	0	Yes
Gu Qing	Director	Male	45	2009.5.19-2012.5.18	0	0	0	Yes
Wang Xiao Qiu	Director and General Manager	Male	48	2009.11.23-2012.5.18	0	0	54.8	No
Jiang Bao Xin	Director and Chief Financial Controller	Male	42	2009.11.23-2012.5.18	0	0	39.2	No
Ou Yang Ming Gao	Independent Director	Male	53	2009.5.19-2012.5.18	0	0	4	No
Yan Yi Ming	Independent Director	Male	48	2009.5.19-2012.5.18	0	0	4	No
Chen Wen Hao	Independent Director	Male	58	2009.5.19-2012.5.18	0	0	4	No
Zhou Lang Hui	Chairman of the Supervisor Committee	Male	40	2009.5.19-2012.5.18	0	0	0	Yes
Zhu Xian	Supervisor	Male	57	2009.5.19-2012.5.18	0	0	0	Yes
Shi Yi Meng	Supervisor	Male	56	2009.5.19-2012.5.18	0	0	49.3	No
Jin Gang	Vice General Manager	Male	39	2009.5.19-2012.5.18	0	0	39.2	No
Zhu Jian Kang	Vice General Manager	Male	47	2009.5.19-2012.5.18	0	0	39.2	No
Qian Jun	Vice General Manager	Male	50	2011.1.14-2012.5.18	0	0	43.8	No
Wang Hong Bin	Board Secretary	Male	38	2009.5.19-2012.5.18	0	0	20.8	No
Total	/	/	/	/	0	0	298.3	/

1. 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 Shanghai Automotive Industry Corporation. Presently acting as the Vice President of SAIC Motor Corporation Limited.
2. Gu Feng: once being the deputy manager of Finance Department of Shanghai Automotive Industry Corporation; once being the Deputy Manager of Finance Department and the Executive Director of Capital Operation Department of SAIC Motor Corporation Limited. Presently acting as the Chief Financial Controller of SAIC Motor Corporation Limited.
3. Cheng Jing Lei: once being the Manager of Technology Quality Department of Shanghai Automotive Industry Corporation; the Vice President of Automotive Engineering Institute; the Manager of Technology Quality Department of SAIC Motor Corporation Limited; 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 Motor Corporation Limited.
4. 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 Motor Corporation Limited; Vice Director of Commercial Vehicle Business Department and Vice Director and Director of Commercial Vehicle Technical Center of SAIC Motor Corporation Limited. Presently acting as the Chairman of the Communist Party of Commercial Vehicle Technical Center of SAIC Motor Corporation Limited.
 5. 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 Shanghai Diesel Engine Co., Ltd.
 6. 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 Double-Dragon Automotive Co., Ltd.; Chief Financial Controller of SAIC Auto group commercial vehicle business department. Presently acting as the Director and the Chief Financial Controller of Shanghai Diesel Engine Co., Ltd.
 7. 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.
 8. Yan Yi Ming: once being the partner of Shanghai All Bright Law Offices and being the Director of Shanghai YanYiMing Law office since 2005.
 9. 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.
 10. Zhou Lang Hui: once being the Minister of Cadres' Organization, Vice Director of Communist Party, Director of Discipline Inspection Commission of Shanghai Automotive Industry Corporation; Vice Director of Communist Party and Director of Discipline Inspection Commission of SAIC Motor Corporation Limited and the General Manager of Shanghai Kolben Schmitt Pistons Co., Ltd., Presently acting as the Vice President of SAIC Motor Corporation Limited.
 11. 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. Presently acting as the Supervisor, Director of Audit Office of SAIC Motor Corporation Limited.
 12. 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 Shanghai Diesel Engine Co., Ltd. Presently acting as the Chairman of the Communist Party of Shanghai Diesel Engine Co., Ltd.
 13. Jin Gang: once being the General Manager, Manager of Overseas Department of Shanghai Diesel Engine Co., Ltd. Presently acting as the Vice General Manager of Shanghai Diesel Engine Co., Ltd..
 14. 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 Shanghai Diesel Engine Co., Ltd.
 15. 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 Motor Corporation Limited. Presently acting as the Vice General Manager of Shanghai Diesel Engine Co., Ltd..
 16. Wang Hong Bin: once being the technology engineer, Senior Project Manager, Representative on Security matters of Shanghai Diesel Engine Co., Ltd. Presently acting as the Board Secretary of Shanghai Diesel Engine Co., Ltd.

2. Positions held by the Directors in holding company

Name	Shareholder Name	Position	Date of appointment	Whether receiving remuneration
Xiao Guo Pu	SAIC Motor Corporation Limited	Vice President	17 June 2008	Yes
Gu Feng	SAIC Motor Corporation Limited	Chief Financial Controller	17 June 2008	Yes
Cheng Jing Lei	SAIC Motor Corporation Limited	Vice General Engineer, Executive Director of Strategy and Business Planning Department Director of Communist Party of Commercial Vehicle Technology Center	June 2005	Yes
Gu Qing	SAIC Motor Corporation Limited	Vice President	8 September 2010	Yes
Zhou Lang Hui	SAIC Motor Corporation Limited	Vice President	17 June 2008	Yes
Zhu Xian	SAIC Motor Corporation Limited	Supervisor, Director of Audit Office	17 June 2008	Yes

3. 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	i. The remuneration of the Directors, Supervisors and Senior Management are determined according to actual position with reference to the remuneration policy of the Company. ii. After appointed by the Company, the annual allowance to the Independent Director is RMB40,000.
Actual payment of remuneration to Directors, Supervisors and Senior Management	Refer to “Shareholding and remuneration details of Directors, Supervisors and Senior Management”

4. Appointment and resignation of Directors, Supervisors and Senior Management

Name	Position	Change	Reason of change
Qian Jun	Vice General Manager	Appointment	Qian Jun was nominated by General Manager and appointed by the Board of Director as the Vice General Manager of the Company during the First Extraordinary Meeting of Board of Directors held on 14 January 2011.

5. Employee information

Number of employees	2,595
Specialization	
Category	Headcount
Production	1,393
Technician and Management	864
Education	
Category	Headcount
Doctor degree	3
Master degree	43
Bachelor degree	486

V. Corporate governance

1. Status of corporate governance

Within 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 are all properly operated within the regulation of the relevant laws and requirements; the publication of information and management of investor relationship are also operated properly which helps the Company to achieve a smooth and quick development in corporate governance.

(i) Shareholders and general meeting

Within the reporting period, the Company held 3 general meetings including 2011 first Provisional Shareholders' Meeting, 2010 annual general meeting and 2011 second Provisional Shareholders' 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.

(ii) Directors and Board of Directors

Within the reporting period, the Company held 7 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.

(iii) Supervisors and the supervisory committee

Within 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.

(iv) 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.

(v) 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.

2. Discharge of the duty of Directors

(i) Attendance of the Board meeting

Name of director	Independent directors or not	Number of Board meetings should attend	Presence in person	Presence via tele-conference	Presence by proxy	Absence	Absence for two consecutive meetings
Xiao Guo Pu	Chairman	7	7	1	0	0	No
Gu Feng	Director	7	6	1	1	0	No
Cheng Jing lei	Director	7	4	1	3	0	No
Gu Qing	Director	7	7	1	0	0	No
Wang Xiao Qiu	Director	7	7	1	0	0	No

Name of director	Independent directors or not	Number of Board meetings should attend	Presence in person	Presence via tele-conference	Presence by proxy	Absence	Absence for two consecutive meetings
Jiang Bao Xin	Director	7	7	1	0	0	No
Ou Yang Ming Gao	Independent director	7	7	2	0	0	No
Yang Yi Ming	Independent director	7	7	1	0	0	No
Chen Wen Hao	Independent director	7	7	1	0	0	No
Number of board meetings during the year							7
Including: On-spot meetings							4
Tele-conference meetings							1
On-spot with teleconference meeting							2

- (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.
- (iii) The establishment, perfection and main content of the working protocol and the duty fulfillment of Independent Director
- (a) The establishment, perfection and main content of the working protocol of Independent Directors
 The Articles of Association of the Company clearly stated that the number of Independent Directors in the Board should not be less than one-third of the total number of directors.
 The Company developed Work rules of independent directors and Annual report work rules of independent directors in 2007 and 2008 respectively. It is clearly regulated in Work rules of independent directors the conditions of employment, independence, nomination, change, rights and obligations of independent directors. It is clearly regulated in Annual report work rules of independent directors the duties that Independent Directors should fulfill during the preparation of the annual report of the Company.
- (b) The duty fulfillment of Independent Directors
 In 2011, three Independent Directors could diligently fulfill their rights and obligations in accordance with relevant laws and the Articles of Association of the Company and express independent opinions on the nomination and appointment of Senior Management, daily related party transactions and the appointment of the auditors etc. to ensure a scientific decision of the Board of Directors.

3. The segregation of operation, personnel, assets, organization and finance between the Controlling Shareholder and the Company

	Independent and completeness	Details
Operation	Yes	The Company is independent of the Controlling Shareholder in business operation. The Controlling Shareholder did not interfere with the business operations of the Company. The transactions between the enterprises affiliated to the Controlling Shareholder and the Company has been made based on the fair market prices.
Personnel	Yes	There is no sharing of common management and personnel between the Company and the Controlling Shareholder.
Assets	Yes	The Company carries out the independent registration, account establishment, accounting and management of its assets in accordance with relevant laws and regulations. It is independent of the Controlling Shareholder in terms of assets.

	Independent and completeness	Details
Organization	Yes	The Company, according to relevant laws and regulations, independently set up the Board of Directors, Supervisory Committee and Business Operation Organs. The Controlling Shareholder has never interfered with the business operations of the Company
Finance	Yes	The Company, according to relevant laws and regulations, established and improved the financial and accounting management system and independent accounting system. The controlling shareholder has never interfered with the financial and accounting activities of the Company.

4. Establishment and improvement of the Company's Internal Control System

General plan of internal control establishment	The Board of Directors and management of the Company are responsible for the establishment and improvement of the Company's internal control system. In accordance with requirement of Guidelines on Internal Controls of Companies listed on Shanghai Stock Exchange, Basic Standards for Enterprise Internal Control and Application Guidance on Enterprise Internal Control, the Company continuously supplemented and executed the Internal Control Handbook from the five prospects including control environment, risk assessment, control activities, information and communication, supervision and monitoring. The objective of the Company's internal control is: to rationally ensure the legality of operation, the safety of assets, and the accuracy and completeness of financial reports and related information; to improve the efficiency and effectiveness of operation; to help the Company to achieve the development strategy.
Plan and implementation of the establishment and improvement of the internal control system	In line with the requirement of internal control and the harmony of every system, the Company established and improved the management system. According to Internal Control Handbook, the Company combed internal control of the business, identified risk control points, looked for the deficiency in internal control system, and established and revised the existing management system. In 2011, the Company revised and issued 159 management systems.
Establishment of the Supervisory Departments for internal control monitoring	Audit Committee is set up under the Board of Directors, which is responsible for monitoring the execution and self-assessment of the internal control. The Company's Audit and Legal House is the supervision and monitoring institute for the internal control. According to the Internal Audit Regulation and Management Measures on Internal Control Self-assessment, the Audit and Legal House regularly monitors and evaluates the internal control execution status of the Company and raises advice accordingly.
Monitoring and self-assessment of the execution of internal control	In accordance with the requirement of internal control, the Company's Audit and Legal House performs internal audit and monitoring of the Company's operation activity, finance position and operating efficiency. The Audit and Legal House also performs regularly self-inspection and assessment on the establishment and execution of the internal control.
Arrangements by the board of directors related to internal control	The Board of Directors raised strict requirements to the Company's internal control in order to improve legal person management structure and internal constraints. The requirements include enhancing execution and improving effectiveness of operation management and internal control as well as the internal control system according to the requirements of Basic Standards for Enterprise Internal Control and Application Guidance on Enterprise Internal Control. Meanwhile, the Board scrutinized the Internal Control Self-assessment Report of the Company to ensure its accuracy to help the Company to improve the management level.

Establishment and execution of internal controls related to financial reporting	The Company follows various policies, laws and regulations related to finance reporting; and strictly complies with the Accounting Law and Accounting Standard for Business Enterprises. The Company has regulation on financial reporting management in the Internal Control Handbook which regulates in details of the accounting policy management, transaction and journal entry booking, financial statement closing, preparation of financial statements and the keeping of accounting files. The Company's finance and accounting management procedures is complete, appropriate and effective.
Deficiency in internal control and modifications	So far, 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. The Company will continue to improve the internal control system, optimize transaction flows and enhance the implementation of internal control.

5. 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.

6. Disclosure of the self-assessment report on internal control and the social responsibility of the Company

- (i) Whether the Company published the Internal Control Self-assessment Report: Yes
- (ii) Whether the Company published the Auditors' Opinion on the Internal Control Self-assessment Report: No
- (iii) Whether the Company published the social responsibility report: Yes

Above reports are disclosed on: www.sse.com.cn.

7. 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 of the Company 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.

Within current reporting period, there are no correction of material accounting errors, omission of significant information and modification to operating performance forecast.

- (i) Correction of material accounting errors within current reporting period
Whether there was specific responsible person: Yes
The Board of Directors was responsible for the information disclosure management and implementation. Chairman of the Board or General Manager was the first responsible person, and the Board Secretary was the directly responsible person who was responsible for the coordination and implementation.
- (ii) Supplement of material omission of information within current reporting period
Whether there was specific responsible person: Yes
The Board of Directors was responsible for the information disclosure management and implementation. Chairman of the Board or General Manager was the first responsible person, and the Board Secretary was the directly responsible person who was responsible for the coordination and implementation.
- (iii) Modification of operating performance forecast within current reporting period
Whether there was specific responsible person: Yes
The Board of Directors was responsible for the information disclosure management and implementation. Chairman of the Board or General Manager was the first responsible person, and the Board Secretary was the directly responsible person who was responsible for the coordination and implementation.

VI. Annual general meeting

1. Annual general meeting

Session	Date	Publications	Disclosure date
2010 Annual General Meeting	20 May 2011	Shanghai Securities News Hongkong Wen Wei Po	21 May 2011

The Company's 2010 annual general meeting was held on 20 May 2011, and the meeting reviewed and approved: 2010 Board of Directors' report, 2010 Supervisory Committee's report, 2010 finance results report and 2011 financial budget report, the 2010 profit distribution plan, 2010 annual report and the abstracts, the proposal to engage auditors for 2011, the independent directors' debriefing report of 2010, the proposal on the routine related-party transactions.

2. Provisional Shareholders' Meetings

Session	Date	Publications	Disclosure date
2011 First Provisional Shareholders' Meeting	15 April 2011	Shanghai Securities News Hongkong Wen Wei Po	16 April 2011
2011 Second Provisional Shareholders' Meeting	15 September 2011	Shanghai Securities News Hongkong Wen Wei Po	16 September 2011

(1) The Company's 2011 First Provisional Shareholders' Meeting was held on 15 April 2011, and the meeting reviewed and approved the following proposals:

- (I) The Company complying with the conditions of non-public offering of A shares
- (II) The Company's scheme on non-public offering of A shares in 2011 (itemised)
 - a. Type and nominal value of issued shares
 - b. Method and Time of shares issue
 - c. Objective and subscription method of issued shares
 - d. Quantity of issued shares
 - e. Pricing base date and issue price
 - f. Arrangement of lock-up periods
 - g. Place of listing
 - h. Amount and Use of the raised fund
 - i. Profit distribution plan for the accumulated retained earnings before share issuing
 - j. Valid period of the resolution
- (III) The Company's plan on non-public offering of A shares in 2011
- (IV) The share subscription contract with effectiveness conditions, entered into by the Company and SAIC Motor Corporation Limited
- (V) The related-party transactions involved in the share issue
- (VI) The use of the raised fund in the prior offering
- (VII) The feasibility report on utilization of the fund raised by the Company on non-public offering of A shares in 2011
- (VIII) The request for authorisation from the General Meeting to proceed certain matters in relation to non-public offering of A shares

(2) The Company's 2011 Second Provisional Shareholders' Meeting was held on 15 September 2011, and the meeting reviewed and approved the following proposals:

- (I) The amendment of pricing base date, issue price and quantity of issued shares (itemised)
 - a. Pricing base date and issue price
 - b. Quantity of issued shares
- (II) The amendment of the Company's plan on non-public offering of A shares
- (III) The share subscription contract with effectiveness conditions, entered into by the Company and SAIC Motor Corporation Limited (revised version)
- (IV) The related-party transactions involved in the share issue

VII. Board of Directors' Report

1. Management discussion and analysis

(1) Overall operating results of the Company in 2011

In 2011, the national economy maintained continuous and rapid growth in China, and gross domestic product (GDP) achieved 9.2% growth as compared to last year. The automotive industry and mechanical engineer industry continued to rise, but the growth rate slipped to certain extent.

It was the first year of the "Twelfth Five-Year Plan", as well as the foundation year of the Company's five-year development plan in 2011. The Company, in 2011, 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, followed with the general operation guidelines determined at the beginning of the year, closely kept track with the complex market trends (the "high beginning and low end" market of engine machinery and vehicle-diesel fell dramatically); responded flexibly; adapted operating strategy timely; promoted market layout, including: (a).overcome the market pressures, and actively snatch market share; (b).accelerate produce planning and improve the technology management system; (c).build quality-preventive system and promote the integration of supply network; (d).focus on capacity planning and construction and further promote lean production; (e).steadily adjust their business structure and strengthen internal management; (f).overcome the price increase factors of raw material and reduce costs to enhance efficiency. The Company carried out the key work steadily, gradually increased profitability and made a solid foundation to enhance the Company's overall competitiveness with the effort of all staffs of the Company.

(i) Operating work

In 2011, the market of domestic construction machinery and car-use diesel show high to low trend and fell monthly. Affected by the situation, the Company sold diesels of 100,177 units in current year, approximately at the same level as last year's 100,578 units, among which, the sales of passenger cars and trucks increased; the sales of ship power remained stable and the exports and the sales of construction machinery declined. The operating revenue amounted to RMB4,635 million and decreased by 4.07% as compared with last year; the net profit attributable to the parent company amounted to RMB207,306.9 thousand and increased by 52.07% as compared with last year that was mainly due to the decrease in expense and increase in net profit as a result of the Group's cost control policy in current year.

At the end of 2011, the total assets of the Company amounted to RMB4,011 million, decreased by 0.89% compared with last year; the shareholder's equity attributable to the parent company amounted to RMB2,181 million, increased by 7.48% compared with last year.

(ii) 2011 non-public offering of A shares

The Company started the non-public offering of A shares in 2011. On 28 February 2011, the 2011 second extraordinary Board Meeting reviewed and approved the proposal of the Company's 2011 non-public offering of A shares. On 15 April 2011, the first Provisional Shareholders' Meeting 2011 reviewed and approved the proposal of the Company's 2011 non-public offering of A shares. On 29 August 2011, the forth extraordinary Board Meeting reviewed and approved the proposal of the adjustment of 2011 non-public offering of A shares. On 15 September 2011, the second Provisional Shareholders' Meeting 2011 reviewed and approved the revised proposal of the Company's 2011 non-public offering of A shares. The revised proposal was that the Company made non-public offering to no more than 10 specified investors including controlling shareholder, SAIC Motor Corporation Limited, and the total number of shares would not exceed 75 million at RMB13.46 per share. This non-public offering would raise funds no more than RMB1 billion, and funds raised would be used for the following items:

Project name	Funds required (RMB:'0000)	Planned input amount of raised funds (RMB:'0000)
1 Heavy vehicle-diesel engine project	45,240.00	38,613.00
2 Medium-light diesel engine project	43,946.00	37,509.00
3 Development and Manufacturing of light diesel engine project	27,976.00	23,878.00
Total	117,162.00	100,000.00

The Company's 2011 non-public offering of A shares was approved by Shanghai State-owned Assets Supervision and Administration Commission. On 10 October 2011, it was conditionally approved by the Issuance Examination Committee of China Securities Regulatory Commission. On 17 January 2012, the Company received the approval document from China Securities Regulatory Commission. Up to the disclosure of this report, 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 fund of RMB818,149,600.84 (net amount), after deducting various issue expenses, which has been verified by Ernst & Young Hua Ming and been issued the Capital Verification Report of Ernst & Young Hua Ming (2012) Yan Zi No.60462488_B02. Accordingly, the Company increased the registered capital and share capital by RMB62,873,551.00.

