

**SAF-HOLLAND S.A.
68-70, boulevard de la Pétrusse
L-2320 Luxembourg**

**Annual Accounts as of 31 December 2010
and
Independent Auditor's Report**

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Independent Auditor's report

To the Shareholders of
SAF-HOLLAND S.A.
Société Anonyme
68-70, boulevard de la Pétrusse
L-2320 Luxembourg

Following our appointment by the General Meeting of the Shareholders dated 22 April 2010, we have audited the accompanying annual accounts of SAF-HOLLAND S.A., which comprise the balance sheet as at 31 December 2010 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of SAF-HOLLAND as of 31 December 2010, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

A handwritten signature in blue ink, appearing to read 'Thierry BERTRAND', with a long horizontal stroke extending to the left.

Thierry BERTRAND

Luxembourg, 16 March 2011

SAF-HOLLAND S.A.
Société anonyme

Balance sheet
December 31, 2010
(expressed in EUR)

<u>ASSETS</u>	December 31, 2010	December 31, 2009
Fixed assets		
Tangible assets		
Other fixtures and fittings, tools and equipment (Note 3)	419	778
Financial assets		
Shares in affiliated undertakings (Note 4)	113,338,381	79,096,381
	<u>113,338,800</u>	<u>79,097,159</u>
Current assets		
Amounts owed by affiliated undertakings (Note 5)		
becoming due and payable within one year	21,147	84,935
becoming due and payable after more than one year	9,239,080	10,550,000
Other debtors becoming due and payable within one year	8,100	6,408
Cash at bank	57,727	48,003
	<u>9,326,054</u>	<u>10,689,346</u>
Prepayments	222,282	173,278
	<u>122,887,136</u>	<u>89,959,783</u>
TOTAL ASSETS		

The accompanying notes form an integral part of these annual accounts.

LIABILITIES**December 31, 2010****December 31, 2009****Capital and reserves (Note 6)**

Subscribed capital	207,023	207,023
Legal reserve	20,703	20,703
Share premium	111,306,500	111,306,500
Result brought forward	(23,135,157)	4,340,963
Profit (Loss) for the financial year	33,089,943	(27,476,120)
	<u>121,489,012</u>	<u>88,399,069</u>

Creditors

Trade creditors	89,364	59,375
Amounts owed to affiliated undertakings (Note 7) becoming due and payable within one year	110,747	96,964
Tax debts and social security debts	652,561	947,232
Other creditors becoming due and payable within one year	545,452	457,143
	<u>1,398,124</u>	<u>1,560,714</u>

TOTAL LIABILITIES**122,887,136****89,959,783**

SAF-HOLLAND S.A.
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Profit and loss account
31 December 2010
(expressed in EUR)

<u>EXPENSES</u>	December 31, 2010	December 31, 2009
Staff costs		
wages and salaries	35,532	32,397
social security costs	4,129	3,470
Value adjustments in respect of tangible assets (Note 3)	359	358
Value adjustments in respect of financial assets (Note 4)	---	34,242,000
Other external charges	1,457,004	1,685,395
Other interest payable and similar charges	3,112	4,099
Taxes (Note 8)	697,427	497,120
Profit for the financial year	<u>33,089,943</u>	<u>---</u>
	<u>35,287,506</u>	<u>36,464,839</u>
 <u>INCOME</u>		
Other interest receivable and similar income (Note 5)		
derived from affiliated undertakings	1,045,504	8,988,550
other interest receivable and similar income	2	169
Reversal of value adjustments in respect of financial assets (Note 4)	34,242,000	---
Loss for the financial year	<u>---</u>	<u>27,476,120</u>
	<u>35,287,506</u>	<u>36,464,839</u>

The accompanying notes form an integral part of these annual accounts.

SAF-HOLLAND S.A.
Société anonyme

Notes to the annual accounts
31 December 2010

Note 1 - Organisation

SAF-HOLLAND S.A. (the "Company") is a commercial company incorporated in Luxembourg on December 21, 2005, under the legal form of a "Société Anonyme". The registered office of the Company is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Register of Commerce of Luxembourg under the section B number 113.090.

The Company's purpose is to acquire directly or indirectly shareholdings (including but not limited by way of setting-up new companies) and interests, in any form whatsoever, in any connection with Group Companies and any other company being in the same line of business, to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or any other way in Group Companies or other companies being in the same line of business, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit. The Company may further grant to, or for the benefit of, any holding company, subsidiary, or fellow subsidiary, or any other company associated in any way with Group Companies, any assistance such as pledges, loans, advances or guarantees. The Company may borrow and raise money in any manner for the purpose of its investment in Group Companies and secure the repayment of any money borrowed. The Company may further borrow funds and issue bonds and other securities to a limited number of subscribers. The Company can perform all commercial, technical and financial operations, connected directly or indirectly in all areas as described above in order to facilitate the accomplishment of its purpose.

The Company prepares consolidated accounts and files these accounts with the Luxembourg Trade Registry.

The accounting year begins on January 1 and ends on December 31.

