THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your overseas listed foreign shares ("**H Shares**") in Weichai Power Co., Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation of offer to acquire, purchase or subscribe for any securities.

WEICHAI

濰柴動力股份有限公司
WEICHAI POWER CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2338)

POSSIBLE MAJOR TRANSACTION

POSSIBLE ACQUISITION OF SHARES IN KION THROUGH EXERCISE OF THE CALL OPTIONS

A letter from the Board is set out on pages 6 to 21 of this circular.

A notice convening the EGM (as defined in this circular) of Weichai Power Co., Ltd. (the "**Company**") to be held at the Company's conference room at 197, Section A, Fu Shou East Street, High Technology Development Zone, Weifang, Shandong Province, the People's Republic of China on 22 April 2013 has been issued by the Company on 7 March 2013.

A reply slip and form of proxy used at the EGM were despatched by the Company on 7 March 2013. If you are eligible and intend to attend the EGM, please complete and return such reply slip in accordance with the instructions printed thereon on or before Tuesday, 2 April 2013. Whether or not you intend to be present at the EGM, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the EGM or any adjournment thereof if you so wish.

28 March 2013

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In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"1st Announcement"	the Company's announcement dated 31 August 2012
"2nd Announcement"	the Company's announcement dated 20 December 2012
"2012 Announcements"	the 1st Announcement, 2nd Announcement and the Company's overseas regulatory announcement dated 28 December 2012 relating to the Framework Agreement and the transactions contemplated thereunder, including, *inter alia*, the grant of the Call Options
"A Share(s)"	the A Share(s), being ordinary share(s) issued in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the Shenzhen Stock Exchange
"Acquisitions"	(i) the subscription of new shares in the capital of KION representing 25% of the enlarged share capital of KION after completion; and (ii) the acquisition of 70% of the interest in LHY Co, further details of which are set out in the 2012 Announcements
"Articles of Association"	the articles of association of the Company
"Business Day"	any day other than Saturdays, Sundays and public holidays in Frankfurt am Main/Germany
"Call Options"	KION Call Option and Superlift Call Option
"Cap Amount"	the estimated maximum aggregate investment amount to be paid by the Company upon the exercise of the Call Options as set out in the section headed "5. Authorisation from the Shareholders' general meeting to the Board in connection with the exercise of the Call Options" in this circular
"Capitalisation of the Superlift Funding Loan"	the conversion (in the economic sense) of the Superlift Funding Loan into shares of KION by way of a transfer of all issued shares in Superlift Funding and a receivable held by Superlift against Superlift Funding to KION against new shares to be issued by KION immediately prior to the IPO

"Company"	潍柴動力股份有限公司 (Weichai Power Co., Ltd.), a company established in the PRC with limited liability
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held on 22 April 2013 to consider and, if thought fit, approve the exercise of the Call Options
"Enlarged Group"	the Group as enlarged by the acquisition of shares in KION through the full exercise of the Call Options
"EU"	the European Union
"EUR" or "€"	Euro, the lawful currency of the European Union
"EURIBOR"	the Euro Interbank Offered Rate
"Framework Agreement"	the framework agreement dated 31 August 2012 entered into among the Company, KION, KION Group GmbH, LMH, Superlift and KMB (as supplemented by the amendment agreement entered into among the Company, Weichai Lux, KION, KION Group GmbH, LMH, Superlift and KMB on 20 December 2012 (Beijing time))
"Group"	the Company and its subsidiaries (as defined in the Listing Rules)
"H Share(s)"	the H Share(s), being the overseas listed foreign share(s) issued in the capital of the Company with a RMB denominated par value of RMB1.00 each and are listed on the main board of the Hong Kong Stock Exchange
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	the International Financial Reporting Standards promulgated by the International Accounting Standards Board, which comprise the International Accounting Standards

"IPO"	an initial public offering of the shares of KION or any successor entity of KION
"KION"	KION Holding 1 GmbH, a limited liability company incorporated in Germany and to be converted into a stock corporation prior to the IPO
"KION Call Option"	the call option granted to Weichai Lux under the KION Shareholders' Agreement to subscribe for new shares in KION, further details of which are set out in the section headed "2. Possible exercise of the Call Options — (a) KION Call Option" in this circular
"KION Group"	KION and its subsidiaries
"KION Group GmbH"	KION Group GmbH, a limited liability company incorporated in Germany and an indirect wholly owned subsidiary of KION
"KION Shareholders' Agreement"	the shareholders' agreement as of 27 December 2012 entered into in accordance with the terms of the Framework Agreement among Weichai Lux, KION, Superlift and KMB
"KMB"	Kion Management Beteiligungs GmbH & Co. KG, a limited partnership established in Germany which holds 5.71% of the issued share capital of KION as at the Latest Practicable Date
"Latest Practicable Date"	26 March 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this circular before its despatch
"LHY Co"	Linde Hydraulics GmbH & Co. KG, a limited partnership established in Germany which is a 70% indirectly owned subsidiary of the Company, further details of which are disclosed in the 2012 Announcements
"Linde Hydraulics"	the hydraulics business operated by a business unit/department of LMH, which is principally engaged in the business of development, manufacturing, production, sale and marketing, and servicing of hydraulic pumps, hydraulic motors, hydraulic valves, gears and gear drives, ancillary castings and foundry of hydraulic components

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LMH"	Linde Material Handling GmbH, a limited liability company incorporated in Germany and an indirect wholly owned subsidiary of KION
"order intake"	the number of new trucks and/or service offerings ordered by a customer in a specified time period, as expressed in units or in Euro, as the context may require
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	share(s) of RMB1.00 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Superlift"	Superlift Holding, S.à r.l., a limited liability company incorporated in Luxemburg, 100% owned by funds advised by Kohlberg Kravis Roberts & Co. L.P. and Goldman, Sachs & Co. which holds approximately 69.29% of the issued share capital of KION as at the Latest Practicable Date
"Superlift Call Option"	the call option granted by Superlift to Weichai Lux to purchase shares in KION from Superlift pursuant to the terms of the Framework Agreement, further details of which are set out in the section headed "2. Possible exercise of the Call Options — (b) Superlift Call Option" in this circular and was referred to as "KION Call Option 2" in the 2nd Announcement
"Superlift Funding"	Superlift Funding S.à r.l., a limited liability company incorporated in Luxemburg and an affiliate of Superlift
"Superlift Funding Loan"	has the meaning as ascribed to it under the section headed "3. The potential IPO of KION" in this circular

"USD" or "US$"	United States dollars, the lawful currency of the United States
"Weichai Lux"	Weichai Power (Luxembourg) Holding S.à r.l., a company incorporated in Luxembourg and a wholly-owned subsidiary of the Company
"%"	per cent.

(The exchange rate used for the purpose of this circular is at EUR1 = HK$10.0750)

WEICHAI

濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2338)

Executive Directors:
Tan Xuguang *(Chairman)*
Xu Xinyu
Li Dakai
Fang Hongwei
Sun Shaojun
Zhang Quan

Non-executive Directors:
Chen Xuejian
Yeung Sai Hong
Julius G. Kiss
Han Xiaoqun
Jiang Kui

Independent Non-executive Directors:
Liu Zheng
Li Shihao
Loh Yih
Chu, Howard Ho Hwa
Zhang Zhenhua
Li Luwen

Supervisors:
Sun Chengping
Jiang Jianfang
Lu Wenwu

Registered office:
197, Section A
Fu Shou East Street
High Technology Industrial
Development Zone
Weifang City
Shandong Province
The People's Republic of China

Principal place of business in Hong Kong:
Room 3407-3408
34/F, Gloucester Tower
Landmark
15 Queen's Road Central
Hong Kong

28 March 2013

To: *Holders of H Shares*
Holders of A Shares

Dear Sir or Madam,

POSSIBLE MAJOR TRANSACTION

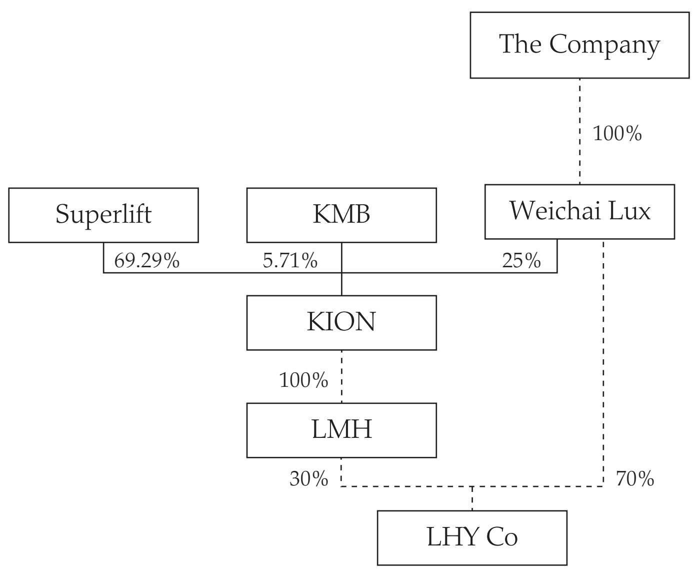
POSSIBLE ACQUISITION OF SHARES IN KION THROUGH EXERCISE OF THE CALL OPTIONS

1. INTRODUCTION

Reference is made to the 2012 Announcements and the announcement of the Company dated 7 March 2013, pursuant to which the Company announced that the Framework Agreement has been entered into in respect of the Acquisitions and the grant of certain options, including the Call Options. Reference is also made to the notice convening the EGM issued by the Company on 7 March 2013, which sets out details of the resolutions concerning the exercise of the Call Options to be considered at the EGM.

Following the completion of the Acquisitions on 27 December 2012 (Central European Time), the Company (through its wholly owned subsidiary, Weichai Lux) was, as at the Latest Practicable Date, the holder of 25% of the issued share capital of KION and 70% of the interest in LHY Co (as detailed in the 2012 Announcements). The Call Options were also granted (without any premium payable) in connection with the completion of the Acquisitions.

For illustrative purposes, the relationship between the Group, KION and LHY Co as at the Latest Practicable Date is set out as follows:



Note: Dotted lines denote interest indirectly held in the respective companies.

The purpose of this circular is to provide you with, among other things, details of the Call Options and other information in accordance with the Listing Rules.

2. POSSIBLE EXERCISE OF THE CALL OPTIONS

The principal terms of the each of the Call Options are summarised as follow:

(a) KION Call Option

Parties	:	Superlift and KMB as grantor and Weichai Lux (a wholly owned subsidiary of the Company) as grantee.
Option shares	:	Weichai Lux is entitled to require that Superlift and KMB pass the relevant shareholders resolution so that KION issues new shares, such that Weichai Lux's shareholding in KION would be increased to: (i) 33.3% of KION's total issued shares immediately after the completion of the IPO, if, prior to the allotment of KION shares to the investors of the IPO, Weichai Lux owns 28.3% or more of the total issued share capital of KION as a result of the exercise and completion of the Superlift Call Option; or (ii) 30% of KION's total issued shares immediately after completion of the IPO, if, prior to the allotment of KION shares to the investors of the IPO, Weichai Lux owns less than 28.3% of the total issued share capital of KION.
Exercise period	:	The KION Call Option has to be exercised by Weichai Lux, at the latest, within five (5) Business Days after the underwriters of KION provides Weichai Lux with a preliminary estimate of the likely price range for the IPO.

Exercise price	:	The exercise price equals to the lower of (i) a price per share determined on the basis of EUR467,000,000 (equivalent to approximately HK$4,705,025,000, as the consideration paid for under the subscription of 25% of the issued shares in KION pursuant to the Acquisitions) plus any future capital contributions made by the shareholders of KION after the date of completion of the Acquisitions (the "**Acquisition Valuation**"), and (ii) the price per share of KION under the IPO. For the avoidance of doubt, no dividends or distributions made by KION are required to be deducted from the exercise price of the KION Call Option, unlike the determination of the exercise price of Superlift Call Option. If Weichai Lux exercises the KION Call Option, the issue price for the new KION shares shall be settled by Weichai Lux in cash. A portion equal to the nominal amount of the shares (being EUR1.00 per share) shall be paid to KION, whereas the additional (preliminary) issue price shall be paid into an escrow account and be released to KION in an amount equal to the final issue price (minus the nominal amount of the shares already paid to KION). The additional (preliminary) issue price is equal to the amount of the lower of (i) the Acquisition Valuation; and (ii) the highest price of the estimated price range for the IPO provided by the underwriters of KION, less the nominal amount of the shares which shall be paid to KION by Weichai Lux. This additional (preliminary) price will be determined when the underwriters of KION have completed the pre-marketing by the underwriters on the basis of the published analyst reports. The final issue price is the offer price per share of KION under the IPO, which, as set out in the section headed "3. The potential IPO of KION" below, has not yet been determined and it will only be made available at a later stage and shortly before the occurrence of the IPO. Any difference between the estimated issue price and the final issue price shall be settled by Weichai Lux no later than five Business Days after such final issue price has been determined. If the estimated issue price which Weichai Lux has actually paid prior to the IPO is greater than the final issue price, the excess amount will be refunded to Weichai Lux through an escrow account established for purpose of holding such additional (preliminary) issue price.

The exercise price was determined after arm's length commercial negotiations between the parties to the Framework Agreement based on the initial investment price for the Acquisitions.

With respect to the process on the negotiation and determination of the consideration for the Acquisitions, after arm's length commercial negotiations based on publicly available information, the Company and KION based their further negotiation process on a preliminary initial price for the Acquisitions. Subsequently, KION provided information to the Company and its advisory team, including financial adviser, accounting and tax adviser, industry consultant and legal advisers, to conduct further due diligence.

A combination of factors were considered when assessing the initial price for the investments in KION, including:

(a) a review of the business performance of KION;

(b) an evaluation of the trends of the forklift truck industry;

(c) an evaluation of the scale, sales and production capabilities, products, technologies and brands of KION and benchmarking against its industry peers;

(d) an evaluation of strategic benefits that may arise from the strategic collaboration between the Company and KION; and

(e) comparable analyses by the Company's financial adviser, including:

(i) a review of the then current and historical market trading multiples of comparable companies in the forklift truck industry; and

(ii) a review of the transaction multiples of comparable precedents involving forklift truck companies.

Based on the above analyses, the initial price was considered within the range acceptable for further negotiation. The Company continued to further negotiate with KION and managed to lower the consideration for the Acquisitions further.

Based on the factors above, the Board approved the Acquisitions on 31 August 2012 and considered the amount of the consideration to be fair and reasonable and in the interest of the Shareholders as a whole.

Conditions : The KION Call Option shall be exercisable subject to the occurence of the IPO after the satisfaction of the following conditions:

(i) the Company obtaining all necessary PRC governmental approval for implementing the exercise of the KION Call Option; and

(ii) the necessary approval in relation to the exercise of the KION Call Option being granted by the Shareholders.

(b) Superlift Call Option

Parties : Superlift as grantor and Weichai Lux (a wholly owned subsidiary of the Company) as grantee.

Option shares : Weichai Lux is entitled to purchase from Superlift such amount of shares of KION representing 3.3% of KION's issued share capital at the time of the exercise.

Exercise period	:	The Superlift Call Option is exercisable by Weichai Lux (i) at any time after 27 December 2012, being the date of completion of the Acquisitions, until 30 June 2013 or (ii) during any time within the three months after the completion of the IPO. The Superlift Call Option shall expire in any event at the end of 31 December 2015, if it has not been exercised and completed before that date. As at the Latest Practicable Date, the IPO structure is yet to be determined as set out in the section headed "5. Authorisation from the Shareholders' general meeting to the Board in connection with the exercise of the Call Options", accordingly the Company has no intention to exercise the Superlift Call Option on or before 30 June 2013.
Exercise price	:	The exercise price equals to the sum of (i) EUR61,644,000 (equivalent to approximately HK$621,063,300); and (ii) the pro-rata portion of the aggregate amount of any additional capital contribution, made to KION after the date of completion of the Acquisitions and up to the date of completion of the Superlift Call Option ("**Additional Contributions**"); and (iii) deducting therefrom the pro-rata portion of the aggregate amount of dividends or other distributions made by KION to its shareholders after the date of the completion of the Acquisitions and up to the date of exercise of the Superlift Call Option ("**Post Completion Distributions**"). If Weichai Lux exercises the Superlift Call Option, the exercise price shall be settled by Weichai Lux in cash and the settlement shall occur after all requisite conditions precedent (as set out in the sub-paragraph headed "Conditions precedent" below) are met. The closing shall be subject to a long-stop period of three months after the date of the relevant sale and transfer agreement which has to be concluded between Superlift and Weichai Lux within one month following the exercise of the Superlift Call Option. The period of four months in total is the estimated maximum period required for entering into a sale and transfer agreement in respect of the KION shares and completion of the conditions precedent thereto in connection with the exercise of the Superlift Call Option.

The exercise price was determined after arm's length commercial negotiations between the parties to the Framework Agreement and the KION Shareholders' Agreement based on the initial investment price for the Acquisitions. Further details of the negotiation and determination of the consideration for the Acquisitions are set out in the section headed "2. Possible exercise of the Call Options – (a) KION Call Option – Exercise price" above.

Conditions precedent : Pursuant to the KION Shareholders' Agreement, the exercise of the Superlift Call Option is conditional upon the satisfaction (or where permitted under applicable law waiver) of the following conditions:

(i) the Company obtaining all necessary merger control clearances with regard to the acquisition of further shares in KION;

(ii) the Company obtaining clearance under the German Foreign Trade Regulation, if necessary;

(iii) the Company obtaining all necessary PRC governmental approval for the acquisition of further shares in KION through the exercise of the Superlift Call Option;

(iv) the necessary approval in relation to the acquisition of further shares in KION through the exercise of the Superlift Call Option being granted by the Shareholders; and

(v) there being no injunction or other court order or governmental order in a member state of the European Union, the United States and Switzerland prohibiting the acquisition of further shares in KION by Weichai Lux.

The KION Call Option and the Superlift Call Option are not inter-conditional of each other and they are not required to be completed in a particular sequence. The KION Call Option may be exercised in connection with an IPO whenever this occurs and it cannot be exercised if there is no IPO. The Superlift Call Option is different. It can be exercised if there is no IPO until 30 June 2013, and if there is an IPO, within three months following such IPO provided that it will expire on 31 December 2015.

Pursuant to the KION Shareholders' Agreement, in the event that Weichai Lux shall, upon the exercise of the KION Call Option and/or the Superlift Call Option, hold at least 33.3% of the issued share capital of KION after the completion of the IPO, and either

Superlift or Weichai Lux desires to transfer any of its KION shares, the other relevant shareholder will be entitled to exercise a right of first offer to purchase such shares. Further, the parties under the KION Shareholders' Agreement agreed that if following the completion of the IPO, Weichai Lux holds at least 33.3% of the issued share capital of KION, they will support, within the given legal framework, the election of a member of the supervisory board designated by Weichai Lux to become the chairman of the supervisory board of KION. In addition, pursuant to the terms of the KION Shareholders' Agreement, as soon as Weichai Lux holds 30% or more of the shares in KION, the parties shall take, within the given legal framework, all actions in order to ensure that two out of six shareholder representatives of the supervisory board of KION (the supervisory board consists of twelve members, six of them being shareholder representatives and six of them being employee representatives) are members who are nominated by Weichai Lux.

The German stock corporation has a mandatory two-tier board system: The management board (*Vorstand*) is the executive body in charge of the actual management of the company, whereas the supervisory board's (*Aufsichtsrat*) powers are limited to supervisory functions, which include, in addition to certain approval requirements, as set out below, reporting and consultation rights vis-à-vis the management board.

The supervisory board will appoint the members of the management board and may revoke an appointment, but only for cause (e.g. in case of material breach by a member of the management board of its duties). The supervisory board shall be in charge of the supervision of the management board of KION, and major business decisions (including business combinations, spin-offs, mergers, sale of all or substantial assets, change in the legal from, etc) shall require the prior consent of the supervisory board. In addition to matters reserved for supervisory board approval under the rules of procedure for the management board, the supervisory board may specify further matters that are subject to its approval (provided that they relate to material transactions or other matters outside the normal business). On the other hand, the supervisory board has no right to interfere with the normal day to day business of the corporation or to give specific directions to the management board.

The chairman of supervisory board shall convene and chair the meetings of the supervisory board. The chairman also has an important role in coordinating the work of the supervisory board and its committees and is the primary contact person for the management board. Further, the chairman has a casting vote in the event of a tie. This may be important also because under the German employee co-determination system half of the supervisory board's members are employee representatives.

3. THE POTENTIAL IPO OF KION

Insofar as the Company is aware, KION may consider doing an offering and applying for the listing of its shares on the Frankfurt Stock Exchange. The terms or structure of the potential IPO (including the timing, the offer size, the number of new shares to be issued by KION and the offer price of the IPO) are yet to be determined.

Immediately prior to the potential IPO, KION and Superlift Funding will implement the Capitalisation of the Superlift Funding Loan at a price per share of KION which is based on the

Acquisition Valuation. The Capitalisation of the Superlift Funding Loan will be made at the beginning of the offer period for the IPO and, in case the KION Call Option is exercised, the issuance of the option shares to Weichai Lux by KION will occur shortly thereafter at the end of the offer period for the IPO.

The Superlift Funding Loan is a loan in the principal amount of EUR100 million under a syndicated senior facilities agreement which Superlift Funding, an affiliate of Superlift, as lender has made available to the KION Group in October 2009. These funds in turn had been advanced as a loan from Superlift to Superlift Funding. The interest on the Superlift Funding Loan is payable at maturity and is compounding at a rate of 3.75% plus EURIBOR per annum. As at the Latest Practicable Date, the aggregate amount outstanding for the Superlift Funding Loan, including accrued and unpaid interest, amounted to approximately EUR117 million.

4. INFORMATION ON KION, SUPERLIFT AND KMB

(a) KION

Insofar as the Company is aware, KION is the holding company of the KION Group. The KION Group, comprising of various entities which carry business under six brands, namely Linde, STILL, Fenwick, OM STILL, Baoli and Voltas, is the largest manufacturer of industrial trucks in Europe and the second largest manufacturer globally by revenue and units. In China, the KION Group is a leading international supplier. The Linde and STILL brands serve the premium segment worldwide. Fenwick is the largest supplier of material-handling products in France, while OM STILL is a market leader in Italy. The Baoli brand focuses on the economy segment, in particular in China and other emerging markets, and Voltas is one of the two market leaders in India.

As of the Latest Practicable Date, as KION held more than 10% of the fixed partnership capital in LHY Co (an indirect non-wholly owned subsidiary of the Company), KION is a connected person (as defined under the Listing Rules) of the Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for their respective direct or indirect interest in KION, the other ultimate beneficial owners of KION are third parties independent of and are not connected persons (as defined under the Listing Rules) of the Company.

Set out below is the audited financial information of KION for the two financial years ended 31 December 2011 and 31 December 2012 prepared based on IFRS:

	For the year ended 31 December 2012 *EUR'000* (audited)	**For the year ended 31 December 2011** *EUR'000* (audited)
Revenue	4,726,664	4,368,395
Earning (loss) before taxation	310,628	(58,885)
Net income (loss) after taxation	161,088	(92,926)

Based on the audited consolidated financial information of KION prepared based on IFRS, as of 31 December 2012, the audited net asset value of KION was approximately EUR660 million.

(b) Superlift and KMB

Insofar as the Company is aware, Superlift is an investment holding company incorporated in Luxemburg and is 100% owned by funds advised by Kohlberg Kravis Roberts & Co. L.P. and Goldman, Sachs & Co. Superlift holds 69.29% of the issued share capital of KION as at the Latest Practicable Date; and KMB is an investment holding partnership established in Germany and holds 5.71% of the issued share capital of KION as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as of the Latest Practicable Date, Superlift and KMB and their respective ultimate beneficial owners are third parties independent of and are not connected persons (as defined under the Listing Rules) of the Company.

5. AUTHORISATION FROM THE SHAREHOLDERS' GENERAL MEETING TO THE BOARD IN CONNECTION WITH THE EXERCISE OF THE CALL OPTIONS

As at the Latest Practicable Date, no decision has been made as to whether the KION Call Option or the Superlift Call Option will be exercised and any such decision is a matter for the Board to deliberate. Shareholders should note, however, that the exercise periods of both Call Options are largely dependent on the progress of the IPO, in particular, the KION Call Option will lapse at the completion of the IPO. As the structure of the IPO (including the timing, the offer size, the number of new shares to be issued by KION and the offer price of the IPO) are yet to be determined and a concrete and definite structure of the IPO will only be made available at a later stage and shortly before the occurrence of the IPO, the exercise period in practice is relatively short and therefore it will not be feasible to seek and obtain Shareholders' approval for the exercise of the Call Options after a decision to exercise the Call Options has been made by the Board.

In addition, the actual exercise price of the Call Options can only be determined once the economic parameters of the IPO (in particular (i) the IPO price and (ii) the number of new shares to be issued by KION immediately before the IPO for the Capitalisaton of the Superlift Funding Loan and for raising new capital in the IPO) are finalised. The issue of such new shares by KION for both the Capitalisation of the Superlift Funding Loan and the raising of new capital in the IPO may have a dilution effect on the Company's existing shareholding interest in KION. Up to the Latest Practicable Date, other than the proposed Capitalisation of the Superlift Funding Loan, as far as the Company is aware, none of the existing shareholders of KION made or planned to make any future capital contributions in respect of KION and no Additional Contributions and Post Completion Distributions were made or planned to be made. Accordingly, the exercise of the Call Options will involve the Company acquiring more shares of KION (as compared to the situation where the Call Options are exercised under the existing shareholding structure without any dilution effect from the Capitalisation of the Superlift Funding Loan and the raising of new capital in the IPO) in order for the Company to reach the intended shareholding interest in KION of 33.3% on a fully diluted basis. Based on the calculations made by the Company and the information obtained by the Company from KION about the currently envisaged Capitalisation of the Superlift Funding Loan, the reduction of the financial indebtedness of the KION Group in the course of the IPO or the increase of the share capital of KION through the issuance of new shares to investors in the course of the IPO, the Board came to the conclusion that Weichai Lux may have to pay up to EUR400,000,000 to increase its shareholding interest in KION to 33.3% of the shares in KION post IPO. This amount is estimated on the basis of the maximum amount payable by Weichai Lux per share in KION under the terms of the KION Call Option and the Superlift Call Option and taking into consideration the potential dilution effect that KION's potential capital increase in an IPO may have on Weichai Lux's shareholding interest in KION. However, since the number of new shares to be issued by KION for the Capitalisation of the Superlift Funding Loan, the final amount of equity to be raised by KION in connection with the IPO to reduce its financial indebtedness and the offer price achieved in the IPO are not known yet, the actual required amount for Weichai Lux to exercise its options could be different from the proposed maximum aggregate investment amount. In view of the above, the Company is seeking Shareholders' approval for a maximum aggregate investment amount for the exercise of the KION Call Option and the Superlift Call Option of EUR400,000,000 (equivalent to approximately HK$4,030,000,000) (the "**Cap Amount**") to allow the Board flexibility in dealing with the exercise of the Call Options at a time when many of the unknown or uncertain factors at present become known to the Board. Shareholders should note that the Cap Amount is only the maximum aggregate investment amount and the Company may not need to pay the full Cap Amount upon the exercise of the Call Options. The consideration payable by Weichai Lux in respect of the proposed exercise of the Call Options will be settled in cash and it is expected that this will be funded out of the Group's financial resources and/or borrowings. The proportion of the financial resources and borrowings that will be used to fund the consideration payable by Weichai Lux upon the exercise of the relevant Call Option(s) will depend on (i) the timing of the exercise of the relevant Call Option(s); (ii) the financial resources of the Group available at the time of the exercise of the relevant Call Option(s); and (iii) the Group's plan at the time of the exercise of the relevant Call Option(s) on deploying its resources having considered the then relevant borrowing costs.

In light of the above, the Company will only convene the necessary Board meeting at a later stage of the IPO to determine if any of the Call Options will be exercised. The economic parameters of the IPO (in particular (i) the IPO price; and (ii) the number of new shares to be issued by KION immediately before the IPO for the Capitalisaton of the Superlift Funding Loan and for raising new capital in the IPO), the macro-economic conditions, the outlook of the forklift truck industry and the business performance of KION will be considered by the Board on exercising the Call Options. In order to allow the Board to have the flexibility in exercising the Call Options (should they decide to do so), the Company proposes to ask its Shareholders to approve in advance the possible exercise of the Call Options with the aggregate of the exercise price of the Call Options not exceeding the Cap Amount and to authorise the Board to exercise the full power to handle matters relating to the exercise of the Call Options. In light of current market conditions and continued market volatility, it is not possible to determine with certainty the anticipated timetable of KION's potential IPO. In order to provide KION with maximum flexibility to seize the right market opportunity for launching its IPO, whilst recognising the importance of not prejudicing the interests of the Shareholders by asking them to approve the authorisation to the Board to exercise the Call Options for an indefinite period, the Company proposes that such authorisation to the Board shall be valid for a period of 18 months after the relevant resolution is approved at the EGM. The 18-month period is considered by the Board to be a reasonable period within which KION can seek the desired market window for launching its IPO.

As the exercise of the Call Options is subject to the decision of the Board and the satisfaction (or waiver) of certain conditions, the Call Options may or may not be exercised. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Shareholders will be informed, by way of an announcement to be published by the Company on the Company's website and the Stock Exchange's website, if the Board approves any action in relation to the exercise of the Call Options. Details including the relevant Board resolution, the relevant factors considered by the Board on exercising the Call Options, the consideration payable by Weichai Lux and the structure of the IPO (where applicable) will be disclosed in such announcement in the event that the Board decides to exercise the Call Options.

6. REASONS FOR THE EXERCISE OF THE CALL OPTIONS

The Group is principally engaged in the research and development, manufacture and sale of high-speed heavy-duty diesel engines, diesel engines for use in construction machinery, heavy-duty trucks, heavy-duty gearboxes and engine and heavy-duty truck parts and components.

As set out above, the Company (through its wholly owned subsidiary, Weichai Lux) was, as at the Latest Practicable Date, holder of 25% of the issued share capital of KION. The exercise of the Call Options will enable the Company to increase its shareholding in KION to 33.3% after completion of the IPO. Weichai Lux will, within the given legal framework, be entitled to request that two persons nominated by Weichai Lux will become board members of the supervisory board if Weichai Lux holds at least 30% of the issued share capital of KION. Furthermore, if following the completion of the IPO, Weichai Lux holds at least 33.3% of the issued share capital of KION and either Superlift or Weichai Lux desires to transfer any of its KION shares, the other relevant shareholder will be entitled to exercise a right of first offer to purchase such shares. In addition, the parties under the KION Shareholders' Agreement agreed that if following the completion of the IPO, Weichai Lux holds at least 33.3% of the issued share capital of KION, they will support within the given legal framework the election of a member of the supervisory board designated by Weichai Lux to become the chairman of the supervisory board of KION. If Weichai Lux holds at least 30% of the issued share capital of KION immediately before the IPO, it will under applicable German law also be able to increase its shareholding thereafter without being obliged to make a mandatory offer to all shareholders of KION to acquire their shares.

In 2012, the KION Group experienced sustained demand for new trucks and service offerings, and the increased capacity utilization levels of industrial trucks in its key markets accelerated the replacement cycle for its customers and had a positive impact on the volume of replacement investments and demand for service offerings. This demand resulted in an increase of order intake which positively impacted its revenue. KION's revenue grew by 8%, or EUR359 million, to EUR4,727 million for the year ended 31 December 2012. During 2012, KION also generated a positive net profit as well as operating cash flow as compared to the loss suffered by KION for the years ended 31 December 2010 and 2011, which demonstrated an improved business prospect of KION. In addition, even though the net liabilities of KION as of 31 December 2011 was approximately EUR487.6 million, the Board considers that such net liabilities position of KION was mainly due to the existence of an outstanding shareholders' loan and which has been converted into equity of KION in December 2012. As of 31 December 2012, the audited net asset value of KION was approximately EUR660 million. Upon the completion of the Acquisition, such shareholders' loan in an amount of EUR664.1 million as of 30 September 2012 owed by KION to its then existing shareholders was converted into equity of KION. The pro forma net asset of KION as of 30 September 2012 was approximately EUR707.9 million, mainly due to the conversion of the shareholders' loan and also partially due to the additional capital contribution from the Acquisition.

Although the market value of the equity investment in KION through both the Acquisition and the exercise of the Call Options will be subject to the share price fluctuation after the IPO, considering the abovementioned factors, the Company believes that the increase in interest in KION is fair and reasonable and in the interests of the Company and the shareholders as a whole.

The increase in the Company's shareholding interest in KION, the nomination of two supervisory board members, the right of first offer and the potential chairmanship of the supervisory board are considered to be consistent with the Company's strategy of long term development and collaboration with KION. The Company and KION have, pursuant to the terms of the Framework Agreement, formed a strategic industrial cooperation through which the parties have, amongst others, established or will establish long term supply relationships and will share certain distribution network and supply chain, and they have further agreed to explore possible collaboration in areas that are of mutual interest to both parties. As at the Latest Practicable Date, other than the possible acquisition of shares in KION through the exercise of the Call Options, the Company has no intention to further increase its interest in KION.

In light of the above, and based on the information presently available to the Directors (including, inter alia, the overall market conditions and the operational situations of the KION Group), the Directors (including the independent non-executive directors) believe that the terms of the exercise of the Call Options are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. FINANCIAL EFFECTS OF THE EXERCISE OF THE CALL OPTIONS

Upon the exercise of the Call Options, the Company will become a holder of 33.3% of the issued share capital of KION. The results, assets and liabilities will not be consolidated into the accounts of the Enlarged Group.

Set out in Appendix IV to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial effects of the Acquisition on the assets and liabilities of the Group upon completion of the Acquisition.

Based on the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the total assets and total liabilities of the Group would remain unchanged because KION's financial results will not be consolidated into the accounts of the Enlarged Group.

8. LISTING RULES IMPLICATIONS

As certain of the applicable percentage ratios (as defined under the Listing Rules) in respect of the exercise of the Call Options (i.e. the further acquisition of interest in KION based on the Cap Amount), when aggregated with the Acquisitions and the granting of certain put options in respect of LHY Co as set out in the 2012 Announcements, would be more than 25% but less than 100%, the exercise of the Call Options constitutes a major transaction for the Company and is subject to reporting, announcement and shareholders' approval requirements.

If the exercise price of the Call Options exceeds the Cap Amount, the Company will re-comply with the relevant disclosure and/or shareholders' approval requirements under the Listing Rules.

Further, since KION Group holds more than 10% of the fixed partnership capital in LHY Co (a non-wholly owned subsidiary of the Company) as at the Latest Practicable Date, the exercise of the Call Options will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As LHY Co is an insignificant subsidiary of the Group pursuant to Rule 14A.31 of the Listing Rules, the exercise of the Call Options will be exempt from all the reporting, announcement and independent shareholder' approval requirements contained in Chapter 14A of the Listing Rules. In the event that the said exemption ceases to apply, the Company will comply with the requirements of Chapter 14A of the Listing Rules.

9. EGM

The EGM will be held at the Company's conference room at 197, Section A, Fu Shou East Street, High Technology Development Zone, Shandong Province, the People's Republic of China on Monday, 22 April 2013 at 10 a.m. to consider and, if thought fit, approve, the exercise of the Call Options and to authorise the Board to exercise the full power to handle matters relating to the exercise of the Call Options. A notice convening the EGM has been issued by the Company on 7 March 2013.

If you intend to attend the EGM, please complete and return the reply slip despatched by the Company on 7 March 2013 in accordance with the instructions printed thereon as soon as possible and in any event by no later than 2 April 2013.

The proxy form for use at the EGM was also despatched by the Company on 7 March 2013. Holders of A Shares may use the forms of proxy published by the Company on the website of The Shenzhen Stock Exchange instead. Whether or not you intend to be present at such meetings, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the Company's registered office at Securities Department, 197, Section A, Fu Shou East Street, High Technology Industrial Development Zone, Weifang, Shandong Province, the PRC (postal code: 261061) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the exercise of the Call Options. As such, no Shareholders would be required to abstain from voting in favour of the resolutions approving the exercise of the Call Options at the EGM.

10. CLOSURE OF REGISTER OF HOLDERS OF H SHARES

The register of holders of H Shares of the Company will be closed from 22 March 2013 to 22 April 2013, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM, all transfer documents of H Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 21 March 2013.

11. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the exercise of the Call Options is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the relevant resolution to approve the possible exercise of the Call Options.

12. FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
the Board of Directors
Tan Xuguang
Chairman and CEO

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the two years ended 31 December 2010 and 2011 and the six months ended 30 June 2012 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.weichai.com):

- the Company's annual report for the year ended 31 December 2010 published on 15 April 2011 (pages 80 to 216);
- the Company's annual report for the year ended 31 December 2011 published on 18 April 2012 (pages 81 to 316); and
- the Company's interim report for the six months ended 30 June 2012 published on 12 September 2012 (pages 25 to 266).

The audited financial statements of the Company and its subsidiaries for the year ended 31 December 2012, together with comparative figures for the corresponding period of 2011 are as follows:

CONSOLIDATED BALANCE SHEET

31 December 2012 (Expressed in Renminbi Yuan)

ASSETS	Note V	2012	2011
Current assets			
Cash and cash equivalents	1	16,726,970,096.00	16,612,740,784.48
Financial assets held for trading	2	137,050,693.51	–
Notes receivable	3	9,242,232,142.39	9,551,350,772.66
Accounts receivable	4	4,168,525,397.14	4,737,509,830.84
Prepayments	5	365,397,070.50	431,537,902.92
Dividends receivable	6	70,540,000.00	39,529,218.53
Interests receivable		7,418,831.76	300,495.58
Other receivables	7	444,105,891.14	240,646,814.45
Inventories	8	7,509,902,216.33	10,357,553,534.02
Other current assets	9	487,991,597.21	737,579,223.78
Total current assets		39,160,133,935.98	42,708,748,577.26
Non-current assets			
Available-for-sale financial assets	10	269,200,000.00	234,011,928.12
Long-term receivables	11	–	27,720,035.60
Long-term equity investments	12, 13	4,951,543,932.62	955,698,174.11
Investment property	14	329,994,770.86	250,328,337.12
Fixed assets	15	11,526,489,430.20	9,653,054,092.86
Construction in progress	16	5,175,099,417.99	5,103,645,581.44
Materials used in construction	17	–	10,275,638.26
Disposal of fixed assets		3,493,436.95	2,837,542.66
Intangible assets	18	2,160,257,108.86	1,155,490,455.27
Development expenditure	18	431,692,444.28	2,994,232.00
Goodwill	19	1,443,114,787.31	538,016,278.33
Long-term prepaid expenses	20	169,123,071.48	160,574,819.39
Deferred tax assets	21	700,119,807.88	741,151,727.82
Other non-current assets		100,706.28	–
Total non-current assets		27,160,228,914.71	18,835,798,842.98
Total assets		66,320,362,850.69	61,544,547,420.24

LIABILITIES AND EQUITY	Note V	2012	2011
Current liabilities			
Short-term loans	23	2,742,091,634.05	1,541,238,008.87
Notes payable	24	5,244,310,106.70	5,965,759,459.51
Accounts payable	25	9,962,420,973.54	13,078,975,509.97
Advances from customers	26	872,835,717.97	882,764,570.36
Payroll payable	27	1,026,722,757.02	1,134,476,103.29
Taxes payable	28	239,380,723.63	2,004,611,473.20
Interests payable	29	61,680,626.43	57,505,831.82
Dividends payable	30	33,103,222.12	59,135,231.94
Other payables	31	2,535,764,374.58	2,990,669,199.84
Non-current liabilities due within one year	32	352,604,906.92	700,000,000.00
Other current liabilities	33	852,860,219.00	998,201,870.63
Total current liabilities		23,923,775,261.96	29,413,337,259.43
Non-current liabilities			
Long-term borrowings	34	6,344,249,958.75	352,254,546.00
Bonds payable	35	2,691,489,273.21	2,687,471,069.22
Long-term payables	36	5,500,000.00	36,377,700.00
Special payables	37	43,000,000.00	23,000,000.00
Deferred tax liabilities	21	168,154,335.44	50,837,782.39
Other non-current liabilities	38	1,744,958,243.83	78,506,251.10
Total non-current liabilities		10,997,351,811.23	3,228,447,348.71
Total liabilities		34,921,127,073.19	32,641,784,608.14
Shareholders' equity			
Share capital	39	1,999,309,639.00	1,666,091,366.00
Capital reserve	40	842,375,982.05	1,520,836,404.54
Special reserve	41	23,089,542.52	–
Surplus reserve	42	2,300,128,466.82	1,935,774,543.04
Retained earnings	43	19,737,619,540.81	17,813,666,654.13
Exchange differences on foreign currency translation		(33,171,947.25)	(32,925,707.62)
Total equity attributable to the shareholders of the parent		24,869,351,223.95	22,903,443,260.09
Minority interests		6,529,884,553.55	5,999,319,552.01
Total shareholders' equity		31,399,235,777.50	28,902,762,812.10
Total liabilities and shareholders' equity		66,320,362,850.69	61,544,547,420.24

CONSOLIDATED INCOME STATEMENT
Year 2012 (Expressed in Renminbi Yuan)

	Note V	2012	2011
Revenue	44	48,165,394,849.63	60,019,265,103.58
Less: Cost of sales	44	38,775,044,121.79	46,806,606,604.13
Taxes and surcharges	45	187,228,738.22	222,009,260.83
Distribution and selling expenses	46	2,433,478,520.89	2,906,855,606.90
General and administrative expenses	47	3,232,666,367.18	3,022,275,680.02
Finance expenses	48	(9,844,442.01)	30,780,700.73
Impairment loss of assets	49	79,464,267.64	18,599,453.24
Add: Investment income	50	251,508,306.03	157,770,576.61
Incl: Share of profit of associates and jointly controlled enterprises		29,987,138.09	118,940,019.23
Operating profit		3,718,865,581.95	7,169,908,374.34
Add: Non-operating income	51	278,554,862.32	288,970,341.49
Less: Non-operating expenses	52	37,606,655.54	40,372,441.85
Incl: Loss on disposal of non-current assets		18,350,863.77	24,318,163.27
Total profit		3,959,813,788.73	7,418,506,273.98
Less: Income tax expenses	53	725,547,240.05	1,098,510,615.05
Net profit		3,234,266,548.68	6,319,995,658.93
Net profit attributable to the shareholders of the parent		2,990,996,934.91	5,596,927,166.88
Minority interests		243,269,613.77	723,068,492.05
Earnings per share			
Basic earnings per share	54	1.50	2.80
Diluted earnings per share	54	N/A	N/A
Other comprehensive income	55	(10,329,365.78)	(487,719,868.08)
Total comprehensive income		3,223,937,182.90	5,832,275,790.85
Incl:			
Total comprehensive income attributable to the shareholders of the parent		2,980,668,778.14	5,109,242,298.64
Total comprehensive income attributable to minority owners		243,268,404.76	723,033,492.21

Details of dividends payable and recommended for the year are disclosed in Note V. 43 and Note IX.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year 2012 (Expressed in Renminbi Yuan)

	Note	Equity attributable to shareholders of the parent								
	Note	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Exchange differences on foreign currency translation	Subtotal	Minority interests	Total equity
I. At beginning of year		1,666,091,366.00	1,520,836,404.54	–	1,935,774,543.04	17,813,666,654.13	(32,925,707.62)	22,903,443,260.09	5,999,319,552.01	28,902,762,812.10
II. Movements in current year										
(I) Net profit		–	–	–	–	2,990,996,934.91	–	2,990,996,934.91	243,269,613.77	3,234,266,548.68
(II) Other comprehensive income	*V.55*	–	(10,081,917.14)	–	–	–	(246,239.63)	(10,328,156.77)	(1,209.01)	(10,329,365.78)
Total comprehensive income		–	(10,081,917.14)	–	–	2,990,996,934.91	(246,239.63)	2,980,668,778.14	243,268,404.76	3,223,937,182.90
(III) Injection and reduction										
1. Injection		–	–	–	–	–	–	–	216,929,165.27	216,929,165.27
2. Acquisition of subsidiaries	*IV.(4)*	–	–	–	–	–	–	–	520,072,611.25	520,072,611.25
3. Disposal of subsidiaries	*IV.(5)*	–	(5,577,530.56)	–	–	–	–	(5,577,530.56)	(214,169,122.67)	(219,746,653.23)
4. Acquisition of minority interests and others		–	(40,475,891.80)	–	–	–	–	(40,475,891.80)	134,237.50	(40,341,654.30)
(IV) Profit appropriation and distribution										
1. Appropriation of surplus reserves		–	–	–	364,353,923.78	(364,353,923.78)	–	–	–	–
2. Distribution to owners	*V.43*	333,218,273.00	–	–	–	(699,758,373.50)	–	(366,540,100.50)	(238,228,594.64)	(604,768,695.14)
3. Others		–	–	–	–	(2,931,750.95)	–	(2,931,750.95)	(310,583.66)	(3,242,334.61)
(V) Special reserve										
1. Appropriation during the year	*V.41*	–	–	73,824,875.50	–	–	–	73,824,875.50	9,172,766.59	82,997,642.09
2. Used during the year	*V.41*	–	–	(50,735,332.98)	–	–	–	(50,735,332.98)	(6,303,882.86)	(57,039,215.84)
(VI) Others										
1. Put options in relation to minority interests	*V.38*	–	(622,325,082.99)	–	–	–	–	(622,325,082.99)	–	(622,325,082.99)
III. At end of period		1,999,309,639.00	842,375,982.05	23,089,542.52	2,300,128,466.82	19,737,619,540.81	(33,171,947.25)	24,869,351,223.95	6,529,884,553.55	31,399,235,777.50

	Note	Equity attributable to shareholders of the parent							
		Share capital	Capital reserve	Surplus reserve	Retained earnings	Exchange differences on foreign currency translation	Subtotal	Minority interests	Total equity
I. At beginning of year		1,666,091,366.00	1,993,318,265.70	1,424,081,328.77	13,445,984,645.13	(14,556,610.52)	18,514,918,995.08	4,855,209,600.45	23,370,128,595.53
II. Movements in current year									
(I) Net profit		–	–	–	5,596,927,166.88	–	5,596,927,166.88	723,068,492.05	6,319,995,658.93
(II) Other comprehensive income	*V.55*	–	(469,315,771.14)	–	–	(18,369,097.10)	(487,684,868.24)	(34,999.84)	(487,719,868.08)
Total comprehensive income		–	(469,315,771.14)	–	5,596,927,166.88	(18,369,097.10)	5,109,242,298.64	723,033,492.21	5,832,275,790.85
(III) Injection and reduction									
1. Injection		–	–	–	–	–	–	670,914,110.00	670,914,110.00
2. Others		–	(3,166,090.02)	–	–	–	(3,166,090.02)	9,201,287.51	6,035,197.49
(IV) Profit appropriation and distribution									
1. Appropriation of surplus reserve		–	–	511,693,214.27	(511,693,214.27)	–	–	–	–
2. Distribution to owners	*V.43*	–	–	–	(716,419,287.38)	–	(716,419,287.38)	(258,471,386.08)	(974,890,673.46)
3. Others		–	–	–	(1,132,656.23)	–	(1,132,656.23)	(567,552.08)	(1,700,208.31)
III. At end of year		1,666,091,366.00	1,520,836,404.54	1,935,774,543.04	17,813,666,654.13	(32,925,707.62)	22,903,443,260.09	5,999,319,552.01	28,902,762,812.10

CONSOLIDATED CASH FLOW STATEMENT

Year 2012 (Expressed in Renminbi Yuan)

	Note V	**2012**	**2011**
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		36,928,435,072.37	46,029,420,607.52
Refunds of taxes		451,351,512.61	293,239,263.57
Other cash received relating to operating activities	56	833,805,569.98	694,081,768.90
Subtotal of cash inflows from operating activities		38,213,592,154.96	47,016,741,639.99
Cash paid for goods and services		24,043,778,504.97	31,498,536,049.50
Cash paid to and on behalf of employees		2,960,370,875.31	2,950,378,623.30
Cash paid for all types of taxes		4,173,844,191.39	3,430,528,025.56
Other cash paid relating to operating activities	56	4,279,429,993.21	3,184,618,159.88
Subtotal of cash outflows from operating activities		35,457,423,564.88	41,064,060,858.24
Net cash flows from operating activities	57	2,756,168,590.08	5,952,680,781.75
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale of investments		299,120,035.60	28,621,000.00
Cash received from return on investments		49,276,274.05	20,604,392.73
Net cash received from disposal of subsidiaries and other business units	57	359,226,950.65	–
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,924,135.19	42,159,286.26
Other cash received relating to investing activities	56	176,385,100.00	1,003,025.25
Subtotal of cash inflows from investing activities		888,932,495.49	92,387,704.24
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		2,218,844,620.94	3,421,104,737.38
Cash paid for acquisition of investments		4,454,745,018.48	167,163,298.41
Net cash paid for acquisition of subsidiaries and other business units		2,070,093,559.73	140,658,508.10
Other cash paid relating to investing activities	56	137,050,693.51	3,780,000.00
Subtotal of cash outflows from investing activities		8,880,733,892.66	3,732,706,543.89
Net cash flows from investing activities		(7,991,801,397.17)	(3,640,318,839.65)

	Note V	2012	2011
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from capital contributions		79,972,299.59	638,434,110.00
Incl: Cash received by subsidiaries from capital contributions of minority owners		79,972,299.59	638,434,110.00
Cash received from borrowings		9,370,778,476.95	2,384,614,097.75
Cash received from issuance of bonds		–	1,397,340,000.00
Other cash received relating to financing activities	*56*	20,317,377.78	46,648,802.64
Subtotal of cash inflows from financing activities		9,471,068,154.32	4,467,037,010.39
Cash repayments of borrowings		2,550,992,146.65	1,375,771,127.30
Cash paid for distribution of dividends or profits and for interest expenses		871,001,617.44	1,134,865,952.57
Incl: Cash paid to minority owners for distribution of dividends or profits by subsidiaries		256,463,938.53	267,792,830.33
Other cash paid relating to financing activities	*56*	3,635,746.36	40,268,219.64
Subtotal of cash outflows from financing activities		3,425,629,510.45	2,550,905,299.51
Net cash flows from financing activities		6,045,438,643.87	1,916,131,710.88
IV. EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		(28,014,679.10)	(13,786,993.19)
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		781,791,157.68	4,214,706,659.79
Add: Cash and cash equivalents at beginning of year		13,317,360,195.54	9,102,653,535.75
VI. CASH AND CASH EQUIVALENTS AT END OF YEAR	*57*	14,099,151,353.22	13,317,360,195.54

COMPANY BALANCE SHEET

31 December 2012 (Expressed in Renminbi Yuan)

ASSETS	*Note XI*	**2012**	**2011**
Current assets			
Cash and cash equivalents		11,172,638,035.07	10,704,876,019.41
Notes receivable		7,093,096,681.29	6,982,312,764.67
Accounts receivable	*1*	375,556,978.89	750,194,839.81
Prepayments		105,117,029.08	125,314,548.40
Dividends receivable		99,126,103.69	97,089,385.44
Interests receivable		7,331,318.68	–
Other receivables	*2*	1,156,166,626.23	770,497,301.43
Inventories		1,445,500,066.07	2,517,850,999.67
Other current assets		20,000,000.00	111,184,233.70
Total current assets		21,474,532,839.00	22,059,320,092.53
Non-current assets			
Available-for-sale financial assets		269,200,000.00	232,400,000.00
Long-term equity investments	*3, 4*	6,628,516,401.12	6,381,691,562.21
Investment property		697,478,506.43	622,863,859.17
Fixed assets		2,223,533,258.74	1,998,819,919.03
Construction in progress		2,772,786,478.08	2,743,582,950.03
Disposal of fixed assets		230,232.94	699,262.31
Intangible assets		376,157,548.24	343,818,981.45
Goodwill		579,145,043.76	579,145,043.76
Deferred tax assets		238,352,408.49	307,525,128.48
Total non-current assets		13,785,399,877.80	13,210,546,706.44
Total assets		35,259,932,716.80	35,269,866,798.97

LIABILITIES AND EQUITY	2012	2011
Current liabilities		
Notes payable	3,485,391,961.16	3,430,115,251.94
Accounts payable	2,970,489,343.45	4,410,128,405.72
Advances from customers	56,179,991.78	49,040,490.00
Payroll payable	495,341,647.41	632,431,100.82
Taxes payable	55,958,879.84	1,837,462,051.81
Interests payable	54,408,333.39	54,408,333.35
Dividends payable	–	–
Other payables	1,793,244,973.97	1,769,018,001.48
Other current liabilities	454,290,000.00	650,000,000.00
Total current liabilities	9,365,305,131.00	12,832,603,635.12
Non-current liabilities		
Bonds payable	2,691,489,273.21	2,687,471,069.22
Special payables	20,000,000.00	–
Deferred tax liabilities	27,613,800.60	22,093,800.60
Other non-current liabilities	161,510,133.16	15,180,000.00
Total non-current liabilities	2,900,613,206.97	2,724,744,869.82
Total liabilities	12,265,918,337.97	15,557,348,504.94
Shareholders' equity		
Share capital	1,999,309,639.00	1,666,091,366.00
Capital reserve	1,081,878,661.17	1,091,158,251.28
Special reserce	13,776,537.65	–
Surplus reserve	2,300,128,466.82	1,935,774,543.04
Retained earnings	17,598,921,074.19	15,019,494,133.71
Total shareholders' equity	22,994,014,378.83	19,712,518,294.03
Total liabilities and shareholders' equity	35,259,932,716.80	35,269,866,798.97

COMPANY INCOME STATEMENT

Year 2012 (Expressed in Renminbi Yuan)

	Note XI	**2012**	**2011**
Revenue	*5*	17,451,908,953.44	25,210,015,384.28
Less: Cost of sales	*5*	11,989,402,209.33	17,127,878,505.41
Taxes and surcharges		99,924,824.59	118,060,358.33
Distribution and selling expenses		883,655,644.27	1,222,504,945.85
General and administrative expenses		1,477,284,081.59	1,568,973,798.39
Finance expenses		(96,623,855.47)	(30,115,193.63)
Impairment loss of assets		(11,114,406.48)	4,562,996.57
Add: Investment income	*6*	974,160,222.50	586,774,317.23
Incl: Share of profit of associates and jointly controlled enterprises		53,592,927.19	128,897,916.48
Operating profit		4,083,540,678.11	5,784,924,290.59
Add: Non-operating income		67,049,794.20	97,273,231.62
Less: Non-operating expenses		12,535,971.62	11,990,161.03
Incl: Loss on disposal of non-current assets		2,283,556.49	2,290,533.13
Total profit		4,138,054,500.69	5,870,207,361.18
Less: Income tax expenses		494,515,262.93	753,275,218.53
Net profit		3,643,539,237.76	5,116,932,142.65
Other comprehensive income		(9,279,590.11)	(467,815,883.09)
Total comprehensive income		3,634,259,647.65	4,649,116,259.56

COMPANY STATEMENT OF CHANGES IN EQUITY

Year 2012 (Expressed in Renminbi Yuan)

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earning	Total equity
I. At beginning of year	1,666,091,366.00	1,091,158,251.28	–	1,935,774,543.04	15,019,494,133.71	19,712,518,294.03
II. Movements in current year						
(I) Net profit	–	–	–	–	3,643,539,237.76	3,643,539,237.76
(II) Other comprehensive income	–	(9,279,590.11)	–	–	–	(9,279,590.11)
Total comprehensive income	–	(9,279,590.11)	–	–	3,643,539,237.76	3,634,259,647.65
(III) Profit appropriation and distribution						
1. Appropriation of surplus reserves	–	–	–	364,353,923.78	(364,353,923.78)	–
2. Distribution to owners	333,218,273.00	–	–	–	(699,758,373.50)	(366,540,100.50)
(IV) Special reserve						
1. Appropriation during the year	–	–	16,884,507.76	–	–	16,884,507.76
2. Used during the year	–	–	(3,107,970.11)	–	–	(3,107,970.11)
III. At end of year	1,999,309,639.00	1,081,878,661.17	13,776,537.65	2,300,128,466.82	17,598,921,074.19	22,994,014,378.83

COMPANY STATEMENT OF CHANGES IN EQUITY

Year 2011 (Expressed in Renminbi Yuan)

	Share capital	Capital reserve	Surplus reserve	Retained earning	Total equity
I. At beginning of year	1,666,091,366.00	1,558,974,134.37	1,424,081,328.77	11,130,674,492.71	15,779,821,321.85
II. Movements in current year					
(I) Net profit	–	–	–	5,116,932,142.65	5,116,932,142.65
(II) Other comprehensive income	–	(467,815,883.09)	–	–	(467,815,883.09)
Total comprehensive income	–	(467,815,883.09)	–	5,116,932,142.65	4,649,116,259.56
(III) Profit appropriation and distribution					
1. Appropriation of surplus reserves	–	–	511,693,214.27	(511,693,214.27)	–
2. Distribution to owners	–	–	–	(716,419,287.38)	(716,419,287.38)
III. At end of year	1,666,091,366.00	1,091,158,251.28	1,935,774,543.04	15,019,494,133.71	19,712,518,294.03

COMPANY CASH FLOW STATEMENT

Year 2012 (Expressed in Renminbi Yuan)

	Note XI	**2012**	**2011**
I. CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		18,195,267,445.46	27,863,746,135.65
Other cash received relating to operating activities		573,950,900.41	362,966,155.58
Subtotal of cash inflows from operating activities		18,769,218,345.87	28,226,712,291.23
Cash paid for goods and services		12,494,458,213.14	17,953,409,761.17
Cash paid to and on behalf of employees		965,948,911.57	967,444,157.22
Cash paid for all types of taxes		3,152,458,869.03	1,816,654,647.26
Other cash paid relating to operating activities		916,329,289.63	874,245,024.45
Subtotal of cash outflows from operating activities		17,529,195,283.37	21,611,753,590.10
Net cash flows from operating activities	7	1,240,023,062.50	6,614,958,701.13
II. CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from sale of investments		504,419,500.00	439,172,100.00
Cash received from return on investments		383,424,824.31	327,674,393.26
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		683,656.80	886,312.40
Other cash received relating to investing activities		28,369,000.00	3,025.25
Subtotal of cash inflows from investing activities		916,896,981.11	767,735,830.91
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		803,435,184.34	1,213,001,801.63
Cash paid for acquisition of investments		348,716,100.00	2,202,390,748.41
Other cash paid relating to investing activities		–	3,780,000.00
Subtotal of cash outflows from investing activities		1,152,151,284.34	3,419,172,550.04
Net cash flows from investing activities		(235,254,303.23)	(2,651,436,719.13)

	Note XI	2012	2011
III. CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from issuance of bonds		–	1,397,340,000.00
Subtotal of cash inflows from financing activities		–	1,397,340,000.00
Cash paid for repayment of borrowings		–	–
Cash paid for distribution of dividends or profits and for interest expenses		481,192,792.92	754,593,247.21
Other cash paid relating to financing activities		–	–
Subtotal of cash outflows from financing activities		481,192,792.92	754,593,247.21
Net cash flows from financing activities		(481,192,792.92)	642,746,752.79
IV. EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		(322,977.63)	2,212.40
V. NET INCREASE IN CASH AND CASH EQUIVALENTS		523,252,988.72	4,606,270,947.19
Add: Cash and cash equivalents at beginning of year		8,933,829,472.86	4,327,558,525.67
VI. CASH AND CASH EQUIVALENTS AT END OF YEAR	8	9,457,082,461.58	8,933,829,472.86

NOTES TO FINANCIAL STATEMENTS

31 December 2012 (Expressed in Renminbi Yuan)

I. CORPORATE BACKGROUND

Weichai Power Co., Ltd. ("the Company") is a joint stock limited company jointly established by Weifang Diesel Engine Factory (濰坊柴油機廠), as the primary promoter, together with other promoters, upon approval by People's Government of Shandong Province with document Lu Zheng Gu Zi No. [2002] 64 Shandong Province Joint Stock Limited Company Approval Certificate (魯政股字[2002]64號山東省股份有限公司批准證書). It obtained its legal business licence numbered 3700001807810 from the Administration for Industry and Commerce of Shandong Province on 23 December 2002, with an original registered capital of RMB215 million.

In October 2007, Weifang Diesel Engine Factory was converted into Weichai Group Holdings Limited (濰柴控股集團有限公司) (hereinafter referred to as "Weichai Group Holdings") upon approval by State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province with document Lu Guo Zi Qi Gai Han [2007] No. 45 (魯國資企改函[2007]45號) titled "Approval Concerning the Conversion of Weifang Diesel Engine Factory into Weichai Group Holdings Limited (《關於濰坊柴油機廠改為濰柴控股集團有限公司的批復》) and the Administration for Industry and Commerce of Weifang City.

In March 2004, the Company conducted a public offer in Hong Kong of overseas listed foreign shares (H Shares) of ordinary shares of RMB1.00 each to global investors, totaling 126.5 million shares among which 11.5 million shares were state-owned shares, pursuant to the approval document Zheng Jian Guo He Zi (證監國合字) No. [2003]44 issued by the China Securities Regulatory Commission. Such shares were listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 31 March 2004. In April 2004, the registered capital of the Company increased by RMB115 million pursuant to the public offer of shares to global investors and consequently the accumulated paid-in registered capital amounted to RMB330 million. The aforesaid registered capital has been verified by Shandong Zheng Yuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所) with asset verification reports numbered Lu Zheng Xin Yan Zi (魯正信驗字) (2002) No. 3209 and Lu Zheng Xin Yan Zi (魯正信驗字) (2004) No. 3077.

On 30 March 2007, China Securities Regulatory Commission issued Zheng Jian Fa Hang Zi (證監發行字) [2007] No. 64 "Notice Concerning the Approval of the Public Offer of A Shares by Weichai Power Co., Ltd. and Its Absorption of TAGC by way of Share Swap" to approve the initial public offering of shares by the Company and its absorption of Torch Automobile Group Co., Ltd. (湘火炬汽車集團股份有限公司) (abbreviated as "TAGC"), pursuant to which 190,653,552 new shares were made available under the public offer to raise funds for absorption of TAGC by way of share swap. On 23 April 2007, the Company issued 190,653,552 ordinary shares denominated in RMB (A Shares) of RMB1 each by way of share swap, which shares were admitted for listing and trading on Shenzhen Stock Exchange on 30 April 2007. Total capital upon the aforesaid capital increase by way of share swap amounted to 520,653,552 shares with a total registered capital of RMB520,653,552, which has been verified by Shandong Zheng Yuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所) with asset verification reports numbered Lu Zheng Xin Yan Zi (魯正信驗字) (2007) No. 3008. Upon completion of the absorption of TAGC by way of share swap, the shares of TAGC and its capacity as a legal person were both cancelled.

In accordance with the resolution of the second extraordinary general meeting in 2008 and the amended Articles, on 16 December 2008, the Company transferred 312,392,131 shares representing RMB312,392,131 from the capital reserve to registered capital, upon which the total capital was 833,045,683 shares and total registered capital was RMB833,045,683. The transfer has been verified by Shandong Zheng Yuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所) in its verification report Lu Zheng Xin Yan Zi (魯正信驗字) No. (2008) 3046.

In accordance with the resolution of the first extraordinary general meeting in 2010 and the amended Articles, on 6 December 2010, the Company transferred 833,045,683 shares representing RMB833,045,683 from the capital reserve to registered capital, upon which the total capital was 1,666,091,366 shares. The transfer has been verified by Shandong Zheng Yuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所) in its verification report Lu Zheng Xin Yan Zi (魯正信驗字) No. (2011) 3006.

In accordance with the resolution of the annual general meeting 2011 and the amended Articles, on 29 June 2012, the Company transferred 333,218,273 shares representing RMB333,218,273 from the retained earnings to registered capital, upon which the total capital was 1,999,309,639 shares. The transfer has been verified by Shandong Zheng Yuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所) in its verification report Lu Zheng Xin Yan Zi (魯正信驗字) No. (2012) 1013.

The RMB ordinary A shares and oversea listed foreign H shares issued by the Company were listed on the Shenzhen Stock Exchange and The Hong Kong Stock Exchange of Hong Kong Limited, respectively. As of 31 December 2012, the registered capital of the Company was RMB1,999,309,639. Please refer to Note V.39 for the share capital structure of paid-in capital.

Weichai Group Holdings Limited and Shandong Heavy Industry Group Co., Ltd., established in the PRC, are the parent company and ultimate parent company of the Group respectively.

The registered address of the Company's headquarter is 197, Section A, Fu Shou East Street, High Technology Industry Development Zone, Weifang, Shandong Province. The Company operates in the transportation equipment manufacturing industry. The approved scope of operations of the Company covers: Design, development, production, sale, repair, import and export of diesel engines and auxiliary products; automobile (except sedans), automobile axle and components, gear boxes and components and other automobile components, hydraulic pumps, hydraulic motors, hydraulic valves, gears and gear transmission devices, ancillary casting and casting products of hydraulic components; technical consultation and technical services (should hold operating permit(s) for operations requiring administrative permission).

These financial statements were approved by the board of directors of the Company on 21 March 2013. These financial statements will be submitted for approval at the general meeting pursuant to the articles of association of the Company.

II. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

1. Preparation basis of the financial statements

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises-Basic Standard and 38 specific accounting standards issued in February 2006, and the implementation guidance, interpretations and other relevant provisions issued subsequently by MOF (collectively referred to as "Accounting Standards for Business Enterprises").

The financial statements are presented on a going concern basis.

In preparing these financial statements, all the assets (other than certain financial instruments) are carried at historical cost. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant provisions.

2. Statement of compliance with Accounting Standards for Business Enterprises

The financial statements present, fairly and fully, the financial position of the Company and the Group as at 31 December 2012 and the results of operations and the cash flows for the year ended 2012 in accordance with Accounting Standards for Business Enterprises.

3. Accounting year

The accounting year of the Group is from 1 January to 31 December of each calendar year.

4. Functional currency

The functional currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in Renminbi, unless otherwise stated.

The subsidiaries, jointly controlled enterprises and associates of the Company may determine their own functional currencies based on the major economic environment in which they operate the business. In preparation of financial statements, their functional currencies shall be translated into RMB.

5. Business combination

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 not involving entities under common control.

Business combinations 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 party or parties both before and after the combination, and that 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 absorbing party, while that other entity participating in the combination is a party being absorbed. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed.

Assets and liabilities that are obtained by the absorbing party in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being absorbed. 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 share premium under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Business combinations not involving entities under common control

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

The excess of the sum of the consideration paid (or equities securities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities securities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity securities issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities securities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

6. Consolidated financial statements

The consolidation scope of consolidated financial statements is determined on the basis of control, including the financial statements for the half year ended 31 December 2012 of the Company and all of its subsidiaries. A subsidiary is an enterprise or entity that is controlled by the Company.

In preparation of consolidated financial statements, the subsidiaries use the same accounting period as those of the Company. When the accounting policies of a subsidiary are different from those of the Company, the Company shall make adjustments to the financial statements of the subsidiary based on its own accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Where the amount of loses of a subsidiary attributable to the minority shareholders in the current period exceeds their share of the opening balance of owner's equity of the subsidiary, the excess shall be allocated against minority interests. A change in the minority interests, without a loss of control, is accounted for as an equity transaction.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements, from the day on which the Group gains control, till the Group ceases the control of it. While preparing the consolidated financial statements, the acquirer shall 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.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative consolidated financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination has been existing since the ultimate controller begins to exercise control.

7. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments held by the Group, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Foreign currency transactions and foreign currency translation

The Group translates the amount of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate prevailing on the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate prevailing on the balance sheet date. All the resulting differences on settlement and foreign currently monetary item translation are taken to profit or loss, except for those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalized in accordance with the principle of capitalization of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The difference thus resulted are recognized in profit or loss for the current period or as other comprehensive income based on the nature of the non-monetary items.

For foreign operations, the Group translates their functional currency amounts into RMB in preparing the financial statements as follows: asset and liability items in the balance sheet are translated using the spot exchange rate at the balance sheet date, and equity items other than "retained earnings" are translated using the spot exchange rate at the date of transactions; revenue and expense items in the income statement are translated using the average exchange rate for the period during which the transactions occur. The resulting exchange differences are recognized in other comprehensive income and presented as a separate component of equity in the balance sheet. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement. If the disposal only involves a portion of a particular foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement on a pro-rata basis.

Foreign currency cash flows and the cash flows of foreign subsidiaries are translated using the average exchange rate for the period during which the cash flows occur. The effect of exchange rate changes on cash is 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 derecognition

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

The Group derecognizes a financial asset (or part of a financial asset, or part of a group of similar financial assets) when the following conditions are met:

(1) the rights to receive cash flows from the asset have expired;

(2) the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognized in profit or loss for the current period.

Regular way purchase or sale of financial assets are recognized and derecognized using trade date accounting. Regular way purchase or sale of financial assets refers to that the financial assets are delivered to or by the Group under the terms of a contract within a period as specified by law or general practice. The trade date is the date on which the Group undertakes to buy or sell a financial asset.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. Such classification is determined on initial recognition. A financial asset is recognized initially at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit and loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognized.

The subsequent measurement of a financial asset is determined by its category:

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 those designated upon initial recognition as financial assets at fair value through profit or loss. A financial asset held for trading is the financial asset that meets one of the following conditions: the financial asset is acquired for the purpose of selling it in a short term; 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; the financial asset is a derivative, except for a derivative that is designated as an effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured. 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 profit or loss for the current period. Dividend income or interest income related to financial assets at fair value through profit or loss is charged to profit or loss for the current period.

A financial asset is designated on initial recognition as at fair value through profit or loss only when it meets one of the following conditions:

(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 different bases.

(2) a group of financial instruments is managed and its performance is evaluated on a fair value basis, and information about the group is reported on that basis to the Group's key management personnel, according to formal documentation regarding risk management or investment strategy.

(3) a hybrid instrument that contains one or more embedded derivatives, except where the embedded derivative does not significantly modify the cash flows of the hybrid instrument; or it is clear that separation of the embedded derivative(s) shall be prohibited.

(4) a hybrid instrument that contains an embedded derivative that would need to be separately recorded and cannot be separately measured on acquisition or at the subsequent balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured shall not be designated as financial assets at fair value through profit or loss.

Financial assets on initial recognition classified as financial assets at fair value through profit or loss cannot be reclassified into financial assets of other categories; financial assets of other categories cannot be reclassified into financial assets at fair value through profit or loss, either.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Group has the positive intention and ability to hold to maturity. Such kind of financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from amortization or impairment and derecognition are recognized in profit or loss for the current period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such kind of financial assets are subsequently measured at amortized cost using the effective interest method. Gains or losses arising amortization or impairment are recognized in profit or loss for the current period.

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 any of the aforesaid categories. 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 as other comprehensive income in 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 accumulated gain or loss previously recognized is transferred to profit or loss for the current period. Interests and dividends relating to an available-for-sale financial asset are recognized in profit or loss for the current period.

Investments in equity instruments, which do not have quoted prices in an active market and whose fair values cannot be reliably measured, are measured at cost.

Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss, other financial liabilities or derivatives designated as effective hedging instruments. Such classification is determined on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss for the current period, and transaction costs relating to other financial liabilities are included in the initial recognition amounts.

The subsequent measurement of a financial liability is determined by its category:

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 financial liabilities at fair value through profit or loss. A financial liability held for trading is the financial liability that meets one of the following conditions: the financial liability is assumed for the purpose of repurchasing it in a short term; 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; the financial liability is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price form an active market) whose fair value cannot be reliably measured. 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 profit or loss for the current period.

A financial liability is designated on initial recognition as at fair value through profit or loss only when it meets one of the following conditions:

(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 different bases.

(2) a group of financial instruments is managed and its performance is evaluated on a fair value basis, and information about the group is reported to the Group's key management personnel, according to formal documentation regarding risk management or investment strategy.

(3) a hybrid instrument that contains one or more embedded derivatives, except where the embedded derivative does not significantly modify the cash flows of the hybrid instrument; or it is clear that separation of the embedded derivative(s) shall be prohibited.

(4) a hybrid instrument that contains an embedded derivative that would need to be separately recorded and cannot be separately measured on acquisition or at the subsequent balance sheet date.

Financial liabilities on initial recognition classified as financial liabilities at fair value through profit or loss cannot be reclassified into financial liabilities of other categories; financial liabilities of other categories cannot be reclassified into financial liabilities at fair value through profit or loss either.

Other financial liabilities

After initial recognition, such kind of financial liabilities are measured at amortized costs by using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to settle a debt or assume a liability to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured, on initial recognition, at fair value. For financial guarantee contracts that are not designated as financial liabilities at fair value through profit or loss, they are, after initial recognition, subsequently measured at the higher of: the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and the amount initially recognized less the accumulated amortization determined according to the principles of revenue recognition.

Fair value of financial instruments

If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability. If no active market exists for a financial instrument, its fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions between knowledgeable and 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 at the balance sheet date the carrying amount of every financial asset. If there is objective evidence indicating a financial asset may be impaired, a provision is provided for the impairment. Objective evidence that a financial asset is impaired is one or more events that occur after the initial recognition of the asset and have an impact (which can be reliably estimated) on the expected future cash flows of the financial asset.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on a financial asset has incurred, the carrying amount of the asset is reduced to the present value of expected future cash flows (excluding future credit losses that have not been incurred) and such reduction is taken to profit or loss for the current period. The present value of expected future cash flows is discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed on initial recognition) and includes the value of any related collateral. If a financial asset has a variable interest rate, the Group uses the current effective interest rate(s) stipulated in the contract as the discount rate to calculate the present value of future cash flows.

For a financial asset that is individually significant, the asset is individually assessed for impairment, and the amount of impairment is recognized in profit or loss if there is objective evidence of impairment. For a financial asset that is not individually significant, it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. If no objective evidence of impairment incurs for an individually assessed financial asset (whether the financial asset is individually significant or not individually significant), it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets for which an impairment loss is individually recognized is not included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

If, subsequent to the Group's recognition of an impairment loss on a financial asset carried at amortized cost, there is objective evidence of a recovery in value of the financial asset and the recovery can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. 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 loss not been recognized at the date the impairment is reversed.