(2). Principal operating activities

a. Operating activities by industry

Unit: RMB yuan

Industry	Operating revenue	Operating cost	Profit margin (%)	Operating revenue change (%)	Operating cost change (%)	Profit margin change (%)
Diesel engine and parts	4,543,250,556.10	3,654,018,563.99	19.57	-3.35	-0.35	decreased by 2.42percent point

b. Operating activities by region

Unit: RMB yuan

Region	Operating income	Operating income change (%)
Domestic	4,416,743,263.60	-1.95
Foreign	126,507,292.50	-35.46

c. Major suppliers and customers

Unit: RMB yuan

5 largest suppliers, total	479,024,478.48	Proportion to total purchase (%)	15.58
5 largest customers, total	1,898,755,394.31	Proportion to total sales (%)	40.97

d. In 2011, there is no significant change in the Company's profit composition, major business, structure, and profit-making ability, as compared to last year. Neither the Company's other operating activities nor the investees have significant effect on the Company's net profit.

Major balance sheet accounts during the reporting period (consolidated):

Unit: RMB yuan

Accounts	Year end 2011	Year end 2010	Fluctuation
Notes receivable	1,100,827,260.00	1,239,473,175.81	-11.19%
Inventory	270,133,402.71	456,291,680.06	-40.80%
Available for sale financial assets	44,442,355.00	85,096,475.10	-47.77%
Construction in progress	403,143,769.62	76,094,972.75	429.79%
Short term borrowings	0	80,000,000.00	NA
Accounts payable	625,394,593.99	858,913,417.70	-27.19%
Other current liabilities	579,406,203.99	451,948,101.95	28.20%
Other non-current liabilities	191,906,103.92	92,653,624.32	107.12%
Retained earnings	562,578,802.21	400,070,732.11	40.62%

Analysis: The fluctuation of notes receivable balances was mainly due to the increase of collection on maturity; the fluctuation of inventory was mainly due to the decrease in stock of diesel engine at the year end; the fluctuation of available-for-sale financial assets was mainly due to the decrease of the price of stocks held by the Company and the

sales of partial stocks; the fluctuation of construction in progress was mainly due to the increased investment in fixed assets relating to the development of new and existing products, besides, Shanghai Diesel Hai'an power Co., Ltd., newly established in 2011, was still in the construction period, which also contributed to the increase in construction in progress balance; the fluctuation of short-term loan was mainly due to the repayment of related borrowings; the fluctuation of accounts payable was mainly due to the Company strengthened the support to its suppliers; the fluctuation of other current liabilities was mainly due to the increase of sales bonus and discount; the fluctuation of other non-current liabilities was mainly due to the increase in government related deferred income and early retirement benefits over 1 year; the fluctuation of retained earnings was mainly attributed to the increase in profit attributable to the Company.

Fluctuation of operating expenses and General and administrative expenses Unit: RMB yuan

Name	2011	2010	Change
Operating expenses	253,139,571.59	339,105,003.65	-25.35%
General and administrative expenses	450,674,873.85	523,670,653.78	-13.94%
Financial expenses	-24,038,909.20	-13,855,661.25	-73.50%

Analysis: The fluctuation of operating expenses was mainly attributed to the decrease in after-sale expenditure; the fluctuation of general and administrative expenses was mainly due to the decrease in severance payment; the fluctuation of financial expenses was mainly due to the increase in interest of deposits.

Analysis of financial position and operation result Unit: RMB yuan

Name	2011	2010	Change
Total assets	4,010,856,413.12	4,046,865,484.96	-0.89%
Total liabilities	1,812,230,023.16	1,994,746,577.48	-9.15%
Total operating income	4,634,955,294.75	4,831,398,471.85	-4.07%
Total operating cost	4,434,414,379.94	4,727,272,496.25	-6.20%
Net profit attributable to the Company	207,306,920.41	136,325,336.38	52.07%

Analysis: There was no large fluctuation in total assets compared with last year; the fluctuation of total liabilities was mainly due to the decrease in accounts payable and short-term loans; the fluctuation of total operating income was mainly due to decrease in other operating income; the fluctuation of total operating cost was in line with decrease in other operating cost; the fluctuation of net profit attributable to the Company was mainly due to the decrease in expense and increase in net profit as a result of the group's cost control policy in current year.

Cash flow indices (consolidated) Unit: RMB yuan

Name	2011	2010	Change
Net cash flows from operating activities	473,599,269.06	349,460,917.86	35.52%
Net cash flows from investing activities	-374,252,116.25	19,908,973.61	-1979.82%
Net cash flows from financing activities	-105,910,759.00	55,984,536.00	-289.18%

Analysis: the fluctuation of net cash flows from operating activities was mainly due to the increase in the operating profit and the decrease in inventory; the fluctuation of net cash flows from investing activities was mainly due to the increased investment in fixed assets relating to the development of new and existing products; the fluctuation of net cash flows from financing activities was mainly due to the repayment of short term borrowings in current year.

e. Operation results of major subsidiaries Unit: RMB'0000 yuan

Company name	Major business	Registered capital	Total assets	Net assets	Net profit
Dongfeng Diesel Engine Sales	Sales of diesel and spare parts	500	7,992.60	10,750.79	428.59
Shanghai Yihua Power Station Engineering Co., Ltd.	Manufacturing and selling diesel generator	2,000	7,115.92	6,824.38	515.34
Shanghai Shangchai Car Trading Co., Ltd.	Sales of cars and spare parts	470	50.67	-50.91	38.00
Dalian Shangchai Diesel Power Co., Ltd.	Manufacturing and selling diesel engines	30,000	17,513.68	17,097.61	-1,093.46
Shanghai Diesel Hai'an Power Co., Ltd.	Manufacturing and selling casting products	30,000	29,425.45	29,625.75	-374.25

f. Internal control related to fair value measurement.

The Company's finance department predicts and determines the fair value which can be reliably measured in accordance with internal control management rules, cautious rules and the Accounting Standards for Business Enterprises.

Items measured at fair value Unit: RMB'0000 yuan

Items	Balances at the beginning of the year	Fair value changes through profit and loss	Fair value changes through equity	Provisions	Balances at the ending of the year
Financial assets					
Including:					
a. financial assets measured at fair value through profit and loss					
b. available-for-sale financial assets	8,509.65		8.34		4,444.24
Subtotal of financial assets.	8,509.65		8.34		4,444.24
Financial liabilities					
Investment properties					
Total	8,509.65		8.34		4,444.24

g. Technical innovation during the reporting period under review

In 2011, the Company continued to accelerate the technology upgrading for the existing products and invested more in developing green, environmental friendly and energy-saving produces. In 2011, the Company and Shanghai Jiao Tong University jointly undertook the "863 plan" project in developing 2-DME engine products in order to meet the "national IV standard", which had passed through the examination of Ministry of Science and Technology. The project designed and developed the 2-DME engine which has the mechanical in-line injection pump, electronic control C-EGR and DOC Technology and met the National IV emission standard. Its power, economy, reliability and cost control met the project requirements and on the leading level in the country.

h. The set-up of internal control system

In 2011, in order to improve legal person management structure, the Company raised more strict requirements to the internal control management, enhanced execution and improved effectiveness of operation management and internal control according to the requirements of Basic Standards for Enterprise Internal Control and Application Guidance on

Enterprise Internal Control. At the same time, in order to further explore potential, to better improve the company's overall operating efficiency, in 2011, the Company successfully completed the SAP program (for data processing systems, applications and products), the implementation of the project achieved the integration of the company's sales, planning, purchasing, logistics and financial business, marking a new level about the company's business operation and management, which effectively improved the company's level of information management.

According to the overall objective of internal control, taking the risk investigation of business department as the breakthrough point, through internal control self-assessment activities, the company amended and improved internal control system and internal control handbook, enhanced the execution, in order to ensure that internal controls were implemented effectively, to rationally ensure the legality of operation, the safety of assets, and the accuracy and completeness of financial reports and related information; to improve the efficiency and effectiveness of operation; to help the Company to achieve the development strategy.

(3). Prospects for Company's Future Development

(i) Development Trend and Market Competition Patterns in the industry

In 2012, the market environment the Company faced to would be extremely complex. In the international aspects, the US economy recovery is slow and the European debt crisis become more and more serious; in domestic aspects, the Central Economic Work Conference has determined that the overall requirements of the economy work is to continue to implement the proactive fiscal policy and prudent monetary policy, maintaining the continuity and stability of macroeconomic policies and accelerate the economic development pattern and economic restructuring, and expand domestic demand, maintain stable and rapid economic development. The 2012 government work report of the State Council also made the main targets of 2012 for economic and social development, in which, the gross domestic product (GDP) would grow by 7.5%. In general, the overall tone of the national macroeconomic policy is still to improve steadily, but the policy-orientation of the macro-control switch to adjust the economic structure and promote the regional development strategy. The investment in railway, highway, real estate and other fixed assets will slow down, but the National Water construction planning and the introduction of regional planning will bring a certain degree of market opportunities. Combined with the country's macroeconomic policy, we can expect that in 2012 China's overall national economy will maintain steady growth, and the automotive and construction machinery industry will return to steady growth correspondingly, the diesel engine market will show steady growth too.

The competition in domestic engine industry is increasingly serious, so, the pressure the Company facing is still large.

(ii) Opportunities, Challenges, Development plans and New Year's Operation Plan

Base on the work guide of "changing idea to get opportunity, focusing on key point to get first, turning to new market for development", in 2012, the Company will stick to scientific development concept, comprehensively implement the spirit of the Central Economic Work Conference, track the market situation closely and effectively change the ideas, speed up market response speed, and accelerate the development of new products, improve product spectrum, strength product platform planning and keep continuous improvement, continue to promote lean manufacturing, focus on the quality system, and increase the level of quality, lay a solid foundation for the 12th five-Year Plan and the completion of commercial vehicle power base.

In 2012, the Company plans to achieve the goals of: sale volume of 104,000 units of diesel engines, operating revenue of RMB4,535 million and operating cost of RMB3,654 million.

(iii) Financing Plan for the Future Development

Needs of funds in the future: According to the development strategy, the Company will meet the funds requirement for future development by non-public offering of A shares, bank loan, self-generated funds and other financing means. The Company will use the funds in accordance with the production and operation plan and enhance the funds management to ensure the fund needs of various projects.

(iv) Risk Factor Analysis

Along with more severely competition in domestic engine industry, the Company faces more pressure from the market. Compared with the competitor, the operation scale of company is still small and the company not yet completed the products layout and can only rely on the existing product to compete in the market; the current quality managing level of the Company fell behind the boutique strategy of the Company and is waiting for further improvement.

In year 2012, the Company will continuously focus on market exploit, new production development, improvement of product quality and all other various kinds of jobs to ensure the achievement of 2012 operating objective and create better operating records.

(v) Funds requirement, using plan and sources

Capital expenditure commitments	Method of financing	Sources of funds
Heavy vehicle-diesel engine project	Equity financing	Total investment:452.40 million: Partial funds raised from non-public offering of A shares; others use self-generated funds
Medium-light diesel engine project	Equity financing	Total investment:439.46 million: Partial funds raised from non-public offering of A shares; others use self-generated funds
Development and Manufacturing of light diesel engine project	Equity financing	Total investment:279.76million: Partial funds raised from non-public offering of A shares; others use self-generated funds

2. Investment details of the Company

Investee's name	Major business	The proportion of the investee's equity (%)	Remarks
Shanghai Diesel Hai'an Power Co., Ltd.	Manufacturing and selling casting products	100	On 21 April 2011, the Company established the wholly owned subsidiary, Shanghai Diesel Hai'an Power Co., Ltd., with registered capital of RMB300 million, and has included it into the scope of consolidation since April 2011.

(1) Trust management and entrusted loans

During the reporting period, the Company has no trust management and entrusted loans.

(2) Use of raised fund

During the reporting period, the Company has no use of raised fund or previously raised funds in current year.

(3) Use of non-raised fund

Unit: RMB'0000

Project Name	Project Amount	Project Progress
Transfer of investment in fixed assets project	19,469	75%
Addition of investment in fixed assets	18,597	52%
Equipment renewal project	2,024	91%
Hai'an cast base project	6,455	100%
Total	46,545	/

3. Discussion conclusion of Board of Directors on accounting policy change, accounting estimates change, correction of fundamental accounting error, supplementary information for material omission, reason for correcting performance forecast as well as the related accountability investigation and response.

During the reporting period, the Company has no accounting policy change and accounting estimates change.

4. Routine work of the Board of Directors

(1) Meetings and resolutions of the Board of Directors during the reporting period

Session	Held date	Resolution details	Disclosure newspapers	Disclosure date
First extraordinary Board Meeting of 2011	14 January 2011	Reviewed and approved the proposal for construction of middle diesel engine production capacity; the proposal for setting up casting company on another place; the proposal for hiring vice general manager	Shanghai Securities News Hongkong Wen Wei Po Post	15 January 2011
Fifth session of the sixth Board Meetings	25 February 2011	Reviewed and approved 2010 General Manager work report, 2010 Finance Results Report, 2010 Board of Directors' report, the 2010 independent directors' debriefing report, the 2010 self assessment report of internal control, the 2010 report of social responsibility, the proposal for the impairment provision for casting business; the proposal for changing the method to provide the warranty provision; the proposal for 2010 profit distribution; 2010 Annual Reports and abstracts; the proposal for applying for 2011 annual comprehensive credit limit, the Proposal to hire the accounting firm of the year 2011; the Proposal on the routine related-party transactions; the proposal for calling of the 2010 annual general meeting	Shanghai Securities News Hongkong Wen Wei Po Post	26 February 2011
Second extraordinary Board Meeting	28 February 2011	Reviewed and approved the proposal for the company complies with conditions of non-public offering of A shares; the proposal about the company 2011 non-public offering of A shares; the proposal for the company and the Shanghai Automotive Group Co., Ltd. signed the contract of Share Subscription attached force condition; the proposal for the related-party transactions involving in the issue; the proposal for the use of prior raised fund; the proposal for the feasibility report of raised fund in the company 2011 non-public offering of A shares; the proposal for the request for authorization from shareholders' meeting to process the related matters non-public offering of A shares	Shanghai Securities News Hongkong Wen Wei Po Post	2 March 2011
Third extraordinary Board Meeting of 2011	15 April 2011	Reviewed and approved the first quarter report of 2011	Shanghai Securities News Hongkong Wen Wei Po Post	16 April 2011
Sixth session of the sixth Board Meeting	12 August 2011	Reviewed and approved the general managers' report on the 2011 first half year , report of 2011 first half year finance results and second half year budgets, 2011 half year report, 2011 first half year self-assessment report of internal control and the proposal for making management rules of the Board Secretary	Shanghai Securities News Hongkong Wen Wei Po Post	13 August 2011

Session	Held date	Resolution details	Disclosure newspapers	Disclosure date
Forth extraordinary Board Meeting of 2011	29 August 2011	Reviewed and approved the proposal for adjustment of pricing base date, issue price and quantity of the company 2011 non-public offering of A shares; the proposal for revising 2011 non-public offering of A shares; the proposal for the company and the Shanghai Automotive Group Co., Ltd. signed the contract (Revised draft) of Share Subscription attached force condition; the proposal for the related-party transactions involving in the issue; the proposal for calling of the 2nd Provisional Shareholders' meeting	Shanghai Securities News Hongkong Wen Wei Po Post	30 August 2011
Fifth extraordinary Board Meeting of 2011	19 October 2011	Reviewed and approved 2011 third quarter report; the control system for related party transactions between the Company and controlling shareholder Finance Company	Shanghai Securities News Hongkong Wen Wei Po Post	20 October 2011

- (2) The implementation of the resolution of annual general meeting by the Board of Directors
During the reporting period, the resolutions of annual general meetings have been thoroughly implemented by the Board of Directors.
- (i) On 15 April 2011, the Company held the First Extraordinary Board Meeting of 2011, which reviewed and approved the proposal for the Company's 2011 non-public offering of A shares etc. The resolutions of shareholders' meetings have been thoroughly implemented by the Board of Directors.
- (ii) On 21 May 2011, the Company held the 2010 Annual General Meeting, which reviewed and approved 2010 Director's Report, 2010 Supervisor Report and the proposal for 2010 Profit Distribution Plan. The resolutions of annual general meetings have been thoroughly implemented by the Board of Directors. Profit Distribution Plan based on the total share of 480,309,280 shares at the end of 2010, the Company paid cash dividend at RMB0.50 per 10 shares in cash (tax included) with a total cash dividend of RMB24,015,464. The proposed cash dividend has been distributed in 2011.
- (iii) On 15 September 2011, the Company held the Second extraordinary Board Meeting of 2011, which reviewed and approved the proposal for adjustment of pricing base date, issue price and quantity of the Company's 2011 non-public offering of A shares etc. The resolutions of shareholders' meetings have been thoroughly implemented by the Board of Directors.
- (3) The set-up and improvement of the working protocol of Audit Committee and its main work and duty fulfilment report
- (i) The establishment of Audit Committee system
The Audit Committee comprised of Chen Wen Hao (Independent Director), Gu Feng (Director) and Yan Yi Ming (Independent Director) and Chen Wen Hao is the chairman of the Audit Committee.
In 2007, the third Extraordinary 2007 Board Meeting reviewed and passed the Working Protocol for Audit Committee. Audit Committee strictly followed the protocol to carry out jobs.
In 2009, the seventh session of the fifth Board Meeting reviewed and passed the Protocol of Reviewing Annual Report by the Audit Committee which clearly stated the duties and requirements to the Audit Committee which include review the financial report and raise opinion in written before the commencement of the audit field work, communicate for at least once with auditors after the start of audit field work, monitor the audit progress before the issuance of the auditors' report, express the review opinion in written after the auditor issuing the preliminary audit opinion, reviewed and passed the auditors' report, During the reviewing of 2011 Annual Report, the Audit Committee strictly followed the above protocols.

