浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 8331

S H I B A O

* For identification purposes only

Annual Report 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Zhejiang Shibao Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

Legal Name	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
Board of Directors	**Executive Directors** Mr. Zhang Shi Quan (張世權) *(Chairman and General Manager)* Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚) Mr. Zhu Jie Rong (朱頡榕) Ms. Zhang Lan Jun (張蘭君) **Non-Executive Directors** Mr. Zhang Shi Zhong (張世忠) Ms. Zhang Mei Jun (張美君) Mr. Gu Qun (顧群) **Independent Non-executive Directors** Mr. Bao Zhi Chao (包志超) Mr. Chen Guo Feng (陳國峰) Mr. Lui Wing Hong, Edward (呂榮匡)
Supervisors	Mr. Ge Bao Shan (葛寶山) Ms. Liu Xiao Ping (劉曉平) Mr. Shen Song Sheng (沈松生) Mr. Wang Kui Quan (王奎泉) Ms. Zheng Yan (鄭艷)
Senior Management	Mr. Du Chun Mao (杜春茂) Mr. Du Yu Xuan (杜玉宣) Mr. Shen Rong Jin (沈榮金) Mr. Zhou Long (周瓏) Mr. Yu Zhong Chao (虞忠潮) Mr. Ise Mitsuo (伊勢光男) Ms. Chow Kit Mei (周潔媚), *ACCA, HKI CPA*
Audit Committee	Mr. Lui Wing Hong, Edward (呂榮匡) *(Chairman)* Mr. Chen Guo Feng (陳國峰) Ms. Zhang Mei Jun (張美君)
Remuneration Committee	Mr. Lui Wing Hong, Edward (呂榮匡) *(Chairman)* Mr. Chen Guo Feng (陳國峰) Ms. Zhang Mei Jun (張美君)
Compliance Officer	Mr. Zhu Jie Rong (朱頡榕)
Qualified Accountant	Ms. Chow Kit Mei (周潔媚), *ACCA, HKI CPA*
Company Secretary	Ms. Chow Kit Mei (周潔媚), *ACCA, HKI CPA*
Authorised Representatives	Mr. Zhu Jie Rong (朱頡榕) Ms. Chow Kit Mei (周潔媚), *ACCA, HKI CPA*

* *For identification purposes only*

CORPORATE INFORMATION

Registered Office	No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China
Head Office and Principal Place of Business in Hong Kong	7th Floor CMA Building 64 Connaught Road Central Hong Kong
Compliance Advisor	Anglo Chinese Corporation Finance, Limited 40th Floor, Two Exchange Square 8 Connaught Place Central Hong Kong
Legal Advisers	*as to Hong Kong law* Chaltons 10th Floor Hutchison House No. 10, Harcourt Road Hong Kong *as to PRC law* Grandall Legal Group (Shanghai) 31st Floor Nan Zheng Building 580 Nanjing Xilu Shanghai China
Auditors	Ernst & Young *Certified Public Accountants* 18th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Principal Bankers	Agricultural Bank of China, Yiwu Branch – Fotang Subbranch 85 Fotang Jianche Road Yiwu Zhejiang Province China

	China Construction Bank, Hangzhou Branch — Qiutao Subbranch 5 Qingchun East Road Jianggang District Hangzhou Zhejiang Province China
	Industrial and Commercial Bank of China, Siping Branch – Zhongyang Dong Lu Subbranch 1 Tiedong District Siping Jilin Province China
	Industrial and Commercial Bank of China, Hangzhou Branch – Jingkai Subbranch No. 5, No. 6 Road Hangzhou Economic and Technological Development Zone Hangzhou Zhejiang Province China
	Industrial and Commercial Bank of China (Asia) Limited Hong Kong Headquarters 33rd Floor ICBC Tower 3 Garden Road Central Hong Kong
Hong Kong H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-6, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Investor and Media Relationship Consultant	Porda International (Finance) PR Co., Ltd. 7th Floor CMA Building 64 Connaught Road Central Hong Kong Tel: (852) 2544 6388 Fax: (852) 2544 6126
Place of Listing	H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 8331

CORPORATE PROFILE

Zhejiang Shibao Company Limited ("Zhejiang Shibao" or the "Company") and its subsidiaries (together, the "Group") is a leading automobile steering gear manufacturer in the PRC. The Company was listed on the GEM of Hong Kong Stock Exchange on 16 May 2006, its stock code is 8331.HK.