Available-for-sale financial assets

If there is objective evidence that an available-for-sale asset is impaired, the accumulated loss arising from decline in fair value previously recognized in other comprehensive income is removed and recognized in profit or loss. The accumulated loss that removed from other comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on the financial asset previously recognized in profit or loss.

Objective evidence indicating that available-for-sale equity investment is impaired include significant or prolonged decline in fair value. Judgments are required to determine the definition of "significant" or "prolonged". "Significant" is judged by the extent of fair value below its cost and "prolonged" is judged by the length of period where fair value falls below its cost. Impairment loss of investment in available-for-sale equity investment is not reversed through profit or loss, and any increase of fair value that occurs after the impairment is recognized directly in other comprehensive income. The impairment loss on an available-for-sale equity instrument is not reversed through profit or loss, and any increase of fair value that occurs after the impairment is recognized directly in other comprehensive income.

If, after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed with the amount of the reversal recognized in profit or loss.

Financial assets carried at cost

If there is objective evidence that such an asset is impaired, the difference between its carrying amount and the present value of expected future cash flows which are discounted at the current market yield rate of similar financial assets is recognized as an impairment loss in profit or loss. Once an impairment loss is recognized, it is not reversed.

For a long-term equity investment accounted for using the cost method according to the Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments and which is not quoted in an active market and for which the fair value cannot be reliably measured, any impairment is accounted for in accordance with the above principles.

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognizes the financial asset; if the Group retains substantially all the risks and rewards of ownership 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, it is accounted for as follows: (i) if the Group has not retained control, it derecognizes the financial asset and recognizes any resulting assets or liabilities; (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. Receivables

(1) Receivables which are individually significant and for which provision for bad debt is recognized separately

Receivables are individually significant and tested for impairment individually if according to the Group's judgment, the balance of accounts receivables and other receivables due from an individual customer accounts for more than RMB20 million in the total balance of receivables. When objective evidence indicates that the receivable has been impaired, bad debt provision is made based on the shortfall of the present value of future cash flow as compared to its carrying amount, and is charged to profit and loss for the current period.

(2) Receivables for which provision for bad debt is recognized by group

For receivables which have not undergone individual assessment, provision for bad debt is recognized by grouping the receivables based on their credit risk features. Other than receivables for which provision for bad debt is recognized separately, bad debt provision is made according to the actual loss ratio of the same or similar receivable groups or receivable groups with similar credit risk features, with due regard to the current situation. The Group determines the grouping in terms of credit risks using age of the accounts receivables and other receivables and uses aging analysis to make provision for bad debts. The percentage are as follows:

Age	Percentage provided for
Within 1 year	5%
1-2 years	15%
2-3 years	30%
3-4 years	50%
4-5 years	80%
Over 5 years	100%

If objective evidence shows a recovery in value of the receivables, the bad debt provision can be reversed and carried through profit and loss in the current period.

(3) Receivables which are not individually significant but provision for bad debt is recognized separately

For receivables which are not individually significant but objective evidence shows that the impairment has occurred, bad debt provision will be made according to the difference between the present value of future cash flows and its carrying amounts and will be carried through profit and loss.

If clear evidence indicates that the receivables are indeed not recoverable, such as in case of cancellation, bankruptcy or insolvency of the debtor or its serious cash flow problem, then it is recognized as a bad debt and written off for bad debt provision already made.

11. Inventories

Inventories include raw materials, work in progress, finished goods, self made semi-finished goods and turnover materials etc.

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is assigned by using weighted average method or specific identification method. Turnover materials, including low value consumables and packaging, are amortized by using immediate write-off method.

The Groups adopts perpetual inventory system.

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value, a provision for decline in value of inventories is recognized in profit or loss. If factors that previously resulted in the provision for decline in value of inventories no longer exist, so that the net realizable value is higher than the carrying amount, the amount of the write-down is reversed. The reversal is limited to the amount originally provided for the provision for the decline in value of inventories. The amount of the reversal is recognized in profit or loss for the current period.

Net realizable 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 and relevant taxes. The provision for decline in value of inventories is made on an individual basis or a category basis.

12. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, jointly controlled enterprises and associates, and equity investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and the fair values of which cannot be reliably measured.

A long-term equity investment is recorded at its initial investment cost on acquisition. For a long-term equity investment acquired through a business combination, the initial investment cost is determined as follows: for a business combination involving entities under common control, the initial investment cost of the long-term equity investment is the absorbing party's share of the owner's equity of the party being absorbed; for a business combination involving entities not under common control, the initial investment cost of the long-term equity investment is the cost of combination (For a business combination not involving entities under common control achieved in stages that involves multiple transactions, the initial investment cost is carried at the aggregate of the carrying amount of the acquirer's previously held equity interest in the acquiree and the new investment cost incurred on the acquisition date.). The cost of combination is the aggregate of the fair values of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquired. For a long-term equity investment acquired otherwise than through a business combination, the initial investment cost is determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued; for a long-term equity investment contributed by the Group, the initial investment cost is the value stipulated in the investment contract or agreement, except where the value stipulated in the investment contract or agreement is not fair.

For a long-term equity investment where the Group does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value cannot be reliably measured, the Group uses the cost method. And for a long-term equity investment where the Company can exercise control over the investee, the Company uses the cost method in the Company's financial statements. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities.

Under the cost method, the long-term equity investment is measured at its initial investment cost. Except for the cash dividend or profit distribution declared but unpaid that is included in the price or consideration paid upon acquisition of a long-term equity investment, the Company recognizes its share of cash dividends or profit distributions declared by the investee as investment income in the current period, and considers whether the long-term equity investment is impaired according to the policies related to asset impairment.

The equity method is adopted when the Group holds joint control, or exercises significant influence on the investee. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the financial and operational decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control with other parties over those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investing entity's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the investing entity's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss for the current period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The Group recognizes its share of the investee's net profits or losses after making appropriate adjustments to the investee's net profits and losses based on the fair value of the investee's identifiable assets at the acquisition date, using the Group's accounting policies and periods, and eliminating the portion of the profits or losses arising from internal transactions with its jointly controlled enterprises and associates, attributable to the investing entity according to its share ratio (but impairment losses for assets arising from internal transactions shall be recognized in full). The carrying amount of the investment is reduced based on the Group's share of any profit distributions or cash dividends declared by the investee. The Group's share of net losses of the investee is recognized to the extent the carrying amount of the investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has incurred obligations to assume additional losses. The Group adjusts the carrying amount of the long-term equity investment for any changes in shareholders' equity of the investee (other than net profits or losses) and includes the corresponding adjustments in the shareholders' equity.

On disposal of a long-term equity investment, the difference between the proceeds actually received and carrying amount is recognized in profit or loss for the current period. For a long-term equity investment accounted for using the equity method, any changes in the shareholders' equity of the investee included in the shareholders' equity of the Group is transferred to profit or loss for the current period on a pro-rata basis according to the proportion disposed of.

For a long-term equity investment in a subsidiary, jointly controlled enterprises or associate, refer to Item 24 under Note II for the test for impairment and recognition of provision for impairment. For other long-term equity investment where the investment is not quoted in an active market and its fair value cannot be measured reliably, refer to Item 9 under Note II for the test for impairment and recognition of provision for impairment.

13. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property includes a land use right that is leased out and a building that is leased out.

An investment property is measured initially at its cost. If the economic benefits relating to an investment property will probably flow in and the cost can be reliably measured, subsequent costs incurred for the property is included in the cost of the investment property. Otherwise, subsequent costs are recognized in profit or loss for the period in which they are incurred.

The Group uses the cost model for subsequent measurement of its investment property. Depreciation or amortization is calculated on the straight-line basis over its useful life, as follows:

Project	**Expected useful life** *(Year)*
Land use rights	48.5–50 years
Housing and buildings	14.5–30 years

For an investment property that is subsequently measured using the cost model, refer to Item 24 under Note II for the test for impairment and recognition of provision for impairment.

14. Fixed assets

A fixed asset is recognized only when the economic benefits associated with the asset will probably flow to the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meet the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss for the period in which they are incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use. Other than fixed assets arising from the use and appropriation of safety production fees and certain equipment of the parent company, and machinery and equipment of certain subsidiaries namely WEICHAI POWER MAT AUTOMOTIVE, INC., Shaanxi Fast Gear Co., Ltd., Baoji Fast Gear Co., Ltd. and Xi'an Fast Auto Drive Co., Ltd., for which double-declining balance method is used for depreciation, the straight line method is adopted for the depreciation of other fixed assets.

The estimated useful lives, residual value rates and annual depreciation rates of fixed assets are presented as follows:

Item	**Estimated useful lives** *(years)*	**Estimated net residual value rate** *(%)*	**Annual depreciation rate** *(%)*
Houses and buildings	12–35	3–10	2.57–8.08
Machinery and equipment	4–12	3–10	7.50–24.25
Vehicles	4–10	3–10	9.00–24.25
Electronic equipment	3–12	3–10	7.50–32.33
Other equipment	3–10	3–10	9.00–32.33

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

For the test for impairment and recognition of provision for impairment related to a fixed asset, refer to Item 24 under Note II.

15. Construction in progress

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

A construction in progress is transferred to fixed asset when the asset is ready for its intended use.

For the test for impairment and recognition of provision for impairment related to a construction in progress, refer to Item 24 under Note II.

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. The amounts of other borrowing costs incurred are recognized as an expense in the period in which they are incurred. Qualifying assets are assets (fixed assets, investment property and inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

The capitalization of borrowing costs commences only when all of the following conditions are satisfied:

(1) expenditures for the asset are being incurred;

(2) borrowing costs are being incurred;

(3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Any borrowing costs subsequently incurred are recognized as an expense in the period in which they are incurred.

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

(1) 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 form depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds.

(2) 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 accumulated expenditure on the asset over and above the amounts of specific-purpose borrowings.

Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted by activities other than those necessary to prepare the asset for its intended use or sale, when the interruption is for a continuous period of more than 3 months. Borrowing costs incurred during these periods are recognized as an expense for the current period until the acquisition, construction or production is resumed.

17. Intangible assets

An intangible asset shall be recognized only when it is probable that the economic benefit associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. However, intangible assets acquired in a business combination with a fair value that can be measured reliably are recognized separately as intangible assets and measured at the fair value.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Group. An intangible asset is 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 follows:

	Useful life
Technology know-how	3.5–20 years
Land use rights	30–50 years
Computer software	5–10 years
License	10 years
Orders on hand	1–25 years
Customer relationship	2–17 years
Others	4 years
Trademark rights	Indefinite

Land use rights that are acquired by the Group are generally accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Group, and relevant land use rights and buildings, are accounted for as intangible assets and fixed assets, respectively. Payments for the land and buildings acquired are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as fixed assets.

An intangible asset with a finite useful life is amortized using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at least at each financial year-end and makes adjustment if necessary.

An intangible asset with an indefinite useful life are tested for impairment at least once every year, irrespective of whether there is any indication that the asset may be impaired. This category of intangible assets will not be amortized and will be reviewed every accounting period based on its useful life. If there are evidence indicates that its useful life is limited, the asset will be accounted for in accordance to the policy for intangible asset with definite useful life stated above.

The Group classifies the expenditure on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase of an internal research and development project is recognized in profit or loss for the period in which it is incurred. Expenditure on the development phase is capitalized when 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) the 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 asset 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 the ability 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 is recognized in profit or loss for the period in which it is incurred.

For the test for impairment and recognition of provision for impairment related to an intangible asset, refer to Item 24 under Note II.

18. Long-term prepaid expenses

Long-term prepaid expenses are amortized using straight-line method as follows:

	Amortization period *(years)*
Industrial mould fee	1–5 years
Industrial equipment fee	5 years
Expenditure on improvement of fixed assets leased in	the shorter of useful lives and lease period

19. Provisions

Except for contingent consideration transferred and contingent liability assumed in business combinations, the Group recognizes an obligation related to a contingency as a provision when all of the following conditions are satisfied:

(1) The obligation is a present obligation of the Group;

(2) It is probable that an outflow of economic benefits from the Group will be required to settle the obligation;

(3) The amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, with comprehensive consideration of factors such as the risks, uncertainty and time value of money relating to a contingency. The carrying amount of a provision is reviewed at the balance sheet date. If there is clear evidence that the carrying amount does not reflect the current best estimate, the carrying amount is adjusted to the best estimate.

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

20. Revenue

Revenue is recognized only when it is probable that the associated economic benefits will flow to the Group, its amount can be measured reliably, and the following conditions are satisfied.

Revenue from the sales of goods

Revenue is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the associated costs incurred or to be incurred can be measured reliably. The amount of revenue arising from the sale of goods is determined in accordance with the consideration received or receivable from the buyer under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair. Where the consideration receivable under contract or agreement is deferred, such that the arrangement is in substance of a financing nature, the amount of revenue arising on the sale of goods is measured at the fair value of the consideration receivable under 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 costs incurred to date to the estimated total costs. The total service revenue on a transaction involving rendering of services is determined in accordance with the consideration received or receivable from the recipient of services under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair.

Interest income

It is determined according to the length of time for which the Group's cash and cash equivalents is used by others and the effective interest rate.

Royalty income

It is determined according to period and method of charging as stipulated in the relevant contract or agreement.

Lease income

Lease income from operating leases is recognized on a straight-line basis over the lease term. Contingent rents are charged to profit or loss in the period in which they actually arise.

21. Government grants

Government grant is recognized when the Group can comply with the conditions attached to it and it can be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount. A government grant related to income is accounted for as follows: (a) if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; (b) if the grant is a compensation for related expenses or losses already incurred, it is recognized immediately in profit or loss for the current period. A government grant related to an asset shall be recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. However, a government grant measured at a nominal amount is recognized immediately in profit or loss for the current period.

22. Income tax

Income tax comprises current and deferred tax. Income tax is recognized as income or an expense in profit or loss for the current period, or recognized directly in shareholders' equity if it arises from a business combination or relates to a transaction or event which is recognized directly in shareholders' equity.

The Group measures a current tax asset or liability arising from the current and prior period based on the amount of income tax expected to be paid by the Group or returned by tax authority calculated by related tax laws.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the carrying amounts 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) where the taxable temporary differences arise 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 accounting profit nor taxable profit or deductible loss.

(2) in respect of taxable temporary differences associated with investments in subsidiaries, jointly-controlled enterprises and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

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

(1) where the deductible temporary differences arises from a transaction that is not a business combination and, at the time of the transaction, neither the accounting profit nor taxable profit or deductible loss is affected.

(2) in respect of the deductible temporary differences associated with investments in subsidiaries, associates and jointly-controlled enterprises, a deferred tax asset is only recognized to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilized in the future.

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.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the balance sheet date and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities and presented on a net basis are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities on a net basis and the deferred taxes relate to the same taxable entity and the same taxation authority.

23. Leases

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

In the case of the lessee of an operating lease

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 the related asset or charged to profit or loss for the current period. Contingent rents are charged to profit or loss in the period in which they actually arise.

In the case of the lessor of an operating lease

Rent income under an operating lease is recognized by a lessor on a straight-line basis over the lease term, through profit or loss. Contingent rents are charged to profit or loss in the period in which they actually arise.

24. Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventories, deferred income taxes, financial assets and long-term equity investments, which are accounted for using the cost method and have no quoted market prices in active markets, and whose 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 test for impairment. Goodwill arising from a business combination and an intangible asset with an indefinite useful life are tested for impairment at least at each year-end, irrespective of whether there is any indication that the asset may be impaired. Intangible assets that have not been ready for intended use are tested for impairment each 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 inflows generated by the asset group are largely independent of the cash inflows 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 reduction in carrying amount is treated as impairment loss and recognized in profit or loss for the current period. A provision for impairment loss of the asset is recognized accordingly.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis, to each of the 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 sets of asset groups is an asset 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.

In testing an asset group or a set of asset groups to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group or set of asset groups excluding the amount of goodwill allocated for impairment, determines the recoverable amount and recognizes any impairment loss. After that, the Group tests the asset group or set of asset groups including goodwill for impairment, whereby the carrying amount 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 loss firstly reduces the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of other assets (other than the goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

Once the above impairment loss is recognized, it cannot be reversed in subsequent accounting periods.

25. Payroll

Payroll are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for service rendered by employees. In the accounting period in which an employee has rendered service to the Group, the payroll payable is recognized as a liability. For payroll payable due in more than 1 year after the balance sheet date, if the discounted value is significant, it is presented at the present value.

The Group maintains both defined benefit plans and defined contribution plans.

The employees of the Group participate in social insurance, such as pension insurance, medical insurance, unemployment insurance, etc., and housing funds, which is managed by the 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 provisions recognized for the compensation arising from termination of employment relationship with employees, with a corresponding charge to profit or loss 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 Group recognizes 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, as payroll payable through profit or loss for the current period, when the above conditions for the recognition of termination benefit plan are satisfied.

Defined benefit plans is a non-defined contribution plan. Defined benefit plans generally defines the amount of pension benefit entitled to the employee upon retirement, usually depending on one or more factors such as age, terms of services and remuneration. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of planned assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit cost method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high quality bonds that are denominated in the currency used to pay for the pension, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in other comprehensive income for the period in which they are incurred. Past-service costs are recognized immediately in profit or loss, unless the changes to the defined benefit plans are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

26. Profit appropriation and distribution

The annual cash dividend of the Company is recognized as a liability after being approved in the general meeting.

27. Debt restructuring

A debt restructuring is an event in which a debtor is in financial difficulty and a creditor grants a concession to the debtor in accordance with a mutual agreement or a court judgment.

As a debtor

When a debt is settled by cash in a debt restructuring, the difference between the carrying amount of the debt and the cash actually paid is recognized in profit or loss for the current period. When a debt is satisfied by a transfer of non-cash asset(s) to the creditor in a debt restructuring, the difference between the carrying amount of the debt and the fair value of the non-cash asset(s) transferred is recognized in profit or loss for the current period; the difference between the fair value of the non-cash asset(s) transferred and their carrying amount was recognized in profit or loss for the current period. When a debt is converted into capital in a debt restructuring, the difference between the carrying amount of the debt and the fair value of the capital issued to the creditor is recognized in profit or loss for the current period. When other terms of the debt is modified, the difference between the carrying amount of the debt under restructuring and the sum of the fair value of the debt subsequent to the modification of other terms of the debt and the provisions recognized in respect of amounts payable, shall be recoginzed in profit or loss for the current period. When a debt is satisfied by a combination of the methods mentioned above, the carrying amount of the debt is reduced by, and in the sequence of, the cash payment, the fair value of the non-cash asset(s) transferred and the fair value of the capital issued to the creditor, and then accounted for in accordance with the requirements related to a debt restructuring that involves the modification of other terms of a debt.

As a creditor

When a debt is settled by cash in a debt restructuring, the difference between the gross carrying amount of the debt receivable and the cash received is recognized in profit or loss for the current period. When a debt is satisfied by a transfer of non-cash asset(s) in a debt restructuring, the difference between the gross carrying amount of the debt receivable and the fair value of the non-cash asset(s) received is recognized in profit or loss for the current period. When a debt is converted into capital in a debt restructuring, the difference between the gross carrying amount of the debt and the fair value of the equity interest received is recognized in profit or loss for the current period. When other terms of the debt is modified, the difference between the gross carrying amount of the debt receivable under restructuring and the fair value of the debt receivable subsequent to the modification of other terms of the debt, shall be recognized in profit or loss for the current period. When a debt is satisfied by a combination of the methods mentioned above, the gross carrying amount of the debt is reduced by, and in the sequence of, the cash received, the fair value of the non-cash asset(s) obtained and the fair value of the equity interest received, and then accounted for in accordance with the requirements related to a debt restructuring that involves the modification of other terms of a debt.

If the creditor has provided for impairment loss on the debt receivable, the above difference is used to reduce the impairment provision and any excess is recognized in profit or loss for the current period.

28. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or joint control from the same party.

29. Segment reporting

The Group identifies operating segments based on the internal organization structure, managerial requirements and internal reporting system, identifies reportable segments based on operating segments and discloses segment information by operating segment.

An operating segment is a component of the Group that meets all the following conditions:

(1) it engages in business activities from which it may earn revenues and incur expenses;

(2) its operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segment and assess its performance;

(3) the Group is able to obtain relevant accounting information such as its financial position, operating results and cash flows of such segment.

If two or more segments have similar economic characteristics and meet certain conditions, then they can be aggregated into a single operating segment.

30. Safety funds

Safety funds are provided for as required were included into cost of product or the current profit and loss, and credited in special reserve. And the funds are treated separately depending on whether fixed assets are resulted when being used: funds related to expenditure is offset against special reserve while those forming fixed assets will consolidated expenditure incurred and recognized as fixed assets when such assets are ready for their intended use, at the same time offsetting equivalent amounts in the special reserve and recognizing equivalent amounts of accumulated depreciation.

31. Put options in relation to minority interests

During the process of acquiring the majority stake of the subsidiaries, the Group provided the minority shareholders the right to dispose the equity interests held by it to the Group ("Put Options"). The equity interests in such subsidiaries held by the minority shareholders shall be recognized as minority interests in the consolidated financial statement of the Group. At the same time, for Put Options, the Group shall assume the obligations to redeem in cash the equity interests in such subsidiaries held by the minority interests. The present value of the amount payable at the time of redemption of such Put Options shall be deducted from equity (other than minority interests) and was recognized as the financial liabilities of the Group. Such financial liabilities shall be re-measured as the present value of the amount payable upon redemption in the subsequent period, with changes charged to the current profit or loss.

32. Significant accounting judgments and estimates

The preparation of the financial statements requires management to make judgments and estimates that will affect the reported amounts and disclosure of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have significant effect on the amounts recognized in the financial statements.

Operating lease – in the case of the lessor

The Group has entered into leasing contracts for its investment properties. The Group is of the opinion that, according to the terms of such leasing contracts, the Group has retained all material risks and returns of ownership of these properties and therefore they are accounted for as operating lease.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the future accounting periods, are discussed below.

Impairment of goodwill and trademarks

The Group determines whether goodwill and trademarks with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the asset group to which goodwill and trademarks are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset group and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Defined benefit plans

On the balance sheet date, the management of the Group recognize defined benefit plans liabilities based on the present value of the defined benefit plans liabilities calculated by the independent actuaries less fair value of the planned assets. The present value of defined benefit liabilities comprises of various assumptions, including term of pension and discount rate. Inconsistency between the future events and such assumptions may subject the defined benefit plans liabilities on the balance sheet date to material adjustment.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognizes movements of their fair values in shareholders' equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that shall be recognized in the income statement.

Impairment of non-current assets other than non-financial assets (other than goodwill)

The Group assesses whether there are any indication of impairment for all non-current assets other than financial assets at the balance sheet date. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indication exists. Other non-current assets other than financial assets are tested for impairment when there are indication that the carrying amounts may not be recoverable. Where the carrying amount of an asset or asset group is higher than its recoverable amount (i.e. the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from it), it is indicated that such asset or asset group is impaired. The fair value less costs to sell is determined with reference to the price in sales agreement or observable market price in arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset or asset group. When calculating the present value of expected future cash flows from an asset or asset group, 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 future cash flows.

Deferred tax assets

Deferred tax assets are recognized for all unused deductible temporary differences and deductible losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and deductible losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profit together with future tax planning strategies.

Write-down of inventories to net realizable values

Write-down of inventories to their net realizable values is based on the saleability of the evaluated inventory and their net realizable values. Given the management's judgments and estimates required for inventory impairment on the basis of clear evidence, purpose of holding the inventories, effect of subsequent events and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of decline in value of inventories during the estimated revision period.

Impairment of receivable

Impairment of receivable is based on the recoverability of assessed receivable. Given the management's judgment and estimate required for impairment of receivable, the difference between the actual outcome and original estimate will affect the carrying amount of receivable and provision and reversal of bad debts of receivable during the estimated revision period.

Recognition of estimated liabilities

The Group uses contract terms, existing knowledge and historical experience, to estimate and recognize the provision for product quality assurance. On condition that such contingent matters has formed a present obligation which is probable to give rise to an outflow of the Group's economic benefits, the Group recognizes the best estimate.

Estimated useful lives of fixed assets

The Group reviews the estimated useful lives of fixed assets at least once at the end of the year. Estimated useful lives is determined by the management based on historical experience of similar assets and expected technological advancement. Corresponding adjustment to depreciation expenses for future periods will be made in case of substantial changes in previous estimates.

III. TAXATION

1. Major categories of taxes and respective tax rates

Value-added tax (VAT)	–	Output VAT is calculated by applying 17% to the taxable income for normal taxpayers, but the Group may pay it after deducting deductible input VAT for the current period.
Business tax	–	It is calculated by applying 5% to the taxable income.
City maintenance and construction tax	–	It is levied at 7% or 5% on the actual turnover taxes paid.
Education surcharge	–	It is levied at 3% on the actual turnover taxes paid.
Corporate income tax	–	It is levied at 15% or 25% on the taxable profit. For oversea subsidiaries, it is levied at the statutory tax rate of the countries or regions in which the subsidiaries operate.

2. Tax benefits and official approval

Value-added tax

In accordance with the Notice Concerning Exemption from Value-added Tax and Consumption Tax applicable to Special-purpose Military Vehicles (《關於軍用特種車輛免徵增值稅和消費稅的通知》) issued by MOF and State Administration of Taxation, the sale of special-purpose military vehicles to army and armed police by Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, is exempted from value-added tax.

Corporate Income Tax

The Company was recognized as a hi-tech enterprise on 27 November 2008 and became entitled to a preferential income tax rate of 15% for the period from 1 January 2008 to 31 December 2010. In 2012, the Company passed the review on high-tech enterprise and is therefore entitled to enjoy a preferential income tax rate of 15% from 1 January 2011 to 31 December 2013.

Subsidiaries such as Weichai Power (Weifang) Reconstruction Co., Ltd., (濰柴動力(濰坊)再製造有限公司), Weichai Power Yangzhou Diesel Engine Co., Ltd. (濰柴動力揚州柴油機有限責任公司), Shanghai He Da Auto Accessory Co., Ltd. (上海和達汽車配件有限公司), Zhuzhou Torch Auto Lighting Co., Ltd. (株洲湘火炬汽車燈具有限責任公司), Zhuzhou Gear Co., Ltd. (株洲齒輪有限責任公司), Mudanjiang Futong Automotive Air Conditioner Co., Ltd. (牡丹江富通汽車空調有限公司), Zhuzhou Torch Sparkplugs Co., Ltd. (株洲湘火炬火花塞有限責任公司) and Zhuzhou Euro Grace Gear Automotive Transmission Co., Ltd (株洲歐格瑞傳動股份有限公司) have also been recognized as hi-tech enterprises. In 2011, these subsidiaries passed the review on high-tech enterprise and are therefore entitled to enjoy a preferential income tax rate of 15% from 1 January 2011 to 31 December 2013.

Shaanxi Heavy-duty Motor Company Limited, Shaanxi Fast Gear Co., Ltd. and Baoji Fast Gear Co., Ltd. were at the same time recognized as hi-tech enterprises. In 2011, such companies passed the review on high-tech enterprise and are therefore entitled to enjoy a preferential income tax rate of 15% from 1 January 2011 to 31 December 2013.

Pursuant to the requirement of the Notice Concerning Issues on Taxation Policies Relating to the Thorough Implementation of China's Strategy of Western Development (Cai Shui Fa No. [2011] 58) (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) promulgated by MOF, the State Administration of Taxation and the General Administration of Customs dated 27 July 2011, as well as the approval of relevant authorities, the following companies have implemented preferential tax policy for the Western Development:

– Shaanxi Hande Axle Co., Ltd. has received the approval of Shan Fa Gai Industrial Confirmation Letter (陝發改產業確認函) No. (2012)002 on 9 March 2012 and the Company has passed the examination of 2011 Taxation Filing, and it is expected to be entitled again to enjoy a preferential policy in 2012;

– Shaanxi Heavy-duty Motor Company Limited has received the approval of Shan Fa Gai Industrial Confirmation Letter (陝發改產業確認函) No. (2012)003 on 20 April 2012 and at the same time, received the approval of taxation filing, and shall proceed the implementation of preferential tax policy for the Western Development during the period from 1 January 2011 to 31 December 2020;

– Xi'an Fast Auto Drive Co., Ltd., Shaanxi Fast Gear Co., Ltd. and Baoji Fast Gear Co., Ltd. have received the approval of Shan Fa Gai Industrial Confirmation Letter (陝發改產業確認函) No. (2012)004 on 24 April 2012 and the Company has passed the examination of 2011 Taxation Filing, and it is expected to be entitled again to enjoy a preferential policy in 2012.

– Chongqing Jialing Chuanjiang Vehicle Manufacturing Co., Ltd. has received the tax deduction and exemption notice of Jiang Jin Guo Shui Jian (江津國稅減) No.[2012]181 on 31 July 2012, and it shall implement the preferential tax policy for the Western Development commencing from the date of obtaining the tax deduction and exemption notice, i.e. 31 July 2012.

3. Other descriptions

Taxable profit derived from other regions by primary subsidiaries incorporated overseas of the Company, calculated at applicable local tax rate according to existing laws, interpretations and practices of the countries in which the subsidiaries operate, are as follows:

	Income tax rate *(%)*
Weichai Power (Hong Kong) International Development Co., Ltd. 濰柴動力(香港)國際發展有限公司	16.50
WEICHAI POWER MAT AUTOMOTIVE, INC.	40.27
WEICHAI SINGAPORE PTE. LTD.	17.00

IV. CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

1. Information about subsidiaries

Particulars of the principal subsidiaries of the Company are presented as follows:

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
Subsidiaries acquired through establishment or investment							
(1) Weichai Power (Weifang) Spare Part Resources Co., Ltd.	limited liability company	Shandong	Zhang Quan	Trading Industry	89,795,918.00	Sale of diesel engines accessories and working parts/ components and dedicated diesel oil	78076858-9
(2) Weichai Power (Weifang) Oil Co., Ltd.	limited liability company	Shandong	Zhang Quan	Sale of oil products	10,000,000.00	Processing sale of lubricating oil, sale of basic oil and additives for lubricating oil, anti-icing fluid, cleaning agent, anti-cutting fluid and additives	78078572-5
(3) Weichai Power (Weifang) Intensive Logistics Co., Ltd.	limited liability company	Shandong	Zhang Quan	Logistic Industry	20,000,000.00	General transportation; storage; delivery; basic assembly of machine accessory and power; diesel engines and accessory packaging, logistic assets development, logistic consultation, international transport agency and packaging, and lease and sale of logistic appliances	78078234-8
(4) Weichai Power (Weifang) Casting Co., Ltd.	limited liability company	Shandong	Ren Xingwu	Manufacturing Industry	460,150,000.00	Manufacture and sale of grey iron, ductile iron casting; manufacture, sale, hot treatment and cleansing of casting and stamping parts	78926896-X
(5) Weichai Power (Weifang) Reconstruction Co., Ltd.	limited liability company	Shandong	Sun Shaojun	Manufacturing Industry	122,000,000.00	Reconstruction of automobile components (engine, gear box, generator, starter, diverter)	67452682-6
(6) Shandong Synergy Oil Co., Ltd.	limited liability company	Shandong	Zhang Quan	Manufacturing Industry	USD3,000,000.00	Manufacture and sale of lubricant oil (grease), wholesale of basic oil and additive oil for lubricating oil, anti-icing fluid, cleaning agent, cutting fluid, additives and fuel oil	68723855-9

		Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(7)	Weichai Power (Qingzhou) Drive Control Technology Co., Ltd.	limited liability company	Shandong	Dong Ping	Manufacturing Industry	150,000,000.00	Design, manufacture and sale of hydraulic components, hydraulic system and related transmission technology series product as well as providing technical and after-sale services, operating import of the equipment, components and technology required by the Company and the export business of the Company's products	57394501-X
(8)	Baoding Shanqi Tianma Co., Ltd. *(Note 9)*	limited liability company	Hebei	Zhou Shucai	Manufacturing Industry	40,000,000.00	Research and development, production, sale and servicing of specialty heavy-duty truck; research and development, production and sale of heavy-duty truck components; import and export of specialty heavy-duty truck and components	55330965-7
(9)	Shaanxi Automobile Xinjiang Vehicle Co., Ltd. *(Note 1)*	limited liability company	Xinjiang	Hao Xiaoqian	Manufacturing Industry	194,700,000.00	Research and development, production, sale and servicing of components of cargo truck, specialty truck and automobile	57621310-5
(10)	Shaanxi Automobile Datong Special-Purpose Vehicle Co., Ltd. *(Note 10)*	limited liability company	Shanxi	Hao Xiaoqian	Manufacturing Industry	132,650,000.00	Research and development of components for new energy specialty truck and automobile; sales of complete vehicle and components (excluding passenger vehicles with less than 9 seats)	57597361-2
(11)	Shaanxi Automobile Huainan Special – Purpose Vehicle Co., Ltd. *(Note 2) (Note 10)*	limited liability company	Anhui	Hao Xiaoqian	Manufacturing Industry	112,000,000.00	Research and development, sale and after-sale services of new energy heavy-duty truck, specialty truck and automobile components	57574499-1
(12)	重慶陝汽嘉川汽車有限公司	limited liability company	Chongqing	Fang Hongwei	Manufacturing Industry	135,000,000.00	Processing, sale, research and development: automobile components; sale of automobiles (excluding passenger vehicles with less than 9 seats)	58147467-6
(13)	陝西重型汽車進出口有限公司迪拜公司	free zone enterprise	Arab	Wang Gang	Trading of automobiles	USD272,500.00	Sales of various automobile products and related automobile components	N/A
(14)	Shaanxi Wuhai Special Vehicles Co., Ltd. *(Note 3) (Note 10)*	limited liability company	Inner Mongolia	Yuan Hongming	Manufacturing Industry	228,000,000.00	Research and development, production, sale and servicing of natural gas heavy-duty trucks and special vehicles	56691594-7

		Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(15)	Weichai Power (Shanghai) Technology Development Co., Ltd.	limited liability company	Shanghai	Xu Xinyu	Manufacturing Industry	500,000,000.00	Industrialization development, technical development, technical transfer, technical consultation, technical services, technical training, investment consultation, corporate management consultation of transportation equipment, engineering machinery, new energy, hi-tech technology and product	69296887-1
(16)	Weichai Power Yangzhou Diesel Engine Co., Ltd.	limited liability company	Jiangsu	Zhang Quan	Manufacturing Industry	300,000,000.00	Design, development, manufacture, sale and after-sale services of engines and ancillary products; import and export of engines and ancillary products, sale of automobile, automobile accessories and lubricating oil	69934189-5
(17)	Weichai Power (Chongqing) Western Development Co., Ltd.	limited liability company	Chongqing	Xu Xinyu	Manufacturing Industry	240,000,000.00	Industrialization development and management, technical, investment and management consultation service of general operating items, transportation equipment and hi-techs technology and products	69394899-5
(18)	Chongqing Light-duty-Automotive Co., Ltd.	limited liability company	Chongqing	Xu Xinyu	Manufacturing Industry	300,000,000.00	Development, design and sale of light vehicles (excluding sale of passenger vehicle with 9-seats or below), development, design, production, sale of automobile accessories (excluding production of engines)	563455471
(19)	Weichai Power (Beijing) International Resource Investment Co., Ltd.	limited liability company	Beijing	Wang Yong	Project Investment	300,000,000.00	Project investment, investment management, investment consultation; technical development, technical transfer, technical consultation, technical service; new energy technical training; organize cultural-art exchange (other than performance); sale of machinery, electrical appliance, equipment and automobile accessories; lease of self-owned office premises and office facilities, property management; import and export of goods, import and export of technology and act as agent for import and export	56368805-6
(20)	Weichai Power (Hong Kong) International Development Co., Ltd.	limited liability company	Hong Kong, China	Xu Xinyu	Service Industry	USD57,840,000.00	Engaging in cooperation and trading business of product and technology in relation to automobile core components (such as engines) and automobile engineering; external investment and management business	N/A

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(21) 濰柴俄羅斯有限責任公司	limited liability company	Russia	Zhang Gengsheng	Import and export	USD1,500,000.00	Engaging in trading of automobile components, trading of automobile basic accessories, trading of transportation vehicles, wholesale and trading of other machinery and equipment, transportation, storage and access of goods, financial leasing, acquisition and sales of privately owned real properties	N/A
(22) 山東重工印度有限責任公司	limited liability company	India	Xu Zichun	Manufacturing Industry	USD5,000,000.00	Machinery manufacturing	N/A
(23) Weichai Power (Luxembourg) Holding S.à r.l.	limited liability company	Luxembourg	Xu Xinyu	Project investment	EUR100,000.00	Engaging in founding, developing, managing and controlling of any company or enterprise. Investment acquisition and management of patents or other intellectual property of any other nature or sources	N/A
(24) 林德液壓普通合夥企業 (GP) *(Note 7)*	general partnership	Germany	Joerg Ulrich	Investment management	EUR25,000.00	Investment management	N/A
(25) Linde Hydraulics GmbH & Co. KG (LP) *(Note 7)*	limited partnership	Germany	Sun Shaojun	Investment management	EUR25,000.00	Investment management	N/A
Subsidiaries acquired through business combinations not involving entities under common control							
(26) Shandong Huadong Casting Co., Ltd.	limited liability company	Shandong	Xu Hong	Manufacturing Industry	450,150,000.00	Manufacture and sale of machine accessories, diesel engines and ancillary products, farming machines and engineering machines; import and export of goods, import and export of technology	66674302-X
(27) Shaanxi Heavy-duty Motor Company Limited	limited liability company	Shaanxi	Tan Xuguang	Manufacturing Industry	2,706,330,000.00	Manufacture of automobile (except sedans), sale and export of automobile components and engines; import of raw materials, machinery, equipment, apparatus, instruments, spare parts, components and technology which are required by the production and research of the Company (conducted with relevant license), commence Sino-foreign joint venture of the Company and cooperate to develop "three categories of processing and one category of compensation business"; assembling, conversion and after-sale service of automobile	74127207-0

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(28) Shaanxi Hande Axle Co., Ltd.	limited liability company	Shaanxi	Fang Hongwei	Manufacturing Industry	320,000,000.00	Research, production, manufacture, sale and servicing industry of automobile axle and axle components, manufacture of raw materials, machinery, equipments, apparatus, instruments, spare parts and components that are required for research, purchase and sale of components	74504313-6
(29) Shaanxi Jinding Casting Co., Ltd.	limited liability company	Shaanxi	Wang Xiaofeng	Manufacturing Industry	35,360,000.00	Research, production, manufacture, servicing and processing of casting products; commence "three categories of processing and one category of compensation business" of the Company	77698602-2
(30) Tianjin Tiangua Automotive Co., Ltd.	limited liability company	Tianjin	Hao Xiaogian	Manufacturing Industry	11,760,000.00	Manufacture of household customized vehicle and trailers and tractors, sale of trailers and tractors accessories, small-scale farming equipment, lubricating oil, rubber product, hardware for domestic use and automobile (except sedans). Operating export of the Company's product as well as import and export of the mechanical equipment and raw materials of components that are required by the Company	10426507-7
(31) Tianjin Xinming Automotive Commercial Co., Ltd.	limited liability company	Tianjin	Zhang Yueliang	Trading of automobile	1,000,000.00	Wholesale and retail of automobile (except sedans), farming vehicle and its accessories, steel product, rubber product and lubricating oil; complete vehicle repairing, assembly repairing, complete vehicle maintenance, minor repairing, emergency repairing, special item repairing, normal freight of large and medium-sized truck	74139534-5
(32) Shaanxi Heavy Duty Automotive Import & Export Co., Ltd.	limited liability company	Shaanxi	Fang Hongwei	Import and export	10,000,000.00	Self-operated agency for import and export of various types of goods and technology; bidding agency; logistic and transportation business consultation; information consultation of import and export of automobile complete vehicle and components, development, results transfer and consultation service of environmental and automobile scientific technology, multi-language and multi-professional translation services (such as English, German, French, Russian and Spanish)	78696817-8

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(33) Shaanxi Automobile Yulin Eastern Special-Purpose Vehicle Co., Ltd. *(Note 10)*	limited liability company	Shaanxi	Hao Xiaoqian	Manufacturing Industry	168,000,000.00	Research and development, sale and after-sale services of new energy heavy-duty truck, specialty truck and automobile components	56714227-X
(34) Shaanxi Fast Gear Co., Ltd.	limited liability company	Shaanxi	Tan Xuguang	Manufacturing Industry	256,790,000.00	Design, development, manufacture and sale services of automobile components such as gear boxes, gears and forging (except complete vehicle production and customization of automobile); export of self-manufactured product and technology of the Company; import and export of raw materials, apparatus, instruments, machinery, equipment, components and technology that are required by the production of the Company (excluding commodities limited to companies designated by the State for operation or prohibited from exporting); processing of incoming materials	730431187
(35) Baoji Fast Gear Co., Ltd.	limited liability company	Shaanxi	Tan Xuguang	Manufacturing Industry	30,000,000.00	Design, development, manufacture, sale service and import and export business of automobile components such as transmission, gears and forging	732645971
(36) Xi'an Fast Auto Drive Co., Ltd.	limited liability company	Shaanxi	Tan Xuguang	Manufacturing Industry	134,700,000.00	Design, development, manufacture and sale service of power shift transmission system assembling and components product	750249243
(37) Xi'an Fast Gear Sales Co., Ltd.	limited liability company	Shaanxi	Yan Jianbo	Manufacturing Industry	1,000,000.00	Sale of gear, automobile component, hardware and electrical appliance, construction materials and automobile	742811785
(38) Shaanxi Fast Gear Spare Parts Import & Export Co., Ltd.	limited liability company	Shaanxi	Li Dakai	Import and export	3,000,000.00	Manufacture and sale of automobile components, casting, mechanical and electrical products, operating export of self-manufactured product and technology of the Company, import of raw materials, apparatus, instruments, machinery, equipments, components and technology that are required for production	727355005

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(39) Zhuzhou Gear Co., Ltd.	limited liability company	Hunan	Li Guiyang	Manufacturing Industry	531,314,951.00	Design, manufacture and sale of various types of automobile, engineering machinery, motorcycle, machine tools transmission system assembling, gear and axles, cold and hot processing of machinery, assembling of mechanical equipments, sale of automobile (except sedans), motorcycle and accessories; wholesale and retail of electrical appliance, machinery, equipment, hardware, electrical appliance, general merchandise and metal materials. Operating export of self-manufactured products and technology of the Company; operating import of raw materials, apparatus, instruments, machinery, equipments, components and technology that are required by the production of the Company; processing of incoming materials and "three categories of processing and one category of compensation business". Machinery processing, assembling of mechanical equipments and metal materials	74591450-1
(40) Zhuzhou Wande Forging Co., Ltd.	limited liability company	Hunan	Pan Xiaodong	Manufacturing Industry	5,000,000.00	Design, manufacture and sale of forging, various types of automobile, gear and axles of machine tools	78087176-2
(41) Zhuzhou Euro Grace Gear Automotive Transmission Co., Ltd.	Non-listing joint stock company	Hunan	Pan Xiaodong	Manufacturing Industry	150,000,000.00	Research and development, production, sale and export of automobile machinery and auto transmission, specialty actuators, automobile electronic and electronically controlled products and other automobile components	78801726-1
(42) Dongfeng Off-road Vehicle Co., Ltd. *(Note 4)*	limited liability company	Hubei	Tan Xuguang	Manufacturing Industry	155,000,000.00	Manufacture and sale of off-road vehicle, chassis and customized vehicle; technical consultation, technical services, information services and after-sale services that are relevant to the operating projects of the Company	741756163
(43) Shiyan Amor Coating Technology Co., Ltd. *(Note 4)*	limited liability company	Hubei	Long Yuqi	Manufacturing Industry	2,200,000.00	Coating and processing of automobile components; coating treatment of metal and non-metals; general machinery processing; development of chemical raw materials	753435607

		Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(44)	Zhuzhou Torch Sparkplugs Co., Ltd.	limited liability company	Hunan	Li Guiyang	Manufacturing Industry	216,420,000.00	Manufacture of spark plugs, automobile electrical appliance and components of other vehicles and motorcycle, special ceramic products, fire proofing products and manufacture and sale of environmental protection products; sale of automobile (except sedans) and motorcycle; sale of electrical equipment, construction hardware, apparatus, instruments and metal materials, chemical raw materials allowed under policies; development and sale of computer software. Operating export of self-manufactured spark plugs, automobile electrical appliance and components of other vehicles and motorcycle, special ceramic products, fire proofing products and environmental protection products; operating import and export of raw materials, apparatus, instruments, machinery, equipments, components and technology that are required by the production of the Company; processing of incoming materials and "three categories of processing and one category of compensation business"	73676822-3
(45)	Torch Import & Export Co., Ltd.	limited liability company	Hunan	Chen Guangyun	Import and export	30,000,000.00	Operating and acting as agent for the import and export of various types of goods and technology (excluding commodities and technology restricted by the State for operation or prohibited from import and export); processing of incoming materials and "three categories of processing and one category of compensation business" of the Company	707249125
(46)	Zhuzhou Torch Machinery Manufacturing Co., Ltd.	limited liability company	Hunan	Li Guiyang	Manufacturing Industry	142,262,500.00	Piston pin, internal combustion machine component, automobile and motorcycle component; production of moulds and non-standard equipment; processing and sale of rubber products; import and export trading allowed by the national laws and regulations	18430573-X

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(47) Zhuzhou Torch Property Development Co., Ltd. *(Note 4)*	limited liability company	Hunan	Wang Xinlu	Real estate development	13,120,000.00	Development and operation of third class real estate; general merchandise, needles, textiles, decoration materials, furniture, hardware, electrical appliances, chemical, motorcycle and components, wholesale and retail of automobile (except sedans); store leasing	18430091-2
(48) Zhuzhou Torch Auto Sealing Co., Ltd. *(Note 5)*	limited liability company	Hunan	Chen Guangyun	Manufacturing Industry	20,420,000.00	Production and sale of automobile components and electrical product; trading of automobile (except sedans); production and sale of fire proofing materials and special ceramic product; production and sale of environmental protection product	71709438-2
(49) Zhuzhou Torch Auto Lighting Co., Ltd.	limited liability company	Hunan	Chen Guangyun	Manufacturing Industry	46,000,000.00	Production and sale of automobile, motorcycle component, electrical appliance, machinery, instruments, decorative light and rubber product. Operating export of self-manufactured product and technology of the Company; operating import of raw materials, apparatus, instruments, machinery, equipments, components and technology that are required by the production of the Company; processing of incoming materials and "three categories of processing and one category of compensation business"	73677107-8
(50) Mudanjiang Futong Automotive Air Conditioner Co., Ltd. *(Note 4)*	limited liability company	Heilongjiang	Li Zhi	Manufacturing Industry	121,050,000.00	Production, manufacture and sale of automobile air conditioner compresser and its systems and other automobile component. Engage in import and export within the scope stipulated in the Certificate of Approval for Enterprises with Foreign Trade Rights; storage	73966596-7
(51) Xinjiang Machinery Equipment Import & Export Co., Ltd.	limited liability company	Xinjiang	Wang Xinlu	Import and export	20,000,000.00	General operating items (except special approved items under national laws and regulations); import and export of goods and technology	22858023-2
(52) Shanghai He Da Auto Accessory Co., Ltd.	limited liability company	Shanghai	Han Guohong	Manufacturing Industry	USD4,248,200.00	Design and manufacture of decorative bars of automobile, glass trough, tracking, doorframe and its accessories; sale of self-manufactured products of the Company, provide consultation services on products and technology	60726120-7

	Type of subsidiary	Place of registration	Legal representative	Nature of business	Registered capital	Scope of business	Organization code
(53) Chongqing Jialing Chuanjiang Vehicle Manufacturing Co., Ltd. *(Note 6)*	limited liability company	Chongqing	Li Zhi	Manufacturing Industry	80,000,000.00	Production and sale of automobile, automobile components, motorcycle components	78156786-9
(54) Siciété International des Moteurs Baudouin	limited liability company	France	Lin Zhishen	Manufacturing Industry	EURO 31,811,000.00	Production, sale, research and development of various types of internal combustion engines, processing of various types of general machinery; generally all financial, commercial, industrial, moveable or immovable operations directly or indirectly related to the above operation or other similar or relevant operations, which are directly or indirectly beneficial to the pursue of goal, expansion or development of the Company	N/A
(55) DIESEL MARIN MAROC	limited liability company	Morocco	Bresulier Marc	Manufacturing Industry	MAD1,000,000.00	Production and trading of diesel engines	N/A
(56) WEICHAI SINGAPOREPTE. LTD *(Note 10)*	limited liability company	Singapore	Zhang Gengsheng	Service Industry	SGD100.00	General agency for import and export	N/A
(57) WEICHAI POWER MAT AUTOMATIVE, INC.	limited liability company	United States	Tan Xuguang	Import sale	USD7,131,250.00	Import sale of consumables and automobile components	N/A
(58) 林德液壓合夥企業 (KG)	partnership	Germany	Jörg Ulrich Steffen Appel Thorsten van der Tuuk	Manufacturing Industry	EUR100,000.00	Production of hydraulic pumps, hydraulic motors, hydraulic valves, gears and others, as well as other components	N/A

	Effective capital contribution at the end of year	Percentage of shareholding Direct (%)	Indirect (%)	Percentage of voting rights (%)	Whether statements are consolidated	Number of minority interests
Subsidiaries acquired through establishment or investment						
(1) Weichai Power (Weifang) Spare Part Resources Co., Ltd.	89,795,918.00	100.00	–	100.00	Yes	–
(2) Weichai Power (Weifang) Oil Co., Ltd.	10,000,000.00	100.00	–	100.00	Yes	–
(3) Weichai Power (Weifang) Intensive Logistics Co., Ltd.	10,400,000.00	52.00	–	52.00	Yes	23,960,563.22
(4) Weichai Power (Weifang) Casting Co., Ltd.	460,150,000.00	100.00	–	100.00	Yes	–
(5) Weichai Power (Weifang) Reconstruction Co., Ltd.	122,000,000.00	100.00	–	100.00	Yes	–
(6) Shandong Synergy Oil Co., Ltd.	USD1,530,000.00	46.00	5.00	51.00	Yes	43,179,331.34
(7) Weichai Power (Qingzhou) Drive Control Technology Co., Ltd	150,000,000.00	100.00	–	100.00	Yes	–

	Effective capital contribution at the end of year	Percentage of shareholding Direct (%)	Percentage of shareholding Indirect (%)	Percentage of voting rights (%)	Whether statements are consolidated	Number of minority interests
(8) Baoding Shanqi Tianma Co., Ltd. *(Note 9)*	–	–	–	–	Until date of disposal	–
(9) Shaanxi Automobile Xinjiang Vehicle Co., Ltd. *(Note 1)*	123,380,000.00	–	63.37	63.37	Yes	62,909,527.32
(10) Shaanxi Automobile Datong Special-Purpose Vehicle Co., Ltd. *(Note 10)*	33,825,000.00	–	51.00	51.00	Yes	26,512,615.83
(11) Shannxi Automobile Huainan Special-Purpose Vehicle Co., Ltd. *(Note 2) (Note 10)*	65,601,095.00	–	58.66	58.66	Yes	42,725,443.73
(12) 重慶陝汽嘉川汽車有限公司	20,655,000.00	–	100.00	100.00	Yes	–
(13) 陝西重型汽車進出口有限公司迪拜公司	USD272,500.00	–	100.00	100.00	Yes	–
(14) Shaanxi Wuhai Special Vehicles Co., Ltd. *(Note 3) (Note 10)*	88,000,000.00	–	38.60	62.72	Yes	115,861,687.52
(15) Weichai Power (Shanghai) Technology Development Co., Ltd.	500,000,000.00	100.00	–	100.00	Yes	–
(16) Weichai Power Yangzhou Diesel Engine Co., Ltd.	240,000,000.00	–	80.00	80.00	Yes	98,564,205.37
(17) Weichai Power (Chongqing) Western Development Co., Ltd.	240,000,000.00	100.00	–	100.00	Yes	–
(18) Chongqing Light-duty-Automotive Co., Ltd.	153,000,000.00	–	51.00	51.00	Yes	(2,945,031.54)
(19) Weichai Power (Beijing) International Resource Investment Co., Ltd.	300,000,000.00	100.00	–	100.00	Yes	–
(20) Weichai Power (Hong Kong) International Development Co., Ltd.	USD57,840,000.00	100.00	–	100.00	Yes	–
(21) 濰柴俄羅斯有限責任公司 *(Note 7)*	USD750,200.00	–	100.00	100.00	Yes	–
(22) 山東重工印度有限責任公司 *(Note 7)*	USD3,500,000.00	–	70.00	70.00	Yes	2,021,222.45
(23) Weichai Power (Luxembourg) Holding S.à r.l. *(Note 7)*	EUR100,000.00	–	100.00	100.00	Yes	–
(24) 林德液壓普通合夥企業 (GP) *(Note 7)*	EUR25,000.00	–	70.00	70.00	Yes	(813,461.28)
(25) Linde Hydraulics GmbH & Co. KG (LP) *(Note 7)*	EUR25,000.00	–	100.00	100.00	Yes	–

	Effective capital contribution at the end of year	Percentage of shareholding Direct (%)	Indirect (%)	Percentage of voting rights (%)	Whether statements are consolidated	Number of minority interests
Subsidiaries acquired through business combination not involving entities under common control						
(26) Shandong Huadong Casting Co., Ltd.	450,150,000.00	–	100.00	100.00	Yes	–
(27) Shaanxi Heavy-duty Motor Company Limited	1,380,330,000.00	51.00	–	51.00	Yes	1,824,376,883.99
(28) Shaanxi Hande Axle Co., Ltd.	310,592,000.00	3.06	94.00	97.06	Yes	21,602,486.96
(29) Shaanxi Jinding Casting Co., Ltd.	35,360,000.00	–	100.00	100.00	Yes	37.12
(30) Tianjin Tiangua Automotive Co., Ltd.	6,000,000.00	–	51.00	51.00	Yes	(24,398,322.43)
(31) Tianjin Xinming Automotive Commercial Co., Ltd.	1,000,000.00	–	51.00	51.00	Yes	–
(32) Shaanxi Heavy Duty Automotive Import & Export Co., Ltd.	10,000,000.00	–	100.00	100.00	Yes	–
(33) Shaanxi Automobile Yulin Eastern Special-Purpose Vehicle Co., Ltd. *(Note 10)*	85,680,000.00	–	51.00	51.00	Yes	58,220,083.99
(34) Shaanxi Fast Gear Co., Ltd.	130,960,000.00	51.00	–	51.00	Yes	3,514,057,598.27
(35) Baoji Fast Gear Co., Ltd.	29,265,000.00	2.55	95.00	97.55	Yes	44,895,653.14
(36) Xi'an Fast Auto Drive Co., Ltd.	134,700,000.00	–	100.00	100.00	Yes	6,248,917.29
(37) Xi'an Fast Gear Sales Co., Ltd.	1,000,000.00	–	100.00	100.00	Yes	247,159.33
(38) Shaanxi Fast Gear Spare Parts Import & Export Co., Ltd.	3,000,000.00	–	100.00	100.00	Yes	–
(39) Zhuzhou Gear Co., Ltd.	467,102,295.92	87.91	–	87.91	Yes	66,444,983.78
(40) Zhuzhou Wande Forging Co., Ltd.	5,000,000.00	–	100.00	100.00	Yes	–
(41) Zhuzhou Euro Grace Gear Automotive Transmission Co., Ltd.	145,000,000.00	–	95.14	95.14	Yes	7,897,120.05
(42) Dongfeng Off-road Vehicle Co., Ltd. *(Note 4)*	–	–	–	–	Until date of disposal	–
(43) Shiyan Amor Coating Technology Co., Ltd. *(Note 4)*	–	–	–	–	Until date of disposal	–
(44) Zhuzhou Torch Sparkplugs Co., Ltd.	216,420,000.00	100.00	–	100.00	Yes	–
(45) Torch Import & Export Co., Ltd.	30,000,000.00	100.00	–	100.00	Yes	–
(46) Zhuzhou Torch Machinery Manufacturing Co., Ltd.	142,262,500.00	100.00	–	100.00	Yes	–

	Effective capital contribution at the end of year	Percentage of shareholding Direct (%)	Percentage of shareholding Indirect (%)	Percentage of voting rights (%)	Whether statements are consolidated	Number of minority interests
(47) Zhuzhou Torch Property Development Co., Ltd. *(Note 4)*	–	–	–	–	Until date of disposal	–
(48) Zhuzhou Torch Auto Sealing Co., Ltd. *(Note 5)*	–	–	–	–	N/A	–
(49) Zhuzhou Torch Auto Lighting Co., Ltd.	46,000,000.00	100.00	–	100.00	Yes	–
(50) Mudanjiang Futong Automotive Air Conditioner Co., Ltd. *(Note 4)*	–	–	–	–	Until date of disposal	–
(51) Xinjiang Machinery Equipment Import & Export Co., Ltd.	20,000,000.00	100.00	–	100.00	Yes	–
(52) Shanghai He Da Auto Accessory Co., Ltd.	USD3,186,150.00	75.00	–	75.00	Yes	34,296,946.84
(53) Chongqing Jialing Chuanjiang Vehicles Manufacturing Co., Ltd. *(Note 6)*	80,000,000.00	20.00	80.00	100.00	Yes	–
(54) Siciété International des Moteurs Baudouin	EUR31,811,000.00	–	100.00	100.00	Yes	–
(55) DIESEL MARIN MAROC	MAD1,000,000.00	–	100.00	100.00	Yes	–
(56) WEICHAI-BAUDOUIN (S) PTE. LTD *(Note 10)*	SGD100.00	–	100.00	100.00	Yes	–
(57) WEICHAI POWER MAT AUTOMATIVE, INC.	USD7,131,250.00	100.00	–	100.00	Yes	–
(58) 林德液壓合夥企業 (KG) *(Note 8)*	EUR270,957,500.00	–	70.00	70.00	Yes	520,072,611.25

Note 1: Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, acquired 12.37% minority interest equity from this subsidiary and the percentage of shareholding increased to 63.37%.

Note 2: Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, acquired 7.5% minority interest equity from this subsidiary and the percentage of shareholding increased to 58.66%.

Note 3: On 16 March 2012, Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, acquired 24.12% minority interest voting rights in Shaanxi Wuhai Special Vehicles Co., Ltd. via a management and control agency agreement, representing an aggregate percentage of voting power of 62.72% with effective control over the company. The Company included Shaanxi Wuhai Special Vehicles Co., Ltd. as part of consolidation on 1 April 2012.

Note 4: These subsidiaries were disposed in 2012, details of which are set out in Notes IV.5.

Note 5: This subsidiary was acquired by Zhuzhou Torch Sparkplugs Co., Ltd., a subsidiary within the Group, by way of absorption in 2012.

Note 6: The Company acquired 20% minority interest equity from this subsidiary in 2012 and the percentage of shareholding increased to 100%.

Note 7: These subsidiaries were newly established and were included as part of consolidation in 2012.

Note 8: These subsidiaries were acquired by way of business combinations not involving entities under common control, details of which are set out in Note IV. 4.

Note 9: Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company disposed 31% of equity interests in such subsidiary on 1 December 2012, and the percentage of shareholding decreased to 20%. The subsidiary is no longer included as part of consolidation since 1 December 2012, details of investment in relation to this company are set out in Note V. 12.

Note 10: Shaanxi Automobile Datong Special-Purpose Vehicle Co., Ltd. (陝汽大同專用汽車有限公司) was renamed in 2012, its original name was Shaanxi Automobile Datong New Energy Special-Purpose Vehicle Co., Ltd. (陝汽大同新能源專用汽車有限公司); Shaanxi Automobile Huainan Special-Purpose Vehicle Co., Ltd. (陝汽淮南專用汽車有限公司) was renamed in 2012, its original name was Shaanxi Automobile Huainan New Energy Special-Purpose Vehicle Co., Ltd. (陝汽淮南新能源專用汽車有限公司); Shaanxi Wuhai Special Vehicles Co., Ltd. (陝汽烏海專用汽車有限公司) was renamed in 2012, its original name was Shaanxi Wuhai New Power Special Vehicles Co., Ltd. (陝汽烏海新能源專用汽車有限公司); Shaanxi Automobile Yulin Eastern Special-Purpose Vehicle Co., Ltd. (陝汽榆林東方專用汽車有限公司) was renamed in 2012, its original name was Shaanxi Automobile Yulin Eastern New Energy Special-Purpose Vehicle Co., Ltd. (陝汽榆林東方新能源專用汽車有限公司); WEICHAI SINGAPORE PTE. LTD. was renamed in 2012, its original name was WEICHAI-BAUDOUIN(S) PTE. LTD.

Changes in registered capital of the subsidiaries from January to December 2012 are detailed as follows:

	31 December 2011	Increase in the current period	Decrease in the current period	31 December 2012
Zhuzhou Torch Sparkplugs Co., Ltd.	196,000,000.00	20,420,000.00	–	216,420,000.00
WEICHAI POWER MAT AUTOMATIVE, INC.	1,086,461.25	44,387,000.00	–	45,473,461.25
Weichai Power (Hong Kong) International Development	181,522,784.00	197,227,354.28	–	378,750,138.28
Weichai Power (Qingzhou) Drive Control Technology Co., Ltd.	100,000,000.00	50,000,000.00	–	150,000,000.00
Siciété International des Moteurs Baudouin	190,063,369.94	83,399,872.48	–	273,463,242.42

Changes in paid-in capital of the subsidiaries from January to December 2012 are detailed as follows:

	31 December 2011	Increase in the current period	Decrease in the current period	31 December 2012
Shaanxi Automobile Xinjiang Vehicle Co., Ltd	88,350,000.00	106,350,000.00	–	194,700,000.00
Shannxi Automobile Huainan Special-Purpose Vehicle Co., Ltd.	56,094,110.00	55,905,890.00	–	112,000,000.00
Zhuzhou Torch Sparkplugs Co., Ltd	196,000,000.00	20,420,000.00	–	216,420,000.00
WEICHAI POWER MAT AUTOMATIVE, INC.	1,086,461.25	44,387,000.00	–	45,473,461.25
Weichai Power (Hong Kong) International Development Co., Ltd.	181,522,784.00	197,227,354.28	–	378,750,138.28
Weichai Power (Qingzhou) Drive Control Technology Co., Ltd.	100,000,000.00	50,000,000.00	–	150,000,000.00
Shaanxi Wuhai Special Vehicles Co., Ltd.	77,000,000.00	151,000,000.00	–	228,000,000.00
Siciété International des Moteurs Baudouin	190,063,369.94	83,399,872.48	–	273,463,242.42

2. Change of scope of consolidation

Other than as described in Items 3 and 4 under Note IV, the scope of the consolidated financial statements is in line with that in the previous year.

3. Entities newly consolidated and entities not to be consolidated in the current year

From January to December 2012, subsidiaries newly consolidated are as follows:

Names of subsidiaries newly included as part of consolidation		Time of newly inclusion as part of consolidation	Net assets/ (liabilities) as at 31 December 2011	Net loss from date of consolidation to end of the period
Shaanxi Wuhai Special Vehicles Co., Ltd	*(1)*	1 April 2012	185,678,800.52	29,780,580.65
潍柴俄羅斯有限責任公司	*(2)*	19 December 2012	4,715,382.10	–
山東重工印度有限責任公司	*(3)*	7 August 2012	21,183,545.34	1,531,586.76
Weichai Power (Luxembourg) Holding S.à r.l.	*(4)*	19 November 2012	(852,537.03)	1,668,522.44
Linde Hydraulics GmbH & Co. KG (LP)	*(5)*	27 December 2012	2,253,924,042.00	–
林德液壓普通合夥企業 (GP)	*(6)*	27 December 2012	(2,711,537.60)	–
林德液壓合夥企業 (KG)	*(7)*	27 December 2012	1,733,575,370.77	–

(1) On 16 March 2012, Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, acquired 24.12% minority interest voting rights in Shaanxi Wuhai Special Vehicles Co., Ltd. via a management and control agency agreement, representing an aggregate percentage of voting power of 62.72% with effective control over the company. The Company included Shaanxi Wuhai Special Vehicles Co., Ltd. as part of consolidation on 1 April 2012.

(2) 潍柴俄羅斯有限責任公司 was established on 19 December 2012 with a registered capital of USD1,500,000.00. As of 31 December 2012, Weichai Power (Hong Kong) International Development Co., Ltd., a subsidiary of the Company, suscribed for registered capital of USD750,200.00, representing 100%.

(3) 山東重工印度有限責任公司 was established on 7 August 2012 with a registered capital of USD5,000,000.00. Weichai Power (Hong Kong) International Development Co., Ltd., a subsidiary of the Company, suscribed for registered capital of USD3,500,000.00, representing 70%.

(4) Weichai Power (Luxembourg) Holding S.à r.l. was established on 19 November 2012 with a registered capital of EUR100,000.00. Weichai Power (Hong Kong) International Development Co., Ltd., a subsidiary of the Company, suscribed for registered capital of EUR100,000.00, representing 100%.

(5) Linde Hydraulics GmbH & Co. KG (LP) was established on 27 December 2012 with a registered capital of EUR25,000.00. Weichai Power (Luxembourg) Holding S.à r.l., a subsidiary of the Company, suscribed for registered capital of EUR25,000.00, representing 100%.

(6) 林德液壓普通合夥企業(GP) was established on 27 December 2012 with a registered capital of EUR25,000.00. Weichai Power (Luxembourg) Holding S.à r.l., a subsidiary of the Company, suscribed for registered capital of EUR17,500.00, representing 70%.

(7) On 27 December 2012, Weichai Power (Luxembourg) Holding S.à r.l., a subsidiary of the Company, acquired 70% of equity interests in 林德液壓合夥企業(KG) by way of business combinations not involving entities under common control at a consideration of RMB2,118,709,042.81. 27 December 2012 is considered the date of purchase. The Company included LHY Co. as part of consolidation on the date of purchase, details of which are set out in Notes IV.4.

From January to December 2012, subsidiaries not to be consolidated are as follows:

Name of subsidiaries not to be consolidated	**Net assets at the date of disposal**	**Net gains/(losses) from the beginning of the year to the date of disposal**
Zhuzhou Torch Property Development Co., Ltd.	10,708,315.32	(51,028.69)
Mudanjiang Futong Automotive Air Conditioner Co., Ltd	310,679,760.46	–
Dongfeng Off-road Vehicle Co., Ltd. and Shiyan Amor Coating Technology Co., Ltd. (its subsidiary)	214,896,602.27	43,572,658.57
Baoding Shanqi Tianma Co., Ltd.	7,000,999.92	(13,540,007.57)

4. Business combinations not involving entities under common control during the year

	Amount of goodwill	**Calculation of goodwill**
林德液壓合夥企業 (KG)	905,206,283.29	Purchase method

Weichai Power (Luxembourg) Holding S.à r.l. ("Weichai Luxembourg"), a subsidiary of the Company, entered into the framework agreement and the amendment agreement to the framework agreement with KION Holding 1 GmbH ("KION"), KION Group GmbH ("KION Group"), Linde Material Handling GmbH ("LMH") and shareholders of KION (namely Superlift

Holding S.àr.l. ("Superlift") and Kion Management Beteiligungs GmbH & Co. KG ("KMB")) on 31 August 2012 and 20 December 2012, respectively.

The agreements has stipulated call arrangement in relation to the investment and acquisition of the 70% interests of LHY Co, including:

– Weichai Linde Hydraulics call option 1: Weichai Luxembourg may purchase from LMH 20% of interests in LHY Co held by it, so that Weichai Luxembourg's interests in LHY Co would increase to 90%.

– Weichai Linde Hydraulics call option 2: Weichai Luxembourg may purchase from LMH 10% interests in LHY Co held by it, so that Weichai Luxembourg's interests in LHY Co would increase to 100%.

– LMH Linde Hydraulics put option 1: LMH may acquire 30% of interests in LHY Co held by LMH during the period from the completion of this transaction and before the listing of KION.

  Pursuant to the KION shareholders' agreement entered into upon the completion of transaction on 27 December 2012, Weichai Luxembourg have to right to oppose the exercise of such options on KION's part.

– LMH Linde Hydraulics put option 2: LMH may require Weichai Luxembourg to acquire 20% of interests in LHY Co held by LMH.

On 27 December 2012, the Company paid RMB2,253,716,102.00 in cash and assumed liability of RMB2,043,634.32 pursuant to the agreements to acquire call options with fair value of RMB137,050,693.51 and 70% interests of LHY Co. The purchase price of the 70% interests in LHY Co. was RMB2,118,709,042.81. The fair value and carrying amount of identifiable assets and liabilities of LHY Co. at the acquisition date are presented as follows:

	27 December 2012 Fair value	**27 December 2012 Carrying amount**
Cash and cash equivalents	43,752,073.17	43,752,073.17
Interests receivable	14,398,431.01	14,398,431.01
Accounts receivable	44,051,423.59	44,051,423.59
Inventories	512,414,564.66	512,414,564.66
Fixed assets	775,600,313.38	775,600,313.38
Intangible assets	791,929,009.82	791,929,009.82
Development expenditure	423,790,203.95	423,790,203.95
Deferred tax assets	103,131,554.81	103,131,554.81
Accounts Payable	(29,373,770.75)	(29,373,770.75)
Advances from customers	(844,569.10)	(844,569.10)
Taxes payables	(5,058,847.50)	(5,058,847.50)
Interests payable	(16,635.20)	(16,635.20)
Non-current liabilities due within one year	(12,604,906.92)	(12,604,906.92)
Other current liabilities	(52,078,238.33)	(52,078,238.33)
Long-term borrowings	(6,238,200.00)	(6,238,200.00)
Other non-current liabilities	(755,024,818.70)	(755,024,818.70)
Deferred tax liabilities	(114,252,217.12)	(114,252,217.12)
Net assets	1,733,575,370.77	1,733,575,370.77

	27 December 2012 Fair value	27 December 2012 Carrying amount
Minority interests	(520,072,611.25)	
Sub-total	1,213,502,759.52	
Goodwill arising from acquisition	905,206,283.29	
Total consideration	2,118,709,042.81	

5. Loss of subsidiaries due to loss of controlling equity interests during the year

	Date of disposal	Methods of recognition in profit or loss
Zhuzhou Torch Property Development Co., Ltd.	29 February 2012	(1)
Mudanjiang Futong Automotive Air Conditioner Co., Ltd.	1 January 2012	(2)
Dongfeng Off-road Vehicle Co., Ltd. and Shiyan Amor Coating Technology Co., Ltd. (its subsidiary)	28 August 2012	(3)
Baoding Shanqi Tianma Co., Ltd.	1 December 2012	(4)

	Place of incorporation	Nature of business	Total percentage of shareholding of the Group before the disposal	Total percentage of voting rights enjoyed by the Group before the disposal	Reason for no longer being a subsidiary
Zhuzhou Torch Property Development Co., Ltd.	Hunan	Real estate	100%	100%	Disposed
Mudanjiang Futong Automotive Air Conditioner Co., Ltd.	Heilongjiang	Manufacturing Industry	59.84%	59.84%	Disposed
Dongfeng Off-road Vehicle Co., Ltd.	Hubei	Manufacturing Industry	60%	60%	Disposed
Shiyan Amor Coating Technology Co., Ltd.	Hubei	Manufacturing Industry	60%	60%	Disposed
Baoding Shanqi Tianma Co., Ltd.	Hebei	Manufacturing Industry	51%	51%	Disposed

(1) Zhuzhou Torch Property Development Co., Ltd.

The Company, Torch Import & Export Co., Ltd ("Torch Import and Export"), a subsidiary of the Company entered into an equity transfer agreement with 株洲市建鋒房地產開發有限公司 ("建鋒房地產") and Zhao Ying on 29 December 2011, for the purpose of disposal of 94.66% and 5.34% equity interests in Zhuzhou Torch Property Development Co., Ltd. ("Torch Property") held by the Company and Torch Import and Export, respectively, at a consideration of RMB15,000,000.00. The date of disposal was 29 February 2012. Therefore, since 29 February 2012, the Group no longer included Torch Property in its scope of consolidation. The relevant financial information of Torch Property is as follows:

	29 February 2012 Carrying Value	**31 December 2011 Carrying Value**
Current assets	10,888,944.04	11,656,518.70
Non-current assets	908,053.27	917,063.65
Current liabilities	(1,088,681.99)	(1,814,238.34)
Non-current liabilities	–	–
	10,708,315.32	10,759,344.01
Removal from capital reserve due to disposal of subsidiaries	(43,434.78)	
Gains or losses on disposal	4,335,119.46	
Consideration of disposal	15,000,000.00	

	During the period from 1 January to 29 February 2012
Revenue	31,370.00
Cost of sales	7,950.85
Net losses	(51,028.69)

(2) Mudanjiang Futong Automotive Air Conditioner Co., Ltd

The Company entered into an equity transfer agreement with Mudanjiang Huatong Vehicle Component Co., Ltd ("Huatong Vehicle"), for the purpose of disposal of the Company's 59.84% equity interests in Mudanjiang Futong Automotive Air Conditioner Co., Ltd ("Futong Air Conditioner") held by it at a consideration of RMB220,220,500.00. The date of disposal was 1 January 2012. Since 1 January 2012, the Group no longer included Futong Air Conditioner in its scope of consolidation. The relevant financial information of Futong Air Conditioner is as follows:

	1 January 2012 Carrying Value	**31 December 2011 Carrying Value**
Current assets	403,516,458.04	403,516,458.04
Non-current assets	75,030,335.02	75,030,335.02
Current liabilities	(132,734,786.60)	(132,734,786.60)
Non-current liabilities	(35,132,246.00)	(35,132,246.00)
	310,679,760.46	310,679,760.46
Less: Minority interests	124,768,991.80	124,768,938.22
Sub-total	185,910,768.66	185,910,822.24
Removal from capital reserve due to the disposal	(5,534,095.78)	
Gains or losses on disposal	39,843,827.12	
Consideration of disposal	220,220,500.00	

(3) Dongfeng Off-road Vehicle Co., Ltd. and Shiyan Amor Coating Technology Co., Ltd. (its subsidiary)

The Company entered into an equity transfer agreement with Dongfeng Motor Group Company Limited on 11 May 2012 to dispose of 60.00% equity interests held by the Company in Dongfeng Off-road Vehicle Co., Ltd. and Shiyan Amor Coating Technology Co., Ltd., (its subsidiary, "Dongfeng Off-road") at a consideration of RMB270,000,000.00. 28 August 2012 is considered the date of disposal. The Company no longer included Dongfeng Off-road as part of consolidation since 28 August 2012. Relevant financial information of Dongfeng Off-road is presented as follows:

	28 August 2012 Carrying amount	**31 December 2011 Carrying amount**
Current assets	503,569,138.83	512,345,828.81
Non-current assets	49,169,735.50	54,239,934.37
Current liabilities	(337,814,772.06)	(395,234,319.48)
Non-current liabilities	–	–
	214,924,102.27	171,351,443.70
Less: Minority interests	85,969,640.91	68,540,577.48
Sub-total	128,954,461.36	102,810,866.22
Gains or losses on disposal	141,045,538.64	
Consideration of disposal	270,000,000.00	

	For the period from 1 January to 28 August 2012
Revenue	404,550,152.93
Cost of sales	314,489,307.57
Net profit	43,572,658.57

(4) Baoding Shanqi Tianma Co., Ltd.