- (ii) Issuance process of 2011 Annual Report
On 20 December 2011, before the comment of audit field work, the Audit Committee expressed the written opinion on the financial reports and considered the financial reports was prepared in accordance with the Accounting Standards for Business Enterprises.
On 27 December 2011, the Audit Committee held audit planning meeting with the auditor, Ernst & Young Hua Ming, and agreed upon the 2011 audit plan.
On 1 February 2012, according to the agreed audit plan, Audit Committee issued the reminder to the auditor for timely issuance auditors' report and got response from the auditor on 6 February 2012
On 9 February 2012, after the preliminary audit opinion was issued by the auditor, Audit Committee expressed written opinion and considered the 2011 financial statements fully presented the financial position of the Company and agreed to prepare the 2011 annual report based on the auditors' report.
On 14 March 2012, management reported the 2011 operating results to members of Audit Committee and Supervisor Committee. The Independent Director and Audit Committee communicated with auditor regarding the audit progress. Meanwhile, the Audit Committee held the 2011 first session meeting and passed the proposal for 2012 auditor appointment. During the meeting, the committee considered Ernst & Young Hua Ming strictly followed the audit standards when carrying the audit work; the audit opinion fully presented the financial position of the Company as of 31 December 2011 and the results of its operations and its cash flows for the year then ended; and agreed the issuance of the auditors' report based on the audit results and prepared 2011 annual report and abstracts accordingly. The Committee resolved to continuously appoint Ernst & Young Hua Ming as the auditor to provide 2012 audit service to the Company.
- (iii) In 2011, the Audit Committee held 2 meetings
On 17 February 2011, the Audit Committee held the first meeting, reviewed and passed the: ①the execution analysis report of 2010 budget; ②Summary for 2010 Audit of accounting firm; ③the supervision and inspection for significant events report; ④2010 Internal Control Self-assessment Report; ⑤2010 Internal Auditor Working Plan; ⑥the proposal to hire 2011 accounting firm.
On 10 August 2011, the Audit Committee held the second meeting, reviewed and passed: ①report of 2011 first half year finance results and second half year budgets; ②2011 first half year self assessment report of internal control.
- (iv) The report of Remuneration & Inspection Committee of Board of Directors
The Remuneration & Inspection Committee held one meeting during 2011: on 25 February 2011, the Remuneration & Inspection held the first meeting, reviewed and passed the 2010 Remuneration Report for Directors, Supervisors and Senior Management of the Company.
- (v) The establishment and improvement of the regulations on external users of information.
On 24 March 2010, the Company held the third session of the sixth Board Meetings, reviewed and passed the proposal for amending Management Rules on Information Disclosure Matters". The amended Management Rules clarified the management rules on external users of information.
- (vi) Board of Directors' announcement for 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.
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 2011 (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.
The disclosure of Plan and implementation of the establishment and improvement of the internal control system for company listed on main board that should implement Standards for Internal Control in 2012
- (vii) The Board of Directors raised strict requirements to the Company's internal control in order to improve legal person management structure and internal constraints. The requirements include enhancing execution and improving effectiveness of operation management and internal control as well as the internal control system according to the requirements of Basic Standards for Enterprise Internal Control and Application Guidance on Enterprise Internal Control.

Plan: According to the overall objective of internal control, taking the risk investigation of business department as the breakthrough point, through internal control self-assessment activities, the company amended and improved internal control system and internal control handbook, enhanced the execution, in order to ensure that internal controls were implemented effectively.

Implementation: The Board of Directors and management of the Company is responsible for the establishment and improvement of the Company's internal control system. In accordance with requirement of Guidelines on Internal Controls of Companies listed on Shanghai Stock Exchange, Basic Standards for Enterprise Internal Control and Application Guidance on Enterprise Internal Control, the Company continuously supplemented and executed the Internal Control Handbook from the prospects of control environment, risk assessment, control activities, information & communication and monitoring. The objective of the Company's internal control is: to rationally ensure the legality of operation, the safety of assets, and the accuracy and completeness of financial reports and related information; to improve the efficiency and effectiveness of operation; to help the Company to achieve the development strategy.

(viii) The management of person knowing inside information

On 24 March 2010, the Company held the third session of the sixth Board Meetings, reviewed and passed the proposal for amending Management Rules on Information Disclosure Matters". The amended Management Rules clarified the management rules on person who knowing inside information.

The Company strictly followed the above management rules. Through self inspection, the person who knowing the inside information of the Company did not trade the stocks of the Company before the disclosure of the significant sensitive information of the Company which may affect the stock price of the Company.

(ix) Whether the Company and its subsidiaries were included in the heavily polluting enterprises list published by the environmental protection department: No

The Company had no significant environmental problem, neither other significant social safe problems.

5. Cash dividend policy

(1) The company has always cared about reasonable return to the investor, and the articles 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 ensuring the business operation.

Under the premise of earnings, cash flows meeting company's ordinary business, investment planning and long-term development, the company can distribute dividend in medium-term or annual in the form of cash. If making annual profit but no distribution, the board of directors should disclose in the annual report the reason and usage of fund retained.

(2) On 20 May 2011, the 2010 Annual General Meeting was held and approved the proposal of 2010 profit distribution: allot RMB 0.50 (tax inclusive) per 10 shares based on the total share capital of 480,309,280 shares as at the end of 2010 and the total cash dividend amounts to RMB24,015,464.00. During the reporting period, the cash dividend has been distributed.

6. Distribution of profits or capital reserve plan

The distribution of annual profit of the year 2010 is cash dividend at RMB0.05 (tax inclusive) per share based on the total share capital of 543,182,831 shares, and transfer the capital reserve into share capital at 6 additional shares per 10 current shares. This proposal still needs to be submitted to 2011 Annual General Meeting for approval.

7. Dividends in prior three years

Unit: RMB yuan

Year	Unit dividend per 10 shares (tax inclusive)	Cash dividends (tax inclusive)	Consolidated net profit attributed to shareholders during the year	Ratio to consolidated net profit attributable to shareholders (%)
2010	0.50	24,015,464.00	136,325,336.38	17.62
2009	0.50	24,015,464.00	69,550,000.32	34.53
2008	0.50	24,015,464.00	27,284,767.44	88.02

VIII. Supervisory Committee's Report

1. Meetings of Supervisory Committee

Number of meetings	6	
Details of meeting	Topic of the meeting	
On 25 February 2011, the fifth session of the sixth Supervisory Committee Meeting	(1) 2010 Supervisor Committee Report; (2) the proposal for changing the method to provide the warranty (3)2010 Annual Report and Abstracts;(4) Proposal for 2011 related party daily transaction; (5) 2010 Internal Control Self Assessment Report; (6) 2010 Social Responsibility Report	
On 28 February 2011, the first extraordinary meeting of 2011	(1)the proposal for the company 2011 non-public offering of A shares; (2) the proposal for the company and the Shanghai Automotive Group Co., Ltd. signed the contract of Share Subscription attached force condition; (3) the proposal for the related-party transactions involving in the issue; (4)the proposal for the use of prior raised fund; (5)the proposal for the feasibility report of raised fund in the company 2011 non-public offering of A shares	
On 15 April 2011, the Second extraordinary meeting of 2011	(1) 2011 first quarter report	
On 12 August 2011, the sixth session of the sixth Supervisory Committee Meeting	(1) 2011 half year report	
On 29 August 2011, the third extraordinary meeting of 2011	(1) The proposal for adjustment of pricing base date, issue price and quantity of the company 2011 non-public offering of A shares; (2)The proposal for the amendments to the 2011 non-public offering of A shares plan (3)The proposal for the company and the Shanghai Automotive Group Co., Ltd. signed the contract (Revised draft) of Share Subscription attached force condition (4)The proposal for the related-party transactions involving in the issue	
On 19 October 2011, the forth extraordinary meeting of 2011	(1) 2011 third quarter report	

2. Independent opinion on the legality of company's operation

During the reporting period, the Company is operated legally and decisions are made according to related regulations. The internal control system is complete and adequate. The fulfilment of duties of directors and management does not violate the laws, regulations, company's articles and the benefit of the Company.

3. Independent opinion on the Company's finance position

During the reporting period, the Company acts strictly compliance with the related regulations and the Company's financial management rules. The financial operation of the Company is in regular and well managed. The auditors' report with standard opinion issued by the auditors fairly presented the financial position and operation results of the Company.

4. Independent opinion on the usage of the Company's latest fund-raising

During the reporting period, the Company's 2011 non-public offering of A shares has not completed, so there is no usage of fund-raising.

5. Independent opinion on acquisition and disposal of assets

During the reporting period, the Company has no significant acquisition or disposal of assets.

6. Independent opinion on related party transactions

During the reporting period, the Company's related party transactions are all daily and normal transactions. All transactions are carried out under the principle of being open, just and fair and the prices are determined based on fair market price and are also properly approved. There are no situations that will impair the benefits of the Company.

7. Review on Internal Control Self-assessment Report

On 26 March 2012, the seventh session of the sixth Supervisor Committee was held and the committee reviewed and approved 2011 Internal Control Self-assessment Report.

IX. Significant events

1. Significant litigation and arbitration

There are no significant litigation and arbitration during the reporting period.

2. Bankruptcy, restructuring and suspension listing or termination listing

There are no bankruptcy and restructuring events occurred during the reporting period.

3. Shareholding of stocks of other listing company and financial institutions.

(1) Shareholding of stocks of other listing company Unit: RMB

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
600845	Bao Xin Software	550,000.00	0.05	2,591,875.00		-885,912.50	Available for sales financial asset	Former corporate restricted shares
600665	Tian Di Yuan	3,432,738.10	0	0	5,055,860.80	-3,622,582.62	Available for sales financial asset	Former corporate restricted shares
600650	Jing Jiang Investment	249,600.00	0	0	717,738.24	-588,310.58	Available for sales financial asset	Former corporate restricted shares
600815	Xia Gong Share	43,809,000.00	0.66	41,850,480.00		-26,329,209.00	Available for sales financial asset	Subscription in private placement
	Total	48,041,338.10	/	44,442,355.00	5,773,599.04	-31,426,014.70	/	/

4. There is no acquisition, disposal or merge incurred during the reporting period.

5. Significant related party transactions during the reporting period

(1) Related party transaction related to daily operation Unit: RMB

Related party	Relations	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
Lingzhong Supercharge	Associate	Purchase of goods	Purchase of goods and Receive services	Market price	86,672,948.16	2.82
Anyue Automotive Materials	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	67,442,308.10	2.19
Automobile Import and Export	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	27,791,906.07	0.90
Valeo	Jointly controlled entity of the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	17,379,256.07	0.57
Federal-Mogul	Associate of the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	15,560,895.96	0.51
Auto Assets Management	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	4,495,726.50	0.15
China Spring	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	3,158,671.23	0.10
Aichi Forging	Associate of the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	1,254,280.44	0.04

Related party	Relations	Type of transaction	Details of transaction	Pricing	Amount	Percentage in the same nature transactions %
Xingfu Motor	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	1,225,480.28	0.04
Kolben	Jointly controlled entity of the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	1,036,214.00	0.03
Information Industry investment	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	910,179.50	0.03
Anyue Energy-saving	Company controlled by the parent company	Receive services	Purchase of goods and Receive services	Market price	818,410.28	0.03
SAIC International Agency	Company controlled by the parent company	Receive services	Purchase of goods and Receive services	Market price	581,014.00	0.02
Sachs Power	Jointly controlled entity of the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	548,748.00	0.02
Automotive Powder	Company controlled by the parent company	Purchase of goods	Purchase of goods and Receive services	Market price	264,693.51	0.01
Anji Trading	Company controlled by the parent company	Receive services	Purchase of goods and Receive services	Market price	206,800.00	0.01
Tenneco Exhaust	Associate of the parent company	Receive services	Purchase of goods and Receive services	Market price	86,976.28	0
SAIC Commercial Vehicle	Company controlled by the parent company	Sales of goods	Sale Diesels	Market price	45,891,915.67	0.99
Sun Win Bus	Jointly controlled entity of the parent company	Sales of goods	Sale Diesels	Market price	38,268,482.19	0.83
Pengpu Machine	Company controlled by the parent company	Sales of goods	Sale Diesels	Market price	10,704,497.66	0.23
Iveco Hongyan	Jointly controlled entity of the parent company	Sales of goods	Sale Diesels	Market price	9,713,752.22	0.21
Nanjing Iveco	Jointly controlled entity of the parent company	Sales of goods	Sale Diesels	Market price	605,649.58	0.01
Huizhong	Company controlled by the parent company	Sales of goods	Sale Diesels	Market price	0	0
SAIC Finance	Company controlled by the parent company	Other income	Interest income	Deposit rate of People's Bank of China	2,224,195.61	10.52
SICERI	Subsidiary of ultimate controlling company	Other expenditure	R&D expense	Market price	295,000.00	0.18
Anji Automotive	Company controlled by the parent company	Other expenditure	Transportation expense	Market price	1,176,617.06	8.73
Anji Trading	Company controlled by the parent company	Other income	Rental expense	Market price	386,841.63	15.71
Training Center	Branch of the parent company	Other expenditure	Training expense	Market price	40,000.00	3.31
Total					338,741,460.00	--

The 2008 annual general meeting reviewed and approved Framework for accessories and spare parts supply, Framework Agreement on Production and Service with Shanghai Automotive Industry Corporation and SAIC Motor Corporation Limited, Framework Agreement on Financial Services with SAIC Finance. As approved by the 2009 annual general meeting, the Company is planning to sign the Framework Agreement on leasing of land and building with Shanghai Automotive Industry Corporation and SAIC Motor Corporation Limited. Meanwhile the Company also has daily transactions with Lingzhong Supercharge.

On 20 May 2011, the 2010 annual general meeting reviewed and passed the Proposal for 2011 Daily Normal Related Party Transactions. It is estimated that the transaction amount of daily and normal related party transactions under the Framework for accessories and spare parts supply, Framework Agreement on Production and Service, Framework Agreement on Financial Services and Framework Agreement on leasing of land and building totally amounted to RMB 520 million, among which, the transaction amount of accessories and spare parts supply, production and service, financial service, rental on land and building amounted to RMB350 million, RMB150 million, RMB10 million and RMB10 million, respectively. Besides, the average daily amount of deposit in SAIC Finance was not more than RMB 300 million. The estimated transaction amount of daily and normal related party transactions with Lingzhong Supercharge is RMB135 million. Within 2011, the actual related party transaction amounted to RMB338.7415 million.

The pricing for transactions with Shanghai Automotive Industry Corporation, SAIC Motor Corporation Limited and SAIC Finance follows the government pricing when available or market price when government pricing is not available; or the price determined based on actual cost plus reasonable expenses principal when the market price is not available; for those special services of which the price cannot be determined based on cost plus expenses principal, the price is agreed upon by both parties. The pricing for financial services provided by SAIC Finance is determined under the requirement of China Banking Regulatory Commission. The above related party transactions are necessary, regular and consistent to the daily production and operation of Company and its subsidiaries; these transactions do not impair the independence of the Company; the business of the Company will not rely on or be controlled by the related party due to above transactions and the other shareholders' interest will not be impaired.

6. Significant contracts and its implementation

- (1) Mandate, contract and lease events that bring more than 10% of current year total profit of the Company:
- (i) There are no mandate events occurred during the year.
 - (ii) There are no contract events occurred during the year.
 - (iii) There are no lease events occurred during the year.
- (2) The Company has no guarantee commitments during the year.
- (3) There are no other significant contracts during the year.

7. Implementation of commitment:

During the year and until the reporting date, the Company, the controlling shareholder or the actual controller of the Company have no commitments.

8. Appointment and dismissal of auditors

Unit: RMB'0000

Auditors changed	No
	Current appointment
Local auditors	Ernst&Young Hua Ming
Remuneration to local auditors	100
Service years of local auditors	8

9. **During the year, the Company and its Directors, Supervisors, Senior Management, Shareholders and Actual Controllers were not subject to the inspection, administrative punishment, publicly criticism by the China Securities Regulatory Commission (CSRC) or publicly being condemnation by the Shanghai Stock Exchange.**

10. **Other significant events**

There are no other significant events during the year

11. **Information disclosure index**

Events	Post	Date	Websites
Announcement of the resolution of the first extraordinary Board Meeting	Shanghai Securities News Hongkong Wen Wei Po	15 January 2011	Shanghai Stock Exchange http://www.sse.com.cn
Statement of prospective increase for the year 2011	Shanghai Securities News Hongkong Wen Wei Po	31 January 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement about suspension with significant event of Board Meeting	Shanghai Securities News Hongkong Wen Wei Po	25 February 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the fifth session of the sixth Board Meeting	Shanghai Securities News Hongkong Wen Wei Po	26 February 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the fifth session of the sixth Supervisor Meetings	Shanghai Securities News Hongkong Wen Wei Po	26 February 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of daily and regular related party transactions	Shanghai Securities News Hongkong Wen Wei Po	26 February 2011	Shanghai Stock Exchange http://www.sse.com.cn
2010 annual report abstracts	Shanghai Securities News Hongkong Wen Wei Po	26 February 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the Second extraordinary Board Meeting	Shanghai Securities News Hongkong Wen Wei Po	2 March 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the first extraordinary Supervisor Meetings	Shanghai Securities News Hongkong Wen Wei Po	2 March 2011	Shanghai Stock Exchange http://www.sse.com.cn
The proposal about the Company's 2011 non-public offering of A shares	Shanghai Securities News Hongkong Wen Wei Po	2 March 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of related party transaction in relation to the controlling shareholder subscribing A shares in the Company's non-public offering	Shanghai Securities News Hongkong Wen Wei Po	2 March 2011	Shanghai Stock Exchange http://www.sse.com.cn
Prompting announcement for the latest progress of non-public offering of A shares	Shanghai Securities News Hongkong Wen Wei Po	16 March 2011	Shanghai Stock Exchange http://www.sse.com.cn
Notice for calling of the 1st Provisional Shareholders' Meeting 2011	Shanghai Securities News Hongkong Wen Wei Po	31 March 2011	Shanghai Stock Exchange http://www.sse.com.cn
Prompting Announcement for Calling of the 1st Provisional Shareholders' Meeting 2011	Shanghai Securities News Hongkong Wen Wei Po	9 April 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the 1st Provisional Shareholders' Meeting 2011	Shanghai Securities News Hongkong Wen Wei Po	16 April 2011	Shanghai Stock Exchange http://www.sse.com.cn
2011 first quarter report	Shanghai Securities News Hongkong Wen Wei Po	16 April 2011	Shanghai Stock Exchange http://www.sse.com.cn

Events	Post	Date	Websites
Notice for Calling of the 2010 annual general meeting	Shanghai Securities News Hongkong Wen Wei Po	29 April 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of 2010 annual general meeting	Shanghai Securities News Hongkong Wen Wei Po	21 May 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of 2010 profit distribution plan	Shanghai Securities News Hongkong Wen Wei Po	2 June 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the sixth session of the sixth Board Meeting	Shanghai Securities News Hongkong Wen Wei Po	13 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
2011 half year report abstracts	Shanghai Securities News Hongkong Wen Wei Po	13 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of suspension	Shanghai Securities News Hongkong Wen Wei Po	29 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the forth extraordinary Board Meeting	Shanghai Securities News Hongkong Wen Wei Po	30 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the third extraordinary Supervisor Meetings	Shanghai Securities News Hongkong Wen Wei Po	30 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of related party transaction in relation to the controlling shareholder subscribing A shares in the Company's non-public offering	Shanghai Securities News Hongkong Wen Wei Po	30 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
The proposal about the Company 2011 non-public offering of A shares (Revised draft)	Shanghai Securities News Hongkong Wen Wei Po	30 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
Notice for Calling of the 2nd Provisional Shareholders' Meeting 2011	Shanghai Securities NewsHongkong Wen Wei Po	30 August 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the approval on the adjustment of non-public offering plan by Shanghai State-owned Assets Supervision and Administration Commission, and the prompting announcement for calling of the 2nd Provisional Shareholders' Meeting 2011)	Shanghai Securities NewsHongkong Wen Wei Po	10 September 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the 2nd Provisional Shareholders' Meeting 2011	Shanghai Securities NewsHongkong Wen Wei Po	16 September 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the conditional approval on the Company's non-public offering by the Issuance Examination Committee of China Securities Regulatory Commission	Shanghai Securities NewsHongkong Wen Wei Po	11 October 2011	Shanghai Stock Exchange http://www.sse.com.cn
Announcement of the resolution of the fifth extraordinary Board Meeting	Shanghai SecuritiesNews Hongkong Wen Wei Po	20 October 2011	Shanghai Stock Exchange http://www.sse.com.cn
2011 third quarter report	Shanghai SecuritiesNews Hongkong Wen Wei Po	20 October 2011	Shanghai Stock Exchange http://www.sse.com.cn
Clarification announcement	Shanghai Securities NewsHongkong Wen Wei Po	4 November 2011	Shanghai Stock Exchange http://www.sse.com.cn
Prompting announcement	Shanghai Securities NewsHongkong Wen Wei Po	5 November 2011	Shanghai Stock Exchange http://www.sse.com.cn
Instructions on dividend	Shanghai Securities NewsHongkong Wen Wei Po	30 December 2011	Shanghai Stock Exchange http://www.sse.com.cn

X. Financial Statements

Financial statements of the Company for the year ended 31 December 2011 is audited by Certified Public Accountants, Ms. Zhou Lin and Mr. Li Bo of Ernst & Young Hua Ming and expressed a standard unqualified audit opinion.