The Company is listed on the Prime Standard of the Frankfurt Stock Exchange and trades under the symbol "SFQ".

Notes to the annual accounts (continued)
31 December 2010

Note 2 – Summary of significant accounting policies

The Company maintains its books in Euro ("EUR") and the annual accounts have been prepared in conformity with legal and regulatory requirements in Luxembourg as well as with generally accepted accounting principles in Luxembourg including the following significant accounting policies.

The annual accounts of SAF-HOLLAND S.A. are prepared under the assumption that the Company is a going concern.

a) Tangible assets

Tangible assets are accounted for at their acquisition costs plus associated acquisition costs. The other fixtures and fittings, tools and equipment are depreciated on a straight-line basis over 4 years. Write-downs are recorded if, in the opinion of the directors, there is a permanent impairment in value.

b) Financial assets and dividends

Financial assets are stated at historical acquisition cost. Write-downs are recorded if, in the opinion of management, a permanent impairment in value has occurred. Dividends receivable from affiliated undertakings are recognised in the period in which they are declared by the entity. However dividends receivable from affiliated undertakings may be recognised in the profit and loss account in the period in which the subsidiary proposes their allocation of profits, if the following conditions are met:

- the Company is the sole shareholder of the entity and controls it;
- the Company and the subsidiary entities form a group;
- the financial year ends of the two entities coincide;
- the annual accounts of the subsidiary for the financial year in question were approved by the Annual General Meeting before the approval of the annual accounts of the parent company;
- the annual accounts of the subsidiary, for the financial year in question, show that the subsidiary appropriated profits to the Company and;
- the annual accounts of the subsidiary show a true and fair view of the financial position and of the results of its operations for the financial year concerned.

Notes to the annual accounts (continued)
31 December 2010

Note 2 – Summary of significant accounting policies (continued)

c) Receivables, cash at banks and debts

Receivables, cash at banks, and debts are stated at their nominal value less allowance for doubtful accounts.

d) Foreign currency translation

Monetary assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Realised and unrealised exchange losses and realised exchange gains are recorded in the statement of profit and loss.

Note 3 – Tangible assets

On February 28, 2008, the Company acquired a computer for an amount of EUR 1,435.

During the year ended December 31, 2010, the tangible assets evolved as follows:

	2010	2009
Acquisition		
At the beginning of the year	1,435	1,435
Additions	-	-
Disposals	-	-
At the end of the year	<u>1,435</u>	<u>1,435</u>
Depreciation		
Accumulated depreciation at the beginning of the year	(657)	(299)
Depreciation charge for the year	(359)	(358)
Disposals	-	-
Accumulated depreciation at the end of the year	<u>(1,016)</u>	<u>(657)</u>
Net book value		
At the beginning of the year	778	1,136
At the end of the year	419	778

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Notes to the annual accounts (continued)
31 December 2010

Note 4 – Shares in affiliated undertakings (in EUR)

As of December 31, 2010 and 2009, the Company held the following participation:

Name of the Company	Country	% of ownership	Acquisition cost		Value adjustment		Shareholders equity	
			2010	2009	2010	2009	2010	2009
SAF-HOLLAND GROUP GmbH	Germany	100%	113,338,381	113,338,381	-	(34,242,000)	44,647,083	25,505,915

The shareholders equity disclosed above includes the profit for the period ended December 31, 2010 amounting to EUR 19,141,168 (2009: EUR 90,043,481).

On December 22, 2009, the Company increased the capital reserve in SAF-HOLLAND GROUP GmbH by a total amount of EUR 96,888,368 through a contribution of three loans assigned and transferred to SAF HOLLAND GROUP GmbH (note 5).

A permanent impairment in value occurred during the year 2009 on the investment in SAF-HOLLAND GROUP GmbH resulting in a value adjustment of EUR 34,242,000 being recorded. In the opinion of the Directors, the reasons for impairment in value recognized during the year 2009 ceased to exist, thus the value adjustment has been reversed.

The shares in SAF-HOLLAND GROUP GmbH have been pledged as a security to guarantee a bank loan granted to its subsidiary.

Note 5 – Amounts owed by affiliated undertakings

On March 29, 2006, the Company granted a loan of EUR 42,600,000 to SAF-HOLLAND TECHNOLOGIES GmbH bearing interest at a rate of 10.3% per annum and repayable on March 29, 2036 at the latest. On December 22, 2009, the Company assigned and transferred this loan to SAF-HOLLAND GROUP GmbH for an amount of EUR 42,600,000 together with related accrued interest amounting to EUR 19,224,680 out of which an amount of EUR 13,509,605 was capitalised on January 1, 2009.

Notes to the annual accounts (continued)
31 December 2010

Note 5 – Amounts owed by affiliated undertakings (continued)

On December 18, 2006, the Company granted a new loan facility of up to EUR 16,513,800 to SAF-HOLLAND TECHNOLOGIES GmbH. An amount of EUR 16,463,475 was drawn down as at December 31, 2008. This loan facility was interest free until December 31, 2007 and bore interest at a rate of 10.3% per annum thereafter. This loan facility was repayable on December 18, 2036 at the latest. On December 22, 2009, the Company assigned and transferred this loan to SAF-HOLLAND GROUP GmbH for an amount of EUR 16,463,475 together with related accrued interest amounting to EUR 3,576,495 out of which an amount of EUR 1,724,000 was capitalised on January 1, 2009.