Shaanxi Heavy-duty Motor Company Limited ("Shaanxi Zhongqi"), a subsidiary of the Company, entered into an equity transfer agreement with Tianma Automobile Group Heavy Industry Co., Ltd. (天馬汽車集團重工有限公司) on 26 December 2012 to dispose of 31.00% equity interests held by the Shaanxi Zhongqi in Baoding Shanqi Tianma Co., Ltd. ("Baoding Tianma") at a consideration of RMB3,811,700.00. 1 December 2012 is considered the date of disposal. Upon completion of the transfer, Shaanxi Zhongqi held 20% of equity interests in Baoding Tianma. As such, the Group no longer included Baoding Tianma as part of consolidation since 1 December 2012. Relevant financial information of Baoding Tianma is presented as follows:

	30 November 2012 Carrying amount	**31 December 2011 Carrying amount**
Current assets	26,670,595.85	101,599,518.04
Non-current assets	25,976,493.63	30,114,973.92
Current liabilities	(45,646,089.56)	(111,173,484.47)
Non-current liabilities	–	–
	7,000,999.92	20,541,007.49
Less: The portion of 49% minority interests	3,430,489.96	
Less: Fair value of the remaining equity interests	1,400,199.99	
Removal from capital reserve due to disposal of subsidiaries	(98,076.27)	
Gains or losses on disposal	1,739,466.30	
Consideration of disposal	3,811,700.00	

	For the period from 1 January to 30 November 2012
Revenue	23,666,492.71
Cost of sales	27,465,196.29
Net losses	(13,540,007.57)

6. The exchange rate for translating items of key statements for the foreign operating entities of the Group

	Average exchange rate		**Exchange rate at year-end**	
	2012	**2011**	**2012**	**2011**
USD	6.2932	6.4618	6.2855	6.3009
EUR	8.2401	8.4845	8.3176	8.1625
HKD	0.8108	0.8308	0.8108	0.8107
India Rupee	0.1163	N/A	0.1139	N/A
Russian Ruble	0.2013	N/A	0.2061	N/A

V. NOTES TO KEY ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and cash equivalents

	31 December 2012			31 December 2011		
	Original currency	Exchange Rate	RMB equivalent	Original currency	Exchange Rate	RMB equivalent
Cash						
– RMB	2,228,496.21	1.0000	2,228,496.21	877,902.08	1.0000	877,902.08
– USD	4,313.86	6.2855	27,114.77	32,101.25	6.3009	202,266.76
– JPY	2,023.29	0.0730	147.70	1,821.17	0.0811	147.70
– HKD	121,875.70	0.8108	98,816.82	7,834.80	0.8107	6,351.67
– EUR	155.36	8.3176	1,292.22	157.08	8.1625	1,282.14
			2,355,867.72			1,087,950.35
Bank deposits						
– RMB	12,892,858,074.20	1.0000	12,892,858,074.20	12,995,058,041.01	1.0000	12,995,058,041.01
– USD	135,581,088.78	6.2855	852,194,933.53	47,950,000.66	6.3009	302,128,159.13
– JPY	220.27	0.0730	16.08	5.99	0.0811	0.49
– HKD	2,407,814.74	0.8108	1,952,256.19	208,126.36	0.8107	168,728.04
– EUR	38,565,580.25	8.3176	320,773,070.29	1,612,128.54	8.1625	13,158,999.18
– India Rupee	175,290,361.90	0.1139	19,965,572.22			–
– Russian Ruble	22,879,098.01	0.2061	4,715,382.10			–
			14,092,459,304.61			13,310,513,927.85
Other cash and cash equivalents						
– RMB	2,629,378,415.76	1.0000	2,629,378,415.76	3,301,132,585.89	1.0000	3,301,132,585.89
– USD	441,078.53	6.2855	2,772,399.10	79.10	6.3009	498.43
– EUR	493.99	8.3176	4,108.81	713.26	8.1625	5,821.96
			2,632,154,923.67			3,301,138,906.28
			16,726,970,096.00			16,612,740,784.48

The other cash and cash equivalent of the Group amounted to RMB2,627,818,742.78 (31 December 2011: RMB3,295,380,588.94), all of which are used in letter of guarantee and security monies for special accounts such as bank acceptance bills and letter of credit.

As at 31 December 2012, the Group held cash and cash equivalents of RMB1,078,776,001.21 (31 December 2011: RMB202,557,620.67), which were deposited overseas.

Interest income earned on current deposits is calculated by using current deposit interest rate of the bank. The deposit periods for time deposits vary from three months to one year depending on the cash requirements of the Group, and earn interest income at respective time deposit interest rates of the bank.

2. Financial assets held for trading

	31 December 2012	31 December 2011
Derivative financial assets	137,050,693.51	–

Derivative financial assets represent the call options of minority interests obtained in the process of its investment in the 70% interests in LHY Co. Such options were measured at the fair value on 31 December 2012. Details of the option arrangement are set out in Note IV. 4.

3. Notes receivable

	31 December 2012	31 December 2011
Bank acceptance bills	9,218,491,108.06	9,537,263,772.66
Commercial acceptance bills	23,741,034.33	14,087,000.00
	9,242,232,142.39	9,551,350,772.66

As at 31 December 2012, top 5 notes receivable that were pledged are presented as follows:

Issuer	Issuing date	Expiry date	Amount	Issued by
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2012/9/17	2013/3/17	20,000,000.00	Industrial Bank
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2012/9/17	2012/3/17	20,000,000.00	Industrial Bank
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2012/7/17	2013/1/17	10,000,000.00	China Construction Bank
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2012/7/17	2013/1/17	10,000,000.00	China Construction Bank
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2012/7/17	2013/1/17	10,000,000.00	China Construction Bank
			70,000,000.00	

As at 31 December 2011, top 5 notes receivable that were pledged are presented as follows:

Issuer	Issuing date	Expiry date	Amount	Issued by
Faw Jiefang Auto Sales Services Co., Ltd.	2011/10/14	2012/4/14	42,850,000.00	China Minsheng Bank
Faw Africa Investment Co., Ltd.	2011/8/22	2012/2/22	24,530,103.00	Bank of China
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2011/7/18	2012/1/18	10,000,000.00	China Merchants Bank
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2011/7/18	2012/1/18	10,000,000.00	China Construction Bank
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	2011/7/18	2012/1/18	10,000,000.00	China Construction Bank
			97,380,103.00	

As at 31 December 2012 and 31 December 2011, the Group has not transferred any notes into accounts receivable due to issuers' failure in performance.

The top 5 notes receivable outstanding as at 31 December 2011 that had been endorsed to other parties are presented as follows:

Issuer	Issuing date	Expiry date	Amount
中聯重科股份有限公司	8/27/2012	2/21/2013	20,000,000.00
中聯重科股份有限公司	8/27/2012	2/21/2013	20,000,000.00
鄭州宇通重工有限公司	12/27/2012	6/26/2013	13,444,365.00
河北眾凱汽車貿易有限公司	9/28/2012	3/28/2013	13,000,000.00
中聯重科股份有限公司	7/26/2012	1/26/2013	10,000,000.00
			76,444,365.00

The top 5 notes receivable outstanding as at 31 December 2011 that had been endorsed to other parties are presented as follows:

Issuer	Issuing date	Expiry date	Amount
Handan City Pang Da Jiefang Auto Sales Services Co., Ltd	10/14/2011	4/14/2012	42,850,000.00
Faw Africa Investment Co., Ltd	8/1/2011	2/1/2012	39,796,491.42
Faw Jiefang Qingdao Automotive Co., Ltd	8/22/2011	2/22/2012	33,719,830.26
Shanghai Longgong Machinery Company Limited	8/30/2011	2/29/2012	28,350,000.00
Pang Da Automobile Trade Group Changzhi Automobile Sales Services Co., Ltd	10/31/2011	4/30/2012	27,000,000.00
			171,716,321.68

As at 31 December 2012, notes receivable amounting to RMB294,400,473.38 (31 December 2011: RMB772,759,667.65) was pledged to banks for issuance of bank acceptance bills, and notes receivable amounting to RMB92,280,926.01 (2011: nil) was pledged for short-term loans.

4. Accounts receivable

The Group trades with its customers primarily on credit terms, and generally requires payment in advance or cash on delivery for new customers. Credit period is generally one month, extending up to six months for major customers. Accounts receivable is non-interest bearing.

An aging analysis of accounts receivable based on invoice dates is presented as follows:

	31 December 2012	31 December 2011
Within 3 months	2,876,869,314.13	3,340,541,665.83
3 months to 6 months	453,279,212.41	561,200,249.38
6 months to 1 year	534,382,562.75	772,279,665.14
1 to 2 years	359,823,287.48	351,849,915.70
2 to 3 years	251,164,319.41	290,295,211.06
Over 3 years	364,675,665.77	133,022,646.07
	4,840,194,361.95	5,449,189,353.18
Less: Provision for bad debt in respect of accounts receivable	671,668,964.81	711,679,522.34
	4,168,525,397.14	4,737,509,830.84

Changes in provision for bad debts in respect of accounts receivable are presented as follows:

	31 December 2012	**31 December 2011**
Opening balance	711,679,522.34	780,731,652.28
Provision for the year	34,509,963.52	41,936,260.13
Increase in scope of consolidation	202,512.08	–
Decrease during the period/year:		
Reversal	(44,343,652.97)	(102,632,355.59)
Write-off	(10,794,080.00)	(8,356,034.48)
Disposal of subsidiaries	(19,585,300.16)	–
Closing balance	671,668,964.81	711,679,522.34

	31 December 2012			
	Gross carrying amount	**Proportion** *(%)*	**Provision for bad debt**	**Percentage** *(%)*
Individually significant items for which provision for bad debt is recognized separately	911,583,071.67	18.83	323,077,870.81	35.44
Items for which provision for bad debt is recognized by group	3,716,373,644.35	76.78	267,913,983.54	7.21
Not individually significant items for which provision for bad debt is recognized separately	212,237,645.93	4.38	80,677,110.46	38.01
	4,840,194,361.95	100.00	671,668,964.81	

	31 December 2011			
	Gross carrying amount	Proportion (%)	Provision for bad debt	Percentage (%)
Individually significant items for which provision for bad debt is recognized separately	502,876,031.87	9.23	318,517,284.15	63.34
Items for which provision for bad debt is recognized by group	4,839,326,909.81	88.81	322,955,442.91	6.67
Not individually significant items for which provision for bad debt is recognized separately	106,986,411.50	1.96	70,206,795.28	65.62
	5,449,189,353.18	100.00	711,679,522.34	

Items for which provision for bad debt is recognized by group are presented as follows:

	31 December 2012				31 December 2011			
	Gross carrying amount	Proportion (%)	Provision for bad debt	Percentage (%)	Gross carrying amount	Proportion (%)	Provision for bad debt	Percentage (%)
Within 1 year	3,288,601,793.34	88.49	126,176,583.18	3.84	4,572,217,468.44	94.48	211,294,936.28	4.62
1 to 2 years	268,350,030.16	7.23	34,021,313.10	12.68	123,459,992.41	2.55	15,462,647.78	12.53
2 to 3 years	48,804,662.16	1.31	14,261,982.58	29.22	42,536,151.15	0.88	12,726,554.70	29.92
3 to 4 years	26,045,630.58	0.70	13,042,669.89	50.08	28,975,100.03	0.60	14,659,978.10	50.60
4 to 5 years	20,840,216.64	0.56	16,680,123.32	80.04	16,634,358.32	0.34	13,307,486.65	80.00
Over 5 years	63,731,311.47	1.71	63,731,311.47	100.00	55,503,839.46	1.15	55,503,839.40	100.00
	3,716,373,644.35	100.00	267,913,983.54		4,839,326,909.81	100.00	322,955,442.91	

In 2012, the reversal or recovery of significant accounts receivables are presented as follows:

	Reason for reversal or recovery	The basis for determination of provision for original bad debts	Amount of accumulated provision for bad debts made before the reversal or recovery	Amount reversed or recovered
Shaanxi Rong Chang Yuan Trading Co., Ltd	Partial or wholly recovery	Estimated recoverable amount	41,447,542.08	6,524,888.75
Shanxi Tong Tai Automobile Shaanxi Sales Services Co., Ltd	Partial or wholly recovery	Estimated recoverable amount	56,634,426.00	5,400,000.00
Datong City Yi Fu Commercial and Trading Co., Ltd	Partial or wholly recovery	Estimated recoverable amount	26,575,080.39	3,696,462.32
Dalian Shaanxi Automobile Sales Co., Ltd	Partial or wholly recovery	Estimated recoverable amount	27,947,821.55	2,974,845.00
Zhejiang Tong Yue Industrial Co., Ltd	Partial or wholly recovery	Estimated recoverable amount	3,044,136.00	2,848,224.00
			155,649,006.02	21,444,420.07

In 2011, the reversal or recovery of significant accounts receivables are presented as follows.

	Reason for reversal or recovery	The basis for determination of provision for original bad debts	Amount of accumulated provision for bad debts made before the reversal or recovery	Amount reversed or recovered
Inner Mongolia Yunchou Industry and Trade Co., Ltd 內蒙古運籌工貿有限責任公司	Partial or wholly recovery	Estimated recoverable amount amount	19,744,151.97	19,744,151.97
陝西榮昌源貿易有限公司	Partial or wholly recovery	Estimated recoverable amount	60,975,763.95	19,528,221.87
浙江同岳實業有限公司	Partial or wholly recovery	Estimated recoverable amount	15,547,730.62	12,503,594.62
大同市易富商貿有限責任公司	Partial or wholly recovery	Estimated recoverable amount	38,817,085.59	12,242,005.20
			135,084,732.13	64,017,973.66

In 2012, accounts receivable written off amounted to RMB10,794,080.00 (2011: RMB8,356,034.48). This is related to various individual accounts receivable which were expected to be unrecoverable and thus approved to be written off. Such accounts receivable written off did not arise from related party transactions.

As at 31 December 2012, within the aforesaid balance of accounts receivable, there was no amount due from shareholders that held 5% or more of the Company's voting shares (31 December 2011: Nil). Balance of accounts receivable with other related parties are set out in Note VI.6.

As at 31 December 2012, the top 5 accounts receivable are presented as follows:

	Gross carrying amount	Age	Percentage of total accounts receivable (%)
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	177,880,036.81	Within 1 year	3.68
Beijing Foton Daimler Automotive Co., Ltd	170,529,974.09	Within 1 year	3.52
Faw Jiefang Qingdao Auto Factory	150,749,459.02	Within 1 year	3.11
Shaanxi Automobile Group Changsha Huantong Automobile Manufacturing Co., Ltd	115,539,069.88	Within 1 year	2.39
Zoomlion Heavy Industry Science and Technology Co., Ltd	100,451,540.00	Within 1 year	2.08
	715,150,079.80		14.78

As at 31 December 2011, the top 5 accounts receivable are presented as follows:

	Gross carrying amount	Age	Percentage of total accounts receivable (%)
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	465,078,713.33	Within 1 year	8.53
Beiqi Foton Motor Co., Ltd	249,130,456.08	Within 1 year	4.57
Shaanxi Automobile Group Changsha Huantong Automobile Manufacturing Co., Ltd	193,772,878.75	Within 2 year	3.56
LLC PC ARGO	153,993,791.80	Within 1 year	2.83
(Algeria) EURL GM TRADE	152,296,133.59	Within 1 year	2.79
	1,214,271,973.55		22.28

Accounts receivable denominated in foreign currencies are as follows:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Accounts receivable						
– USD	121,018,009.66	6.2855	760,658,699.71	110,002,093.71	6.3009	693,112,192.28
– EUR	7,172,677.75	8.3176	59,659,464.42	12,858,770.66	8.1625	104,959,715.53
– HKD	115.98	0.8109	94.05	116.18	0.8107	94.19
– GBP	2,905.80	10.1611	29,526.08	348.29	9.7116	3,382.47
			820,347,784.26			798,075,384.47

5. Prepayments

An aging analysis of prepayments is presented as follows:

	31 December 2012		31 December 2011	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	340,095,617.27	93.08	419,401,321.33	97.19
1 to 2 years	18,367,678.98	5.03	6,092,410.34	1.41
2 to 3 years	2,611,336.33	0.71	3,588,950.09	0.83
Over 3 years	4,322,437.92	1.18	2,455,221.16	0.57
	365,397,070.50	100.00	431,537,902.92	100.00

As at 31 December 2012, there was no large-amount prepayments with an age of more than one year (31 December 2011: Nil).

As at 31 December 2012, the top 5 amounts of prepayments are presented as follows:

	Balance	Age	Reason for being not yet settled
Chengdu Baosteel West Trade Co., Ltd – Xi'an operation unit	20,490,726.32	Within 1 year	To settle per contract
Chongqing Wuhan Xinan Sales Co., Ltd – sales branch	16,643,875.95	Within 1 year	To settle per contract
SCIVIC Engineering Corporation	16,527,030.00	Within 1 year	To settle per contract
Shaanxi Huazhen Sancan Industry and Trading Co., Ltd	14,857,913.52	Within 1 year	To settle per contract
Maanshan Iron & Steel Company Limited – sales branch	14,132,269.70	Within 1 year	To settle per contract
	82,651,815.49		

As at 31 December 2011, the top 5 amounts of prepayments are presented as follows:

	Balance	Age	Reason for being not yet settled
Shandong Yuangen Detrochemical Co., Ltd	33,717,118.48	Within 1 year	To settle per contract
重慶武鋼西南銷售有限公司西安銷售分公司	27,206,151.22	Within 1 year	To settle per contract
Shaanxi Huazhen Sancan Industry and Trading Co., Ltd	27,164,311.45	Within 1 year	To settle per contract
威伯科汽車控制系統(中國)有限公司	21,977,322.56	Within 1 year	To settle per contract
China Donefeng Motor Industry Imp. & Exp Co., Ltd	17,971,463.67	Within 1 year	To settle per contract
	128,036,367.38		

As at 31 December 2012, within the aforesaid balance of prepayment, amount due from shareholders that held 5% or more of the Company's voting shares amounted to RMB13,448.62 (2011: Nil). The balance of prepayments with other related parties are set out in Note VI.6.

Prepayments denominated in foreign currencies are as follows:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Prepayments						
– EUR	519,061.11	8.3176	4,317,342.69	654,707.32	8.1625	5,344,048.54
– USD	233,012.19	6.2855	1,464,598.12	227,692.88	6.3009	1,434,670.08
			5,781,940.81			6,778,718.62

6. Dividends receivable

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Reason for being not yet collected	Whether impaired
Within 1 year						
Shanghai Xinlian Chuangye Investment Co., Ltd.	35,000,000.00	67,500,000.00	(35,000,000.00)	67,500,000.00	Declared but unpaid	No
Over 1 year						
Shaanxi Eurostar Auto Co., Ltd	3,040,000.00	–	–	3,040,000.00	Declared but unpaid	No
Shaanxi Tonghui Automotive Transportation Co., Ltd.	1,489,218.53	–	(1,489,218.53)	–		
	39,529,218.53	67,500,000.00	(36,489,218.53)	70,540,000.00		

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Reason for being not yet collected	Whether impaired
Within one year						
Shaanxi Tonghui Automotive Transportation Co., Ltd.	–	1,489,218.53	–	1,489,218.53	Declared but unpaid	No
Shanghai Xinlian Chuangye Investment Co., Ltd.	–	50,000,000.00	(15,000,000.00)	35,000,000.00	Declared but unpaid	No
Over 1 year						
Shaanxi Eurostar Auto Co., Ltd.	3,040,000.00	–	–	3,040,000.00	Declared but unpaid	No
	3,040,000.00	51,489,218.53	(15,000,000.00)	39,529,218.53		

7. Other receivables

An aging analysis of other receivables is presented as follows:

	31 December 2012	31 December 2011
Within 1 year	301,770,340.66	138,177,976.55
1 to 2 years	136,126,515.72	111,539,123.26
2 to 3 years	13,950,501.64	7,807,326.14
Over 3 years	28,591,512.25	37,280,548.51
	480,438,870.27	294,804,974.46
Less: Provision for bad debts in respect of other receivables	36,332,979.13	54,158,160.01
	444,105,891.14	240,646,814.45

Changes in provision for bad debts in respect of other receivables are as follows:

	31 December 2012	31 December 2011
Opening balance	54,158,160.01	72,391,949.46
Charge during the year	3,585,356.19	3,729,509.98
Increase in scope of consolidation	133,176.32	–
Decrease during the period/year:		
Reversal	(17,914,469.59)	(18,283,129.82)
Write-off	(1,530,199.44)	(3,680,169.61)
Decrease of disposal of subsidiaries	(2,099,044.36)	–
Closing balance	36,332,979.13	54,158,160.01

	31 December 2012				31 December 2011			
	Amount	Proportion (%)	Provision for bad debts	Percentage (%)	Amount	Proportion (%)	Provision for bad debts	Percentage (%)
Individually significant items for which provision for bad debt is recognized separately	–	–	–	–	–	–	–	–
Items for which provision for bad debt is recognized by group	480,438,870.27	100.00	36,332,979.13	7.56	294,731,835.02	99.98	54,085,020.57	18.35
Not individually significant items for which provision for bad debt is recognized separately	–	–	–	–	73,139.44	0.02	73,139.44	100.00
	480,438,870.27	100.00	36,332,979.13	7.56	294,804,974.46	100.00	54,158,160.01	18.37

Items for which provision for bad debt is recognized by group are presented as follows:

	31 December 2012				31 December 2011			
	Amount	Proportion (%)	Provision for bad debt	Percentage (%)	Amount	Proportion (%)	Provision for bad debt	Percentage (%)
Within 1 year	301,770,340.66	62.82	5,083,118.04	1.68	138,177,976.55	46.88	4,560,581.65	3.30
1 to 2 years	136,126,515.72	28.33	2,497,839.47	1.82	111,539,123.26	37.84	12,009,225.05	10.76
2 to 3 years	13,950,501.64	2.89	1,821,340.45	13.06	7,806,590.14	2.65	1,179,690.77	15.11
3 to 4 years	971,503.35	0.21	582,902.01	60.00	423,533.98	0.14	248,000.54	58.56
4 to 5 years	570,346.67	0.12	456,277.34	80.00	158,918.72	0.05	127,134.97	80.00
Over 5 years	27,049,662.23	5.63	25,891,501.82	95.72	36,625,692.37	12.44	35,960,387.59	98.18
	480,438,870.27	100.00	36,332,979.13	7.56	294,731,835.02	100.00	54,085,020.57	18.35

In 2012, other receivables actually written off amounted to RMB1,530,199.44 (2011: RMB3,680,169.61).

As at 31 December 2012, within the aforesaid balance of other receivables, amount due from shareholders that held 5% or more of the Company's voting shares amounted to RMB94,067,880.00 (31 December 2011: Nil). The balance of other receivables from related parties are presented in Note VI.6.

As at 31 December 2012, the top 5 other receivables are presented as follows:

	Gross carrying amount	Age	Percentage of total other receivables (%)
Weichai Group Holdings Limited	94,067,880.00	Within 1 year	19.57
Export value-added tax rebate receivables of subsidiaries	35,145,787.76	Within 1 year	7.31
Shaanxi Tongjia Automobile Co., Ltd.	14,418,103.27	Within 1 year	3.00
Zhuzhou Automobile Gear Factory	12,040,086.20	Within 1 year	2.51
Management Committee of Shuangfu New District in Chongqing	10,000,000.00	Within 1 year	2.08
	165,671,857.23		34.47

As at 31 December 2011, the top 5 other receivables were as follows:

	Gross carrying amount	Age	Percentage of total other receivables (%)
State-owned Assets Supervision and Administration Commission of Zhuzhou	26,675,145.30	1 to 2 years	9.05
河北華鑫物資貿易有限公司	17,787,082.09	Within 1 year	6.04
Export value-added tax rebate receivables	16,108,904.48	Within 1 year	5.46
Zhuzhou Automobile Gear Factory	12,033,865.62	Within 2 year	4.08
Export tax rebate receivables of subsidiaries	9,697,039.30	Within 1 year	3.29
	82,302,036.79		27.92

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other receivables						
– USD	297,095.01	6.2855	1,867,390.69	296,367.89	6.3009	1,867,384.42
– EUR	3,525,291.73	8.3176	29,321,966.49	2,808,802.91	8.1625	22,926,853.78
			31,189,357.18			24,794,238.20

8. Inventories

	31 December 2012			31 December 2011		
	Gross carrying amount	Provision for decline in value	Carrying amount	Gross carrying amount	Provision for decline in value	Carrying amount
Goods in transit	54,189,694.05	–	54,189,694.05	63,161,927.66	–	63,161,927.66
Raw materials	1,113,910,192.87	(80,490,172.67)	1,033,420,020.20	1,277,479,615.51	(71,436,643.13)	1,206,042,972.38
Finished goods	5,534,027,098.19	(228,815,211.69)	5,305,211,886.50	8,129,861,714.63	(275,843,727.80)	7,854,017,986.83
OEM materials	48,604,075.57	(425,177.22)	48,178,898.35	42,079,810.04	(730,303.67)	41,349,506.37
Self made semi-finished goods and work in progress	1,067,189,462.95	(31,153,381.79)	1,036,036,081.16	1,167,145,326.05	(15,877,500.88)	1,151,267,825.17
Turnover materials	43,275,124.93	(10,409,488.86)	32,865,636.07	49,986,802.23	(8,273,486.62)	41,713,315.61
	7,861,195,648.56	(351,293,432.23)	7,509,902,216.33	10,729,715,196.12	(372,161,662.10)	10,357,553,534.02

The changes in provision for decline in value are as follows:

2012

	Opening balance	Charge during the year	Decrease during the period			Closing balance
			Reversal	Write-off	Disposal of subsidiaries	
Raw materials	71,436,643.13	28,369,829.80	(3,457,547.01)	(6,557,143.65)	(9,301,609.60)	80,490,172.67
Finished goods	275,843,727.80	74,950,424.07	(14,942,403.13)	(103,226,590.11)	(3,809,946.94)	228,815,211.69
OEM materials	730,303.67	–	(193,795.51)	–	(111,330.94)	425,177.22
Self made semi-finished goods and work in progress	15,877,500.88	15,971,083.28	(416,861.01)	–	(278,341.36)	31,153,381.79
Turnover materials	8,273,486.62	2,596,923.39	(301,726.38)	–	(159,194.77)	10,409,488.86
	372,161,662.10	121,888,260.54	(19,312,333.04)	(109,783,733.76)	(13,660,423.61)	351,293,432.23

2011

	Opening balance	Charge during the year	Decrease during the year		Closing balance
			Reversal	Write-off	
Raw materials	75,219,247.18	4,574,978.97	(3,029,041.02)	(5,328,542.00)	71,436,643.13
Finished goods	273,700,681.38	94,588,980.39	(5,691,425.67)	(86,754,508.30)	275,843,727.80
OEM materials	659,485.63	70,818.04	–	–	730,303.67
Self made semi-finished goods and work in progress	20,491,841.03	3,371,298.74	(7,985,638.89)	–	15,877,500.88
Turnover materials	294,681.19	9,318,782.92	(1,339,977.49)	–	8,273,486.62
	370,365,936.41	111,924,859.06	(18,046,083.07)	(92,083,050.30)	372,161,662.10

Provision for decline in value of inventories is determined based on the excess of cost over realizable value and shall be reversed within the impaired cost when the factors that give rise to the provision in prior years are not in effect in current year.

Amounts reversed as a proportion to the closing balance of inventories as at the end of year, by categories, are as follows:

	2012 *(%)*	**2011** *(%)*
Raw materials	0.31	0.24
Finished goods	0.27	0.07
OEM materials	0.40	–
Self made semi-finished goods and work in progress	0.04	0.68
Turnover materials	0.70	2.68

9. Other current assets

		31 December 2012	**31 December 2011**
Prepaid expenses		1,468,035.77	3,501,612.82
Deductible value-added tax		374,969,969.77	733,060,225.97
Principal amount of trusted fund management	*(1)*	27,677,250.00	27,677,250.00
Less: Provision for impairment of trusted fund management		(27,677,250.00)	(27,677,250.00)
Available-for-sale financial assets	*(2)*	70,000,000.00	–
Others		41,553,591.67	1,017,384.99
		487,991,597.21	737,579,223.78

(1) Xinjiang Machinery Equipment Import & Export Co., Ltd, a subsidiary of the Group, has entrusted Jinxin Trust Investment Co., Ltd. ("Jinxin Trnst") to manage on trust fund in the amount of RMB27,677,250.00 in 2003. As Jinxin Trust came under operating difficulty in 2004, the board of directors of Xinjiang Machinery Equipment Import & Export Co., Ltd. made a total of 100% provision for impairment of the investment in 2004 and 2005. As at the date of this report, Jinxin Trust was still in the process of application of liquidation.

(2) The Company invested in principal guaranteed and income yielding investment product of RMB20,000,000.00 whereas the subsidiaries of the Group invested in exchange-rated linked investment products of RMB50,000,000.00, both of which are available-for-sale financial assets.

10. Available-for-sale financial assets

	2012	**2011**
Assets of subsidiaries held for sale	269,200,000.00	234,011,928.12

		31 December 2012			31 December 2011		
		Cost	Accumulated fair value changes	Total	Cost	Accumulated fair value changes	Total
Shanghai Stock Exchange							
Beiqi Foton Motor Co., Ltd	*(1)*	194,000,000.00	75,200,000.00	269,200,000.00	194,000,000.00	38,400,000.00	232,400,000.00
NASDAQ Stock Exchange							
Winner Medical Group Inc.	*(2)*	–	–	–	3,264,000.00	(1,652,071.88)	1,611,928.12
Total		194,000,000.00	75,200,000.00	269,200,000.00	197,264,000.00	36,747,928.12	234,011,928.12

(1) As at 31 December 2012, the Company held 40 million shares of Beiqi Foton Motor Co., Ltd. The stock was closed at RMB6.73 per share on 31 December 2012. As at the end of the period, fair value of RMB269,200,000.00 was recognized.

(2) Torch Import & Export Co., Ltd., a subsidiary of the Company acquired 198,314 shares of WINNER MEDICAL GROUP in 2005, which were sub-divided on 6 October 2009 into 99,157 shares. As at 12 December 2012, the parent of WINNER MEDICAL GROUP has completed the general offer and the Company disposed 99,157 shares at a consideration of UDS4.5 per share. As such, these available-for-sale equity investments were transferred to other receivables. As at 31 December 2012, the Company has received no amount related to the equity transfer.

11. Long-term receivables

		31 December 2012			31 December 2011		
		Gross carrying amount	Provision for impairment	Carrying amount	Gross carrying amount	Provision for impairment	Carrying amount
Consideration for equity transfer	*Note*	–	–	–	27,720,035.60	–	27,720,035.60

Note: As at 31 December 2011, long-term receivables represent the consideration for the transfer of part of the equity in Dalian Hongyuan Machinery Manufacturing Co., Ltd. transferred by WEICHAI POWER MAT AUTOMOTIVE, INC., a subsidiary of the Company. Such equity transfer has been recovered during the year.

The aging analysis of long-term receivables are as follows:

	31 December 2012	31 December 2011
1 to 2 years	–	–
2 to 3 years	–	27,720,035.60
	–	27,720,035.60

12. Investments in associates

On 31 December 2012, the Group's investments in associates are presented as follows:

		Registered address	Legal representative	Business	Registered capital
Associates					
(1)	Shaanxi Eurostar Auto Co., Ltd.	Xi'an, Shaanxi	Liang Zheng	Chassis of passenger vehicles, passenger vehicles	114,953,718.00
(2)	Shaanxi Tonghui Automotive Transportation Co., Ltd.	Xi'an, Shaanxi	Hao Xiaoqian	Distribution, warehousing and transportation of goods	20,000,000.00
(3)	Xian Cummics Engine Co., Ltd.	Xi'an, Shaanxi	Fang Hongwei	Engine and its components	USD2,400,000.00
(4)	CIMC-SHAC (Xi'an) Special Vehicles Co., Ltd.	Xi'an, Shaanxi	Li Yinhui	Special vehicles, trailers	50,000,000.00
(5)	Shaanxi Longmen Shanqi Logistics Park Co., Ltd.	Hancheng, Shaanxi	Lei Xiaoxia	Sale, repair and after-sale service for vehicles	30,000,000.00
(6)	Shanghai Xinlian Chuangye Investment Co., Ltd.	Shanghai	Nie Xinyong	Industrial investment and investment management	150,000,000.00
(7)	Laizhou Luyuan Automotive Fitting Co., Ltd.	Laizhou, Shandong	YU Jianguo	Vehicle brakes and other automotive components	37,930,000.00
(8)	Dalian Hongyuan Machinery Manufacturing Co., Ltd.	Pulandian, Liaoning	Yu Jianguo	Hardware tools and automotive components	USD22,818,208.00
(9)	Shanzhong Finance Leasing Co., Ltd.	Beijing	Dong Ping	Finance lease	920,000,000.00
(10)	Shaanxi Fuping Shanqi Logistics Park Co., Ltd.	Fuping County, Shaanxi	Yao Qiang	Sale of motor vehicles and components	20,000,000.00
(11)	興榮有限公司	British Virgin Islands	Nie Xinyong	Investment holding company	USD50,000.00
(12)	Torque Turbine Engine Co.	United States	c/o Torque Capital Group	Industrial investment and investment management	USD6,225,000.00
(13)	Xi'an FC Intelligence Transmission Co., Ltd.	Xi'an, Shaanxi	Hans HaeFeli	Manufacture and sale of auto transmission devices and other intelligence transmission devices	500,000,000.00
(14)	Shandong Heavy Industry Group Finance Co., Ltd.	Jinan, Shandong	Shen Chuandong	Operation of business approved by China Banking Regulatory Commission	1,000,000,000.00
(15)	Baoding Shanqi Tianma Automobile Co., Ltd.	Baoding, Hebei	Zhou Shucai	Research and development, production, sale and servicing of specialty heavy-duty vehicles; research and development, production and sale of heavy-duty vehicles components; sales of specialty heavy-duty truck and forklift trucks	40,000,000.00
(16)	Kion Holding 1 GmbH	Germany	Gordon Riske	Forklift trucks	EUR500,000.00

		Closing balance of total assets	Closing balance of total liabilities	Total net assets Closing balance	Revenue amount for the year	Net profit amount for the year
Associates						
(1)	Shaanxi Eurostar Auto Co., Ltd.	671,712,882.85	581,999,780.09	89,713,102.76	110,685,594.04	(39,566,414.65)
(2)	Shaanxi Tonghui Automotive Transportation Co., Ltd.	72,103,983.34	48,091,253.42	24,012,729.92	144,043,088.67	(7,724,985.96)
(3)	Xian Cummics Engine Co., Ltd.	307,738,182.38	272,264,402.29	35,473,780.09	235,874,385.09	(25,293,921.99)
(4)	CIMC-SHAC (Xi'an) Special Vehicles Co., Ltd.	297,872,854.89	223,926,310.87	73,946,544.02	421,723,640.44	2,838,206.42
(5)	Shaanxi Longmen Shanqi Logistics Park Co., Ltd.	29,642,497.12	1,885.00	29,640,612.12	–	(1,541.22)
(6)	Shanghai Xinlian Chuangye Investment Co., Ltd.	331,765,502.67	152,320,344.46	179,445,158.21	–	72,150,121.55
(7)	Laizhou Luyuan Automotive Fitting Co., Ltd.	74,099,772.86	67,618,585.69	6,481,187.17	67,239,482.74	280,741.39
(8)	Dalian Hongyuan Machinery Manufacturing Co., Ltd.	184,758,437.01	43,990,919.85	140,767,517.16	68,986,329.77	125,735.39
(9)	Shanzhong Finance Leasing Co., Ltd.	3,965,619,361.34	2,940,527,659.42	1,025,091,701.92	280,141,817.17	47,679,262.90
(10)	Shaanxi Fuping Shanqi Logistics Park Co., Ltd.	6,054,698.42	180,890.61	5,873,807.81	32,631,880.44	(891,008.12)
(11)	興榮有限公司	26,252,316.57	10,499,882.00	15,752,434.57	–	2,634.89
(12)	Torque Turbine Engine Co.	49,600,798.71	20,942,779.77	28,658,018.94	19,307,537.60	(1,516,661.20)
(13)	Xi'an FC Intelligence Transmission Co., Ltd.	384,067,729.42	–	384,067,729.42	–	(3,210,610.89)
(14)	Shandong Heavy Industry Group Finance Co., Ltd.	3,470,444,254.11	2,458,320,980.24	1,012,123,273.87	30,774,096.73	10,903,816.64
(15)	Baoding Shanqi Tianma Automobile Co., Ltd.	52,647,089.48	45,646,089.56	7,000,999.92	23,666,492.71	(13,540,007.57)
(16)	Kion Holding 1 GmbH *(Note1)*	51,679,245,024.00	46,186,842,628.00	5,492,402,396.00	38,947,947,693.20	1,327,373,174.40

Note 1: The Company acquired 25% equity interests in Kion Holding 1 GmbH on 27 December 2012.

13. Long-term equity investments

	31 December 2012	31 December 2011
Unlisted investment		
Equity method – associates		
(attributable net value of the corporation)	4,886,226,306.07	894,107,847.56
Cost method	188,958,256.11	183,822,456.11
	5,075,184,562.18	1,077,930,303.67
Less: Provision for impairment of long-term equity investments	123,640,629.56	122,232,129.56
	4,951,543,932.62	955,698,174.11

30 June 2012

	Investment cost	Opening balance	Increase (decrease) during the period	Closing balance	Percentage of ownership equity	Percentage of voting power	Provision for impairment	Provision for impairment made in current period	Cash dividend for the period
Equity method									
Weichai Power Westport New Energy Engine Co., Ltd. *(Note 4)*	–	55,867,925.76	(55,867,925.76)	–	–	–	–	–	1,135,151.64
Shaanxi Eurostar Auto Co., Ltd.	46,618,137.42	39,665,949.93	(14,229,696.99)	25,436,252.94	33.06	33.06	–	–	–
Shaanxi Tonghui Automotive Transportation Co., Ltd.	8,800,000.00	13,326,526.13	(3,359,279.27)	9,967,246.86	44.00	44.00	–	–	1,489,218.53
Xian Cummics Engine Co., Ltd.	47,836,776.00	13,838,311.58	(6,323,480.50)	7,514,831.08	25.00	25.00	–	–	–
CIMC-SHAC (Xi'an) Special Vehicles Co., Ltd.	12,500,000.00	16,960,192.29	1,085,587.99	18,045,780.28	25.00	25.00	–	–	–
Baoding Shanqi Tianma Automobile Co., Ltd.	1,498,276.26	–	1,498,276.26	1,498,276.26	20.00	20.00	–	–	–
Shaanxi Longmen Shanqi Logistics Park Co., Ltd.	9,000,000.00	8,892,646.00	(462.37)	8,892,183.63	30.00	30.00	–	–	–
Shanghai Xinlian Chuangye Investment Co., Ltd.	45,853,683.25	145,034,267.35	(84,011,954.62)	61,022,312.73	33.33	33.33	–	–	67,500,000.00
Zhuzhou Auto Trading Market	284,499.56	284,499.56	–	284,499.56	–	–	(284,499.56)	–	–
Laizhou Luyuan Automotive Fitting Co., Ltd.	8,624,443.00	1,438,560.12	946,164.87	2,384,724.99	25.00	25.00	–	–	–
Dalian Hongyuan Machinery Manufacturing Co., Ltd.	60,886,962.46	31,982,979.23	24,050,275.54	56,033,254.77	41.40	41.40	–	–	–
Torque Turbine Engine Co.	8,191,170.00	8,191,170.00	(20,020.00)	8,171,150.00	20.90	20.90	–	–	–
Xi'an FC Intelligence Transmission Co., Ltd. *(Note 1)*	196,350,000.00	139,148,763.22	54,462,588.45	193,611,351.67	51.00	43.00	–	–	–
Shanzhong Finance Leasing Co., Ltd.	360,000,000.00	383,773,191.07	15,254,730.67	399,027,921.74	39.13	39.13	–	–	3,975,120.00
Kion Holding 1 Gbmh	3,884,319,200.00	–	3,884,319,200.00	3,884,319,200.00	25.00	25.00	–	–	–
Shaanxi Fuping Shanqi Logistics Park Co., Ltd.	3,360,000.00	5,105,926.37	(2,756,403.25)	2,349,523.12	40.00	40.00	–	–	–
興榮有限公司	5,250,006.30	–	5,243,141.66	5,243,141.66	33.00	33.00	–	–	–
Shandong Heavy Industry Group Finance Co., Ltd.	200,000,000.00	–	202,424,654.78	202,424,654.78	20.00	20.00	–	–	–
Shaanxi-Wuhai Special Vehicles Co., Ltd. *(Note 2)*	–	30,596,938.95	(30,596,938.95)	–	–	–	–	–	–
Equity method total	4,899,373,154.25	894,107,847.56	3,992,118,458.51	4,886,226,306.07			(284,499.56)	–	74,099,490.17
Cost method									
Foton Heavy-duty Machinery Co., Ltd.	38,630,876.88	38,630,876.88	–	38,630,876.88	6.14	6.14	(1,408,500.00)	(1,408,500.00)	–
Xinjie Investment and Guarantee Co., Ltd. *(Note 3)*	5,135,800.00	–	5,135,800.00	5,135,800.00	25.00	25.00	–	–	–
Huarong Xiangjiang Bank Corporation Limited	20,000,000.00	20,000,000.00	–	20,000,000.00	6.05	6.05	–	–	1,080,000.00
China National Machinery and Equipment Hainan Corp., Ltd	879,605.00	879,605.00	–	879,605.00	0.66	0.66	(879,605.00)	–	–
Zhuzhou Gear Share Co., Ltd	1,680,000.00	1,680,000.00	–	1,680,000.00	2.45	2.45	–	–	–
Eastern Life Insurance Co., Ltd	60,000,000.00	60,000,000.00	–	60,000,000.00	7.50	7.50	(60,000,000.00)	–	–
New Century Finance Leasing Co., Ltd	61,068,025.00	61,068,025.00	–	61,068,025.00	11.22	11.22	(61,068,025.00)	–	–
Yangzhou Suken Yinhe Auto Connecting Rod Co., Ltd.	1,563,949.23	1,563,949.23	–	1,563,949.23	15.00	15.00	–	–	–
Cost method total	188,958,256.11	183,822,456.11	5,135,800.00	188,958,256.11			(123,356,130.00)	(1,408,500.00)	1,080,000.00
Total	5,088,331,410.36	1,077,930,303.67	3,997,254,258.51	5,075,184,562.18			(123,640,629.56)	(1,408,500.00)	75,179,490.17

Note 1: According to the articles of association, investor from another investee has four out of seven board seats at the Board of Xi'an FC Intelligence Transmission Co., Ltd. and holds over half of the voting rights, as such the Group has no control over that investee.

Note 2: Please refer to Note IV. 3(1) for details.

Note 3: The Group has no board seats in Xinjie Investment and Guarantee Co., Ltd., as such the Group has no significant influence over that investee.

Note 4: The Group has disposed the investment in this company in 2012.

31 December 2011

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of ownership equity	Percentage of voting power	Provision for impairment	Provision for impairment made in current year	Cash dividend for the current year
Equity method									
Weichai Power Westport New Energy Engine Co., Ltd.	35,539,307.22	41,964,399.13	13,903,526.63	55,867,925.76	40.00	40.00	–	–	–
Shaanxi Eurostar Auto Co., Ltd.	46,618,137.42	51,488,818.44	(11,822,868.51)	39,665,949.93	33.06	33.06	–	–	–
Shaanxi Tonghui Automotive Transportation Co., Ltd.	8,800,000.00	8,267,675.78	5,058,850.35	13,326,526.13	40.00	40.00	–	–	1,489,218.53
Xian Cummics Engine Co., Ltd.	47,836,776.00	23,698,156.41	(9,859,844.83)	13,838,311.58	25.00	25.00	–	–	–
CIMC-SHAC (Xi'an) Special Vehicles Co., Ltd.	12,500,000.00	12,979,017.83	3,981,174.46	16,960,192.29	25.00	25.00	–	–	–
Shaanxi Longmen Shanqi Logistics Park Co., Ltd.	9,000,000.00	9,000,000.00	(107,354.00)	8,892,646.00	30.00	30.00	–	–	–
Shanghai Xinlian Chuangye Investment Co., Ltd.	45,853,683.25	337,168,830.46	(192,134,563.11)	145,034,267.35	33.33	33.33	–	–	50,000,000.00
Zhuzhou Auto Trading Market	284,499.56	284,499.56	–	284,499.56	–	–	(284,499.56)	–	–
Laizhou Luyuan Automotive Fitting Co., Ltd.	8,624,443.00	1,300,647.29	137,912.83	1,438,560.12	25.00	25.00	–	–	–
Dalian Hongyuan Machinery Manufacturing Co., Ltd.	35,943,462.46	32,437,675.22	(454,695.99)	31,982,979.23	41.40	41.40	–	–	–
Torque Turbine Engine Co.	8,191,170.00	–	8,191,170.00	8,191,170.00	20.90	20.90	–	–	–
Xi'an FC Intelligence Transmission Co., Ltd. *(Note 1)*	140,250,000.00	–	139,148,763.22	139,148,763.22	51.00	43.00	–	–	–
Shanzhong Finance Leasing Co., Ltd.	360,000,000.00	367,826,925.16	15,946,265.91	383,773,191.07	39.13	39.13	–	–	–
Shaanxi Fuping Shanqi Logistics Park Co., Ltd.	3,360,000.00	3,360,000.00	1,745,926.37	5,105,926.37	40.00	40.00	–	–	–
Shaanxi-Wuhai New Power Special Vehicles Co., Ltd.	31,200,000.00	31,200,000.00	(603,061.05)	30,596,938.95	27.35	27.35	–	–	–
Equity method total	794,001,478.91	920,976,645.28	(26,868,797.72)	894,107,847.56			(284,499.56)	–	51,489,218.53
Cost method									
Foton Lovol International Heavy Industry Co., Ltd	–	75,600,000.00	(75,600,000.00)	–	–	–	–	–	–
Foton Heavy-duty Machinery Co., Ltd.	38,630,876.88	38,630,876.88	–	38,630,876.88	6.14	6.14	–	–	–
Huarong Xiangjiang Bank Corporation Limited	20,000,000.00	20,000,000.00	–	20,000,000.00	6.05	6.05	–	–	–
China National Machinery and Equipment Hainan Corp., Ltd	879,605.00	879,605.00	–	879,605.00	0.66	0.66	(879,605.00)	–	–
Zhuzhou Gear Share Co., Ltd	1,680,000.00	1,680,000.00	–	1,680,000.00	2.45	2.45	–	–	–
Eastern Life Insurance Co., Ltd	60,000,000.00	60,000,000.00	–	60,000,000.00	7.50	7.50	(60,000,000.00)	–	–
New Century Finance Leasing Co., Ltd	61,068,025.00	61,068,025.00	–	61,068,025.00	11.22	11.22	(61,068,025.00)	–	–
Shanghai Tongyue Vehicle Leasing Co., Ltd	–	9,351,218.42	(9,351,218.42)	–	–	–	–	–	–
Yangzhou Suken Yinhe Auto Connecting Rod Co., Ltd.	1,563,949.23	1,563,949.23	–	1,563,949.23	15.00	15.00	–	–	–
Cost method total	183,822,456.11	268,773,674.53	(84,951,218.42)	183,822,456.11			(121,947,630.00)	–	–
Total	977,823,935.02	1,189,750,319.81	(111,820,016.14)	1,077,930,303.67			(122,232,129.56)	–	51,489,218.53

Note 1: According to the articles of association, investor from another investee has four out of seven board seats at the Board of Xi'an FC Intelligence Transmission Co., Ltd. and holds over half of the voting rights, as such the Group has no control over that investee.

14. Investment property

Subsequent measure under the cost model:

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Gross carrying amount				
Houses and buildings	281,697,733.10	100,277,472.64	–	381,975,205.74
Land use rights	7,606,588.83	–	(77,500.00)	7,529,088.83
	289,304,321.93	100,277,472.64	(77,500.00)	389,504,294.57
Less: Accumulated depreciation and amortization				
Houses and buildings	38,188,057.52	20,441,924.67	–	58,629,982.19
Land use rights	787,927.29	156,286.13	(64,671.90)	879,541.52
	38,975,984.81	20,598,210.80	(64,671.90)	59,509,523.71
Net carrying amount				
Houses and buildings	243,509,675.58			323,345,223.55
Land use rights	6,818,661.54			6,649,547.31
	250,328,337.12			329,994,770.86
Less: Provision for impairment				
Houses and buildings	–	–	–	–
Land use rights	–	–	–	–
	–	–	–	–
Carrying amount				
Houses and buildings	243,509,675.58			323,345,223.55
Land use rights	6,818,661.54			6,649,547.31
	250,328,337.12			329,994,770.86

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Gross carrying amount				
Houses and buildings	168,860,133.83	112,837,599.27	–	281,697,733.10
Land use rights	7,606,588.83	–	–	7,606,588.83
	176,466,722.66	112,837,599.27	–	289,304,321.93
Less: Accumulated depreciation and amortization				
Houses and buildings	19,048,489.31	19,139,568.21	–	38,188,057.52
Land use rights	631,641.16	156,286.13	–	787,927.29
	19,680,130.47	19,295,854.34	–	38,975,984.81
Net carrying amount				
Houses and buildings	149,811,644.52			243,509,675.58
Land use rights	6,974,947.67			6,818,661.54
	156,786,592.19			250,328,337.12
Less: Provision for impairment				
Houses and buildings	–	–	–	–
Land use rights	–	–	–	–
	–	–	–	–
Carrying amount				
Houses and buildings	149,811,644.52			243,509,675.58
Land use rights	6,974,947.67			6,818,661.54
	156,786,592.19			250,328,337.12

In 2012, the amount of depreciation or amortization was RMB14,592,348.78 (2011: RMB6,663,453.75), among which accumulated depreciation transferred to investment property from fixed assets amounted to RMB6,005,862.02 (2011: RMB12,632,400.59). As at 31 December 2012, investment properties pledged to secure for the Group's bank loans had an aggregate carrying amount of RMB9,466,377.98 (31 December 2011: RMB3,021,011.32).

As at 31 December 2012, investment properties for which the Group had not obtained real estate certificates had a carrying amount of RMB196,896,641.75 (31 December 2011: RMB92,239,698.68), among which investment properties for which the Group was in the process of applying for real estate certificates had a carrying amount of RMB188,824,609.25 (31 December 2011: RMB92,239,698.68).

15. Fixed assets

2012

	Opening balance		Increase during the year	Decrease during the year	Closing balance
Gross carrying amount					
Houses and buildings	4,611,643,502.53		717,722,125.48	(217,660,544.89)	5,111,705,083.12
Machinery and equipment	8,683,324,523.35		2,408,975,067.60	(374,532,106.29)	10,717,767,484.66
Electronic equipment	369,386,556.47		153,679,989.00	(15,884,205.25)	507,182,340.22
Vehicles	313,613,125.54		30,304,003.33	(15,984,118.38)	327,933,010.49
Other equipment	1,044,660,446.10		315,334,825.67	(22,263,683.63)	1,337,731,588.14
	15,022,628,153.99		3,626,016,011.08	(646,324,658.44)	18,002,319,506.63
		Increase during the year			
		Charge during the year	Increase in scope of consolidation		
Less: Accumulated depreciation					
Houses and buildings	630,457,750.72	206,123,026.92	1,952,969.20	(36,362,943.66)	802,170,803.18
Machinery and equipment	3,698,832,208.09	983,209,725.59	715,880.13	(247,974,074.75)	4,434,783,739.06
Electronic equipment	249,607,474.01	76,700,634.86	80,028.64	(12,781,813.88)	313,606,323.63
Vehicles	190,460,914.69	34,891,309.61	187,470.16	(9,879,138.39)	215,660,556.07
Other equipment	564,868,278.79	120,388,022.97	–	(10,981,260.21)	674,275,041.55
	5,334,226,626.30	1,421,312,719.95	2,936,348.13	(317,979,230.89)	6,440,496,463.49

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Net carrying amount				
Houses and buildings	3,981,185,751.81			4,309,534,279.94
Machinery and equipment	4,984,492,315.26			6,282,983,745.60
Electronic equipment	119,779,082.46			193,576,016.59
Vehicles	123,152,210.85			112,272,454.42
Other equipment	479,792,167.31			663,456,546.59
	9,688,401,527.69			11,561,823,043.14
Less: Provision for impairment				
Houses and buildings	2,538,369.04	–	(13,821.89)	2,524,547.15
Machinery and equipment	31,436,575.16	–	–	31,436,575.16
Electronic equipment	–	–	–	–
Vehicles	989,030.26	–	–	989,030.26
Other equipment	383,460.37	–	–	383,460.37
	35,347,434.83	–	(13,821.89)	35,333,612.94
Carrying amount				
Houses and buildings	3,978,647,382.77			4,307,009,732.79
Machinery and equipment	4,953,055,740.10			6,251,547,170.44
Electronic equipment	119,779,082.46			193,576,016.59
Vehicles	122,163,180.59			111,283,424.16
Other equipment	479,408,706.94			663,073,086.22
	9,653,054,092.86			11,526,489,430.20

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Gross carrying amount				
Houses and buildings	3,406,857,603.19	1,319,858,679.10	(115,072,779.76)	4,611,643,502.53
Machinery and equipment	7,262,794,564.59	1,599,479,085.80	(178,949,127.04)	8,683,324,523.35
Electronic equipment	329,450,532.31	50,798,638.40	(10,862,614.24)	369,386,556.47
Vehicles	279,221,264.12	57,120,064.55	(22,728,203.13)	313,613,125.54
Other equipment	849,213,907.60	231,621,434.87	(36,174,896.37)	1,044,660,446.10
	12,127,537,871.81	3,258,877,902.72	(363,787,620.54)	15,022,628,153.99

		Increase during the year			
		Charge during the year	Addition during the year		
Less: Accumulated depreciation					
Houses and buildings	451,525,744.21	186,066,791.90	2,815,902.98	(9,950,688.37)	630,457,750.72
Machinery and equipment	2,970,136,166.63	854,617,378.77	357,216.26	(126,278,553.57)	3,698,832,208.09
Electronic equipment	208,425,525.40	49,171,906.41	–	(7,989,957.80)	249,607,474.01
Vehicles	165,004,059.91	43,112,973.12	53,788.43	(17,709,906.77)	190,460,914.69
Other equipment	459,030,496.32	117,699,998.03	–	(11,862,215.56)	564,868,278.79
	4,254,121,992.47	1,250,669,048.23	3,226,907.67	(173,791,322.07)	5,334,226,626.30

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Net carrying amount				
Houses and buildings	2,955,331,858.98			3,981,185,751.81
Machinery and equipment	4,292,658,397.96			4,984,492,315.26
Electronic equipment	121,025,006.91			119,779,082.46
Vehicles	114,217,204.21			123,152,210.85
Other equipment	390,183,411.28			479,792,167.31
	7,873,415,879.34			9,688,401,527.69
Less: Provision for impairment				
Houses and buildings	3,178,720.81	–	(640,351.77)	2,538,369.04
Machinery and equipment	28,032,511.52	3,611,951.99	(207,888.35)	31,436,575.16
Electronic equipment	–	–	–	–
Vehicles	989,030.26	–	–	989,030.26
Other equipment	383,460.37	–	–	383,460.37
	32,583,722.96	3,611,951.99	(848,240.12)	35,347,434.83
Carrying amount				
Houses and buildings	2,952,153,138.17			3,978,647,382.77
Machinery and equipment	4,264,625,886.44			4,953,055,740.10
Electronic equipment	121,025,006.91			119,779,082.46
Vehicles	113,228,173.95			122,163,180.59
Other equipment	389,799,950.91			479,408,706.94
	7,840,832,156.38			9,653,054,092.86

In 2012, the amount of depreciation of fixed assets was RMB1,421,312,719.95 (2011: RMB1,326,470,956.15). In 2012, the amount of gross carrying amount of fixed assets transferred from construction in progress was RMB2,495,591,129.46 (2011: RMB2,372,996,324.38).

In 2012, the addition to the gross carrying amount of fixed assets was RMB3,626,016,011.08 (2011: RMB3,258,877,902.72), of which the addition to the gross carrying amount of fixed assets from merger with subsidiaries amounted to RMB1,553,707,488.40 (2011: RMB301,433,442.78).

As at 31 December 2012, houses and buildings and machinery and equipment that had been pledged to secure for the Group's bank loans amounted to a carrying value of RMB873,160.10 (31 December 2011: RMB17,580,400.00).

As at 31 December 2012, the Group did not have material idle fixed assets nor fixed assets under finance lease (31 December 2011: nil).

As at 31 December 2012, fixed assets leased out under operating lease were as follows:

	Gross carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Electronic equipment	4,041,738.37	(2,873,209.40)	–	1,168,528.97
Machinery and equipment	31,201,580.09	(13,036,248.93)	–	18,165,331.16
Transportation equipment	81,649.72	(79,200.23)	–	2,449.49

As at 31 December 2011, fixed assets leased out under operating lease were as follows:

	Gross carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount
Electronic equipment	4,036,238.65	(2,406,966.64)	–	1,629,272.01
Machinery and equipment	29,540,250.74	(9,450,882.18)	–	20,089,368.56
Transportation equipment	81,649.72	(79,200.23)	–	2,449.49

As at 31 December 2012, houses and buildings for which the Group had not obtained real estate certificates had a carrying amount of RMB1,266,878,351.23 (31 December 2011: RMB1,421,839,931.77), among which houses and buildings for which the Group was in the process of applying for real estate certificates had a carrying amount of RMB940,413,667.79 (31 December 2011: RMB1,210,071,076.20).

16. Construction in progress

2012

	Opening balance	Increase during the year	Transferred to fixed assets during the year	Other decrease	Closing balance	Source of funding
Expansion of production line of Weichai Power	1,527,850,488.47	164,568,029.60	(365,534,708.16)	–	1,326,883,809.91	internal fund
Renovation for the casting project of Weichai Power	520,969,572.52	325,844,001.29	(94,653,171.49)	–	752,160,402.32	internal fund
Project T of Weichai Power	243,539,247.26	23,708,515.07	(96,460,049.21)	–	170,787,713.12	internal fund
Phase II of new base of Shaanxi Zhongqi	145,662,184.81	3,410,610.67	(48,390,488.42)	(32,782,128.19)	67,900,178.87	internal fund
Overhaul of technological measures of FAST	172,104,966.60	7,550,631.10	(173,281,730.16)	–	6,373,867.54	internal fund
Logistics Park of Weichai Power	16,012,779.69	53,704,340.27	(3,000,000.00)	–	66,717,119.96	internal fund
FAST transmission technology renovation project Internal funds	182,980,350.10	535,680,294.40	(327,695,240.12)	(3,779,460.89)	387,185,943.49	internal fund
Project for combining three workshops for FAST gear	140,122,034.87	304,101,862.01	(402,421,308.17)	–	41,802,588.71	Internal funds
Zhuzhou gear technology renovation project	71,479,623.47	57,054,140.12	(16,031,021.97)	(17,595,906.19)	94,906,835.43	Internal funds
Sparkplug technology renovation project	22,085,562.78	10,188,223.34	(3,689,603.45)	(104,213.76)	28,479,968.91	Internal funds
Huadong technology renovation project of Weichai Power	122,216,205.84	43,455,906.88	(36,425,329.82)	–	129,246,782.90	Internal funds
150,000 – tonne casting project in Jinding new factory area	246,948,120.50	49,117,370.99	(175,683.77)	–	295,889,807.72	Internal funds
Test production center project of research and development of Weichai Power	271,159,175.34	202,211,084.90	(166,532,931.11)	–	306,837,329.13	Internal funds
Construction of Yulin new factory area	177,452,235.14	145,829,266.98	(31,837,739.08)	(13,555,228.71)	277,888,534.33	Internal funds and bank borrowings
Project of new heavy-duty truck in Xinjiang	107,919,400.00	476,427,039.12	(95,335,360.73)	(118,183,009.00)	370,828,069.39	Internal funds and bank borrowings
Others	256,426,028.62	592,284,178.77	(634,126,763.80)	(46,540,645.40)	168,042,798.19	Internal fund
Sub-total	4,224,927,976.01	2,995,135,495.51	(2,495,591,129.46)	(232,540,592.14)	4,491,931,749.92	
Add: Prepaid project equipment monies	765,158,335.37				576,287,158.40	
Prepaid land premium	117,297,538.00				110,618,777.61	
Total	5,107,383,849.38				5,178,837,685.93	
Less: Provision for impairment of construction in progress	3,738,267.94	–	–	–	3,738,267.94	
Total	5,103,645,581.44				5,175,099,417.99	

2011

	Opening balance	Increase during the year	Transferred to fixed assets during the year	Other decrease	Closing balance	Source of funding
Expansion of production line of Weichai Power	1,064,201,390.21	923,687,967.62	(460,038,869.36)	–	1,527,850,488.47	internal fund
Renovation for the casting project of Weichai Power	279,176,811.76	450,591,086.53	(208,798,325.77)	–	520,969,572.52	internal fund
Project T of Weichai Power	184,297,361.74	178,966,488.43	(119,724,602.91)	–	243,539,247.26	internal fund
Phase II of new base of Shaanxi Zhongqi	154,272,256.11	338,275,978.50	(330,932,299.67)	(15,953,750.13)	145,662,184.81	internal fund
Overhaul of technological measures of FAST	126,659,912.88	54,009,020.98	(8,563,967.26)	–	172,104,966.60	internal fund
Logistics Park of Weichai Power	94,917,740.11	77,296,713.81	(156,201,674.23)	–	16,012,779.69	internal fund
Test production centre project of research and development of Weichai Power	94,569,511.58	232,062,904.84	(55,473,241.08)	–	271,159,175.34	internal fund
FAST transmission technology renovation project	56,109,870.57	382,129,434.73	(250,903,594.07)	(4,355,361.13)	182,980,350.10	internal fund
Project for combining three workshops for FAST gear	50,899,931.90	207,823,108.92	(118,601,005.95)	–	140,122,034.87	internal fund
Zhuzhou gear technology renovation project	34,278,450.60	74,113,596.59	(36,610,555.41)	(301,868.31)	71,479,623.47	internal fund
Sparkplug technology renovation project	17,456,471.56	5,464,430.27	(834,757.85)	(581.20)	22,085,562.78	internal fund
Huadong technology renovation project of Weichai Power	12,827,625.72	345,569,985.62	(236,181,405.50)	–	122,216,205.84	internal fund
150,000 – tonne casting project in Jinding new factory area	–	249,532,588.42	(2,384,220.53)	(200,247.39)	246,948,120.50	internal fund
Construction of Yulin new factory area	–	315,854,285.89	(138,402,050.75)	–	177,452,235.14	internal fund
Project of new heavy-duty truck in Xinjiang	–	107,919,400.00	–	–	107,919,400.00	internal fund
Others	242,851,377.57	265,995,320.06	(249,345,754.04)	(3,074,914.97)	256,426,028.62	internal fund
Sub-total	2,412,518,712.31	4,209,292,311.21	(2,372,996,324.38)	(23,886,723.13)	4,224,927,976.01	
Add: Prepaid project equipment monies	817,645,960.34				765,158,335.37	
Prepaid land premium	143,064,959.98				117,297,538.00	
Less: Provision for impairment of construction in progress	3,738,267.94	–	–	–	3,738,267.94	
Total	3,369,491,364.69				5,103,645,581.44	

As at 31 December 2012, the construction in progress that had been pledged by the Group to obtain bank loans amounted to an aggregate carrying value of RMB72,534,551.35 (31 December 2011: RMB69,259,751.61).

In 2012, the Group has capitalized interests from construction in progress of RMB18,311,603.85 (2011: nil).

17. Materials used in construction

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Special equipment	10,275,638.26	10,494,335.20	(20,769,973.46)	–
Others	–	1,904,940.00	(1,904,940.00)	–
	10,275,638.26	12,399,275.20	(22,674,913.46)	–

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Special equipment	11,547,462.79	40,485,758.65	(41,757,583.18)	10,275,638.26
Others	2,222.22	–	(2,222.22)	–
	11,549,685.01	40,485,758.65	(41,759,805.40)	10,275,638.26

18. Intangible assets

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Gross carrying amount				
Technology know-how	394,976,187.52	5,860,533.61	(18,114,037.53)	382,722,683.60
Trademark rights	226,145,000.00	32,400.00	–	226,177,400.00
Licence	14,604,332.00	60,570,010.84	(14,516,000.00)	60,658,342.84
Land use rights	921,508,219.53	254,534,563.00	(11,364,220.08)	1,164,678,562.45
Orders on hand	–	310,082,107.59	–	310,082,107.59
Customer relationship	–	412,196,858.59	–	412,196,858.59
Software	85,301,778.95	17,432,193.01	(2,634,512.82)	100,099,459.14
Others	–	9,080,032.80	–	9,080,032.80
	1,642,535,518.00	1,069,788,699.44	(46,628,770.43)	2,665,695,447.01
Less: Accumulated amortization				
Technology know-how	338,651,658.59	12,904,654.82	(7,944,671.86)	343,611,641.55
Trademark rights	15,555,996.00	1,620.00	–	15,557,616.00
Licence	13,838,571.38	10,008.00	(13,790,200.38)	58,379.00
Land use rights	83,707,298.94	20,785,202.86	(2,285,694.17)	102,206,807.63
Orders on hand	–	–	–	–
Customer relationship	–	–	–	–
Software	35,291,537.82	9,530,481.80	(818,125.65)	44,003,893.97
Others	–	–	–	–
	487,045,062.73	43,231,967.48	(24,838,692.06)	505,438,338.15

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Net carrying amount				
Technology know-how	56,324,528.93			39,111,042.05
Trademark rights	210,589,004.00			210,619,784.00
Licence	765,760.62			60,599,963.84
Land use rights	837,800,920.59			1,062,471,754.82
Orders on hand	–			310,082,107.59
Customer relationship	–			412,196,858.59
Software	50,010,241.13			56,095,565.17
Others	–			9,080,032.80
	1,155,490,455.27			2,160,257,108.86
Less: Provision for impairment	–	–	–	–
Carrying amount				
Technology know-how	56,324,528.93			39,111,042.05
Trademark rights	210,589,004.00			210,619,784.00
Licence	765,760.62			60,599,963.84
Land use rights	837,800,920.59			1,062,471,754.82
Orders on hand	–			310,082,107.59
Customer relationship	–			412,196,858.59
Software	50,010,241.13			56,095,565.17
Others	–			9,080,032.80
	1,155,490,455.27			2,160,257,108.86

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Gross carrying amount				
Technology know-how	390,826,581.45	4,149,606.07	–	394,976,187.52
Trademark rights	226,145,000.00	–	–	226,145,000.00
Licence	14,604,332.00	–	–	14,604,332.00
Land use rights	662,130,455.98	357,503,761.20	(98,125,997.65)	921,508,219.53
Software	71,750,277.98	13,551,500.97	–	85,301,778.95
	1,365,456,647.41	375,204,868.24	(98,125,997.65)	1,642,535,518.00
Less: Accumulated amortization				
Technology know-how	321,511,323.74	17,140,334.85	–	338,651,658.59
Trademark rights	15,555,996.00	–	–	15,555,996.00
Licence	12,376,963.34	1,461,608.04	–	13,838,571.38
Land use rights	67,180,771.56	20,637,734.78	(4,111,207.40)	83,707,298.94
Software	30,272,557.38	5,018,980.44	–	35,291,537.82
	446,897,612.02	44,258,658.11	(4,111,207.40)	487,045,062.73

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Net carrying amount				
Technology know-how	69,315,257.71			56,324,528.93
Trademark rights	210,589,004.00			210,589,004.00
Licence	2,227,368.66			765,760.62
Land use rights	594,949,684.42			837,800,920.59
Software	41,477,720.60			50,010,241.13
	918,559,035.39			1,155,490,455.27
Less: Provision for impairment	–	–	–	–
Carrying amount				
Technology know-how	69,315,257.71			56,324,528.93
Trademark rights	210,589,004.00			210,589,004.00
Licence	2,227,368.66			765,760.62
Land use rights	594,949,684.42			837,800,920.59
Software	41,477,720.60			50,010,241.13
	918,559,035.39			1,155,490,455.27

In 2012, amortization of intangible assets amounted to RMB43,231,967.48 (2011: RMB44,258,658.11).

As at 31 December 2012, land use rights pledged for securing the bank loans obtained by the Group had carrying amount of RMB40,923,286.59 (31 December 2011: RMB67,001,000.00).

The trademarks are renewable every 10 years at minimal cost. The management of the Group are of the opinion that the Group has both the intention and ability to renew the trademarks continuously. As a result, the useful life of the trademarks is considered by the management of the Group as indefinite because the trademarks are expected to contribute to the Group's net cash inflows indefinitely. The trademarks will not be amortised until their useful life is determined to be finite. Instead the trademarks will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 19.

Expenditure on development projects are as follows:

2012

	Opening balance	Increase during the year	Decrease during the year: Charged to profit or loss in the current period	Decrease during the year: Intangible assets recognized	Closing balance
HX complete vehicle external flow field analysis and optimization project	2,461,900.00	995,377.33	–	–	3,457,277.33
Improvement project on driver's cabin	–	3,360,000.00	–	–	3,360,000.00
Hydraulics project	–	423,790,203.95	–	–	423,790,203.95
Others	532,332.00	1,834,409.48	–	1,281,778.48	1,084,963.00
	2,994,232.00	429,979,990.76	–	1,281,778.48	431,692,444.28

2011

	Opening balance	Increase during the year	Decrease during the year: Charged to profit or loss in the current period	Decrease during the year: Intangible assets recognized	Closing balance
HX complete vehicle external flow field analysis and optimization project	–	2,461,900.00	–	–	2,461,900.00
Others	–	532,332.00	–	–	532,332.00
	–	2,994,232.00	–	–	2,994,232.00

19. Goodwill

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Among which: Provision for impairment
Merger with TAGC	538,016,278.33	–	(107,774.31)	537,908,504.02	–
Merger with LHY Co	–	905,206,283.29	–	905,206,283.29	–
	538,016,278.33	905,206,283.29	(107,774.31)	1,443,114,787.31	–

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance	Among which: Provision for impairment
Merger with Torch Automobile Group Co.	538,016,278.33	–	–	538,016,278.33	–

Closing balance as at 31 December 2012 represented goodwill arising from merger with TAGC and merger with LHY Co. Goodwill is tested for impairment based on asset groups formed by the assets from TAGC and LHY Co. As at 31 December 2012, the management considered there was no risk of impairment of goodwill.

The goodwill and trademarks acquired through business combination have been allocated to the following asset groups for impairment tests. These asset groups are as well the reportable segments:

- Cash-generating unit A: manufacture and sale of diesel engines and related parts
- Cash-generating unit B: major automobile components other than automotive and diesel engines
- Cash-generating unit C: manufacture of hydraulic pumps, hydraulic motors, hydraulic valves, gears and other components

Cash-generating unit A, B and C

The recoverable amount of cash-generating unit A, B and C has been determined based on the present value of the expected future cash flows of the asset group, which was determined based on cash flow projection in accordance to the 5-year financial budget approved by the management. The discount rate used for the cash flow projection was the pre-tax rate that better reflected the current time value of money and specific risks related to the assets. The growth rate of cash flows beyond the 5-year period was the long-term average growth rate in the industries or regions in which the enterprises operate.

The carrying amount of goodwill and trademark are allocated to the asset groups as follows:

	Carrying amount of goodwill		Carrying amount of trademark	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Cash-generating unit A	–	–	116,422,784.00	116,392,004.00
Cash-generating unit B	537,908,504.02	538,016,278.33	94,197,000.00	94,197,000.00
Cash-generating unit C	905,206,283.29	–	–	–
Total	1,443,114,787.31	538,016,278.33	210,619,784.00	210,589,004.00

The other major assumption of the value in use calculation is related to the projection of cash inflows and outflows (including advance of turnover and gross profit). These projections are determined based on past performance and the management's expectation of market development of the unit.