1. Auditors' Report

Auditors' Report

Ernst & Young Hua Ming Shen Zi (2012) 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 2011, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of 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 2011 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

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

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

2. Financial Statements
CONSOLIDATED BALANCE SHEET

31 December 2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

Item	Note	2011	2010
Current assets:			
Cash		1,401,312,456.16	1,408,865,976.60
Notes receivables		1,100,827,260.00	1,239,473,175.81
Accounts receivable		217,807,613.47	220,455,221.91
Prepayments		1,735,169.19	1,056,508.52
Other receivables		2,434,484.43	2,966,134.12
Inventories		270,133,402.71	456,291,680.06
Other current assets		170,858.45	137,447.30
Total current assets		2,994,421,244.41	3,329,246,144.32
Non-current assets:			
Loans			
Available-for-sale financial assets		44,442,355.00	85,096,475.10
Long-term equity investments		46,770,518.66	42,298,878.26
Investment properties		1,009,098.58	1,096,766.52
Fixed assets		413,804,561.57	422,340,033.68
Construction in progress		403,143,769.62	76,094,972.75
Intangible assets		16,311,266.81	16,746,674.93
Deferred tax assets		90,953,598.47	73,945,539.40
Total non-current assets		1,016,435,168.71	717,619,340.64
Total assets		4,010,856,413.12	4,046,865,484.96
Current liabilities:			
Short-term loans		-	80,000,000.00
Notes payable		168,166,112.97	196,298,949.52
Accounts payable		625,394,593.99	858,913,417.70
Advance from customers		26,684,941.97	28,290,110.76
Employees' remuneration payable		144,584,867.20	151,540,507.02
Taxes payable		-7,013,952.84	52,476,478.94
Other payables		83,101,151.96	75,466,174.07
Other current liabilities		579,406,203.99	451,948,101.95
Total current liabilities		1,620,323,919.24	1,894,933,739.96
Long-term liabilities:			
Deferred tax liabilities		-	7,159,213.20
Other non-current liabilities		191,906,103.92	92,653,624.32
Total non-current liabilities		191,906,103.92	99,812,837.52
Total liabilities		1,812,230,023.16	1,994,746,577.48
Owners' equity:			
Share capital		480,309,280.00	480,309,280.00
Capital reserves		704,954,097.71	736,380,112.41
Surplus reserves		433,138,966.74	412,355,580.43
General risk reserve			
Retained earnings		562,578,802.21	400,070,732.11
Equity attributable to parent company		2,180,981,146.66	2,029,115,704.95
Minority interests		17,645,243.30	23,003,202.53
Total owners' equity		2,198,626,389.96	2,052,118,907.48
Total liabilities and owners' equity		4,010,856,413.12	4,046,865,484.96

Legal Representative: Xiao Guo Pu Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

BALANCE SHEET

31 December 2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	Note	2011	2010
Current assets:			
Cash		1,145,636,193.91	1,337,258,923.15
Notes receivables		1,091,919,731.00	1,227,782,359.61
Accounts receivables		241,025,000.06	207,171,204.09
Prepayments		939,980.34	638,246.53
Other receivables		2,176,286.36	2,523,775.54
Inventories		265,030,406.72	450,284,355.97
Other current assets		27,943.45	43,706.55
Total current assets		2,746,755,541.84	3,225,702,571.44
Non-current assets:			
Available-for-sale financial assets		44,442,355.00	85,096,475.10
Long-term equity investments		395,283,835.40	90,812,195.00
Investment properties		1,009,098.58	1,096,766.52
Fixed assets		375,489,364.23	375,759,523.43
Construction in progress		320,431,786.10	61,568,008.25
Intangible assets		212,791.54	270,891.58
Deferred tax assets		110,225,546.43	93,217,487.36
Total non-current assets		1,247,094,777.28	707,821,347.24
Total assets		3,993,850,319.12	3,933,523,918.68
Current liabilities:			
Short-term loans		-	80,000,000.00
Notes payable		168,166,112.97	196,298,949.52
Accounts payable		685,219,733.67	879,762,262.69
Advance from customers		22,018,544.99	24,244,271.27
Employees' remuneration payable		144,437,102.92	151,309,787.84
Taxes payable		30,472,814.04	80,134,295.83
Other payables		100,663,891.49	50,552,153.50
Other current liabilities		579,012,115.43	451,847,845.18
Total current liabilities		1,729,990,315.51	1,914,149,565.83
Long-term liabilities:			
Deferred tax liabilities		-	7,159,213.20
Other non-current liabilities		191,906,103.92	92,653,624.32
Total non-current liabilities		191,906,103.92	99,812,837.52
Total liabilities		1,921,896,419.43	2,013,962,403.35
Owners' equity:			
Share capital		480,309,280.00	480,309,280.00
Capital reserve		712,557,468.14	743,983,482.84
Surplus reserves		433,138,966.74	412,355,580.43
Retained earnings		445,948,184.81	282,913,172.06
Total owners' equity		2,071,953,899.69	1,919,561,515.33
Total liabilities and owners' equity		3,993,850,319.12	3,933,523,918.68

Legal Representative: Xiao Guo Pu Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

CONSOLIDATED INCOME STATEMENT

2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	Note	2011	2010
Revenue		4,634,955,294.75	4,831,398,471.85
Including: Operating revenue		4,634,955,294.75	4,831,398,471.85
Cost		4,434,414,379.94	4,727,272,496.25
Including: Operating cost		3,714,319,236.74	3,779,041,308.10
Business tax and surcharges		19,344,684.67	7,522,728.51
Operating expenses		253,139,571.59	339,105,003.65
General and administrative expenses		450,674,873.85	523,670,653.78
Financial expenses		-24,038,909.20	-13,855,661.25
Impairment losses on assets		20,974,922.29	91,788,463.46
Add: Investment income		21,328,266.58	8,615,792.55
Including: investment income from associates and jointly controlled entities		4,471,640.40	7,465,149.70
Operating profit/(loss)		221,869,181.39	112,741,768.15
Add: Non-operating income		5,563,274.29	10,831,387.04
Less: Non-operating expenses		3,100,246.17	4,726,725.17
Including: loss on disposal of non-current assets		3,071,935.63	4,123,656.76
Total profit		224,332,209.51	118,846,430.02
Less: Income tax expense		22,383,248.33	18,273,463.18
Net profit		201,948,961.18	100,572,966.84
Net profit attributable to parent company		207,306,920.41	136,325,336.38
Minority interests		-5,357,959.23	-35,752,369.54
Earnings per share			
Basic earnings per share		0.43	0.28
Dilute earnings per share		NA	NA
Other comprehensive income		-31,426,014.70	20,808,573.52
Total comprehensive income		170,522,946.48	121,381,540.36
Total comprehensive income attributable to parent company		175,880,905.71	157,133,909.90
Total comprehensive income attributable to minority shareholders		-5,357,959.23	-35,752,369.54

Legal Representative: Xiao Guo Pu Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

INCOME STATEMENT

2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	Note	2011	2010
Operating revenue:		4,585,880,656.60	4,730,452,356.76
Less: Operating cost		3,678,352,467.67	3,887,849,827.96
Business tax and surcharges		19,066,702.98	2,343,863.49
Operating expenses		248,735,447.48	216,162,926.40
General and administrative expenses		435,263,948.30	489,610,271.38
Financial expenses		-22,376,707.72	-13,487,613.92
Impairment losses on assets		21,502,691.77	88,211,815.50
Add: Investment income		21,328,266.58	8,090,870.06
Including: investment income from associates and jointly controlled entities		4,471,640.40	7,465,149.70
Operating profit/(loss)		226,664,372.70	67,852,136.01
Add: Non-operating income		3,207,185.67	6,150,776.91
Less: Non-operating expenses		2,064,596.60	3,969,369.40
Including: loss on disposal of non-current assets		2,036,286.06	1,493,308.49
Total profit		227,806,961.77	70,033,543.52
Less: Income tax expense		19,973,098.71	-5,880,284.41
Net profit		207,833,863.06	75,913,827.93
Other comprehensive income		-31,426,014.70	20,808,573.52
Total comprehensive income		176,407,848.36	96,722,401.45

Legal Representative: Xiao Guo Pu Principal in Charge of Accountancy: Jiang Bao Xin
Principal in Charge of Accounting Departments: Sun Yu

CONSOLIDATED CASH FLOW STATEMENT

2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sale of goods or rendering of services		5,541,558,263.89	5,270,337,582.49
Cash received relating to other operating activities		85,832,653.82	54,441,231.58
Sub-total of cash inflows from operating activities		5,627,390,917.71	5,324,778,814.07
Cash paid for purchase of goods and services		4,030,375,096.57	4,014,363,425.50
Cash paid to and on behalf of employees		448,748,213.81	391,664,508.66
Cash paid for all types of taxes		326,080,237.14	256,322,969.20
Cash paid relating to other operating activities		348,588,101.13	312,966,992.85
Sub-total of cash outflows from operating activities		5,153,791,648.65	4,975,317,896.21
Net cash flows from operating activities		473,599,269.06	349,460,917.86
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received from sale of investments		9,455,937.13	104,328,577.36
Cash received from return on investments		556,650.00	418,840.49
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		6,597,175.11	11,248,687.00
Sub-total of cash inflows from investing activities		16,609,762.24	115,996,104.85
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		390,861,878.49	92,810,931.24
Cash paid for acquisition of investments		-	3,276,200.00
Sub-total of cash outflows from investing activities		390,861,878.49	96,087,131.24
Net cash flows from investing activities		-374,252,116.25	19,908,973.61
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from borrowings		80,000,000.00	80,000,000.00
Sub-total of cash inflows from financing activities		80,000,000.00	80,000,000.00
Cash repayments of borrowings		160,000,000.00	-
Cash paid for distribution of dividends or profits and for interest expenses		25,910,759.00	24,015,464.00
Sub-total of cash outflows from financing activities		185,910,759.00	24,015,464.00
Net cash flows from financing activities		-105,910,759.00	55,984,536.00
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS		-989,914.25	-378,247.46
NET INCREASE IN CASH AND CASH EQUIVALENTS		-7,553,520.44	424,976,180.01
Add: Opening balance of cash and cash equivalents		1,408,865,976.60	983,889,796.59
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		1,401,312,456.16	1,408,865,976.60

Legal Representative: Xiao Guo Pu Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

CASH FLOW STATEMENT

2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sale of goods or rendering of services		5,429,477,495.10	5,000,364,675.26
Cash received relating to other operating activities		81,652,777.36	50,461,738.47
Sub-total of cash inflows from operating activities		5,511,130,272.46	5,050,826,413.73
Cash paid for goods and services		3,953,477,176.03	3,975,451,963.95
Cash paid to and on behalf of employees		442,336,447.88	388,684,691.50
Cash paid for all types of taxes		295,778,283.48	194,684,015.35
Cash paid relating to other operating activities		285,189,465.66	162,418,979.50
Sub-total of cash outflows from operating activities		4,976,781,373.05	4,721,239,650.30
Net cash flows from operating activities		534,348,899.41	329,586,763.43
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received from sale of investments		9,455,937.13	101,313,639.86
Cash received from return on investments		556,650.00	418,840.49
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		7,585,071.40	5,853,247.01
Sub-total of cash inflows from investing activities		17,597,658.53	107,585,727.36
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		336,668,613.93	92,042,776.68
Cash paid for acquisition of investments		300,000,000.00	1,019,670.00
Sub-total of cash outflows from investing activities		636,668,613.93	93,062,446.68
Net cash flows from investing activities		-619,070,955.40	14,523,280.68
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from borrowings		80,000,000.00	80,000,000.00
Sub-total of cash inflows from financing activities		80,000,000.00	80,000,000.00
Cash repayments of borrowings		160,000,000.00	-
Cash paid for distribution of dividends or profits and for interest expenses		25,910,759.00	24,015,464.00
Sub-total of cash outflows from financing activities		185,910,759.00	24,015,464.00
Net cash flows from financing activities		-105,910,759.00	55,984,536.00
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS		-989,914.25	-378,247.46
NET INCREASE IN CASH AND CASH EQUIVALENTS		-191,622,729.24	399,716,332.65
Add: Opening balance of cash and cash equivalents		1,337,258,923.15	937,542,590.50
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS		1,145,636,193.91	1,337,258,923.15

Legal Representative: Xiao Guo Pu Principal in Charge of Accountancy: Jiang Bao Xin
Principal in Charge of Accounting Departments: Sun Yu

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	2011										Total Owners' equity
	Interests belong to parent company						Minority interests				
	Share capital	Capital reserves	Less: Treasury stock	Special Reserve	surplus reserves	General Risk Provision	Retained earnings	Others			
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
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
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. Input by investors and decrease in capital											
IV. Distribution of profits					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				0.00
2. Distribution to owners							-24,015,464.00				-24,015,464.00
V. Internal transfer											
Closing balance in 2011	480,309,280.00	704,954,097.71			433,138,966.74		562,578,802.21	0.00	17,645,243.30		2,198,626,389.96

Legal Representative: Xiao Guo Pu

Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

Expressed in Renminbi Yuan

	2010										Total Owners' equity
	Interests belong to parent company							Minority interests			
	Share capital	Capital reserves	Less: Treasury stock	Special Reserve	surplus reserves	General Risk Provision	Retained earnings	Others	Minority interests	Total Owners' equity	
Closing balance in 2009	480,309,280.00	715,571,538.89			404,764,197.64		295,352,242.52		58,755,572.07	1,954,752,831.12	
Opening balance in 2010	480,309,280.00	715,571,538.89	0.00	0.00	404,764,197.64	0.00	295,352,242.52	0.00	58,755,572.07	1,954,752,831.12	
Changes during the year	0.00	20,808,573.52	0.00	0.00	7,591,382.79	0.00	104,718,489.59	0.00	-35,752,369.54	97,366,076.36	
I. Net profit							136,325,336.38		-35,752,369.54	100,572,966.84	
II. Other comprehensive income		20,808,573.52								20,808,573.52	
Subtotal I&II	0.00	20,808,573.52	0.00	0.00	0.00	0.00	136,325,336.38	0.00	-35,752,369.54	121,381,540.36	
III. Input by investors and decrease in capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
IV. Distribution of profits	0.00	0.00	0.00	0.00	7,591,382.79	0.00	-31,606,846.79	0.00	0.00	-24,015,464.00	
1. Appropriation to surplus reverses					7,591,382.79		-7,591,382.79			0.00	
2. Distribution to owners							-24,015,464.00			-24,015,464.00	
V. Internal transfer	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Closing balance in 2010	480,309,280.00	736,380,112.41	0.00	0.00	412,355,580.43	0.00	400,070,732.11	0.00	23,003,202.53	2,052,118,907.48	

Legal Representative: Xiao Guo Pu

Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

2011

Shanghai Diesel Engine Co., Ltd.

Expressed in Renminbi Yuan

	2011							
	Share capital	Capital reserves	Less: Treasury stock	Special Reserve	surplus reserves	General Risk Provision	Retained earnings	Total Owners' equity
Closing balance in 2010	480,309,280.00	743,983,482.84	0.00	0.00	412,355,580.43	0.00	282,913,172.06	1,919,561,515.33
Opening balance in 2011	480,309,280.00	743,983,482.84	0.00	0.00	412,355,580.43	0.00	282,913,172.06	1,919,561,515.33
Changes during the year	0.00	-31,426,014.70	0.00	0.00	20,783,386.31	0.00	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
Subtotal I&II	0.00	-31,426,014.70	0.00	0.00	0.00	0.00	207,833,863.06	176,407,848.36
III. Input by investors and decrease in capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Distribution of profits	0.00	0.00	0.00	0.00	20,783,386.31	0.00	-44,798,850.31	-24,015,464.00
1. Appropriation to surplus reverses					20,783,386.31		-20,783,386.31	0.00
2. Distribution to owners							-24,015,464.00	-24,015,464.00
V. Internal transfer	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Closing balance in 2011	480,309,280.00	712,557,468.14	0.00	0.00	433,138,966.74	0.00	445,948,184.81	2,071,953,899.69

Legal Representative: Xiao Guo Pu

Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

Expressed in Renminbi Yuan

		2010							Total Owners' equity
	Share capital	Capital reserves	Less: Treasury stock	Special Reserve	surplus reserves	General Risk Provision	Retained earnings		
Closing balance in 2009	480,309,280.00	723,174,909.32	0.00	0.00	404,764,197.64	0.00	238,606,190.92	1,846,854,577.88	
Opening balance in 2010	480,309,280.00	723,174,909.32	0.00	0.00	404,764,197.64	0.00	238,606,190.92	1,846,854,577.88	
Changes during the year	0.00	20,808,573.52	0.00	0.00	7,591,382.79	0.00	44,306,981.14	72,706,937.45	
I. Net profit							75,913,827.93	75,913,827.93	
II. Other comprehensive income		20,808,573.52						20,808,573.52	
Subtotal I&II	0.00	20,808,573.52	0.00	0.00	0.00	0.00	75,913,827.93	96,722,401.45	
III. Input by investors and decrease in capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
IV. Distribution of profits	0.00	0.00	0.00	0.00	7,591,382.79	0.00	-31,606,846.79	-24,015,464.00	
1. Appropriation to surplus reverses					7,591,382.79		-7,591,382.79	0.00	
2. Distribution to owners							-24,015,464.00	-24,015,464.00	
V. Internal transfer	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Closing balance in 2010	480,309,280.00	743,983,482.84	0.00	0.00	412,355,580.43	0.00	282,913,172.06	1,919,561,515.33	

Legal Representative: Xiao Guo Pu

Principal in Charge of Accountancy: Jiang Bao Xin

Principal in Charge of Accounting Departments: Sun Yu

3. Corporate information

(i) 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. The business license was updated by Shanghai Administration for Industry and Commerce on April 29th, 2001 and the updated registration No. is Qi Gu Hu Zong Zi No.019023. The Company’s legal representative is Xiao Guopu.

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 Auto”). After this transaction, SAIC Auto became the controlling shareholder of the company and Shanghai Automotive Industry Corporation (“SAIC Group”) has been the ultimate controller of the company.