Since the establishment of Zhejiang Shibao Steering Gear Co., Ltd. ("Zhejiang Shibao Steering"), the predecessor of Zhejiang Shibao, in 1993, the Group has been mainly engaged in the design, manufacture and sales of various types of automobile manual and power steering gears and related components. The Group's production bases are located in Yiwu in Zhejiang, Siping in Jilin and Hangzhou Economic Development Zone in Zhejiang. The Group has been dedicated in the provision of diversified high quality products to the automobile manufacturing industry. Its existing products include manual recirculating ball steering gear, power recirculating ball steering gear, rack-and-pinion steering gear, steering knuckle (including those applied in sedans marketed under the brandname "Hong Qi" ("Hong Qi sedans") and the brandname "MAZDA M6" ("MAZDA M6 sedans") manufactured by FAW Car Co., Ltd. and rotary valve (including those applied in power recirculating ball steering gear and power rack-and-pinion steering gear). The Group is also dedicated in the research and development of new products, including electronic power steering gear ("EPS") which is at an advanced stage of development and prototype testing.

The Group has a large and reputable customer base, including major automobile and automobile components and parts manufacturers, including FAW Group, Dongfeng Motor Group, Hubei Sanhuan Co., Ltd., Nanjing Yuejin Motor Steering Co., Ltd., Yunnan Lifan Junma Auto Co., Ltd. ("Yunnan Lifan"), Dandong Huanghai Automobile Co., Ltd., Kinglong United Automobile Industry (Suzhou) Co., Ltd. as well as Chery Automobile Co., Ltd. ("Chery Automobile") and new customers including Anhui Jianghuai Automobile Co., Ltd. ("Jianghuai Automobile") and Beiqi Foton Motor Co., Ltd. ("Beiqi Foton"). In order to provide high quality services and products promptly to customers, the Group has set sales centres in various provinces and cities in 17 provinces in the PRC.

The Group established a Sino-foreign joint venture with DHB Componentes Automotivos S. A. (a subsidiary of DHB Industria e Comercio S.A., a company listed on the Sao Paulo Stock Exchange of Brasil) – DHB-Shibao Steering Co., Ltd. ("DHB-Shibao"), whereby the Group will obtain new technologies and expand the Group's sales network. DHB-Shibao is mainly engaged in the manufacture and sales of rack-and-pinion steering gears, electronic power steering gears and steering oil pumps, which can significantly enhance the production capacity of the Group, at the same time laying a firm foundation for the Group's exploration of larger market development space.

THREE YEARS FINANCIAL SUMMARY

The audited results, assets and liabilities of the Group for the past three years ended 31 December 2006. The relevant information were prepared on a consolidated basis and based on IFRSs.

Results

	For the year ended 31 December		
	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	152,369	149,148	140,323
Profit before tax	38,674	41,600	48,515
Profit for the year	33,178	38,025	35,526
Minority interests	583	553	1,058
Profits attributable to equity holders of the Company	32,595	37,472	34,468
Earnings per Share – Basic (RMB)	0.14	0.21	0.20

Assets and Liabilities

	As at 31 December		
	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	187,497	181,117	130,507
Current assets	251,366	197,638	207,412
Current liabilities	66,243	126,480	120,077
Net current assets	185,123	71,158	87,335
Equity attributable to equity holders of the Company	360,338	234,885	197,413
Total equity	364,133	242,597	202,022

CHAIRMAN'S **STATEMENT**

Mr. **Zhang Shi Quan**, Chairman and Executive Director

CHAIRMAN'S STATEMENT

I would like to present on behalf of the Board of Directors (the "Board") the report of the audited consolidated results of Zhejiang Shibao Company Limited ("Zhejiang Shibao" or the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

The Group is mainly engaged in the research and development, manufacture and sale of steering gear systems for automobiles and steering knuckle products for Hong Qi sedans and MAZDA M6 sedans. The Group has also successfully developed a domestically leading electronic power steering gear ("EPS") for sedans, which is about to be put into production.

For the year ended 31 December 2006, the Group recorded a revenue of approximately RMB152,369,000, representing an increase of approximately 2% as compared with 2005. There was a slight increase in the revenue of the Group in 2006, and power rack-and-pinion steering gear products recorded small scale sales. In 2006, there was a small increase in the sales of the customers' medium-sized to heavy-sized trucks (to which power recirculating ball steering gears mainly applies).