20. Long-term prepaid expenses

2012

	Opening balance	Increase during the year	Amortization during the year	Other decrease	Closing balance
Industrial mould fee	76,410,022.96	34,793,941.12	(32,783,989.09)	(5,311,226.84)	73,108,748.15
Industrial equipment fee	46,353,197.29	15,324,511.74	(19,389,725.24)	(2,865,482.65)	39,422,501.14
Expenditure on improvement of fixed assets leased in	37,811,599.14	39,739,653.37	(20,959,430.32)	–	56,591,822.19
	160,574,819.39	89,858,106.23	(73,133,144.65)	(8,176,709.49)	169,123,071.48

2011

	Opening balance	Increase during the year	Amortization during the year	Other decrease	Closing balance
Industrial mould fee	100,026,098.59	19,570,389.71	(43,186,465.34)	–	76,410,022.96
Industrial equipment fee	45,543,821.64	20,517,367.54	(19,707,991.89)	–	46,353,197.29
Expenditure on improvement of fixed assets leased in	23,109,444.05	29,720,004.74	(15,017,849.65)	–	37,811,599.14
	168,679,364.28	69,807,761.99	(77,912,306.88)	–	160,574,819.39

21. Deferred tax assets/liabilities

Recognized deferred tax assets and liabilities are presented as follows:

	31 December 2012	31 December 2011
Deferred tax assets		
Impairment of assets	162,423,673.47	168,743,515.75
Accruals	350,081,908.09	456,424,964.40
Offset of profits generated from intra-group transactions of the Group	63,029,230.83	100,884,787.48
Fair value change in available-for-sale financial assets	–	413,017.97
Deductible losses	19,796,977.84	12,943,475.69
Deductible goodwills arising from business combination (before tax)	103,131,554.81	–
Others	1,656,462.84	1,741,966.53
	700,119,807.88	741,151,727.82

	31 December 2012	31 December 2011
Deferred tax liabilities		
Adjustment in fair value upon business combination	140,540,534.84	28,743,981.23
Fair value change in available-for-sale financial assets	11,280,000.60	5,760,001.16
Amortization of trademark rights (including tax value)	16,333,800.00	16,333,800.00
	168,154,335.44	50,837,782.39

Deductible temporary differences and deductible losses in respect of unrecognized items of deferred tax assets are as follows:

	31 December 2012	31 December 2011
Deductible temporary differences	192,690,896.01	148,958,956.27
Deductible losses	1,163,949,083.54	400,395,282.19
	1,356,639,979.55	549,354,238.46

Deductible losses in respect of unrecognized deferred tax assets will fall due in the following years:

	31 December 2012	31 December 2011
2012	–	11,578,222.31
2013	14,906,795.48	34,656,829.77
2014	18,394,098.65	19,397,404.25
2015	84,565,745.11	85,539,100.83
2016	236,582,985.95	249,223,725.03
2017	809,499,458.35	–
	1,163,949,083.54	400,395,282.19

Temporary differences corresponding to items of assets or liabilities from which such temporary differences arose are as follows:

	31 December 2012	31 December 2011
Impairment of assets	1,028,651,347.69	1,152,349,030.64
Accruals	2,309,354,310.21	3,030,890,105.70
Offset of profits generated from intra-group transactions of the Group	420,194,872.22	620,826,947.78
Deductible losses	131,979,852.27	59,050,235.05
Other deductible temporary differences	774,830,528.62	7,638,023.69
Adjustment in fair value upon business combination	(1,021,568,170.87)	(191,626,541.54)
Adjustment in fair value of financial assets	(75,200,000.00)	(36,747,928.12)
Amortization of trademark rights (including tax value)	(108,892,000.00)	(108,892,000.00)
	3,459,350,740.14	4,533,487,873.20

22. Provision for impairment of assets

2012

		Increase during the year		Decrease during the year			
	Opening balance	Provision for the year	Increase of scope of consolidation	Reversal	Write-off	Disposal of subsidiaries	Closing balance
Provision for bad debt	765,837,682.35	38,095,319.71	335,688.40	(62,258,122.56)	(12,324,279.44)	(21,684,344.52)	708,001,943.94
Provision for decline in value of inventories	372,161,662.10	121,888,260.54	–	(19,312,333.04)	(109,783,733.76)	(13,660,423.61)	351,293,432.23
Provision for impairment of long-term equity investment	122,232,129.56	1,408,500.00	–	–	–	–	123,640,629.56
Provision for impairment of other current assets	27,677,250.00	–	357,357.01	(357,357.01)	–	–	27,677,250.00
Provision for impairment of fixed assets	35,347,434.83	–	–	–	(13,821.89)	–	35,333,612.94
Provision for impairment of construction in progress	3,738,267.94	–	–	–	–	–	3,738,267.94
	1,326,994,426.78	161,392,080.25	693,045.41	(81,927,812.61)	(122,121,835.09)	(35,344,768.13)	1,249,685,136.61

2011

		Increase during the year		Decrease during the year		
	Opening balance	Provision for the year	Others	Reversal	Write-off	Closing balance
Provision for bad debt	853,123,601.74	41,936,260.13	3,729,509.98	(120,915,485.41)	(12,036,204.09)	765,837,682.35
Provision for decline in value of inventories	370,365,936.41	111,924,859.06	–	(18,046,083.07)	(92,083,050.30)	372,161,662.10
Provision for impairment of long-term equity investment	122,232,129.56	–	–	–	–	122,232,129.56
Provision for impairment of other current assets	27,677,250.00	–	–	–	–	27,677,250.00
Provision for impairment of fixed assets	32,583,722.96	3,611,951.99	–	–	(848,240.12)	35,347,434.83
Provision for impairment of construction in progress	3,738,267.94	–	–	–	–	3,738,267.94
	1,409,720,908.61	157,473,071.18	3,729,509.98	(138,961,568.48)	(104,967,494.51)	1,326,994,426.78

23. Short-term loans

	31 December 2012	31 December 2011
Mortgage loans	120,000,000.00	81,000,000.00
Pledge loans	81,882,068.00	16,187,436.00
Credit loans	2,540,209,566.05	1,444,050,572.87
	2,742,091,634.05	1,541,238,008.87

As at 31 December 2012, the annual interest rate for the above loans was 2.36%–8.53% (31 December 2011: 2.12%–8.53%).

As at 31 December 2012, the aggregate carrying amount of various assets that had been used by the Group to secure bank loans was RMB123,797,376.02 (31 December 2011: RMB156,862,162.93), while the aggregate carrying amount of various assets that had been pledged to obtain bank loans was RMB92,280,926.01 (31 December 2011: RMB16,413,497.95).

As at 31 December 2012, the Group had no short-term loans which was due but yet to be repaid.

The short-term loans denominated in foreign currencies are set out as follows:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Short-term loans						
– HKD	93,000,000.00	0.8108	75,404,400.00	93,000,000.00	0.8107	75,395,100.00
– EUR	49,930,000.00	8.3176	415,297,768.00	26,550,000.00	8.1625	216,714,375.00
– USD	113,180,000.00	6.2855	711,392,890.00	3,294,960.00	6.3009	20,761,213.46
			1,202,095,058.00			312,870,688.46

24. Notes payable

	31 December 2012	31 December 2011
Bank acceptance bill	5,244,310,106.70	5,965,759,459.51

As at 31 December 2012, the amount of notes payable falling due in the next accounting period was RMB5,244,310,106.70.

As at 31 December 2012, notes payable did not include amounts payable to shareholders that held 5% or more of the Company's voting shares (31 December 2011: nil). Please refer to Note VI.6 for the balance of notes payable between the Group and other related parties.

25. Accounts payable

Accounts payable are non-interest bearing, and are generally settled within three to four months.

	31 December 2012	31 December 2011
Accounts payable	9,962,420,973.54	13,078,975,509.97

As at 31 December 2012, the aging analysis of accounts payable based on the invoice date is presented as follows:

	31 December 2012	31 December 2011
Within 3 months	9,181,115,720.64	12,204,971,043.43
3 to 6 months	315,893,898.34	539,622,179.76
6 months to 1 year	154,647,071.71	215,204,458.29
Over 1 year	310,764,282.85	119,177,828.49
Total	9,962,420,973.54	13,078,975,509.97

As at 31 December 2012, there was no material accounts payable which aged over one year (31 December 2011: nil).

As at 31 December 2012, amounts payable to shareholders that held 5% or more of the Company's voting shares included in accounts payable amounted to RMB283,674.76 (31 December 2011: RMB283,674.76). Please refer to Note VI.6 for the balance of accounts payable between the Group and other related parties.

Accounts payable denominated in foreign currencies are set out as follows:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Accounts payable						
– USD	7,790,199.71	6.2855	48,965,300.28	5,142,173.67	6.3009	32,400,322.08
– EUR	5,224,142.04	8.3176	43,452,323.83	9,157,948.79	8.1625	74,751,757.01
			92,417,624.11			107,152,079.09

26. Advances from customers

	31 December 2012	31 December 2011
Advances from customers	872,835,717.97	882,764,570.36

As at 31 December 2012, there was no material advances from customers which aged over one year (31 December 2011: nil).

As at 31 December 2012, advances from customers did not include amounts payable to shareholders that held 5% or more of the Company's voting shares (31 December 2011: nil). Please refer to Note VI.6 for the balance of advances from customers between the Group and other related parties.

Advances from customers denominated in foreign currencies are set out as follows:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Advances from customers						
– USD	24,831,286.22	6.2855	156,077,049.54	12,883,630.99	6.3009	81,178,470.50
– EUR	2,643,018.09	8.3176	21,983,567.27	464,828.81	8.1625	3,794,165.16
			178,060,616.81			84,972,635.66

27. Payroll payable

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses, allowances and subsidies	801,262,845.38	2,057,550,322.26	(2,182,968,734.55)	675,844,433.09
Staff welfare	15,045,946.99	180,496,114.19	(180,077,192.59)	15,464,868.59
Social security	36,131,257.54	487,122,451.50	(476,305,491.13)	46,948,217.91
Incl: Basic pension insurance	12,901,176.13	231,165,464.04	(233,152,192.59)	10,914,447.58
Medical insurance	2,582,181.64	85,823,677.11	(86,837,188.51)	1,568,670.24
Contribution to pension fund	16,595,283.61	83,729,910.47	(69,963,378.94)	30,361,815.14
Unemployment insurance	844,939.36	30,481,024.45	(30,717,774.60)	608,189.21
Working injury insurance	391,072.69	13,412,283.52	(13,499,581.34)	303,774.87
Maternity insurance	326,854.34	13,622,931.66	(13,452,290.08)	497,495.92
Supplementary medical insurance	2,489,749.77	28,887,160.25	(28,683,085.07)	2,693,824.95
Housing funds	6,105,008.62	169,733,654.33	(165,117,676.33)	10,720,986.62
Union running costs	95,199,846.81	35,552,538.59	(20,321,090.86)	110,431,294.54
Employee education costs	114,814,609.49	34,936,566.41	(42,039,670.01)	107,711,505.89
Severance benefit	65,831,800.38	4,257,272.91	(10,017,428.01)	60,071,645.28
Others	84,788.08	3,639,448.21	(4,194,431.19)	(470,194.90)
	1,134,476,103.29	2,973,288,368.40	(3,081,041,714.67)	1,026,722,757.02

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses, allowances and subsidies	781,549,701.53	2,310,171,870.55	(2,290,458,726.70)	801,262,845.38
Staff welfare	10,499,909.55	216,684,926.29	(212,138,888.85)	15,045,946.99
Social security	23,067,984.35	455,240,535.81	(442,177,262.62)	36,131,257.54
Incl: Basic pension insurance	9,297,769.91	266,289,700.69	(262,686,294.47)	12,901,176.13
Medical insurance	1,918,397.59	75,068,079.32	(74,404,295.27)	2,582,181.64
Contribution to pension fund	9,614,180.13	42,483,008.82	(35,501,905.34)	16,595,283.61
Unemployment insurance	150,598.91	25,985,390.66	(25,291,050.21)	844,939.36
Working injury insurance	307,051.15	12,605,062.87	(12,521,041.33)	391,072.69
Maternity insurance	253,080.36	9,096,709.71	(9,022,935.73)	326,854.34
Supplementary medical insurance	1,526,906.30	23,712,583.74	(22,749,740.27)	2,489,749.77
Housing funds	4,316,253.22	130,776,096.97	(128,987,341.57)	6,105,008.62
Union running costs	86,683,753.34	40,100,949.57	(31,584,856.10)	95,199,846.81
Employee education costs	101,896,606.19	41,684,255.45	(28,766,252.15)	114,814,609.49
Severance benefit	77,619,158.73	17,862,880.36	(29,650,238.71)	65,831,800.38
Others	388,517.27	500,544.97	(804,274.16)	84,788.08
	1,086,021,884.18	3,213,022,059.97	(3,164,567,840.86)	1,134,476,103.29

As at 31 December 2012, the Group had no payroll payable in arrears (31 December 2011: nil).

Directors and supervisors' total remuneration for the year were as follows:

	31 December 2012	31 December 2011
Fees	738,284.00	734,251.92
Other emoluments:		
Salaries, allowances and benefits in kind	4,791,000.00	5,971,600.00
Performance-related bonuses	–	–
Pension	196,748.07	93,298.72
Total	5,726,032.07	6,799,150.64

Remuneration of independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	31 December 2012	**31 December 2011**
Mr. Liu Zheng *(Note 1)*	114,000.00	120,000.00
Mr. Li Shihao *(Note 1)*	114,000.00	120,000.00
Mr. Loh Yih *(Note 1)*	72,972.00	–
Mr. Chu, Howard Ho Hwa *(Note 1)*	72,972.00	–
Mr. Zhang Zhenhua *(Note 1)*	60,000.00	–
Mr. Li Luwen *(Note 1)*	60,000.00	–
Mr. Zhang Xiaoyu *(Note 2)*	54,000.00	120,000.00
Mr. Koo Fook Sun *(Note 2)*	82,340.00	134,251.92
Mr. Fang Zhongchang *(Note 2)*	54,000.00	120,000.00
Mr. Gu Linsheng *(Note 2)*	54,000.00	120,000.00
Total	738,284.00	734,251.92

Note 1: Appointed as an independent director of the Company on 29 June 2012.

Note 2: Retired as an independent director of the Company on 29 June 2012.

Remuneration of executive directors, non-executive directors and supervisors

2012

	Fees	**Salaries, allowances and benefits in kind**	**Performance-related bonuses**	**Pension**	**Total remuneration**
Executive directors:					
Mr. Tan Xuguang	–	–	–	35,600.79	35,600.79
Mr. Xu Xinyu	–	1,201,000.00	–	35,600.79	1,236,600.79
Mr. Li Dakai	–	–	–	–	–
Mr. Fang Hongwei	–	–	–	–	–
Mr. Sun Shaojun	–	1,201,000.00	–	35,600.79	1,236,600.79
Mr. Zhang Quan	–	1,201,000.00	–	35,600.79	1,236,600.79
	–	3,603,000.00	–	142,403.16	3,745,403.16
Non-executive director:					
Mr. Chen Xuejian	–	77,000.00	–	–	77,000.00
Mr. Yeung Sai Hong	–	77,000.00	–	–	77,000.00
Mr. Julius G. Kiss	–	77,000.00	–	–	77,000.00
Ms. Han Xiaoqun	–	77,000.00	–	–	77,000.00
Mr. Jiang Kui	–	50,000.00	–	–	50,000.00
Mr. Liu Huisheng	–	77,000.00	–	–	77,000.00
Ms. Zhang Fusheng *(Note 3)*	–	601,000.00	–	18,744.12	619,744.12
Mr. Yao Yu *(Note 3)*	–	27,000.00	–	–	27,000.00
Mr. Li San Yim *(Note 3)*	–	27,000.00	–	–	27,000.00
	–	1,090,000.00	–	18,744.12	1,108,744.12

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension	Total remuneration
Supervisors:					
Mr. Sun Chengping	–	77,000.00	–	–	77,000.00
Mr. Lu Wenwu	–	518,000.00	–	35,600.79	553,600.79
Ms. Jiang Jianfang	–	77,000.00	–	–	77,000.00
	–	672,000.00	–	35,600.79	707,600.79

Note 3: Retired as a director of the Company on 29 June 2012.

2011

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension	Total remuneration
Executive directors:					
Mr. Tan Xuguang	–	–	–	23,324.68	23,324.68
Mr. Xu Xinyu	–	1,585,200.00	–	23,324.68	1,608,524.68
Mr. Sun Shaojun	–	1,585,200.00	–	23,324.68	1,608,524.68
Mr. Zhang Quan	–	1,585,200.00	–	23,324.68	1,608,524.68
	–	4,755,600.00	–	93,298.72	4,848,898.72
Non-executive director:					
Ms. Zhang Fusheng	–	60,000.00	–	–	60,000.00
Mr. Liu Huisheng	–	60,000.00	–	–	60,000.00
Mr. Yao Yu	–	60,000.00	–	–	60,000.00
Mr. Yeung Sai Hong	–	60,000.00	–	–	60,000.00
Mr. Chen Xuejian	–	60,000.00	–	–	60,000.00
Mr. Li San Yim	–	60,000.00	–	–	60,000.00
Mr. Julius G. Kiss	–	60,000.00	–	–	60,000.00
Ms. Han Xiaoqun	–	60,000.00	–	–	60,000.00
Mr. Gu Linsheng	–	120,000.00	–	–	120,000.00
Mr. Li Shihao	–	120,000.00	–	–	120,000.00
Mr. Liu Zheng	–	120,000.00	–	–	120,000.00
	–	840,000.00	–	–	840,000.00
Supervisors:					
Mr. Sun Chengping	–	60,000.00	–	–	60,000.00
Mr. Lu Wenwu	–	616,000.00	–	23,324.68	639,324.68
Ms. Jiang Jianfang	–	60,000.00	–	–	60,000.00
	–	736,000.00	–	23,324.68	759,324.68

The five highest paid employees during the year included one directors or supervisors, details of whose remuneration are set out in note 27 above. Details of the remuneration of the remaining four (2011: two) non-director and non-supervisor, highest paid employees for the year are as follows:

	31 December 2012	31 December 2011
Salaries, allowances and benefits in kind	6,170,300.00	3,276,900.00
Performance-related bonuses	–	–
Pension	–	–
	6,170,300.00	3,276,900.00

The number of non-director and non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	31 December 2012	31 December 2011
Nil to RMB1,000,000	–	–
RMB1,000,001 to RMB1,500,000	2	1
RMB1,500,001 to RMB2,000,000	1	1
RMB2,000,001 to RMB2,500,000	1	–

28. Taxes payable

	31 December 2012	31 December 2011
Value-added tax	98,990,711.71	21,197,400.14
Corporate income tax	55,481,312.50	1,875,862,418.03
Individual income tax	5,882,581.00	13,050,316.23
Property tax	13,318,434.83	16,342,167.98
Stamp duty	13,232,940.62	11,900,326.65
Land use tax	4,939,765.39	12,761,718.09
City construction tax	11,263,574.88	9,150,856.01
Business tax	4,282,292.64	8,429,134.02
Other taxes	31,989,110.06	35,917,136.05
	239,380,723.63	2,004,611,473.20

29. Interests payable

	31 December 2012	31 December 2011
Interests on medium-term notes	54,408,333.33	54,408,333.33
Interests on borrowings	7,272,293.10	3,097,498.49
	61,680,626.43	57,505,831.82

30. Dividends payable

	31 December 2012	31 December 2011
Dividends payable to minority shareholders of subsidiaries	33,103,222.12	59,135,231.94

31. Other payables

	31 December 2012	31 December 2011
Sales discount	645,664,882.61	908,830,359.97
Guarantees and deposits	557,978,359.27	356,565,091.83
Payables for purchase of construction and fixed assets	476,662,796.81	704,379,365.77
Repair and maintenance expenses	171,511,123.42	295,577,078.42
Land facility fee and land premiums	40,209,495.92	106,663,550.32
Others	643,737,716.55	618,653,753.53
	2,535,764,374.58	2,990,669,199.84

As at 31 December 2012, other payables did not include amounts payable to shareholders that held 5% or more of the Company's voting shares (31 December 2011: nil). Please refer to Note VI.6 for the balance of other payables between the Group and other related parties.

As at 31 December 2012, other payables in significant amount aging over 1 year are set out as follows:

	Amount	Reason for not being repaid
Payables for purchase of construction and fixed assets	295,530,463.47	Not yet received invoice and longer period for construction

Among the aforesaid other payables in significant amount aging over 1 year, an amount of RMB1,933,849.90 was repaid or carried forward after the balance sheet date.

As at 31 December 2012, other payables denominated in foreign currencies are set out as follows:

	31 December 2012			31 December 2011		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other payables						
– USD	15,517,408.09	6.2855	97,534,668.55	19,029,938.40	6.3009	119,905,738.86
– EUR	928,531.93	8.3176	7,723,157.18	1,044,806.90	8.1625	8,528,236.32
			105,257,825.73			128,433,975.18

32. Non-current liabilities due within one year

	31 December 2012	31 December 2011
Long-term borrowings due within one year	340,000,000.00	700,000,000.00
Other non-current liabilities due within one year	12,604,906.92	–
	352,604,906.92	700,000,000.00

Long-term borrowings due within one year are as follows:

	31 December 2012	31 December 2011
Credit loans	340,000,000.00	700,000,000.00

As at 31 December 2012, there was no long-term borrowings due but to be repaid.

As at 31 December 2011, there was no long-term borrowings due but to be repaid.

As at 31 December 2012, breakdown of the long-term borrowings due within one year is as follows:

	Loan drawdown date	Loan due date	Currency	Annual interest rate (%)	Outstanding amount
The Export-Import Bank of China (Shaanxi Branch)	2011/09/28	2013/08/9	RMB	4.76	100,000,000.00
The Export-Import Bank of China (Shaanxi Branch)	2012/01/12	2013/09/12	RMB	4.76	100,000,000.00
Bank of China (Qi Shan branch)	2010/1/27	2013/01/26	RMB	5.27	40,000,000.00
China Minsheng Bank (Xi'an branch)	2010/5/19	2013/05/18	RMB	5.27	50,000,000.00
SPD Bank (Xi'an branch)	2010/06/10	2013/06/10	RMB	5.76	30,000,000.00
China Merchants Bank (Zhuzhou branch)	2010/12/31	2013/12/31	RMB	5.27	20,000,000.00

As at 31 December 2011, breakdown of the long-term borrowings due within one year was as follows:

	Loan drawdown date	Loan due date	Currency	Annual interest rate (%)	Outstanding amount
China CITIC Bank (Xi'an branch)	2009/06/30	2012/06/29	RMB	4.86	300,000,000.00
China CITIC Bank (Xi'an branch)	2009/07/28	2012/07/27	RMB	5.04	100,000,000.00
China CITIC Bank (Xi'an branch)	2009/11/26	2012/09/24	RMB	5.27	100,000,000.00
Bank of Beijing	2009/11/16	2012/11/15	RMB	4.86	100,000,000.00
Bank of China	2009/09/17	2012/09/16	RMB	4.86	100,000,000.00

As at 31 December 2012, there were no various assets pledged by the Group to obtain the above bank loans (31 December 2011: Nil).

33. Other current liabilities

	31 December 2012	31 December 2011
Expected after-sales expenses	768,532,527.52	940,862,678.53
Others	84,327,691.48	57,339,192.10
	852,860,219.00	998,201,870.63

34. Long-term borrowings

	31 December 2012	31 December 2011
Guaranteed loans	6,344,249,958.75	–
Credit loans	–	352,254,546.00
	6,344,249,958.75	352,254,546.00

	2012	2011
Long-term borrowings:		
Due within 3 years	1,736,062,489.69	348,000,000.00
Due with 3 to 5 years (inclusive)	–	–
Over 5 years	4,608,187,469.06	4,254,546.00
	6,344,249,958.75	352,254,546.00

As at 31 December 2012, long-term borrowings include an amount of EUR738,000,000.00 (RMB equivalent of 6,144,249,958.75) which was provided by the Company to Weichai Power (Hong Kong) International Development Co., Ltd. as a guarantee for its special borrowings for overseas acquisition from the bank, the amount of which will be used to invest in Kion Holding 1 GmbH and LHY Co.

As at 31 December 2012, top 5 long-term borrowings are presented as follows:

	Loan drawdown date	Loan due date	Currency	Interest rate (%)	Outstanding amount
China Development Bank	2012/12/27	2020/12/27	EUR	2.8180	4,608,187,469.06
Industrial and Commercial Bank of China (Asia)	2012/12/29	2015/12/19	EUR	1.5840	1,536,062,489.69
The Export-Import Bank of China (Shaanxi branch)	2012/11/16	2014/11/15	RMB	4.7600	200,000,000.00
					6,344,249,958.75

As at 31 December 2011, top 5 long-term borrowings are presented as follows:

	Loan drawdown date	Loan due date	Currency	Interest rate (%)	Outstanding amount
China Merchants Bank	2010/1/13	2013/1/12	RMB	5.49	100,000,000.00
The Export-Import Bank of China	2011/9/28	2013/8/9	RMB	4.76	100,000,000.00
China Merchants Bank (Zhuzhou branch)	2010/6/10	2013/6/10	RMB	5.76	50,000,000.00
SPD Bank (Xi'an branch)	2010/5/19	2013/5/18	RMB	5.27	30,000,000.00
Bank of China (Qi Shan branch)	2010/1/27	2013/1/26	RMB	5.27	48,000,000.00
					328,000,000.00

As at 31 December 2012, the Group had long-term borrowings denominated in foreign currencies of RMB6,144,249,958.25 (31 December 2011: nil).

35. Bonds payable

	31 December 2012	31 December 2011
Medium-term note	2,691,489,273.21	2,687,471,069.22

The Company registered at the National Association of Financial Market Institutional Investors in August 2009 for issuing medium-term notes in a registered amount of 2.7 billion to be issued in two tranches. The handling fee was 0.3%. The first tranche, in an aggregate amount of RMB1.3 billion, was issued on 24 August 2009. Its maturity period was 5 years, with a coupon rate of 4.95%. Interest was payable every 12 months. The second tranche of RMB1.4 billion was issued on 28 July 2011 with a maturity period of 5 years. The coupon rate was 5.65% with interest payable every 12 months.

As at 31 December 2012, balance of bonds payable are listed as follows:

	Face value	Issuing date	Bond period	Outstanding balance at year-end	Interest payable at year-beginning	Accrued interest in current year	Interest paid in current year	Interest payable at year-end
Medium-term note	1,400,000,000.00	2011-7-28	5 years	1,402,328,062.85	32,958,333.33	79,100,000.00	(79,100,000.00)	32,958,333.33
Medium-term note	1,300,000,000.00	2009-8-24	5 years	1,289,161,210.36	21,450,000.00	64,350,000.00	(64,350,000.00)	21,450,000.00

As at 31 December 2011, balance of bonds payable are listed as follows:

	Face value	Issuing date	Bond period	Outstanding balance at year-end	Interest payable at year-beginning	Accrued interest in current year	Interest paid in current year	Interest payable at year-end
Medium-term note	1,400,000,000.00	2011-7–28	5 years	1,398,599,082.69	–	32,958,333.33	–	32,958,333.33
Medium-term note	1,300,000,000.00	2009-8–24	5 years	1,288,871,986.53	21,450,000.00	64,350,000.00	(64,350,000.00)	21,450,000.00

36. Long-term payables

	31 December 2012	31 December 2011
Government grants for national debt projects	5,500,000.00	5,500,000.00
Mudanjiang Finance Bureau	–	16,000,000.00
Interest subsidy for the project of producing 600,000 CVC series compressors annually	–	10,580,000.00
Others	–	4,297,700.00
	5,500,000.00	36,377,700.00

37. Special payables

31 December 2012

	At year-beginning	Increase during the year	Decrease during the year	At year-end
Interest subsidy for liquid fund granted by provincial finance office	23,000,000.00	–	–	23,000,000.00
Special funds of national debt – establishment of key industry revitalization and technological renovation projects	–	20,000,000.00	–	20,000,000.00
	23,000,000.00	20,000,000.00	–	43,000,000.00

31 December 2011

	At year-beginning	Increase during the year	Decrease during the year	At year-end
Interest subsidy for liquid fund granted by provincial finance office	23,000,000.00	–	–	23,000,000.00
Special funds of national debt – establishment of key industry revitalization and technological renovation projects	21,000,000.00	–	(21,000,000.00)	–
Land premium subsidy	11,090,000.00	–	(11,090,000.00)	–
	55,090,000.00	–	(32,090,000.00)	23,000,000.00

38. Other non-current liabilities

	31 December 2012	31 December 2011
Defined benefit plans	757,944,296.30	–
Put options in relation to minority interests	622,325,082.99	–
Deferred income	326,498,982.94	64,706,818.39
Others	38,189,881.60	13,799,432.71
	1,744,958,243.83	78,506,251.10

Description of other non-current liabilities:

Details of the defined benefit plans are set out in Note X. 6.

Put options in relation to minority interests represent the rights granted to the minority shareholders to dispose of the 20% interests in LHY Co. during the acquisition of 70% interests by the Company in LHY Co. Pursuant to the accounting policy of the Group, the present value of the amount required to be paid at the time of redemption deducted from equity (other than minority interests) was recognized as the financial liabilities of the Group. Details of the option arrangement are set out in Note IV. 4.

Deferred income are detailed as follows:

	31 December 2012	31 December 2011
Land-related government grant	293,847,119.48	11,092,284.46
Technological renovation and financial special funds	31,553,863.39	15,180,000.00
Public rental housing from the government	698,000.07	–
Other government grants related to assets	400,000.00	–
Special funds of national debt	–	19,922,027.99
Funding for pilot enterprise project of remanufacturing of automobile components	–	7,857,746.40
Establishment of key industry revitalization and technological renovation projects in Shaanxi	–	6,000,000.00
Government incentive	–	4,654,759.54
	326,498,982.94	64,706,818.39

39. Share capital

2012

	At year-beginning		Increase (decrease) of shares in current year			At year-end	
	No. of shares	Percentage (%)	Distribution of dividends for shares	Others	Sub-total	No. of shares	Percentage (%)
i. Restricted shares							
State-owned legal person shares	373,224,594.00	22.40	74,644,919.00	–	74,644,919.00	447,869,513.00	22.40
Other domestic shares	118,520,000.00	7.11	23,704,000.00	–	23,704,000.00	142,224,000.00	7.11
Incl: Domestic non-state-owned legal person shares	71,160,000.00	4.27	14,232,000.00	–	14,232,000.00	85,392,000.00	4.27
Domestic natural person shares	47,360,000.00	2.84	9,472,000.00	–	9,472,000.00	56,832,000.00	2.84
Overseas shares	78,440,000.00	4.71	15,688,000.00	–	15,688,000.00	94,128,000.00	4.71
Including: Overseas legal person shares	78,440,000.00	4.71	15,688,000.00	–	15,688,000.00	94,128,000.00	4.71
Overseas natural person shares	–	–	–	–	–	–	–
	570,184,594.00	34.22	114,036,919.00	–	114,036,919.00	684,221,513.00	34.22
ii. Non-restricted shares							
RMB ordinary Shares	691,106,772.00	41.48	138,221,354.00	–	138,221,354.00	829,328,126.00	41.48
Domestic listed foreign shares	–	–	–	–	–	–	–
Overseas listed foreign shares	404,800,000.00	24.30	80,960,000.00	–	80,960,000.00	485,760,000.00	24.30
	1,095,906,772.00	65.78	219,181,354.00	–	219,181,354.00	1,315,088,126.00	65.78
iii. Total no. of shares	1,666,091,366.00	100.00	333,218,273.00	–	333,218,273.00	1,999,309,639.00	100.00

2011

	At year-beginning		Increase (decrease) of shares in current year			At year-end	
	No. of shares	Percentage (%)	Transferred from capital reserve	Others	Sub-total	No. of shares	Percentage (%)
i. Restricted shares							
State-owned legal person shares	373,224,594.00	22.40	–	–	–	373,224,594.00	22.40
Other domestic shares	118,520,000.00	7.11	–	–	–	118,520,000.00	7.11
Incl: Domestic non-state-owned legal person shares	71,160,000.00	4.27	–	–	–	71,160,000.00	4.27
Domestic natural person shares	47,360,000.00	2.84	–	–	–	47,360,000.00	2.84
Overseas shares	78,440,000.00	4.71	–	–	–	78,440,000.00	4.71
Including: Overseas legal person shares	78,440,000.00	4.71	–	–	–	78,440,000.00	4.71
Overseas natural person shares	–	–	–	–	–	–	–
	570,184,594.00	34.22	–	–	–	570,184,594.00	34.22
ii. Non-restricted shares							
RMB ordinary Shares	691,106,772.00	41.48	–	–	–	691,106,772.00	41.48
Domestic listed foreign shares	–	–	–	–	–	–	–
Overseas listed foreign shares	404,800,000.00	24.30	–	–	–	404,800,000.00	24.30
	1,095,906,772.00	65.78	–	–	–	1,095,906,772.00	65.78
iii. Total no. of shares	1,666,091,366.00	100.00	–	–	–	1,666,091,366.00	100.00

In accordance with the resolution of the annual general meeting 2011 and the amended Articles, on 29 June 2012, the Company transferred 333,218,273 shares representing RMB333,218,273 from the retained earnings to registered capital, upon which the total capital was 1,999,309,639 shares. The transfer has been verified by Shandong Zheng Yuan Hexin Accountants Limited (山東正源和信有限責任會計師事務所) in its verification report Lu Zheng Xin Yan Zi (魯正信驗字) No. (2012) 1013.

40. Capital reserve

2012

	At year-beginning	Increase during the year	Decrease during the year	At year-end
Share premium	1,219,789,901.43	–	–	1,219,789,901.43
Other capital reserves *(Note)*	301,046,503.11	35,730,230.63	(714,190,653.12)	(377,413,919.38)
	1,520,836,404.54	35,730,230.63	(714,190,653.12)	842,375,982.05

2011

	At year-beginning	Increase during the year	Decrease during the year	At year-end
Share premium	1,219,789,901.43	–	–	1,219,789,901.43
Other capital reserves (*Note*)	773,528,364.27	–	(472,481,861.16)	301,046,503.11
	1,993,318,265.70	–	(472,481,861.16)	1,520,836,404.54

Note: Capital reserve – increase or decrease in other capital reserves in the current period are primarily attributable to the changes in fair value of available-for-sale financial assets, changes in other interests in associates and recognition of put options in relation to minority interests.

41. Special reserve

2012

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety funds	–	73,824,875.50	(50,735,332.98)	23,089,542.52

2011

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety funds	–	–	–	–

42. Surplus reserve

2012

	At year-beginning	Increase during the year	Decrease during the year	At year-end
Statutory surplus reserve	1,935,774,543.04	364,353,923.78	–	2,300,128,466.82

2011

	At year-beginning	Increase during the year	Decrease during the year	At year-end
Statutory surplus reserve	1,424,081,328.77	511,693,214.27	–	1,935,774,543.04

According to the provisions of Company Law and the articles of association, the Company appropriated statutory surplus reserve at 10% of the net profit. Where the accumulated amount of the statutory surplus reserves reaches 50% or more of the Company's registered capital, additional appropriation is not needed.

43. Retained earnings

		2012	2011
Retained earnings at year-beginning of current year		17,813,666,654.13	13,445,984,645.13
Net profit attributable to shareholders of the parent		2,990,996,934.91	5,596,927,166.88
Less: Appropriation of surplus reserves	*Note 5.42*	364,353,923.78	511,693,214.27
Ordinary share cash dividends payable		366,540,100.50	716,419,287.38
Ordinary share dividends payable		333,218,273.00	–
Others		2,931,750.95	1,132,656.23
Retained earnings at year-end		19,737,619,540.81	17,813,666,654.13

On 29 June 2012, the profit distribution scheme 2011 was reviewed and approved on the 2011 annual general meeting of the Company. Based on the 1,666,091,366 shares, representing the total share capital of the Company, all shareholders were entitled to 2 shares with cash dividend of RMB1 (incl. tax) for every 10 shares held. The total dividend and cash dividend distributed amounted to RMB333,218,273.00 and RMB166,609,136.60 respectively. On 30 August 2012, the interim dividend distribution plan 2012 was reviewed and approved on the second meeting of the third session of the Board of the Company. Based on the 1,999,309,639 shares, representing the total share capital of the Company, all shareholders were entitled to cash dividend of RMB1 (incl. tax) for every 10 shares held. The total cash dividend distributed amounted to RMB199,930,963.90. As at the date of approval for issuance of these financial statements, distribution of such dividends had been completed.

44. Revenue and cost of sales

The revenue is listed as follows:

Revenue includes turnover and other revenue that arise in the course of the Group's ordinary activities. The Group's turnover, which arises from the principal activities of the Group, represents the net invoiced value of goods sold, after allowances for returns, trade discounts and the value of services rendered; and gross rental income received and receivable from investment properties.

	2012	2011
Revenue from principal operations	45,884,023,651.55	56,613,805,475.77
Other revenue	2,281,371,198.08	3,405,459,627.81
	48,165,394,849.63	60,019,265,103.58

Cost of sales is listed as follows:

	2012	2011
Cost of sales for principal operations	36,665,026,614.31	43,751,789,812.10
Other cost of sales	2,110,017,507.48	3,054,816,792.03
	38,775,044,121.79	46,806,606,604.13

Information related to principal operations is listed by sector as follows:

	2012		2011	
	Revenue	**Cost**	**Revenue**	**Cost**
Manufacturing of transportation equipment	45,635,494,431.25	36,424,834,215.81	56,185,894,218.18	43,356,760,106.90
Others	248,529,220.30	240,192,398.50	427,911,257.59	395,029,705.20
	45,884,023,651.55	36,665,026,614.31	56,613,805,475.77	43,751,789,812.10

Information related to principal operations is listed by regions as follows:

	2012		2011	
	Revenue	**Cost**	**Revenue**	**Cost**
Domestic	42,642,872,536.00	33,665,813,015.62	53,792,900,482.89	41,234,118,786.83
Overseas	3,241,151,115.55	2,999,213,598.69	2,820,904,992.88	2,517,671,025.27
	45,884,023,651.55	36,665,026,614.31	56,613,805,475.77	43,751,789,812.10

Information related to principal operations is listed by product type as follows:

	2012		2011	
	Revenue	**Cost**	**Revenue**	**Cost**
Complete vehicles and key components	33,543,662,414.54	26,233,968,319.58	43,129,720,935.95	32,875,768,516.26
Non-automobile engines	4,820,564,159.30	4,138,725,947.23	5,891,140,247.53	4,586,062,871.21
Other components	7,351,457,606.87	6,139,649,285.48	6,962,181,959.70	5,745,332,915.85
Others	168,339,470.84	152,683,062.02	630,762,332.59	544,625,508.78
	45,884,023,651.55	36,665,026,614.31	56,613,805,475.77	43,751,789,812.10

In 2012, revenue from the top 5 customers is presented as follows:

	Amount	**Proportion of revenue** *(%)*
Beiqi Foton Motor Co., Ltd	3,436,932,876.61	7.14
Faw Jiefang Automotive Co., Ltd	1,011,705,835.75	2.10
Zoomlion Heavy Industry Science and Technology Co., Ltd	1,168,529,282.75	2.43
Pang Da Automobile Trade Co., Ltd	920,531,481.27	1.91
Baotou Northern Benz Heavy Truck Company Limited	579,908,549.86	1.20
	7,117,608,026.24	14.78

In 2011, revenue from the top 5 customers is presented as follows:

	Amount	Proportion of revenue (%)
Beiqi Foton Motor Co., Ltd	5,715,414,615.50	9.52
Faw Jiefang Automotive Co., Ltd	3,254,161,257.99	5.42
Dongfeng Motor Co., Ltd (Commercial Vehicle Company)	1,612,994,888.88	2.69
Baotou Northern Benz Heavy Truck Company Limited	1,515,186,462.10	2.52
Pang Da Automobile Trade Co., Ltd	1,203,364,393.60	2.00
	13,301,121,618.07	22.15

Revenue is listed as follows:

	2012	2011
Revenue from principal operations		
Sales of goods and others	45,884,023,651.55	56,613,805,475.77
Other revenue		
Sales of materials	1,478,502,944.71	2,455,373,102.79
Sales of power	33,569,090.98	33,199,250.02
Lease income	41,213,183.91	73,085,716.76
Provision of non-industrial labour	31,992,391.29	15,367,116.10
Others	696,093,587.19	828,434,442.14
	2,281,371,198.08	3,405,459,627.81
	48,165,394,849.63	60,019,265,103.58

45. Taxes and surcharges

	2012	2011
Business tax	15,322,642.75	9,419,975.18
City construction tax	91,678,731.54	125,279,594.83
Educational surtax	69,143,955.63	78,440,506.80
Others	11,083,408.30	8,869,184.02
	187,228,738.22	222,009,260.83

Please refer to Note III. Taxation for tax rates.

46. Distribution and selling expenses

	2012	2011
After-sales and product return fee	1,054,557,011.65	1,419,232,150.78
Freight and packing fee	624,653,389.50	732,022,441.24
Marketing fee	213,557,544.96	241,208,231.95
Staff costs	220,784,973.23	194,701,385.41
Travel fee	79,871,066.39	73,660,839.16
Office expenses	33,211,491.67	28,601,150.08
Lease fee	12,433,957.17	27,991,364.03
Fixed assets depreciation	7,204,970.54	10,390,585.59
Others	187,204,115.78	179,047,458.66
	2,433,478,520.89	2,906,855,606.90

47. General and administrative expenses

	2012	2011
Staff costs	1,103,348,844.58	1,073,481,282.17
Experiment expenses and development expenses	494,547,772.40	573,524,887.65
External support fee	458,710,825.35	143,541,390.13
Office expenses	289,735,788.48	265,691,123.61
Fixed assets depreciation	274,034,327.67	178,797,488.04
Taxes	129,764,961.41	131,708,379.92
Travel fee	79,899,514.46	67,151,640.10
Fuels and materials expenses	43,830,138.58	38,197,018.46
Promotion fee	41,559,878.39	67,611,197.41
Lease fee	38,734,642.63	45,516,620.89
Repair fee	33,081,689.59	54,378,771.43
Transportation fee	32,203,843.26	31,094,116.61
Vehicle usage fee	18,820,090.27	26,699,104.77
Heating expense	10,164,591.74	19,944,292.44
Others	184,229,458.37	304,938,366.39
	3,232,666,367.18	3,022,275,680.02

The auditing fees of RMB11,600,000.00 for the financial statements for current year has been included in the general and administrative expenses above.

48. Finance expenses

	2012	2011
Interest expenses	335,264,691.93	225,759,403.63
Less: Interest income	340,047,429.55	212,115,787.51
Amount of interests capitalized	18,311,603.85	–
Exchange gains or losses	(2,998,888.30)	7,628,657.80
Handling fees and others	16,248,787.76	9,508,426.81
	(9,844,442.01)	30,780,700.73

Amounted of borrowing costs capitalized has been included in construction in progress.

	2012	2011
Interest expenses:	335,264,691.93	225,759,403.63
Interests on bank loans, overdrafts and other borrowings wholly repayable within 5 years	335,264,691.93	225,759,403.63

49. Impairment loss of assets

	2012	2011
Loss/(gain) from bad debt	(24,162,802.85)	(78,979,225.28)
Loss due to decline in value of inventories	102,575,927.50	93,878,775.99
Impairment loss of fixed assets	–	3,611,951.99
Other impairment loss	(357,357.01)	87,950.54
Impairment loss of long-term equity investments	1,408,500.00	–
	79,464,267.64	18,599,453.24

50. Investment income

	2012	2011
Long-term equity investment under the cost method	1,080,000.00	–
Long-term equity investment under the equity method	29,987,138.09	118,940,019.23
incl: investment income from investments in associates	29,987,138.09	118,940,019.23
Investment income from disposal of subsidiaries	186,963,951.52	–
Investment income from disposal of associates	21,814,350.32	–
Investment income from disposal of other long-term equity investments	–	33,230,557.38
Investment income from disposal of available-for-sale financial assets	1,900,045.80	–
Investment income gained during the period in which the Company held listed available-for-sale financial assets, etc.	4,800,000.00	5,600,000.00
Others	4,962,820.30	–
	251,508,306.03	157,770,576.61

The top 5 investees with highest aggregate profit in long-term equity investment income under the equity method are presented as follows:

	2012
Shanghai Xinlian Chuangye Investment Co., Ltd.	24,047,635.51
Shanzhong Finance Leasing Co., Ltd.	19,229,850.67
Weichai Power Westport New Energy Engine Co., Ltd.	17,520,755.56
Shandong Heavy Industry Group Finance Co., Ltd	2,424,654.78
CIMC-SHAC (Xi'an) Special Vehicles Co., Ltd.	1,085,587.99
	64,308,484.51

	2011
Shanghai Xinlian Chuangye Investment Co., Ltd.	110,461,319.98
Shanzhong Finance Leasing Co., Ltd.	15,946,265.91
Weichai Power Westport New Energy Engine Co., Ltd.	11,457,232.50
CIMC-SHAC (Xi'an) Special Vehicles Co., Ltd.	3,981,174.46
Shaanxi Fuping Shanqi Logistics Park Co., Ltd	1,748,068.88
	143,594,061.73

As at 31 December 2012, the Group was not subject to significant restrictions in remitting its investment income.

51. Non-operating income

	2012	2011
Government grants	152,893,444.51	172,145,893.26
Gain on disposal of non-current assets	17,829,894.56	38,936,620.12
incl: gain on disposal of fixed assets	15,917,375.10	18,941,351.54
gain on disposal of intangible assets	1,912,519.46	19,995,268.21
Profit from debt restructuring	36,889,291.88	19,267,573.99
Gain arising from the excess of fair value of identifiable net assets related to the acquired business over consideration of business combination	–	12,749,645.63
Others	70,942,231.37	45,870,608.49
	278,554,862.32	288,970,341.49

Government grants charged to profit or loss for the current period are presented as follows:

	2012	2011
Income of financial subsidies	59,931,315.50	129,698,006.18
Government grant	27,551,628.34	–
Refund of VAT levied	32,125,745.14	38,883,050.60
Others	33,284,755.53	3,564,836.48
	152,893,444.51	172,145,893.26

During the period, the Company received government subsidy in total of RMB152,893,444.51, including:

(1) the Company received tax refunds amounting to RMB28,369,000.00 from Hanting Finance Bureau in Weifang City during the period; pursuant to Wei Gao Cai Zhi (2012) No. 513 issued by the Finance Bureau of High Technology Industrial Development Zone, Weifang, the Company obtained Interest subsidy for imported goods of RMB9,151,600.00; and obtained grants for patent of RMB390,000.00 pursuant to Wei Gao Cai Zhi (2012) No. 537 issued by the Finance Bureau of High Technology Industrial Development Zone, Weifang.

(2) Xi'an Fast Auto Drive Co., Ltd., a subsidiary of the Company, obtained a grant from the technological innovation and supporting fund amounting to RMB24,140,000.00 for the development project of AMT for machinery of heavy-duty commercial vehicle;

(3) Pursuant to Qi Shan Guo Shui Han (2012) No. 9 and Qi Shan Guo Shui Han (2012) No. 10, Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, obtained the exemption from value-added tax applicable to special-purpose military vehicles from State Administration of Taxation of Qishan of RMB32,125,745.14; obtained subsidy for sustaining the leading industry development (2012) from Finance Bureau of Xi'an Economic and Technology Development Zone of RMB7,800,000.00; obtained incentives for industrial product accessories from the Finance Bureau of Xi'an of RMB2,000,000.00 and subsidy from the organizational department of RMB600,000.00 pursuant to Shi Cai Fa (2011) No. 1131 issued by the Finance Bureau of Xi'an; obtained subsidy for constructing the Shaanxi Province public service trade platform (2011) of RMB1,200,000.00 from Xi'an Municipal Bureau of Finance pursuant to Shi Cai Fa (2012) No. 1083 issued by Xi'an Municipal Bureau of Finance. It has also obtained incentives for expanded sales in respect of LNG/CNG heavy-duty trucks from the Ministry of Industry and Information Technology of Shaanxi Province/the Department of Finance of Shaanxi Province of RMB12,500,000.00 pursuant to Shan Cai Ban Jian (2012) No. 354 issued by the Department of Finance of Shaanxi Province.

52. Non-operating expenses

	2012	2011
Loss on disposal of non-current assets	18,350,863.77	24,318,163.27
Incl: Loss on disposal of fixed assets	13,206,862.19	24,313,146.37
Loss on disposal of intangible assets	–	5,016.90
Loss on disposal of construction in progree	2,298,000.00	–
Loss on disposal of other non-current assets	2,846,001.58	–
Loss from debt restructuring	1,908,357.58	1,158,968.50
Donation expenditure	12,336,302.20	11,239,653.88
Others	5,011,131.99	3,655,656.20
	37,606,655.54	40,372,441.85

53. Income tax expenses

	2012	2011
Current tax expenses	586,987,990.84	1,021,492,840.18
Deferred tax expenses	138,559,249.21	77,017,774.87
	725,547,240.05	1,098,510,615.05

The relationship between income tax expenses and the total profit is listed as follows:

		2012	2011
Total profit		3,959,813,788.73	7,418,506,273.98
Tax at statutory tax rate	*Note*	986,842,933.36	1,849,744,812.45
Effect of different tax rates applicable to parent and some subsidiaries		(406,073,323.83)	(722,241,043.56)
Adjustments to current tax of previous periods		4,060,119.13	4,439,644.54
Profits and losses attributable to associates		(4,498,070.71)	(19,794,333.92)
Income not subject to tax		(1,152,641.24)	(4,439,100.07)
Expenses not deductible for tax		22,355,897.81	8,483,290.31
Tax incentives on eligible expenditures		(67,393,995.49)	(71,596,745.08)
Utilization of deductible losses from prior years		(5,546,072.65)	(7,689,412.47)
Unrecognized deductible losses		179,535,822.15	50,733,437.09
Effect of unrecognized deductible temporary difference		17,416,571.52	10,870,065.76
Income tax expense at the Group's effective tax rate		725,547,240.05	1,098,510,615.05

Note: The income tax of the Group is calculated based on the estimated taxable income gained in the PRC and applicable tax rate. Tax arising from the taxable income in other regions is calculated at applicable tax rate according to existing laws, interpretations and practices of the country in which the Group operates.

No provision for Hong Kong profit tax has been made as the Group had no taxable profits arising in Hong Kong for the year.

54. Earnings per share (EPS)

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.

The calculation of basic EPS is detailed as follows:

	2012	2011
Earnings		
Net profit of the current period attributable to ordinary shareholders of the Company	2,990,996,934.91	5,596,927,166.88
Shares		
Weighted average number of the ordinary shares outstanding of the Company *(Note)*	1,999,309,639.00	1,999,309,639.00
EPS (RMB/share)	1.50	2.80

The Company holds no potential shares that are dilutive.

Note: With the approval by the Company's annual general meeting 2011 on 29 June 2012, the first general meeting of A Shares shareholders in 2012 and the first general meeting of H Shares shareholders in 2012, the Company proposed to distribute 2 bonus shares for every 10 shares held by shareholders and a cash dividend of RMB1.00 (including tax) for every 10 shares based on the total share capital of 1,666,091,366 shares on the record date namely 31 December 2011, without transfer from capital reserve. Upon completion of the bonus issue, the total share capital of the Company was 1,999,309,639 shares.

In order to maintain the comparability of accounting indicators in the previous and future periods, earnings per share for 2011 has been recalculated based on the adjusted number of shares.

55. Other comprehensive income

	2012	**2011**
(Losses)/gains from changes in fair value of available-for-sale financial assets	35,730,230.63	(255,199,850.73)
Less: Income tax effects of changes in fair value of available-for-sale financial assets	5,252,557.66	(38,479,962.68)
	30,477,672.97	(216,719,888.05)
Share of investee's other comprehensive income under equity method	(40,559,590.11)	(252,595,883.09)
Exchange differences on foreign currency translation of foreign operations	(247,448.64)	(18,404,096.94)
	(10,329,365.78)	(487,719,868.08)

56. Notes to items in cash flow statement

Other cash received relating to operating activities

	2012	**2011**
Government grants	212,737,166.18	210,460,205.71
Income from lease of fixed assets	41,213,183.91	73,085,716.76
Interest income	332,929,093.37	211,815,291.93
Penalty income	21,137,192.11	12,836,208.77
Others	225,788,934.41	185,884,345.73
	833,805,569.98	694,081,768.90

Other cash paid relating to operating activities

	2012	**2011**
After-sales and product return fee	1,256,203,990.14	1,372,759,767.67
Freight and packing fee	654,396,089.40	807,453,381.80
Marketing fee	698,180,270.52	457,721,744.76
Office expenses	322,947,280.15	294,292,273.69
Travel fee	159,770,580.86	140,812,479.26
Others	1,187,931,782.14	111,578,512.70
	4,279,429,993.21	3,184,618,159.88

Other cash received relating to investing activities

	2012	2011
Security deposit for transfer of subsidiaries	–	1,000,000.00
Land-related government grants	176,385,100.00	–
Others	–	3,025.25
	176,385,100.00	1,003,025.25

Other cash paid relating to investing activities

	2012	2011
Temporary payments for investment	–	3,780,000.00
Others *(Note)*	137,050,693.51	–
	137,050,693.51	3,780,000.00

Note: The cash paid by the Group for the call options with a fair value of RMB137,050,693.51 upon its acquisition of 70% interests in LHY Co were other cash flow paid relating to investment. Details of the option arrangement are set out in Note IV. 4.

Other cash received relating to financing activities

	2012	2011
Borrowings from third parties	20,317,377.78	46,648,802.64

Other cash received relating to financing activities

	2012	2011
Repayment and interests of borrowings from third parties	3,635,746.36	40,268,219.64

57. Supplement to cash flow statement

(1) Supplement to cash flow statement

	2012	2011
Net profit	3,234,266,548.68	6,319,995,658.93
Add: Provision for impairment of assets	79,464,267.64	18,599,453.24
Depreciation of fixed assets and investment properties	1,435,905,068.73	1,337,941,047.78
Amortization of intangible assets	43,231,967.48	40,407,889.39
Amortization of long-term prepaid expenses	73,133,144.65	77,912,306.88
Gains from disposal and retirement of fixed assets, intangible assets and other long-term assets	520,969.21	(14,618,456.85)
Finance expenses	344,967,767.18	233,388,061.43
Investment income	(251,508,306.03)	(157,770,576.61)
Decrease/(increase) in deferred tax assets	141,014,912.72	78,471,056.93
Increase/(decrease) in deferred tax liabilities	(2,455,663.51)	(1,040,264.06)
Decrease/(increase) in inventories	2,691,794,937.53	(1,634,822,331.37)
(Decrease)/increase in operating receivables	648,634,862.77	(1,688,816,324.39)
Increase/(decrease) in operating payables	(6,396,103,127.31)	2,512,539,791.66
Increase/(decrease) in special reserve	23,089,542.52	–
Others	690,211,697.82	(1,169,506,531.21)
Net cash flow from operating activities	2,756,168,590.08	5,952,680,781.75

(2) Information related to acquisition or disposal of subsidiaries and other business units

Information related to acquisition of subsidiaries and other business units

	2012	2011
Consideration for acquisition of subsidiaries and other business units	2,116,665,408.49	342,530,441.47
Cash and cash equivalents paid for acquisition of subsidiaries and other business units	2,116,665,408.49	236,685,100.49
Less: Amount of cash and cash equivalents in subsidiaries and other business units acquired	46,571,848.76	96,026,592.39
Net cash paid for acquisition of subsidiaries and other business units	2,070,093,559.73	140,658,508.10
Net assets in subsidiaries and other business units acquired	1,786,274,617.35	355,280,087.10
Current assets	723,936,556.69	145,207,390.95
Non-current assets	2,188,876,526.00	917,862,591.27
Current liabilities	(251,023,229.52)	(681,165,895.12)
Non-current liabilities	(875,515,235.82)	(26,624,000.00)

Notes: Please refer to Note IV. 3 and Note IV. 4 for details of information related to acquisition of subsidiaries and other business units.

Information related to disposal of subsidiaries and other business units

	2012	2011
Price for disposal of subsidiaries and other business units	509,032,200.00	–
Cash and cash equivalents received from disposal of subsidiaries and other business units	507,120,500.00	–
Less: Amount of cash and cash equivalents in subsidiaries and other business units disposed	147,893,549.35	–
Net cash received for disposal of subsidiaries and other business units	359,226,950.65	–
Net assets in subsidiaries and other business units disposed	543,313,177.97	–
Current assets	944,645,136.76	–
Non-current assets	151,084,617.42	–
Current liabilities	(517,284,330.21)	–
Non-current liabilities	(35,132,246.00)	–

Notes: Please refer to Note IV. 5 for details of information related to disposal of subsidiaries and other business units.

(3) Cash and cash equivalents

	31 December 2012	31 December 2011
Cash		
Incl: Cash on hand	2,355,867.72	1,086,690.17
Bank deposit on demand	14,092,459,304.61	13,310,515,188.03
Other cash and cash equivalents on demand	4,336,180.89	5,758,317.34
Closing balance of cash and cash equivalents	14,099,151,353.22	13,317,360,195.54

	31 December 2012	31 December 2011
Closing balance of cash and cash equivalents	16,726,970,096.00	16,612,740,784.48
Less: Balance of restricted cash and cash equivalents used	2,627,818,742.78	3,295,380,588.94
Closing balance of cash and cash equivalents	14,099,151,353.22	13,317,360,195.54

VI. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The related parties defined in these financial statements included the related parties under accounting standards and related parties under the information disclosure requirements of SFC.

1. Parent

	Type of enterprise	Registered address	Legal representative	Nature of business	Registered capital	Proportion of ownership interest in the Company	Proportion of voting power in the Company
						(%)	(%)
Weichai Group Holdings Limited	Wholly state-owned	Minsheng East Road, Kuiwen District, Weifang City, Shandong Province	Tan Xuguang	External investment Financial guarantee Investment advisory Planning and organization/ coordination and management of production operating activities of corporates under the Group	1,200,000,000.00	16.83	16.83

Shandong Heavy Industry Group Co., Ltd. is the ultimate parent of the Company.

2. Subsidiaries

Details of subsidiaries are set out in Note IV.

3. Associates

Details of associates are set out in Note V.12.

4. Particulars of other related parties which entered into material transactions with the Group

	Related party relationships	Referred to as
Weichai Group Holdings Limited	Parent	Weichai Group Holdings
Weifong Weichai Deutz Diesel Engine Co., Ltd.	Common control by parent	Weichai Deutz
Shandong Weichai Import and Export Co., Ltd.	Common control by parent	Weichai Import and Export
Weichai Heavy-duty Machinery Co., Ltd.	Common control by parent	Weichai Heavy-duty Machinery
Yangzhou Yaxing Coach Co., Ltd.	Common control by parent	Yangzhou Yaxing
Weichai Heavy-duty Machinery (Weifang) Generator Equipment Co., Ltd	Common control by parent	Heavy-duty Generator
Chongqing Weichai Diesel Engine Works	Common control by parent	Chongqing Weichai
Chutian Engineering Machinery Company Limited	Same ultimate parent	Chutian Engineering
Shantui Engineering Machinery Co., Ltd.	Same ultimate parent	Shantui Engineering
Shandong Shantui Machinery Co., Ltd.	Same ultimate parent	Shandong Shantui
Fujian Longgong Machinery Company Limited	Same key management personnel	Longgong (Fujian)

	Related party relationships	Referred to as
Shanghai Longgong Machinery Company Limited	Same key management personnel	Longgong (Shanghai)
Beiqi Foton Motor Company Limited	Same key management personnel	Beiqi Foton
FOTON Lovol Heavy Industries Co., Ltd.	Same key management personnel	FOTON Lovol
Shaanxi Automotive Group Co., Ltd.	Same key management personnel as subsidiaries	Shaanxi Automotive
Shaanxi Fast Gear Automotive Transmission Co., Ltd.	Same key management personnel as subsidiaries	Shaanxi Fast Gear Automotive
Shaanxi Huazhen Sancan Industry and Trading Co., Ltd.	Same key management personnel as subsidiaries	Huazhen Sancan
Shaanxi Tongli Special Purpose Vehicle Co., Ltd.	Same key management personnel as subsidiaries	Tongli Special Purpose
Shaanxi Lantong Transmission Axle Co., Ltd.	Same key management personnel as subsidiaries	Lantong Transmission
Baoji Huashan Engineering Vehicles Co., Ltd.	Same key management personnel as subsidiaries	Baoji Vehicle
Xi'an Lande New Energy Automotive Technology Development Co., Ltd.	Same key management personnel as subsidiaries	Lande New Energy
Shaanxi Wanfang Vehicle Parts and Components Co. Ltd.	Same key management personnel as subsidiaries	Shaanxi Wanfang
Shaanxi Fangyuan Automobile Standard Components Co. Ltd.	Same key management personnel as subsidiaries	Fangyuan Automobile
Shaanxi Tongchuang Huaheng Vehicle Radiator Co. Ltd.	Same key management personnel as subsidiaries	Tongchuang Huaheng
Shaanxi Automobile Group Xunyang Baotong Special Purpose Vehicles Co., Ltd.	Same key management personnel as subsidiaries	Xunyang Baotong
Shaanxi Automobile Group Changsha Huantong Automobile Manufacturing Co., Ltd.	Same key management personnel as subsidiaries	Changsha Huantong
Shaanxi Automobile Group Yan'an Special Purpose Vehicles Co., Ltd.	Same key management personnel as subsidiaries	Yan'an Special Purpose
Shaanxi Dongming Automobile System Co., Ltd	Same key management personnel as subsidiaries	Dongming Automobile
Shannxi Tongjia Automobile Co., Ltd.	Same key management personnel as subsidiaries	Tongjia Automobile
Shannxi Deyin Leasing Co., Ltd	Same key management personnel as subsidiaries	Deyin Leasing
Shaanxi Dongfeng Axle And Transmission System Co., Ltd	Same key management personnel as subsidiaries	Dongfeng Axle
Shaanxi Automobile Group Wenzhou Yunding Automobile Co., Ltd.	Same key management personnel as subsidiaries	Wenzhou Yunding
Shaanxi Tongjia Automobile Co., Ltd.	Same key management personnel as subsidiaries	Tongjia Automobile
Zhuzhou Automobile Gear Factory	Same key management personnel as subsidiaries	Zhuzhou Gear Factory

5. Major transactions between the Group and its related parties

(1) Transaction of goods and services with related parties

Purchase of goods from related parties (excluding tax)

	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
Westport New Energy	1,663,423,166.51	30.07	629,513,519.18	12.27
Shaanxi Fast Gear Automotive	1,569,191,736.49	28.36	1,545,088,716.84	30.09
Tongli Special Purpose	452,124,390.01	8.17	506,727,101.20	9.87
Shaanxi Wanfang	417,425,083.43	7.54	440,004,761.74	8.57
CIMC-SHAC	336,442,589.94	6.08	500,775,324.07	9.75
Huazhen Sancan	241,618,069.75	4.37	298,910,962.89	5.82
Weichai Heavy-duty Machinery	203,545,613.44	3.68	364,553,366.82	7.10
Lantong Transmission	97,738,255.88	1.77	106,811,391.72	2.08
Xian Cummics	91,340,657.57	1.65	140,896,685.49	2.74
Weichai Deutz	86,032,638.14	1.55	72,526,519.90	1.41
Fangyuan Automobile	68,473,605.64	1.24	90,042,272.30	1.75
Tongchuang Huaheng	59,801,082.37	1.08	60,619,784.93	1.18
Tonghui Transportation	50,539,471.08	0.91	59,512,710.81	1.16
Weichai Import and Export	47,711,576.57	0.86	–	–
Xunyang Baotong	38,288,067.38	0.69	30,049,589.74	0.59
Changsha Huantong	37,601,920.00	0.68	46,652,589.30	0.91
Yan'an Special Purpose	34,996,966.36	0.63	47,655,085.61	0.93
Dongming Automobile	9,931,180.00	0.18	–	–
Hongyuan Machinery	9,891,643.39	0.18	11,536,094.13	0.22
Tongjia Automobile	9,647,922.32	0.17	–	–
Baoji Vehicle	2,838,712.42	0.05	–	–
Luyuan Automotive Fitting	1,679,428.52	0.03	1,862,217.42	0.04
Eurostar	1,418,446.16	0.03	3,182,975.21	0.06
Weichai Group Holdings	826,623.23	0.01	177,029,359.24	3.45
Lande New Energy	590,084.76	0.01	–	–
Heavy-duty Generator	355,128.21	0.01	–	–
Chongqing Weichai	264,459.76	–	333,063.62	0.01
	5,533,738,519.33	100.00	5,134,284,092.16	100.00

Receiving services from related parties

	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
Shaanxi Automotive	218,794,066.55	45.33	202,406,818.18	33.95
Weichai Group Holdings	166,912,926.61	34.57	218,241,389.15	36.61
Chongqing Weichai	67,756,234.99	14.04	138,701,329.59	23.26
Shaanxi Fast Gear Automotive	28,593,079.48	5.92	35,911,696.28	6.02
Weichai Heavy-duty Machinery	651,816.03	0.14	931,364.20	0.16
	482,708,123.66	100.00	596,192,597.40	100.00

Sale of goods to related parties (excluding tax)

	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
Beiqi Foton	3,011,633,195.00	43.87	5,715,414,615.50	55.43
Shaanxi Fast Gear Automotive	1,045,794,854.39	15.23	1,084,282,427.40	10.51
Westport New Energy	866,058,386.34	12.62	292,184,970.85	2.83
Weichai Heavy-duty Machinery	469,048,370.45	6.83	578,402,210.00	5.61
Huazhen Sancan	254,534,062.17	3.71	304,837,000.23	2.95
Longgong (Shanghai)	196,219,045.29	2.86	506,241,450.58	4.91
Shaanxi Wanfang	189,978,278.81	2.77	318,151,004.00	3.08
Longgong (Fujian)	157,387,438.47	2.29	383,832,478.63	3.72
Shantui Engineering	112,349,681.33	1.64	131,176,124.28	1.27
Tongli Special Purpose	107,242,740.20	1.56	138,016,926.72	1.34
Weichai Import and Export	99,235,408.96	1.45	184,020,754.77	1.78
Weichai Deutz	99,361,496.71	1.45	110,516,724.19	1.07
Yangzhou Yaxing	73,356,138.59	1.07	28,368,504.27	0.27
Chutian Engineering	41,871,300.17	0.61	126,304,969.44	1.22
Chongqing Weichai	40,167,637.88	0.59	81,382,471.64	0.79
Heavy-duty Generator	36,406,901.54	0.53	–	–
Tonghui Transportation	17,521,966.39	0.26	17,627,604.90	0.17
Baoji Vehicle	13,805,982.23	0.20	4,737,074.37	0.05
Changsha Huantong	8,353,686.31	0.12	226,941,695.75	2.20
Deyin Leasing	7,742,393.17	0.11	–	–
Xian Cummics	6,611,040.57	0.10	1,763,914.19	0.02
Eurostar	4,384,508.90	0.06	13,677,204.95	0.13
Weichai Group Holdings	1,560,147.27	0.02	1,876,716.11	0.02
Shaanxi Automotive	1,214,986.98	0.02	388,004.11	–
Shandong Shantui	934,623.93	0.01	–	–
Fangyuan Automobile	857,519.03	0.01	–	–
Tongchuang Huaheng	511,493.72	0.01	–	–
CIMC–SHAC	334,476.72	–	38,215,453.00	0.37
FOTON Lovol	110,109.49	–	–	–
Dongfeng Axle	36,024.00	–	–	–
Dongming Automobile	66,317.62	–	–	–
Wenzhou Yunding	–	–	16,529,188.89	0.16
Yan'an Special Purpose	–	–	10,400,854.67	0.10
Fuping Logistics Park	–	–	484,758.97	–
Lantong Transmission	–	–	328,867.77	–
	6,864,690,212.63	100.00	10,316,103,970.18	100.00

Rendering services to related parties

	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
Weichai Heavy-duty Machinery	21,984,042.09	40.86	10,182,920.47	10.78
Weichai Deutz	14,959,520.03	27.81	60,772,899.11	64.34
Shaanxi Automotive	11,424,547.13	21.23	9,724,590.36	10.30
Chongqing Weichai	2,518,166.43	4.68	11,555,666.70	12.23
Weichai Import and Export	1,404,080.00	2.61	1,540,230.00	1.63
Heavy-duty Generator	687,416.33	1.28	–	–
Westport New Energy	631,981.00	1.17	–	–
Beiqi Foton	191,000.00	0.36	682,000.00	0.72
Weichai Group Holdings	–	–	108.00	–
	53,800,753.01	100.00	94,458,414.64	100.00

During the year, the prices for the Group's sale of goods and rendering of services to related parties as well as purchase of goods and receiving services from related parties were determined with reference to market rates.

(2) Leasing with related parties

Leasing of assets to related parties

	2012	2011
Tonghui Transportation	10,041,760.80	10,041,760.80
Xian Cummics	8,161,963.68	8,103,681.36
Westport New Energy	5,592,400.00	2,709,389.37
Huazhen Sancan	3,700,091.64	2,967,691.64
Weichai Heavy-duty Machinery	2,250,000.00	4,500,000.00
Heavy-duty Generator	2,250,000.00	–
Shaanxi Automotive	130,500.00	130,500.00
	32,126,716.12	28,453,023.17

Leasing of assets from related parties

	2012	2011
Weichai Group Holdings	42,840,000.00	42,840,000.00
Shaanxi Automotive	12,554,734.21	15,910,251.00
Shaanxi Fast Gear Automotive	11,450,207.59	11,763,696.01
Chongqing Weichai	4,000,000.00	4,000,000.00
	70,844,941.80	74,513,947.01

During the year, the prices for leasing with related parties were determined with reference to market rates.

(3) ***Transfer of assets with related parties***

	Nature of transaction	2012 Amount	2012 Percentage (%)	2011 Amount	2011 Percentage (%)
Shaanxi Fast Gear Automotive	Acquisition of fixed assets	–	–	477,892,850.60	99.98
Shaanxi Fast Gear Automotive	Disposal of fixed assets	–	–	75,409.26	0.02
Weichai Heavy-duty Machinery	Acquisition of fixed assets	3,059,051.72	100.00	–	–

During the current year, the purchase and sale of fixed assets by the Group from/to related parties were conducted with reference to the market price.

(4) ***Co-investment commitment with related parties***

Details are set out in Note VIII. Commitments.

(5) On 30 June 2012, the Company entered into the Financial Services Agreement with Shangdong Heavy Industry Group Financial Co., Ltd. ("Heavy Industry Financial Company"). Pursuant to the Financial Service Agreement, the finance company provided deposit, credit, accounting and clearing services, as well as other financial services to the Company and its holding subsidiaries.

Cash and cash equivalents deposited with related parties

	2012 Amount	2012 Percentage of cash and cash equivalents *(%)*	2011 Amount	2011 Percentage of cash and cash equivalents *(%)*
Shangdong Heavy Industry Group Financial Co., Ltd.	1,139,636,834.71	6.81	–	–

Short term borrowings

	2012 Amount	2012 Percentage of cash and cash equivalents *(%)*	2011 Amount	2011 Percentage of cash and cash equivalents *(%)*
Shangdong Heavy Industry Group Financial Co., Ltd.	50,000,000.00	0.30	–	–

Except for the transactions with associates, all the above related party transactions also constitute connected transactions or continuous connected transactions as defined under Chapter 14A to the Listing Rules of Hong Kong Stock Exchange.

6. *Amounts due from/to related parties*

	31 December 2012		31 December 2011	
	Gross carrying amount	Provision for bad debt	Gross carrying amount	Provision for bad debt
Accounts receivable				
Changsha Huantong	115,539,069.88	(5,776,953.49)	193,772,878.75	(10,601,896.53)
Beiqi Foton	75,416,492.52	(3,770,824.62)	249,130,456.08	(11,861,473.37)
Shaanxi Fast Gear Automotive	72,279,374.06	(3,613,968.70)	117,524,129.63	(5,876,206.48)
Weichai Heavy-duty Machinery	70,531,691.46	(3,526,584.57)	54,888,139.69	(2,744,406.98)
Eurostar Auto	39,326,593.43	(1,966,329.67)	35,987,176.13	(7,490,606.79)
Weichai Import and Export	13,083,872.74	(259,455.81)	7,530,910.42	(361,347.87)
Tongli Special Purpose	9,935,114.84	(496,755.74)	2,597,440.88	(129,872.04)
Heavy-duty Generator	9,819,045.83	(490,952.29)	–	–
Baoji Vehicle	8,661,578.86	(433,078.94)	9,947,829.19	(1,608,382.34)
Yangzhou Yaxing	5,559,386.34	(277,969.32)	3,653,400.00	(182,670.00)
Shantui Engineering	2,405,884.39	(120,294.22)	45,106.92	(2,255.35)
Weichai Deutz	2,371,394.00	(118,569.70)	4,710,301.12	(235,139.65)
Longgong (Shanghai)	1,607,751.57	(80,387.58)	18,230,260.00	(911,513.00)
Shandong Shantui	1,396,810.00	(69,840.50)	–	–
Longgong (Fujian)	1,384,281.39	(69,214.07)	5,178.96	(258.95)
Tonghui Automobile	885,792.98	(44,289.65)	–	–
Huazhen Sancan	449,639.20	(22,481.96)	154,380.10	(7,719.01)
Tongchuang Huaheng	219,949.70	(10,997.49)	–	–
FOTON Lovol	33,638.87	(1,681.94)	–	–
CIMC-SHAC	30,600.00	(1,530.00)	1,662,717.00	(52,735.85)
Lantong Transmission	26,803.19	(1,340.16)	26,803.19	(1,340.16)
Chutian Engineering	–	–	19,735,759.00	(986,787.95)
Westport New Energy	–	–	786,157.80	(39,307.89)
	430,964,765.25	(21,153,500.42)	720,389,024.86	(43,093,920.21)
Other receivables				
Weichai Group Holdings	94,067,880.00	(4,703,394.00)	–	–
Tongjia Automobile	14,418,103.27	(720,905.16)	–	–
Zhuzhou Gear Factory	12,040,086.20	(602004.31)	–	–
Weichai Heavy-duty Machinery	3,551,723.32	(177,586.17)	924.67	(46.23)
Shaanxi Automotive	6,022,268.10	(301,113.41)	–	–
Xi'an FC	1,756,614.78	(87,830.74)	–	–
Beiqi Foton	300,000.00	(15,000.00)	–	–
	132,156,675.67	(6,607,833.79)	924.67	(46.23)

	31 December 2012	31 December 2011
Notes receivable		
Weichai Heavy-duty Machinery	11,435,120.98	87,721,478.26
Chutian Engineering	5,000,000.00	45,500,000.00
Yan'an Special Purpose	3,628,000.00	5,000,000.00
Tongli Special Purpose	3,000,000.00	–
Huazhen Sancan	1,000,000.00	3,000,000.00
Tonghui Transportation	996,000.00	370,000.00
Changsha Huantong	300,000.00	6,759,160.00
Beiqi Foton	30,000.00	6,030,000.00
Longgong (Fujian)	–	204,919,500.00
Baoji Vehicle	–	28,000,000.00
Eurostar	–	3,000,000.00
Longgong (Shanghai)	–	2,000,000.00
	25,389,120.98	392,300,138.26
Prepayments		
Huazhen Sancan	14,974,237.77	27,164,311.45
Tongjia Automobile	3,422,400.00	–
Zhuzhou Gear Factory	2,193,075.68	–
Shaanxi Wanfang	1,034,629.53	–
Baoji Vehicle	864,305.19	–
Beiqi Foton	676,800.00	–
Weichai Group Holdings	13,448.62	–
	23,178,896.79	27,164,311.45
Interests receivable		
Heavy Industry Finance Company	7,418,831.76	–
Dividends receivable		
Xinlian Investment	67,500,000.00	35,000,000.00
Eurostar	3,040,000.00	3,040,000.00
Tonghui Transportation	–	1,489,218.53
	70,540,000.00	39,529,218.53

No provision for bad debt was recognized for the aforesaid notes receivable, prepayments and dividends receivable from related parties.