As at 31 December 2011, the registered capital and the total shares of the Company was RMB480,309,280.00 which has been verified by Shanghai Zhonghua She Ke CPA Firm and issued the capital verification report of Hu Zhong She Kuai Zi (96) No. 1062.

The domestically listed Renminbi shares (A shares) and domestically listed foreign currency shares (B shares) have been listed on the Shanghai Stock Exchange on 11 March 1994 and 28 December 1993, respectively.

(ii) 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).

(iii) 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”.

(iv) Approval of the financial statements

The financial statements have been approved by board of director on 26 March 2012. According to the article of association of the Company, the financial statements shall be reviewed and approved by annual general meeting.

4. 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 2011 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.

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.

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.

Classification and measurement of financial liabilities

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.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related objectively 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. Impairment losses recognized in the income statement for a debt instrument investment shall not be reversed through profit or loss.

Transfer of financial assets

Transfer of a financial asset is a transaction whereby the Group assigns or conveys a financial asset to another party (the transferee).

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 recognize 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**

Type:

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

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. One-off writing off method is adopted in amortization of packaging materials and low-value consumables.

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.

Stock-take system:

Perpetual inventory system:

The Group applies a perpetual inventory system.

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

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.

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.

Basis of jointly control and significant influence:

The term "jointly control" refers to joint control over an economic activity in accordance with the contracts or agreements, which does not exist unless all investing parties have agreed upon the significant financial and business operation decisions of the economic activity. The term "significant influence" refers to the power to participate in making decisions on the financial and operating policies of the investee, but not to control or has jointly control over the decision of these policies.

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%~4.5%

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

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.

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%
Electronic equipment	5 years	2%-10%	18%~19.4%
Transport equipment	5~6 years	3%-10%	15%~19.4%

Impairment:

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

Other information:

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 or 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
Software	5years
Non-patent technology	10years

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.

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 disclosure of the amount 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 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.

5. 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 17% on the invoiced value of sales, and charged on a basis after deducting current deductible input VAT.	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) **Other**

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".

6. Business combination and consolidated financial statement

(1) **Subsidiaries' information**

1) Subsidiaries under establishment or investment

Expressed in Renminbi Yuan

Name	Subsidiary type	Registered address	Registered capital	Business scope	The actual amount of investment as at 2011.12.31	Shareholding (%)	Consolidated	Minority interest
Shanghai Dongfeng Diesel Engine Trading Co., Ltd.	Wholly-owned subsidiary	Shanghai	5,000,000	Trading of Diesel engine, spare parts	5,000,000	100	Yes	
Shanghai Yihua Electrical Co., Ltd.	Wholly-owned subsidiary	Shanghai	20,000,000	Manufacture and sale of power generators	20,000,000	100	Yes	
Shanghai Diesel Car Trading Co., Ltd.	Wholly-owned subsidiary	Shanghai	4,700,000	Trading of cars and components	4,700,000	100	Yes	
Dalian Diesel Engine Co., Ltd.	Owned subsidiary	Dalian	300,000,000	Manufacture and sale of diesel engines	153,000,000	51	Yes	17,636,088.23
Shanghai Diesel Hai'an Power Co., Ltd.	Wholly-owned subsidiary	Shanghai	300,000,000	Manufacture and sale of casting products	300,000,000	100	Yes	

2) Subsidiary under non-common control consolidation

Expressed in Renminbi Yuan

Name	Subsidiary type	Registered address	Registered capital	Business scope	The actual amount of investment as at 2011.12.31	Shareholding (%)	Consolidated	Minority interest
Shanghai Ying Da Xin Auto Electronic Co, Ltd. ("Ying Da Xin")	Owned subsidiary	Shanghai	10,000,000	Development, manufacturing and sales of automated mechanical transmission	11,000,000	70	Yes	9,155.07

(2) **Changes in consolidation scope**

The consolidation scope remains unchanged except for Shanghai Diesel Hai'an Power Co., Ltd. which was newly established in 2011.

(3) **Increase and decrease of consolidated entities**

a. Addition

(Unit: Renminbi Yuan)

Name	Net assets at 2011-12-31	Net Profit in 2011
Shanghai Diesel Hai'an Power Co., Ltd.	296,257,516.18	-3,742,483.82

7. Notes to the consolidated financial statements

(1) Cash and cash equivalents

Unit(RMB:Yuan)

	2011			2010		
	Original currency	Ex. rate	Equivalent RMB	Original currency	Ex. rate	Equivalent RMB
Cash:	/	/	19,839.13	/	/	72,962.73
RMB	/	/	19,839.13	/	/	72,962.73
Cash in bank:	/	/	1,400,713,775.04	/	/	1,408,758,084.64
RMB	/	/	1,378,228,714.62	/	/	1,395,109,450.49
USD	2,629,992.48	6.3009	16,571,319.62	2,037,965.17	6.6227	13,496,831.93
EUR	724,501.17	8.1625	5,913,740.80	17,237.52	8.8065	151,802.22
Other			578,841.99	/	/	34,929.23
cashequivalent:						
RMB			578,841.99	/	/	34,929.23
Total			1,401,312,456.16	/	/	1,408,865,976.60

On 31 December 2011 and 2010, the ownership to cash and cash equivalents is subject to no restriction. Interest income earned on current deposits is calculated by using current deposit interest rate. The period for short-term deposits is between 30 and 180 days, determined by the demand of the Group, and the Group obtains interest income based on deposit interest rate.

(2) Notes receivable

1) Type analysis

Unit(RMB:Yuan)

Type	2011	2010
Bank acceptance	1,100,827,260.00	1,239,052,085.81
Trade acceptance		421,090.00
Total	1,100,827,260.00	1,239,473,175.81

(3) Accounts receivable

1) Type analysis:

Unit(RMB:Yuan)

Type	2011				2010			
	Book value		Provision		Book value		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant items	25,950,956.57	10.80	15,295,014.35	58.94	10,522,724.88	4.58	5,286,484.30	50.24
Tested for impairment on the basis of group								
Tested for impairment on the basis of risk portfolio	201,844,756.16	83.95	0.00	0.00	214,154,605.81	93.26	0.00	0.00
Subtotal	201,844,756.16	83.95	0.00	0.00	214,154,605.81	93.26	0.00	0.00
Individually insignificant but individually tested for impairment	12,629,778.29	5.25	7,322,863.20	57.98	4,955,409.31	2.16	3,891,033.79	78.52
Total	240,425,491.02	/	22,617,877.55	/	229,632,740.00	/	9,177,518.09	/

On 31 December 2011, the bad debt provided to individually significant items is as follows

Unit(RMB:Yuan)

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	8,526,174.34	4,263,087.17	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	7,120,610.28	3,560,305.14	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	5,665,099.82	2,832,549.91	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 4	4,639,072.13	4,639,072.13	100.00	The chance of recovering balance is remote due to long aging.
Total	25,950,956.57	15,295,014.35	/	/

On 31 December 2011, the bad debt provided to individually insignificant but individually tested for impairment is as follows:

Unit(RMB:Yuan)

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	2,707,815.54	1,353,907.77	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	2,163,200.30	1,081,600.15	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	1,887,563.12	943,781.56	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 4	1,550,311.43	775,155.72	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 5	1,325,367.20	662,683.60	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 6	1,145,439.85	1,145,439.85	100.00	The chance of recovering balance is remote due to long aging.
Others	1,850,080.85	1,360,294.55	73.53	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	12,629,778.29	7,322,863.20	/	/

2) In 2011, the significant reversals of bad debt provision of accounts receivable are as follows:

Unit(RMB:Yuan)

	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	1,263,283.83	1,263,283.83	1,263,283.83
Others	Received	The chance of recovering the balance is remote due to long aging	1,506,062.67	994,998.36	994,998.36
Total	/		2,769,346.50		

3) In 2011, the written-off of accounts receivable is as follows: Unit(RMB:Yuan)

Name	Nature	Amount	Reason for write-off	Related party transaction
Client 1	Derived from sales	220,113.81	The chance of recovering the balance is remote due to long aging	No
Client 2	Derived from sales	511,064.31	The chance of recovering the balance is remote due to long aging	No
Total	/	731,178.12	/	/

The written off of accounts receivables in 2011 and 2010 has been approved by management.

Accounts receivable valued in foreign currencies as follows:

	2011			2010		
	Original currency	Ex. rate	Equivalent RMB	Original currency	Ex. rate	Equivalent RMB
Accounts receivable-USD:	597,035.59	6.3009	3,761,861.55	1,556,570.88	6.6227	10,308,701.97

4) On 31 December 2011, 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 Unit(RMB:Yuan)

Name	Relationship	Amount	Aging	Percentage of total balance (%)
NO.1	Third party	32,745,937.52	Within 1 year	13.62
NO.2	Third party	16,029,525.50	Within 1 year	6.67
NO.3	Third party	15,465,500.00	Within 1 year	6.43
NO.4	Third party	11,131,643.52	Within 1 year	4.63
NO.5	Third party	10,455,282.11	Within 1 year	4.35
Total	/	85,827,888.65	/	35.70

6) Accounts receivable due from related parties Unit(RMB:Yuan)

Name	Relationship	Amount	Percentage of total balance (%)
SAIC Commercial Vehicle Co., Ltd.	Company controlled by the parent company	7,619,455.33	3.17
Shanghai Pengpu Machine Building Plant Co., Ltd	Controlled by parent company	5,351,245.25	2.23
Shanghai Sunwin Bus Co., Ltd.	Jointly-controlled entity ("JCE") of Parent Company	6,208,334.51	2.58
SAIC-Iveco Hongyan Commercial Vehicle Co. Ltd.	JCE of Parent Company	1,223,844.41	0.51
Nanjing Iveco Vehicle Co. Ltd.	JCE of Parent Company	587,960.02	0.24
Total	/	20,990,839.52	8.73

(4) Other receivables

1) Type analysis: Unit(RMB:Yuan)

	2011				2010			
	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	2,434,484.43	95.87	0.00	0.00	2,091,307.57	55.54	0.00	0.00
Subtotal	2,434,484.43	95.87	0.00	0.00	2,091,307.57	55.54	0.00	0.00
Individually insignificant but individually tested for impairment	105,000.00	4.13	105,000.00	100.00	1,674,292.55	44.46	799,466.00	47.75
Total	2,539,484.43	/	105,000.00	/	3,765,600.12	/	799,466.00	/

On 31 December 2011, the bad debt provided to individually insignificant but individually tested for impairment is as follows: Unit(RMB:Yuan)

	Balance	Bad debt rovision	Provision Rate(%)	Reason
Others	105,000.00	105,000.00	100.00	The individual balance is small and the chance of recovering these balances is remote due to long aging.
Total	105,000.00	105,000.00	/ /	

2) In 2011, the written-off of other receivables is as follows: Unit(RMB:Yuan)

	Amount	Reason	Related party transaction
Client 1	495,000.00	The chance of recovering total balance is remote due to long aging	No
Others	199,466.00	The chance of recovering total balance is remote due to long aging	No
Total	694,466.00	/	/

3) On 31 December 2011, within the aforesaid balance, 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 Unit(RMB:Yuan)

Name	Relationship	Amount	Aging	Percentage of total balance (%)
NO.1	Third party	1,672,887.93	Within 2 years	65.88
NO.2	Third party	250,000.00	Within 2 years	9.84
NO.3	Third party	100,000.00	Within 3 years	3.94
NO.4	Third party	53,000.00	Within 1 year	2.09
NO.5	Third party	50,000.00	Within 1 year	1.97
Total	/	2,125,887.93	/	83.72

(5) Prepayments:

1) Aging analysis Unit(RMB:Yuan)

	2011		2010	
	Amount	Percentage(%)	Amount	Percentage(%)
Within 1 year	1,294,686.75	74.62	655,200.00	62.02
1 to 2 years	128,455.46	7.40	401,308.52	37.98
2 to 3 years	312,026.98	17.98		
Total	1,735,169.19	100.00	1,056,508.52	100.00

2) Top five prepayment balance Unit(RMB:Yuan)

Name	Relationship	Amount	Aging	Reason
NO.1	Third party	664,800.00	Within 1 year	Goods not received
NO.2	Third party	290,819.00	Within 1 year	Goods not received
NO.3	Third party	199,673.03	2 to 3 years	Goods not received
NO.4	Third party	157,140.00	Within 1 year	Goods not received
NO.5	Third party	108,600.00	1 to 2 years	Goods not received
Total	/	1,421,032.03	/	/

3) On 31 December 2011, within the aforesaid balance, there is no amount due from shareholders that hold 5% or more of the Parent Company's voting shares.

(6) Inventory

1) Type analysis: Unit(RMB:Yuan)

	2011			2010		
	Amount	Provision	Net Value	Amount	Provision	Net Value
Raw Material	108,268,790.80	26,045,332.66	82,223,458.14	45,759,475.78	29,436,856.03	16,322,619.75
Work in progress	36,516,118.67	226,495.93	36,289,622.74	74,989,510.37	226,495.93	74,763,014.44
Commodity stock	168,293,942.74	16,673,620.91	151,620,321.83	379,079,946.25	13,876,298.67	365,203,647.58
Consumables			0.00	2,398.29	0.00	2,398.29
Total	313,078,852.21	42,945,449.50	270,133,402.71	499,831,330.69	43,539,650.63	456,291,680.06

2) Provision analysis Unit(RMB:Yuan)

	Opening balance	Addition	Decrease		Closing balance
			Reversal	Write-off	
Raw Material	29,436,856.03		3,387,663.16	3,860.21	26,045,332.66
Work in progress	226,495.93				226,495.93
Commodity stock	13,876,298.67	4,960,546.32		2,163,224.08	16,673,620.91
Total	43,539,650.63	4,960,546.32	3,387,663.16	2,167,084.29	42,945,449.50

3) Inventory provision

	Original reason for inventory provision	Reason for reversal	Percentage to the inventory (%)
Raw Material	Valued at the lower of cost and net realizable value	Net realizable value increased	3.13

(7) **Other current assets** Unit(RMB:Yuan)

	2011	2010
Prepaid expense	170,858.45	137,447.30
Total	170,858.45	137,447.30

(8) **Available-for-sale financial assets** Unit(RMB:Yuan)

	Fair value at 2011.12.31	Fair value at 2010.12.31
Available-for-sale equity instruments	44,442,355.00	85,096,475.10
Total	44,442,355.00	85,096,475.10

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

(9) **Major financial information of jointly-controlled entities and associates** Unit(RMB:Yuan)

Investee Name	Share holding percentage(%)	Closing balance of assets	Closing balance of liabilities	Closing balance of net assets	Revenue in 2011	Net profit in 2011
1. Jointly-controlled entities						
2. Association						
Shanghai Lingzhong Supercharge Co., Ltd	40	233,863,991.33	142,008,674.68	91,855,316.65	196,355,341.03	11,179,101.01

(10) **Long-term equity investment**

Cost method Unit(RMB:Yuan)

Investee Name	The initial investment cost	Beginning Balance	Increase/Decrease	Closing Balance	Impairment	Shareholding percentage (%)
Tianjin Lovol Co., Ltd.	10,000,000.00	10,000,000.00		10,000,000.00		2.19
Shanghai Shangfeng Engine Trading Co., Ltd.		1,676,819.61	-1,676,819.61	0.00	-1,676,819.61	
Shanghai Bank	28,392.00	28,392.00		28,392.00		

Equity method Unit(RMB:Yuan)

Investee Name	The initial investment cost	Beginning Balance	Increase/Decrease	Closing Balance	Impairment	Shareholding percentage (%)
Shanghai Lingzhong Supercharge Co., Ltd.	28,142,480.00	32,270,486.26	4,471,640.40	36,742,126.66		40

Shanghai Shangfeng Engine Trading Co., Ltd. has been written off in 2011, and the Group wrote-off the impairment of long-term equity investment accordingly.

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(11) Investment properties:

1) Investment properties valued at cost	Unit(RMB:Yuan)			
	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	8,836,087.82	87,667.94		8,923,755.76
1) Buildings	8,836,087.82	87,667.94		8,923,755.76
2) Land use rights				
3.Net book value	1,096,766.52	-87,667.94		1,009,098.58
1) Buildings	1,096,766.52	-87,667.94		1,009,098.58
2) Land use rights				
4.Provision				
1) Buildings				
2) Land use rights				
5.Net value	1,096,766.52	-87,667.94		1,009,098.58
1) Buildings	1,096,766.52	-87,667.94		1,009,098.58
2) Land use rights				

The amortisation in 2011: RMB87,667.94.

At 31 December 2011 and 2010, 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	Unit(RMB:Yuan)			
	Opening balance	Increase	Decrease	Closing balance
1.Original price	1,622,422,025.33	72,792,274.49	76,351,190.16	1,618,863,109.66
Including: Buildings	579,547,475.94		482,251.41	579,065,224.53
Machinery	897,018,892.12	57,497,241.17	59,593,671.16	894,922,462.13
Vehicles	34,135,314.47	1,736,481.69	7,177,539.55	28,694,256.61
Office and other equipment	111,720,342.80	13,558,551.63	9,097,728.04	116,181,166.39
		Addition	Accrual	
2.Accumulated depreciation	1,101,889,987.25	0.00	69,524,200.39	1,110,119,326.85
Including: Buildings	360,445,954.51		17,860,051.53	377,884,758.03
Machinery	637,435,563.64		41,799,827.19	633,352,983.82
Vehicles	27,374,804.62		1,069,653.95	21,942,396.30
Office and other equipment	76,633,664.48		8,489,143.50	76,939,188.70
3.Net book value	520,532,038.08		/	508,743,782.81
Including: Buildings	219,101,521.43		/	201,180,466.50
Machinery	259,583,328.48		/	261,569,478.31
Vehicles	6,760,509.85		/	6,751,860.31
Office and other equipment	35,086,678.32		/	39,241,977.69

	Opening balance	Increase	Decrease	Closing balance
4. Impairment	98,192,004.40	5,230,501.55	8,483,284.71	94,939,221.24
Including: Buildings	46,957,632.78	3,714,017.04	/	50,671,649.82
Machinery	50,618,288.05	1,516,484.51	8,384,194.50	43,750,578.06
Vehicles	236,325.93		9,826.72	226,499.21
Office and other equipment	379,757.64		89,263.49	290,494.15
5. Net value	422,340,033.68	/	/	413,804,561.57
Including: Buildings	172,143,888.65	/	/	150,508,816.68
Machinery	208,965,040.43	/	/	217,818,900.25
Vehicles	6,524,183.92	/	/	6,525,361.10
Office and other equipment	34,706,920.68	/	/	38,951,483.54

The depreciation in 2011: RMB69,524,200.39.

The fixed asset transferred from construction in progress in 2011: RMB72,735,551.41.

2) Fixed assets temporarily idled Unit(RMB:Yuan)

	Original price	Accumulated depreciation	Impairment	Net value
Buildings	83,400,417.00	17,854,990.18	44,687,260.32	20,858,166.50
Machinery	58,482,940.30	33,396,076.64	22,515,908.32	2,570,955.34
Vehicles	4,284,558.34	3,786,138.04	25,400.00	473,020.30
Office and other equipment	4,103,142.51	3,626,768.11		476,374.40

3) Fixed assets leased through operating lease Unit(RMB:Yuan)

	Book value
Buildings	1,809,210.38
Machinery	100,065.17

4) On 31 December 2011, buildings with the net value of RMB459,627.75 are not certificated. After executing land and real estate certification policy, land and real estate certification of Shanghai Diesel Engine Co., Ltd. was not able to be conducted due to above real estate attributed to Shanghai Diesel Factory's land certification.