The gross profit margin of the Group during the year under review was 44%, similar to the gross profit margin for the whole year in 2005 (2005: 45%). The gross profit margin of the Group was adversely affected by the decrease in the selling price of power recirculating ball steering gears. However, for the year ended 31 December 2006, due to the improvement in management and replacement of imported major raw materials by local supply with lower cost, there was an increase in the gross profit margin of MAZDA sedan M6 steering knuckles.

Profit of the Group was approximately RMB33,178,000, a reduction of approximately 13% compared with approximately RMB38,025,000 in 2005. Profit attributable to shareholders for the year ended 31 December 2006 was RMB32,595,000 (2005: approximately RMB37,472,000), a reduction of approximately 13% compared with 2005. This was mainly due to the initial investments in the preparations of plant and equipment for new products such as power rack-and-pinion steering gears and electronic power steering gears ("EPS") and the investments in market development, which reduced the profit, while gross profit in the whole year of 2006 was higher than that in 2005 by approximately RMB574,000.

Earnings per share for the year ended 31 December 2006 was approximately RMB0.14, while it was approximately RMB0.21 in 2005.

The Company is a joint stock limited company registered in the People's Republic of China ("PRC") on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), a limited liability company established in the PRC.

The Company's H Shares were listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2006 (the "Listing Date").

During the year under review, the Company had increased a number of automobile manufacturer customers – including Chery Automobile, Jianghuai Automobile, Beiqi Foton, and had entered into supply agreements with these customers and appointed sales agents in over ten provinces in the PRC to expand the market share.

Being one of the influential automobile component manufacturers in the PRC, Zhejiang Shibao is fully dedicated in the development of the parts and components industry in the PRC. During the year under review, Zhejiang Shibao participated in three industrial forums. Under the positive impact of the changes in the global automobile parts and components towards high technology and economies of scale, the automobile parts and components industry is well positioned to become another export giant of the PRC, and which will bring unprecedented development opportunities to high quality parts and components enterprises in the PRC.

With the globalization in the competitions of the automobile industry, international major automobile enterprises rushed to move their manufacturing operations to low cost countries, causing China to become a global automobile parts and components manufacturing base. As a member of the automobile parts and components industry in the PRC, Zhejiang Shibao will further enhance research and development and increase technical level so as to form sizeable production capacity, thereby enhancing its international competitiveness to capture market opportunities.

OUTLOOK

Looking forward, it is anticipated that sales of automobiles and parts in the PRC will still maintain its rapid growing trend in 2007. Through the Company's adjustments to product mix and construction of production capacity, the operating results will expect to start to grow steadily. According to orders received and estimations of related information, it is expected that sales of the Company's Mazda sedan M6 steering knuckle this year will increase significantly comparing with 2006. There will be larger mass productions of power rack-and-pinion steering gears, in order to supply to Chery Automobile and other car manufacturers. Technology for the trial production of EPS will be mature, and it is planned to commence small scale trial productions by the second half of 2007, which the Company believes that will contribute to profits. Sales of recirculating ball steering gears will correspondingly increase with the increase in the sales of commercial vehicles of FAW and Dongfeng manufacturers.

The Group pays close attention on the motion of the adjustments and reorganizations in the automobile component industry in the PRC, and where possible, will identify appropriate targets for effective mergers, with the aim to enhance the market share and competitiveness of the Group's steering gear products, and to speed up the progress for the growth and expansion of the Group.

On behalf of the Board, I would like to express our sincere thanks to the Management and all staff for their efforts and contributions in the past year, also to the customers, suppliers, financial institutions, and business partners and shareholders for their confidence and supports they gave to the Group.

Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
23 March 2007

MANAGEMENT
DISCUSSION AND ANALYSIS

Management having discussion in the factory of Siping Steering

MARKET REVIEW

Automobile manufacture and sales

In 2006, the automobile industry in the PRC indicated a rapidly developing trend, and both production and sales of automobiles exceeded 7 million units, achieving 7,279,700 units and 7,216,000 units respectively, representing a growth of 27.32% and 25.13% comparing with 2005 respectively. In 2006, enterprises in the national automobile industry of sizeable scope maintained rapid growth in both profits and total taxable profits, with significant growth in the overall profit level. Sales of passenger cars recorded 5,176,000 units, representing an increase of 30.0% over the previous year. In 2006, sales of commercial cars reached 2,040,000 units, representing an increase of 14.23% comparing with the previous year, and accounted for 28.3% of the total sales of automobiles for year 2006. The overall growth in the passenger car industry was lack of driving force, and in 2006, sales of various types of passenger cars (excluding chassis) accumulated to 191,000 units, representing only an increase of 6.9% comparing with the previous year. It is anticipated that the automobile industry will still maintain its developing trend in 2007, but the speed of growth will slow down, while sedans, heavy cars in the commercial cars and large public communication passenger cars will continue to maintain its rapid growth, and looking from its market trend, it is expected that the automobile market next year will be more diversified, and competition will be more intensified, while consumption power will be stronger year on year. In respect of joint venture brands, the competitiveness of some car models imported in the previous years have been decreasing, and need to conduct a large scale replacement, or introduce more new products. Consumption space by market segmentation have been further explored, and the market in the PRC have been gradually aligning with the international automobile market.

Trend of the automobile parts and components market

1. Huge space for market growth

   At present, not only that there are still large disparity in car retentions per thousand persons in the PRC with the global average level, according to the national macro economic plan, our national economic growth in the coming 20 years will be growing at a relatively high speed, consumption of automobile parts and components in the PRC will still maintain in an overall high growing stage, and will indicate a lowering tendency. It is anticipated that there is tremendous market space for development in the automobile industry in the PRC.

Hangzhou Shibao production line

2. Intensified market competition, and enterprises will be more diversified

   It is anticipated that the situation of passenger car parts and components high-end market controlled by foreign capital will continue for a certain period, with core technology and inherent ancillary channels owned by foreign capitals. Meantime, it is expected that some civil enterprises will have outstanding results, and achieve significant improvements in the parts and components industry through competitions and practising in the initial stages, and will become an important strength in the automobile parts and components industry in the PRC.

Hangzhou DHB – Shibao Plant District

3. Continued optimizing of industrial structure

   There are a number of economically strong key enterprises in the parts and components industry emerging, having modern corporate systems and strong competitiveness, and have increased their market shares through acquisitions and mergers and optimized combinations.

4. Become the production and manufacturing centre of the global automobile parts and components industry

   While the automobile parts and components industry in the PRC has its relative edges in low labor costs and natural resources, it has also relative advantages in certain industrial comprehensive foundation, market demands and basic production factors.

   The world's automobile parts and components procurement centre has been gradually moved towards China, and automobile components enterprises of industrialized scale are being selected as parts and components suppliers by overseas car assembly plants. At the same time, the market share of products produced by China automobile parts and components enterprises in the automobile parts and components market is rapidly increasing.

5. Incubation of self-innovation brands to promote enhancement of its core competitiveness

   The automobile parts and components industry in the PRC in recent years has stressed on brand promotions. With the gradual strengthening of enterprise scale as well as the rise in sales and the enhanced strength in advertising, this has led to the increase of the core competitiveness and branding effect.

BUSINESS REVIEW

Operation result

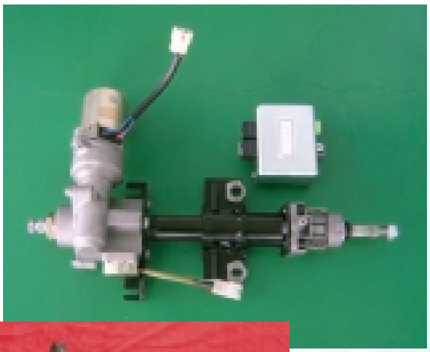
For the year ended 31 December 2006, the Group recorded a revenue of approximately RMB152,369,000, representing an increase of approximately 2% as compared with 2005.

The gross profit margin of the Group during the year under review was 44%, similar to the gross profit margin for the whole year of 2005 (2005: 45%). The gross profit margin of the Group was adversely affected by the decrease in the selling price of power recirculating ball steering gears. However, for the year ended 31 December 2006, due to the improvement in management and replacement of imported major raw materials by local supply with lower cost, there was also an increase in the gross profit margin of Mazda sedan M6 steering knuckles.