	31 December 2012	31 December 2011
Notes Payable		
Lantong Transmission	–	10,000,000.00
CIMC-SHAC	–	5,000,000.00
Huazhen Sancan	–	5,000,000.00
Tongli Special Purpose	2,000,000.00	2,000,000.00
	2,000,000.00	22,000,000.00
Accounts Payable		
Shaanxi Fast Gear Automotive	131,490,261.11	119,556,906.21
Tongli Special Purpose	92,031,644.37	89,446,918.72
Westport New Energy	79,357,450.81	50,326,319.76
Shaanxi Wanfang	63,439,559.57	84,616,875.41
CIMC–SHAC	61,928,607.72	32,883,692.49
Huazhen Sancan	23,631,030.85	27,003,983.40
Lantong Transmission	19,991,190.38	37,157,111.32
Fangyuan Automobile	18,284,752.16	20,160,253.77
Tongchuang Huaheng	16,840,778.69	–
Tonghui Transportation	13,573,373.25	9,131,562.32
Dongming Automobile	6,954,939.45	–
Heavy-duty Generator	6,719,884.14	–
Weichai Import and Export	6,407,531.39	6,651,433.51
Xian Cummics	5,418,152.28	17,864,431.03
Changsha Huantong	2,721,794.53	2,861,964.41
Tongjia Automobile	2,654,506.12	365,458.47
Xunyang Baotong	2,019,672.83	11,508,020.00
Eurostar	1,156,744.39	3,401,770.93
Baoji Vehicle	864,305.19	43,400.00
Wenzhou Yunding	577,780.11	–
Yan'an Special Purpose	467,016.63	–
Weichai Group Holdings	283,674.76	283,674.76
Weichai Deutz	244,944.00	–
Weichai Heavy-duty Machinery	157,179.67	705,301.32
	557,216,774.40	513,969,077.83

	31 December 2012	31 December 2011
Prepayments		
Shaanxi Wanfang	1,870,591.00	–
Tongli Special Purpose	1,077,848.00	3,574,655.00
Wenzhou Yunding	78,574.90	–
Dongfeng Axle	41,683.25	–
Changsha Huantong	2,201.60	2,201.60
Huazhen Sancan	–	4,098,402.53
Shantui Engineering	–	2,241,262.22
Yangzhou Yaxing	–	215,476.84
	3,070,898.75	10,131,998.19
Other payables		
Shaanxi Automotive	40,494,848.01	42,987,103.94
Shanzhong Finance Leasing	1,640,687.08	–
Yan'an Special Purpose	960,000.00	–
Tongli Special Purpose	824,000.00	–
Shaanxi Wanfang	490,000.00	–
Fuping Logistics Park	220,000.00	–
Tonghui Transportation	212,515.19	212,515.19
CIMC–SHAC	200,000.00	2,000,000.00
Huazhen Sancan	180,000.00	500,000.00
Shaanxi Fast Gear Automotive	158,782.24	77,855,087.67
Wenzhou Yunding	60,000.00	80,000.00
Weichai Heavy-duty Machinery	27,257.24	–
Shandong Heavy Industry	8,150.28	–
Longmen Logistics Park	–	3,000,000.00
Changsha Huantong	–	740,000.00
	45,476,240.04	127,374,706.80

Amounts due from/to related parties were non-interest bearing and unsecured. Of which the terms of repayment for amounts of trading nature will follow the requirement of terms of trading, while amounts of non-trading nature have no fixed terms of repayment.

VII. CONTINGENCIES

1. Exposure to Confirmation Risks

Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, entered into a tri-party cooperation agreement with distributors and endorsing bank. Distributors will deposit guarantee money of not lower than 30% to the bank and apply for establishment of bank acceptance bill according to the amount of credit facility provided by the bank. Shaanxi Heavy-duty Motor Company Limited assumes security obligation in favour of the distributors for the difference between amount of notes and guarantee money. As at 31 December 2012, open position of outstanding acceptance bill was RMB785,341,000.00 (31 December 2011: RMB719,080,000.00).

2. Finance lease business

Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Company, entered into a cooperation agreement with each of Shanzhong Finance Leasing Co., Ltd. and CBD Leasing Co., Ltd. ("finance lease companies"). It is agreed by and between the two parties that the finance lease companies shall provide finance lease service to Shaanxi Heavy-duty Motor Company Limited or its distributors. Shaanxi Heavy-duty Motor Company Limited shall provide joint liability guarantee in respect of the leasee's failure to pay the instalment payments and interests under the finance lease. As at 31 December 2012, risk exposure of joint liabilities was RMB586,408,600.00 (31 December 2011: RMB101,494,659.00).

VIII. COMMITMENTS

		31 December 2012	31 December 2011
Capital commitments			
Contracted, but not provided for		1,653,477,555.23	2,548,359,546.33
Authorized by the Board, but not contracted		14,450,400.00	12,837,700.00
		1,667,927,955.23	2,561,197,246.33
Investment commitment			
Contracted, but not provided for			
– Shandong Heavy Industry Finance Co., Ltd.	*Note*	–	200,000,000.00

Note:

The resolution approving the establishment of Shandong Heavy Industry Finance Co., Ltd. by the co-investment of the Company and its related parties was considered and approved by the Board of the Company on 18 November 2010, and the Board of the Company entered into a contribution agreement with its related parties on 16 January 2012. According to the resolution and the agreement, the shareholding structure and proportion of capital contribution of Shandong Heavy Industry Finance Co., Ltd. are as follows:

	31 December 2012	31 December 2011
Shandong Heavy Industry Group Co., Ltd.	350,000,000.00	35%
Weichai Power Co., Ltd.	200,000,000.00	20%
Weichai Heavy-duty Machinery Co., Ltd.	200,000,000.00	20%
Shantui Engineering Machinery Co., Ltd.	200,000,000.00	20%
China Jingu International Trust Co., Ltd.	50,000,000.00	5%
Total	1,000,000,000.00	100%

Weichai Power Co., Ltd. has completed its contribution in full to Shandong Heavy Industry Finance Co., Ltd. on 26 March 2012, and an asset verification report numbered Daxin Yan Zi (大信驗字) (2012) No. 3-0003 was issued by Daxin Certified Public Accountants Co., Ltd.

IX. EVENTS AFTER THE BALANCE SHEET DATE

(1) On 7 March 2013, the "Resolution of the Company on Foreign Investment and Exercise of Call Options of the Foreign Company" has been considered and approved by the first extraordinary board meeting of the Company in 2013. The call options which have been granted to Weichai Power (Luxembourg) Holding S.à r.l. ("Weichai Lux") include: (1) KION Call Option; and (2) Superlift Call Option. In order to allow the Board to have the flexibility in exercising the call options mentioned below, the Company proposes to ask its Shareholders in general meeting to approve in advance the exercise of the call options with the cap amount of EUR400,000,000.00 and to authorise the Board to exercise the full power to handle matters relating to the exercise of the call options.

(1) KION Call Option

Weichai Lux is entitled to require that Superlift Holding, S.a r.l. ("Superlift") and Kion Management Beteiligungs GmbH & Co. KG ("KMB") pass the relevant shareholders' resolution so that KION issues new shares, such that Weichai Lux's shareholding in KION would be increased to:

(i) 33.3% of KION's total issued shares immediately after the completion of the initial public offering of the shares of KION (the "IPO"), if, prior to the allotment of KION shares to the investors of the IPO, Weichai Lux owns 28.3% or more of the total issued share capital of KION as a result of the exercise and completion of the Superlift Call Option; or

(ii) 30% of KION's total issued shares immediately after completion of the IPO, if, prior to the allotment of KION shares to the investors of the IPO, Weichai Lux owns less than 28.3% of the total issued share capital of KION.

The exercise price equals to the lower of (i) a price per share determined on the basis of EUR467,000,000.00 (equivalent to the consideration paid for under the subscription of 25% of the issued shares in KION pursuant to the Acquisitions) plus any future capital contributions made by the shareholders of KION after the date of completion of the Acquisitions, and (ii) the price per share of KION under the IPO.

(2) Superlift Call Option

Weichai Lux is entitled to purchase from Superlift such amount of shares of KION representing 3.3% of KION's issued share capital at the time of the exercise. The Superlift Call Option is exercisable by Weichai Lux (i) at any time after 27 December 2012, being the date of completion of the Acquisitions, until 30 June 2013 or (ii) during any time within the three months after the completion of the IPO. The Superlift Call Option shall expire in any event at the end of 31 December 2015, if it has not been exercised and completed before that date.

The exercise price equals to the sum of (i) EUR61,644,000; and (ii) the prorate portion of the aggregate amount of any additional capital contribution, made to KION after the date of completion of the Acquisitions and up to the date of completion of the Superlift Call Option; and (iii) deducting therefrom the pro-rata portion of the aggregate amount of dividends or other distributions made by KION to its shareholders after the date of the completion of the Acquisitions and up to the date of exercise of the Superlift Call Option.

Pursuant to the shareholders' agreement dated 27 December 2012 entered into among Weichai Lux, KION, Superlift and KMB (the "KION Shareholders' Agreement"), in the event that Weichai Lux shall, upon the exercise of the KION Call Option and/or the Superlift Call Option, hold at least 33.3% of the issued share capital of KION after the completion of the IPO, and either Superlift or Weichai Lux desires to transfer any of its KION shares, the other relevant shareholder will be entitled to exercise a right of first offer to purchase such shares. Further, the parties under the KION Shareholders' Agreement agreed that if following the completion of the IPO, Weichai Lux holds at least 33.3% of the issued share capital of KION, they will support, within the given legal framework, the election of a member of the supervisory board designated by Weichai Lux to become the chairman of the supervisory board of KION. In addition, pursuant to the terms of the KION Shareholders' Agreement, as soon as Weichai Lux holds 30% or more of the shares in KION, the parties shall take, within the given legal framework, all actions in order to ensure that two out of six shareholder representatives of the supervisory board of KION (the supervisory board consists of twelve members, six of them being shareholder representatives and six of them being employee representatives) are members who are nominated by Weichai Lux.

(2) On 21 March 2013, the dividend distribution budget for 2012 was considered and approved by the 3rd meeting of the 3rd session of the Board of the Company: the Company proposed to distribute a cash dividend of RMB2.30 for every 10 shares (including tax) based on the total share capital of 1,999,309,639 shares, without transfer from capital reserve. Completion of the aforesaid proposal is subject to the approval by the general meeting.

X. OTHER SIGNIFICANT EVENTS

1. Leases

For investment properties and operating lease-out of fixed assets, refer to Notes V.14 and 15.

As the lessee

Material operating lease: Pursuant to the leasing contract signed with the lessor, the minimum lease payables under non-cancellable leases are as follows:

	Minimum lease payments	
	31 December 2012	**31 December 2011**
Within 1 year (including 1 year)	32,644,515.15	26,353,788.59
1-2 years (including 2 years)	18,678,600.93	23,670,895.95
2-3 years (including 3 years)	15,646,247.24	20,392,287.80
Over 3 years	76,256,293.68	129,762,087.30
	143,225,657.00	200,179,059.64

2. Assets and liabilities measured at fair value

2012

	At year-beginning	Profit and loss from changes in fair value in the current year	Accumulated fair value charged to equity	Impairment recognized in the current year	At year-end
Financial assets					
Derivative financial assets	–	–	–	–	137,050,693.51
Available-for-sale financial assets	234,011,928.12	–	36,800,000.00	–	269,200,000.00
	234,011,928.12	–	36,800,000.00	–	406,250,693.51
Financial liabilities					
Put options in relation to minority interests	–	–	–	–	622,325,082.99

2011

	At year-beginning	Profit and loss from changes in fair value in the current year	Accumulated fair value charged to equity	Impairment recognized in the current year	At year-end
Financial assets					
Financial assets at fair value through profit or loss for the period	3,672,000.00	(3,672,000.00)	–	–	–
Available-for-sale financial assets	489,211,778.85	–	(255,199,850.73)	–	234,011,928.12
	492,883,778.85	(3,672,000.00)	(255,199,850.73)	–	234,011,928.12

3. Segment reporting

Operating segments

The Group organizes and manages its operating business in accordance with the nature of business and provision of products and services. Each operating segment of the Group is one operating group, providing products and services with risks and rewards different from those of other operating segments.

The details of operating segments are as follows:

(a) manufacturing and sale of diesel engines and related parts ("Diesel engines");

(b) manufacturing and sale of automobiles and major automobile components other than diesel engines ("Automobiles and other major automobile components");

(c) manufacturing and sale of other components ("Other components");

(d) provision of import and export services ("Import & export services").

Management monitors the results of operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profits. The adjusted total profits are measured consistently with the Group's total profits, except that interest income, finance expenses, dividend income, gains from changes in fair value of financial instruments as well as head office expenses are excluded from such measurement.

Segment assets exclude equity investments at fair value through profit or loss for the current period, derivative instruments, dividends receivable, interests receivable, available-for-sale financial assets, long-term equity investments, goodwill, deferred tax assets and other unallocated head office assets as these assets are managed on a group basis.

Segment liabilities exclude derivative instruments, borrowings, income tax payable, deferred tax liabilities and other unallocated head office liabilities as these liabilities are managed on a group basis.

Inter-segment transfers are transacted with reference to the prices used in the transactions carried out with third parties.

	Diesel engines	Automobiles and other major automobile components	Other components	Import & export services	Total
2012					
Segment revenue:					
Sale to external customers	17,480,516,202.63	29,566,074,014.52	1,061,931,478.89	56,873,153.59	48,165,394,849.63
Inter-segment sale	3,724,332,429.85	363,369.79	70,303,393.45	16,981,132.12	3,811,980,325.21
Total	21,204,848,632.48	29,566,437,384.31	1,132,234,872.34	73,854,285.71	51,977,375,174.84
Adjustment:					
Elimination of inter-segment sale					(3,811,980,325.21)
Revenue					48,165,394,849.63
Segment results	2,927,882,421.47	932,042,415.11	57,753,434.26	(225,985,957.51)	3,691,692,313.33
Adjustment:					
Elimination of inter-segment results					(234,179,940.09)
Interest income					340,047,429.55
Dividend income and unallocated income					530,063,629.02
Corporate and other unallocated expenses					(37,606,655.54)
Finance expenses					(330,202,987.54)
Profit before tax					3,959,813,788.73
31 December 2012					
Segment assets	19,919,255,144.62	21,002,990,818.11	8,835,477,497.68	6,395,999,165.88	56,153,722,626.29
Adjustment:					
Elimination of inter-segment receivables					(7,597,274,404.97)
Corporate and other unallocated assets					17,763,914,629.37
Total assets					66,320,362,850.69
Segment liabilities	10,500,167,195.06	11,419,252,703.59	8,248,373,872.44	35,405,087.52	30,203,198,858.61
Adjustment:					
Elimination of inter-segment payables					(7,623,734,586.90)
Corporate and other unallocated liabilities					12,341,662,801.48
Total liabilities					34,921,127,073.19

	Diesel engines	Automobiles and other major automobile components	Other components	Import & export services	Total
2011					
Other segment information:					
Share of profit and loss from:					
Gain/(loss) from associates	53,592,927.19	(23,727,713.56)	–	121,924.46	29,987,138.09
Reversal/(loss) of provision for impairment of inventories	(16,100,137.45)	(85,867,360.28)	(608,429.77)	–	(102,575,927.50)
Impairment reversal/(loss) of accounts receivable and other receivables	906,771.82	10,712,333.02	(1,131,336.47)	13,675,034.48	24,162,802.85
Depreciation and amortization	(595,878,023.01)	(910,615,137.49)	(32,845,069.13)	(19,816,623.95)	(1,559,154,853.58)
Gain/(loss) from disposal of fixed assets	(299,222.43)	5,860,097.84	(2,850,362.50)	–	2,710,512.91
Gain from disposal of intangible assets	–	1,912,519.00	–	–	1,912,519.00
Product warranty fees	(646,432,208.99)	(405,025,476.04)	(3,099,326.62)	–	(1,054,557,011.65)
Investment in associates	662,759,388.84	267,315,445.84	3,884,319,200.00	71,832,271.42	4,886,226,306.10
Capital expenditure	(1,590,980,558.72)	(2,195,069,864.40)	(1,707,805,778.53)	(153,050,238.73)	(5,646,906,440.38)
2011					
Segment revenue:					
Sale to external customers	24,395,968,527.76	33,908,776,948.53	1,540,979,572.86	173,540,054.43	60,019,265,103.58
Inter-segment sale	4,460,028,701.02	615,699.32	172,565,906.84	–	4,633,210,307.18
Total	28,855,997,228.78	33,909,392,647.85	1,713,545,479.70	173,540,054.43	64,652,475,410.76
Adjustment:					
Elimination of inter-segment sale					(4,633,210,307.18)
Revenue					60,019,265,103.58
Segment results	5,612,203,964.50	1,689,982,887.50	122,279,324.95	(19,874,524.77)	7,404,591,652.18
Adjustment:					
Elimination of inter-segment results					(361,673,153.72)
Interest income					212,115,787.51
Dividend income and unallocated income					446,740,918.10
Corporate and other unallocated expenses					(40,372,441.85)
Finance expenses					(242,896,488.24)
Profit before tax					7,418,506,273.98

	Diesel engines	Automobiles and other major automobile components	Other components	Import & export services	Total
31 December 2011					
Segment assets	20,395,172,153.98	23,155,033,858.92	1,335,817,706.65	666,318,120.09	45,552,341,839.64
Adjustment:					
Elimination of inter-segment receivables					(1,655,244,665.81)
Corporate and other unallocated assets					17,647,450,246.41
Total assets					61,544,547,420.24
Segment liabilities	12,639,396,308.66	13,683,690,256.90	564,768,086.61	245,648,027.91	27,133,502,680.08
Adjustment:					
Elimination of inter-segment payables					(1,699,381,896.45)
Corporate and other unallocated liabilities					7,207,663,824.51
Total liabilities					32,641,784,608.14
2011					
Other segment information:					
Share of profit and loss from:					
Gain/(loss) of associates	128,897,916.48	(11,052,293.55)	–	1,094,396.30	118,940,019.23
Reversal/(loss) of provision for impairment of inventories	1,693,972.73	(91,768,801.80)	(3,803,946.92)	–	(93,878,775.99)
Impairment reversal/(loss) of inventories	25,989,352.41	56,977,020.38	(2,080,810.89)	(1,906,336.62)	78,979,225.28
Depreciation and amortization	(634,286,709.52)	(775,687,569.62)	(38,607,356.20)	(12,699,747.68)	(1,461,281,383.02)
Gain/(loss) from disposal of fixed assets	4,494,922.16	(4,373,202.34)	(5,493,514.65)	–	(5,371,794.83)
Gain from disposal of intangible assets	19,990,251.31	–	–	–	19,990,251.31
Product warranty fees	(938,362,121.89)	(436,920,392.77)	–	–	(1,375,282,514.66)
Investment in associates	584,959,883.74	267,535,254.47	–	41,612,709.35	894,107,847.56
Capital expenditure	(3,264,221,948.15)	(3,451,531,296.17)	(219,162,699.46)	(56,991,100.40)	(6,991,907,044.18)

Group information

Information about products and services

Revenue from external transactions

	2012	**2011**
Diesel engines	17,480,516,202.63	24,395,968,527.76
Automobiles and other major automobile components	29,566,074,014.52	33,908,776,948.53
Other components	1,061,931,478.89	1,540,979,572.86
Import & export services	56,873,153.59	173,540,054.43
	48,165,394,849.63	60,019,265,103.58

Geographic information

Revenue from external transactions

	2012	**2011**
Mainland China	47,951,438,155.70	59,715,239,695.76
Other countries and regions	213,956,693.93	304,025,407.82
	48,165,394,849.63	60,019,265,103.58

Revenue from external transactions is attributable to the areas where customers are located.

Total non-current assets

	31 December 2012	**31 December 2011**
Mainland China	19,269,480,687.65	17,711,809,904.30
Other countries and regions	6,917,880,832.49	148,825,282.74
	26,187,361,520.14	17,860,635,187.04

Non-current assets are attributable to the areas where the assets are located, excluding financial assets and deferred tax assets.

Information about major customers

Revenue of RMB3,436,822,767.12 (2011: RMB5,715,414,615.50) was derived from sales by Diesel engines segment and Automobiles and other major automobile components segment to a single customer, including sales to all entities which are known to be under common control by that customer.

4. Financial instruments and their risks

The Group's principal financial instruments, other than derivative instruments, comprise borrowings, bonds payable, deposits from client, cash and time deposits, etc. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and notes receivable, accounts payable and notes 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.

Financial instruments by category

The carrying amounts of each category of financial instruments as at the balance sheet date are presented as follows:

31 December 2012

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	–	16,726,970,096.00	–	16,726,970,096.00
Financial assets held for trading	137,050,693.51	–	–	137,050,693.51
Notes receivable	–	9,242,232,142.39	–	9,242,232,142.39
Accounts receivable	–	4,168,525,397.14	–	4,168,525,397.14
Other receivables	–	444,105,891.14	–	444,105,891.14
Other current assets	–	–	70,000,000.00	70,000,000.00
Available-for-sale financial assets – equity instruments	–	–	269,200,000.00	269,200,000.00
Total	137,050,693.51	30,581,833,526.67	339,200,000.00	31,058,084,220.18

Financial liabilities

	Other financial liabilities
Short-term borrowings	2,742,091,634.05
Long-term borrowings	6,344,249,958.75
Accounts payable	9,962,420,973.54
Notes payable	5,244,310,106.70
Other payables	2,535,764,374.58
Bonds payable	2,691,489,273.21
Non-current liabilities due within one year	352,604,906.92
Interests payable	61,680,626.43
Dividends payable	33,103,222.12
Other non-current liabilities	622,325,082.99
	30,590,040,159.29

31 December 2011

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash and cash equivalents	–	16,612,740,784.48	–	16,612,740,784.48
Financial assets held for trading	–	–	–	–
Notes receivable	–	9,551,350,772.66	–	9,551,350,772.66
Accounts receivable	–	4,737,509,830.84	–	4,737,509,830.84
Other receivables	–	240,646,814.45	–	240,646,814.45
Available-for-sale financial assets – equity instruments	–	–	234,011,928.12	234,011,928.12
Total	–	31,142,248,202.43	234,011,928.12	31,376,260,130.55

Financial liabilities

	Other financial liabilities
Short-term borrowings	1,541,238,008.87
Long-term borrowings	352,254,546.00
Accounts payable	13,078,975,509.97
Notes payable	5,965,759,459.51
Other payables	2,990,669,199.84
Bonds payable	2,687,471,069.22
Non-current liabilities due within one year	700,000,000.00
Interests payable	57,505,831.82
Dividends payable	59,135,231.94
	27,433,008,857.17

Credit risk

Credit risk is the risk of financial 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 and 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 to ensure that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Department of Credit Control in the Group.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, financial assets at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in Note VII.

The Group trades with its customers primarily on credit terms, and generally requires payment in advance or cash on delivery for new customers. Credit period is generally one month, extending up to six months for major customers. Customers with good trading record could be granted a longer credit period. Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely dispersed in different sectors and industries. The Group's maximum possible credit risk equals to the carrying amounts of accounts receivable in the consolidated balance sheet. As at 31 December 2012, the Group has no significant concentrations of credit risk as 14.76% (31 December 2011: 22.28%) of the Group's accounts receivable were receivables due from the top 5 customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable and other receivables are disclosed in Notes V.4 and 7.

Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities.

The Group maintains balance between continuity and flexibility of capital through bank loans and debts to manage its liquidity risk.

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of bank borrowings, bonds and other interest-bearing borrowings. As at 31 December 2012, 63.03% (31 December 2011: 87.48%) of the Group's borrowings would mature in less than one year.

The table below summarizes the maturity profile of financial assets and financial liabilities based on the undiscounted contractual cash flows:

31 December 2012

Financial assets

	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Cash and cash equivalents	10,042,562,877.74	6,684,407,218.26	–	–	16,726,970,096.00
Financial assets held for trading	–	137,050,693.51	–	–	137,050,693.51
Notes receivable	3,152,181,467.76	6,090,050,674.63	–	–	9,242,232,142.39
Accounts receivable	2,891,973,394.70	1,948,220,967.24	–	–	4,840,194,361.94
Other receivables	226,066,636.76	254,372,233.48	–	–	480,438,870.24
Other current assets	20,000,000.00	50,000,000.00	–	–	70,000,000.00
Available-for-sale financial assets – equity instruments	–	–	269,200,000.00	–	269,200,000.00
	16,332,784,376.96	15,164,101,787.12	269,200,000.00	–	31,766,086,164.08

Financial liabilities

	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Short-term borrowings (including interests)	880,569,968.30	1,898,088,058.51	–	–	2,778,658,026.81
Long-term borrowings (including interests)	–	–	1,737,369,510.12	4,609,610,578.35	6,346,980,088.47
Accounts payable	9,150,996,582.83	811,424,390.71	–	–	9,962,420,973.54
Notes payable	1,852,688,534.71	3,391,621,571.99	–	–	5,244,310,106.70
Other payables	123,848,630.35	2,411,915,744.23	–	–	2,535,764,374.58
Bonds payable (including interests)	–	146,110,000.00	3,006,970,000.00	–	3,153,080,000.00
Non-current liabilities due within one year (including interests)	–	369,700,454.87	–	–	369,700,454.87
Dividends payable	–	33,103,222.12	–	–	33,103,222.12
Other non-current assets	–	–	622,325,082.99	–	622,325,082.99
	12,008,103,716.19	9,061,963,442.43	5,366,664,593.11	4,609,610,578.35	31,046,342,330.08

31 December 2011

Financial assets

	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Cash and cash equivalents	11,601,089,334.77	4,994,133,805.84	17,517,643.87	–	16,612,740,784.48
Notes receivable	2,952,932,395.70	6,598,418,376.96	–	–	9,551,350,772.66
Accounts receivable	4,930,626,561.88	518,562,791.29	–	–	5,449,189,353.17
Other receivables	294,804,974.46	–	–	–	294,804,974.46
	19,779,453,266.81	12,111,114,974.09	17,517,643.87	–	31,908,085,884.77

Financial liabilities

	Less than 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Short-term borrowings (including interests)	707,563,634.26	876,100,475.00	–	–	1,583,664,109.26
Long-term borrowings (including interests)	4,675,425.00	14,026,275.00	357,167,800.00	4,254,546.00	380,124,046.00
Accounts payable	12,604,989,555.75	473,985,954.22	–	–	13,078,975,509.97
Notes payable	3,437,885,129.66	2,527,874,329.85	–	–	5,965,759,459.51
Other payables	2,722,144,126.74	268,525,073.10	–	–	2,990,669,199.84
Bonds payable (including interests)	–	146,110,000.00	3,153,080,000.00	–	3,299,190,000.00
Non-current liabilities due within one year (including interests)	9,267,187.50	715,932,812.50	–	–	725,200,000.00
Dividends payable	59,135,231.94	–	–	–	59,135,231.94
	19,545,660,290.85	5,022,554,919.67	3,510,247,800.00	4,254,546.00	28,082,717,556.52

As at 31 December 2012, other secured obligations in respect of the Group's commitments to external parties are detailed in Note VII.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. It mainly includes interest rate risk, currency risk and other price risk, such as equity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's financial instruments with a floating interest rate.

The table below is a sensitivity analysis of interest rate risk. It reflects the effects on the net profit (through the impact on floating interest rate of financial assets and liabilities) and equity, when there are reasonable and potential changes in interest rates, under the presumption that other variables remain unchanged.

	Benchmark Increase/ (decrease)	Net profit Increase/ (decrease)	Equity Increase/ (decrease)
2012			
RMB	5	(3,572,745.00)	(3,572,745.00)
RMB	(5)	3,572,745.00	3,572,745.00
2011			
RMB	5	(547,568.00)	(547,568.00)
RMB	(5)	547,568.00	547,568.00

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to currency risk mainly relates to its operating activities (when revenue and expenses are settled in a foreign currency that is different from the functional currency of the Group) and its net investments in overseas subsidiaries.

The following table demonstrates the sensitivity analysis of currency risk to a reasonably possible change in exchange rates, with all other variables held constant, of the net profit (due to changes in the fair value of monetary assets and liabilities) and equity. The currency risk of the Group does not involve shareholders' equity other than retained earnings.

	Exchange rate Increase/ (decrease)	Net profit Increase/ (decrease)	Equity Increase/ (decrease)*
2012			
If RMB weakens against USD	5%	30,605,515.38	10,493,134.17
If RMB strengthens against USD	5%	(30,605,515.38)	(10,493,134.17)
If RMB weakens against EUR	5%	(289,231,757.39)	6,728,111.71
If RMB strengthens against EUR	5%	289,231,757.39	(6,728,111.71)
If RMB weakens against HKD	5%	82,519.36	6,392,459.77
If RMB strengthens against HKD	5%	(82,519.36)	(6,392,459.77)
2011			
If RMB weakens against USD	5%	26,920,297.31	5,810,695.56
If RMB strengthens against USD	5%	(26,920,297.31)	(5,810,695.56)
If RMB weakens against EUR	5%	1,915,977.18	4,313,586.52
If RMB strengthens against EUR	5%	(1,915,977.18)	(4,313,586.52)
If RMB weakens against HKD	5%	(3,121,626.85)	8,235,635.50
If RMB strengthens against HKD	5%	3,121,626.85	(8,235,635.50)

* *Excluding retained earnings.*

Equity investment price risk

Equity investment price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of share indices and the value of individual securities. The Group was exposed to equity investment price risk arising from individual equity investments classified as available-for-sale equity investments (Note V.10) as at 31 December 2012. The Group held listed equity investments that are listed on the Shanghai Stock Exchange and NASDAQ and are valued at quoted market prices at the balance sheet date.

The market share indices for the following stock exchanges, at the close of business of the nearest trading day to the balance sheet date, and their respective highest and lowest closing points during the year were as follows:

	31 December 2012	2012 Highest/ Lowest	31 December 2011	2011 Highest/ Lowest
Shanghai – A Share Index	2,376	2,578/2,052	2,304	3,202/2,269
NASDAQ Composite Index	N/A	N/A	2,605	2,888/2,332

The following table demonstrates the sensitivity of the Group's net profit and equity to every 5% change in the fair values of the equity investments, with all other variables held constant (based on their carrying amounts at the balance sheet date). For the purpose of this sensitivity analysis, for the available-for-sale equity investments, the effect is deemed to be on the changes in fair values of available-for-sale equity investments and no account is given to factors such as impairment which might affect the income statement.

	Carrying value of equity investments	**Increase in net profit**	**Increase in equity***
2012			
Equity investments			
Shanghai – Available-for-sale equity investments	269,200,000.00	–	11,441,000.00
2011			
Equity investments			
Shanghai – Available-for-sale equity investments	232,400,000.00	–	9,877,000.00
US – Available-for-sale equity investments	1,611,928.12	–	68,506.95
Total	234,011,928.12	–	9,945,506.95

* *Excluding retained earnings.*

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions were used to estimate the fair values.

The fair values of cash and cash equivalents, notes receivable, accounts receivable, notes payable, accounts payable and short-term borrowings etc. approximate their carrying amounts due to the short term maturities of these instruments. The fair values of long-term borrowings and bonds payable approximate their carrying amount due to the similarity between the contracted interest rate and coupon rate and market interest rate.

The fair values of listed financial instruments are determined based on the quoted market prices.

The Group uses the following hierarchy for fair value measurement:

Level 1: fair values measured based on quoted prices in active markets for identical assets or liabilities available on the measurement date; Level 2: fair values measured by adjusting quoted prices of similar assets or liabilities from active markets available on the measurement date or quoted prices of identical or similar assets or liabilities from non-active markets; Level 3: fair values measured based on inputs used by market participants in the valuation of assets or liabilities when there is no available comparable market prices of identical or similar assets.

Financial instruments measured at fair value:

31 December 2012

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	–	–	137,050,693.51	137,050,693.51
Avaliable-for-sale financial assets	–	–	70,000,000.00	70,000,000.00
Available-for-sale financial assets-equity instruments	269,200,000.00	–	–	269,200,000.00
Put options in relation to minority interests	–	–	622,325,082.99	622,325,082.99

31 December 2011

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets-equity instruments	234,011,928.12	–	–	234,011,928.12

Available-for-sale financial assets and put options in relation to minority interests are detailed in Note V.10 and Note 38, respectively.

5. Other financial information

	31 December 2012		**31 December 2011**	
	Group	**Company**	**Group**	**Company**
Net current assets	15,236,358,674.02	12,109,227,708.00	13,295,411,317.83	9,226,716,457.41
Total assets less current liabilities	42,396,587,588.73	25,894,627,585.80	32,131,210,160.81	22,437,263,163.85

6. Defined benefit plans

林德液壓普通合夥企業, Linde Hydraulics GmbH &Co. KG and 林德液壓合夥企業, all being subsidiaries of the Group, provide defined benefit plans for their staffs and staffs of their subsidiaries as well as their family members who are economically dependent on their income.

As at the balance sheet date, the management of the Group recognized defined benefit plans liability of EUR based on the defined benefit obligation calculated by the independent actuaries, less fair value of the planned assets. The major assumptions are as follows:

Discount rate	3.50%
Expected return on assets of the defined benefit plans	5.30%
Expected growth rate of compensation	2.75%
Expected growth rate of pension	1.75%

The Group established 林德液壓普通合夥企業 and Linde Hydraulics GmbH &Co. KG recently and completed its acquisition of 林德液壓合夥企業 on 27 December 2012, as such, there was no profit or loss and other comprehensive benefits in relation to defined benefit plans in the current year.

XI. NOTES TO KEY ITEMS OF THE PARENT FINANCIAL STATEMENTS

1. Accounts receivable

The Group's trading terms with its customers are mainly on credit except for new customers, where payment in advance or cash on delivery is normally required. The credit period of accounts receivable is generally one month, extending up to six months for major customers. Accounts receivable is non-interest bearing.

An aging analysis of accounts receivable based on the invoice date is presented as follows:

	31 December 2012	31 December 2011
Within 1 year	395,193,563.49	779,144,682.84
1-2 years	–	–
2-3 years	–	–
Over 3 years	3,518,650.03	3,518,650.03
	398,712,213.52	782,663,332.87
Less: Provision for bad debt for accounts receivable	23,155,234.63	32,468,493.06
	375,556,978.89	750,194,839.81

Changes in provision for bad debt for accounts receivable are presented as follows:

	31 December 2012	31 December 2011
Opening balance	32,468,493.06	37,230,516.39
Provision for the year	–	–
Decrease during the year	–	–
Reversal	(9,313,258.43)	(4,762,023.33)
Closing balance	23,155,234.63	32,468,493.06

31 December 2012

	31 December 2012			
	Amount	Proportion (%)	Provision for bad debt	Proportion of provision (%)
Individually significant items for which provision for bad debt is recognized separately	–	–	–	–
Items for which provision for bad debt is recognized by group	398,712,213.52	100.00	23,155,234.63	5.81
Not individually significant items for which provision for bad debt is recognized separately	–	–	–	–
	398,712,213.52	100.00	23,155,234.63	

	31 December 2011			
	Amount	Proportion (%)	Provision for bad debt	Proportion of provision (%)
Individually significant items for which provision for bad debt is recognized separately	–	–	–	–
Items for which provision for bad debt is recognized by group	782,663,332.87	100.00	32,468,493.06	4.15
Not individually significant items for which provision for bad debt is recognized separately	–	–	–	–
	782,663,332.87	100.00	32,468,493.06	

As at 31 December 2012, there was no individually significant accounts receivable for which provision for bad debt was recognized separately (31 December 2011: Nil).

Provision for bad debt is recognized by group as follows:

	31 December 2012			
	Amount	Proportion (%)	Provision for bad debt	Proportion of provision (%)
Within 1 year	395,193,563.49	99.12	19,636,584.60	4.97
1-2 years	–	–	–	–
2-3 years	–	–	–	–
3-4 years	–	–	–	–
4-5 years	–	–	–	–
Over 5 years	3,518,650.03	0.88	3,518,650.03	100.00
	398,712,213.52	100.00	23,155,234.63	

	31 December 2011			
	Amount	Proportion (%)	Provision for bad debt	Proportion of provision (%)
Within 1 year	779,144,682.84	99.55	28,952,225.44	3.72
1-2 years	–	–	–	–
2-3 years	–	–	–	–
3-4 years	–	–	–	–
4-5 years	11,912.07	0.00	9,529.66	80.00
Over 5 years	3,506,737.96	0.45	3,506,737.96	100.00
	782,663,332.87	100.00	32,468,493.06	

As at 31 December 2012, there was no accounts receivable from shareholders that held 5% or more of the voting shares of the Company (31 December 2011: Nil).

As at 31 December 2012, the top 5 accounts receivable are presented as follows:

	Amount	Age	Percentage of total accounts receivable (%)
Faw Jiefang Qingdao Auto Factory	116,537,895.37	Within 1 year	29.23
Zhengzhou Yutong Bus Co., Ltd	63,640,572.49	Within 1 year	15.96
Beijing Foton Daimler Automotive Co., Ltd	50,018,137.26	Within 1 year	12.54
Chongqing Beifang Benchi Truck Co., Ltd.	30,446,819.67	Within 1 year	7.64
Hangzhou Yaman Engine Co., Ltd	18,748,360.00	Within 1 year	4.70
	279,391,784.79		70.07

As at 31 December 2011, the top 5 accounts receivable are presented as follows:

	Amount	Age	Percentage of total accounts receivable
			(%)
Shaanxi Heavy-duty Motor Co., Ltd.	513,062,395.91	Within 1 year	65.55
Beiqi Foton Motor Co., Ltd.	55,340,332.92	Within 1 year	7.07
Weichai Heavy-duty Machinery Co, Ltd	31,514,845.13	Within 1 year	4.03
Shanghai Longgong Machinery Company Limited	18,230,260.00	Within 1 year	2.33
Shandong Weichai Import and Export Co., Ltd.	6,520,633.80	Within 1 year	0.83
	624,668,467.76		79.81

2. Other receivables

An aging analysis of other receivables is presented as follows:

	31 December 2012	31 December 2011
Within 1 year	1,105,080,877.47	725,877,459.96
1-2 years	64,037,019.32	44,591,419.57
2-3 years	10,846,244.30	17,473,577.29
3 years	18,261,506.60	26,415,014.12
	1,198,225,647.69	814,357,470.94
Less: Provision for bad debt for other receivables	42,059,021.46	43,860,169.51
Closing balance	1,156,166,626.23	770,497,301.43

	31 December 2012				31 December 2011			
	Amount	Proportion	Provision for bad debt	Proportion of provision	Amount	Proportion	Provision for bad debt	Proportion of provision
		(%)		*(%)*		*(%)*		*(%)*
Individually significant	–	–	–	–	–	–	–	–
Items for which provision for bad debt is recognized by group	1,198,225,647.69	100.00	42,059,021.46	3.51	814,357,470.94	100.00	43,860,169.51	5.39
Not individually significant	–	–	–	–	–	–	–	–
	1,198,225,647.69	100.00	42,059,021.46	3.51	814,357,470.94	100.00	43,860,169.51	5.39

As at 31 December 2012, there was no individually significant other receivables for which provision for bad debt was recognized separately (31 December 2011: Nil).

Provision for bad debt is recognized by group as follow:

	31 December 2012				31 December 2011			
	Amount	Proportion (%)	Provision for bad debt	Proportion of provision (%)	Amount	Proportion (%)	Provision for bad debt	Proportion of provision (%)
Within 1 year	1,105,080,877.47	92.23	12,029,643.55	1.09	725,877,459.96	89.14	7,862,647.63	1.08
1-2 years	64,037,019.32	5.34	9,605,552.90	15.00	44,591,419.57	5.48	7,690,462.94	17.24
2-3 years	10,846,244.30	0.91	3,253,873.29	30.00	17,473,577.29	2.15	5,242,073.19	30.00
3-4 years	2,167,631.64	0.18	1,083,815.82	50.00	38,695.30	0.00	19,347.65	50.00
4-5 years	38,695.30	0.00	30,956.24	80.00	16,653,403.61	2.04	13,322,722.89	80.00
Over 5 years	16,055,179.66	1.34	16,055,179.66	100.00	9,722,915.21	1.19	9,722,915.21	100.00
Total	1,198,225,647.69	100.00	42,059,021.46		814,357,470.94	100.00	43,860,169.51	

As at 31 December 2012, the top 5 other receivables are presented as follows:

	Amount	Age	Percentage of total other receivables (%)
Weichai Power (Weifang) Casting Co., Ltd.	858,305,631.80	Within 1 year	71.63
Weichai Group Holdings Limited	94,067,880.00	Within 1 year	7.85
Weichai Power (Weifang) Intensive Logistics Co., Ltd.	15,222,143.71	Within 1 year	1.27
Weichai Power (Hong Kong) International Development Co., Ltd.	10,464,734.79	Within 1 year	0.87
Beijing Zhongrui Law Firm	2,005,000.00	3-4 years	0.17
	980,065,390.30		81.79

As at 31 December 2011, the top 5 other receivables are presented as follows:

	Amount	Age	Percentage of total other receivables (%)
Weichai Power (Hong Kong) International Development Co., Ltd.	197,227,354.28	Within 1 year	24.22
Chongqing Jialing Chuanjiang Vehicles Manufacturing Co., Ltd.	63,370,000.00	Within 1 year	7.78
Zhuzhou Torch Machinery Manufacturing Co., Ltd.	18,823,892.02	1-3 years	2.31
Xinjiang Machinery Equipment Import & Export Co., Ltd.	16,630,657.03	4-5 years	2.04
Hangzhou Hongyuan Machinery Manufacturing Co., Ltd.	9,203,387.08	Over 5 years	1.13
	305,255,290.41		37.48

As at 31 December 2012, other receivables from shareholders that held 5% or more in the voting shares of the Company amounted to RMB94,067,880.00 (31 December 2011: Nil).

3. Investment in associates

Type of enterprise	Registered address	Legal representative	Nature of business	Registered capital
Shanghai Xinlian Chuangye Investment Co., Ltd.	Shanghai	Nie Xinyong	Project investment	150,000,000.00
Shanzhong Finance Leasing Co., Ltd.	Beijing	Dong Ping	Finance leasing	920,000,000.00

	Total assets closing balance	Total liabilities closing balance	Total net assets closing balance	Revenue in current year	Net profit in current year
Shanghai Xinlian Chuangye Investment Co., Ltd.	331,765,502.67	152,320,344.46	179,445,158.21	–	72,150,121.55
Shanzhong Finance Leasing Co., Ltd.	3,965,619,361.34	2,940,527,659.42	1,025,091,701.92	280,141,817.17	47,679,262.90

4. Long-term equity investments

	31 December 2012	31 December 2011
Unlisted investment under cost mothod	6,299,750,997.76	6,123,083,254.61
Unlisted investment under equity method	461,952,115.46	391,795,019.70
	6,761,703,113.22	6,514,878,274.31
Less: Provision for impairment of long-term equity investments	133,186,712.10	133,186,712.10
	6,628,516,401.12	6,381,691,562.21

As at 31 December 2012, the breakdown of long-term equity investments under cost method was as follows:

	Investment cost	Opening balance	Increase/ reduction in current period	Closing balance	Percentage of shareholding	Percentage of voting rights	Provision for impairment	Provision for impairment in current period	Cash dividend in current period
Weichai Power (Weifang) Spare Part Resources Co., Ltd.	101,410,238.34	101,410,238.34	–	101,410,238.34	100.00%	100.00%	–	–	99,834,026.80
Weichai Power (Weifang) Oil Co., Ltd.	10,706,159.11	10,706,159.11	–	10,706,159.11	100.00%	100.00%	–	–	1,116,386.32
Weichai Power (Weifang) Casting Co., Ltd.	460,150,000.00	460,150,000.00	–	460,150,000.00	100.00%	100.00%	–	–	163,434,318.37
Zhuzhou Torch Sparkplugs Co., Ltd.	201,901,925.83	185,984,058.24	15,917,867.59	201,901,925.83	100.00%	100.00%	–	–	15,928,404.96
Zhuzhou Torch Machinery Manufacturing Co., Ltd.	130,898,993.14	130,898,993.14	–	130,898,993.14	100.00%	100.00%	–	–	–
Zhuzhou Torch Auto Lighting Co., Ltd.	38,363,180.85	38,363,180.85	–	38,363,180.85	100.00%	100.00%	–	–	–
Zhuzhou Torch Auto Sealing Co., Ltd.	–	15,917,867.59	(15,917,867.59)	–	不適用	不適用	–	–	–
Torch Import & Export Co., Ltd.	33,973,054.98	33,973,054.98	–	33,973,054.98	100.00%	100.00%	–	–	–
WEICHAI POWER MAT AUTOMOTIVE, INC.	227,412,122.28	183,025,122.28	44,387,000.00	227,412,122.28	100.00%	100.00%	–	–	–
Weichai Power (Weifang) Reconstruction Co., Ltd.	122,000,000.00	122,000,000.00	–	122,000,000.00	100.00%	100.00%	–	–	31,341,240.16
Weichai Power (Hong Kong) International Development Co., Ltd.	378,750,138.28	181,522,784.00	197,227,354.28	378,750,138.28	100.00%	100.00%	–	–	–
Weichai Power (Shanghai) Technology Development Co., Ltd.	500,000,000.00	500,000,000.00	–	500,000,000.00	100.00%	100.00%	–	–	–
Weichai Power (Chongqing) Western Development Co., Ltd.	240,000,000.00	240,000,000.00	–	240,000,000.00	100.00%	100.00%	–	–	–
Weichai Power (Beijing) International Resource Investment Co., Ltd.	300,000,000.00	300,000,000.00	–	300,000,000.00	100.00%	100.00%	–	–	
Xinjiang Equipment Imports and Exports Co., Ltd.	–	–	–	–	–	–	(12,118,687.10)	–	–
Weichai Power (Qingzhou) Drive Control Technology Co., Ltd.	150,000,000.00	100,000,000.00	50,000,000.00	150,000,000.00	100.00%	100.00%	–	–	–
Zhuzhou Torch Property Development Co., Ltd.	–	13,592,301.67	(13,592,301.67)	–	0.00%	0.00%	–	–	–
Zhuzhou Gear Co., Ltd.	532,334,743.21	532,334,743.21	–	532,334,743.21	87.91%	87.91%	–	–	2,272,192.00
Shanghai He Da Auto Accessory Co., Ltd.	39,163,469.71	39,163,469.71	–	39,163,469.71	75.00%	75.00%	–	–	4,447,917.96
Dongfeng Off-road Vehicle Co., Ltd.	–	75,415,728.37	(75,415,728.37)	–	0.00%	0.00%	–	–	–
Mudanjiang Futong Automotive Air Conditioner Co., Ltd.	–	95,882,087.38	(95,882,087.38)	–	0.00%	0.00%	–	–	–
Weichai Power (Weifang) Intensive Logistics Co., Ltd.	10,400,000.00	10,400,000.00	–	10,400,000.00	52.00%	52.00%	–	–	–
Shaanxi Heavy-duty Motor Co., Ltd.	1,482,116,000.85	1,482,116,000.85	–	1,482,116,000.85	51.00%	51.00%	–	–	56,100,000.00
Shaanxi Fast Gear Co., Ltd.	1,082,558,680.59	1,082,558,680.59	–	1,082,558,680.59	51.00%	51.00%	–	–	190,183,118.40
Shaanxi Hande Axle Co., Ltd.	14,507,358.03	14,507,358.03	–	14,507,358.03	3.06%	3.06%	–	–	9,765,957.44
Shandong Synergy Oil Co., Ltd.	9,426,918.00	9,426,918.00	–	9,426,918.00	46.00%	46.00%	–	–	–
Baoji Fast Gear Co., Ltd.	10,986,483.27	10,986,483.27	–	10,986,483.27	2.55%	2.55%	–	–	–
FOTON Lovol Heavy Industries Co., Ltd.	45,000,000.00	–	45,000,000.00	45,000,000.00	20.00%	20.00%	–	–	–
WEICHAI SINGAPORE PTE. LTD	6.29	–	6.29	6.29	100%	100%	–	–	–
Dalian Hongyuan Machinery Manufacturing Co., Ltd	24,943,500.00	–	24,943,500.00	24,943,500.00	17.31%	17.31%	–	–	–
Zhuzhou Gear Share Co., Ltd.	1,680,000.00	1,680,000.00	–	1,680,000.00	2.45%	2.45%	–	–	–
Eastern Life Insurance Co., Ltd.	60,000,000.00	60,000,000.00	–	60,000,000.00	7.50%	7.50%	(60,000,000.00)	–	–
New Century Finance Leasing Co., Ltd.	61,068,025.00	61,068,025.00	–	61,068,025.00	11.22%	11.22%	(61,068,025.00)	–	–
Foton Heavy-duty Machinery Co., Ltd.	30,000,000.00	30,000,000.00	–	30,000,000.00	4.66%	4.66%	–	–	–
Cost method total	6,299,750,997.76	6,123,083,254.61	176,667,743.15	6,299,750,997.76			(133,186,712.10)	–	574,423,562.41

As at 31 December 2012, the breakdown of long-term equity investments under equity method was as follows:

Equity method	Investment cost	Opening balance	Increase/ reduction in current period	Closing balance	Percentage of shareholding	Percentage of voting rights	Provision for impairment	Provision for impairment in current period	Cash dividend in current period
Weichai Power Westport New Energy Engine Co., Ltd	–	55,867,925.76	(55,867,925.76)	–	–	–	–	–	1,135,151.64
Shanghai Xinlian Chuangye Investment Co., Ltd.	45,853,683.25	145,034,267.36	(84,011,954.59)	61,022,312.77	33.33	33.33	–	–	67,500,000.00
Shandong Heavy Industry Group Finance Co., Ltd	200,000,000.00	–	202,424,654.78	202,424,654.78	20.00	20.00	–	–	–
Shanzhong Finance Leasing Co., Ltd.	180,000,000.00	190,892,826.58	7,612,321.33	198,505,147.91	19.57	19.57	–	–	1,987,560.00
Equity method total	425,853,683.25	391,795,019.70	70,157,095.76	461,952,115.46			–	–	70,622,711.64

As at 31 December 2011, the breakdown of long-term equity Investments under cost method was as follows:

	Investment cost	Opening balance	Increase/ reduction in current period	Closing balance	Percentage of shareholding	Percentage of voting rights	Provision for impairment	Provision for impairment in current period	Cash dividend in current period
Weichai Power (Weifang) Spare Part Resources Co., Ltd.	101,410,238.34	101,410,238.34	–	101,410,238.34	100.00%	100.00%	–	–	117,868,284.05
Weichai Power (Weifang) Oil Co., Ltd.	10,706,159.11	10,706,159.11	–	10,706,159.11	100.00%	100.00%	–	–	6,232,074.68
Weichai Power (Weifang) Casting Co., Ltd.	460,150,000.00	20,000,000.00	440,150,000.00	460,150,000.00	100.00%	100.00%	–	–	–
Zhuzhou Torch Sparkplugs Co., Ltd.	185,984,058.24	185,984,058.24	–	185,984,058.24	100.00%	100.00%	–	–	11,978,123.50
Zhuzhou Torch Machinery Manufacturing Co., Ltd.	130,898,993.14	130,898,993.14	–	130,898,993.14	100.00%	100.00%	–	–	–
Zhuzhou Torch Auto Lighting Co., Ltd.	38,363,180.85	23,363,180.85	15,000,000.00	38,363,180.85	100.00%	100.00%	–	–	–
Zhuzhou Torch Auto Sealing Co., Ltd.	15,917,867.59	15,917,867.59	–	15,917,867.59	100.00%	100.00%	–	–	–
Torch Import & Export Co., Ltd.	33,973,054.98	33,973,054.98	–	33,973,054.98	98.34%	98.34%	–	–	–
WEICHAI POWER MAT AUTOMOTIVE, INC.	183,025,122.28	183,025,122.28	–	183,025,122.28	75.00%	75.00%	–	–	–
Weichai Power (Weifang) Reconstruction Co., Ltd.	122,000,000.00	30,000,000.00	92,000,000.00	122,000,000.00	100.00%	100.00%	–	–	13,878,840.78
Weichai Power (Hong Kong) International Development Co., Ltd.	181,522,784.00	178,544,956.52	2,977,827.48	181,522,784.00	100.00%	100.00%	–	–	–
Weichai Power (Shanghai) Technology Development Co., Ltd.	500,000,000.00	300,000,000.00	200,000,000.00	500,000,000.00	100.00%	100.00%	–	–	–
Weichai Power (Chongqing) Western Development Co., Ltd.	240,000,000.00	200,000,000.00	40,000,000.00	240,000,000.00	100.00%	100.00%	–	–	–
Weichai Power (Beijing) International Resource Investment Co., Ltd.	300,000,000.00	300,000,000.00	–	300,000,000.00	100.00%	100.00%	–	–	–
Xinjiang Equipment Imports and Exports Co., Ltd.	–	–	–	–	–	–	(12,118,687.10)	–	–
Weichai Power (Qingzhou) Drive Control Technology Co., Ltd.	100,000,000.00	–	100,000,000.00	100,000,000.00	100.00%	100.00%	–	–	–
Zhuzhou Torch Property Development Co., Ltd.	13,592,301.67	13,592,301.67	–	13,592,301.67	94.66%	94.66%	–	–	–
Zhuzhou Gear Co., Ltd.	532,334,743.21	332,334,743.21	200,000,000.00	532,334,743.21	87.91%	87.91%	–	–	13,633,155.62
Shanghai He Da Auto Accessory Co., Ltd.	39,163,469.71	39,163,469.71	–	39,163,469.71	75.00%	75.00%	–	–	1,971,218.68
Dongfeng Off-road Vehicle Co., Ltd.	75,415,728.37	75,415,728.37	–	75,415,728.37	60.00%	60.00%	–	–	–
Mudanjiang Futong Automotive Air Conditioner Co., Ltd.	95,882,087.38	95,882,087.38	–	95,882,087.38	59.84%	59.84%	–	–	5,818,298.82
Weichai Power (Weifang) Intensive Logistics Co., Ltd.	10,400,000.00	10,400,000.00	–	10,400,000.00	52.00%	52.00%	–	–	–
Shaanxi Heavy-duty Motor Co., Ltd.	1,482,116,000.85	972,116,000.85	510,000,000.00	1,482,116,000.85	51.00%	51.00%	–	–	103,335,570.10
Shaanxi Fast Gear Co., Ltd.	1,082,558,680.59	1,082,558,680.59	–	1,082,558,680.59	51.00%	51.00%	–	–	149,020,834.52
Shaanxi Hande Axle Co., Ltd.	14,507,358.03	14,507,358.03	–	14,507,358.03	3.06%	3.06%	–	–	–
Shandong Synergy Oil Co., Ltd.	9,426,918.00	9,426,918.00	–	9,426,918.00	46.00%	46.00%	–	–	–
Baoji Fast Gear Co., Ltd.	10,986,483.27	10,986,483.27	–	10,986,483.27	2.55%	2.55%	–	–	–
FOTON Lovol Heavy Industries Co., Ltd.,	–	75,600,000.00	(75,600,000.00)	–	0.00%	0.00%	–	–	–
Zhuzhou Gear Share Co., Ltd.	1,680,000.00	1,680,000.00	–	1,680,000.00	2.45%	2.45%	–	–	–
Eastern Life Insurance Co., Ltd.	60,000,000.00	60,000,000.00	–	60,000,000.00	7.50%	7.50%	(60,000,000.00)	–	–
New Century Finance Leasing Co., Ltd.	61,068,025.00	61,068,025.00	–	61,068,025.00	11.22%	11.22%	(61,068,025.00)	–	–
Foton Heavy-duty Machinery Co., Ltd.	30,000,000.00	30,000,000.00	–	30,000,000.00	4.66%	4.66%	–	–	–
Cost method total	6,123,083,254.61	4,598,555,427.13	1,524,527,827.48	6,123,083,254.61			(133,186,712.10)	–	423,736,400.75

As at 31 December 2011, the breakdown of long-term equity investments under equity method was as follows:

Equity method	Investment cost	Opening balance	Increase/ reduction in current period	Closing balance	Percentage of shareholding	Percentage of voting rights	Provision for impairment	Provision for impairment in current period	Cash dividend in current period
Weichai Power Westport New Energy Engine Co., Ltd	35,539,307.22	41,964,399.13	13,903,526.63	55,867,925.76	40.00	40.00	–	–	–
Shanghai Xinlian Chuangye Investment Co., Ltd.	45,853,683.25	337,168,830.47	(192,134,563.11)	145,034,267.36	33.33	33.33	–	–	50,000,000.00
Shanzhong Finance Leasing Co., Ltd.	180,000,000.00	183,913,462.58	6,979,364.00	190,892,826.58	19.57	19.57	–	–	–
Equity method total	261,392,990.47	563,046,692.18	(171,251,672.48)	391,795,019.70			–	–	50,000,000.00

5. **Revenue and cost of sales**

	Revenue		Cost of sales	
	2012	**2011**	**2012**	**2011**
Principal operations				
Sale of goods and others	16,078,199,012.44	22,937,204,697.10	10,692,476,826.90	15,052,487,468.85
Other operations	1,373,709,941.00	2,272,810,687.18	1,296,925,382.43	2,075,391,036.56
	17,451,908,953.44	25,210,015,384.28	11,989,402,209.33	17,127,878,505.41

Information on principal operations by sectors was as follows:

	Revenue		Cost of sales	
	2012	**2011**	**2012**	**2011**
Manufacturing of transportation equipment	16,078,199,012.44	22,937,204,697.10	10,692,476,826.90	15,052,487,468.85

Revenue from the top 5 customers in 2012 is presented as follows:

	Amount	**Proportion of total revenue** *(%)*
Shaanxi Heavy-duty Motor Co., Ltd.	2,754,474,385.57	15.78
Beiqi Foton Motor Co., Ltd.	2,735,249,482.05	15.67
Faw Jiefang Qingdao Auto Factory	705,444,182.00	4.04
Anhui Hualing Heavy-Duty Automotive Co., Ltd	458,340,764.96	2.63
Baotou Northern Benz Heavy Truck Company Limited	626,203,931.86	3.59
	7,279,712,746.44	41.71

Revenue from the top 5 customers in 2011 is presented as follows:

	Amount	**Proportion of total revenue** *(%)*
Shaanxi Heavy-duty Motor Co., Ltd.	4,470,501,692.21	17.73
Beiqi Foton Motor Co., Ltd.	3,753,689,880.34	14.89
Faw Jiefang Qingdao Auto Factory	1,758,655,241.04	6.98
Saic-iveco Hongyan Commercial Vehicle Co., Ltd.	1,028,538,801.82	4.08
Shandong Lingong Construction Machinery Co., Ltd.	787,120,683.76	3.12
	11,798,506,299.17	46.80

6. Investment income

	2012	2011
Long-term equity investments under the cost method	574,423,562.41	423,736,400.75
Long-term equity investments under the equity method	53,592,927.19	128,897,916.48
Incl: Income from investment in associates	53,592,927.19	128,897,916.48
Investment loss from disposal of subsidiaries	319,529,382.58	–
Investment income from disposal of associates	21,814,350.32	–
Investment income from disposal of other long-term equity investments	–	28,540,000.00
Investment income during the period in which the Company held available-for-sale financial assets	4,800,000.00	5,600,000.00
	974,160,222.50	586,774,317.23

Items of long-term equity investments income under the cost method are presented as follows:

	2012
Shaanxi Fast Gear Co., Ltd.	190,183,118.40
Weichai Power (Weifang) Casting Co., Ltd.	163,434,318.37
Weichai Power (Weifang) Spare Part Resources Co., Ltd.	99,834,026.80
Shaanxi Heavy-duty Motor Co., Ltd.	56,100,000.00
Weichai Power (Weifang) Reconstruction Co., Ltd.	31,341,240.16
Zhuzhou Torch Sparkplugs Co., Ltd.	15,928,404.96
Shaanxi Hande Axle Co., Ltd.	9,765,957.44
Shanghai He Da Auto Accessory Co., Ltd.	4,447,917.96
Zhuzhou Gear Co., Ltd.	2,272,192.00
Weichai Power (Weifang) Oil Co., Ltd.	1,116,386.32
	574,423,562.41

	2011
Weichai Power (Weifang) Spare Part Resources Co., Ltd.	117,868,284.05
Weichai Power (Weifang) Reconstruction Co., Ltd.	13,878,840.78
Weichai Power (Weifang) Oil Co., Ltd.	6,232,074.68
Shaanxi Fast Gear Co., Ltd.	149,020,834.52
Shaanxi Heavy-duty Motor Co., Ltd.	103,335,570.10
Shaanxi Hande Axle Co., Ltd.	11,978,123.50
Shanghai He Da Auto Accessory Co., Ltd.	1,971,218.68
Zhuzhou Gear Co., Ltd.	13,633,155.62
Mudanjiang Futong Automotive Air Conditioner Co., Ltd.	5,818,298.82
	423,736,400.75

Items of long-term equity investments income under the equity method are presented as follows:

	2012
Shanghai Xinlian Chuangye Investment Co., Ltd.	24,047,635.52
Weichai Power Westport New Energy Engine Co., Ltd	17,520,755.56
Shanzhong Finance Leasing Co., Ltd.	9,599,881.33
Shangdong Heavy Industry Group Finance Co., Ltd.	2,424,654.78
	53,592,927.19

	2011
Shanghai Xinlian Chuangye Investment Co., Ltd.	110,461,319.98
Shanzhong Finance Leasing Co., Ltd.	6,979,364.00
Weichai Power Westport New Energy Engine Co., Ltd	11,457,232.50
	128,897,916.48

As at 31 December 2012, the remittance of the Company's investment income was subject to no significant restriction.

7. Supplement to cash flow statement

	2012	2011
Net profit	3,643,539,237.76	5,116,932,142.65
Add: Provision for impairment of assets	(11,114,406.48)	4,562,996.57
Increase/(decrease) in special reserve	13,776,537.65	–
Depreciation of fixed assets and investment properties	370,006,085.18	358,609,763.54
Amortization of intangible assets	7,709,845.21	6,537,755.48
(Gain)/loss on disposal of fixed assets, intangible assets and other long-term assets	1,323,695.97	(2,036,794.85)
Finance expenses	150,131,181.66	102,766,308.56
Investment income	(974,160,222.50)	(586,774,317.23)
Decrease/(increase) in deferred tax assets	69,172,719.99	94,942,955.07
Increase/(decrease) in deferred tax liabilities	–	2,333,400.08
Decrease/(increase) in inventories	1,072,350,933.60	(721,106,770.19)
(Increase)/decrease in operating receivables	123,853,265.66	1,855,211,313.57
(Decrease)/increase in operating payables	(3,253,687,784.26)	1,583,159,458.43
Others	27,121,973.06	(1,200,179,510.55)
Net cash flow from operating activities	1,240,023,062.50	6,614,958,701.13

8. **Cash and cash equivalents**

	31 December 2012	31 December 2011
Cash		
Incl: Cash on hand	135,837.78	181,944.12
Bank deposit on demand	9,456,946,623.80	8,933,647,528.74
Closing balance of cash and cash equivalents	9,457,082,461.58	8,933,829,472.86

	31 December 2012	31 December 2011
Closing balance of cash and cash equivalents	11,172,638,035.07	10,704,876,019.41
Less: Balance of restricted cash and cash equivalents	1,715,555,573.49	1,771,046,546.55
Closing balance of cash and cash equivalents	9,457,082,461.58	8,933,829,472.86

XII. COMPARATIVE AMOUNTS

Some comparative amounts have been restated to conform to the presentation requirements for the current year.

SUPPLEMENTAL INFORMATION ON FINANCIAL STATEMENTS

31 December 2012 (Expressed in Renminbi Yuan)

1. SCHEDULE OF EXTRAORDINARY PROFIT AND LOSS

	Amount in 2012
Gains or losses from disposal of non-current assets, including the offset portion of impairment provision for such assets	214,802,164.83
Government grants charged in profit or loss for the current period, except for those closely related to the ordinary operation and gained constantly at a fixed amount or quantity according to certain standard based on state policies	152,893,444.51
Profit and loss from debt restructuring	34,980,934.30
Reversal of impairment provision of receivables tested individually	25,619,821.43
Non-operating income and expenses other than the above items	53,594,797.18
	481,891,162.25
Tax effect	(67,886,912.30)
Effect on minority interests	(71,990,245.52)
	342,014,004.43

The Group recognized extraordinary profit and loss items in accordance with the provisions in Explanatory Announcement on Information Disclosure for Companies Offering their Securities to the Public No. 1 – Extraordinary Items (CSRC Announcement [2008] No.43).

2. RETURN ON NET ASSETS ("RONA") AND EARNINGS PER SHARE ("EPS")

	2012	
	Weighted average RONA	Basic EPS
	(%)	*RMB*
Net profit attributable to the Company's ordinary shareholders	12.62	1.50
Net profit attributable to the Company's ordinary shareholders after extraordinary profit and loss	11.17	1.32

	2011	
	Weighted average RONA	Basic EPS
	(%)	*RMB*
Net profit attributable to the Company's ordinary shareholders	27.10	2.80
Net profit attributable to the Company's ordinary shareholders after extraordinary profit and loss	26.00	2.69

The Company holds no potential ordinary shares that are dilutive.

The Group presents RONA and EPS in accordance with Compilation Rules No.9 for Information Disclosure by Companies Offering Securities to the Public – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revised in 2010) of the CSRC.

2. INDEBTEDNESS

Borrowings

As at the close of business on 31 January 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding interest-bearing bank borrowings of approximately RMB9,454 million as follows:

	As at 31 January 2013
	RMB'million
Current bank borrowings	2,666
Non-current bank borrowings due within one year	300
Non-current bank borrowings	6,488
	9,454

Details of such bank borrowings and other borrowings which are secured, guaranteed or unsecured are set out below:

	As at 31 January 2013
	RMB'million
Secured	120
Guaranteed	7,416
Unsecured	1,918
	9,454

As at 31 January 2013, the Group had total available bank credit facilities of approximately RMB58,841 million of which approximately RMB41,884 million had not been utilised.

Collateral

As at 31 January 2013, certain bank loans of the Group were secured by the pledge of the following:

	As at 31 January 2013
	RMB'million
Property, plant and equipment	10
Land use right	41
Construction in process	73
	124

Liabilities under acceptance

As at 31 January 2013, the Group had liabilities under acceptance of approximately RMB5,872 million.

Company bonds issued

As at 31 January 2013, the Group issued company bonds of approximately RMB2,692 million.

Contingent liabilities

1. *Exposure to confirmation risks*

Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Group, entered into a tri-party cooperation agreement with distributors and endorsing bank. Distributors will deposit guarantee money of not lower than 30% to the bank and apply for establishment of bank acceptance bill according to the amount of credit facility provided by the bank. Shaanxi Heavy-duty Motor Company Limited assumes security obligation in favour of the distributors for the difference between amount of notes and guarantee money. As at 31 January 2013, the open position of outstanding acceptance bill was RMB651 million.

2. *Finance lease business*

Shaanxi Heavy-duty Motor Company Limited, a subsidiary of the Group, entered into a cooperation agreement with each of Shanzhong Finance Leasing Co., Ltd. and CBD Leasing Co., Ltd. ("finance lease companies"). It is agreed by and between the two parties that the finance lease companies shall provide finance lease service to Shaanxi Heavy-duty Motor Company Limited or its distributors. Shaanxi Heavy-duty Motor Company Limited shall provide joint liability guarantee in respect of the lessee's failure to pay the instalment payments and interests under the finance lease. As at 31 January 2013, the risk exposure of possible joint liabilities was RMB654 million.

Save for the aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Group did not have, at the close of business on 31 January 2013, any term loans or other borrowings or indebtedness in the nature of borrowing such as bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages, charges, guarantees, or other material contingent liabilities.

The Directors confirm that there are no material changes in the indebtedness or contingent liabilities of the Group since 31 January 2013.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account of the Enlarged Group's available financial resources including internally generated cash flows, credit facilities and cash on hand and also the effect of the possible exercise of the Call Options, the Enlarged Group have sufficient working capital for its present requirements, that is for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is cautiously optimistic about the development trend of its related industries in 2013 and expects to step up efforts in developing its technological reserves in areas including new energy sources, hybrid systems and automobile electronics, and proactively upgrade industrial-related technologies. The Company will further seek support from relevant State policies to push forward the implementation of development plans in relation to hydraulic components for construction machinery. In addition, the Company will, on a coordinated basis, further consider expanding the domestic and international markets and internationalising its business, and accelerate the coordinated development of its commercial vehicle segment, power chain segment and automobile component segment, in order to fully utilise the synergetic advantage of the brands, technology and resources of the domestic and overseas companies of the Group.

The exercise of the Call Options will enable the Company to increase its shareholding in KION to 33.3% after completion of the IPO, and further, the chairman of the supervisory board of KION and KION Group GmbH will be a board member designated by Weichai Lux.

The Company considers that such increase in the shareholding in KION serves as an indication of the Company's further commitment on the development and long-term cooperation with KION.

5. MATERIAL ADVERSE CHANGE

The Directors confirmed that, as at the Latest Practicable Date, they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Company were made up.

The following is the text of a report, prepared for the purpose of incorporation in this Circular, received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

28 March 2013

The Directors
Weichai Power Co., Ltd.

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding KION Holding 1 GmbH (the "**KION**") and its subsidiaries (hereinafter collectively referred to as the "**KION Group**") for each of the three years ended 31 December 2012 (the "**Relevant Periods**"), for inclusion in the circular of Weichai Power Co., Ltd. (the "**Company**") dated 28 March 2013 (the "**Circular**"), in connection with the possible acquisition of shares in KION through exercise of the call options.

KION was formed with articles of association dated 24 October 2006, and entered in the commercial register at the Wiesbaden Local Court in Germany under reference HRB22785 on 21 February 2007.

Superlift Holding S.à.r.l, ("Superlift"), incorporated in Luxemburg with limited liabilities, was the immediate and ultimate holding company of KION.

KION Group is principally engaged in manufacture and sale of industrial trucks (forklift trucks and warehouse trucks). KION is an investment holding company. Details of principal subsidiaries of KION as at the date of this report are set out in note 46 to Section A of this report.

The audited financial statements issued by KION for the Relevant Periods were prepared in accordance with International Financial Reporting Standards as adopted by European Union (the "**Underlying Financial Statements**") and were audited by Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, certified public accountants registered in Germany, in accordance with the German generally accepted standards for the audit of the financial statements promulgated by the Institut der Wirtschaftsprüfer. Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft considers that the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer are comparable, in all material respects, to the International Standards on Auditing, promulgated by the International Federation of Accountants. Details of the auditors for the audited financial statements of the principal subsidiaries of KION are set out in note 46 to Section A of this report.