(13) Construction in progress

1) Construction in progress analysis Unit(RMB:Yuan)

	2011			2010		
	Book value	provision	Net book value	Book value	Impairment	Net book value
Construction in progress	489,767,972.55	86,624,202.93	403,143,769.62	162,719,175.68	86,624,202.93	76,094,972.75

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2) Movement of major construction in process Unit(RMB:Yuan)

Project	Opening balance	Additions	Transfer into Fixed assets	Source of Capital	Closing balance
Technical renovation	23,687,537.30	325,491,602.15	54,873,868.47	Self raised	294,305,270.98
Technical foundation	13,382,341.00	5,167,327.11	747,863.25	Self raised	17,801,804.86
Special project	781,613.26		781,613.26	Self raised	0
Dalian production line and building	97,074,579.45	2,572,643.41		Self raised	99,647,222.86
Hai'an production lines and plant		66,552,775.61		Self raised	66,552,775.61
Others	27,793,104.67		16,332,206.43	Self raised	11,460,898.24
Total	162,719,175.68	399,784,348.28	72,735,551.41	/	489,767,972.55

3) Provision for the impairment of construction in progress Unit(RMB:Yuan)

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

(14) Intangible assets Unit(RMB:Yuan)

Project	Opening balance	Additions	Deductions	Closing balance
1.Original price	35,104,044.48			35,104,044.48
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	17,294,869.55	435,408.12		17,730,277.67
Land use rights	2,389,617.65	377,308.08		2,766,925.73
Non-patent technology	14,450,335.97			14,450,335.97
Computer software	454,915.93	58,100.04		513,015.97
3.Net book value	17,809,174.93	-435,408.12		17,373,766.81
Land use rights	16,475,783.35	-377,308.08		16,098,475.27
Non-patent technology	1,062,500.00			1,062,500.00
Computer software	270,891.58	-58,100.04		212,791.54
4.Impairment provision	1,062,500.00			1,062,500.00
Land use rights				
Non-patent technology	1,062,500.00			1,062,500.00
Computer software				
5.Net value	16,746,674.93	-435,408.12		16,311,266.81
Land use rights	16,475,783.35	-377,308.08		16,098,475.27
Non-patent technology				
Computer software	270,891.58	-58,100.04		212,791.54

The amortisation in 2011 is RMB435,408.12.

(15) Goodwill	Unit(RMB:Yuan)				
	Beginning Balance	Addition	Decrease	Closing Balance	Impairment
Ying Da Xin	5,761,244.35			5,761,244.35	5,761,244.35
Total	5,761,244.35			5,761,244.35	5,761,244.35

Refer to the note “significant accounting policies and estimates” for the basis of impairment testing and provision of impairment of goodwill.

(16) **Deferred tax assets/liabilities**

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

1) Recognised deferred tax assets/liabilities	Unit(RMB:Yuan)	
Items	2011	2010
Deferred tax assets:		
Provision for assets impairment	12,443,313.90	9,320,143.41
Accrued expense	9,896,468.44	8,103,743.79
Warranty	35,606,962.05	28,265,775.24
Employees’ remuneration payable (including: over one year)	34,620,299.97	28,255,876.96
Changes in fair value of available-for-sale financial assets	293,778.00	0.00
Subtotal	92,860,822.36	73,945,539.40
Deferred tax liabilities:		
Changes in fair value of available-for-sale financial assets	306,281.26	5,558,270.57
Revaluation of fixed assets	1,600,942.63	1,600,942.63
Subtotal	1,907,223.89	7,159,213.20
<hr/>		
2) Unrecognised deferred tax assets	Unit(RMB:Yuan)	
Items	2011	2010
Deductable temporary differences	164,952,968.12	159,349,114.55
Deductible loss	87,697,394.97	85,687,651.06
Total	252,650,363.09	245,036,765.61
<hr/>		
3) Deductible loss which is not recognized as deferred tax assets will be due in the following years:	Unit(RMB:Yuan)	
Items	2011	2010
2011		12,671,257.20
2012	21,699,802.60	21,699,802.60
2013	19,620,335.63	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	
Total	87,697,394.97	85,687,651.06

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

Unit(RMB:Yuan)

Items	2011
Taxable differences items:	
Changes in fair value of available-for-sale financial assets	2,041,875.07
Revaluation of fixed assets	10,672,950.87
subtotal	12,714,825.94
Deductible differences items:	
Provision for assets impairment	240,295,438.71
Accrued expense	66,370,544.80
Contingent liabilities	244,598,613.91
Employees' remuneration payable (including: over one year)	230,801,999.77
Changes in fair value of available-for-sale financial assets	1,958,520.00
Tax losses	87,697,394.97
Total	871,722,512.16

(17) Impairment provision

Unit(RMB:Yuan)

Project	Opening balance	Addition	Deduction		Closing balance
			Reversal	Write-off	
1.Bad debt provision	9,976,984.09	16,429,819.77	2,258,282.19	1,425,644.12	22,722,877.55
2.Provision for obsolete inventory	43,539,650.63	4,960,546.32	3,387,663.16	2,167,084.29	42,945,449.50
3.Impairment for available-for-sale financial assets					
4.Impairment for held-to-maturity investments					
5.Impairment for long-term investment	1,676,819.61			1,676,819.61	0.00
6.Impairment for investment property					
7. Impairment for fixed assets	98,192,004.40	5,230,501.55		8,483,284.71	94,939,221.24
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
11. Impairment for goodwill	5,761,244.35				5,761,244.35
12. Others					
Total	246,833,406.01	26,620,867.64	5,645,945.35	13,752,832.73	254,055,495.57

Due to the adjustment on production layout, the Company planed to relocate part of its workshop in the near future. Thus, the Company provided an impairment provision of RMB5,230,501.55 (2010: 29,847,017.37) on the assets those are unable to be relocated, in accordance with their estimated recoverable amounts.

(18) Short-term borrowings

Unit(RMB:Yuan)

	2011	2010
Unsecured bank loans	0.00	80,000,000.00
Total	0.00	80,000,000.00

(19) **Notes payable** Unit(RMB:Yuan)

	2011	2010
Trade acceptance	168,166,112.97	196,298,949.52
Total	168,166,112.97	196,298,949.52

Notes payable with the book value of RMB168,166,112.97 will be due in the next accounting period.

(20) **Accounts payable**

1) **Accounts payable** Unit(RMB:Yuan)

	2011	2010
Loans	625,394,593.99	858,913,417.70
Total	625,394,593.99	858,913,417.70

- 2) On 31 December 2011, the accounts payable to shareholders that hold 5% or more of the Company's voting shares or to related parties included in this account balance is as follows:

	2011	2010
Lingzhong Supercharge	9,432,744.01	20,318,789.93
Shanghai Kolbenschmidt Piston Co., Ltd.	19,123.30	
Shanghai Aichi Forging Co., Ltd.	58,978.15	
Shanghai Tenneco Exhaust System Co., Ltd.	50,000.00	
Shanghai Xingfu Motorcycle Co. Ltd.	1,222,509.06	
China Spring Corporation Limited	591,695.95	934,099.82
Shanghai Automotive Powder Metallurgy Co., Ltd	87,870.60	
Shanghai Anji Automotive Parts Logistics Co., Ltd	60,250.00	
Shanghai Valeo Automotive Electrical System Co., Ltd.	3,008,617.33	4,555,823.54
Shanghai Sachs Power Assembly parts system Co., Ltd.	600,000.00	
Federal-Mogul Shanghai Bearing Co., Ltd.	1,057,382.59	
Total	16,189,170.99	25,808,713.29

- 3) Explanation about significant accounts payable with aging over one year
 On 31 December 2011, there are no significant account payables with aging over one year.

(21) **Advance from customers**

1) **Advance from customers** Unit(RMB:Yuan)

	2011	2010
Diesel advance deposit	26,684,941.97	28,290,110.76
Total	26,684,941.97	28,290,110.76

- 2) On 31 December 2011, 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) Explanation about significant advance from customers with aging over one year
 On 31 December 2011, there are no significant advance from customers with aging over one year.

Advance from customers valued in foreign currencies as follows:

	2011			2010		
	Original currency	Ex. rate	Equivalent RMB	Original currency	Ex. rate	Equivalent RMB
Advance from customers -USD:	726,346.02	6.3009	4,576,633.64	385,159.01	6.6227	2,550,792.58

(22) Employees' remuneration payable

Unit(RMB:Yuan)

Item	Opening balance	Accrual	Payment	Closing balance
1.Salary, bonus, allowance and subsidy	21,704,221.60	247,489,585.16	242,059,585.16	27,134,221.60
2.Employee benefit	0.00	30,371,984.94	30,371,984.94	0.00
3.Social insurance premium	0.00	70,095,184.90	70,095,184.90	0.00
Medical insurance premiums	0.00	22,713,805.30	22,713,805.30	0.00
Basic pension insurance	0.00	41,661,031.90	41,661,031.90	0.00
Unemployment insurance	0.00	3,537,455.90	3,537,455.90	0.00
Work injury insurance	0.00	946,609.80	946,609.80	0.00
Maternity insurance	0.00	1,236,282.00	1,236,282.00	0.00
4.Housing accumulation fund	0.00	13,610,373.00	13,610,373.00	0.00
5. Staff severance costs	116,696,841.23	43,980,409.65	59,780,196.12	100,897,054.76
6.Labor-union expenditure and employee education expense	760,477.31	4,415,047.39	4,417,372.71	758,151.99
7.Additional housing accumulating fund	0.00	12,340,801.00	12,340,801.00	0.00
8. Early retirement benefits	12,378,966.88	19,621,266.86	16,204,794.89	15,795,438.85
Total	151,540,507.02	441,924,652.90	448,880,292.72	144,584,867.20

As at 31 December 2011, the employees' remuneration payable arising from wage arrears is nil. In 2011, the addition in labour-union expenditure and employee education expense are RMB4,415,047.39; and the compensation due to termination of labour relationship is RMB47,750,409.65.

The Company recognises staff severance costs when terminating the employment of employees before the expiry date of employment contracts or making an offer in order to encourage voluntary redundancy. As at 31 December 2011, among the total ending balance, there is RMB100,897,054.76 (2010: RMB116,696,841.23) which will due within one year while there is RMB3,770,000.00 (2010: nil) which will due over one year and is recorded in other non-current liabilities.

As at 31 December 2011, for employees 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 and used the discount method. Among the total ending balance, there is RMB15,795,438.85 (2010: RMB12,378,966.88) which will due within one year while there is RMB83,205,284.56 (2010: RMB37,796,704.69) 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%, based on the minimum wage level of Shanghai in the past 5 years, and the discount rate of 3.30%.

(23) **Tax payable** Unit (RMB:Yuan)

Item	2011	2010
Value-added tax	-42,857,213.83	-20,582,584.61
Business tax	63,048.43	83,240.89
Corporate income tax	30,428,170.97	64,213,665.24
Individual income tax	1,584,603.39	2,312,817.27
City maintenance and construction surtax	9,191.60	595,993.92
Others	3,758,246.60	5,853,346.23
Total	-7,013,952.84	52,476,478.94

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

(24) **Other payables**

1) Other payables Unit(RMB:Yuan)

Item	2011	2010
Equipment payment	41,650,740.77	32,671,547.90
Others	41,450,411.19	42,794,626.17
Total	83,101,151.96	75,466,174.07

2) On 31 December 2011, 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 (2010:nil).

3) On 31 December 2011, significant other payables longer than 1 year are as follows: Unit(RMB:Yuan)

Name	Amount	Reason
Dalian machine tool group marketing Co., Ltd	15,399,500.06	construction in progress hasn’t been modified yet

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

(25) **Other current liabilities** Unit(RMB:Yuan)

Item	2011	2010
Accrued expense	334,807,590.08	256,254,683.87
Contingent liabilities	244,598,613.91	195,693,418.08
Total	579,406,203.99	451,948,101.95

Details of accrued expense are as follow:

	2011	2010	Reason
Sales bonus and promotion	268,437,045.28	202,129,468.50	Not yet settled
Raw material mark-up allowance	44,653,999.35	19,960,000.00	Not yet settled
Boat-diesel survey fee	9,177,852.00	9,078,147.20	Not yet settled
Rent on Jun Gong Road	6,480,000.00	16,160,000.00	Not yet settled
Consultation fee	3,200,000.00	5,200,000.00	Not yet settled
Others	2,858,693.45	3,727,068.17	Not yet settled
Total	334,807,590.08	256,254,683.87	/

In 2011, changes of contingent liabilities listed as follow:				Unit(RMB:Yuan)
	Opening	Addition	Deduction	Closing
Product quality assurance (Note 1)	188,474,551.19	173,790,665.93	124,885,470.10	237,379,747.02
Product sales commitment (Note2)	7,218,866.89	-	-	7,218,866.89
Total	195,693,418.08	173,790,665.93	124,885,470.10	244,598,613.91

Note 1: Product quality assurance cost is the expense based in product contract including quality assurance liability and term to afford in quality assurance period.

Note 2: Product sales commitment is the loss based in product contract commitment. Actual loss is perhaps different from accrued amount due to negotiation.

(26) Other non-current liabilities:			Unit(RMB:Yuan)
Item	2011	2010	
Deferred income	94,298,988.76	44,225,089.03	
Early retirement benefits over 1 year (Note 1)	83,205,284.56	37,796,704.69	
Staff severance costs over 1 year (Note 1)	3,770,000.00		
Special fund entrusted loans (Note 2)	10,631,830.60	10,631,830.60	
Total	191,906,103.92	92,653,624.32	

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 and free of interest. The term of the loans is three years and will be waived if the condition allowed. As at 31 December 2011, the condition did not allow.

Deferred income listed as follow:			Unit(RMB:Yuan)
	2011	2010	
Government Grant related to asset/income			
National Development and Reform Commission, Ministry of Industry and Information Technology and the related local special fund matched by Shanghai	47,000,000.00	-	
Municipal key technology transformation fund	25,330,000.00	25,330,000.00	
Science and technology Committee	7,430,224.62	7,230,224.62	
Shanghai enterprise Technology innovation Service centre	3,532,101.40	3,532,101.40	
Shanghai finance bureau special fund	2,959,232.00	2,959,232.00	
Others	8,047,430.74	5,173,531.01	
Total	94,298,988.76	44,225,089.03	

(27) Share capital:			Unit(RMB:Yuan)
	2010	Movement	2011
Number of shares	480,309,280.00		480,309,280.00

(28) **Capital reserves** Unit(RMB:Yuan)

Item	Opening balances	Increase	Decrease	Closing balances
Shares premium	634,226,947.24			634,226,947.24
Other capital reserves	4,267,873.87			4,267,873.87
Transferred from the capital reserves under the original system	66,388,424.85			66,388,424.85
Change in fair value of available-for-sale financial assets	31,496,866.45		31,426,014.70	70,851.75
Total	736,380,112.41		31,426,014.70	704,954,097.71

In 2011, the deduction on capital reserves is due to the fair value change and the disposal of available for sale financial assets.

(29) **Surplus reserves** Unit(RMB:Yuan)

	Opening	Addition	Deduction	Closing
Statutory surplus	139,481,409.60	20,783,386.31		160,264,795.91
Discretionary surplus	272,874,170.83			272,874,170.83
Total	412,355,580.43	20,783,386.31		433,138,966.74

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

(30) **Retained earnings** Unit(RMB:Yuan)

	Amount	Portion (%)
Before adjustment-- Closing balance of 2010	400,070,732.11	/
After adjustment—Opening balance of 2011	400,070,732.11	/
Net profit attributable to parent company	207,306,920.41	/
Less: Appropriation to statutory surplus reserves	20,783,386.31	
Dividends transferred to share capital	24,015,464.00	
Retained earnings at the year end	562,578,802.21	/

On 20 May 2011, the 2010 annual general meeting was held and approved the proposal of 2010 profit distribution to allot the total cash dividends of RMB24,015,464.00, based on RMB0.05 (tax inclusive) per share.

(31) **Operating revenue and operating cost**

1) **Operating revenue and operating cost** Unit(RMB:Yuan)

	2011	2010
Principal operating revenue	4,543,250,556.10	4,700,680,895.96
Other operating revenue	91,704,738.65	130,717,575.89
Operating cost	3,714,319,236.74	3,779,041,308.10

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2) Principal operating revenue by industry Unit(RMB:Yuan)

	2011		2010	
	Sales	Cost of Sales	Sales	Cost of sales
Diesels and parts	4,543,250,556.10	3,654,018,563.99	4,700,680,895.96	3,666,940,504.40
Total	4,543,250,556.10	3,654,018,563.99	4,700,680,895.96	3,666,940,504.40

3) Principal operating revenue by products Unit(RMB:Yuan)

	2011		2010	
	Sales	Cost of Sales	Sales	Cost of sales
Diesels	4,159,498,478.10	3,349,266,674.08	4,180,395,923.84	3,241,943,464.28
Parts	373,234,541.28	297,408,623.67	466,951,422.13	371,944,009.10
Others	10,517,536.72	7,343,266.24	53,333,549.99	53,053,031.02
Total	4,543,250,556.10	3,654,018,563.99	4,700,680,895.96	3,666,940,504.40

4) The top five customers' sales details Unit(RMB:Yuan)

Customer name	Operating revenue	Percentage of total revenue (%)
NO.1	1,062,314,943.78	22.92
NO.2	296,421,430.68	6.40
NO.3	243,132,874.64	5.25
NO.4	159,930,462.42	3.45
NO.5	136,955,682.79	2.95
Total	1,898,755,394.31	40.97

Operating revenue by types: Unit(RMB:Yuan)

	2011	2010
Sales of products	4,532,733,019.38	4,647,347,345.97
Sale of raw materials and wastes	79,667,317.17	119,833,397.60
Rendering labour services	5,458,222.35	49,384,082.14
Storage revenue	6,439,773.65	7,350,101.76
Rental income	2,463,131.20	3,561,309.67
Others	8,193,831.02	3,922,234.71
Total	4,634,955,294.75	4,831,398,471.85

The Group operates mainly with diesel engines and accessory sales and related services. The Group generated 97% (2010: 96%) of revenue from domestic customers. Therefore, it is not required to provide segment reporting information.