During the year under review, the Group's operations had been expanded, including new customers such as Jianghuai Automobile, Beiqi Foton and Yunnan Lifan and the Group had appointed sales agents in over ten provinces in the PRC.

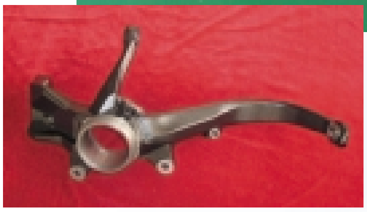
The new Hangzhou plant and the production facilities were completed during the year under review. The plant and the facilities are mainly used in the production and development of the Group's new product lines such as rack-and-pinion steering gear and electronic power steering gear ("EPS"). The investment was the main reason for an increase of approximately RMB3,351,000 in depreciation for the year ended 31 December 2006. In addition, the Group allocated more resources to research and development. Research and development expenses increased by approximately 60% for the year ended 31 December 2006 comparing with the previous year as result of additional advanced testing facilities acquired and an increase in the number of research and development staff. In 2006, Siping Steering commenced payment of income taxes at a rate of 15%, while in 2005 it was 0%, thereby causing the significant increase in income tax in 2006.

Electronic power steering gears (EPS)



For the year ended 31 December 2006, the selling expenses increased by approximately RMB2,931,000 comparing with 2005. During the year, the Group appointed agents in more than ten major provinces in the PRC and promoted the brand of "Shibao" by advertising in order to explore new automotive accessories market and parts repair and retail market.

Foreign exchange loss of approximately RMB2,163,000 was recorded in the year. The exchange loss was attributed to the appreciation of the Renminbi against Hong Kong dollars on the net proceeds from the placing of H Shares. The net proceeds of approximately RMB46,727,000 was utilized as shown in the prospectus dated 4 May 2006 (the "Prospectus") under the section headed "Statement on the use of proceeds" and the balance in Hong Kong dollars will be translated into Renminbi according to the relevant regulations of the PRC.



M6 steering knuckles

As result of the above major factors, gross profit increased by approximately RMB574,000, while profit after tax reduced by approximately 13% compared with 2005.

Marketing and new product

For the year ended 31 December 2006, the Group continued the expansion of the sales network and successfully appointed agents in more than ten provinces in the PRC to explore the automobile steering gear system products repair and retail market.

The Group also explored other products and services in relation to components for automobiles. Siping Steering was nominated by FAW-Volkswagen Automobile Co., Ltd. as qualified supplier for the bracket of vent-pipe and enforced gas spring board of certain sedans. It is expected that the bracket of vent-pipe will be supplied in bulk to FAW-Volkswagen Automotive Co., Ltd. in 2007 and thereby to enter into the purchasing network of FAW-Volkswagen Automotive Co., Ltd..

Production facilities

The Group continued to expand its production facilities. Siping Steering completed a new plant with a floor area of approximately 9,650 square meters. Production equipment will be relocated to the new plant by stages. It is expected that the construction and regulation of new production facility will complete in the second quarter of 2007.

Research and development

In addition to the disclosure in the Prospectus, the Group's electronic power steering gear ("EPS") product has been included in the State High and New Technology Development Project Programme (國家高新技術發展項目計劃). The project is the only project undertaken by an enterprise in the automotive steering gear industry of the PRC included in the State High and New Technology Development Project Programme and will be supported by the State's related policy and funds. The project received a reply letter from the General Office of the National Development and Reform Commission granting a subsidy in the sum of RMB4,500,000 for technology development relating to industrial projects of information industry key technologies in September 2006. Meanwhile, the project will also receive a certain proportion of funding from the provincial government. In addition, the project also participated in the bid for the development of EPS project held by Science and Technology Department of Zhejiang province and won the bid. At the same time the project also obtained technological development fund subsidies from the Provincial Science and Technology Bureau.

Welding robot

The EPS project has been chosen as a finalist of the "China Automotive Self-innovation Achievement Grand Ceremony" (中國汽車自主創新成果大典) sponsored and published by China Automotive News for its achievement in introduction, digestion, absorption and reinnovation. In addition, Hangzhou Shibao Steering Gear Co., Ltd. was accredited with "Management Advancement ISO/TS16949 Automobile Industry Quality Management System Certification Enterprise", "2006 Technology Policies — Newly Recognised and Introduced High and New Technology Enterprise", "2006 Technology Policies — Technology Project Award", "2006 Technology Policies — Subsidised High and New Technology Enterprise" of Hangzhou city in 2006. Siping Steering was accredited with "High and New Technology Enterprise Recognition Certificate" issued by the Provincial Science and Technology Bureau, "Quality Management Advanced Enterprise" issued by Siping Municipal Government, "Cost Improvement Award" issued by FAW Group and "Special Contribution Award" issued by FAW Car Co., Ltd..