On October 2, 2008, the Company granted a new loan of EUR 13,340,900 to SAF-HOLLAND TECHNOLOGIES GmbH bearing interest at a rate of 10.3 % per annum with no fixed repayment date. On December 22, 2009, the Company assigned and transferred this loan to SAF-HOLLAND GROUP GmbH for an amount of EUR 13,340,900 together with related accrued interest amounting to EUR 1,682,818.

The total amount of loans plus interest assigned to SAF-HOLLAND GROUP GmbH amounted to EUR 96,888,368.

Through a resolution of SAF-HOLLAND GROUP GmbH dated March 12, 2008, the Company's subsidiary decided to distribute a dividend to the Company for an aggregate amount of EUR 19,100,000, payable in two equal instalments. On April 30, 2008, the Company's subsidiary paid the first instalment of the dividend for an aggregate amount of 8,550,000. The difference of EUR 1,000,000 between the first instalment approved and the amount paid was recorded as a loan granted by the Company to SAF-HOLLAND GROUP GmbH. This loan bears interest at a rate of 5% per annum and has no fixed repayment date. As of December 31, 2010, the outstanding principal amount of this loan and the related accrued interest amounted together to EUR 1,133,162 (2009: EUR 1,084,658) were assigned to SAF-HOLLAND GmbH as per assignment agreement dated December 23, 2010 as repayment of advances granted during the year 2010.

On May 2009, SAF Holland Group GmbH made a loan amounting to EUR 9,550,000 for the dividend remaining unpaid. This loan bears interest at a rate of 10.3% per annum and has no fixed repayment date. The outstanding nominal of the loan amounted to EUR 9,239,080 as of December 31, 2010.

The total interest for the year of the two above loans amounting to EUR 1,045,504 (2009: EUR 8,988,550) has been classified in the line item "other interest receivable and similar income derived from affiliated undertakings".

The accrued and unpaid interest amounted to EUR 21,147 as of December 31, 2010 (2009: EUR 84,935).

Notes to the annual accounts (continued)
31 December 2010

Note 6 – Capital and reserve (in EUR)

a) Share Capital

As at December 31, 2009 and 2010, the share capital of the Company amounted to EUR 207,022.75 represented by 20,702,275 ordinary shares with a par value of EUR 0.01, fully paid-in.

During the year the Company did not acquire any of its own shares.

b) Legal reserve

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated annually to a legal reserve until such reserve equals to 10% of the share capital. This reserve is not available for dividend distribution.

Note 7 – Amounts owed to affiliated undertakings (in EUR)

As at December 31, 2010, the Company owns several advances to affiliated undertakings an amount of EUR 110,747 (2009: EUR 96,964). These advances bear no interest and have no fixed repayment date.

Note 8 – Taxes (in EUR)

The Company is subject to all taxes applicable to commercial companies in Luxembourg.

In 2010, the net worth tax of the Company was reduced by an amount of EUR 46,510.

Upon approval of this by the Annual General Meeting of the Shareholders, an amount of EUR 232,550 will be allocated to restricted reserves corresponding to five times the amount of this 2010 net worth tax.

Note 9 – Dividends paid and proposed (in EUR)

No dividend was paid to the shareholders for the year 2009 and 2010.

SAF-HOLLAND S.A.
Société anonyme

Notes to the annual accounts (continued)
31 December 2010

Note 10 – Off balance sheet item

Since September 19, 2008, the Company had been acting as a guarantor for a facility entered into between a Group Company, Xiamen Austin – Westran Machinery Co., Ltd. (China) and HSBC (China).

Under this guarantee, the Company irrevocably and unconditionally, waiving all rights of objection and defence, absolutely guaranteed the punctually payment when due of all and any claims arising from the facility up to a maximum of USD 1.500.000, 00.

On January 25, 2010, HSBC (China) declared the release of the corporate guarantee.

Note 11 – Subsequent events

SAF-HOLLAND S.A. announced on February 24, 2011 that it had reached an agreement with its banking syndicate on adjustments to the existing EUR 316.6 million credit facilities. The amendment agreement includes, among other things, a significant reduction in the interest margin, initially by 1.45 percentage points. Further reductions in the interest margin will take effect subject to the development of SAF-HOLLAND group key debt figures. In addition, the banking syndicate has waived the opportunity of a simplified liquidation of securities in the course of the most recent adjustment to the credit agreement.

The adjustment to credit conditions is subject to the execution of a capital increase with a volume of at least EUR 90 million by October 2011. In accordance with the loan regulations, 85% of gross proceeds from the issuance of EUR 90 million as well as 50% of gross proceeds for any amount above EUR 90 million shall be used for the proportionate repayment of the loans.