(32) Business tax and surcharges Unit(RMB:Yuan)

	2011	2010	Tax basis
Business tax	456,478.41	767,278.33	It is levied at 5% on the revenue subject to business tax.
City maintenance and construction surtax	11,093,043.98	4,231,682.64	It is levied at 7% on the turnover taxes paid.
Educational surcharge	7,787,193.65	1,813,578.27	
Others	7,968.63	710,189.27	
Total	19,344,684.67	7,522,728.51	/

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

(33) Operating expenses	Unit(RMB:Yuan)	
	2011	2010
Product warranty and maintenance fee	173,790,665.93	273,031,695.04
Salary and welfare	39,445,311.38	36,238,032.00
Transportation cost	13,470,554.54	11,391,228.62
Travel and business expenses	12,222,890.82	9,852,420.29
Advertising and proposal expenses	12,147,654.37	7,242,732.46
Others	2,062,494.55	1,348,895.24
Total	253,139,571.59	339,105,003.65

(34) General and administrative expenses	Unit(RMB:Yuan)	
	2011	2010
Salary and welfare	136,737,140.72	131,164,183.93
Staff severance costs	47,750,409.65	153,205,692.91
Early retirement benefits	65,029,846.73	14,675,300.76
R&D expenses	122,487,189.55	110,280,040.12
Technical enhancement cost	17,632,547.67	25,794,859.34
Depreciation and amortization	15,764,836.17	19,024,418.32
Professional service fee	7,881,805.80	12,987,040.00
Office expenses	5,027,945.69	10,818,751.71
Taxes	8,140,592.96	7,394,536.08
Entertainment expenses	2,009,215.70	7,357,431.41
Land use fees	6,684,130.00	6,480,000.00
Ship inspection fees	3,272,867.80	5,107,099.90
Property management and sanitation fees	2,233,752.55	4,796,163.43
Insurance fee	1,829,094.79	3,498,233.50
Utilities	4,074,728.84	3,291,789.15
Travel expenses	2,014,017.49	2,538,309.62
Low value consumptions	864,580.53	1,063,322.47
Rental expenses	71,125.00	1,050,356.33
Others	1,169,046.21	3,143,124.80
Total	450,674,873.85	523,670,653.78

(35) Financial expenses	Unit(RMB:Yuan)	
	2011	2010
Interest expense	1,895,295.00	179,775.00
Interest income	-21,125,743.34	-12,356,979.64
Exchange gain or loss	1,325,736.74	820,791.16
Others*	-6,134,197.60	-2,499,247.77
Total	-24,038,909.20	-13,855,661.25

*Cash discount from suppliers due to payment in advance amounted to RMB7,087,755.80 in 2011 (2010: RMB3,704,588.73)

(36) Investment income

1) Investment income	Unit(RMB:Yuan)	
	2011	2010
Long-term equity investment gain/(loss) measured by equity method	4,471,640.40	7,465,149.70
Investment income acquired by holding available for sale financial assets	556,650.00	418,840.49
Gain from disposal of held-for-trading financial assets		731,802.36
Gain from disposal of available for sale financial assets	5,773,599.04	
Others	10,526,377.14	
Total	21,328,266.58	8,615,792.55

Others: 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.

2) Gain from long-term equity investment measured under equity method	Unit(RMB:Yuan)		
	2011	2010	Reason of decrease in current year
Lingzhong Supercharge	4,471,640.40	7,465,149.70	Net profit of Lingzhong Supercharge decreased
Total	4,471,640.40	7,465,149.70	

On December 31, 2011, the Remitting of the Group's investment income was no significant restriction

(37) Impairment losses on assets

	Unit(RMB:Yuan)	
	2011	2010
1.Bad debt loss	14,171,537.58	-5,325,926.23
2.Value loss on inventory	1,572,883.16	6,514,517.23
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	75,125,754.40
8.Impairment losses on project material		
9.Impairment losses on construction in progress		7,603,888.99
10.Impairment losses on intangible assets		
11.Impairment losses on goodwill		
12.Others		7,870,229.07
Total	20,974,922.29	91,788,463.46

(38) Non-operating income

1) Non-operating income	Unit(RMB:Yuan)		
	2011	2010	Amount recorded in non-recurring profit and loss
Gain on the disposal of non-current assets	3,096,066.08	4,817,026.45	3,096,066.08
Including: gains on disposal of fixed assets	3,096,066.08	4,817,026.45	3,096,066.08
Government grants	2,326,000.00	3,536,000.00	2,326,000.00
Others	141,208.21	2,478,360.59	141,208.21
Total	5,563,274.29	10,831,387.04	5,563,274.29

2) Government grants details	Unit(RMB:Yuan)		
	2011	2010	Explanation
Small and medium-size enterprises supporting fund	2,004,000.00	3,425,000.00	These supporting funds are offered by government, which have no restriction in use.
Yang Pu District industry development and science & technology supporting fund	322,000.00	111,000.00	These supporting funds are offered by government, which have no restriction in use.
Total	2,326,000.00	3,536,000.00	/

(39) Non-operating expenses	Unit(RMB:Yuan)		
	2011	2010	Amount recorded in non-recurring profit and loss
Loss on the disposal of non-current assets	3,071,935.63	4,123,656.76	3,071,935.63
Including: loss on disposal of fixed assets	3,071,935.63	4,123,656.76	3,071,935.63
Others	28,310.54	603,068.41	28,310.54
Total	3,100,246.17	4,726,725.17	3,100,246.17

(40) Income tax expense:	Unit(RMB:Yuan)	
	2011	2010
Current tax expense	41,004,753.29	68,993,566.65
Deferred tax expense	-18,621,504.96	-50,720,103.47
Total	22,383,248.33	18,273,463.18

(41) **Earnings per share**
The basic EPS is 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.

	Unit(RMB:Yuan)	
	2011	2010
Profit		
Profit attributable to the ordinary shareholders	207,306,920.41	136,325,336.38
Shares		
Weighted average number of outstanding ordinary shares	480,309,280.00	480,309,280.00

- 1) The Company has no dilutive potential common stock.
- 2) There is no event from balance sheet day to financial statement authorised day that changes the number of ordinary shares or potential ordinary shares.

(42) Other comprehensive income	Unit(RMB:Yuan)	
	2011	2010
Gain/(loss) generated from available for sale financial assets	-32,017,790.00	26,849,411.30
Less: Tax effect arising from available for sale financial assets	-4,802,668.50	4,027,411.71
Subtotal	-27,215,121.50	22,821,999.59
Others	-	-
Less: Transfer into gain or loss from other comprehensive income, in net	4,210,893.20	2,013,426.07
Subtotal	-4,210,893.20	-2,013,426.07
Total	-31,426,014.70	20,808,573.52

(43) Cash received and paid relating to other operating activities

1) Cash received relating to other operating activities		Unit(RMB:Yuan)
		Amount
	Deferred income related to government subsidy	47,747,899.73
	Subsidy income	2,326,000
	Interest received	21,125,743.34
	Rent received	8,902,904.85
	Others	5,730,105.90
	Total	85,832,653.82
<hr/>		
2) Cash paid relating to other operating activities		Unit(RMB:Yuan)
		Amount
	Three guarantees of quality expense	124,885,470.10
	R&D expense	103,565,279.42
	Advertising expense	12,147,654.37
	Others	107,989,697.24
	Total	348,588,101.13

(44) Supplementary information of cash flow statement

1) Supplementary information of cash flow statement		Unit(RMB:Yuan)	
Supplementary information	2011	2010	
1.Reconciliation of net profit to cash flows from operating activities			
Net profit	201,948,961.18	100,572,966.84	
Add: Impairment for assets	20,974,922.29	91,788,463.46	
Depreciation on fixed assets	69,611,868.33	102,827,922.76	
Amortisation of intangible assets	435,408.12	580,215.66	
Amortisation on long-term deferred expense			
Loss/(gain) on the disposal of fixed assets, intangible assets and other long-term assets	-24,130.45	-693,369.69	
Loss arising from the write-off of fixed assets			
Fair value losses			
Financial expenses	2,885,209.25	558,022.46	
Investment loss/(gain)	-21,328,266.58	-8,615,792.55	
Decrease/(increase) in deferred tax assets	-18,621,504.96	-50,457,249.47	
Increase/(decrease) in deferred tax liabilities		-262,854.00	
Decrease/(increase) in inventory	184,585,394.19	-173,834,354.50	
Decrease/(increase) in recurrent receivables	126,941,564.54	-361,780,900.18	
Increase/(decrease) in recurrent payables	-93,810,156.85	648,777,847.07	
Others			
Net cash flows from operating activities	473,599,269.06	349,460,917.86	
2.Significant non-cash investing and financing activities:			
Debt converted to capital			
Convertible bonds due within one year			
Finance lease of fixed assets			

Supplementary information	2011	2010
3.The movement of cash and cash equivalents		
Balance of cash at year end	1,401,312,456.16	1,408,865,976.60
Less: Opening balance of cash	1,408,865,976.60	983,889,796.59
Add: Balance of cash equivalents at year end		
Less: Opening balance of cash equivalents		
The net increase/(decrease) of cash and cash equivalents	-7,553,520.44	424,976,180.01

2) Cash and cash equivalents	Unit(RMB:Yuan)	
Item	2011	2010
1.Cash	1,401,312,456.16	1,408,865,976.60
including: Cash on hand	19,839.13	72,962.73
Bank deposits that can be used for payment whenever necessary	1,400,713,775.04	1,408,758,084.64
Other monetary capital that can be used for payment whenever necessary	578,841.99	34,929.23
2.Cash equivalents		
Including: Bond investment due within 3 months		
3.Balance of cash and cash equivalents at year end	1,401,312,456.16	1,408,865,976.60

8. Related party and transaction

(1) Details of the Company's investor Unit(RMB: Billion Yuan)

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 Auto	Stockcompany	563 Songtao Rd, Shanghai	Hu Mao Yuan	Production and sales of automobile and accessory	11.026	50.32	SAIC Group	13226025-0

The registered capital of SAIC Auto has increased from RMB9.242 billion to RMB11.026 billion in 2011.
 The Ultimate controlling party is SAIC Group.

(2) Major financial information of jointly controlled entities and associates Unit(USD:10,000)

Investee Name	Type of the Company	Registered address	Corporate representative	Business Nature	registered capital	Proportion of shares (%)	Company Code
1.Joint venture							
2.Association							
Lingzhong Supercharge	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 Huizhong Automotive Manufacturing Co., Ltd. ("Hui Zhong")	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

Name of other related parties	Relationship
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
SAIC International Transport of goods Agency Co., Ltd (“SAIC International Agency”)	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
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 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 Kolbens Schmidt Piston Co., Ltd. (“Kolben”)	Jointly controlled entity 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 *: Shanghai Automotive Industry Materials Co., Ltd has changed its name to Anyue Automotive Materials Co., Ltd in 2011.

(4) Related party transactions

1) Purchase goods or receive services

Unit(RMB:Yuan)

Related party	Type of transaction	Pricing principles of related party transactions	2011		2010	
			Amount	Percentage (%)	Amount	Percentage (%)
Lingzhong Supercharge	Purchase goods or receive services	Market price	86,672,948.16	2.82	89,649,608.30	2.52
Industry Material	Purchase goods or receive services	Market price	67,442,308.10	2.19	63,032,063.43	1.77
Automobile Import and Export	Purchase goods or receive services	Market price	27,791,906.07	0.90		
Valeo	Purchase goods or receive services	Market price	17,379,256.07	0.57	21,403,208.12	0.60
Federal-Mogul	Purchase goods or receive services	Market price	15,560,895.96	0.51	15,563,986.90	0.44
Asset Management	Purchase goods or receive services	Market price	4,495,726.50	0.15	5,188,000.00	0.15
China Spring	Purchase goods or receive services	Market price	3,158,671.23	0.10	3,871,190.05	0.11
Aichi Forging	Purchase goods or receive services	Market price	1,254,280.44	0.04		
Xingfu Motor	Purchase goods or receive services	Market price	1,225,480.28	0.04		
Kolben	Purchase goods or receive services	Market price	1,036,214.00	0.03		
Information Industry Investment	Purchase goods or receive services	Market price	910,179.50	0.03		
Anyue Energy-saving	Purchase goods or receive services	Market price	818,410.28	0.03		
SAIC International Agency	Purchase goods or receive services	Market price	581,014.00	0.02		
Sachs Power	Purchase goods or receive services	Market price	548,748.00	0.02		
Automotive Powder	Purchase goods or receive services	Market price	264,693.51	0.01		
Anji Trading	Purchase goods or receive services	Market price	206,800.00	0.01		
Tenneco Exhaust	Purchase goods or receive services	Market price	86,976.28			

Sell goods or provide services			Unit(RMB:Yuan)			
Related party	Type of transaction	Pricing principles of related party transactions	2011		2010	
			Amount	Percentage (%)	Amount	Percentage (%)
SAIC Commercial Vehicle	Sell diesel	Market price	45,891,915.67	0.99		
Sunwin Bus	Sell diesel	Market price	38,268,482.19	0.83	104,215,695.76	2.16
Pengpu Machine	Sell diesel	Market price	10,704,497.66	0.23	12,462,068.64	0.26
Iveco Hongyan	Sell diesel	Market price	9,713,752.22	0.21	26,088,290.62	0.54
Nanjing Iveco	Sell diesel	Market price	605,649.58	0.01		
Hui Zhong	Sell diesel	Market price			3,686,153.85	0.08

2) Lease between related-party

The Company as Lesser							Unit(RMB:Yuan)
Lessor	Lessee	Type	Start day	Ending day	Pricing principles of lease	Rental income in 2011	
Shanghai Diesel Engine Co., Ltd	Shanghai Anji Trading Automotive Sale Services Co., Ltd	Building	1 October 2011	no specific ending day	Market price	386,841.63	

- (ii) Due to historical reasons, the land use rights of six pieces of land, including 2636 Jun Gong Road, Shanghai where the Company's mainly located in, was owned by SAIC Group in 2011, and later transferred to SAIC Auto at the end of 2011. The Company entered into the framework agreement on leasing of land and buildings with SAIC Group and SAIC Auto, but there was no land use right leasing agreement. In 2011, the Company accrued related rental expense with reference to the previous year's rental.

Other major related party transactions:						Unit(RMB:Yuan)
Item	Note	2011	Percentage (%)	2010	Percentage (%)	
Interest income	a	2,224,195.61	10.52	4,434,662.38	36.00	
R&D expense	b	295,000.00	0.18	1,767,583.95	1.00	
Key management personnel's remuneration	c	2,983,000.00	0.68	2,196,000.00	0.43	
Transportation expense	d	1,176,617.06	8.73	-	-	
Training expense	e	40,000.00	3.31	-	-	

Note:

- (a) In 2011, the Group's interest income from SAIC Finance amounted to RMB2,224,195.61 (2010: RMB 4,434,662.38). Interest is calculated by PBOC's deposit rate.
- (b) In 2011, the Group paid R&D expenses of RMB295,000.00 to SICERI (2010: 537,389.50). Besides, in 2010, the Group paid R&D expenses amounting to RMB635,750.00 to Information Industry Investment and RMB594,444.45 to Xingfu Motor, respectively.
- (c) In 2011, the remuneration of key management personnel which included the salary in monetary, material or other forms amounted to RMB2,983,000.00 (2010:RMB2,196,000.00).
- (d) In 2011, the transportation expense paid to Anji Automotive amounted to RMB1,176,617.06 (2010:nil).
- (e) In 2011, the training expense paid to Shanghai Automotive Training Center amounted to RMB40,000.00 (2010:nil).

Related Party Capital commitments:

Contracted but not provided		2011
Shanghai Automobile Import and Export		1,377,840.00
Anyue Energy-saving		4,273,504.27
Total		5,651,344.27

Cash deposited in related-party

	2011	2010
SAIC Finance	134,332,098.34	190,986,780.42

At 31 December 2011, the three-month time deposits in SAIC Finance amounted to RMB40,000,000.00 with 3.10% annual interest rate (31 December 2010: six-month time deposits of RMB150,000,000.00 with 1.98% annual interest rate); the rest was demand deposit with 0.50% annual interest rate (2010: 0.36%).

(5) Amounts due from/to related parties

Accounts Receivable & Notes Receivable

Unit(RMB:Yuan)

Item	Related party	2011		2010	
		Amount	Provision	Amount	Provision
Notes Receivable	SAIC Commercial Vehicle	45,214,136.00			
Notes Receivable	Sun Win Bus	43,898,416.93		60,173,160.00	
Notes Receivable	Iveco Hong yan	4,000,000.00			
Accounts Receivable	SAIC Commercial Vehicle	7,619,455.33			
Accounts Receivable	Sun Win Bus	6,208,334.51		7,415,500.00	
Accounts Receivable	Pengpu Machine	5,351,245.25		4,568,633.18	
Accounts Receivable	Iveco Hong yan	1,223,844.41		6,010,012.21	
Accounts Receivable	Nanjing Iveco	587,960.02			

Accounts Payable ,Notes Payable& Other Payable

Unit(RMB:Yuan)

Item	Related party	2011	2010
Notes Payable	Lingzhong Supercharge		210,600.00
Accounts Payable	Lingzhong Supercharge	9,432,744.01	20,318,789.93
Accounts Payable	Valeo	3,008,617.33	4,555,823.54
Accounts Payable	Xingfu Motor	1,222,509.06	
Accounts Payable	Federal-Mogul	1,057,382.59	
Accounts Payable	Sachs Power	600,000.00	
Accounts Payable	China Spring	591,695.95	934,099.82
Accounts Payable	Automotive Powder	87,870.60	
Accounts Payable	Anji Automotive	60,250.00	
Accounts Payable	Anji Automotive	58,978.15	
Accounts Payable	Tenneco Exhaust	50,000.00	
Accounts Payable	Kolben	19,123.30	

9. Share-base Payment: none

10. Contingencies

As at the balance sheet date, the Group has no contingencies that need to be disclosed.

11. Commitments

Capital commitments	2011	2010
Contracted, but not provided for	749,648,650.71	129,576,494.77

12. Events after balance sheet date

- (1) 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 on 13 January 2012, the Company issued, in a way of non-public offering, 62,873,551 ordinary shares at RMB13.46 per share, and raised fund of RMB818,149,600.84 (net amount), after deducting various issue expenses, which has been verified by Ernst & Young Hua Ming and been issued the Capital Verification Report of Ernst & Young Hua Ming (2012) Yan Zi No.60462488_B02. Accordingly, the Company increased the registered capital and share capital by RMB62,873,551.00 in the form of cash.
- (2) On 26 March 2011, the seventh meeting of the sixth Board of Directors was held and approved the proposal of 2011 profit distribution to allot cash dividend at RMB0.05 (tax inclusive) per share 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. The proposal is to be approved by the 2011 annual general meeting.

13. Other Significant Events

- (1) Leasing Arrangement

As a lesser

Operating lease: on 31 December 2011, the minimum lease receipts from operating lease is as follow:

	Unit (RMB Yuan)	
	2011	2010
Within 1 year1(including 1 year)	1,023,521.40	1,685,422.33
1 to 2 years (including 2 years)	740,374.20	280,105.00
2 to 3 years (including 3 years)	570,000.00	70,000.00
Over 3 years	3,316,333.33	124,000.00
Total	5,650,228.93	2,159,527.33

Refer to the note “fixed assets” for operating lease fixed assets.

As a lessee

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

	Unit (RMB Yuan)	
	2011	2010
Within 1 year1(including 1 year)	373,014.17	6,480,000.00
1 to 2 years (including 2 years)	300,070.00	6,480,000.00
2 to 3 years (including 3 years)	129,343.33	6,480,000.00
Over 3 years	0	71,280,000.00
Total	802,427.50	90,720,000.00

(2) Assets and liabilities measured at fair value Unit (RMB Yuan)

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	85,096,475.10		83,355.00		44,442,355.00
Total	85,096,475.10		83,355.00		44,442,355.00

(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 2011, the book value of different classes of financial instrument is as below:

2011 Unit(RMB:Yuan)

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
Total	-	2,722,381,814.06	44,442,355.00	2,766,824,169.06

2011 Unit(RMB:Yuan)

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
Other current liabilities	334,807,590.08
Other non-current liabilities	86,975,284.56
Total	1,443,029,600.76

2010 Unit(RMB:Yuan)

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	-	1,408,865,976.60	-	1,408,865,976.60
Notes receivable	-	1,239,473,175.81	-	1,239,473,175.81
Accounts receivable	-	220,455,221.91	-	220,455,221.91
Other receivable	-	2,966,134.12	-	2,966,134.12
Available for sale Financial assets	-	-	85,096,475.10	85,096,475.10
Total	-	2,871,760,508.44	85,096,475.10	2,956,856,983.54

2010	Unit(RMB:Yuan)
Financial liabilities	Other Financial Liabilities
Short-term loan	80,000,000.00
Notes payable	196,298,949.52
Account payable	858,913,417.70
Employees' remuneration payable	151,540,507.02
Other payables	75,466,174.07
Accrued expense	256,254,683.87
Other non-current liabilities	37,796,704.69
Total	1,656,270,436.87

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.