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2006, the Group recorded turnover of approximately RMB152,369,000, representing a growth of 2% as compared with approximately RMB149,148,000 in 2005. The slight increase in the Group's revenue in 2006 was mainly due to the increase in the sales of power recirculating ball steering gear and the commencement of small scale sales of power rack-and-pinion steering gears.

Gross profit and gross profit margin

The Group's gross profit increased from approximately RMB66,569,000 in 2005 to approximately RMB67,143,000 for the year ended 31 December 2006, representing an increase of approximately 1%. During the year under review, the Group's gross profit margin was 44% (2005: 45%), the situation was the same as for the gross profit margin for the whole year in 2005. The gross profit margin of the Group was adversely affected by the decrease in the selling price of power recirculating ball steering gears. However, for the year ended 31 December 2006, the increase in the gross profit margin of Mazda sedan M6 steering knuckles was due to the improvement in management and replacement of imported major raw materials by local supply with lower cost.

Other income

Other income mainly included government subsidies income and interest income. Such income increased about 2 times to approximately RMB3,156,000 for the year ended 31 December 2006 from approximately RMB1,071,000 in 2005.


Power recirculating ball steering gear

Selling and distribution costs

The Group's selling and distribution costs for the year ended 31 December 2006 were approximately RMB9,213,000, representing approximately 6% of the Group's total turnover, and an increase of approximately 47% comparing with approximately RMB6,282,000 in 2005. Increase in the selling and distribution costs were mainly due to the addition of new customers and the increase in the initial investments of new products which will commence production at the end of 2007. At the same time, the Group increased investments in the after-sales services that caused the increase in the after-sale service expenses.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2006 were approximately RMB17,668,000, representing an increase of approximately 14% comparing with approximately RMB15,437,000 in 2005. Increase in the administrative expenses was mainly due to the increase in labour cost and investments in research and development expenses. The amount represented approximately 12% of the Group's total turnover for the year ended 31 December 2006, largely the same as approximately 10% of the total turnover in the previous year.

Finance costs

The Group's finance costs for the year ended 31 December 2006 were approximately RMB2,343,000, representing approximately 2% of the Group's total turnover, and a decrease of approximately 40% comparing with RMB3,931,000 in 2005. Decrease in the finance costs was mainly due to the repayment of loans of approximately RMB57,090,000.

Power recirculating ball steering gear spiral weld

Research and development expenses

The Group's research and development expenses for the year ended 31 December 2006 was approximately RMB2,474,000, representing approximately 2% of the Group's total turnover, and an increase of approximately RMB924,000 comparing with 2005.

Annual profit and profit margin

Basing on the above factors, the Group's profit for the year ended 31 December 2006 was approximately RMB33,178,000, representing a decrease of approximately 13% comparing with approximately RMB38,025,000 of the previous year. The Group's profit margin (percentage of profit to the Group's total turnover) for the year ended 31 December 2006 was approximately 22% (2005: 25%).

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity ratios

As at 31 December 2006, the Group had cash and cash equivalents of approximately RMB103,102,000, in comparison with approximately RMB37,361,000 as at 31 December 2005. Increase in the Group's cash and cash equivalents was mainly due to the Company's placing of 86,714,000 H Shares with nominal value of RMB1 each at a placing price of HK$1.5 each on 11 May 2006, and raised approximately HK$130,071,000 (equivalent to approximately RMB134,481,000). As a result of placing of H Shares, current ratio of the Group improved from 1.6 as at 31 December 2005 to 3.8 as at 31 December 2006. Quick ratio of the Group also improved from 1.3 as at 31 December 2005 to 3.1 as at 31 December 2006.

Net current assets as at 31 December 2006 was approximately RMB185,123,000 (2005: approximately RMB71,158,000).

Non-current liabilities as at 31 December 2006 was approximately RMB8,487,000 (2005: approximately RMB9,678,000).