For the purpose of this report, we have examined the Underlying Financial Statements and performed such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The Financial Information of the KION Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements after making certain reclassification adjustments to the Underlying Financial Statements for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the executive board of KION (the ("**Executive Board**") who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the KION Group at 31 December 2010, 31 December 2011 and 31 December 2012 and of the results and cash flows of the KION Group for the Relevant Periods.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2010	2011	2012
		€'000	€'000	€'000
Revenue	5	3,534,474	4,368,395	4,726,664
Cost of sales		(2,684,353)	(3,256,378)	(3,429,914)
Gross profit		850,121	1,112,017	1,296,750
Selling expenses		(483,639)	(520,547)	(562,404)
Research and development costs		(103,255)	(119,526)	(124,454)
Administrative expenses		(247,526)	(283,322)	(313,190)
Other income	7	59,585	81,503	294,374
Other expenses	8	(45,879)	(70,043)	(59,530)
Share of profit of equity investments		3,569	11,192	15,912
Other financial result		1,660	1,886	2,655
Financial income	9	88,349	73,664	62,084
Financial expense	10	(354,405)	(345,709)	(301,569)
(Loss) profit before tax		(231,420)	(58,885)	310,628
Income tax credit (expense)	11	34,722	(34,041)	(149,540)
(Loss) profit for the year	12	(196,698)	(92,926)	161,088
Other comprehensive income (expense)	14			
Impact of exchange differences		37,260	6,476	2,765
(Losses) gains on employee benefits		(28,658)	8,394	(151,311)
Gains (losses) on cash flow hedges		10,022	(8,149)	6,074
(Losses) gains from equity investments		(125)	532	(26)
Other comprehensive income (expense), net of tax, for the year		18,499	7,253	(142,498)
Total comprehensive (expense) income for the year		(178,199)	(85,673)	18,590
(Loss) profit for the year attributable to:				
Shareholders of KION		(198,655)	(95,093)	159,008
Non-controlling interests		1,957	2,167	2,080
		(196,698)	(92,926)	161,088
Total comprehensive (expense) income for the year attributable to:				
Shareholders of KION		(180,155)	(87,840)	16,554
Non-controlling interests		1,956	2,167	2,036
		(178,199)	(85,673)	18,590

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	At 31 December 2010	2011	2012
		€'000	€'000	€'000
ASSETS				
Non-current assets				
Goodwill	17	1,507,010	1,537,996	1,473,245
Other intangible assets	18	986,410	977,555	933,961
Leased assets	19	156,125	167,354	191,322
Rental assets	20	321,188	356,682	395,093
Property, plant and equipment	21	590,343	553,816	500,345
Equity investments	22	37,841	36,545	154,835
Lease receivables	23	246,808	242,840	267,140
Other non-current financial assets	24	17,474	25,732	50,171
Deferred tax assets	25	241,772	261,963	264,974
		4,104,971	4,160,483	4,231,086
Current assets				
Inventories	26	535,529	625,369	549,927
Trade receivables	27	633,265	676,553	625,462
Lease receivables	23	120,950	118,381	132,129
Current income tax receivables		4,550	4,953	5,501
Other current financial assets	24	106,790	107,096	106,778
Cash and cash equivalents	28	252,884	373,451	562,357
		1,653,968	1,905,803	1,982,154
Total assets		5,758,939	6,066,286	6,213,240
EQUITY AND LIABILITIES				
Subscribed capital	29	500	500	500
Capital contributions for carrying out the approved capital increase	29	–	–	1,132,552
Capital reserves	29	348,483	348,483	348,483
Accumulated losses	29	(711,504)	(806,429)	(647,687)
Accumulated other comprehensive income (expense)	29	(44,471)	(37,218)	(179,672)
(Deficit) equity attributable to the equity holder of KION		(406,992)	(494,664)	654,176
Non-controlling interests		7,070	7,077	6,159
Total (deficit) equity		(399,922)	(487,587)	660,335

		At 31 December		
	Notes	**2010**	**2011**	**2012**
		€'000	*€'000*	*€'000*
Non-current liabilities				
Shareholder loan	*30*	615,250	643,132	–
Retirement benefit obligation	*31*	374,063	382,914	546,520
Non-current financial liabilities	*32*	2,772,417	2,777,354	2,300,656
Lease liabilities	*33*	278,814	300,061	329,185
Non-current provisions	*34*	164,299	96,168	89,120
Other non-current financial liabilities	*35*	260,153	303,789	355,078
Deferred tax liabilities	*25*	334,930	339,054	308,821
		4,799,926	4,842,472	3,929,380
Current liabilities				
Current financial liabilities	*32*	106,470	227,376	51,775
Trade payables	*36*	508,108	634,092	646,044
Lease liabilities	*33*	169,929	146,728	145,830
Current income tax liabilities		6,661	15,439	84,958
Current provisions	*34*	95,902	183,678	137,888
Other current financial liabilities	*35*	471,865	504,088	557,030
		1,358,935	1,711,401	1,623,525
Total liabilities		6,158,861	6,553,873	5,552,905
Total equity and liabilities		5,758,939	6,066,286	6,213,240
Net current assets		295,033	194,402	358,629
Total assets less current liabilities		4,400,004	4,354,885	4,589,715

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Accumulated other comprehensive income (expense)							
	Subscribed capital €'000	Capital contributions for carrying out the approved capital increase €'000	Capital reserves €'000	Accumulated profit (losses) €'000	Cumulative translation adjustment €'000	Gains (losses) on defined benefit obligation €'000	Hedging reserve €'000	(Losses) gains from equity investments €'000	Total equity attributable to shareholders of KION €'000	Non-controlling interests €'000	Total equity €'000
Balance as at 1 January 2010	500	–	348,483	(516,199)	(79,286)	41,156	(24,841)	–	(230,187)	17,144	(213,043)
Loss for the year	–	–	–	(198,655)	–	–	–	–	(198,655)	1,957	(196,698)
Other comprehensive income (expense) for the year	–	–	–	–	37,261	(28,658)	10,022	(125)	18,500	(1)	18,499
Total comprehensive income (expense) for the year	–	–	–	(198,655)	37,261	(28,658)	10,022	(125)	(180,155)	1,956	(178,199)
Dividends	–	–	–	–	–	–	–	–	–	(2,143)	(2,143)
Effects on the acquisition of non-controlling interests	–	–	–	(1,496)	–	–	–	–	(1,496)	(10,419)	(11,915)
Other changes	–	–	–	4,846	–	–	–	–	4,846	532	5,378
Balance as at 31 December 2010	500	–	348,483	(711,504)	(42,025)	12,498	(14,819)	(125)	(406,992)	7,070	(399,922)
Loss for the year	–	–	–	(95,093)	–	–	–	–	(95,093)	2,167	(92,926)
Other comprehensive income (expense) for the year	–	–	–	–	6,476	8,394	(8,149)	532	7,253	–	7,253
Total comprehensive income (expense) for the year	–	–	–	(95,093)	6,476	8,394	(8,149)	532	(87,840)	2,167	(85,673)
Dividends	–	–	–	–	–	–	–	–	–	(2,209)	(2,209)
Other changes	–	–	–	168	–	–	–	–	168	49	217
Balance as at 31 December 2011	500	–	348,483	(806,429)	(35,549)	20,892	(22,968)	407	(494,664)	7,077	(487,587)
Profit for the year	–	–	–	159,008	–	–	–	–	159,008	2,080	161,088
Other comprehensive income (expense)	–	–	–	–	2,765	(151,267)	6,074	(26)	(142,454)	(44)	(142,498)
Total comprehensive income (expense) for the year	–	–	–	159,008	2,765	(151,267)	6,074	(26)	16,554	2,036	18,590
Capital increase	–	1,137,784	–	–	–	–	–	–	1,137,784	–	1,137,784
Transaction costs	–	(5,232)	–	–	–	–	–	–	(5,232)	–	(5,232)
Dividends	–	–	–	–	–	–	–	–	–	(2,405)	(2,405)
Effect on the acquisition of non-controlling interests	–	–	–	(425)	–	–	–	–	(425)	(549)	(974)
Other changes	–	–	–	159	–	–	–	–	159	–	159
Balance as at 31 December 2012	500	1,132,552	348,483	(647,687)	(32,784)	(130,375)	(16,894)	381	654,176	6,159	660,335

CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Operating activities			
(Loss) profit for the year	(196,698)	(92,926)	161,088
Adjustments for:			
Income tax (credit) expense	(34,722)	34,041	149,540
Net financial expenses	266,056	272,045	239,485
Depreciation and amortisation/ Impairment of non-current assets (excluding leased and rental assets)	180,094	192,068	184,042
Impairment of leased and rental assets	165,477	163,953	181,227
Other non-cash (income) expenses	12,295	9,943	(142,530)
Loss (gain) on disposal of non-current assets	4,987	6,428	(103,814)
Operating cash flow before movements in working capital	397,489	585,552	669,038
Change in working capital:			
Change in leased and rental assets	(129,572)	(208,691)	(245,764)
Change in lease receivables and lease liabilities	(57,440)	26,056	24,592
Change in inventories	(45,685)	(75,242)	20,513
Change in trade receivables	(103,890)	(36,829)	56,850
Change in trade payables	145,491	114,886	(3,928)
Cash payments for defined benefit obligations	(29,420)	(21,038)	(23,311)
Change in other provisions	(14,994)	13,989	(39,884)
Change in other operating assets	7,195	334	(26,686)
Change in other operating liabilities	43,072	30,346	37,020
Cash generated from operations	212,246	429,363	468,440
Income taxes paid	(12,957)	(42,553)	(54,432)
Cash inflow from operating activities	199,289	386,810	414,008
Investing activities			
Cash receipts from disposal of non-current assets	4,177	3,408	7,353
Cash payments for purchase of non-current assets	(123,462)	(133,005)	(155,101)
(Advances to) Repayments from affiliated companies	(1,799)	2,879	(5,510)
Dividends received	2,854	6,599	5,317
Interest income received	3,623	3,397	4,488
Acquisitions of subsidiaries, net of cash acquired	(7,638)	(32,916)	(9,703)
Cash proceeds from sale of entities (excluding cash and cash equivalents)	–	–	259,746
Cash payments for sundry assets	(1,003)	(2,942)	(2,538)
Cash (outflow) inflow from investing activities	(123,248)	(152,580)	104,052

	Year ended 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Financing activities			
Dividends paid to non-controlling interests	(2,143)	(2,209)	(2,405)
Cash paid for increased ownership interests (after control)	(9,535)	(1,461)	(10,373)
Cash receipts from decreased ownership interests (after control)	–	82	138
Capital contributions for carrying out the approved capital increase	–	–	467,000
Proceeds from borrowings	56,742	632,691	7,676
Loan financing costs paid	(5,978)	(24,579)	(14,549)
Transaction costs for carrying out the approved capital increase	–	–	(1,095)
Repayment of borrowings	(152,447)	(537,018)	(664,577)
Repayment of other capital borrowings	(42,133)	(21,052)	(2,723)
Cash (payments) receipts for forward foreign exchange hedging contracts	–	(13,714)	20,490
Interest paid	(134,716)	(147,455)	(129,712)
Cash outflow from financing activities	(290,210)	(114,715)	(330,130)
Net (decrease) increase in cash and cash equivalents	(214,169)	119,515	187,930
Cash and cash equivalents at the beginning of the year	463,408	252,884	373,451
Effect of foreign exchange rate changes on cash and cash equivalents	3,645	1,052	976
Cash and cash equivalents at the end of the year	252,884	373,451	562,357

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The registered office of KION Holding 1 GmbH is at Abraham-Lincoln-Strasse 21, 65189 Wiesbaden.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Period, the KION Group has consistently adopted International Financial Reporting Standards ("**IFRS**"), which are effective for the accounting periods beginning on 1 January 2012 throughout the Relevant Periods.

At the date of this report, the following new and revised standards, amendments and interpretations are issued but are not yet effective. The KION Group has not early adopted these standards, amendments and interpretations.

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised 2011)	Employee Benefits[1]
IAS 27 (as revised 2011)	Separate Financial Statements[1]
IAS 28 (as revised 2011)	Investments in Associates and Joint Ventures[1]
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

The Executive Board anticipates that the application of the new and revised standards, amendments or interpretations, other than that set out below, will have no material impact on the Financial Information.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The Executive Board anticipates that the adoption of IFRS 9 in the future may have impact on amounts reported in respect of the KION Group's available-for-sale financial assets which are currently stated at cost less impairment and will be measured at fair value upon adoption. Presently, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with IFRS. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies adopted are as follows:

Basis of consolidation

The Financial Information includes all of the parent company's subsidiaries. Intragroup balances, transactions, income and expenses, and gains and losses on intercompany transactions are eliminated in full. Deferred taxes are recognised on temporary differences resulting from consolidation entries.

Transactions with non-controlling interests are treated as transactions with the KION Group's equity providers. Differences between the consideration paid for the acquisition of a non-controlling interest and the relevant proportion of the carrying amount of the subsidiary's net assets are recognised directly in retained earning. Gains and losses arising from the sale of non-controlling interests are also recognised in retained earning, provided there is no change in control.

Associates and joint ventures that are material to the financial position and financial performance of the KION Group are accounted for using the equity method.

Total comprehensive income and expense of a subsidiary is attributed to the owners of KION and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions are accounted for using the acquisition method. The identifiable assets acquired and the liabilities assumed on the acquisition date are recognised separately from goodwill, irrespective of the extent of any non-controlling interests. The identifiable assets acquired and the liabilities assumed are measured at their fair value. The amount recognised as goodwill is calculated as the amount by which the sum of the consideration transferred, the amount of non-controlling interests in the acquiree and the fair value of all previously held equity interest at the acquisition date exceeds the fair value of the group's interest in the acquiree's net assets. If the cost of acquisition is lower than the fair value of the acquiree's net assets, the difference is recognised in income.

For each acquisition, the KION Group decides on a case-by-case basis whether the non-controlling interest in the acquiree is recognised at fair value or as a proportion of the net assets of the acquiree. The option to recognise non-controlling interests at fair value is not currently exercised. Consequently, non-controlling interests are recognised at the proportionate share of the fair value of the net assets attributable to them excluding goodwill.

For acquisitions achieved in stages, previously held equity interests are recognised at their fair value on the date the KION Group obtains control. The difference between their carrying amount and fair value is recognised in the profit and loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units.

Transaction costs are immediately recognised in the profit and loss. Contingent consideration elements are included at fair value at the date of acquisition when determining the purchase consideration. Contingent consideration elements may consist of equity instruments or financial liabilities. Depending on the classification, changes in their fair value are reflected in subsequent measurements.

Revenue recognition

Revenue is the fair value received for the sale of products and services and lease income (excluding VAT) after deduction of trade discounts and rebates. In accordance with IAS 18, revenue is recognised when it is sufficiently probable that a future economic benefit will flow to the KION Group and that benefit can be reliably measured. Additional criteria also apply, depending on each individual transaction, such as:

Sale of goods

With the exception of items classified as 'sale with risk', revenue from the sale of goods is recognised when the KION Group delivers goods to a customer, the goods are accepted by the customer and the flow of benefits to the KION Group is considered to be probable. If a customer is expected to accept goods but has yet to do so, the corresponding revenue is only recognised when the goods are accepted. Appropriate provisions are recognised for risks relating to the sale of goods. In the case of revenue from agreements classified as 'sale with risk', the revenue is deferred over the term of the agreement if the risks and rewards remain substantially with the KION Group. The term 'sale with risk' is discussed in the following section and under 'Rental assets' below.

Rendering of services

Revenue from rendering of services is recognised in the year in which the services are rendered. For services provided over several periods, revenue is recognised in accordance with the proportion of the total services rendered in each period (stage of completion). Unrealised revenue from long-term service agreements is therefore deferred over the average term of the agreements concerned and recognised in line with progressive cost trends.

Revenue from financial service transactions is recognised in the amount of the sales value of the leased asset if classified as a finance lease and in the amount of the lease payments if classified as an operating lease. As part of the financial services business, industrial trucks are also sold to finance partners who then enter into leases directly with the end customer (sale with risk). If significant risks and rewards remain with the KION Group as a result of an agreed residual value guarantee or as a result of an agreed default guarantee which result in the risks and rewards remain substantially with the KION Group, the proceeds from the sale are deferred and recognised as revenue on a straight-line basis over the term until the residual value guarantee or the default guarantee expires.

Interest income

Interest income is recognised proportionately in accordance with the effective interest method.

Royalties

Income from royalties is deferred in accordance with the substance of the relevant agreements and recognised pro rata.

Cost of sales

The cost of sales comprises the cost of goods and services sold and includes directly attributable material and labour costs as well as directly attributable overhead, including depreciation of production equipment and amortisation of certain intangible assets, as well as write-downs of inventories. Cost of sales also includes additions to warranty provisions, which are recognised in the amount of the estimated cost at the date on which the related product is sold.

Government grants

Government grants are recognised at fair value provided that the KION Group has satisfied the necessary conditions for receiving the grant. Grants not related to capital expenditures are recognised in the income statement, under other income, in the period in which the expense intended to be covered by the grant is incurred. Grants for capital expenditures are deducted from the cost of the asset concerned and result in a corresponding reduction in depreciation over the subsequent periods.

Financial income and expenses

Net financial income mainly consists of interest expense on financial liabilities, interest income from financial receivables, gains and losses on financial instruments recognised through profit or loss, exchange rate gains and losses on financial activities and the interest expense on pension provisions. The expected return on plan assets relating to pension provisions is also included in financial income.

Interest income and expense are recognised in profit and loss in accordance with the effective interest method.

The effective interest method is used for calculating the amortised cost of a financial asset or financial liability and the allocation of interest income and interest expense over the relevant periods. The effective interest rate is the interest rate at which the estimated future payments (including all fees that are part of the effective interest rate, transaction costs and other premiums and discounts) are discounted to the net carrying amount of the financial asset or liability over the expected term of the financial instrument.

Dividends are recognised in income when a resolution on distribution has been passed. They are reported in the income statement under other financial income/expenses.

Goodwill

Goodwill has an indefinite useful life and is not amortised. Instead, it is tested for impairment in accordance with IAS 36 ('Impairment of Assets') at least once a year, and more frequently if there are indications that the asset might be impaired.

Impairment testing is performed at the level of the individual cash-generating units (CGUs) or groups of CGUs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. CGUs are generally based on the lowest level of an entity at which – for internal management purposes – the management systematically monitors and controls the contribution to earnings made by the assets concerned, including goodwill. However, a CGU may not be larger than an operating segment as defined in IFRS 8 'Operating Segments'. In particular, CGUs are considered to be clearly defined and independent if the entity's management has prepared independent forecasts relevant to decision-making for the individual CGUs.

For the purposes of internal and external reporting, the activities of the KION Group are broken down into the LMH, STILL, Financial services and Other segments on the basis of their characteristics and risk profile.

The relevant CGUs for the purpose of goodwill impairment testing are the LMH and STILL segments and the Voltas Material Handling Private Limited, Pune, India (referred to below as VHM) CGU, which is assigned to the Other segment, as the structure of the internal reporting and management system, including the decision-relevant forecasts by the KION Group, is based on these CGUs.

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows used in the calculation are the operating cash flows taken from financial forecasts approved by KION's management and also used for internal management purposes.

Other intangible assets

Other purchased intangible assets with a finite useful life are carried at cost less all cumulative amortisation and all cumulative impairment losses. If events or market developments suggest impairment has occurred, impairment tests are carried out on the carrying amount of items classified as other intangible assets with a finite useful life. The carrying amount of an asset is compared with its recoverable amount, which is defined as the higher of its value in use and its fair value net of costs to sell. If the reasons for recognising impairment losses in the past no longer apply, impairment losses not exceeding the amortised cost of the assets are reversed.

Other intangible assets with an indefinite useful life are carried at cost and are mainly capitalised brand names. Brand names are not amortised provided they have been established in the market for a number of years and there is no foreseeable end to their useful life. In accordance with IAS 36, they are tested for impairment at least once a year or whenever there are indications that the asset might be impaired. The impairment test is performed in the same way as the impairment test for goodwill. Assessments of indefinite useful life are carried out in each year.

The brand name of VMH is subject to an usage right with a contractually limited term and it will therefore be amortised over its useful life.

Development costs are capitalised if the following can be demonstrated:

- the technical feasibility of the intangible asset;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the extent to which the intangible asset is expected to generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Capitalised development costs include all costs and overhead directly attributable to the development process. Once they have been initially capitalised, these costs and internally generated intangible assets – particularly internally generated software – are carried at cost less cumulative amortisation and cumulative impairment losses. Internally generated intangible assets are not qualifying assets so finance costs are not capitalised. All non-qualifying research and development costs are expensed as incurred and reported on the income statement under research and development costs together with the amortisation on capitalised development costs.

Leases/rental

KION Group companies lease equipment, mainly various industrial trucks, to their customers in order to promote sales. The leases may be of a short-term nature (short-term rental) or long-term nature (leasing).

Companies in the KION Group enter into leases as lessors and as lessees. In line with IAS 17, these contracts are classified as finance leases if substantially all of the risks and rewards incidental to ownership of the leased/rental asset are transferred to the lessee. All other leases and rental transactions are classified as operating leases, again in accordance with IAS 17.

If a KION Group company enters into a finance lease as the lessor, the future lease payments to be paid by the lessee are recognised as lease receivables at an amount equal to the net investment in the lease. Interest income is allocated to each reporting period in order to ensure a constant return on the outstanding net investment in the lease.

Leased assets

If the economic ownership of leased assets remains with a KION Group company as the lessor under an operating lease, the assets are reported as leased assets in a separate item on the face of the statement of financial position. The leased assets are carried at cost and depreciated over the term of the underlying leases. Lease-related income is recognised on a straight-line basis over the terms of the leases.

In the case of these long-term leases, industrial trucks are generally sold to leasing companies. The industrial trucks are then leased back to companies in the KION Group, who sub-lease them to customers (described below as 'sale and leaseback sub-leases'). Long-term leases generally have a term of four to five years. If, in the case of sale and leaseback sub-leases, the risks and rewards incidental to the head lease are substantially borne by KION Group companies, the corresponding assets are reported as non-current leased assets. If substantially the risks and rewards are transferred to the end customer, a corresponding lease receivable is recognised. Long-term customer leases are funded for terms that match those of the leases; funding items are recognised as lease liabilities.

Rental assets

Rental assets are assets resulting from short-term rentals in relation to which significant risks and rewards remain with the KION Group despite having been sold ('sale with risk').

In the case of short-term rentals, LMH and STILL brand companies rent industrial trucks to customers directly. Short-term rental agreements usually have a term of one day to one year. The significant risks and rewards remain with the LMH and STILL brand companies.

As part of 'sale with risk' business, industrial trucks are sold to finance partners who then enter into leases with end customers. If LMH and STILL brand companies provide material residual value guarantees or a customer default guarantee, these transactions, which are classified as sale agreements under civil law, are recognised in accordance with the provisions on lessors with operating leases in conjunction with the IFRS principles for revenue recognition. In this case, the trucks are recognised as assets in the statement of financial position at their cost on the date of the sale and written down to their guaranteed residual value, or zero, over the term of the lease between the finance partner and end customer. If the KION Group provides a residual value guarantee, an amount equivalent to the residual value obligation is recognised under other financial liabilities. The purchase consideration paid by the finance partner is recognised as deferred income and released to revenue on a pro rata basis over the term of the lease between the finance partner and the end customer.

Property, plant and equipment

Property, plant and equipment are carried at cost less straight-line depreciation and impairment losses. The cost of internally generated machinery and equipment includes all costs directly attributable to the production process and an appropriate portion of production overhead. This includes production-related depreciation and proportionate costs for administration and social insurance/employee benefits.

The cost of property, plant and equipment is reduced by the amount of any government grants received. Expenses for maintenance and repairs are recognised in income to the extent that they are not required to be capitalised. Borrowing costs are capitalised for certain items of property, plant and equipment whose acquisition or production exceeds one year and the definition of a qualifying asset is met. As was the case in 2011 and 2012, there were no qualifying assets for each of the Relevant Periods.

Depreciation of property, plant and equipment is recognised on a straight-line basis and reported in functional costs. The useful lives and depreciation methods are reviewed annually and adjusted to reflect changes in conditions.

KION Group companies also lease property, plant and equipment for their own use using finance leases, which are recognised as property, plant and equipment. In this case, the lower of the fair value and present value of future lease payments is recognised at the inception of the lease. A corresponding liability to the lessor is recognised under other financial liabilities in the statement of financial position.

Property, plant and equipment covered by finance leases is depreciated over the shorter of its useful life or the term of the lease, unless title to the leased assets passes to the lessee when the lease expires, in which case the property, plant and equipment is depreciated and the other financial liabilities are reversed over the useful life of the leased assets.

The difference between total finance lease liabilities and the fair value of the financed leased assets represents the finance charge which is recognised in the income statement over the term of the lease at a constant rate of interest on the outstanding balance in each period. At the end of the lease term, the leased assets are either returned or purchased, or the contract is extended.

If there are certain indications of impairment, property, plant and equipment assets are tested for impairment by comparing the residual carrying amount of the assets with their recoverable amount, which is defined as the higher of value in use and fair value less costs to sell. If the residual carrying amount is greater than the recoverable amount, an impairment loss is recognised for the asset.

The KION Group calculates the recoverable amount primarily on the basis of value in use. In determining value in use, the expected future cash flows are discounted using a risk-adjusted discount rate, taking into account the current and future level of earnings and segment-specific, technological, economic and general trends.

If an impairment test for an item of property, plant and equipment is performed at the level of a cash-generating unit to which goodwill is allocated and results in the recognition of an impairment loss, first the goodwill and, subsequently, the assets must be written down in proportion to their relative carrying amounts. If the reason for an impairment loss recognised in prior years no longer applies, impairment losses not exceeding the amortised cost of the asset concerned are reversed. This does not apply to goodwill.

Equity investments

In accordance with the equity method, associates and joint ventures are measured as the proportion of the interest in the equity of the investee. They are initially carried at cost. In subsequent periods, the KION Group's interest in the profit or loss generated after acquisition is recognised in income. Other changes in the equity of associates and joint ventures are recognised in other comprehensive income (loss) in the consolidated financial statements in proportion to the KION Group's interest in the associate or joint venture.

If the KION Group's interest in the losses made by an associate or joint venture exceeds the carrying amount of the proportionate equity attributable to the KION Group, no additional losses are recognised. Any goodwill arising from the acquisition of an associate or joint venture is included in the carrying amount of the investment in the associate or joint venture. When an associate or joint venture is sold, the KION Group's interest in its goodwill is taken into account in determining the gain or loss on disposal.

If there is evidence that an associate or joint venture may be impaired, the carrying amount of the investment in question is tested for impairment.

Other financial assets

The investments in non-consolidated affiliated companies and (long-term) equity investments that are reported in other non-current financial assets are carried at cost less impairment losses, as observable fair values are not available and reliable results cannot be obtained using other permitted measurement techniques. At present there is no intention to sell these financial instruments. At each reporting date, financial assets or groups of financial assets are tested for impairment. Impairment losses are recognised in income as appropriate.

Primary financial assets are initially recognised and derecognised in the financial statements on their settlement dates.

Under IAS 39 ('Financial Instruments: Recognition and Measurement'), securities allocated to current or non-current financial assets are classified according to those carried at fair value through profit and loss (FAHfT), available for sale (AfS) and held to maturity (HtM).

The KION Group did not designate any securities as carried at fair value through profit and loss (FAHfT) in the Relevant Periods. The FAHfT category therefore only includes financial derivatives that do not form part of a formally documented hedge.

Available-for-sale financial instruments (AfS) are carried at fair value. Equity investments for which no market price is available, are recorded at cost. Unrealised gains and losses, including deferred taxes, are reported in other comprehensive income (loss) until they are realised.

In the first period they are recognised, other financial assets which are categorised as loans and receivables ('LaR') are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Carrying amounts are tested for impairment on every reporting date and whenever indications of impairment arise. If there is an objective indication of impairment (such as a borrower being in significant financial difficulties), an impairment loss must be recognised directly in the income statement.

If objective facts in favour of reversing impairment losses are present on the reporting date, reversals are recognised in an appropriate amount. Reversals may not exceed the amortised cost that would have been recorded if the impairment loss had not been recognised. In the case of debt instruments, reversals of impairment losses are recognised in the income statement.

Held-to-maturity financial assets are carried at amortised cost less impairment losses in accordance with the effective interest method.

Income taxes

In the consolidated financial statements, current and deferred taxes are recognised on the basis of the tax laws of the jurisdictions involved. Deferred taxes are recognised in other comprehensive income (loss) if they relate to transactions also recognised in other comprehensive income (loss).

Deferred tax assets and liabilities are recognised in accordance with the liability method for all temporary differences between the IFRS carrying amounts and the tax base, as well as for temporary consolidation measures.

Deferred tax assets also include tax refund claims that arise from the expected utilisation of existing tax loss carryforwards and interest carryforwards in subsequent years and whose utilisation is reasonably certain according to current forecasts. On the basis of this estimate, deferred tax assets were recognised on certain interest carryforwards for the first time in 2010.

Deferred taxes are determined on the basis of the tax rates that will apply or are expected to apply at the realisation date in accordance with the current legal situation in each country concerned. In accordance with the provisions in IAS 12, deferred tax assets and liabilities are not discounted.

Deferred tax assets are offset against deferred tax liabilities to the extent that they have the same maturity and relate to the same taxation authority.

Inventories

Inventories are carried at the lower of cost and net realisable value.

The acquisition costs of raw materials and merchandise are calculated on the weighted average method. The cost of finished goods and work in progress includes direct costs and an appropriate portion of the material and production overhead and production-related depreciation directly attributable to the production process. Administrative costs and social insurance/employee benefits are included to the extent that they are attributable to the production process. Borrowing costs as defined by IAS 23 are not a component of cost as inventories are not qualifying assets as defined by IAS 23.4. Cost of inventories are recognised is an average value or a value determined in accordance with the FIFO method.

Net realisable value is the selling price that can be realised less the estimated costs of completion and the estimated costs necessary to make the sale.

Write-downs are recognised for inventory risks resulting from duration of storage, impaired recoverability, etc. Write-downs are reversed up to a maximum of cost if the reasons for their recognition no longer apply.

Receivables

In the first period they are recognised, receivables and other assets are carried at fair value including directly attributable transaction costs. In subsequent periods they are measured at amortised cost using the effective interest method. Appropriate valuation allowances are recognised for identifiable individual risks. Low-interest or non-interest-bearing receivables due in more than one year are carried at their present value.

Derivative financial instruments

Derivative financial instruments comprise currency forwards and interest-rate swaps and are used for hedging purposes to mitigate exchange-rate and interest-rate risks.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), all derivative financial instruments are measured at their fair value irrespective of an entity's purpose or intention in entering into the derivative contract. Changes in the fair value of derivative financial instruments in a formally documented hedge are reported in the income statement (for fair value hedges) or in other comprehensive income (loss) (for cash flow hedges).

Hedge accounting

The KION Group currently only uses cash flow hedges for exchange-rate and interest-rate risks.

At the inception of the hedging relationship the KION Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the KION Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

In the case of cash flow hedges, derivatives are employed to hedge future cash flow risks from existing underlying transactions or planned transactions. The effective portion of changes in the fair value of derivatives is initially recognised in other comprehensive income (loss). The ineffective portion of the changes in fair value is recognised immediately in net financial income/expenses.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

If the criteria for hedge accounting are not satisfied, changes in the fair value of derivative financial instruments are recognised in the income statement.

In the case of hedges of net investments in foreign subsidiaries, the translation risks resulting from investments with a different functional currency are hedged. Unrealised gains and losses on hedging instruments are reported in other comprehensive income (loss) until the investment is sold. In the past financial year, KION Group companies have not entered into any hedges for net investments in foreign subsidiaries.

Hedge accounting is discontinued when the KION Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Further information on risk management and accounting for derivative financial instruments can be found under note 39.

Retirement benefit obligation

The retirement benefit obligation is calculated in accordance with the projected unit credit method. Future pension obligations are measured on the basis of the pro rata vested benefit entitlements as at the reporting date and discounted to their present value. The calculations include assumptions about future changes in certain parameters, such as expected salary and pension increases and biometric factors affecting the amount of future benefits. Pension provisions are reduced by the fair value of the plan assets used to cover the KION Group's benefit obligations. Plan assets are measured at fair value.

Actuarial gains and losses, including deferred taxes, are recognised in other comprehensive income (loss). The cost of additions to pension provisions is allocated to functional costs. The interest cost on pension obligations and the expected return on plan assets are reported in net financial income/expenses. Further details can be found in note 31.

Provisions

Provisions are recognised when the KION Group has a legal or constructive obligation to a third party as the result of a past event that is probable to lead to a future outflow of resources and that can be reliably estimated. A provision is recognised in the amount of the mean of the range of probabilities. Measurement includes indirect and direct costs.

Provisions for identifiable risks and contingent liabilities are recognised in the amount that represents the best estimate of the cost required to settle the obligations existing on the reporting date. Recourse claims are not taken into account. The settlement amount also includes estimated future cost increases as of the reporting date. Provisions with a maturity of more than twelve months are discounted using the standard market interest rate. The discount rate is a before-tax rate that reflects current market expectations for the time value of money and the specific risks inherent in the liability. Accrued interest is recognised in interest expense.

Warranty provisions are recognised on the basis of past or estimated future claim statistics. Individual provisions are recognised for claims that are known to the KION Group. The corresponding expense is recognised in cost of sales at the date on which the revenue is recognised.

Provisions for expected losses from onerous contracts and other business obligations are measured on the basis of the work yet to be performed.

A restructuring provision is recognised when a KION Group company has prepared a detailed, formal restructuring plan and this plan has raised a valid expectation in those affected that the company will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The measurement of a restructuring provision only includes the direct expenditures arising from the restructuring and not associated with the ongoing activities of the company concerned.

Shareholder loan, financial liabilities, other financial liabilities, trade payables

These liabilities are initially recognised at fair value at the time they are entered into. Directly attributable transaction costs are deducted for all financial liabilities that are not subsequently designated as at fair value through profit or loss.

The shareholder loan, non-current financial liabilities and other financial liabilities are then carried at amortised cost. Any differences between historical cost and the settlement amount are recognised in accordance with the effective interest method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the KION Group's accounting policies, which are described in note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment on goodwill

Goodwill is tested for impairment annually at the level of the cash-generating unit to which goodwill is allocated, by considering the KION Group's three-year planning combined with the growth forecasts for the subsequent two years thereafter and assuming division-specific growth rates for the period thereafter. Any material changes to these factors might result in the recognition of impairment losses. Further information on goodwill can be found in note 17.

Defined benefit pension obligations

Defined benefit pension obligations are calculated on the basis of actuarial parameters. As differences due to actuarial gains and losses are recorded in other comprehensive income (loss), any change in these parameters would not affect the net profit for the Relevant Periods. For further details about sensitivity analysis of the impact of certain assumptions, please refer to the information about provisions in note 31.

Income tax expense

Significant estimates are involved in calculating provisions for tax. These estimates may change on the basis of new information and experience. Where necessary, the KION Group's accounting departments receive assistance from external legal advisers and tax consultants when making the estimates required.

Other provisions

The recognition and measurement of other provisions is based on an estimate taking into consideration the probability of the future outflow of resources, supplemented by past experience and the circumstances known to the KION Group at the reporting date. Accordingly, the actual outflow of resources for a given event may be different from the amount recognised in other provisions. Further details can be found in note 34.

Valuation of deferred tax assets

Deferred tax assets on tax loss carryforwards and interest carryforwards are recognised on the basis of an estimate of the future recoverability of the tax benefit, i.e. an assumption as to whether sufficient taxable income or tax relief will be available against which the carried forwards can be utilised. The actual amount of taxable income in future periods, and hence the actual utilisation of tax loss carryforwards and interest carryforwards, may be different from the estimates made when the corresponding deferred tax assets were recognised.

5. REVENUE

Revenue represents revenue arising on sale of industrial trucks, rental business and leasing, and after sales services income for the Relevant Periods. An analysis of the KION Group's revenue for the Relevant Periods is as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Sales of goods	2,537,393	3,275,131	3,443,363
Rendering of services	594,724	652,119	855,691
Rental income	402,357	441,145	427,610
	3,534,474	4,368,395	4,726,664

6. SEGMENT INFORMATION

IFRS 8 specifies the 'management approach' for defining operating segments. Under this approach, the internal reports that are regularly used by the chief operating decision-maker to make decisions on the allocation of resources to a segment and to assess the performance of a segment are used as the basis for determining the operating segments. The chief operating decision-maker in the KION Group is the Executive Board.

The Executive Board has divided the KION Group into four segments namely the Linde Material Handling Brand ("LMH"), STILL Brand ("STILL"), Financial Service ("FS") and Other.

LMH

LMH brand comprises the group entities dealing with the material-handling products under the Linde, Fenwick and Baoli brands.

STILL

The STILL brand comprises the group entities dealing with the forklifts, warehouse handling equipment and tow tractors and pioneering material flow services under STILL and OM brands.

FS

The purpose of the FS segment is to act as an internal partner for the brand segments, providing finance solutions that promote sales. The FS activities include internal financing of short-term rental fleets, the financing of long-term leasing business for KION Group customers, and risk management. When long-term leasing business is being conducted, FS operates as a contractual partner to external customers and provides the necessary funding in conjunction with external financial partners. When short-term business is being transacted, FS's contractual relationship is with the LMH and STILL brand segments or with the external financial partners.

Besides management of residual-value risk, risk management also includes the credit risk management system, which was refined as part of the work involved in transferring financial services activities to a separate segment. Transactions with other segments are presented in the same way as business conducted on an arm's-length basis. The regular (interest) margin income that FS generates from its business activities reflects prevailing market conditions. Surpluses from leasing that exceed this interest rate are reflected in the producer margin within the operating profit generated by the LMH and STILL brand segments.

Other

The 'Other' segment comprises the companies operating under the Voltas brand as well as companies engaged in investment holding and provision of service in the KION Group.

Segment revenue and results

The basis for segment reporting on financial performance is a presentation based on data from continuing operations and excluding non-recurring items. In addition to the above items, other net financial income/expenses and the share of profit (loss) of equity investments are also excluded from the performance indicator segment results.

The non-recurring items mainly comprise severance payments, social plan costs, costs relating to the planned transfers of production and consultancy costs. Also non-recurring items for the year ended 31 December 2011 and 2012 included the changes in purchase consideration in respect of acquisition of subsidiaries in prior years and the remeasurement of an existing equity investment in an entity, over which a controlling influence can be exerted following the acquisition of additional shares. In addition, non-recurring items for the year ended 31 December 2012 also include the gain from disposal of the controlling interest in Linde Hydraulics (note 45(d)). The KION acquisition items comprise a net writedown on the fair value adjustments identified as part of the purchase price allocation (PPA).

Segment reports are prepared in accordance with the same accounting policies as the Financial Information, as described in note 3.

Intra-segment transactions are generally conducted on an arm's length basis.

	LMH	STILL	FS	Other	Adjustments	Total
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
For the year ended 31 December 2010						
Segment revenue	2,247,295	1,408,578	353,590	159,868	(634,857)	3,534,474
Inter-segment revenue	(204,868)	(151,742)	(127,874)	(150,373)	634,857	–
Revenue from external customers/consolidated revenue	2,042,427	1,256,836	225,716	9,495	–	3,534,474
Segment results	136,796	18,339	2,161	(22,010)	4,076	139,362
Non-recurring items						(75,695)
KION acquisition items						(29,031)
Financial income						88,349
Financial expense						(354,405)
Loss before tax						(231,420)

	LMH	STILL	FS	Other	Adjustments	Total
	€'000	€'000	€'000	€'000	€'000	€'000
For the year ended 31 December 2011						
Segment revenue	2,853,514	1,666,804	479,760	223,309	(854,992)	4,368,395
Inter-segment revenue	(251,927)	(204,836)	(214,864)	(183,365)	854,992	–
Revenue from external customers/consolidated revenue	2,601,587	1,461,968	264,896	39,944	–	4,368,395
Segment results	279,359	100,180	2,701	67,971	(85,603)	364,608
Non-recurring items						(115,483)
KION acquisition items						(35,965)
Financial income						73,664
Financial expense						(345,709)
Loss before tax						(58,885)
For the year ended 31 December 2012						
Segment revenue	3,132,247	1,676,590	509,326	250,937	(842,436)	4,726,664
Inter-segment revenue	(229,084)	(192,758)	(212,571)	(208,023)	842,436	–
Revenue from external customers/consolidated revenue	2,903,163	1,483,832	296,755	42,914	–	4,726,664
Segment results	330,357	122,609	1,402	44,432	(60,641)	438,159
Non-recurring items						153,407
KION acquisition items						(41,453)
Financial income						62,084
Financial expense						(301,569)
Profit before tax						310,628

Segment assets and liabilities

The following is an analysis of the KION Group's assets and liabilities by reportable and operating segment.

	LMH	STILL	FS	Other	Adjustments	Total
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
At 31 December 2010						
Segment assets/consolidated total assets	4,086,051	1,951,953	774,824	632,090	(1,685,979)	5,758,939
Segment liabilities/consolidated total liabilities	1,404,059	968,884	733,594	4,700,799	(1,648,475)	6,158,861
At 31 December 2011						
Segment assets/consolidated total assets	4,425,263	1,983,278	840,005	708,616	(1,890,876)	6,066,286
Segment liabilities/consolidated total liabilities	1,495,301	1,064,798	798,845	5,043,405	(1,848,476)	6,553,873
At 31 December 2012						
Segment assets/consolidated total assets	4,513,827	2,068,249	1,040,559	902,292	(2,311,687)	6,213,240
Segment liabilities/consolidated total liabilities	1,461,278	1,191,605	998,854	4,205,982	(2,304,814)	5,552,905

Other segment information

	LMH	STILL	FS	Other	Adjustments	Total
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
For the year ended 31 December 2010						
Carrying amount of equity investments	33,433	4,408	–	–	–	37,841
Capital expenditures*	70,477	34,150	–	18,835	–	123,462
Depreciation**	176,363	99,196	64,175	16,956	(18,096)	338,594
For the year ended 31 December 2011						
Carrying amount of equity investments	31,898	4,647	–	–	–	36,545
Capital expenditures*	75,952	43,270	–	13,783	–	133,005
Depreciation**	167,602	95,111	71,020	16,319	(21,060)	328,992
For the year ended 31 December 2012						
Carrying amount of equity investments	135,499	6,148	13,188	–	–	154,835
Capital expenditures*	89,139	51,115	53	14,794	–	155,101
Depreciation**	174,903	100,317	51,180	17,735	–	344,135

* Excluding leased and rental assets

** Including leased and rental assets

Segment revenue broken down by customer location

	2010	2011	2012
	€'000	*€'000*	*€'000*
Germany	899,817	1,174,777	1,225,236
European Union ("EU") excluding Germany	1,820,151	2,114,588	2,253,227
Rest of Europe	151,807	203,530	247,648
America	232,673	280,611	324,175
Asia	301,879	434,814	485,636
Rest of world	128,147	160,075	190,742
Total segment revenue	3,534,474	4,368,395	4,726,664

Segment revenue information about products

Revenues from each group of similar products within the reportable segments are as follows:

	2010	2011	2012
	€'000	*€'000*	*€'000*
Sale of new industrial trucks	1,775,628	2,364,235	2,651,483
Hydraulics	119,901	172,662	167,771
Service offering	1,638,945	1,831,498	1,907,410
– After sales	970,668	1,065,731	1,149,791
– Rental business	402,361	441,152	427,610
– Used trucks	187,246	218,982	212,974
– Other	78,670	105,633	117,035
Total revenue	3,534,474	4,368,395	4,726,664

Segment revenue information about major customers

There are no relationships with individual customers that generate revenue deemed to be significant as a proportion of total consolidated revenue.

Non-current assets broken down by company location

The regional breakdown of non-current assets excluding financial assets, financial instruments, deferred tax assets and post-employment benefits ("Adjusted Non-current Assets") is as follows:

	2010	2011	2012
	€'000	*€'000*	*€'000*
Germany	2,711,755	2,703,550	2,552,611
EU excluding Germany	661,375	665,590	695,537
Rest of Europe	19,992	24,492	27,858
America	30,609	34,672	46,240
Asia	88,213	116,428	122,176
Rest of world	49,132	48,671	49,544
Adjusted Non-current Assets	3,561,076	3,593,403	3,493,966

7. OTHER INCOME

	Year ended 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Gain on disposal of subsidiaries	–	–	211,763
Foreign currency exchange rate gains	18,554	22,600	18,926
Changes in contingent consideration in respect of acquisition of subsidiaries in prior years	–	11,971	4,557
Profit from release of deferred lease profits	6,952	6,886	10,593
Income from reversal of provisions	5,038	6,638	5,196
Rental income	2,231	2,155	2,677
Gains on disposal of non-current assets	1,077	1,381	4,045
Reversal of impairment losses on non-current assets	1,546	–	–
Sundry income	24,187	29,872	36,617
Total other income	59,585	81,503	294,374

8. OTHER EXPENSES

	2010	2011	2012
	€'000	*€'000*	*€'000*
Impairment of non-current assets	8,522	27,032	21,134
Foreign currency exchange rate losses	16,949	19,467	23,277
Losses on disposal of property, plant and equipment	5,966	7,963	3,334
Sundry other expenses	14,442	15,581	11,785
Total other expenses	45,879	70,043	59,530

9. FINANCE INCOME

	Year ended 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Interest income from leases	25,528	24,414	22,451
Other interest and similar income	3,433	3,369	4,794
Total interest income	28,961	27,783	27,245
Foreign currency exchange rate gains (financing)	36,141	23,149	12,108
Return on pension plan assets	23,247	22,732	22,731
Total financial income	88,349	73,664	62,084

10. FINANCIAL EXPENSES

	Year ended 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Interest expense from loans	167,347	135,737	121,100
Interest cost of defined benefit obligation	41,434	42,436	43,809
Interest cost of leases	35,951	37,738	39,636
Interest cost of shareholder loan	27,882	27,882	27,653
Interest expense from corporate bond	–	25,395	34,458
Amortisation of finance costs	8,333	11,359	11,422
Interest cost of non-current financial liabilities	3,263	2,574	2,192
Other interest expense and similar charges	16,318	10,324	13,667
Total interest expenses	300,528	293,445	293,937
Foreign currency exchange rate losses (financing)	53,877	52,264	7,632
Total financial expense	354,405	345,709	301,569
Interest expenses for borrowings repayable:			
Within five years	339,890	320,314	262,371
Over five years	14,515	25,395	39,198
Total financial expense	354,405	345,709	301,569

Borrowing costs capitalised during the Relevant Periods are calculated by applying following capitalisation rate per annum to the expenditure on qualifying assets:

	Year ended 31 December		
	2010	2011	2012
	%	%	%
Capitalisation rate	6.34	5.94	NA

11. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Current taxes			
Current year	26,865	46,747	113,317
(Over) Underprovision in the prior periods	(11,868)	2,602	8,820
	14,997	49,349	122,137
Deferred taxes			
Current year	(50,030)	(16,712)	25,930
Change in tax rates and tax legislation	311	1,404	1,473
	(49,719)	(15,308)	27,403
	(34,722)	34,041	149,540

The current corporate income tax rate in Germany is 15.0%. Taking into account the average trade tax rate of 13.9% and the solidarity surcharge (5.5% of corporate income tax), the combined tax rate for companies in Germany was 29.8% during the year ended 31 December 2010 and 2011, and 29.9% during the year ended 31 December 2012.

The income tax rates for foreign companies used in the calculation of deferred taxes are between 10.0% and 37.8% for the year ended 31 December 2010, 10.0% and 38.5% for the year ended 31 December 2011 and 10.0% and 38.1% for the year ended 31 December 2012.

The table below shows the reconciliation of expected income tax credit (expense) to effective income tax credit (expense). The KION Group reconciliation is an aggregation of the individual company-specific reconciliations prepared in accordance with relevant local tax rates. The expected tax rate applied in the reconciliation is at 29.8% for the year ended 31 December 2010 and 2011, and 29.9% for the year ended 31 December 2012.

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
(Loss) profit before tax	(231,420)	(58,885)	310,628
Anticipated income taxes	68,894	17,548	(93,002)
Deviations due to the trade tax base	(2,026)	(3,087)	(3,882)
Deviations from the anticipated tax rate	3,289	13,560	(322)
Change in valuation allowance on deferred taxes	(1,999)	(9,765)	(623)
Losses for which deferred taxes have not been recognised	(11,108)	(17,372)	(19,972)
Change in tax rates and tax legislation	(311)	(1,404)	(1,473)
Interest carryforwards without the recognition of deferred taxes *(note)*	(34,073)	(31,786)	(7,113)
Non-deductible expenses	(14,608)	(8,556)	(20,244)
Tax-exempt income	34	1,903	20,924
Over(under) provision in other periods	11,868	(2,602)	(8,820)
Deferred taxes prior periods	16,055	5,001	(11,168)
Other	(1,293)	2,519	(3,845)
Tax credit (charge) for the year	34,722	(34,041)	(149,540)

Note: The amount represented the interest expenditure that KION Group incurred during the Relevant Periods which cannot be deducted against the income of the period in which the interest was incurred but carried forward and are only deductible in the future subject to certain restrictions.

Details of the deferred taxation are set out in note 25.

12. (LOSS) PROFIT FOR THE YEAR

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Depreciation and amortisation/Impairment of non-current assets (excl. leased and rental assets)	180,094	192,068	184,042
Depreciation/Impairment of leased and rental assets	165,477	163,953	181,227
Loss (gain) on disposal of non-current assets	4,987	6,428	(139,019)
Total staff costs, including directors' emoluments *(note 13)*	968,000	1,064,000	1,203,000
Defined contribution plans	48,867	56,118	63,895
Auditors' remunerations	800	970	960
Minimum lease payments under operating lease	100,928	105,224	99,437
Cost of inventories recognised as an expense	2,684,353	3,256,378	3,429,914

13. EMOLUMENTS OF EXECUTIVE BOARD, SUPERVISORY BOARD AND HIGHEST PAID EMPLOYEES

(a) Executive Board

The following persons are member of the Executive Board during the Relevant Periods:

Gordon Riske, chief executive officer
Harald Pinger, chief financial officer (until 31 August 2012)
Dr. Thomas Toepfer, chief financial officer (since 1 September 2012)
Klaus Hofer, chief human resources officer (since 1 October 2011)

The remuneration paid to the Executive Board comprises a fixed salary and non-cash benefits, pension entitlements and performance-related components. The variable performance-related components are paid each year on the basis of the KION Group's performance. The pension entitlements consist of retirement, disability and surviving dependants' benefits. The summary of the compensation paid to the Executive Board during the Relevant Periods is as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Short term remuneration	4,550	4,755	5,551
Termination benefits	–	–	6,000
Post-employment benefits	366	386	436
Share-based payments	133	68	39
	5,049	5,209	12,026

The amount of loans or advances were made to members of the Executive Board which is also the maximum amount, totalling €151,000, €Nil and €Nil, respectively, during the year ended 31 December 2010, 2011 and 2012.

The total remuneration paid to members of the Executive Board who has ceased as Executive Board during the Relevant Periods amounted to €Nil, €162,000 and €165,000, respectively, during the year ended 31 December 2010, 2011 and 2012, are included in the above total remuneration.

(b) Supervisory Board

The following persons are member of the Supervisory Board during the Relevant Periods:

Dr. John Feldmann, Chairman (since 28 September 2011)
Manfred Wennemer, Chairman (until 28 June 2011)
Johannes P. Huth, Chairman (from 29 June 2011 to 28 September 2011)
Jochim Hartig, Deputy Chairman *(note)*
Holger Brandt (since 19 March 2012) *(note)*
Dr. Alexandra Dibelius
Denis Heljic (until 19 March 2012) *(note)*
Dr. Martin Hintze
Jiang Kui (since 27 December 2012)
Thiilo Kämmerer *(note)*
Dr. Roland Köstler *(note)*
Peter Kolb *(note)*
Kay Pietsch *(note)*
Silke Scheiber
Dr. Michael SüB (until 26 December 2012)
Philip Wack (from 29 June 2011 to 27 September 2011)
Hans-Peter Weiβ *(note)*

Note: They are employee representatives.

The total remuneration paid to the members of the Supervisory Board for the performance of their duties at KION Group amounted to €822,000, €1,071,000 and €953,000 respectively, for the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

There were no loans or advances to members of the Supervisory Board during the Relevant Periods.

Furthermore, the members of the Supervisory Board did not receive any remuneration or benefits for services provided as individuals, such as consulting or brokerage activities.

In addition to their remuneration as members of the Supervisory Board, the employee representatives also receive remuneration as employees of the KION Group that is unrelated to their work on the Supervisory Board.

Remuneration paid to employee representatives for their work as employees totaled €514,000, €539,000 and €550,000 respectively, for the years ended 31 December 2010, 31 December 2011 and 31 December 2012.

(c) Employees

The five highest paid individuals of the KION Group included the all members of the Executive Board for the Relevant Periods. The details of the remuneration of the five highest paid individuals for the Relevant Periods are as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Short term remuneration	6,494	7,003	6,105
Post-employment benefits	423	425	963
Share-based payments	133	68	39
	7,050	7,496	7,107

Their emoluments are within the following bands:

	Number of individuals Year ended 31 December		
	2010	2011	2012
HK$9,000,001 to HK$9,500,000	1	–	–
HK$10,000,001 to HK$10,500,000	–	–	1
HK$10,500,001 to HK$11,000,000	1	–	–
HK$11,000,001 to HK$11,500,000	1	1	2
HK$11,500,001 to HK$12,000,000	–	2	–
HK$17,500,001 to HK$18,000,000	–	–	1
HK$18,000,001 to HK$18,500,000	1	–	–
HK$18,500,001 to HK$19,000,000	–	1	–
HK$21,000,001 to HK$21,500,000	1	–	–
HK$22,000,001 to HK$22,500,000	–	1	1

During the Relevant Periods, no emoluments were paid by the KION Group to any of the members of the Executive Board and Supervisory Board or the five highest paid individuals (including Executive Board, Supervisory Board and employees) as an inducement to join or upon joining the KION Group or as compensation for loss of office. None of the members of the Executive Board and Supervisory Board waived any emoluments during the Relevant Periods.

14. OTHER COMPREHENSIVE INCOME (EXPENSES)

Other comprehensive income (expenses) and the respective tax effects for the Relevant Periods are summarised as follows:

	Impact of exchange differences	Gains (losses) on employee benefits	Gains (losses) on cash flow hedges	Gains (losses) on equity investments	Total
	€'000	*€'000*	*€'000*	*€'000* *(Note)*	*€'000*
For the year ended 31 December 2010					
Other comprehensive income (expenses) before tax	37,260	(39,462)	15,391	(125)	13,064
Tax effect	–	10,804	(5,369)	–	5,435
Other comprehensive income (expenses) after tax	37,260	(28,658)	10,022	(125)	18,499
For the year ended 31 December 2011					
Other comprehensive income (expenses) before tax	6,476	13,995	(11,381)	532	9,622
Tax effect	–	(5,601)	3,232	–	(2,369)
Other comprehensive income (expenses) after tax	6,476	8,394	(8,149)	532	7,253
For the year ended 31 December 2012					
Other comprehensive income (expenses) before tax	2,755	(214,109)	7,650	(26)	(203,730)
Tax effect	10	62,798	(1,576)	–	61,232
Other comprehensive income (expenses) after tax	2,765	(151,311)	6,074	(26)	(142,498)

Note: Gain (losses) on equity investments represents the share of other comprehensive income (expense) of associates or jointly controlled entity.

15. DIVIDEND

KION did not declare or paid any dividend during the Relevant Periods.

16. (LOSS) EARNINGS PER SHARE

No information of (loss) earnings per share of KION Group has been presented for the Relevant Periods as KION's subscribed capital is not divided by share and provision of such information is not meaningful for the purpose of this report.

17. GOODWILL

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
COST:			
At the beginning of the year	1,504,796	1,507,010	1,537,996
Effect of foreign currency exchange differences	778	150	(542)
Arising from acquisition of subsidiaries	1,511	–	185
Eliminated on disposal of subsidiaries	(75)	(699)	(80,700)
Group changes	–	31,535	16,306
At the end of the year	1,507,010	1,537,996	1,473,245

Goodwill is allocated to the CGUs as follows:

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
LMH	954,802	971,873	907,835
STILL	552,208	552,208	552,208
Other	–	13,915	13,202
Total goodwill	1,507,010	1,537,996	1,473,245

During the year ended 31 December 2011, the goodwill of €14,700,000 arising from the acquisition of the forklift truck and warehouse technology business of Voltas Limited, Mumbai, India, has been allocated to the 'Other' segment. The carrying value of this goodwill was reduced to €13,915,000 at 31 December 2011 after the exchange adjustments on consolidation.

The recoverable amount of a CGU is determined by calculating its value in use on the basis of the discounted cash flow method. The cash flows used in the calculation are the operating cash flows taken from financial forecasts approved by KION's management and also used for internal management purposes. The cash flows forecast for the next five years are included in the calculation for the impairment test. The financial forecasts are based on assumptions relating to the development of the global economy, commodity prices and exchange rates. The budget for next year, the medium-term planning for the next second and third years and the market forecasts for the next fourth and fifth years were used to determine the cash flows. Cash flows beyond the five-year planning horizon were extrapolated for the LMH and STILL CGUs using a growth rate of 1% for each of the Relevant Periods. A growth rate of 2 per cent for VMH (the forklift truck and warehouse technology business of Voltas Limited) for the Relevant Periods was used for determining cash flows into perpetuity to reflect forecasted trends for the high-growth market of India.

CGU cash flows are discounted using a discount rate based on a weighted average cost of capital ("WACC") as adjusted for current market assessments of the specific risks to individual CGUs. The underlying capital structure for the LMH and STILL CGUs is determined by comparing peer group companies in the same sector. The major assumptions used are as follows:

	At 31 December		
	2010	**2011**	**2012**
Beta factor derived from the peer group	1.09	1.03	1.08
Yield curve data from the European Central Bank	3.45%	3.40%	2.5%
Market risk premium taken from empirical studies of the capital markets by the Institute of Public Auditors in Germany ("IDW")	5.5%	5.5%	6.0%
Country risk premium			
LMH	0.0%	0.0%	0.2%
STILL	0.0%	0.0%	0.5%
The risk-adjusted cost of borrowing before tax	5.5%	5.3%	4.4%
Leverage ratio	32.2%	25.4%	22.7%
Pre-tax interest rate for:			
LMH	10.3%	10.5%	10.7%
STILL	10.3%	10.4%	11.0%

To determine the country-specific WACC for VMH, the following assumptions are used:

	2010	**2011**	**2012**
Leverage beta	NA	1.10	1.07
Risk-free interest rate for India	NA	7.3%	8.7%
Market risk premium derived from empirical data of the capital markets	NA	5.5%	6.0%
Country risk premium	NA	2.3%	3.0%
The risk-adjusted cost of borrowing before tax	NA	11.3%	10.6%
Leverage ratio	NA	25.4%	22.7%
Pre-tax interest rate for VMH	NA	14.6%	21.5%

A country risk premium was not taken into consideration for the LMH and STILL CGUs because the KION Group mainly operates in the European market, except that of 2012 which considered the country risk relating to the KION Group's operation outside European market.

Based on the assessment of the Executive Board, no impairment on the goodwill was required during the Relevant Periods.

18. OTHER INTANGIBLE ASSETS

	Brand names	Technology and development costs	Sundry intangible assets	Total
	€'000	*€'000*	*€'000*	*€'000*
At 31 December 2010				
Cost	591,018	406,879	214,386	1,212,283
Accumulated amortisation	–	(145,685)	(80,188)	(225,873)
Net carrying value	591,018	261,194	134,198	986,410
At 31 December 2011				
Cost	594,609	449,864	236,275	1,280,748
Accumulated amortisation	(230)	(198,141)	(104,822)	(303,193)
Net carrying value	594,379	251,723	131,453	977,555
At 31 December 2012				
Cost	594,494	426,727	232,942	1,254,163
Accumulated amortisation	(546)	(208,835)	(110,821)	(320,202)
Net carrying value	593,948	217,892	122,121	933,961

Movements of other intangible assets during the Relevant Periods are as follows:

	Brand names	Technology and development costs	Sundry intangible assets	Total
	€'000	*€'000*	*€'000*	*€'000*
Balance as at 1 January 2010	590,340	263,463	142,655	996,458
Group changes	–	–	234	234
Effect of foreign currency exchange differences	678	304	2,744	3,726
Additions	–	47,538	21,582	69,120
Disposals	–	–	3	3
Amortisation	–	(47,328)	(27,360)	(74,688)
Impairment	–	(3,044)	(5,420)	(8,464)
Reversal of impairment	–	–	21	21
Reclassification	–	261	(261)	–
Balance as at 31 December 2010	591,018	261,194	134,198	986,410
Group changes	2,982	–	7,634	10,616
Effect of foreign currency exchange differences	524	(14)	225	735
Additions	99	53,363	16,755	70,217
Disposals	–	(1)	(163)	(164)
Amortisation	(244)	(52,544)	(27,359)	(80,147)
Impairment	–	(10,236)	(25)	(10,261)
Reclassification	–	(39)	188	149
Balance as at 31 December 2011	594,379	251,723	131,453	977,555
Group changes	–	–	4,691	4,691
Effect of foreign currency exchange differences	(85)	366	230	511
Additions	–	51,247	18,923	70,170
Disposals	–	(25,094)	(3,433)	(28,527)
Amortisation	(346)	(55,527)	(29,828)	(85,701)
Impairment	–	(4,758)	(67)	(4,825)
Reclassification	–	(65)	152	87
Balance as at 31 December 2012	593,948	217,892	122,121	933,961

At 31 December 2010, 2011 and 2012, brand names amounting to €585,918,000, €587,782,000 and €587,755,000, respectively are considered to have indefinite useful lives which are stated at cost less impairment. Their impairment were assessed annually by reference to the CGU of which the respective brands allocated to. Details of the method and assumptions used to assess impairment are set out in note 17.

The following useful lives are applied in determining the carrying amounts of other intangible assets:

	Years
Brand names with definite useful lives	5
Technology	10
Development costs	5-10
Sundry intangible assets	
– Customer relationships/client base	10
– Patents and licences	3-15
– Software	3-8

The development costs incurred during the Relevant Periods are analysed as follows:

	Year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Development cost incurred for the year	100,421	110,109	115,416
Less: Amount capitalised	(47,538)	(53,363)	(51,247)
	52,883	56,746	64,169
Amortisation	47,328	52,544	55,527
Impairment	3,044	10,236	4,758
Amount charged to profit or loss	103,255	119,526	124,454

To implement long-term structural and efficiency measures, KION Group announced the consolidation of its European production sites which included the closing the plants in Bari, Italy and Montataire, France during the year ended 31 December 2011 ("Production Transfer"). The production capacity of these plants was shifted to other production facilities with the aim of improving the capacity utilisation of the European plants. The Executive Board assessed the recoverable amount of the development costs attributable to these two plants amounting to €10,236,000 were fully impaired. The impairment losses related to the STILL segment.

Impairment losses of €4,825,000 were recognised on these assets during the year ended 31 December 2012 to reflect the lack of opportunities to use them in future as a result of the planned closure of production sites. Of this amount, €4,741,000 relates to capitalised development costs. The impairment losses related to the LMH segment.

Sundry intangible assets relate primarily to the intangible assets identified through the purchase price allocation for the acquisition of the KION Group, such as the customer base.

19. LEASED ASSETS

	For the year 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Balance at the beginning of the year	168,313	156,125	167,354
Group changes	–	3,110	–
Effect of foreign currency exchange differences	5,283	(451)	708
Additions	44,534	101,916	135,096
Disposals	(15,836)	(42,661)	(60,589)
Depreciation	(46,475)	(49,961)	(51,171)
Reclassification	306	(724)	(76)
Balance at the end of the year	156,125	167,354	191,322
Represented by:			
Cost	446,696	455,893	453,945
Accumulated depreciation	(290,571)	(288,539)	(262,623)
Net carrying value	156,125	167,354	191,322

During the Relevant Periods, leased assets are attributable solely to the Financial Services segment and relate to industrial trucks in the amount of €155,849,000, €167,164,000 and €191,192,000 respectively and to office furniture and equipment in the amount of €276,000, €190,000 and €130,000 respectively.

Leased assets include assets leased over the long term with a residual value of €111,731,000, €120,742,000 and €142,668,000, respectively, at 31 December 2010, 2011 and 2012 that are funded by means of sale and leaseback transactions with leasing companies and leased assets with a residual value of €44,388,000, €46,612,000, €48,653,000 that are largely funded internally or by means of bank loans, respectively, at 31 December 2010, 2011 and 2012.

The following table shows the maturity structure of the minimum lease rentals under non-cancellable operating lease obligations:

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Within one year	53,965	66,613	80,127
In the second to fifth year	75,510	94,768	106,082
Over five years	471	759	3,391
Cash receipts from minimum lease payments	129,946	162,140	189,600

20. RENTAL ASSETS

	For the year 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Balance at beginning of the year	342,732	321,188	356,682
Group changes	–	7,580	1,529
Effect of foreign currency exchange differences	10,757	(929)	1,496
Additions	132,857	186,854	193,796
Disposals	(46,780)	(42,532)	(28,191)
Depreciation	(119,002)	(113,992)	(130,056)
Reclassification	624	(1,487)	(163)
Balance at end of the year	321,188	356,682	395,093
Represented by:			
Cost	924,912	923,739	912,994
Accumulated depreciation	(603,724)	(567,057)	(517,901)
Net carrying value	321,188	356,682	395,093
The breakdown of rental assets by contract type is shown in the following table:			
Assets held for operating lease purpose	234,225	289,979	328,232
Sale with risk	86,963	66,703	66,861
Net carrying value	321,188	356,682	395,093

During the Relevant Periods, the acquisitions amounting to €74,891,000, €102,336,000 and €110,145,000, respectively, and disposals amounting to €31,310,000, €28,437,000 and €19,764,000 were attributable to the LMH segment. Acquisitions amounting to €57,966,000, €84,518,000 and €85,372,000 respectively for the year ended 31 December 2010, 2011 and 2012 and disposals amounting to €15,470,000, €14,095,000 and €10,152,000 respectively for the year ended 31 December 2010, 2011 and 2012 were attributable to the STILL segment.

21. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant, machinery, and office furniture and equipment	Advances paid and assets under construction	Total
	€'000	*€'000*	*€'000*	*€'000*
At 31 December 2010				
Cost	654,846	959,792	11,345	1,625,983
Accumulated depreciation	(288,237)	(747,403)	–	(1,035,640)
Net carrying value	366,609	212,389	11,345	590,343
At 31 December 2011				
Cost	652,313	1,014,798	20,076	1,687,187
Accumulated depreciation	(307,076)	(826,295)	–	(1,133,371)
Net carrying value	345,237	188,503	20,076	553,816
At 31 December 2012				
Cost	637,632	887,996	15,646	1,541,274
Accumulated depreciation	(315,356)	(725,573)	–	(1,040,929)
Net carrying value	322,276	162,423	15,646	500,345

Movements of property, plant and equipment during the Relevant Periods are as follows:

	Land and buildings €'000	Plant, machinery and office furniture and equipment €'000	Advances paid and assets under construction €'000	Total €'000
Balance as at 1 January 2010	357,029	249,427	9,227	615,683
Group changes	–	1,017	–	1,017
Effect of foreign currency exchange differences	9,628	3,693	212	13,533
Additions	13,472	39,906	10,835	64,213
Disposals	(2,176)	(1,221)	(2,813)	(6,210)
Depreciation	(16,272)	(82,158)	–	(98,430)
Impairment	–	(58)	–	(58)
Reversal of impairment	203	1,322	–	1,525
Reclassification	4,725	461	(6,116)	(930)
Balance as at 31 December 2010	366,609	212,389	11,345	590,343
Group changes	4,404	1,061	779	6,244
Effect of foreign currency exchange differences	3,686	1,165	(291)	4,560
Additions	2,049	47,161	13,627	62,837
Disposals	(9,951)	(9)	(609)	(10,569)
Depreciation	(15,987)	(68,902)	–	(84,889)
Impairment	(8,796)	(7,975)	–	(16,771)
Reclassification	3,223	3,613	(4,775)	2,061
Balance as at 31 December 2011	345,237	188,503	20,076	553,816
Group changes	3,023	(173)	–	2,850
Effect of foreign currency exchange differences	(319)	(142)	(58)	(519)
Additions	9,937	65,700	17,520	93,157
Disposals	(19,006)	(30,374)	(6,215)	(55,595)
Depreciation	(14,105)	(63,102)	–	(77,207)
Impairment	(12,347)	(3,962)	–	(16,309)
Reclassification	9,856	5,973	(15,677)	152
Balance as at 31 December 2012	322,276	162,423	15,646	500,345

The above items of property, plant and equipment are depreciated on a straight-line basis at the following estimated useful life:

	Years
Buildings	10-25
Plant and machinery	6-15
Office furniture and equipment	3-15

Land and buildings in the amount of €12,293,000, €12,168,000 and €4,244,000 respectively at 31 December 2010, 31 December 2011 and 31 December 2012 were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

As a result of the announced Production Transfer set out in Note 18, the Executive Board has assessed the recoverable amount of the property, plant and equipment in the related plants. An amount of €8,796,000 related to land and buildings and an amount of €7,975,000 to plant and machinery as well as office furniture and equipment which would not be moved to other European plants under the announced Production Transfer were considered to be fully impaired and accordingly impairment losses of €16,771,000 was recognised during the year ended 31 December 2011. The impairment losses related to the STILL segment.

The KION Group recognised impairment losses of €16,309,000 in 2012, predominantly in connection with the planned closure of production sites. Of this amount, €12,347,000 related to land and buildings, and €3,962,000 to plant and machinery as well as office furniture and equipment. The impairment losses related to the LMH segment.

Plant and machinery as well as office furniture and equipment include assets from procurement lease (finance leases) amounting to €23,851,000, €15,695,000 and €15,517,000, respectively as at 31 December 2010, 2011 and 2012. The corresponding liabilities are reported as other financial liabilities.

22. EQUITY INVESTMENTS

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Interests in associates			
Unlisted equity investment, at cost	9,807	8,584	123,521
Share of post-acquisition profits and other comprehensive income and net of dividend income received	18,737	18,212	18,931
	28,544	26,796	142,452
Interests in joint ventures			
Unlisted equity investment, at cost	6,686	6,686	6,686
Share of post-acquisition profits and other comprehensive income and net of dividend income received	2,611	3,063	5,697
	9,297	9,749	12,383
Carrying value	37,841	36,545	154,835

The details of these associates and jointly controlled entities are set out in Notes 47 and 48 respectively.

Their key financial figures are as follows:

	For the year ended 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Associates (100 percent)			
Revenue	562,596	540,068	569,374
Net income	9,214	10,960	15,260
Jointly controlled entities (100 percent)			
Revenue	77,086	107,874	132,036
Net income	1,321	5,612	4,764

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Associates (100 percent)			
Assets	611,561	576,103	1,073,037
Liabilities	529,526	494,021	712,873
Jointly controlled entities (100 percent)			
Assets	46,410	51,546	54,999
non-current assets	28,070	25,115	24,209
current assets	18,340	26,431	30,790
Liabilities	26,419	26,223	30,225
non-current liabilities	2,053	2,699	4,744
current liabilities	24,366	23,524	25,481

23. LEASE RECEIVABLES

For leases where KION Group companies lease assets directly to customers as part of the KION Group's financing activities, the KION Group's net investment in the lease is reported as a lease receivable.

The amounts recognised as lease receivables are based on the following data:

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Gross lease receivables			
due within one year	140,737	135,897	150,995
due in the second to fifth year	260,835	254,724	282,293
due in more than five years	9,544	9,105	10,164
	411,116	399,726	443,452
Present value of outstanding minimum lease payments			
due within one year	120,950	118,381	132,129
due in the second to fifth year	237,571	234,043	257,328
due in more than five years	9,237	8,797	9,812
	367,758	361,221	399,269
Shown in the Financial Information as:			
Non-current	246,808	242,840	267,140
Current	120,950	118,381	132,129
	367,758	361,221	399,269
Unrealised financial income	43,358	38,505	44,183

Gross investments include minimum lease payments from non-cancellable sub-leases amounting to €336,585,000, €326,930,000 and €345,499,000, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012.

Lease receivables include the unguaranteed residual values accruing to the benefit of the KION Group in the amount of €39,640,000, €38,714,000 and €44,051,000, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012.

Lease receivables also include receivables in the amount of €3,013,000, €1,684,000 and Nil, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012 that have been sold but whose significant risks and rewards remain with the KION Group due to default and residual-value guarantees. Corresponding liabilities in the same amounts have been recognised.

24. OTHER FINANCIAL ASSETS

An analysis of KION Group's other financial assets is as follows:

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Pension assets	10,263	19,958	22,759
Investments in affiliated companies	2,224	1,956	3,919
Other investments	2,253	2,253	2,253
Loans receivable	1,907	795	730
Derivative financial instruments	–	–	19,740
Non-current securities	827	770	770
Other non-current financial assets	17,474	25,732	50,171
Derivative financial instruments	23,706	23,277	4,202
Financial receivables from affiliated companies and related companies	7,459	4,277	8,477
Financial receivables from third parties	658	1,074	1,110
Deferred charges and prepaid expenses	16,647	14,030	20,357
Sundry financial assets	58,320	64,438	72,632
Other current financial assets	106,790	107,096	106,778
Total other financial assets	124,264	132,828	156,949

Pension assets relate to asset surpluses from defined benefit plans. As at the end of reporting period, the present values of defined benefit obligations are netted against the fair value of plan assets. If the plan assets exceed the obligation, this results in an asset.

The sundry financial assets essentially include receivables from value added tax amounting to €20,864,000, €21,782,000 and €37,178,000, respectively as at 31 December 2010, 2011 and 2012.

Other financial assets include non-derivative financial receivables amounting to €35,416,000, €36,237,000 and €35,236,000, respectively as of the end of each Relevant Periods that fall within the scope of IFRS 7.

The non-current derivative financial instruments include the put option on the remaining shares in Linde Hydraulics amounting €19,740,000 at 31 December 2012.

25. DEFERRED TAXATION

Deferred taxes are recognised for temporary differences between the tax base and the carrying amounts. Deferred taxes are determined on the basis of the tax rates that will apply or are expected to apply at the realisation date in accordance with the current legal situation in each country concerned.

During the years ended 31 December 2011 and 2012, no deferred taxes have been recognised on differences of €100,146,000 and €96,090,000, respectively, between the carrying amounts and the tax base for equity investments in the subsidiaries (outside basis differences) because the KION Group is in a position to manage the timing of the reversal of temporary differences and there are no plans to dispose of investments in the foreseeable future.

Deferred tax assets include the following items in the statements of financial position:

Deferred tax assets

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Intangible assets and property, plant and equipment	65,130	86,789	107,051
Financial assets	705	1	4,141
Current assets	26,485	34,697	33,832
Deferred charges and prepaid expenses	2,922	6,065	8,622
Provisions	88,501	101,669	122,356
Liabilities	163,136	200,678	250,973
Deferred income	47,953	46,386	46,428
Tax loss carryforwards and interest carryforwards	95,341	70,230	30,917
Offsetting	(248,401)	(284,552)	(339,346)
Total deferred tax assets	241,772	261,963	264,974

Deferred tax liabilities include the following items in the statements of financial position:

Deferred tax liabilities

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Intangible assets and property, plant and equipment	444,580	456,138	452,436
Financial assets	3,097	3,139	3,259
Current assets	97,701	113,340	150,410
Deferred charges and prepaid expenses	15	8,588	398
Provisions	28,837	29,838	23,706
Liabilities	8,003	9,749	15,361
Deferred income	1,098	2,814	2,597
Offsetting	(248,401)	(284,552)	(339,346)
Total deferred tax liabilities	334,930	339,054	308,821

The deferred tax liabilities essentially relate to the purchase price allocation in the acquisition of the KION Group, particularly for intangible assets and property, plant and equipment.

Deferred tax assets amounting to €161,119,000, €211,398,000 and €233,162,000, respectively, at 31 December 2010, 2011 and 2012 have not been recognised because it is unlikely that the corresponding benefit can be utilised, details of which are set out below.

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Tax loss carried forwards	74,263	91,636	108,630
Interest carried forwards	81,844	116,060	123,952
Others	5,012	3,702	580
	161,119	221,398	233,162

Deferred taxes are recognised on tax loss carryforwards and interest carryforwards to the extent that sufficient future taxable income is expected to be generated against which the losses can be utilised. Of the deferred tax assets amounting to €9,198,000 recognised on interest carried forward for the first time in 2010, €2,243,000 and Nil was written down in 2011 and 2012, respectively because, based on the information available at the reporting date, a lower amount was expected to be used in future.

The total amount of unrecognised deferred tax assets relating to loss carryforwards of €74,263,000, €91,636,000 and €108,630,000, respectively at 31 December 2010, 2011 and 2012 concerns tax losses that can be carried forward indefinitely.

As of 31 December 2010, 2011 and 2012, the KION Group's tax loss carryforwards in Germany amounted to €400,286,000, €381,941,000 and €289,786,000, respectively, for corporate income tax and €288,910,000, €263,525,000 and €270,800,000, respectively for trade tax. There were also foreign tax loss carryforwards totalling €183,353,000, €187,438,000 and €190,476,000, respectively.

The total amount of unrecognised deferred tax assets relating to interest carryforwards in Germany of €342,252,000, €464,939,000 and €463,461,000, respectively, at the end of each reporting period concern interest that can be carried forward indefinitely.