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 2011, among the Group's collections with specific credit risk, 24.78% (2010: 32.81%) 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 2011, 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:

2011	Unit(RMB:Yuan)				
	Total	Not overdue or impaired	Overdue		
			Within 1 year	1-2 years	Over 2 years
Accounts receivable	217,807,613.47	151,899,222.89	64,934,280.01	156,213.20	817,897.37
Other receivable	2,434,484.43	683,596.50	884,502.60	866,385.33	-
Notes receivable	1,100,827,260.00	1,100,827,260.00	-	-	-
Available for sale financial assets	44,442,355.00	44,442,355.00	-	-	-

2010	Unit(RMB:Yuan)				
	Total	Not overdue or impaired	Overdue		
			Within 1 year	1-2 years	Over 2 years
Accounts receivable	220,455,221.91	214,231,734.23	2,529,977.94	3,490,903.50	202,606.24
Other receivable	2,966,134.12	2,018,260.68	874,826.55	42,258.45	30,788.44
Notes receivable	1,239,473,175.81	1,239,473,175.81	-	-	-
Available for sale financial assets	85,096,475.10	85,096,475.10	-	-	-

On 31 December 2011, not overdue or impaired accounts receivables are related to independent clients without recently default records.

On 31 December 2011, 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:

2011 Unit(RMB:Yuan)

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
Total	832,299,429.20	1,101,949,556.49	788,132,828.37		44,442,355.00	2,766,824,169.06

2011 Unit(RMB:Yuan)

Financial assets	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 expenses		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

2010						Unit(RMB:Yuan)
Financial assets	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	No deadline	Total
Cash and cash equivalents	643,865,976.60	490,000,000.00	275,000,000.00			1,408,865,976.60
Notes receivable		533,602,445.29	705,870,730.52			1,239,473,175.81
Accounts receivable		199,823,253.48	20,631,968.43			220,455,221.91
Available for sale financial assets					85,096,475.10	85,096,475.10
Other receivable		2,966,134.12				2,966,134.12
	643,865,976.60	1,226,391,832.89	1,001,502,698.95		85,096,475.10	2,956,856,983.54

2010						Unit(RMB:Yuan)
Financial assets	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	No deadline	Total
Short-term loans		1,836,000.00	81,836,000.00			83,672,000.00
Notes payable		92,097,106.64	104,201,842.88			196,298,949.52
Accounts payable		850,236,088.70	8,677,329.00			858,913,417.70
Employees' remuneration payable	22,464,698.91	6,692,558.86	122,383,249.25			151,540,507.02
Other payables		51,377,047.70	24,089,126.37			75,466,174.07
Accrued expense		145,083,476.19	111,171,207.68			256,254,683.87
Other non-current liabilities				46,743,428.65		46,743,428.65
	22,464,698.91	1,147,322,278.09	452,358,755.18	46,743,428.65		1,668,889,160.83

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. On 31 December 2010, the Group does not hold long-term financial liabilities bearing floating interest rate and consequently its exposed interest rate risk is relatively low.

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 2.37% (2010: 3.16%) of the Group's total revenue that is valued in currencies other than the units' functional currency. The Group offsets its foreign currency risk by forward exchange contract. The currency of forward exchange contract should be the same as the currency to be hedged. It is the Group's policy that the contract not signed until firm commitment is made.

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):

2011		Unit(RMB:Yuan)
	Exchange rate increase /(decrease)	Net Profit increase/(decrease)
If RMB weakens against US dollar	5%	864,160.20
If RMB strengthens against US dollar	5%	-864,160.20
If RMB weakens against EURO	5%	251,333.98
If RMB strengthens against EURO	5%	-251,333.98

2010		Unit(RMB:Yuan)
	Exchange rate increase /(decrease)	Net Profit increase/(decrease)
If RMB weakens against US dollar	5%	1,011,735.19
If RMB strengthens against US dollar	5%	-1,011,735.19
If RMB weakens against EURO	5%	6,451.59
If RMB strengthens against EURO	5%	-6,451.59

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 Note V.8 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 2011 and 2010:

	2011.12.31	2011 highest/lowest	2010.12.31	2010 highest/lowest
Shanghai—A stock index	2,304	3,202/2,269	2,940	3,443/2,478

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.

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

2010		Unit(RMB:Yuan)
Equity instrument investment	Book value	Stakeholder equity increase/(decrease)*
Shanghai—Available for sale equity instrument investment	85,096,475.10	3,616,600.19

Note: not including retained earnings.

Fair value

On 31 Dec 2011, 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.

14. Notes to the corporate financial statements

(1) Accounts receivable

1) Type analysis

Unit(RMB:Yuan)

Type	2011				2010			
	Book value		Provision		Book value		Provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant items	21,311,884.44	8.18	10,655,942.22	50	5,883,652.75	2.77	647,412.17	11.00
Tested for impairment on the basis of group								
Tested for impairment on the basis of risk portfolio	225,061,083.67	86.38		0.00	200,869,528.91	94.68		0.00
Subtotal	225,061,083.67	86.38		0.00	200,869,528.91	94.68		0.00
Individually insignificant but individually tested for impairment	14,167,017.59	5.44	8,859,043.42	62.53	5,413,884.30	2.55	4,348,449.70	80.32
Total	260,539,985.70	/	19,514,985.64	/	212,167,065.96	/	4,995,861.87	/

On 31 December 2011, the bad debt provided to individually significant items and individually tested for impairment is as follows:

Unit(RMB:Yuan)

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	8,526,174.34	4,263,087.17	50	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	7,120,610.28	3,560,305.14	50	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 3	5,665,099.82	2,832,549.91	50	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	21,311,884.44	10,655,942.22	/	/

On 31 December 2011, the bad debt provided to individually insignificant items but individually tested for impairment is as follows:

Unit(RMB:Yuan)

	Balance	Bad debt provision	Provision Rate(%)	Reason
Client 1	2,707,815.54	1,353,907.77	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 2	2,001,059.08	2,000,000.00	99.95	The chance of recovering balance is remote due to long aging.
Client 3	2,163,200.30	1,081,600.15	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 4	1,887,563.12	943,781.56	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 5	1,550,311.43	775,155.72	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 6	1,325,367.20	662,683.60	50.00	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Client 7	1,145,439.85	1,145,439.85	100.00	The chance of recovering balance is remote due to long aging.
Others	1,386,261.07	896,474.77	64.67	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.
Total	14,167,017.59	8,859,043.42	/	/

1/ The chance of recovering partial balance is remote due to long aging.

2/ The chance of recovering total balance is remote due to long aging.

2) 2011, the significant reversals of bad debt provision of accounts receivable are as follows:

Unit(RMB:Yuan)

	Reason for reversal	Reason for provision of bad debt provision	Bad debt provided Before reversal	Received amount	Reversal amount
Client 1	Received	The chance of recovering partial balance is remote due to long aging and exceeding the credit period.	1,263,283.83	1,263,283.83	1,263,283.83
Others	Received	The chance of recovering total balance is remote due to long aging.	427,298.36	427,298.36	427,298.36
Total	/		1,690,582.19	/	/

3) In 2011, the accounts receivable written off are as follows:

Unit(RMB:Yuan)

Name	Nature	Amount	Reason for written-off	Related party transaction
Client 1	Derived from sales	220,113.81	The chance of recovering the balance is remote due to long aging.	No
Total	/	220,113.81	/	/

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

4) On 31 December 2011, 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

Unit(RMB:Yuan)

Name	Relationship	Amount	Aging	Percentage of balance (%)
NO.1	Third party	32,745,937.52	Within 1 year	12.57
NO.2	Related party	20,830,079.20	Within 1 year	7.99
NO.3	Third party	16,029,525.50	Within 1 year	6.15
NO.4	Third party	15,465,500.00	Within 1 year	5.94
NO.5	Third party	11,131,643.52	Within 1 year	4.27
Total	/	96,202,685.74	/	36.92

6) Accounts receivable from related parties

Unit(RMB:Yuan)

Name	Relationship	Amount	Percentage of balance (%)
Yi Hua Electrical	Subsidiary	20,830,079.20	7.99
Ying Da Xin	Subsidiary	2,001,059.08	0.77
Dalian Diesel Engine Co., Ltd.	Subsidiary	1,967,450.79	0.76
Shanghai Diesel Car Trading Co., Ltd.	Subsidiary	1,283,489.43	0.49
SAIC Commercial Vehicle	Controlled by parent company	7,619,455.33	2.92
Pengpu Machine	Controlled by parent company	5,351,245.25	2.05
Sunwin Bus	Jointly controlled entity of the parent company	6,208,334.51	2.38
IVECO Hongyan	Jointly controlled entity of the parent company	1,223,844.41	0.47
Nan Jing IVECO	Jointly controlled entity of the parent company	587,960.02	0.23
Total	/	47,072,918.02	18.06

(2) Other receivable

1) Type analysis:

Unit(RMB:Yuan)

Type	2011				2010			
	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	2,176,286.36	100.00	0.00	0.00	1,546,210.48	48.12	0.00	0.00
Subtotal	2,176,286.36	100.00			1,546,210.48	48.12		
Individually significant but individually tested for impairment		0.00	0.00	0.00	1,667,031.06	51.88	689,466.00	41.36
Total	2,176,286.36	/	/	/	3,213,241.54	/	689,466.00	/

2) In 2011, the other receivables written off are as follows:

Unit(RMB:Yuan)

Name	Amount	Reason for written-off	Related party transaction
Client 1	495,000.00	The chance of recovering the balance is remote due to long aging	No
Other	194,466.00	The chance of recovering the balance is remote due to long aging	No
Total	689,466.00	/	/

3) On 31 December 2011, within the aforesaid balance, 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

Unit(RMB:Yuan)

Name	Relationship	Amount	Aging	Percentage of OR (%)
NO.1	Third party	1,672,887.93	Within 2 year	76.87
NO.2	Third party	250,000.00	Within 2 years	11.49
NO.3	Third party	53,000.00	Above 1 years	2.44
NO.4	Third party	50,000.00	Within 1 year	2.30
NO.5	Third party	45,000.00	1 to 2 years	2.07
Total	/	2,070,887.93	/	95.17

(3) Long-term equity investment

Cost method

Unit(RMB:Yuan)

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 Co., Ltd	10,000,000.00	10,000,000.00		10,000,000.00			2.19
Shanghai Shangfeng Engine Trading Co., Ltd		821,364.02	-821,364.02			-821,364.02	
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

Investee Name	The initial investment cost	Beginning Balance	Increase or decrease in current year	Closing Balance	Impairment	Impairment of current year	Shareholding percentage (%)
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		10,359,861.82	10,338,499.98		70.00
Shanghai Diesel Hai'an power Co., Ltd.	300,000,000.00		300,000,000.00	300,000,000.00			100.00

Equity method

Unit(RMB:Yuan)

Investee Name	The initial investment cost	Beginning Balance	Increase or decrease in current year	Closing Balance	Provision of current year	Shareholding percentage (%)
Shanghai Lingzhong Supercharge Co., Ltd.	28,142,480.00	32,270,486.26	4,471,640.40	36,742,126.66		40.00

Shanghai Shangfeng Engine Trading Co., Ltd. has been written off in 2011, and the Group wrote-off the impairment of long-term equity investment accordingly.

(4) Operating revenue and operating cost

1) Operating revenue and operating cost Unit(RMB:Yuan)

	2011	2010
Principal operating revenue	4,493,908,918.10	4,625,209,068.34
Other operating revenue	91,971,738.50	105,243,288.42
Operating cost	3,678,352,467.67	3,887,849,827.96

2) Principal operating revenue by industry Unit(RMB:Yuan)

	2011		2010	
	Sales	Cost of Sales	Sales	Cost of sales
Diesel and Parts	4,493,908,918.10	3,617,784,795.07	4,625,209,068.34	3,800,055,095.21
Total	4,493,908,918.10	3,617,784,795.07	4,625,209,068.34	3,800,055,095.21

3) Principal operating revenue by products Unit(RMB:Yuan)

	2011		2010	
	Sales	Cost of Sales	Sales	Cost of sales
Diesels	4,117,316,460.33	3,314,590,496.52	4,070,538,654.14	3,277,355,087.06
Parts	367,706,497.54	296,191,009.83	495,909,541.83	462,597,919.93
Others	8,885,960.23	7,003,288.72	58,760,872.37	60,102,088.22
Total	4,493,908,918.10	3,617,784,795.07	4,625,209,068.34	3,800,055,095.21

4) The top five customers' sales details Unit(RMB:Yuan)

Customer name	Operating revenue	Percentage of total revenue(%)
NO.1	1,062,314,943.78	23.16
NO.2	296,421,430.68	6.46
NO.3	243,132,874.64	5.30
NO.4	159,930,462.42	3.49
NO.5	136,955,682.79	2.99
Total	1,898,755,394.31	41.40

Operating revenue by Types: Unit(RMB:Yuan)

	2011	2010
Sale of products:	4,489,913,270.19	4,566,448,195.97
Sale of raw materials and wastes	80,337,585.65	94,182,770.87
Rendering labour services	3,995,647.91	54,400,823.35
Storage revenue	6,439,773.65	7,350,101.76
Rental income	2,463,131.20	4,211,633.36
Others	2,731,248.00	3,858,831.45
Total	4,585,880,656.60	4,730,452,356.76

(5) Investment income

1) Investment income Unit(RMB:Yuan)

	2011	2010
Long-term equity investment gain/(loss) measured by equity method	4,471,640.40	7,465,149.70
Investment income acquired by holding available for sale financial assets	556,650.00	418,840.49
Gain from disposal of available for sale financial assets	5,773,599.04	206,879.87
Others	10,526,377.14	0.00
Total	21,328,266.58	8,090,870.06

Refer to Notes to the consolidated financial statements "investment income" for the item "others".

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

Name	2011	2010	Reason for decrease in current year
Longzhong Supercharge	4,471,640.40	7,465,149.70	Net profit of Lingzhong Supercharge decreased
Total	4,471,640.40	7,465,149.70	/

(6) Supplement information of cash flow statement

Unit(RMB:Yuan)

	2011	2010
1.Reconciliation of net profit to cash flows from operating activities		
Net profit	207,833,863.06	75,913,827.93
Add: Impairment for assets	21,502,691.77	88,211,815.50
Depreciation on fixed assets	61,311,357.21	93,282,784.09
Amortisation of intangible assets	58,100.04	58,100.07
Amortisation on long-term deferred expense		
Loss/(gain) on the disposal of fixed assets, intangible assets and other long-term assets	-1,033,551.61	-520,117.58

	2011	2010
Loss arising from the write-off of fixed assets		
Fair value losses		
Financial expenses	2,885,209.25	558,022.46
Investment loss/(gain)	-21,328,266.58	-8,090,870.06
Decrease/(increase) in deferred tax assets	-18,621,504.96	-66,653,653.09
Increase/(decrease) in deferred tax liabilities		-262,854
Decrease/(increase) in inventory	183,720,996.61	-188,312,887.45
Decrease/(increase) in recurrent receivables	87,331,113.53	-507,986,935.18
Increase/(decrease) in recurrent payables	10,688,891.09	843,389,530.74
Others		
Net cash flows from operating activities	534,348,899.41	329,586,763.43
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	1,145,636,193.91	1,337,258,923.15
Less: Opening balance of cash	1,337,258,923.15	937,542,590.50
Add: Balance of cash equivalents at year end		
Less: Opening balance of cash equivalents		
The net increase/(decrease) of cash and cash equivalents	-191,622,729.24	399,716,332.65

15. Supplementary Materials

(1) Non-recurring items

Unit(RMB:Yuan)

Items	2011	2010	2009
Profit and loss arising from disposal of non-current assets	24,130.45	693,369.69	-2,557,861.78
Government grants (regular and continuous grants excluded)	2,326,000.00	3,536,000.00	6,851,000.00
Profit and loss from fair value changes	5,773,599.04	731,802.36	1,130,834.79
Reversal of bad debt provision for receivables that are individually tested for impairment	2,258,282.19	5,521,205.48	4,775,271.56
Gain or loss from loan by mandate		3,026,700.00	1,325,125.00
Non-operating income and expenses other than above items	112,897.67	1,875,292.18	366,290.82
Other P&L items according with Non-recurring profit and loss	10,526,377.14		2,216,165.85
Effect on minority shareholders	501,314.03	-201,542.03	74,081.57
Effect on income tax	-3,502,779.34	-2,543,707.30	-3,042,206.30
Total	18,019,821.18	12,639,120.38	11,138,701.51

(2) Return on equity and earnings per share

Unit(RMB:Yuan)

Profit in 2011	Weighted average return on equity(%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to the Company's ordinary shareholders	9.80	0.43	NA
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and loss	8.95	0.39	NA

(3) Explanation about unusual situation and reason of corporate main Financial Statement items

- 1) The balance of inventory decreased by 40.80% that was mainly due to the decrease in stock of diesel engine at the year end;
- 2) The balance of available-for-sale financial assets decreased by 47.77% that was mainly due to the decrease of the price of stocks held by the Company and the sales of partial stocks;
- 3) The balance of construction in progress increased by 429.79% that was mainly due to the increased investment in fixed assets relating to the development of new and existing products, besides, Shanghai Diesel Hai'an power Co., Ltd., newly established in 2011 was still in the construction period, which also contributed to the increase in construction in progress balance;
- 4) The balance of short-term loan decreased by 100% that was mainly due to the repayment of related borrowings;
- 5) The balance of taxes payable decreased by 113.37% that was mainly due to increase in deductible VAT (input VAT) as a result of increased raw material purchase, besides, 2010 CIT payable was settled in 2011;
- 6) The balance of other non-current liabilities increased by 107.12% that was mainly due to increase in government related deferred income and compensation for early retirees over 1 year;
- 7) The balance of retained earnings increased by 40.62% that was mainly attributed to the increase in profit attributable to the Company;
- 8) The business tax and surcharges increased by 157.15% that was mainly attributed to the increase in surcharges of turnover tax as a result of the tax policy change;
- 9) The financial expense increased by 73.50% that was mainly due to the increase of interest on deposits;
- 10) The assets provision loss decreased by 77.15% that was mainly due to the impairment provided by Dalian Diesel Engine Co., Ltd. in 2010;
- 11) The investment income increased by 147.55% that was mainly due to the gain on disposal of available for sale financial assets and the transition period gains from transferring the Company's equity in certain entities;
- 12) The net profit attributable to the Company increased by 52.07% that was mainly due to the decrease in expense and increase in net profit as a result of the Group's cost control policy in current year;
- 13) The minority interests decreased by 85.01% that was mainly due to the decrease of loss of Dalian Diesel Engine Co., Ltd in current year;
- 14) Net cash flows from operating activities increased by 35.52% that was mainly due to the increase in the operating profit and the decrease in inventory;
- 15) Net cash flows from investing activities decreased by 1979.82% that was mainly due to the increased investment in fixed assets relating to the development of new and existing products;
- 16) Net cash flows from financing activities decreased by 289.18% that was mainly due to the repayment of short term borrowings in current year.

XI. Appendix for checking

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, Certified Public Accountants;
3. All publications and announcements have been published in newspapers designated by China Securities Regulatory Commission.

Chairman of the board : Xiao Guo Pu

Shanghai Diesel Engine Co.,Ltd

March 26,2012