26. INVENTORIES

	As at 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Materials and supplies	120,019	150,949	119,980
Work in progress	72,294	98,387	74,954
Finished goods and merchandise	337,249	370,714	349,049
Advances paid	5,967	5,319	5,944
Total inventories	535,529	625,369	549,927

The KION Group recognised impairment losses of €6,179,000 in 2011, predominantly in connection with the planned transfers of production. The impairment losses related to the STILL segment.

27. TRADE RECEIVABLES

	As at 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Trade receivables from third parties	648,339	701,125	657,835
Less: allowance for doubtful debts	(47,125)	(49,565)	(50,532)
	601,214	651,560	607,303
Trade receivables from affiliated companies	4,011	3,150	3,487
Trade receivables from associated companies and joint ventures	28,040	21,843	14,672
Total trade receivables	633,265	676,553	625,462

Payments terms are different depending on countries, operating segment and customers status. For sale of goods, payment terms are up to 90 to 120 days. For rendering of services, payment terms are shortened to no credit period. The aged analysis of the KION Group's trade receivables, net of allowances for doubtful debts, presented based on due date at the end of each reporting period is as follows:

	As at 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Not yet overdue	493,781	539,560	485,621
Within 90 days	123,480	121,594	126,245
More than 90 days	16,004	15,399	13,596
	633,265	676,553	625,462

Before accepting any new customer, the KION Group assesses the potential customer's credit quality and defines its credit limits based on the findings from background search of the customers and the historical payment records. The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship with the KION Group and the repayment history of these customers were good.

Information relating to receivables which are past due but not impaired are set out in note 39(b).

Information relating to movements of allowance on doubtful receivables are set out in note 38(b).

28. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Cash held by banks, on hand and cheque	252,572	372,957	561,865
Pledged cash	–	494	492
Current securities	312	–	–
Total cash and cash equivalents	252,884	373,451	562,357

The cash held by banks and pledged cash carry interest at market rates are as follows:

	As at 31 December		
	2010	2011	2012
	%	%	%
Range of interest rates, per annum	0.26 to 0.57	0.73 to 0.80	0.18 to 0.63

Pledged cash of Nil, €494,000 and €492,000, respectively at 31 December 2010, 2011 and 2012 represents cash pledged as collateral in relation to the SFA, details of which are found in Note 32 below.

29. DEFICIT/EQUITY ATTRIBUTABLE TO THE EQUITY HOLDER OF KION

Subscribed capital and capital reserve

At the end of each reporting period, the KION's subscribed capital was fully contributed and amounted to €500,000.

Also, as at the end of each reporting period, capital reserve amounted to €348,483,000 which was resulted from a capital contribution by a shareholder.

Capital contribution for carrying out the approved capital increase

In December 2012 the shareholders' meeting of KION approved a resolution to increase the capital by €779,000 to €1,279,000. The Company assumed a share of €320,000 as part of this capital increase and, on 27 December 2012, paid in the associated capital contribution, including a premium, of €467,000,000 in cash. The remaining share of €459,000 was taken by the current shareholder Superlift and was also paid on 27 December 2012 through capitalisation of a shareholder loan (non-cash capital contribution) amounting to €670,784,000.

The capital increase was entered in the commercial register on 14 January 2013. The capital contributions paid by the Company and Superlift were therefore recognised in equity under the line item 'Capital contributions for carrying out the approved capital increase' as at 31 December 2012.

Retained earnings

The development of retained earnings is shown in the consolidated statement of changes in equity.

The retained earnings comprise the net loss for the financial year and past contributions to earnings by the consolidated companies, provided they have not been distributed.

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes the currency translation differences arising from the translation of the financial statements of foreign subsidiaries, the effects of the fair value measurement of derivative financial instruments designated in cash flow hedge relationships, the KION's proportionate share of other comprehensive income adjustments related to equity investments, and the actuarial gains and losses in connection with defined benefit pension obligations.

30. SHAREHOLDER LOAN

KION and Superlift signed an agreement on a shareholder loan for the amount of €500,000,000 on 27 December 2006. The last maturity date for repayment of the loan was most recently stipulated as 31 December 2021. The loan principal and the associated interest are both unsecured and are repayable on the due date. The interest rate was fixed at 5.5% per annum effective from 1 September 2007 and is payable on the outstanding loan principal. The outstanding principal and interest amounting to €670,784,000 was capitalised as a subscription of new capital issued as set out in Note 29.

31. RETIREMENT BENEFIT OBLIGATION

The retirement benefit obligation is recognised for obligations to provide current and future post-employment benefits. Post-employment benefit plans are classified as either defined benefit plans or defined contribution plans, depending on the substance of the plan as derived from its principal terms and conditions.

Defined contribution plans

In the case of defined-contribution pension plans, the KION Group pays contributions to government or private pension insurance providers based on statutory or contractual provisions, or on a voluntary basis. The KION Group does not enter into any obligations above and beyond the payment of contributions to an external pension fund. The amount of future benefits is based solely on the amount of the contributions paid by the employer (and in some cases the beneficiaries themselves) to the external pension fund, including income from the investment of these contributions. The total expense arising from defined contribution plans amounted to €48,867,000, €56,118,000 and €63,895,000, respectively, for the year ended 31 December 2010, 2011 and 2012. Of this total, contributions paid by employers into government-run plans amounted to €46,480,000, €53,337,000 and €59,682,000, respectively, for the year ended 31 December 2010, 2011 and 2012. The defined contribution plan expense is reported within the functional costs.

Defined benefit plans

The KION Group currently grants pensions to almost all employees in Germany and a number of foreign employees. These pensions consist of fixed benefit entitlements and are therefore reported as defined benefit plans in accordance with IFRS. For all of the significant defined benefit plans within the KION Group, the benefits granted to employees are determined on the basis of their individual income, i.e. either directly or by way of intermediate benefit arrangements.

Pension provisions are recognised to cover obligations arising from the current and future pension entitlements of active and former employees of the KION Group and their surviving dependants.

Some of KION Group's pension obligations in Germany are financed by way of contractual trust arrangements (CTAs). In the United Kingdom, Switzerland and the Netherlands, significant plan assets are invested in external pension funds with restricted access.

In the case of defined benefit plans, the beneficiaries are granted a specific benefit by the KION Group or an external pension fund. Due to future salary increases, the benefit entitlement at the retirement age of the beneficiary is likely to be higher than the amount granted at the reporting date. Pensions are often adjusted after an employee reaches retirement age. The amount of the KION Group's obligation, which is defined as the actuarial present value of the obligation to provide the level of benefits currently earned by each beneficiary, is expressed as the present value of the defined benefit obligation, which includes adjustments for future salary and pension increases.

The actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out for the Relevant Periods by Merss Towers Watson. The present value of the defined benefit obligation, the related current service cost and past service cost were measured by using the projected unit credit method.

Measurement assumptions

The discount rate used to calculate the defined benefit obligation at each reporting date is determined on the basis of current capital market data and long-term assumptions about future salary and pension increases in accordance with the best estimate principle. These assumptions vary depending on the economic conditions affecting the currency in which benefit obligations are denominated and in which fund assets are invested, as well as capital market expectations.

Benefit obligations are calculated on the basis of current mortality probabilities as determined in accordance with actuarial principles. The calculations also include assumptions about future employee turnover based on employee age and years of service and about the probability of retirement. The defined benefit obligation of different regions in which the group entities operate is calculated on the basis of the following weighted-average assumptions as at the reporting date:

	Germany			United Kingdom ("UK")			Other		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Discount rate	5.45%	5.65%	3.50%	5.45%	4.85%	4.35%	4.15%	4.01%	2.57%
Rate of remuneration increase	2.75%	2.75%	2.75%	4.17%	4.18%	4.17%	2.28%	2.31%	2.36%
Rate of pension increase	1.75%	1.75%	1.75%	3.65%	3.18%	2.94%	0.76%	0.38%	0.26%

The assumed discount rate is determined on the basis of the yield as at the reporting date on investment-grade, fixed-interest corporate bonds with maturities that match the expected maturities of the pension obligations. Pension obligations in foreign companies are calculated on a comparable basis taking into account any countryspecific requirements.

The expected return on plan assets is determined on the basis of the plan's policy regarding the asset classes in which it invests. Expected returns are based on the current yields on government bonds with corresponding maturities, adjusted for specific credit spreads for the different asset classes. The expected return on plan assets is recognised as income in the relevant period. The differences between expected and actual income on plan assets represent experience adjustments and are recognised in other comprehensive income in the year in which they arise.

The rate of remuneration increase relates to expected future increases in salaries, which are estimated on an annual basis taking into account factors such as inflation and the overall economic situation.

The mortality rates used in the calculation are based on published country-specific statistics and empirical values. Since 31 December 2009, the modified Heubeck 2005 G mortality tables have been used in Germany as the basis; the modified tables include a somewhat higher life expectancy for males than the unmodified tables.

The actuarial assumptions not listed in the table above, such as employee turnover, invalidity, etc., are determined in accordance with recognised forecasts in each country, taking into account the circumstances and forecasts of the companies concerned.

The assumptions applied in calculating the defined benefit obligation as at 31 December 2010, 31 December 2011 and 31 December 2012 also apply to the calculation of the interest cost and the cost of pension entitlements arising in the current year (current service cost).

Differences between the forecast and actual change in the defined benefit obligation and changes in related assets (actuarial gains and losses) are recognised immediately in other comprehensive income. This serves to ensure that the pension liability on the face of the statement of financial position is always the actuarial present value of obligations not funded by plan assets.

In the case of external pension funds, the actuarial present value of the pension obligations, as calculated in accordance with the projected unit credit method, is reduced by the fair value of the assets of the external pension funds. If the assets of the external pension funds exceed the pension obligations, the recognition of an asset for this excess of pension plan assets over pension obligations is only permitted if the company concerned is entitled to receive a refund of this excess or a reduction in future contributions in its function as the employer responsible for the benefits under the plan. If pension obligations are not covered by the assets of an external pension fund, the net obligation is reported in pension provisions.

Plan assets for the defined benefit plans in the UK exceed the pension obligations. The requirements which limit the asset to be recognised on the statement of financial position do not apply.

Impact on financial position

The change in the present value of the defined benefit obligation is as follows:

	Germany			UK			Other			For the year ended 31 December		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Present value of defined benefit as at January 1	331,745	381,913	389,271	328,057	362,716	390,396	62,977	75,681	79,362	722,779	820,310	859,029
Group changes	1,890	–	(67,354)	–	–	(6,866)	–	284	(247)	1,890	284	(74,467)
Exchange differences	–	–	–	11,005	10,769	10,265	5,135	973	197	16,140	11,742	10,462
Current service cost	10,411	11,894	11,881	1,514	1,245	1,443	2,390	3,103	2,919	14,315	16,242	16,243
Interest cost	19,733	20,526	21,680	18,801	19,132	19,061	2,900	2,778	3,068	41,434	42,436	43,809
Employee contributions	–	–	–	174	135	84	708	781	834	882	916	918
Actuarial losses (gains)	28,081	(14,150)	201,473	22,471	12,665	21,707	4,617	103	17,471	55,169	(1,382)	240,651
Pension benefits paid by the KION Group	(9,947)	(10,697)	(11,306)	–	–	–	(1,693)	(1,946)	(2,255)	(11,640)	(12,643)	(13,561)
Pension benefits paid from plan assets	–	–	–	(19,306)	(16,312)	(16,947)	(2,361)	(1,584)	(2,972)	(21,667)	(17,896)	(19,919)
Liability transfer out to third parties	–	(215)	(232)	–	–	–	–	–	–	–	(215)	(232)
Past service cost	–	–	–	–	46	327	1,442	–	–	1,442	46	327
Gains on the curtailment of a plan	–	–	–	–	–	–	(434)	(811)	–	(434)	(811)	–
Present value of defined benefit as at December 31	381,913	389,271	545,413	362,716	390,396	419,470	75,681	79,362	98,377	820,310	859,029	1,063,260
thereof unfunded	173,889	177,739	231,397	–	–	–	22,245	22,148	28,186	196,134	199,887	259,583
thereof funded	208,024	211,532	314,016	362,716	390,396	419,470	53,436	57,214	70,191	624,176	659,142	803,677

The increase in the present value of the defined benefit obligations arising from actuarial losses during the year ended 31 December 2010 and 2012 is largely attributable to the low discount rates for Germany pension plans as compared to those of previous years.

The reduction in the present value of the defined benefit obligations arising from actuarial gains during the year ended 31 December 2011 relate to the year-over-year increase in the discount rates applicable to pension plans in Germany (€14,150,000) and is almost totally offset by the increase in the present value of defined benefit obligations arising from actuarial losses relating to the year-over-year decrease in the discount rates applicable to pension plans in the United Kingdom (€12,665,000).

The effects of the restructuring programme on the defined benefit obligation are reported in the Relevant Periods as gains on the curtailment of a plan.

The following table shows the change in the fair value of plan assets:

	Germany			UK			Other			For the year ended 31 December		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Fair value of plan assets as at 1 January	25,322	34,956	38,217	336,095	369,270	406,404	40,093	50,907	50,309	401,510	455,133	494,930
Group changes	–	–	(1,834)	–	–	(4,093)	–	–	–	–	–	(5,927)
Exchange differences	–	–	–	11,272	11,309	10,680	4,759	842	185	16,031	12,151	10,865
Expected return on plan assets	1,443	1,936	2,184	19,868	18,736	18,296	1,936	2,060	2,251	23,247	22,732	22,731
Actuarial (losses) gains	(809)	1,325	1,449	14,766	17,364	17,786	3,393	(4,975)	6,077	17,350	13,714	25,312
Employer contributions	9,000	–	–	6,401	5,902	7,299	2,379	2,278	2,219	17,780	8,180	9,518
Employee contributions	–	–	–	174	135	84	708	781	834	882	916	918
Pension benefits paid by funds	–	–	–	(19,306)	(16,312)	(16,947)	(2,361)	(1,584)	(2,972)	(21,667)	(17,896)	(19,919)
Fair value of plan assets as at 31 December	34,956	38,217	40,016	369,270	406,404	439,509	50,907	50,309	58,903	455,133	494,930	538,428

In 2010, employer contributions included a non-recurring payment of €9,000,000 into a German CTA. Decisions on additions to plan assets take into account the change in plan assets and pension obligations. For companies outside Germany, decisions also take into account the statutory minimum coverage requirements and the amounts deductible under local tax rules.

The payments expected for the following year are analysed as follows:

	As at 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Expected employer contribution to plan assets	8,156	8,831	11,195
Direct payments of pension benefits that are not covered by corresponding reimbursements from plan assets	12,415	13,014	13,306
	20,571	21,845	24,501

The reconciliation of funded status and net defined benefit obligation to the amounts reported on the face of the consolidated statement of financial position as at 31 December is shown in the following table:

	Germany			UK			Other			At 31 December		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Present value of the partially or fully funded defined benefit obligation	208,024	211,532	314,016	362,716	390,396	419,470	53,436	57,214	70,191	624,176	659,142	803,677
Fair value of plan assets	34,956	38,217	40,016	369,270	406,404	439,509	50,907	50,309	58,903	455,133	494,930	538,428
Deficit (surplus)	173,068	173,315	274,000	(6,554)	(16,008)	(20,039)	2,529	6,905	11,288	169,043	164,212	265,249
Present value of the unfunded defined benefit obligation	173,889	177,739	231,397	–	–	–	22,245	22,148	28,186	196,134	199,887	259,583
Total deficit	346,957	351,054	505,397	(6,554)	(16,008)	(20,039)	24,774	29,053	39,474	365,177	364,099	524,832
Unrecognised past service income	–	–	–	–	–	–	(1,377)	(1,143)	(1,071)	(1,377)	(1,143)	(1,071)
Net defined benefit obligation as at 31 December	346,957	351,054	505,397	(6,554)	(16,008)	(20,039)	23,397	27,910	38,403	363,800	362,956	523,761
Reported as "retirement benefit obligation"	346,957	351,054	505,397	3,709	3,950	2,720	23,397	27,910	38,403	374,063	382,914	546,520
Reported as "other non-current financial assets"	–	–	–	(10,263)	(19,958)	(22,759)	–	–	–	(10,263)	(19,958)	(22,759)

In addition, the KION pension plan for employees of the KION Group in Germany holds plan assets of €16,840,000, €18,474,000 and €19,486,000, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012 which are wholly offset by corresponding liabilities relating to the direct pension entitlement plan.

Impact on cash flows

In the case of obligations not covered by external assets, payments to beneficiaries are made directly by the KION Group and therefore have an impact on cash flows from operating activities. If the benefit obligations are backed by external assets, the payments are made from existing plan assets and have no effect on the KION Group's cash flow. Instead, any contributions made to the external pension fund by the KION Group result in net cash used for operating activities.

The details of cash flow information are as follows:

	For the year ended 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Payment of pension benefit from:			
KION	11,640	12,643	13,561
Plan assets	21,667	17,896	19,919
	33,307	30,539	33,480
Contribution to plan assets	17,780	8,180	9,518
Pension benefit payments transferred to external pension funds	–	215	232

Profit or loss

Actuarial computations are performed for benefit obligations in order to determine the amount to be expensed in each period in a systematic way. The expenses recognised in the profit and loss for pensions and similar obligations consist of a number of components that are calculated and disclosed separately.

The service cost is the new pension entitlement arising in the financial year and is recognised in the profit and loss. It is calculated as the actuarial present value of that proportion of the expected defined benefit obligation when the pension is paid attributable to the year under review on the basis of the maximum length of service achievable by each employee.

The interest cost (i.e. the expense arising from increase in the defined benefit obligation since the end of the previous year because the benefits are one period closer to settlement using the discount rate assumed for the year under review) is recognised in the profit and loss, as is the expected return on plan assets in the case of benefits covered by external plan assets.

An unrecognised past service cost arises if there is a change to the pension entitlement.

The breakdown of the net cost of the defined benefit obligation (expenses less income) recognised in the consolidated statement of comprehensive income for the Relevant Periods is as follows:

	Germany			UK			Other			Total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Current service cost	10,411	11,894	11,881	1,514	1,245	1,443	2,390	3,103	2,919	14,315	16,242	16,243
Interest cost	19,733	20,526	21,680	18,801	19,132	19,061	2,900	2,778	3,068	41,434	42,436	43,809
Expected return on plan assets	(1,443)	(1,936)	(2,184)	(19,868)	(18,736)	(18,296)	(1,936)	(2,060)	(2,251)	(23,247)	(22,732)	(22,731)
Past service cost	–	–	–	–	46	327	79	131	72	79	177	399
Gains on the curtailment of a plan	–	–	–	–	–	–	(434)	(708)	–	(434)	(708)	–
Total cost of defined benefit obligation	28,701	30,484	31,377	447	1,687	2,535	2,999	3,244	3,808	32,147	35,415	37,720

Overall, the KION Group reported an expense of €18,187,000, €19,704,000 and €21,078,000, respectively, for each of the Relevant Periods under net financial income/expenses. This amount comprised the interest cost of pension obligations and the expected return on plan assets. All other components of pension expenses are recognised under functional costs.

The actual total return on plan assets was €40,597,000, €36,446,000 and €48,045,000, respectively, for the year ended 31 December 2010, 2011 and 2012.

Other comprehensive income (expense)

The breakdown of actuarial gains and losses on the defined benefit obligation recognised as other comprehensive income (expenses) for the Relevant Periods are as follows:

	Germany			UK			Other			Total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Accumulated other comprehensive income (expense) as at 1 January	94,873	65,983	81,458	(31,985)	(40,769)	(37,014)	(3,137)	(4,925)	(10,160)	59,751	20,289	34,284
Group changes	–	–	–	–	–	2,235	–	–	–	–	–	2,235
Gains (losses) on the measurement of defined benefit obligation	(28,081)	14,150	(201,473)	(22,471)	(12,665)	(21,707)	(4,617)	(103)	(17,471)	(55,169)	1,382	(240,651)
Gains (losses) on plan assets	(809)	1,325	1,449	14,766	17,364	17,786	3,393	(4,975)	6,077	17,350	13,714	25,312
Exchange differences	–	–	–	(1,079)	(944)	(965)	(564)	(157)	(40)	(1,643)	(1,101)	(1,005)
Accumulated other comprehensive income (expense) as at 31 December	65,983	81,458	(118,566)	(40,769)	(37,014)	(39,665)	(4,925)	(10,160)	(21,594)	20,289	34,284	(179,825)
thereof actuarial gains and losses	65,983	81,458	(118,566)	(40,769)	(37,014)	(39,665)	(6,829)	(10,160)	(21,594)	18,385	34,284	(179,825)
thereof effect of reduction in future contributions (IFRIC 14)	–	–	–	–	–	–	1,904	–	–	1,904	–	–

Primarily experience adjustments to plan assets had changed other comprehensive income by attributable to shareholders of KION a decrease of €28,658,000 as at 31 December 2010 (after deferred taxes), an increase of €8,394,000 as at 31 December 2011 (after deferred taxes) and a decrease of €151,267,000 as at 31 December 2012 (after taxes). The amount attributable to non-controlling interests for the year ended 31 December 2010, 2011 and 2012 were €1,000, Nil and €44,000,000, respectively.

The plan assets of the main pension plans consist of the following components:

	Germany			UK			Other			Total		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Securities	6,123	6,862	7,134	78,395	73,583	86,922	7,020	7,187	8,462	91,538	87,632	102,518
Fixed-income securities	12,754	12,580	18,301	258,959	267,739	259,556	11,233	11,499	11,743	282,946	291,818	289,600
Real estate	2,552	2,859	1,551	282	331	–	3,510	3,593	3,888	6,344	6,783	5,439
Insurance policies	–	–	–	–	–	–	27,506	26,353	32,600	27,506	26,353	32,600
Other	13,527	15,916	13,030	31,634	64,751	93,031	1,638	1,677	2,210	46,799	82,344	108,271
Total plan assets	34,956	38,217	40,016	369,270	406,404	439,509	50,907	50,309	58,903	455,133	494,930	538,428

The plan assets do not include any real estate or other assets used by the KION Group itself. The increase in the Other category is largely attributable to the change in the portfolio structure of the four large plans in the United Kingdom and concerns inflation-linked UK government bonds. The expected return in the Relevant Years for the main investment categories of plan assets are as follows:

	Germany			UK			Other		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Securities	8.15%	7.45%	7.35%	7.10%	6.73%	5.77%	5.00%	7.10%	6.80%
Fixed-income securities	4.19%	3.50%	3.74%	4.27%	4.81%	4.31%	3.50%	2.90%	2.40%
Real estate	6.01%	5.20%	5.10%	0.00%	6.50%	6.50%	4.25%	4.60%	4.60%
Insurance policies	0.00%	0.00%	0.00%	5.61%	0.00%	0.00%	4.64%	3.88%	4.69%
Other	7.01%	6.68%	6.68%	0.00%	4.17%	3.19%	2.50%	6.40%	6.00%
Weightage average expected return	5.70%	5.54%	5.71%	5.82%	5.21%	4.43%	4.33%	4.26%	4.51%

The expected return on plan assets was determined on the basis of the plan's policy regarding the asset classes in which it invests. Expected returns are based on the current yields on government bonds with corresponding maturities, adjusted for specific credit spreads for the different asset classes. The expected return on plan assets is recognised as income in the relevant period. The differences between expected and actual income on plan assets represent experience adjustments and are recognised in other comprehensive income in the year in which they arise.

The present value of the defined benefit obligation is based on the assumptions detailed above. If the discount rate were to increase or decrease by a 0.25% as at 31 December 2010, 2011 and 2012, pension entitlements would be €32,312,000, €35,632,000 and €43,458,000 lower or €34,559,000, €35,747,000 and €45,463,000 higher, respectively. Other comprehensive income, after tax, would be €23,147,000, €25,999,000 and €31,611,000 higher or €24,757,000, €26,036,000 and €33,081,000 lower.

History of experience adjustments

	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Present value of defined benefit obligation as at 31 December	820,310	859,029	1,063,260
Experience adjustments arising on the plan liabilities	(76)	(144)	6,566
Fair value of plan assets as at 31 December	455,133	494,930	538,428
Experience adjustments arising on the plan assets	17,350	13,714	25,312
Surplus in total	365,177	364,099	524,832
Unrecognised past service cost and income	(1,377)	(1,143)	(1,071)
Net defined benefit obligation as at 31 December	363,800	362,956	523,761

While the actuarial gains and losses on the present value of the obligation only result in part from experience adjustments, the actuarial gains or losses on the fair value of the plan assets are entirely attributable to experience adjustments.

32. NON-CURRENT FINANCIAL LIABILITIES

	At 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Liabilities to banks			
due within one year	103,282	223,979	51,152
due in more than one year but not exceeding two years	108,592	18,099	246,897
due in more than two years but not exceeding five years	2,355,532	2,267,811	1,445,175
due in more than five years	304,481	–	115,224
	2,871,887	2,509,889	1,858,448
Capital market liability			
due in more than five years	–	487,508	489,495
Other financial liabilities			
due within one year	3,188	3,397	623
due in more than five years	3,812	3,936	3,865
	7,000	7,333	4,488
	2,878,887	3,004,730	2,352,431
Less: Amount due within one year shown as current financial liabilities	106,470	227,376	51,775
Amount due after one year shown as non-current financial liabilities	2,772,417	2,777,354	2,300,656

Loan agreement

In connection with its acquisition of Linde AG's material-handling business, the KION Group signed a loan agreement (a senior facilities agreement and a subordinated facility agreement, referred to below as 'SFA') for a total original amount of €3,300,000,000 with the lead banks Barclays Bank Plc, Bayerische Hypo- und Vereinsbank AG, Credit Suisse (London branch), Goldman Sachs International Bank, Lehman Commercial Paper Inc. (UK branch) and Mizuho Corporate Bank Ltd. on 23 December 2006. The loans provided under the SFA carry variable interest rates. Transaction costs of €31,578,000, €20,175,000 and €23,637,000 reduced the carrying amount of the loans, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012. These costs have been allocated pro rata to each of the tranches and expensed over their respective terms.

The following material amendments were made to the SFA in subsequent years:

- Under amendments made to the SFA on 8 March 2007 the subordinated facility agreement was totally replaced by a senior facilities agreement and unused credit lines totalling €200,000,000 were returned, thereby reducing the total amount of the SFA to €3,100,000,000.

- Under amendments made to the SFA on 23 September 2009 the financial covenants applicable during the term of the loan were modified. At the same time, an additional credit line of €100,000,000 and an increase in the collateral security provided for this facility were agreed. Furthermore, the interest rates payable on existing credit lines were raised by between 0.25% and 1.50% points. The amounts of these interest-rate increases primarily fall due in the form of bullet payments at maturity (payments in kind, or PIKs). All the interest payable on the new credit line of €100,000,000 falls due in the form of a bullet payment at maturity. The company making this credit line available is Superlift Funding S.à. r.l., Luxembourg, which is a related party to the KION Group.

Corporate bond

The KION Group issued a corporate bond for €500,000,000 through the subsidiary KION Finance S.A., Luxembourg, in April 2011. Of the bond's total par value of €500,000,000, €325,000,000 carries at a fixed interest rate of 7.875% per annum, while €175,000,000 carries a floating interest rate based on three-month EURIBOR plus a margin of 4.25% points. The interest on the fixed-rate tranche is paid semi-annually, while interest on the floating-rate tranche is paid once a quarter. The bond's principal is redeemed as a bullet payment on maturity. Borrowing costs of €12,492,000 and €10,505,000 reduced the carrying amount of the bond, respectively, as at 31 December 2011 and 31 December 2012. These costs have been allocated pro rata to each of the tranches and expensed over their respective terms. The corresponding liability is reported as a capital market liability.

Changes in net financial debt

The KION Group uses its financial debt as a key internal figure for analysing the changes in its financial liabilities. Financial liabilities take into account the gross carrying amounts of the liabilities to banks and the capital market liability before borrowing costs. The key figure 'net financial debt' is calculated by deducting cash and cash equivalents.

The table below gives a breakdown of the KION Group's net financial debt as at the end of each reporting period:

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Corporate bond - fixed rate (2011/2018) – gross	–	325,000	325,000
Corporate bond - floating rate (2011/2018) – gross	–	175,000	175,000
Liabilities to banks (gross)	2,893,713	2,530,064	1,882,085
Other financial liabilities to non-bank	7,000	7,333	4,488
Financial debt	2,900,713	3,037,397	2,386,573
Less: Cash and cash equivalents	252,884	373,451	562,357
Net financial debt	2,647,829	2,663,946	1,824,216
Less: Capitalised borrowing costs	21,826	32,667	34,142
Net financial debt after borrowing costs	2,626,000	2,631,279	1,790,074
Financial debt after borrowing costs	2,878,887	3,004,730	2,352,431

The table below gives details of the changes in financial debt and lists the applicable terms and conditions:

	Interest rate	Notional amount			Maturity
		2010	2011	2012	
		€'000	€'000	€'000	
Term Loan Facility Term B1 (EUR)	EURIBOR + MARGIN	911,162	690,881	138,503	2014
Term Loan Facility Term B2 (EUR)	EURIBOR + MARGIN	–	–	411,117	2017
Term Loan Facility Term B1 (USD)	LIBOR + MARGIN	296,873	310,560	108,014	2014
Term Loan Facility Term B2 (USD)	LIBOR + MARGIN	–	–	79,129	2017
Term Loan Facility Term C1 (EUR)	EURIBOR + MARGIN	869,985	663,033	286,645	2015
Term Loan Facility Term C2 (EUR)	EURIBOR + MARGIN	–	–	382,818	2017
Term Loan Facility Term C1 (USD)	LIBOR + MARGIN	296,873	310,560	227,105	2015
Term Loan Facility Term C2 (USD)	LIBOR + MARGIN	–	–	81,271	2017
Term Loan Facility Term D	EURIBOR + MARGIN	201,167	201,742	–	2012
Term Loan Facility Term G	EURIBOR + MARGIN	105,779	111,210	115,951	2018
Term Loan Facility H1a (Corporate bond - fixed rate)	Fixed rate	–	325,000	325,000	2018
Term Loan Facility H1b (Corporate bond - floating rate)	3-M-EURIBOR+MARGIN	–	175,000	175,000	2018
Multicurrency Revolving Credit Facility	EURIBOR + MARGIN	–	132,691	–	2012
Multicurrency Capex Restructuring and acquisition Facility	EURIBOR + MARGIN	162,131	71,596	18,216	2013
Other liabilities to banks	Various currencies and interest terms	49,743	37,791	33,316	
Other financial liabilities to non-banks		7,000	7,333	4,488	
Total financial debt		2,900,713	3,037,397	2,386,573	
Less: capitalised borrowing costs		(21,826)	(32,667)	(34,142)	
Total financial debt after borrowing costs		2,878,887	3,004,730	2,352,431	

Financial covenants

The SFA and the contractual terms and conditions governing the issuance of the corporate bond require compliance with certain requirements, or undertakings and certain covenants among other things. The SFA also requires compliance with specific financial covenants during the term of the agreement. The financial covenants specify required ratios for the financial position and financial performance of the KION Group. The covenants are expressed in the form of key figures relating to leverage, available liquidity, EBITDA, interest paid and capital expenditures. If these requirements or financial covenants are breached, this may, for example, give lenders the right to terminate the SFA or permit bondholders to call the corporate bond prior to its maturity date.

All the financial covenants were met in the past financial year.

Loan collateral

Under the SFA, the KION Group is under an obligation to provide collateral for its obligations and liabilities. This obligation also includes to the corporate bond (newly added SFA tranches H1a und H1b), under which the funds from the corporate bond accrued to the KION Group. A total of 21, 26 and 26 KION Group companies (guarantors) in five countries - Germany, the UK, France, Spain and Italy - had provided the necessary collateral, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012. The year-over-year change in the companies participating in the SFAS was largely attributable to the fact that the financial services companies established in 2011 had become a party to the SFA.

The collateral includes guarantees, the assignment of shares in the guarantors (with the exception of shares in KION GROUP GmbH), the assignment of bank accounts and guarantor receivables, the assignment of claims arising from and in connection with the share purchase agreement between Linde Material Handling GmbH and Linde AG dated 5 November 2006, relating to the shares in the former KION GROUP GmbH, the assignment of shares in KION Information Management Services GmbH and assignments and transfers of title to intellectual property rights by guarantors in Germany. The statutory provisions in the United Kingdom and the agreements entered into require that all the assets of the UK guarantor are pledged as security.

The details of carrying amount of assets pledged as collaterals are as follows:

	At 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Financial assets	709,051	791,985	600,713
Property, plant and equipment	125	–	–

33. LEASE LIABILITIES

	At 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Lease liabilities relating to:			
Finance lease obligations arising from sales and leaseback	617,547	669,035	738,760
Obligations arising from residual-value guarantees	17,814	15,765	21,379
Procurement leases	26,288	16,712	15,216
	661,649	701,512	775,355

The amounts recognised as lease liabilities are based on the following data:

	At 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Total minimum lease payments (gross)			
due within one year	278,967	260,230	272,268
due in one to five years	427,041	490,680	562,502
due in more than five years	18,212	18,693	21,177
	724,220	769,603	855,947
Present value of minimum lease payments			
due within one year	250,552	230,381	238,034
due in one to five years	393,335	452,988	517,041
due in more than five years	17,762	18,143	20,280
	661,649	701,512	775,355
Interest included in minimum lease payments	62,571	68,091	80,592
Presented as other financial liabilities (Note 35):			
Non-current	132,283	171,070	208,136
Current	80,623	83,653	92,204
Presented as lease liabilities:			
Non-current	278,814	300,061	329,185
Current	169,929	146,728	145,830
	661,649	701,512	775,355

34. PROVISION

	Provisions for product warranties	Provisions for personnel	Other obligations	Total other provisions
	€'000	*€'000*	*€'000*	*€'000*
Balance as at 1 January 2010	55,185	156,369	56,238	267,792
Changes in group of consolidated entities	–	226	180	406
Additions	31,635	15,754	34,561	81,950
Utilisations	(24,680)	(44,458)	(14,898)	(84,036)
Reversals	(2,499)	(1,204)	(8,151)	(11,854)
Additions to accrued interest	–	3,516	530	4,046
Exchange differences	814	385	698	1,897
Other adjustments	–	3,305	(3,305)	–
Balance as at 31 December 2010	60,455	133,893	65,853	260,201
Changes in group of consolidated entities	150	134	811	1,095
Additions	34,864	75,844	24,297	135,005
Utilisations	(18,964)	(61,592)	(23,405)	(103,961)
Reversals	(2,454)	(2,816)	(11,255)	(16,525)
Additions to accrued interest	136	2,630	39	2,805
Exchange differences	419	10	274	703
Other adjustments	343	–	180	523
Balance as at 31 December 2011	74,949	148,103	56,794	279,846
Changes in group of consolidated entities	(454)	(4,906)	5,644	284
Additions	18,001	27,498	33,402	78,901
Utilisations	(21,590)	(40,935)	(23,792)	(86,317)
Reversals	(6,846)	(30,078)	(11,053)	(47,977)
Additions to accrued interest	–	2,166	2	2,168
Exchange differences	278	–	25	303
Other adjustments	43	(11,865)	11,622	(200)
Balance as at 31 December 2012	64,381	89,983	72,644	227,008

	At 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Provision show in the Financial Information as:			
Non - current liabilities	164,299	96,168	89,120
Current liabilities	95,902	183,678	137,888
	260,201	279,846	227,008

The provisions for product warranties include contractual and statutory obligations arising from the sale of industrial trucks and spare parts. It is expected that the bulk of the costs will be incurred within the next two years after the end of each reporting period.

The provisions for personnel comprise provisions for partial retirement obligations, long-service awards, annual bonuses and severance pay. The provision for partial retirement obligations is recognised on the basis of individual contractual arrangements. The KION Group recognised restructuring provisions of €74,465,000 in 2011, predominantly in connection with the planned transfers of production.

Other obligations largely comprise provisions for guarantees and litigation.

35. OTHER FINANCIAL LIABILITIES

	As at 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Liabilities from finance lease (Note 33)	132,283	171,070	208,136
Deferred income	124,948	118,455	132,662
Sundry other liabilities	2,922	14,264	4,323
Derivative financial instruments (Note)	–	–	9,957
Other non-current financial liabilities	260,153	303,789	355,078
Liabilities from finance lease (Note 33)	80,623	83,653	92,204
Deferred income	81,274	86,551	84,357
Personnel liabilities	94,573	128,349	161,637
Derivative financial instruments (Note)	30,030	17,742	33,613
Social security liabilities	35,460	38,894	40,460
Tax liabilities	35,683	50,269	65,857
Advances received from third parties	40,682	41,981	37,596
Liabilities on bills of exchange	2,303	3,799	2,295
Liabilities from accrued interest	2,049	10,360	9,588
Sundry current financial liabilities	69,188	42,490	29,423
Other current financial liabilities	471,865	504,088	557,030
Total other financial liabilities	732,018	807,877	912,108

Note:

The derivative financial liabilities include foreign currency forwards and interest-rate swaps contracts that have negative fair values as at the reporting date. Furthermore, the derivative financial liabilities at 31 December 2012 include the fair value of two call options on the remaining shares in Linde Hydraulics amounting to €16,520,000.

Other financial liabilities include non-derivative liabilities amounting to €156,053,000, €180,226,000 and €159,207,000, respectively as of the end of each Relevant Periods that fall within the scope of IFRS 7.

36. TRADE PAYABLES

The aged analysis of the KION Group's trade payables, presented based on the invoice date at the end of each reporting period is as follows:

	As at 31 December		
	2010	2011	2012
	€'000	*€'000*	*€'000*
Within 90 days	292,958	396,971	370,438
More than 90 days	215,150	237,121	275,606
	508,108	634,092	646,044

37. KION MANAGEMENT PARTNERSHIP PLAN ("MPP")

Arrangements for managers to invest in KION have been in place since 2007. These arrangements are governed by the "Shareholders' and co-investment agreement on the implementation of the management partnership plan for the KION Group" (the "Co-invest Agreement")) dated 14 June 2007, entered into by Superlift Holding S.à r.l., KION and KION Management Beteiligungs GmbH & Co. KG ("KION Management"). The managers who have joined the management partnership plan are also parties to the co-invest agreement.

During the Relevant Periods, KION Management held an equity interest of 14.61% in KION until 13 January 2013. In total, the Executive Board holds an interest of €3,400,000 in the limited partner capital of KION Management, which equates to an indirect interest of 3.31% in the share capital of KION. In addition to the KION Group's Executive Board, around 300 executives around the world have purchased shares in KION Management. The shares are sold at their fair value and shareholdings are divided into virtual 'A', 'B', and 'C' shares. Different terms and conditions concerning payment of the purchase price and rights to purchase attach to these virtual shares. The purchase price for 'A' shares became payable when participants joined the programme, while KION Management Beteiligungs GmbH granted participants interest-bearing loans for the purchase price of the 'B' and 'C' shares. The vesting conditions and resulting purchase rights for 'B' shares accrue to participants in equal, annual tranches over a period of five years. By contrast, managers become eligible to purchase 'C' shares if the targets for revenue, earnings before interest and tax and amortisation and operating cash flow set in the business plan are achieved over a five-year period or predefined target returns are achieved if the KION Group is sold or there is a change of control.

In 2010, the performance-related vesting conditions for the 'C' shares relating to the 2009–2012 bonus period were adjusted to take into account the revised long-term KION business plan, which is in turn based on the amended loan terms in the supplementary agreement to the SFA dated 23 September 2009. The change in vesting conditions affects a total of 1,034 shares with an expected exercise price of €16 thousand each. The agreement had one year remaining as at 31 December 2011. The total fair value of this adjustment was €1,044,000. The fair value of the individual purchase rights amounted to €1,000. The number of purchase options outstanding as at the reporting date remained unchanged at 1,034, of which 229, 584 and 876 were exercisable, respectively, at 31 December 2010, 31 December 2011 and 31 December 2012.

The fair value of the new vesting conditions was calculated using the Black-Scholes model based on a share price of €11,000. The risk-free interest rate on the reference date for the calculation was 1.6%. The expected holding period for the options is three years. The expected volatility is 32% and it was calculated by taking the implied volatility of a peer group. Expected dividends were not taken into account.

Expenses incurred by the management partnership plan amounted to €590,000, €295,000 and €159,000, respectively, for each of the Relevant Periods.

38. INFORMATION ON FINANCIAL INSTRUMENTS

The KION Group uses both primary and derivative financial instruments.

The following section summarises the relevance of these financial instruments for the KION Group.

(a) Carrying amounts by class and category

The following table shows the measurement categories, financial assets held-for-trading ("FAHft"), available-for-sale financial assets ("Afs"), loans and receivables ("LaR"), held-to-maturity financial assets ("HtM"), financial liabilities at amortised cost ("Flac") and financial liabilities held-for-trading. The table below shows the carrying amounts and fair values of financial assets and liabilities:

		Categories						
	Carrying amount	FAHft	AfS	LaR	HtM	FLaC	FLHft	Fair value
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2010								
Financial assets								
Loan receivable	1,907	–	–	1,907	–	–	–	1,907
Financial receivables	8,117	–	–	8,117	–	–	–	8,117
Available-for-sale investments	825	–	825	–	–	–	–	825
Lease receivables	367,758	–	–	–	–	–	–	374,358
Trade receivables	633,265	–	–	633,265	–	–	–	633,265
Other receivables								
Non-derivative receivables	35,416	–	–	35,416	–	–	–	35,416
Derivative financial instruments	23,706	23,706	–	–	–	–	–	23,706
Cash and cash equivalents	252,884	–	–	–	–	–	–	252,884
Financial liabilities								
Liabilities to banks	2,871,887	–	–	–	–	2,871,887	–	2,871,887
Other financial liabilities	7,000	–	–	–	–	7,000	–	7,000
Shareholder loan	615,250	–	–	–	–	615,250	–	554,358
Lease liabilities	448,743	–	–	–	–	–	–	445,743
Trade payables	508,108	–	–	–	–	508,108	–	508,108
Other liabilities								
Non-derivative liabilities	156,053	–	–	–	–	156,053	–	156,053
Liabilities from finance leases	212,906	–	–	–	–	–	–	212,906
Derivative financial instruments	30,030	–	–	–	–	–	30,030	30,030
At 31 December 2011								
Financial assets								
Loans receivable	795	–	–	795	–	–	–	795
Financial receivables	5,351	–	–	5,351	–	–	–	5,351
Available-for-sale investments	768	–	768	–	–	–	–	768
Lease receivables	361,221	–	–	–	–	–	–	362,319
Trade receivables	676,553	–	–	676,553	–	–	–	676,553
Other receivables								
Non-derivative receivables	36,237	–	–	36,237	–	–	–	36,237
Derivative financial instruments	23,277	23,277	–	–	–	–	–	23,277
Cash and cash equivalents	373,451	–	–	–	–	–	–	373,451
Financial liabilities								
Liabilities to banks	2,509,889	–	–	–	–	2,509,889	–	2,509,889
Capital market liability	487,508	–	–	–	–	487,508	–	388,750
Other financial liabilities	7,333	–	–	–	–	7,333	–	7,333
Shareholder loan	643,132	–	–	–	–	643,132	–	530,045
Lease liabilities	446,789	–	–	–	–	–	–	446,326
Trade payables	634,092	–	–	–	–	634,092	–	634,092
Other liabilities								
Non-derivative liabilities	180,226	–	–	–	–	180,226	–	180,226
Liabilities from finance leases	254,723	–	–	–	–	–	–	254,723
Derivative financial instruments	17,742	–	–	–	–	–	17,742	17,742

	Carrying amount	Categories						Fair value
		FAHft	AfS	LaR	HtM	FLaC	FLHft	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At 31 December 2012								
Financial assets								
Loan receivable	730	–	–	730	–	–	–	730
Financial receivables	9,587	–	–	9,587	–	–	–	9,587
Available-for-sale investments	768	–	768	–	–	–	–	768
Lease receivables	399,269	–	–	–	–	–	–	398,229
Trade receivables	625,462	–	–	625,462	–	–	–	625,462
Other receivables								
Non-derivative receivables	35,236	–	–	35,236	–	–	–	35,236
Derivative financial instruments	23,942	23,942	–	–	–	–	–	23,942
Cash and cash equivalents	562,357	–	–	–	–	–	–	562,357
Financial liabilities								
Liabilities to banks	1,858,448	–	–	–	–	1,858,448	–	1,858,448
Capital market liability	489,495	–	–	–	–	489,495	–	489,495
Other financial liabilities	4,488	–	–	–	–	4,488	–	4,488
Lease liabilities	475,015	–	–	–	–	–	–	475,086
Trade payables	646,044	–	–	–	–	646,044	–	646,044
Other liabilities								
Non-derivative liabilities	141,138	–	–	–	–	141,138	–	141,138
Liabilities from finance leases	300,340	–	–	–	–	–	–	300,340
Derivative financial instruments	43,570	–	–	–	–	–	43,570	43,570

(b) **Change in valuation allowance**

	For the year ended 31 December		
	2010	2011	2012
	€'000	€'000	€'000
At the beginning of the year	48,614	47,125	49,565
Group changes	–	626	(483)
Additions (cost of valuation allowances)	13,912	10,547	12,010
Reversals	(9,466)	(3,092)	(2,829)
Utilisations	(4,212)	(5,425)	(7,573)
Currency translation adjustments	(1,723)	(216)	(158)
At the end of the year	47,125	49,565	50,532

(c) **Net impact on financial instruments by category**

The net impact on financial instruments are as follows:

	For the year ended 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Loans and receivables (LaR)	9,223	2,062	(1,594)
Available-for-sale investments (AfS)	15	13	13
Financial assets held-for-trading (FAHfT)	39,381	14,360	8,950
Financial liabilities held-for-trading (FLHfT)	(27,063)	(10,109)	(11,923)
Financial liabilities carried at amortised cost (FLaC)	(220,979)	(225,277)	(179,209)

The above gains and losses do not include losses arising on hedging transactions amounting to €88,087,000, €18,464,000 and €19,861,000, respectively during the year ended 31 December 2010, 2011 and 2012 because these losses form part of a documented hedge.

(d) Fair value measurement

The majority of the funding, loans, investments, other non-derivative receivables and liabilities, trade receivables and trade payables held by the KION Group have short remaining terms to maturity. The carrying amounts of these financial instruments approximate their fair values.

The fair value of derivative financial instruments is determined using appropriate valuation methods on the basis of observable market information at the end of reporting period. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of currency forwards is calculated on the basis of the forward rates at the end of reporting period. In the KION Group, all interest-rate swaps and currency forwards are classified as level 2 measurements as defined by IFRS 7.

The fair value of the put and call options on the remaining shares in Linde Hydraulics was determined using the Black-Scholes model. The main input variables for the model were the options' base exercise price, which may be modified by individual, specific, contractually agreed factors if necessary, and the fair value of the remaining shares in Linde Hydraulics. As at 31 December 2012 the fair value of the put option was €19,740,000 and the fair value of the call options was €16,520,000. The base exercise price of the put option is €77,429,000. The base exercise price of the two call options totals €116,143,000. The options are classified as level 3.

As at 31 December 2012 the net value calculated from the options on the remaining shares in Linde Hydraulics came to €3,220,000. If the fair value of the shares had been 10% lower on the reporting date, the net value from the options would have increased by €8,310,000 to a total of €11,530,000 and resulted in an additional gain of €8,310,000. A rise of 10% in the fair value of the shares in Linde Hydraulics would have decreased the net value from the options by €9,010,000 to a total of €5,790,000 and resulted in an expense of €9,010,000.

In order to minimise default risk to the greatest possible extent, the KION Group only enters into derivatives with counterparties holding a high credit rating.

With the exception of derivative financial instruments and available-for-sale assets, all financial assets and liabilities are measured at amortised cost.

Details of the financial assets and financial liabilities measured at fair value at the end of each reporting period are as follows:

	As at 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Financial assets			
Available-for-sale investments	825	768	768
Derivative instruments	23,706	23,277	23,942
Financial liabilities			
Derivative instruments	30,030	17,742	43,570

The fair value of available-for-sale assets is determined on the basis of quoted prices in an active market. These assets are classified as level 1 as defined by IFRS 7.

39. FINANCIAL RISK REPORTING

(a) Capital management

One of the prime objectives of capital management is to ensure liquidity at all times. Measures aimed at achieving these objectives include the optimisation of the capital structure, the reduction of liabilities and ongoing KION Group cash flow planning and management. Besides the supplementary agreement to the SFA in 2009, long-term financing requirements were also covered by the issuance of the corporate bond (see 'Credit terms' table).

Close cooperation between local units and the KION Group head office ensures that the local legal and regulatory requirements faced by foreign group companies are considered in the capital management process.

Net financial debt before borrowing costs – defined as the difference between financial liabilities and cash and cash equivalents – is the key performance measure used in liquidity planning at KION Group level. Lease liabilities and other financial liabilities are excluded from this figure, which were €2,626,003,000, €2,631,279,000 and €1,790,074,000 at 31 December 2010, 31 December 2011 and 31 December 2012.

(b) Credit risk

For financial assets, default risk is defined as the risk that a counterparty will default, and therefore is limited to a maximum of the carrying amount of the assets relating to the counterparty involved. The potential default risk attaching to financial assets is mitigated by secured forms of lending such as reservation of title, credit insurance and guarantees.

Specific valuation allowances for defaults are recognised to reflect the risk arising from primary financial instruments. Financial transactions are only entered into with selected partners holding good credit ratings. Investments in interest-bearing securities are limited to investment-grade securities.

In certain finance and operating activities, the KION Group is subject to credit risk, i.e. the risk that partners will fail to meet their contractual obligations. This risk is limited by diversifying business partners based on certain credit ratings. The KION Group only enters into transactions with business partners and banks holding a good credit rating and subject to fixed limits. Counterparty risks involving our customers are managed by the individual group companies.

The following table shows the age structure of receivables as at the end of each reporting period.

				Not impaired but	
	Carrying amount	Neither overdue nor impaired	Overdue and impaired	up to and including 90 days overdue	90 days overdue
	€'000	€'000	€'000	€'000	€'000
At 31 December 2010					
Financial receivables	8,117	8,117	–	–	–
Lease receivables	367,758	367,758	–	–	–
Trade receivables	633,265	493,781	10,101	114,472	13,896
Other non-derivative receivables	35,416	35,060	21	–	83
At 31 December 2011					
Financial receivables	5,351	5,351	–	–	–
Lease receivables	361,221	361,221	–	–	–
Trade receivables	676,553	539,560	4,286	117,666	10,727
Other non-derivative receivables	36,237	35,189	643	–	41
At 31 December 2012					
Financial receivables	9,587	9,587	–	–	–
Lease receivables	399,269	399,269	–	–	–
Trade receivables	625,462	485,621	16,835	110,210	5,499
Other non-derivative receivables	35,236	34,492	734	1	9

Impairment losses are based on the credit risk associated with the receivables and are assessed primarily using factors such as a customer's credit rating and historical pattern of meeting payment terms.

Some of the receivables that were overdue as at the end of each reporting period, but for which no impairment losses had been reported, were offset by corresponding collateral. Apart from this item, the KION Group did not hold any significant collateral.

(c) Liquidity risk

A liquidity risk arises if a company is unable to meet its financial liabilities. The KION Group maintains a liquidity reserve in the form of lines of credit and cash in order to ensure financial flexibility and solvency. The age structure of financial liabilities is reviewed continuously and was improved by issuing the corporate bond.

The following table shows all of the contractually agreed payments under recognised financial liabilities at the end of each reporting period, including derivative financial instruments with negative fair values.

		Undiscounted cash out flow		
	Carrying amount	**Within one year**	**In the second to fifth year**	**Over five years**
	€'000	*€'000*	*€'000*	*€'000*
At 31 December 2010				
Primary financial liabilities				
Gross liabilities to banks	2,893,713			
Borrowing costs	(21,826)			
Net liabilities to banks	2,871,887	192,543	3,132,989	370,561
Other financial liabilities	7,000	3,188	–	6,059
Shareholder loan	615,250	–	–	782,618
Lease liabilities	448,743	189,201	289,627	12,352
Trade payables	508,108	508,108	–	–
Other financial liabilities	368,959	245,819	137,414	5,860
Derivative financial liabilities				
Derivatives with negative fair value	30,030			
Cash in		175,364	40,867	–
Cash out		203,057	41,809	–
At 31 December 2011				
Primary financial liabilities				
Gross liabilities to banks	2,530,064			
Borrowing costs	(20,175)			
Net liabilities to banks	2,509,889	307,224	2,643,650	–
Capital market liability	500,000			
Borrowing costs	(12,492)			
	487,508	34,864	143,062	556,723
Other financial liabilities	7,333	3,397	–	6,090
Shareholder loan	643,132	–	–	928,194
Lease liabilities	446,789	165,739	312,512	11,905
Trade payables	634,092	634,092	–	–
Other financial liabilities	434,949	274,717	178,168	6,788
Derivative financial liabilities				
Derivatives with negative fair value	17,742			
Cash in		295,698	32,127	–
Cash out		(291,278)	(36,919)	–

		Undiscounted cash out flow		
	Carrying amount	Within one year	In the second to fifth year	Over five years
	€'000	€'000	€'000	€'000
At 31 December 2012				
Primary financial liabilities				
Gross liabilities to banks	1,882,085			
Borrowing costs	(23,637)			
Net liabilities to banks	1,858,448	124,369	1,994,386	149,793
Capital market liability	500,000			
Borrowing costs	(10,505)			
	489,445	33,677	138,368	517,912
Other financial liabilities	4,488	623	–	5,269
Trade payables	646,044	646,044	–	–
Lease liabilities	475,015	166,802	344,613	12,974
Other financial liabilities	459,542	264,668	217,889	8,203
Derivative financial liabilities				
Derivatives with negative fair value	27,050			
Cash in		438,150	5,005	–
Cash out		(452,648)	(13,751)	–

The calculation of future cash flows for derivative financial liabilities includes all currency forwards and interest rate swaps that have negative fair values as at the end of the reporting period.

Bank guarantee lines (e.g. sureties, performance bonds) had been issued under the ancillary facility agreements for a total amount in the low double-digit millions as at 31 December 2010, 2011 and 2012. They included guarantees payable 'on first demand'. No guarantees were utilised during the Relevant Periods.

The volume of business for which factoring amounted to €19,853,000, €17,844,000 and €20,024,000, respectively for each of the reporting periods. Because all material risks and rewards are assigned to the purchaser, these assets are derecognised in full.

(d) Risks from financial services

The KION Group's leasing activities mean that it may be exposed to residual value risks from the marketing of machinery and equipment that is returned by the lessee at the end of a long-term lease and subsequently sold or re-leased. Residual values in the markets for used trucks are therefore constantly monitored and forecasted.

KION regularly assesses its overall risk position arising from financial services, recognising write-downs, valuation allowances or provisions to cover the risks it identifies. It immediately takes into account any changes in residual values when calculating new leases.

The increased marketing activities for used trucks and the overall increase in demand help to stabilise the residual values of the KION Group's industrial trucks and therefore serve to mitigate risk.

In addition, residual values are mainly based on remarketing agreements that continued to achieve positive outcomes in 2011. Under these agreements, any residual-value risk is transferred to the leasing company concerned. Group-wide standards to ensure that residual values are calculated conservatively reduce risk and provide the basis on which to create the transparency required. KION also has an IT system for residual-value risk management.

The KION Group mitigates its liquidity risk and interest-rate risk by ensuring that most of its transactions and the terms of funding loans are in line with the KION Group's expectation on the economic environment. Long-term leases are primarily based on fixed-interest agreements. The credit facilities provided by various banks ensure that the KION Group has sufficient liquidity.

In order to eliminate exchange-rate risk, KION generally funds its leasing business in the local currency used in each market.

Because of low default rates, counterparty risk has not been significant to date in the KION Group. KION did not identify any material year-over-year changes in 2011. KION's losses from defaults are also mitigated by its receipt of the proceeds from the sale of repossessed trucks. In addition, it primarily offers financial services indirectly via selected funding partners, and KION bears the counterparty risk in less than 5% of cases. The credit risk management system was refined as part of the work involved in transferring financial services activities to a separate segment. In particular, this involved revising procedures on operational and organisational structure as well as processes for risk management and control.

(e) Exchange-rate risk

In accordance with its treasury risk policy, the KION Group hedges exchange rate risks both locally at the level of the individual companies and centrally via KION GROUP GmbH in order to meet the prescribed minimum hedging ratios.

The main hedging instruments employed are foreign-currency forwards, provided that there are no country specific restrictions on their use.

At an entity level, hedges are entered into for highly probable future transactions on the basis of rolling 15-month forecasts, as well as for firm obligations not reported in the statement of financial position. These hedges are generally classified as cash flow hedges for accounting purposes.

Foreign-currency forwards are also employed to hedge the exchange rate risks resulting from internal financing.

The following table shows an overview of the foreign-currency forwards entered into by the KION Group.

		Fair value At 31 December			Notional Amount At 31 December		
		2010	2011	2012	2010	2011	2012
		€'000	€'000	€'000	€'000	€'000	€'000
Foreign-currency forwards	Hedge	3,762	1,765	2,865	109,653	73,758	89,240
(assets)	Trading	19,824	21,500	1,337	639,473	363,277	103,671
Foreign-currency forwards	Hedge	4,236	8,650	1,006	89,900	189,351	29,765
(liabilities)	Trading	3,595	2,471	7,448	79,335	103,018	414,160

The currency options bought and sold in 2008, each with a notional value of US$780,000,000, were closed in 2011. The income generated by the sale totalled €1,649,000. No new options have been entered into.

Significant exchange rate risks from financial instruments are measured on the basis of value at risk (VaR) as part of internal Group management. VaR figures are calculated using historical variance-covariance analyses. Correlations and volatilities are calculated on the basis of the 250 working days prior to the reporting date (unweighted).

Exchange rate risks from financial instruments as defined by IFRS 7, are only included in calculating value at risk if the financial instruments are denominated in a currency other than the functional currency of the reporting entity concerned. This means that exchange rate risks resulting from the translation of the separate financial statements of subsidiaries into the KION Group reporting currency, i.e. currency translation risk, are not included.

The value at risk in respect of currency risk was €19,968,000, €54,676,000 and €42,302,000, respectively, at end of each reporting period. Value at risk is the loss that is not expected to be exceeded over a holding period of one year with a confidence level of 97.7 per cent at end of each reporting period.

(f) Interest-rate risk

Interest-rate risk within the KION Group is managed centrally. The basis for decision-making includes sensitivity analyses of interest-rate risk positions in key currencies.

The table below shows the cumulative effect of an increase or decrease of 100 basis points (bps) in the relevant interest-rate curves, with a rate of 0 per cent constituting the lower limit of the calculation

Interest rate sensitivity

	At 31 December					
	2010 +100 bps	**2010 -100 bps**	**2011 +100 bps**	**2011 -100 bps**	**2012 +100 bps**	**2012 -100 bps**
	€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Other comprehensive income (expense)	34,714	(32,600)	28,702	(18,031)	16,020	(1,627)
(Loss) profit for the year	(17,226)	18,454	(9,358)	9,358	(8,469)	8,469

The KION Group essentially funds itself by drawing down loans under its agreed credit facilities. Interest-rate derivatives - mainly interest-rate swaps - are used to hedge the resulting interest-rate risk.

Interest rate swap

		Fair value At 31 December			Notional Amount At 31 December		
		2010	2011	2012	2010	2011	2012
		€'000	*€'000*	*€'000*	*€'000*	*€'000*	*€'000*
Interest-rate swaps (assets)	Hedge	46	–	–	70,000	–	–
	Trading	–	–	–	–	–	–
Interest-rate swaps (liabilities)	Hedge	20,769	6,621	18,596	2,493,706	2,070,000	1,670,000
	Trading	–	–	–	–	–	–

The interest-rate caps purchased in 2009 and with a notional value of €1,250,000,000 expired in 2011 as planned. No new interest-rate options have been entered into.

(g) Hedging currency risk

In accordance with its treasury risk policy, the KION Group applies hedge accounting in hedging the exchange rate risks arising from highly probable future revenues in various currencies. Foreign-currency derivatives with settlement dates in the same month as the expected cash flows from the KION Group's operating activities are used as hedges.

The effectiveness of the KION Group's hedging transactions is assessed on the basis of forward rates using the hypothetical derivative approach under the cumulative dollar-offset method. The effective portion of the changes in the fair value of foreign-currency derivatives is recognised in accumulated other comprehensive income (expense) and only reversed when the corresponding hedged item is recognised in profit or loss.

Because of the short-term nature of the KION Group's payment terms, reclassifications to the profit or loss and the recognition of the corresponding cash flows generally take place in the same reporting period. A foreign-currency receivable or liability is recognised when goods are dispatched or received. Hedge accounting continues until the corresponding payment is received, with the changes in the fair value of the derivative being recognised in the profit or loss, thereby largely offsetting the effect of the measurement of the receivable at the end of each reporting period.

The changes in fair value recognised and reclassified in other comprehensive income are shown in the consolidated statement of comprehensive income. The ineffective portion of the changes in the fair value of the hedging transactions is recognised directly in the profit or loss. There were no significant ineffective portions for the Relevant Periods.

In total, foreign-currency cash flows of €199,554,000, €263,109,000 and €114,329,000 were hedged and designated as hedged items, respectively, for the year ended 31 December 2010, 2011 and 2012.

(h) Hedging of interest-rate risk

The KION Group uses hedge accounting in connection with the hedging of interest-rate risk.

The KION Group is essentially financed by the utilisation of loans with variable interest rates and in different currencies. Interest-rate derivatives denominated in various currencies were used to hedge the resulting interest rate risk for the Relevant Periods. Because the KION Group used interest-rate swaps to transform 40%, 51% and 48% of its variable-rate exposure into fixed-rate obligations as at 31 December 2010, 2011 and 2012, it is not fully benefiting from the low level of market interest rates. During the year ended 31 December 2010, an additional 44% of interest rate exposure is hedged by means of interest rate caps against on-month Euribor rising above 1.75% per annum. The individual hedges were designated at the time the swaps were entered into.

The effective portion of the hedges was recognised in other comprehensive income (expense). The cumulative effectiveness of the hedging transactions was almost 100% during the Relevant Periods.

In total, variable portions of future interest payments amounting to €54,999,000, €27,196,000 and €6,340,000, respectively, at the end of each reporting period were designated as hedged items.

40. PLEDGE OF ASSETS

At the end of the each reporting period, certain assets of KION Group were pledged as collateral for the retirement benefit obligation and financial liabilities. The details of the pledge assets are set out in notes 20, 21 and 31.

41. CAPITAL COMMITMENTS

	As at 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Capital expenditure commitments in property, plant and equipment	5,660	6,109	7,191
Capital expenditure commitments in intangible assets	1,205	1,630	2,597
Other financial commitments	17,290	16,958	18,530

42. LEASE COMMITMENTS

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Nominal minimum lease payments (gross)	208,874	205,394	194,216
due within one year	63,621	58,856	38,808
due in one to five years	96,175	104,634	90,394
due in more than five years	49,078	41,904	65,014

The minimum lease payments relate to payments for leased buildings, machinery, office furniture and equipment (procurement leases) as well as payments for industrial trucks refinanced with a sale and leaseback and subleased to end customers (sale and leaseback sub-leases).

	Procurement leases As at 31 December			Sale-and-leaseback subleases As at 31 December		
	2010	2011	2012	2010	2011	2012
	€'000	€'000	€'000	€'000	€'000	€'000
Minimum lease payments (cash out)	158,406	151,486	142,074	50,468	53,908	52,142
due within one year	39,844	38,134	21,329	23,777	20,722	17,479
due in one to five years	69,484	71,452	55,745	26,691	33,182	34,649
due in more than five years	49,078	41,900	65,000	–	4	14
Minimum lease payments (cash in)	–	–	–	16,795	11,257	6,843
due within one year	–	–	–	8,358	5,813	3,572
due in one to five years	–	–	–	8,437	5,440	3,268
due in more than five years	–	–	–	–	4	3

43. CONTINGENT LIABILITIES

	As at 31 December		
	2010	2011	2012
	€'000	€'000	€'000
Liabilities on bills of exchange	2,303	3,516	4,445
Liabilities on guarantees	1,098	2,129	3,197
Collateral security for third-party liabilities	–	69	65
Total contingent liabilities	3,401	5,714	7,707

Litigation

The legal risks arising from the KION Group's business are typical of those faced by any company operating in this sector. The KION is a party in a number of pending lawsuits in various countries. It cannot assume with any degree of certainty that it will win any of the lawsuits or that the existing risk provision in the form of insurance or provisions will be sufficient in each individual case. However, the KION believes it is remote that these ongoing lawsuits will result in additional provisions.

44. RELATED PARTY TRANSACTIONS

The KION Group has direct or indirect business relationships with a number of joint ventures and associates in the course of its ordinary business activities. Transactions with these companies are conducted on an arm's length basis. The related companies that are controlled by the KION Group or that are able to exercise significant influence over the KION Group are included in Notes 13 and 30 and as follows:

Related parties

Superlift Holding S.à r.l., Luxembourg, Parent company
Kohlberg Kravis Roberts & Co. L.P., New York, USA Entity with significant influence
Goldman, Sachs & Co., New York, USA Entity with significant influence
Superlift Funding S.à r.l., Luxembourg Affiliated company

Superlift Funding S.à r.l., Luxembourg

Under a supplementary loan agreement dated 23 September 2009, investment funds advised by Kohlberg Kravis Roberts & Co. L.P. ('KKR') and Goldman Sachs Capital Partners extended the SFA to include an additional loan of €100,000,000 to be paid via Superlift Funding S.à r.l., Luxembourg. The purpose of the supplementary loan was to further strengthen the operational and strategic options for the KION Group. Both the loan amount and the associated interest are repayable as a bullet payment on maturity (payment in kind, 'PIK').

Shareholder loan agreement

On 27 December 2006, KION Holding 1 GmbH (then Neggio Holding 1 GmbH) entered into a shareholder loan agreement with Superlift Holding S.à r.l., Luxembourg, for €500,000,000 of principal. The maturity date for the loan is 31 December 2021. Both the unsecured loan principal and the associated interest are repayable as a bullet payment on maturity (payment in kind, 'PIK'). Since 1 September 2007, the loan has been subject to interest at a rate of 5.5% per annum. The carrying amount of the loan including accrued interest at €615,250,000, €643,132,000, respectively, as at 31 December 2010 and 2011. The shareholder loan amounting to €670,784,000 (including accrued interest) was converted into equity with effect from 27 December 2012.

Advisory agreement

On 8 May 2007, KION Group GmbH, Kohlberg, Kravis Roberts & Co. L.P. ('KKR') and Goldman, Sachs & Co. entered into an advisory agreement under the terms of which KKR and Goldman Sachs are to perform advisory services for the KION Group. These advisory services relate, in particular, to financial and strategic issues. The annual advisory fee payable to KKR and Goldman, Sachs & Co. amounted to €4,609,000, €4,624,000 and €4,763,000, respectively, and they have been recognised as an expense.

As at the end of the reporting period, the receivables due from related parties were as follows:

	As at 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Associates	22,249	17,262	10,845
Joint ventures	2,880	2,964	2,622
Other related parties	7,545	4,825	5,901

As at the end of the reporting period, the liabilities due to related parties were as follows:

	As at 31 December		
	2010	**2011**	**2012**
	€'000	*€'000*	*€'000*
Associates	41,537	39,955	35,861
Joint ventures	3,490	4,719	6,051
Other related parties	730,686	769,255	132,529

The remuneration of key management personnel comprising the Executive Board and Supervisory Board are set out in Note 13.

45. ACQUISITION/DISPOSAL OF BUSINESSES

(a) Acquisition of Creighton Material Handling Ltd. during the year ended 31 December 2012

The KION Group acquired the business operations of the UK dealer Creighton on 28 February 2012. To this end, the KION Group acquired 100% of the share capital and voting rights in Creighton Materials Handling Ltd., Birmingham, United Kingdom (registered office relocated to Basingstoke, United Kingdom, on 28 February 2012), which itself holds 51% of the share capital and voting rights in Linde Creighton Ltd., Basingstoke. The KION Group already held the other 49% of the share capital and voting rights in Linde Creighton Ltd. before the business combination. Creighton's business operations include an investment of 100% in McLEMAN FORK LIFT SERVICES LTD., Basingstoke, United Kingdom. The acquisition has enabled the KION Group to further strengthen the leading position of Linde and the brand's UK distribution and service network.

The equity-accounted carrying amount of the investment in Linde Creighton Ltd. immediately prior to the acquisition date came to €3,635,000. Remeasurement of the investment of 49% previously held resulted in a fair value of €11,387,000. The difference of €7,752,000 (amount on the acquisition date) was taken to income and recognised under the share of profit (loss) of equity-accounted investments on the face of the consolidated income statement.

The incidental acquisition costs incurred by this business combination amounted to €60,000 and have been recognised as an expense for the current period and reported as administrative expenses on the face of the consolidated income statement.

Assets acquired and liabilities recognised at the date of acquisition

	Fair value at the acquisition date *€ thousand*
Other intangible assets	5,017
Property, plant and equipment	5,437
Deferred taxes (net)	1,025
Inventories	4,029
Trade receivables	8,036
Cash and cash equivalents	2,149
Other assets	5,131
Provisions	(7,907)
Liabilities	(15,472)
Net assets acquired	7,445

The gross amounts of the receivables acquired as part of this transaction, which largely constitute trade receivables, totalled €8,183,000. At the acquisition date it was assumed that €147,000 of these trade receivables was irrecoverable. Revenue rose by €50,076,000 as a result of the acquisition. The net income (loss) reported for 2012 contains a profit of €1,382,000 attributable to the entity acquired. If this business combination had been completed by 1 January 2012, this would have had no further material impact on either the revenue or the net income (loss) reported by the KION Group for 2012.

Goodwill arising an acquisition:	
Consideration transferred	11,852
Plus: Previously held share of equity	11,387
Less: Net assets acquired	(7,445)
	15,794

The purchase price allocation for the acquisition described above had been finalised by 31 December 2012. Goodwill represents the strategic and geographical synergies that the KION Group is able to derive from the business combination. The goodwill arising from this acquisition is currently not tax deductible.

(b) Acquisition of forklift truck and warehouse technology business of Voltas Limited during the year ended 31 December 2011

In April 2011, the KION Group and Voltas Limited, Mumbai, India, together established Voltas Material Handling Private Limited ("VMH") to develop, manufacture, sell and service forklift trucks and warehouse trucks. VMH, acquired the forklift truck and warehouse technology business of Voltas Limited on 1 May 2011. KION indirectly holds 66% of the share capital and voting rights in VMH via Linde Material Handling Asia Pacific Pte. Ltd., Singapore.

As a KION Group brand that manufactures in India, Voltas will focus most of its efforts on this market. Its product range includes warehouse trucks, diesel trucks and electric forklift trucks with load capacities of between 1.5 tonnes and 16 tonnes. VMH has a network of 25 branches and authorised dealers throughout India. Since becoming part of the KION Group, VMH has in eight months ended 31 December 2011 generated revenue of €22,027,000 and earned net profit of approximately €19,000. It is not possible to calculate the revenue and net income that would have been earned if VMH had been acquired at 1 January 2011 because no reliable IFRS figures are available for the period prior to April 2011.

A total of 131 Voltas Limited employees were taken on.

The incidental acquisition costs incurred by this business combination amounted to €780,000 and have been recognised as an expense for the year ended 31 December 2011 and reported as administrative expenses on the face of the consolidated statement of comprehensive income.

Owing to further contractual arrangements, the newly established company has been fully consolidated and, consequently, a liability of €8,920,000 was recognised at the acquisition date. This estimated fair value also represents the upper limit for the purchase price. This purchase price obligation may decrease consistent with defined key figures. The table below shows the provisional impact of the acquisition of Voltas Limited's forklift truck and warehouse technology business on the consolidated financial statements of KION.

Consideration transferred

	€'000
Cash	16,141
Other payables	8,920
Consideration transferred	25,061

Assets acquired and liabilities recognised at the date of acquisition

	Fair value at the acquisition date *€'000*
Other intangible assets	5,102
Property, plant and equipment	974
Deferred taxes (net)	2,306
Inventories	4,311
Trade receivables	3,040
Other assets	32
Provisions	(1,199)
Liabilities	(4,205)
Net assets acquired	10,361

The gross amounts of the receivables acquired as part of this transaction, which largely constitute trade receivables, totalled €3,164,000. At the acquisition date it was estimated that €124,000 of these trade receivables was irrecoverable. The goodwill arising from the acquisition of VMH is expected to be tax deductible.

Goodwill arising on acquisition

	€'000
Consideration transferred	25,061
Less: net assets acquired (X)	(10,361)
Goodwill arising on acquisition of VMH	14,700

Goodwill arising on this acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of VMH

	€'000
Cash consideration paid	16,141

(c) Other acquisitions during the year ended 31 December 2011

The dealer Cailotto Carrelli S.p.A., Verona, Italy (100 per cent of the company's share capital and voting rights) was acquired on 4 April 2011.

In addition, KION Group acquired the remaining share capital and voting rights (51%) in the dealer Linde Sterling Ltd., Basingstoke, United Kingdom, effective on 15 June 2011.

The carrying amount of the equity investment in Linde Sterling Ltd. immediately prior to the acquisition date was €3,238,000. As a result of the remeasurement of the equity investment (49%) on the date of acquisition, €4,102,000 was recognised in the income statement and reported as profit from equity investments.

Furthermore, the newly established company OOO ''Linde Material Handling Rus'', Moscow, Russian Federation, acquired the business of the dealer Liftec in Russia on 2 December 2011. The consideration paid included trade receivables in the amount of €5,039,000 that were offset, a cash payment of €4,903,000 and contingent consideration with a fair value of €2,879,000. This estimated fair value at the acquisition date also represents the upper limit for the purchase price. The contingent consideration may be reduced in line with defined revenue targets for 2012 and 2013 and is payable in 2014 if targets are met.

The incidental acquisition costs incurred by these business combinations total €1,720,000 and have been recognised as an expense for the current period and reported as administrative expenses in the consolidated statement of comprehensive income.

The table below shows the overall impact of these acquisitions on the Financial Information of KION based on the provisional figures available at the respective acquisition date.

Consideration transferred

	€'000
Cash	16,798
Fair value of contingent consideration	2,879
Other payables	10,019
Consideration transferred	29,696

Assets acquired and liabilities recognised at the date of acquisition

	Fair value at the acquisition date
	€'000
Other intangible assets	8,556
Property, plant and equipment	15,704
Deferred taxes (net)	290
Inventories	5,967
Trade receivables	8,079
Cash and cash equivalents	23
Other assets	1,701
Provisions	(1,449)
Liabilities	(25,360)
Deferred taxes (net)	(525)
Net assets acquired	12,986

Revenue for the year ended 31 December 2011 increased by €35,720,000 as a result of the remaining acquisitions. The net loss for the year ended 31 December 2011 reported for 2011 contains a loss of approximately €70,000 for the entities acquired. If these business combinations had been completed by 1 January 2011, this would have had no material impact on either the revenue or the net loss reported by the KION Group.

Goodwill arising on acquisition

	€'000
Consideration transferred	29,696
Less: net assets acquired (X)	(12,986)
Goodwill arising on acquisition of other subsidiaries	16,710

The purchase price allocations for the acquisitions described above were only provisional as at 31 December 2011 because some details had not yet been fully evaluated. Goodwill represents the strategic, technological and geographical synergies that the KION Group is able to derive from the business combinations. None of the goodwill arising from the other acquisitions is currently tax deductible.

Net cash outflow on acquisition of other subsidiaries

	€'000
Cash consideration paid	16,798
Less: cash and cash equivalents acquired of	(23)
	16,775

(d) Disposal of Linde Hydraulics GmbH & Co. KG ("Linde Hydraulics")

With effect from 27 December 2012, the KION Group sold and deconsolidated its controlling interest of 70% in Linde Hydraulics to the Company.

Before the disposal, significant assets and liabilities of the former hydraulics business of the KION Group, including land and buildings plus shares in the subsidiaries Linde Hydraulics Ltd., Abingdon, United Kingdom, and Linde Hydraulics Corporation, Canfield, USA, were transferred to Linde Hydraulics. As part of the transaction, Weichai Power granted the KION Group a put option on the remaining 30% equity interests in Linde Hydraulics. KION Group also granted Weichai Power two call options relating to these shares. The put option, which is reported in other financial assets, is measured at fair value. The call options, also measured at fair value, are reported in other financial liabilities.

Consideration received:

	€'000
Cash received	262,870
Escrow	8,130
Fair value of put and call options	3,220
Total consideration received	274,220

Analysis of assets and liabilities over which control was lost:

	€'000
Non-current assets	164,669
Current assets	63,330
Cash and cash equivalents	3,467
Non-current liabilities	(68,414)
Current liabilities	(30,328)
Net assets disposed of	132,724

Gain on disposal of a subsidiary

	€'000
Consideration received and receivable	274,220
Cost incurred on disposal	(38,425)
Fair value of residual equity interest recognised as equity investment (investment in associate)	108,692
Net assets disposed of	(132,724)
	211,763

Net cash inflow arising on disposal

	€'000
Cash consideration received	262,870
Less: gain and cash equivalents disposed of	(3,467)
	259,403

Escrow amount €8 million has been impaired.

46. PRINCIPAL SUBSIDIARIES

Details of KION's principal subsidiaries at the end of each reporting period and at the date of this report are as follows:

Name of entity	Date and place of incorporation/ establishment	Place of operations	Issued and fully paid up capital/ registered capital	Equity attributable to the KION Group at 31 December			At the date of this report	Principal activities
				2010	2011	2012		
				%	%	%		
BlackForxx GmbH(1)	Germany 5 Sep 1985	Stuhr Germany	EUR50,000	100	100	100	100	Sales Trucks
Eisenwerk W eilbach GmbH(1)	Germany 31 May 1935	Wiesbaden Germany	EUR26,000	–	100	100	100	Holding
Fahrzeugbau GmbH Geisa(2)	Germany 26 Jun 1990	Geisa Germany	EUR26,000	100	100	100	100	Factory/ Sales Trucks
KION GROUP GmbH(2)	Germany 24 Oct 2006	Wiesbaden Germany	EUR25,000	100	100	100	100	Holding
KION Holding 2 GmbH(2)	Germany 24 Oct 2006	Wiesbaden Germany	EUR25,000	100	100	100	100	Holding
KION Information Management Services GmbH(2)	Germany 14 May 2007	Wiesbaden Germany	EUR25,000	100	100	100	100	IT Services
KION Warehouse Systems GmbH(2)	Germany 19 Nov 1985	Reutlingen Germany	EUR10,000,000	100	100	100	100	Factory/ Sales Trucks
Klaus Pahlke GmbH & Co. Fördertechnik KG(2)	Germany 1 Jan 1991	Haan Germany	EUR800,000	100	100	100	100	Sales Trucks
Linde Material Handling GmbH(2)	Germany 30 Oct 2006	Aschaffenburg Germany	EUR25,000	100	100	100	100	Factory/ Sales Trucks
LMH Immobilien GmbH & Co. KG(1)	Germany 4 Jul 2006	Aschaffenburg Germany	EUR10,000	99.64	99.64	99.64	99.64	Real Estate
LMH Immobilien Holding GmbH & Co. KG(1)	Germany 4 Jul 2006	Aschaffenburg Germany	EUR10,000	94	94	94	94	Real Estate
LMH Immobilien Holding Verwaltungs-GmbH(1)	Germany 9 Jun 2006	Aschaffenburg Germany	EUR25,000	100	100	100	100	Real Estate
LMH Immobilien Verwaltungs-GmbH(1)	Germany 9 Jun 2006	Aschaffenburg Germany	EUR25,000	100	100	100	100	Real Estate
OM Deutschland GmbH(1)	Germany 16 Dec 1992	Neuhausen a.d. Fildern Germany	EUR26,000	100	100	100	100	Dormant company
Schrader Industriefahrzeuge GmbH & Co. KG(2)	Germany 25 Aug 1995	Essen Germany	EUR112,800	100	100	100	100	Sales Trucks
STILL GmbH(2)	Germany 11 Aug 1952	Hamburg Germany	EUR55,000,000	100	100	100	100	Factory/ Sales Trucks
URBAN-TRANSPORTE GmbH(2)	Germany 20 Jan 1965	Unterschleiß heim Germany	EUR51,000	100	100	100	100	Logistics
Linde Material Handling Pty. Ltd.(2)	Australia 6 Apr 1970	Huntingwood Australia	AUD133,500,000	100	100	100	100	Sales Trucks
STILL N.V.(2)	Belgium 7 Dec 1978	Wijnegem Belgium	EUR900,000	100	100	100	100	Sales Trucks
KION South America Fabricação de Equipamentos para Armazenagem Ltda.(3)	Brazil 28 Oct 1983	Rio de Janeiro Brazil	BRL59,837,000	100	100	100	100	Factory/ Sales Trucks
Linde (China) Forklift Truck Corporation Ltd.(3)	China 29 Dec 1993	Xiamen China	CNY900,000,000	100	100	100	100	Factory/ Sales Trucks
KION Baoli (Jiangsu) Forklift Co., Ltd.(3)	China 29 Aug 2008	Jiangjiang China	CNY265,000,000	92	97.34	97.34	97.34	Factory/ Sales Trucks
STILL DANMARK A/S(2)	Denmark 12 May 1957	Kolding Denmark	DKK15,000,000	100	100	100	100	Sales Trucks
BARTHELEMY MANUTENTION SAS(2)	France 1 Jan 1977	Vitrolles France	EUR1,245,000	90.41	90.41	90.41	90.41	Sales Trucks
Bastide Manutention SAS(2)	France 7 Mar 1966	Toulouse France	EUR510,000	100	100	100	100	Sales Trucks
Bretagne Manutention S.A.(2)	France 5 Oct 1972	Pacé France	EUR1,500,000	54.27	54.27	54.27	54.27	Sales Trucks
FENWICK-LINDE S.A.R.L.(2)	France 20 Dec 1988	Elancourt France	EUR67,000,000	100	100	100	100	Factory/ Sales Trucks
LOIRE OCEAN MANUTENTION SAS(2)	France 18 Sep 1970	St. Herblain France	EUR1,714,000	89.91	88.98	88.98	88.98	Sales Trucks
Manuchar S.A.(2)	France 19 Sep 1989	Gond Pontouvre France	EUR500,000	80	80	80	80	Sales Trucks
OM PIMESPO FRANCE S.A.S.(2)	France 13 Sep 1977	Mitry Mory France	EUR50,000	100	100	100	100	Dormant company
SAS Société Angoumoisine de Manutention - SAMA(2)	France 1 Jan 1991	Champniers France	EUR2,000,000	100	100	100	100	Sales Trucks
MANUSOM SAS(2)	France 30 Sep 2010	Rivery France	EUR303,000	50.13	50.13	50.13	50.13	Sales Trucks

Name of entity	Date and place of incorporation/ establishment	Place of operations	Issued and fully paid up capital/ registered capital	Equity attributable to the KION Group at 31 December 2010 %	2011 %	2012 %	At the date of this report	Principal activities
SM Rental SAS(2)	France 28 Feb 1989	Roissy Charles de Gaulle France	EUR200,000	100	100	100	100	Sales Trucks
STILL SAS(2)	France 22 Jun 1961	Marne la Vallée France	EUR21,967,000	100	100	100	100	Sales Trucks
KION France SERVICES SAS(2)	France 30 Oct 2006	Elancourt France	EUR132,777,000	100	100	100	100	Holding
Lansing Linde Severnside Ltd.(2)	United Kingdom 22 Jul 1994	Basingstoke U.K.	GBP1,638,000	100	100	100	100	Dormant company
Linde Castle Ltd.(2)	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP1,373,000	74.50	100	100	100	Sales Trucks
Linde Heavy Truck Division Ltd.(2)	United Kingdom 19 Mar 1964	Basingstoke U.K.	GBP28,500,000	100	100	100	100	Factory/ Sales Trucks
Linde Holdings Ltd.(2)	United Kingdom 10 Feb 1966	Basingstoke U.K.	GBP135,956,000	100	100	100	100	Holding
Linde Hydraulics Ltd.(2)	United Kingdom 24 Mar 1970	Abingdon U.K.	GBP1,000,000	100	100	–	–	Sales Hydraulics
Linde Jewsbury's Ltd.(2)	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP5,906,000	100	100	100	100	Sales Trucks
Linde Sterling Ltd.(2)	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP2,000,000	–	100	100	100	Sales Trucks
Linde Creighton Ltd.(2)	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP2,001,000	–	–	100	100	Sales Trucks
Linde Material Handling (UK) Ltd.(2)	United Kingdom 17 Feb 1937	Basingstoke U.K.	GBP74,576,000	100	100	100	100	Sales Trucks/ Holding
Linde Material Handling East Ltd.(2)	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP1,433,000	100	100	100	100	Sales Trucks
Linde Material Handling Scotland Ltd.(2)	United Kingdom 9 Oct 1997	Basingstoke U.K.	GBP2,500,000	100	100	100	100	Sales Trucks
Linde Material Handling South East Ltd.(2)	United Kingdom 6 Oct 1997	Basingstoke U.K.	GBP3,300,000	100	100	100	100	Sales Trucks
Linde Severnside Ltd.(2)	United Kingdom 3 Oct 1997	Basingstoke U.K.	GBP6,057,000	100	100	100	100	Sales Trucks
OM PIMESPO (UK) Ltd.(2)	United Kingdom 29 Aug 1973	Basingstoke U.K.	GBP4,100,000	100	100	100	100	Dormant company
STILL Materials Handling Ltd.(2)	United Kingdom 27 Nov 1979	Leyland U.K	GBP28,700,000	100	100	100	100	Sales Trucks
Superlift UK Ltd.(2)	United Kingdom 18 Dec 2006	Basingstoke U.K.	EUR161,233,000	100	100	100	100	Holding
Trifik Services Ltd.(2)	United Kingdom 5 Jan 1979	Basingstoke U.K.	GBP10,000	100	100	100	100	Dormant company
Linde Material Handling Hong Kong Ltd.(2)	Hong Kong 23 Jun 1995	Kwai Chung Hong-Kong	HKD7,000,000	100	100	100	100	Sales Trucks
KION ASIA (HONG KONG) Ltd.(3)	Hong Kong 15 Aug 2008	Kwai Chung Hong-Kong	HKD273,991	100	100	100	100	Holding
Voltas Material Handling Private Limited(2)	India 1 May 2011	Mumbai India	INR1,206,000	–	66	100	100	Factory/ Sales Trucks
Linde Material Handling (Ireland) Ltd.(2)	Ireland 1 Jun 1989	Walkinstown Ireland	–	100	100	100	100	Sales Trucks
COMMERCIALE CARRELLI S.r.l.(2)	Italy 21 May 1980	Lainate Italy	EUR500,000	100	100	100	100	Sales Trucks
Linde Material Handling Italia S.p.A.(2)	Italy 23 Dec 1961	Buguggiate Italy	EUR2,600,000	100	100	100	100	Sales Trucks
Cailotto Carrelli S.p.A.(2)	Italy 4 Apr 2011	Verona Italy	EUR1,000,000	–	100	100	100	Sales Trucks
OM Carrelli Elevatori S.p.A.(2)	Italy 2 Feb 1988	Lainate Italy	EUR20,000,000	100	100	100	100	Factory/ Sales Trucks
STILL ITALIA S.p.A.(2)	Italy 12 Dec 1975	Lainate Italy	EUR500,000	100	100	100	100	Holding
KION Rental Services S.p.A. (formerly: STILL NOLO S.r.l.)(2)	Italy 8 Nov 1999	Milan Italy	EUR800,000	100	100	100	100	Leasing
Linde Vilicari Hrvatska d.o.o.(2)	Crotia 12 Sep 1995	Samobor Croatia	HRK4,019,000	100	100	100	100	Sales Trucks
KION Finance S.A.(2)	Luxembourg 28 Mar 2011	Luxembourg	EUR31,000	–	100	100	100	Finance
STILL Intern Transport B.V.(2)	Netherlands 1 Jul 1969	Hendrik Ido Ambacht Netherlands	EUR45,000	100	100	100	100	Sales Trucks
Linde Fördertechnik GmbH(2)	Austria 12 Nov 1991	Linz Austria	EUR1,100,000	100	100	100	100	Sales Trucks
STILL Ges.m.b.H.(2)	Austria 5 Dec 1962	Wiener Neudorf Austria	EUR1,100,000	100	100	100	100	Sales Trucks

Name of entity	Date and place of incorporation/ establishment	Place of operations	Issued and fully paid up capital/ registered capital	Equity attributable to the KION Group at 31 December 2010 %	2011 %	2012 %	At the date of this report	Principal activities
AUSTRO OM PIMESPO Fördertechnik GmbH(1)	Austria 27 May 1997	Linz Austria	EUR145,000	100	100	100	100	Holding
Linde Material Handling Polska Sp. z o.o.(2)	Poland 6 Sep 1991	Warschau Poland	PLN8,822,000	100	100	100	100	Sales Trucks
STILL POLSKA Spólka z o.o.(2)	Poland 17 Nov 1994	Gadki Poland	PLN5,638,000	100	100	100	100	Sales Trucks
OOO "STILL Forklifttrucks"(2)	Russia 12 Apr 2005	Moskau Russia	RUB12,650,000	100	100	100	100	Sales Trucks
OOO "Linde Material Handling Rus"(3)	Russia 23 Jun 2011	Moskau Russia	RUB1,200,000	–	100	100	100	Sales Trucks
STILL MOTOSTIVUITOARE S.R.L.(1)	Romania 25 Mar 2008	Giurgiu County Romania	RON5,489,000	100	100	100	100	Sales Trucks
Linde Material Handling AB(2)	Sweden 7 May 1997	Örebro Sweden	SEK5,000,000	100	100	100	100	Sales Trucks
STILL Sverige AB(2)	Sweden 5 Jun 1906	Stockamöllan Sweden	SEK100,000	100	100	100	100	Sales Trucks
Linde Lansing Fördertechnik AG(2)	Switzerland 29 May 1957	Dietlikon Switzerland	CHF1,000,000	100	100	100	100	Sales Trucks
STILL AG(2)	Switzerland 19 Feb 1971	Otelfingen Switzerland	CHF250,000	100	100	100	100	Sales Trucks
Linde Material Handling Asia Pacific Pte. Ltd.(2)	Singapore 5 Oct 1994	Singapore	EUR2,440,000	100	100	100	100	Sales Trucks
Linde Material Handling Slovenska republika s.r.o.(2)	Slovakia 3 Aug 1993	Trencin Slovakia	EUR33,000	100	100	100	100	Sales Trucks
STILL SR, spol. s r.o.(2)	Slovakia 9 Apr 2002	Nitra Slovakia	EUR7,000	100	100	100	100	Sales Trucks
Linde Vilicar d.o.o.(2)	Spain 25 May 1995	Celje Slovakia.	EUR21,000	100	100	100	100	Sales Trucks
IBER-MICAR S.L.(2)	Spain 9 Dec 1996	Gava Spain	EUR31,000	100	100	100	100	Sales Trucks
Islavista Spain S.A.U.(2)	Spain 1 Dec 2006	Barcelona Spain	EUR27,725,000	100	100	100	100	Holding
Linde Holding de Inversiones, SRL(2)	Spain 3 Sep 1982	Pallejá Spain	EUR19,228,000	100	100	100	100	Holding
Linde Material Handling Ibérica, S.A.U.(2)	Spain 21 Jul 1982	Pallejá Spain	EUR7,724,000	100	100	100	100	Sales Trucks
STILL, S.A.(2)	Spain 18 Sep 1962	Barcelona Spain	EUR3,006,000	100	100	100	100	Sales Trucks
Linde Material Handling (Pty) Ltd.(2)	South Africa 6 Feb 1996	Linbro Park South Africa	ZAR1,011,000	100	100	100	100	Sales Trucks
Linde Material Handling Ceská republika s r.o.(2)	Czech Republic 5 Oct 1990	Prag Czech Republic	CZK20,000,000	100	100	100	100	Sales Trucks
Linde Pohony s r.o.(2)	Czech Republic 7 Oct 1992	Ceský Krumlov Czech Republic	CZK26,000,000	100	100	100	100	Factory/ Sales Trucks
STILL CR spol. s r.o.(2)	Czech Republic 26 Jan 1993	Prag Czech Republic	CZK30,000,000	100	100	100	100	Sales Trucks
Linde Magyarország Anyagmozgatási Kft. (formerly: Linde Fördertechnik Ungarn GmbH)(2)	Hungary 19 Jan 1996	Dunaharaszti Hungary	HUF55,000,000	100	100	100	100	Sales Trucks
STILL Kft.(2)	Hungary 26 Nov 1992	Környe Hungary	HUF71,000,000	100	100	100	100	Sales Trucks
Linde Hydraulics Corporation(1)	United States 13 Feb 1970	Canfield United States	USD1,500,000	100	100	–	–	Sales Hydraulics
Linde Material Handling North America Corporation(1)	United States 18 Dec 1998	Summerville United States	USD26,290,000	100	100	100	100	Factory/ Sales Trucks
IBERCARRETILLAS. S.A.(2)	Spain 17 May 1995	El Prat de Llobregat Spain	EUR379,000	100	–	100	100	Sales Trucks
Kion South Asia Pte Ltd(3)	Singapore 29 Apr 12	Singapore	–	–	–	100	100	Sales Truck

The above table lists the subsidiaries of the KION Group which, in the opinion of the Executive Board, principally affected the results or assets of the KION Group. To give details of other subsidiaries would, in the opinion of the Executive Board, result in particulars of excessive length.

(1) There is no local auditing acquirement.

(2) These companies are audited by Deloitte Touche Tohmatsu member firms.

(3) These companies are audited by local Certified Public Accountants firms.

47. ASSOCIATES

Details of KION's associates at the end of each reporting period and at the date of this report are as follows:

Name of entity	Date and place of incorporation/ establishment	Place of operations	Issued and fully paid up capital/ registered capital	Equity attributable to the KION Group at 31 December 2010 %	2011 %	2012 %	At the date of this report	Principal activities
Beutlhauser-Bassewitz GmbH & Co. KG	Germany 14 Feb 1963	Hagelstadt Germany	EUR256,000	25.00	25.00	25.00	25.00	Sales Trucks
Hans Joachim Jetschke Industriefahrzeuge (GmbH & Co.) KG	Germany 25 Sep 1963	Hamburg Germany	EUR260,000	21.00	21.00	21.00	21.00	Sales Trucks
Linde Leasing GmbH	Germany 7 May 1986	Wiesbaden Germany	EUR600,000	45.00	45.00	45.00	45.00	Leasing
MV Fördertechnik GmbH	Germany 27 Aug 1991	Blankenhain Germany	EUR52,000	25.00	25.00	25.00	25.00	Sales Trucks
Pelzer Fördertechnik GmbH	Germany 14 Oct 1981	Kerpen-Sindorf Germany	EUR666,000	24.96	24.96	24.69	24.69	Sales Trucks
Willenbrock Fördertechnik Holding GmbH	Germany 5 Nov 1992	Bremen Germany	EUR4,000,000	23.00	23.00	23.00	23.00	Holding
Linde High Lift Chile S.A.	Chile 31 Mar 1998	Santiago de Chile Chile	CLP3,054,979	45.00	45.00	45.00	45.00	Sales Trucks
Linde Creighton Ltd.	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP2,001,000	49.00	49.00	–	–	Sales Truck
Linde Sterling Ltd.	United Kingdom 12 Feb 1993	Basingstoke U.K.	GBP2,000,000	49.00	–	–	–	Sales Truck
Linde High Lift Peru S.A.C.	Peru 13 Aug 2009	Lima Peru	PEN1,424	45.00	45.00	45.00	45.00	Sales Trucks
Linde Hydraulics GmbH & Co. KG	Germany 1 Oct 2012	Aschaffenburg Germany	EUR100	–	–	25.00	25.00	Factory / Sales Hydraulics

48. JOINTLY CONTROLLED ENTITIES

Details of KION's jointly controlled entities at the end of each reporting period and at the date of this report are as follows:

Name of entity	Date and place of incorporation/ establishment	Place of operations	Issued and fully paid up capital/ registered capital	Equity attributable to the Group at 31 December 2010 %	2011 %	2012 %	At the date of this report	Principal activities
Eisengießerei Dinklage GmbH	Germany 22 Mar 1974	Dinklage Germany	EUR100	50.00	50.00	50.00	50.00	Engineering
JULI Motorenwerk s.r.o.	Czech Republic 18 Feb 1993	Moravany Czech Republic	CZK200,000	50.00	50.00	50.00	50.00	Engineering

49. ADDITIONAL INFORMATION RELATING TO THE FINANCIAL IMPACT ON THE ADOPTION OF SIGNIFICANT ACCOUNTING POLICIES OF THE COMPANY

On 15 February 2006, the Ministry of Finance of the People's Republic of China (the "MoF") formally announced the issuance of the Accounting Standards for Business Enterprises ("ASBEs") which consist of a new Basic Standard and 38 Specific ASBEs. The MoF also issued pronouncements to enhance the ASBE for the convergence to IFRSs. The ASBEs and the subsequent pronouncements cover nearly all of the topics under the current IFRSs literature and the Company has adopted ASBEs and the subsequently pronouncements according to their respective effective periods.

Although the ASBEs are substantially relevant to the Company and the KION Group in line with IFRSs, there are still some differences between the ASBEs and IFRSs. Some of the key differences relevant to the Company and the KION Group are:

- ASBE 8 prohibits the reversal of all impairment losses where IAS 36 only prohibits the reversal of the impairment of goodwill.

- For presentation purposes, the ASBEs restrict certain options available under IFRSs, for example, expenses shall be analysed by function for income statement presentation purposes, the direct method is required for cash flow statements and only the gross presentation is allowed for government.

The Company accounted for the KION Group as it associates and using the equity method of accounting. Under the equity method, investments in the KION Group are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the share of the profit or loss and other comprehensive income of the KION Group by the Company and its subsidiaries (the "Weichai Group"). When the Weichai Group's share of losses of the KION Group's exceeds the Weichai Group's interest in the KION Group (which includes any long-term interests that, in substance, form part of the Weichai Group's net investment in the KION Group), the Weichai Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Weichai Group has incurred legal or constructive obligations or made payments on behalf of the KION Group.

As set out in Note 3 to Section A of this report, for KION Group, if the reason for an impairment loss of property, plant and equipment and other intangible assets recognised in prior years no longer applies, impairment losses not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the assets are reversed. However, in accordance with accounting policy of the Company, once an impairment loss of property, plant and equipment and other intangible assets were recognised, it will not be reversed in the subsequent reporting periods.

During the year ended 31 December 2010, impairment loss of property plant and plant and intangible assets amounting to €1,525,000 and €21,000 were reversed.

If the Company's accounting policies are adopted, the net asset or liabilities of the KION Group at the end of each Relevant Periods will be net liabilities of €401,468,000, net liabilities of €489,133,000 and net assets of €658,789,000 and net loss or profit for each of the year ended 31 December 2010, 2011 and 2012 will be net loss of €198,244,000, net loss of €92,926,000 and net profit of €161,088,000, respectively.

In the opinion of the directors of the Company and the Executive Board of KION, there were no other difference in the significant accounting policies of the Company and KION Group which will have significant impact on the net profit (loss) as each of the Relevant Periods and the net assets (liabilities) at end of each Relevant Periods.

B. SUBSEQUENT EVENT

On 06 February 2013 - KION Finance S.A., KION's subsidiary, successfully placed senior secured notes with a total principal value of €650 million. KION Finance S.A. will on-lend the net proceeds to companies of the KION Group, guaranteed by KION Group GmbH and certain subsidiaries of KION Group GmbH, in order to refinance KION Group's existing first lien loan indebtedness which are maturing in 2014 and part of the loan indebtedness maturing in 2015. The bond issuance partially extends the KION Group's debt maturity profile into 2020 and diversifies its investor base. The transaction was closed on 14 February 2013.

The senior secured notes due 2020 comprise a fixed rate tranche of €450 million and a floating rate tranche of €200 million. The fixed rate notes were issued at par with a coupon of 6.75%, the floating rate notes were issued at 99.5% and will pay a coupon of 3-month EURIBOR plus 4.5%.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the KION Group or any of the companies comprising the KION Group in respect of any period subsequent to 31 December 2012.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

MANAGEMENT DISCUSSION AND ANALYSIS OF KION

The following is the management discussion and analysis of the financial conditions and operating results of KION for each of the three financial years ended 31 December 2010, 2011 and 2012, respectively. The financials for the three financial years ended 31 December 2010, 2011 and 2012 are prepared in accordance with IFRS. The following discussions and analysis should be read in conjunction with the accountants' report of KION for each of the three financial years ended 31 December 2010, 2011 and 2012 and the notes thereto as referred to in Appendix II to this circular. Certain numerical figures included in this management discussion and analysis of KION have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

I. Overview

The KION Group is a leading global supplier of industrial trucks and related services. Its trucks and related services provide crucial links in its customers' worldwide supply and production chains. The KION Group benefits from leading market positions in many developed and emerging markets, a global sales and service network, a comprehensive product and service offering, technological leadership and a multi-brand offering. The KION Group offers its customers a full range of products including warehouse and counter-balance trucks with both internal combustion engines (IC trucks) and electric engines (E trucks), across the premium, value and economy segments. It is the largest manufacturer of industrial trucks in Europe and the second largest manufacturer globally by revenue and units. In China, the KION Group is a leading international supplier, and it is a leading industrial truck manufacturer in other important growth markets such as Eastern Europe, South Asia and South and Central America. The KION Group operates 15 separate production sites and 11 sites with research and development activities. Its products are sold by more than 1,100 distributors, dealers and other sales outlets in 111 countries. The KION Group complements its products with a comprehensive service offering geared to its customers' specific needs, including after sales service and spare parts, financial services, fleet management and software solutions. Its service activities, which are an essential part of the value proposition for its customers, benefit from an installed fleet of over one million trucks, in terms of replacement needs and service revenues.

The KION Group, comprising of six brands, namely Linde, STILL, Fenwick, OM-STILL, Baoli and Voltas. The Linde and STILL brands serve the premium segment worldwide. Fenwick is the largest supplier of material-handling products in France, while OM-STILL is a market leader in Italy. The Baoli brand focuses on the economy segment, and Voltas is one of the two market leaders in India. In 2012, the KION Group entered into a strategic industrial cooperation with the Company pursuant to which the Company acquired a 25% stake in KION and 70% of LHY Co. Through this strategic partnership, the KION Group are gaining additional access to key Asian growth markets by leveraging the Company's strong local and regional roots and relationships, and will have access to a larger supplier base throughout China and Europe. In addition, the cooperation with the Company enables the KION Group to share distribution networks and supply chains.

In 2010, the KION Group generated revenue of €3,534 million and an order intake of 121,500 units. In 2011, revenue of the KION Group rose by approximately 24% to €4,368 million and had an order intake of approximately 144,800 units. In 2011, 54% of its revenue was generated from new truck sales, 42% from its service offering and 4% from its hydraulics product category. In 2012, the KION Group generated €4,727 million of revenue, of which €2,651 million or 56% of its revenue was generated from new truck sales and €1,907 million or 40% from its service offering, and had an order intake of approximately 141,700 units. In 2012, the KION Group also achieved a net income of €161 million, as compared to a net loss of €197 million in 2010 and €93 million in 2011.

II. Business Segments

The KION Group operates its business through its two global brands, Linde and STILL, and through its four regional brands, Fenwick in France, OM-STILL in Italy, Baoli in China and certain emerging markets and Voltas in India. The KION Group reported its business under four segments: Linde Material Handling ("**LMH**") (including the Linde, Fenwick and Baoli brands), STILL (including the STILL and the OM-STILL brands), Financial Services (which acts as an internal partner for the brand segments and provides finance solutions that promote sales) and Other (including the Voltas brand and other activities not allocated to the LMH, STILL and Financial Services segments).

LMH

The LMH segment manufactures industrial trucks under its Linde, Fenwick and Baoli brands. Linde is a global premium brand under which the KION Group designs and sell innovative and technologically sophisticated products. Measured by unit sales, Linde is the number two industrial truck brand worldwide, and the largest non-domestic brand in China. In France, Linde industrial trucks are sold under the Fenwick brand, which is a market leader in France in terms of unit sales. Baoli is its core brand focused on the economy segment, mainly targeting China and other emerging markets including South East Asia, South and Central America and Eastern Europe.

Included in the LMH segment is the KION Group's former hydraulics product category, Linde Hydraulics, which manufactures high-end hydraulics components for use within its own products, as well as customized components for third parties. On 27 December 2012, pursuant to the Framework Agreement, the Company acquired a 70% stake in Linde Hydraulics through an investment in LHY Co, a limited partnership established to assume the net assets, contracts and legal positions of Linde Hydraulics, and the KION Group holds the remaining 30% interest in LHY Co. Linde Hydraulics is included in the overall results of the KION Group until 27 December 2012, subsequent to which, it is recorded as equity investments. The sale of the 70% interest in Linde Hydraulics to the Company resulted in a net gain before taxes of €103 million for the year ended 31 December 2012. In addition, the KION Group realised a gain of €109 million from the remearsurement of the remaining 30% interest in LHY Co. (which is being classified as investment in associate) at fair value. This remeasurement of the equity interest is the major contributing factor for the increase in equity investments from €37 million as at 31 December 2011 to €155 million as at 31 December 2012. Accordingly, both items have attributed to the recognition of a total gain on disposal of subsidiary of €212 million, and hence the increase in other income of the KION Group from €82 million for the year ended 31 December 2011 to €294 million for the year ended 31 December 2012.

Revenue for the LMH segment reached €2,042 million (excluding intersegment revenue) for the year ended 31 December 2010, mainly due to its higher order intake resulting from improved 2010 general market conditions, which in turn led to a greater demand for new trucks and for services and spare parts from the LMH segment. Order intake for the LMH segment reached 75,800 units in 2010, benefited considerably from the strong recovery in the German market and from the increasing growth in the Asian, Eastern European and South and Central American markets. The LMH segment accounted for 58% of the total revenue for the year ended 31 December 2010.

Due to the continued strong demand in the established sales markets, the LMH segment further increased its revenue by 27%, from €2,042 million (excluding intersegment revenue) for the year ended 31 December 2010 to €2,602 million (excluding intersegment revenue) for the year ended 31 December 2011. The LMH segment also generated an order intake of approximately 88,300 units in 2011, representing an increase of 22% from 2010. The LMH segment accounted for 60% of the total revenue for the year ended 31 December 2011, increased by two percentage points as compared to 58% for the year ended 31 December 2010.

For the year ended 31 December 2012, the LMH segment generated an order intake of approximately 93,300 units and revenue of €2,903 million (excluding intersegment revenue), representing an increase of 6% and 12%, respectively, from that of 2011, The LMH segment accounted for 61% of its total revenue in 2012, increased by one percentage point as compared to 2011.

STILL

The STILL segment includes the KION Group's premium brands, STILL and OM-STILL. STILL is a leading producer of industrial trucks globally and focuses on developing innovative material handling solutions for efficiency gains and energy consumption. The STILL brand has a strong market share in Europe as well as a major presence in Brazil. In Italy, STILL industrial trucks are sold under the OM-STILL brand, one of the market leaders for industrial trucks in Italy in terms of unit sales.

Due to improved 2010 general market conditions that led to an increased order intake, both for new trucks and service offerings, the revenue of STILL reached €1,257 million (excluding intersegment revenue) in 2010. The total value of the order intake for STILL, including new trucks and service offerings, amounted to €1,328 million, representing an order intake of approximately 35,300 units. The total order intake for OM was approximately 10,400 units, with total value of the order intake, including new trucks and service offering, amounted to €222 million. The STILL segment, in aggregate, accounted for 36% of the total revenue for the year ended 31 December 2010.

The stronger demand in its established sales markets in 2011 led to a further increase of STILL segment's revenue by 16% from €1,257 million (excluding intersegment revenue) in 2010 to €1,462 million (excluding intersegment revenue) in 2011. The STILL segment generated an order intake of approximately 51,200 units in 2011, representing an increase of 12% from 45,700 units (of which, 35,300 units for STILL and 10,400 units for OM) in 2010, with the total value of STILL's order intake, including new trucks and service offering, increased by 13% from €1,550 million (of which, €1,328 million for STILL and €222 million for OM) in 2010 to €1,752 million in 2011. The STILL segment accounted for 33% of the total revenue for the year ended 31 December 2011, compared to 36% for the year ended 31 December 2010.

For the year ended 31 December 2012, the STILL segment generated an order intake of approximately 46,800 units , representing a decrease of 8% from 51,200 units in 2011. However, the revenue of the STILL segment reached €1,484 million (excluding intersegment revenue), representing a slight increase of 2%, which remained fairly stable with 2011. The STILL segment accounted for 31% of the total revenue of the KION Group in 2012, decreased by two percentage points as compared to 2011.

Financial Services

The Financial Services segment operates across all brands, and encompasses financing of the KION Group's short-term rental fleets and long-term leasing for its customers as part of sales financing through the provision of innovative and tailored finance solutions to its customers. In addition, the Financial Services segment provides risk management for the long term leasing activities of the KION Group. The KION Group established separate financial services companies in the key markets of Germany, France, Italy, Spain and the United Kingdom, and plan to integrate additional markets where it has a high level of financing and leasing business.

For the year ended 31 December 2010, the Financial Services segment generated revenue from external customers of €226 million, which accounted for 6% of the total revenue of KION Group in 2010. Intersegment revenue for the financial services segment amounted to €128 million.

For the year ended 31 December 2011, the Financial Services segment generated revenue from external customers of €265 million in 2011, representing an increase of 17% from 2010 and accounted for 6% of the total revenue of KION Group in 2010, which remained stable from 2010. Intersegment revenue amounted to €215 million.

For the year ended 31 December 2012, the Financial Services segment generated revenue from external customers of €297 million, representing an increase of 12% from 2011 and accounted for 6% of the total revenue of KION Group in 2012. Intersegment revenue amounted to €213 million.

Other

The Other segment includes activities such as information technology services and logistics services. Since 1 May 2011, this segment also includes the Voltas brand, which focuses on the value segment in India, where it is the number two supplier.

Revenue for the Other segment amounted to €160 million for the year ended 31 December 2010, which mainly represents intersegment revenue of €150 million generated from the provision of logistics services and IT services to other business segments of the KION Group.

The Other segment's revenues rose by €63 million to €223 million in 2011 from €160 million in 2010 including intersegment revenue amounting to €183 million in 2011 compared to €150 million in 2010. The vast majority of revenue was driven by internal services as described above. The other main reason for the increase of revenue related to the launch of its new brand Voltas through Voltas Material Handling (VMH).

For the year ended 31 December 2012, the Other segment generated revenue of €251 million, of which, €208 million was driven by intersegment revenue generated from internal services. The increase in revenue for the Other segment is mainly attributable to increased revenue contributed by the Voltas brand in India, which had only been consolidated for nine months in 2011 as compared to a full year consolidation in 2012. The Other segment accounted for 1% of the total revenue of KION Group in 2012.

III. Order Intake

The improved market conditions in 2010 enabled the KION Group to increase its global order intake for new trucks to 121,500 units. The increase was driven to a significant extent by the emerging markets, which generated almost half of the growth in order intake in 2010. Order intake from emerging markets had steadily gained in significance and accounted for more than a quarter of total order intake in 2010. In terms of the number of units sold, China has become the third-largest market for the KION Group in 2010, behind Germany and France and Brazil came in sixth place in 2010. The value of the KION Group's order intake was €3,860 million in 2010. Apart from business in new trucks, this total includes other product categories such as rental business, used trucks and aftersales business. The order backlog grew to €801 million as at 31 December 2010. All the brands contributed to this growth.

The continued growth of the Chinese market, the larger volume of orders received from Russia and Brazil, and equally strong demand in Europe enabled the KION Group to further improve its intake of orders for new trucks in 2011. Global order intake rose by 19% to 144,800 units in 2011 (2010: 121,500 units). The total value of the orders received by the KION Group in 2011 rose by 21% year-on-year from €3,860 million in 2010 to €4,682 million in 2011. This order value includes not only business in new trucks but also rental business, the sale of used trucks, and aftersales services. Order intake in all product categories rose year-on-year. The benign macroeconomic trends prevailing in 2011 increased industry's willingness to invest in capital equipment, thereby boosting KION's business in new trucks. The further rise in fleet capacity utilization in the market also created an additional need for services and spare parts. Stronger demand for used and rental trucks generated further growth as well. The KION Group's order backlog as at 31 December 2011 totalled €953 million (31 December 2010: €801 million), which represented a year-on-year increase of 19%. The main reasons for the larger inventory of outstanding orders at the end of the year were the stronger demand for new trucks and the generally high utilization of capacity at KION's production facilities.

In terms of the number of new trucks ordered, KION saw a moderate increase in its global market share, which expanded from 14.8% in 2011 to 15% in 2012. The total value of the orders received by the KION Group in 2012 rose by 0.4% year-on-year to €4,700 million. The order intake was slightly above the level of 2011 due to a higher proportion of trucks with customer-specific fittings with higher prices were sold and a shift in the product mix to higher revenue generating products. Such increase, however, was partly offset by a decline in unit sales of new trucks. The KION Group's order backlog as at 31 December 2012 totalled €808 million, which represented a year-on-year decrease of 18%.

IV. Financial Review

a. Revenue

As a result of the strong recovery of the economies in the markets that are most important to the KION Group's business, namely Germany, France and China, in the course of 2010, there was strong demand for new trucks and increased truck utilization levels, the latter of which accelerated the replacement cycle and increased demand for services. The overall value of the order intake for new trucks, service offering and hydraulics reached €3,860 million for the year ended 31 December 2010. The increased order intake had a positive impact on the revenue and the total revenue for the year ended 31 December 2010 reached €3,534 million.

The stronger demand in the KION Group's established sales markets such as Germany, France, China, Russia and Brazil following sustained economic growth resulted in a further increase of order intake of 21% to €4,682 million for the year ended 31 December 2011, from €3,860 million for the year ended 31 December 2010. The higher order volume in 2011 and increases in prices of its products positively impacted its revenue, which grew by 24%, or €834 million, from €3,534 million in 2010 to €4,368 million in 2011.

In 2012, the KION Group experienced sustained demand for new trucks and service offerings, and the increased capacity utilization levels of industrial trucks in its key markets accelerated the replacement cycle for its customers and had a positive impact on the volume of replacement investments and demand for service offerings. This demand resulted in an overall total order intake increase of 0.4% in the aggregate to €4,700 million. The higher order volume positively impacted its revenue, which grew by 8%, or €359 million, to €4,727 million for the year ended 31 December 2012.

The KION Group's revenue growth can be broken down by product category and by customer location, as follows:

Revenue by product category

The following table shows the revenue profile per product category for the years ended 31 December 2010, 2011 and 2012:

	For the Year Ended 31 December		
	2010	**2011**	**2012**
		(€ million)	
New truck business	1,776	2,364	2,651
Hydraulics	120	173	168
Service offering	1,639	1,831	1,907
After sales	971	1,066	1,150
Rental business	402	441	428
Used trucks	187	219	213
Other	79	106	117
Total revenue	3,534	4,368	4,727

Revenue by customer location

The following table shows the revenue profile by customer location for the years ended 31 December 2010, 2011 and 2012:

	For the Year Ended 31 December		
	2010	**2011**	**2012**
		(€ million)	
Germany	900	1,175	1,225
EU excluding Germany	1,820	2,115	2,253
Rest of Europe – non-EU	152	204	248
America	233	281	324
Asia	302	435	486
Rest of World	128	160	191
Total revenue	3,534	4,368	4,727

b. Cost of Sales

Cost of sales amounted to €2,684 million in 2010. Compared to a 15% revenue growth in 2010, cost of sales rose at a far lower rate. This is partly due to the cost management strategy that the KION Group implemented as part of its restructuring program, including the relocation of certain products and a plant closure in Basingstoke, United Kingdom, and partly due to leaner production processes it implemented.

In 2011, cost of sales increased to €3,256 million, representing an increase of 21% compared to €2,684 million in 2010. Compared to a 24% revenue growth, its cost of sales increased at a lower rate over the same period. This was mainly due to efficiency gains in production, higher overall capacity utilization, and improvements in gross operating revenue across all product categories.

In 2012, cost of sales increased by 5% from €3,256 million in 2011 to €3,430 million in 2012, which rose at a lower rate as compared to the 8% revenue growth over the same period. This was mainly due to the continued improvement in efficiency in production, higher capacity utilization and an overall fall in commodity prices.

c. Gross Profit and Gross Margin

In 2010, gross profit reached €850 million. Gross profit rose by 31% to €1,112 million in 2011 and further rose by 17% to €1,297 million in 2012. The increased growth profit was a result of an improved balance between revenue and cost of sales.

Gross margin was 24% in 2010 and rose to 25% in 2011. In 2012, the KION Group achieved a gross margin of 27%.

d. Net Income/(Loss) for the year

In 2010, the KION Group managed to narrow the loss by approximately €169 million from the previous year and recorded a net loss of €197 million. This clear improvement was mainly the result of better business situation due to strong market recovery and the greater efficiency achieved by optimizing production processes.

In 2011, the KION Group reported a net loss of €93 million, compared to a net loss of €197 million in 2010. This improvement of €104 million was primarily the result of the strong market recovery in the industrial truck market and revenue increases in the target growth markets, and also from improved capacity utilization levels both in the new truck business and hydraulic components business and its restructuring program.

In 2012, the KION Group reported a net income of €161 million. This increase of €254 million was mainly driven by the net gain from the sale of the hydraulics business pursuant to the Acquisitions, improved operating performance and also by an improvement in net finance costs resulting from the success of the steps taken to reduce debt levels.

e. Liquidity and capital resources

By pursuing an appropriate financial management strategy, the KION Group ensures that sufficient liquidity is available at all times and mitigates the financial risk to its enterprise value and profitability. The KION Group provides sufficient financial resources for its day-to-day business, optimizes its financial relationships with customers and suppliers, ensures that the necessary liquidity is available to its companies, and manages any collateral security offered. A group of international banks and investors meets the KION Group's basic borrowing requirements. In addition, the KION Group availed itself of the funding facilities offered by the public capital markets by issuing its first corporate bond amounted to €500 million in April 2011. The financial resources required within the KION Group are provided through internal funding. The KION Group collects liquidity surpluses of the KION Group companies in central or regional cash pools and, where possible, covers subsidiaries' funding requirements with intercompany loans. This central source of funding enables the KION Group to present a united front in the capital markets and strengthens its hand in negotiations with banks and other market participants. The KION Group occasionally arranges additional credit lines for its group companies with local banks or leasing companies in order to comply with legal, tax and other regulations. For funding purposes, KION also engages to a small extent in factoring. The volume of non-recourse factoring business amounted to €20 million as at 31 December 2012 (31 December 2010: €20 million and 31 December 2011: €18 million).

In addition, one of the prime objectives of capital management of the KION Group is to ensure liquidity at all times. Measures aimed at achieving these objectives include the optimization of the capital structure, the reduction of liabilities and ongoing cash flow planning and management. Close cooperation between local units and the head office ensures that the local legal and regulatory requirements faced by foreign group companies are considered in the capital management process.

The sources of liquidity of the KION Group include cash and cash equivalents, cash flow from operating activities and amounts available under the senior credit facilities agreement (the "**Senior Credit Agreement**"). As at 31 December 2010, 2011 and 2012, its cash and cash equivalents were €253 million, €373 million and €562 million, respectively, and were primarily held in Euros and also in United States dollars. In 2010, the KION group generated a positive cash flow of €199 million from its operating activities. In 2011, the KION Group generated a cash inflow from operating activities of €387 million. In addition, the KION Group drew-down on a multi-currency revolving credit facility (the "**Multi-Currency Revolving Credit Facility**") in an amount of €133 million in November 2011. In March 2012, the KION Group received additional funds of €5 million as previously unfunded commitments under the Multi-Currency Revolving Credit Facility. Moreover, cash generated from operating activities amounted to €414 million in 2012. In addition, a cash inflow of €730 million was generated as a result of the Acquisitions by the Company and such proceeds were largely used by KION to repay its financial debt and related transaction expenses.

For cash outflow, cash interest paid for the years ended 31 December 2010, 2011 and 2012 was €135 million, €147 million and €130 million, respectively, including interest on the Senior Credit Agreement, taking into account the effects of foreign exchange rates. In terms of repayment of loans, the KION Group made a net repayment of €96 million in 2010. In 2011, €54 million was used for the scheduled repayment of the capital expenditure, restructuring and acquisition facility available under the Senior Credit Agreement (the "**Capex Facility**"). In 2012, repayment of finance facilities resulted in a cash outflow of €665 million, of which €138 million was used to repay the Multi-Currency Revolving Credit Facility and €56 million was used to repay the Capex Facility.

The table below sets forth the list of financial debts of the KION Group as at each of 31 December 2010, 2011 and 2012:

				Notional amount		
Type	**Currency**	**Interest rate**	**Maturity**	**2010**	**2011**	**2012**
					€ million	
Bank Loan – Term Loan Facility	EUR	EURIBOR+Margin	2014	911	691	139
Bank Loan - Term Loan Facility	EUR	EURIBOR+Margin	2017	–	–	411
Bank Loan – Term Loan Facility	USD	LIBOR+Margin	2014	297	311	108
Bank Loan - Term Loan Facility	USD	LIBOR+ Margin	2017	–	–	79
Bank Loan – Term Loan Facility	EUR	EURIBOR+Margin	2015	870	663	287
Bank Loan - Term Loan Facility	EUR	EURIBOR+Margin	2017	–	–	383
Bank Loan – Term Loan Facility	USD	LIBOR+Margin	2015	297	311	227
Bank Loan - Term Loan Facility	USD	LIBOR+ Margin	2017	–	–	81
Bank Loan – Term Loan Facility	EUR	EURIBOR+Margin	2012	201	202	–
Bank Loan – Term Loan Facility	EUR	EURIBOR+Margin	2018	106	111	116
Corporate bond – fixed rate	EUR	Fixed rate	2018	–	325	325
Corporate bond – floating rate	EUR	3-M-EURIBOR+Margin	2018	–	175	175
Bank Loan – Multi-currency Revolving Credit Facility	EUR	EURIBOR+Margin	2012	–	133	–
Bank Loan – Multi-currency Capex Restructuring and Acquisition Facility	EUR	EURIBOR+Margin	2013	162	72	18
Other liabilities to banks	–	–	–	50	38	33
Other financial liabilities to non-banks	–	–	–	7	7	4
Less: Capitalized borrowing costs				22	33	34
Total financial debt after borrowing costs				**2,879**	**3,005**	**2,352**

The weighted average interest rate on financial liabilities was 4.79% at 31 December 2012 (31 December 2010: 4.55% and 31 December 2011: 4.96%).

The KION Group's gearing ratio as at 31 December 2012 was 89% (2010: 107% and 2011: 108%), which is calculated on the basis of the KION Group's total liabilities divided by its total assets. The improvement in the gearing ratio of KION was mainly contributed from the capital increase in KION as a result of the conversion of the shareholder loan from Superlift, which had a principal amount of €500 million plus accrued interest of €171 million, on 27 December 2012. It was also attributable to the capital contribution of €467 million as a result of the completion of the acquisition of 25% interest in KION by the Company in December 2012. Such capital increase in KION by way of the conversion of the shareholder loan from Superlift and the capital contribution from the Company totalling €1,138 million (less relevant transaction costs and expenses of €5.23 million which were deducted directly from the capital contributions) were recorded as capital contributions for carrying out the approved capital increase in the audited consolidated statements of financial position of the KION Group as at 31 December 2012 (31 December 2010 and 31 December 2011: Nil).

f. Contingent Liabilities and Other Financial Commitment

Contingent liabilities

The following table sets out contingent liabilities of the KION Group as at each of 31 December 2010, 2011 and 2012:

	As at 31 December		
	2010	**2011**	**2012**
		(€ thousand)	
Liabilities on bills of exchange	2,303	3,516	4,445
Liabilities on guarantees[1]	1,098	2,129	3,197
Collateral security for third-party liabilities	–	69	65
Total contingent liabilities	3,401	5,714	7,707

Note:

(1) Mainly represent guarantees for contractual arrangements and guarantees for the usage of the secured credit line.

Other financial commitment

The KION Group also has other financial commitment amounted to €223 million as at 31 December 2012 (31 December 2010: €233 million and 31 December 2011: €230 million). The following table sets out the other financial commitment of the KION Group as at each of 31 December 2010, 2011 and 2012:

	As at 31 December		
	2010	**2011**	**2012**
		(€ thousand)	
Liabilities under non-cancellable operating leases	208,874	205,394	194,216
Capital expenditure commitments in property, plant and equipment	5,660	6,109	7,191
Capital expenditure commitments in intangible assets	1,205	1,630	2,597
Other financial commitments	17,290	16,958	18,530
Total other financial commitments	233,029	230,091	222,534

g. *Pledge of Assets*

As at 31 December 2010, land and buildings in the amount of €12 million were largely pledged as collateral for accrued retirement benefits under partial retirement agreements. The carrying amount of land and buildings being pledged as collateral for accrued retirement benefits remained stable at €12 million as at 31 December 2011. As at 31 December 2012, land and buildings in the amount of €4 million were largely pledged as collateral for accrued retirement benefits under partial retirement agreements.

In addition, under the Senior Credit Agreement and pursuant to the corporate bond issued by the KION Group, the KION Group is under an obligation to provide collateral for its obligations and liabilities. As at 31 December 2010, a total of 21 KION Group companies (as guarantors) in five countries, which include Germany, the United Kingdom, France, Spain and Italy, had provided necessary collateral. As at 31 December 2011, the number of guarantors increased to 26, all being KION Group companies. As at 31 December 2012, the number of guarantors remained at 26. The collateral includes (i) security over the shares or partnership interests in the guarantors and (with the exception of (a) shares in KION Group GmbH and (b) in relation to a particular term loan facility, shares of certain subsidiaries of the KION Group incorporated in Spain) and KION Information Management Services GmbH, (ii) security over certain bank accounts and receivables of the guarantors, (iii) security over certain intellectual property rights held by certain guarantors, being subsidiaries of the KION Group incorporated in Germany, and (iv) the assignment of claims arising from and in connection with the share purchase agreement between Linde Material Handling GmbH and Linde AG dated 5 November 2006. The statutory provisions in the United Kingdom and the agreements entered into require that all the assets of the UK guarantors, being subsidiaries of the KION Group incorporated in the United Kingdom, are pledged as security under the Senior Credit Agreement. No security has been granted over the assets or shares of KION and KION Holding 2 GmbH, the immediate holding company of KION Group GmbH. The carrying amount of the financial assets pledged as collateral amounted to €709 million as at 31 December 2010, €792 million as at 31 December 2011 and €601 million as at 31 December 2012. The decrease in the carrying amount of the financial assets pledged as collateral in 2012 is mainly attributable to the release of the pledged assets of Linde Hydraulics as a result of its spin off from the KION Group after the Acquisitions.

As at 31 December 2010, liabilities to bank in the amount of €125 thousand were secured by pledges of real property. No liabilities to banks were secured by pledges of real property at the end of 2011 and 2012.

As at 31 December 2010, the KION Group did not have any pledged cash. As at 31 December 2011, the KION Group has pledged cash amounted to €0.5 million, and which remained stable at the amount of €0.5 million as at 31 December 2012. Pledged cash mainly represents cash deposits in certain bank accounts of the KION Group held as a security for its obligations under certain guarantee provided by the KION Group.

h. Capital Expenditures

Capital expenditures were €155 million for the year ended 31 December 2012, compared to €133 million in the year ended 31 December 2011 and €123 million in the year ended 31 December 2010, mainly related to product development and streamlining of and adjustments in production, information technology expenditures and the extension of production, especially the expansion of its facilities in China and Brazil.

Capital expenditures are generally financed by the operating cash flows or by drawings under the revolving portion of the Senior Credit Agreement.

i. Exposure to interest rate risk and exchange rate risk

The KION Group is exposed to changes in interest rates and foreign currency exchange rates because it finances certain operations through fixed and variable rate debt instruments and because some of its operations and indebtedness are denominated in foreign currencies. The KION Group uses derivative financial instruments to hedge underlying operational transactions and does not enter into such financial instruments for trading or speculative purposes. The KION Group uses interest rate and currency related derivatives, primarily interest rate swaps and currency swaps and also interest rate and currency options, to hedge the interest rate and currency risks arising in connection with acquisition finance, and approximately 50% of the currency and interest rate exposures were hedged as at each of 31 December 2010, 2011and 2012.

In terms of hedging of interest rate risks, KION had in place interest rate caps covering approximately 44% and interest rate swaps covering approximately 40% of its interest rate exposure as at 31 December 2010. As at 31 December 2011 and 2012, KION had in place interest rate swaps covering approximately 51% and 48% of its interest rate exposure, respectively. Variable portions of future interest payments amounting to €6 million in total as at 31 December 2012 (31 December 2010: €55 million and 31 December 2011: €27 million) were designated as hedged items.

In terms of hedging of currency risks, as at 31 December 2012, approximately 65% (31 December 2010: 98% and 31 December 2011: 53%) of the currency risks arising from the United States dollar tranche (including payment in kind (PIK) interest) is hedged by currency forwards with an average EUR/USD exchange rate of approximately 1.295 (31 December 2010: 1.375 and 31 December 2011: 1.377). In total, foreign-currency cash flows of €114 million (31 December 2010: €200 million and 31 December 2011: €263 million) were hedged and designated as hedged items as at 31 December 2012.

V. Human Resources

As at 31 December 2012, the KION Group employed 21,215 people ((full-time equivalents including trainees and apprentices), roughly 65.1% of whom worked outside Germany in 27 different countries. The numbers of employees as at 31 December 2010 and 2011 were 19,968 and 21,862, respectively. The reduction in the number of employees in 2012 is a result of spinning off Linde Hydraulics, where a total of 1,487 employees were transferred to LHY Co on 27 December 2012 and therefore no longer belong to the KION Group.

In line with the expansion in headcount during 2012, personnel expenses advanced to €1,203 million (2010: €968 million and 2011: €1,064 million), representing an increase of 13.0% from 2011. The personnel expenses ratio fell from 27.4% in 2010 to 24.3% in 2011, owing to the increased capacity utilization in all segments of the KION Group on the back of increased market demand. In 2012, the personnel expenses ratio was 25.4%, a slight increase from 24.3% in 2011, mainly due to a higher average number of positions coupled with wage and salary adjustments.

With a total of 543 (2010: 557 and 2011: 621) trainees and apprentices at the end of 2012, the Group continued to invest in training and development at the same high level to ensure that it can continue to recruit as many as possible of the skilled workers it requires in-house. The proportion of trainees and apprentices in Germany remained stable at around 5% since 2010.

Professional training activities start with support for universities, work placements and apprenticeships, continue with professional development opportunities for the workforce and reach their apex with carefully structured personal development programs to support managers and talented staff. The KION Group continued to establish talent and succession management in recent years as a key element of strategic staff development. It has revised its annual management review so as to enable it to fill key positions across the Group with highly qualified executive talent. This tool is used to identify high-potential staff and young talent in the group and then give them targeted support, such as participating in programs in different brand companies and countries.

The KION Group aims to set up a performance-oriented compensation and benefit system while balancing the internal and external market in each different position. The KION Group also applies six key performance indicators, being order intake, revenue, adjusted earnings before interest and taxes (EBIT), adjusted earnings before interests, taxes, depreciation, amortization and impairment charges (EBITDA), net financial debt and free cash flow before tax, which form the basis for the performance targets for both the KION Group and its segments as well as determining a significant proportion of senior managers' performance-related remuneration. Such key performance indicators are determined once a month and submitted to the executive board of KION.

In addition, the KION Group currently grants pensions to almost all employees in Germany and a number of foreign employees under defined contribution and defined benefit plans. For the year ended 31 December 2012, the total expense arising from defined contribution plans amounted to €64 million (31 December 2010: €49 million and 31 December 2011: €56 million). Separately, under applicable IFRS, the amount of the KION Group's obligation under defined benefit plans is defined as the actuarial present value of the obligation to provide the level of benefits currently earned by each beneficiary. For the year ended 31 December 2012, the KION Group recognised loss on employee benefits of €151 million (2010: loss of €29 million and 2011: gain of €8 million). Such loss mainly represents unrealised actuarial losses which was largely attributable to the low discount rate of 3.5% used in calculating and discounting the present value of the defined benefit pension obligations of the KION Group for the German pension plans for the year ended 31 December 2012 as compared to those in previous years (2010: 5.45% and 2011: 5.65%). Such lower interest rate is generally in line with the low interest rate level in Europe.

VI. Significant investments, acquisitions and disposals

In the view of the management of the KION Group, there were no significant investments held by the KION Group during the years ended 31 December 2010, 2011 and 2012. In addition, save for the Acquisitions, there were no other material acquisitions and disposals of subsidiaries and associated companies during the years ended 31 December 2010, 2011 and 2012. In addition, the KION Group currently has no definitive plans nor current intentions for other material investments or capital assets or acquisitions in the coming year.

I. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

(A) INTRODUCTION

On 31 August 2012, a framework agreement was entered into between the Company, KION, KION Group GmbH, LMH, Superlift and KMB which was supplemented by the amendment agreement dated 20 December 2012 entered into between the Company, Weichai Lux, KION, KION Group GmbH, LMH, Superlift and KMB, collectively the "Framework Agreement".

The subscription of new shares in the capital of KION representing 25% of the enlarged share capital of KION after completion; and the acquisition of 70% of the interest in LHY Co have been completed on 27 December 2012 ("Acqusitions").

According to the Framework Agreement, a call option was granted by KION to Weichai Lux to subscribe for new shares in KION for details as set out in the section "2. Possiable exercise of the Call Option – (a) KION Call Option" in the Circular, called the KION Call Option, and a Call Option was granted by Superlift to Weichai Lux to purchase shares in KION from Superlift for details as set of in the section "2. Possiable exercise of the Call Option – (b) Superlift Call Option" in the Circular, collectively the "Call Options".

The KION Call Option is exercisable by Weichai Lux from the date of grant up to immediately before the IPO of KION and the exercise price equals to the lower of (i) a price per share determined on the basis of EUR467,000,000, as the consideration paid for under the subscription of 25% of the issued shares in KION pursuant to the Acquisitions plus any future capital contributions made by the shareholders of KION after the date of completion of the Acquisitions (the "Acquisition Valuation"), and (ii) the price per share of KION under the IPO of KION.

The Superlift Call Option is exercisable by Weichai Lux at any time after 27 December 2012, being the date of completion of the Acquisitions, until 30 June 2013 or during any time within the three months after the completion of the IPO and the exercise price equals to the sum of (i) EUR61,644,000; (ii) the pro-rata portion of the aggregate amount of additional capital contribution, made into KION after the date of completion of the Acquisitions and up to the date of exercise of the Superlift Call Option ("Additional Contributions"); and (iii) deducting therefrom the pro-rata portion of the aggregate amount of dividends or other distributions made by KION to its shareholders after the date of the completion of the Acquisitions ("Post Completion Distributions").

The actual exercise price of the Call Options can only be determined once the economic parameters of the IPO (in particular (i) the IPO price and (ii) the number of new shares to be issued by KION immediately before the IPO for the Capitalisaton of the Superlift Funding Loan and for raising new capital in the IPO) are finalized. The Company is seeking Shareholders' approval for a maximum aggregate investment amount for the exercise of the KION Call Option and the Superlift Call Option of EUR400,000,000 (the "Cap Amount") to allow the Board flexibility in dealing with the exercise of the Call Options at a time when many of the unknown or uncertain factors at present become known to the Board.

The following is the Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the exercise of the Call Options with the Cap Amount. Pro forma adjustments have been made to reflect the exercise of the Call Options with the Cap Amount.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the exercise of the Call Options. It is prepared for illustrative purpose only in accordance with Paragraph 4.29 of the Listing Rules to provide the investors with further information to illustrate the effect on the Group after the exercise of the Call Options and it does not purport to represent what the financial position of the Group as on the exercise of the Call Options.

(B) Unaudited Pro Forma Financial Information of the Enlarged Group

	For the year ended 31 December 2012 *RMB000'* *Audited* *(Note a)*	Pro forma adjustments *RMB000'*	*Notes*	For the year ended 31 December 2012 *RMB000'* *Unaudited*
Current assets				
Cash and cash equivalents	16,726,970	(3,327,040)	b.	13,399,930
Financial assets held for trading	137,051			137,051
Notes receivable	9,242,232			9,242,232
Accounts receivable	4,168,525			4,168,525
Prepayments	365,397			365,397
Dividends receivable	70,540			70,540
Interests receivable	7,419			7,419
Other receivables	444,106			444,106
Inventories	7,509,902			7,509,902
Non-current assets due within one year				–
Other current assets	487,992			487,992
Total current assets	39,160,134			35,833,094
Non-current assets				
Available-for-sale financial assets	269,200			269,200
Long-term receivables	–			–
Long-term equity investments	4,951,544	3,327,040	b.	8,278,584
Investment property	329,995			329,995
Fixed assets	11,526,490			11,526,490
Construction in progress	5,175,099			5,175,099
Materials used in construction	–			–
Disposal of fixed assets	3,493			3,493
Intangible assets	2,160,257			2,160,257
Development expenditure	431,692			431,692
Goodwill	1,443,115			1,443,115
Long-term prepaid expenses	169,123			169,123
Deferred tax assets	700,120			700,120
Other non-current assets	101			101
Total non-current assets	27,160,229			30,487,269
Total assets	66,320,363			66,320,363

	For the year ended 31 December 2012	Pro forma adjustments	Notes	For the year ended 31 December 2012
	RMB000'	*RMB000'*	*Notes*	*RMB000'*
	Audited			*Unaudited*
	(Note a)			
Current liabilities				
Short-term loans	2,742,092			2,742,092
Notes payable	5,244,310			5,244,310
Accounts payable	9,962,421			9,962,421
Advances from customers	872,836			872,836
Payroll payable	1,026,723			1,026,723
Taxes payable	239,381			239,381
Interests payable	61,681			61,681
Dividends payable	33,103			33,103
Other payables	2,535,764			2,535,764
Non-current liabilities due within one year	352,605			352,605
Other current liabilities	852,860			852,860
Total current liabilities	23,923,776			23,923,776
Non-current liabilities				
Long-term borrowings	6,344,250			6,344,250
Bonds payable	2,691,489			2,691,489
Long-term payables	5,500			5,500
Special payables	43,000			43,000
Deferred tax liabilities	168,154			168,154
Other non-current liabilities	1,744,958			1,744,958
Total non-current liabilities	10,997,351			10,997,351
Total liabilities	34,921,127			34,921,127
Shareholders' equity				
Share capital	1,999,310			1,999,310
Capital reserve	842,376			842,376
Special reserve	23,089			23,089
Surplus reserve	2,300,128			2,300,128
Retained earnings	19,737,620			19,737,620
Exchange differences on foreign currency translation	(33,172)			(33,172)
Total equity attributable to the Shareholders of the parent	24,869,351			24,869,351
Minority interests	6,529,885			6,529,885
Total shareholders' equity	31,399,236			31,399,236
Total liabilities and shareholders' equity	66,320,363			66,320,363

(C) Notes to unaudited pro forma financial information of the Enlarged Group

a. This represents the consolidated statement of financial position of the Group as at 31 December 2012, as extracted from the annual results announcement of the Company for the year 31 December 2012.

b. The exercise of the call Options will enable the Company to increase its shareholding in KION from 25% to 33.3%.

This adjustment reflects the payment on exercising of the Call Options at the highest possible monetary value assuming the exercise of Call Options had taken place on 31 December 2012 and been settled by cash immediately. As at the date of this Circular, the amount of consideration is not yet finalized as the exercise price of the Call Options depends on the finalization of economic parameters of the IPO of KION. Any changes in the economic parameters of the future IPO of KION will result in adjustment in the consideration and the long term equity investment.

c. For the purpose of the pro forma financial information, the balances stated in EUR have been translated to RMB at an exchange rate of EUR1= RMB8.3176, which is the prevailing exchange rate on 31 December 2012.

d. No adjustment has been made to reflect any trading results or other transaction of the Group and KION entered into subsequent to 31 December 2012.

II. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

28 March 2013

The Directors
Weichai Power Co., Ltd.

Dear Sirs,

We report on the unaudited pro forma financial information set out on pages 282 to 285 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") of Weichai Power Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how the exercise of Call Options by the Company's subsidiary Weichai Power (Luxembourg) Holding S.àr.l. (the Group upon exercise of Call Options referred to as the "Enlarged Group"), might have affected the financial information presented, for inclusion in Appendix IV to the circular dated 28 March 2013 (the "Circular"). The basis of preparation of The Unaudited Pro Forma Financial Information is set out on page 285 of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2013 or any future dates.

OPINION

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst Young HuaMing LLP
Beijing, China

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and Supervisors in the shares, underlying shares and debentures of the Company notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (as if it were applicable also to the Supervisors of the Company) were as follows:

Name of Director	Capacity	Number of A Shares held	Number of H Shares held	Percentage of the issued share capital of the Company
Tan Xuguang	Beneficial owner	16,512,000 *(Note 1)*	–	0.83%
Xu Xinyu	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Sun Shaojun	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Zhang Quan	Beneficial owner	3,840,000 *(Note 1)*	–	0.19%
Yeung Sai Hong *(Note 3)*	Held by controlled corporation	63,168,000 *(Note 2)*	–	3.16%
Julius G. Kiss *(Note 4)*	Held by controlled corporation	41,280,000 *(Note 2)*	–	2.06%
Zhang Zhenhua *(Note 5)*	Interest held by spouse	25,300	–	0.001%

Notes:

1. These shares were derived from the previous domestic shares of the Company. The domestic shares were ordinary shares issued by the Company, with a Renminbi denominated par value of RMB1.00 each, which were subscribed for and paid up in Renminbi or credited as fully paid up. These shares became A Shares of the Company upon the A Share listing of the Company on the Shenzhen Stock Exchange.

2. These were previously foreign shares of the Company. The foreign shares were ordinary shares issued by the Company, with a Renminbi-denominated par value of RMB1.00 each, which were subscribed for and paid up in a currency other than Renminbi. These shares became A Shares of the Company upon the A Share listing of the Company on the Shenzhen Stock Exchange.

3. Yeung Sai Hong, a non-executive Director, was directly and indirectly interested in the issued share capital of Peterson Holdings Company Limited ("**Peterson**"), which in turn held 63,168,000 A Shares in the Company.

4. Julius G. Kiss, a non-executive Director, was indirectly interested in the entire issued share capital of IVM Technical Consultants Wien Gesellschaft m.b.H. ("**IVM**"), which in turn held 41,280,000 A Shares in the Company.

5. Zhang Zhenhua, an independent non-executive Director, was deemed to be interested in 25,300 A Shares in the Company which were beneficially held by his wife, Ms. Wu Miaodi.

6. All the shareholding interests listed in the above table are "long" position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive nor the supervisors had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

The register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO (including interests filed with The Stock Exchange of Hong Kong Limited) shows that as at the Latest Practicable Date, the following persons (other than the Directors, the chief executive and the supervisors) had the following interests and short positions (if any) in the shares and underlying shares of the Company:

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Weichai Group Holdings Limited	Beneficial owner	Long	336,476,400	22.23%	–	–	16.83%
Shandong Heavy Industry Group Co., Ltd. *(Note 1)*	Held by controlled corporation	Long	336,476,400	22.23%	–	–	16.83%

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC") *(Note 1)*	Held by controlled corporation	Long	336,476,400	22.23%	–	–	16.83%
Brandes Investment Partners, LP	Investment manager	Long	–	–	78,578,612	18.99%	3.93%
Lazard Asset Management LLC	Investment manager	Long	–	–	63,120,156	12.99%	3.16%
Schroders Plc	Investment manager	Long	–	–	53,026,997	10.91%	2.65%
JPMorgan Chase & Co.	Beneficial owner	Long	–	–	6,605,230	1.36%	0.33%
	Custodian – Corporation/approved lending agent	Long	–	–	37,643,974	7.75%	1.88%
					44,249,204	9.11%	2.21%
	Beneficial owner	Short	–	–	1,922,400	0.40%	0.10%
Schroder Investment Management Limited	Investment manager	Long	–	–	38,851,199	7.99%	1.94%
The Capital Group Companies, Inc. *(Note 2)*	Interest of corporation controlled by the substantial shareholders	Long	–	–	27,669,400	6.84%	1.66%
Lazard Emerging Markets Equity Portifolio *(Note 2)*	Investment manager	Long	–	–	23,707,500	5.86%	1.42%

Name	Capacity	Long/ Short position	Number of A shares	Percentage of share capital comprising only A shares	Number of H shares	Percentage of share capital comprising only H shares	Percentage of total issued share capital
Earnest Partners, LLC *(Note 2)*	Investment manager	Long	–	–	20,396,980	5.04%	1.22%
Barclays PLC	Person having a security interest in shares	Long	–	–	525,552	0.11%	0.03%
	Interest of corporation controlled by the substantial shareholder	Long	–	–	25,453,050	5.24%	1.27%
					25,978,602	5.35%	1.30%
	Interest of corporation controlled by the substantial shareholder	Short	–	–	24,102,475	4.96%	1.21%

Notes:

1. State-owned Assets Supervision and Administration Commission of Shandong Province ("**Shandong SASAC**") held the entire capital of Shandong Heavy Industry Group Co., Ltd., which in turn held the entire capital of Weichai Group Holding Limited (formerly known as Weifang Diesel Engine Works).

2. The number of H shares reported above by the relevant substantial shareholder does not take into consideration the Company's bonus share issuance on 17 August 2012 as there is no disclosure of interest obligation under the SFO where there is no change in percentage of shareholdings for a substantial shareholder.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, so far as is known to the Directors, the following Directors held offices in the substantial Shareholders set out above:

Name of Director	Positions held in Weichai Holdings	Positions held in Shandong Heavy Industry Group
Tan Xuguang	Chairman	Chairman
Jiang Kui	Vice president	Director, general manager
Xu Xinyu	Director	–
Sun Shaojun	Director	–
Zhang Quan	Director	–

3. ARRANGEMENTS AND MATTERS CONCERNING DIRECTORS

(a) None of the Directors has entered into any service contract with the Group, which is not expiring or determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which had since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.

(d) As at the Latest Practicable Date, save for the directorship of Mr. Tan Xuguang in 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) ("**Beiqi Foton**"), none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Company. The Company has an approximately 1.42% interest in the shares of Beiqi Foton. Beiqi Foton is also a customer of the Company's diesel engines. Beiqi Foton is engaged in the production of, inter alia, heavy-duty vehicles/trucks.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

5. QUALIFICATION AND CONSENTS OF EXPERTS

(a) The following are the qualification of the experts who have given opinions or advices which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountants
Ernst & Young Hua Ming LLP	Certified public accountants

(b) As at the Latest Practicable Date, each of the above experts did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the forms and contexts in which they appear.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the Framework Agreement;

(b) the equity transfer agreement dated 25 December 2012 entered into between the Company and 濰柴控股集團有限公司 (Weichai Group Holdings Limited) in respect of the disposal of the 40% of equity interest in 濰柴動力西港新能源發動機有限公司 (Weichai Westport Inc.); and

(c) the capital subscription agreement dated 16 January 2012 entered into between the Company, 山東重工集團財務有限公司 (Shandong Zhonggong Group Finance Co., Ltd.), 濰柴重機股份有限公司 (Weichai Heavy Duty Machinery Co., Ltd.), 山推工程機械股份有限公司 (Shantui Engineering Machinery Co., Ltd.) and 中國金谷國際信託有限責任公司 (China Jingu International Trust Co., Ltd.) in relation to the contribution to and subscription for the registered capital in 山東重工集團財務有限公司 (Shandong Zhonggong Group Finance Co., Ltd.).

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Room 3407-3408, 34/F, Gloucester Tower, Landmark, 15 Queen's Road Central, Hong Kong, from the date of this circular to 22 April 2013 (both days inclusive):

(a) the Articles of Association;

(b) the annual reports of the Company for the two years ended 31 December 2010 and 2011 and the interim report of the Company for the six months ended 30 June 2012;

(c) the accountants' report on KION Group signed by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;

(d) the unaudited pro forma financial information of the Enlarged Group prepared by Ernst & Young Hua Ming LLP, the text of which is set out in Appendix IV to this circular;

(e) the written consent of each of the experts as referred to in the paragraph headed "5. Qualifications and consents of experts" in this appendix;

(g) the material contracts as referred to in the paragraph headed "6. Material contracts" in this appendix; and

(h) this circular.

8. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Kwong Kwan Tong, who is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

(b) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East Wanchai, Hong Kong.

(c) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.