Taking in account the Group's internally generated funds, bank facilities available and net proceeds from the placing, the Directors are of the opinion that the Group has sufficient working capital for its current needs.

Capital structure

The Group's gearing ratio, being the ratio of total borrowings to total assets, reduced to approximately 1% as at 31 December 2006 from approximately 17% as at 31 December 2005. Decrease in the gearing ratio was mainly attributable to the placing of H Shares in cash and the repayment of loans during the year.

Total loans and borrowings as at 31 December 2006 reduced by approximately RMB57,090,000 to approximately RMB5,560,000, of which amount repayable within one year was nil (2005: approximately RMB56,820,000), and amount repayable after one year was approximately RMB5,560,000 (2005: approximately RMB5,830,000). The loans carried commercial interests of 5% per annum (2005: 5%).

The Group's cash and cash equivalents and loans and borrowings were mainly denominated in Renminbi.

PLEDGE OF ASSETS

As at 31 December 2006, the Group did not have any pledges on its assets (2005: approximately RMB13,316,000).

MATERIAL ACQUISITIONS AND DISPOSALS

A non-wholly-owned subsidiary, DHB-SHIBAO Steering Co., Ltd. ("DHB-Shibao") was established in the PRC on 22 May 2006 with registered capital of US$12,136,836. DHB-Shibao is a sino-foreign equity joint venture owned as to 75% by the Group and 25% by DHB Componentes Automotivos S.A. ("DHB-CA"). The Group will contribute US$9,102,627 representing 75% of the registered capital of DHB-Shibao, in the form of cash, equipment, machineries, buildings and land use right and DHB-CA will contribute US$3,034,209 representing 25% of the registered capital in the form of cash and technology transfer.

DHB-Shibao will mainly engage in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears and steering oil pumps. Products to be manufactured by DHB-Shibao will bear the trademark of "DHB-Shibao". It is expected that DHB-Shibao will arrange to commence capacity establishment and trial production of steering oil pump in 2007.

As shown in the Prospectus, the Company acquired 10% equity interest in Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao") held by Ms. Zhang Hai Qin, wife of Mr. Zhang Shi Quan, the Chairman, an Executive Director and the Controlling Shareholder of the Group, and Hangzhou New Shibao became a wholly-owned subsidiary of the Company.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2006, both the sales and purchases of the Group were principally denominated in Renminbi. The Group did not subject to significant exposure in foreign currency risk apart from the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The proceeds will be converted into Renminbi as soon as practicable. No hedge arrangement has been entered into by the Group.

Power recirculating rack-and-pinion steering gear

CAPITAL COMMITMENTS

Apart from capital commitments set out in note 33 to the financial statements, the Group has no other material capital commitments as at 31 December 2006.

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 31 December 2006.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had a total of 928 employees as at 31 December 2006 (2005: 793).

For the year ended 31 December 2006, total salaries and welfares of the employees amounted to approximately RMB17,899,000 (2005: approximately RMB16,601,000). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

USE OF PROCEEDS

For the year ended 31 December 2006

	As set out in the Prospectus *HK$'000*	As set out in the Prospectus *RMB'000**	Actual situation *RMB'000*
Business plan:			
Acquisition of machinery, equipment and/or expansion of assembly line(s) to expand the production capacity and/or capability (note (a))	34,000	35,360	12,396
Acquisition of testing equipment and software to enhance the research and development and product testing capability (note (a))	7,000	7,280	5,285
Others:			
Settlement of remaining construction and ancillary expenditure of Hangzhou plant (note (a))	5,000	5,200	4,870
Capital injection to DHB-Shibao (note (b))	23,500	24,440	24,176
Total	69,500	72,280	46,727

Notes:

(a) Through balancing and comparisons of plans on equipment investment packages, to ascertain the best performance-to-price ratio equipment package, thereby increasing the replacement of imported equipment with local equipment, and reducing capital expenditures. In addition, investments in local equipment will obtain preferential tax policies from the State, and bring revenues to shareholders. In order to reduce risks on purchase of equipment, the Company will normally adopt prepayment of certain amounts, and the balance to be paid after the equipment has been tested and operating normally, thus causing the actual cash payments in 2006 to be less. In addition, some of the Company's projects adjusted their production plans to meet with demands of customers, and investments on some equipment were changed to be in 2007.

(b) The Group has completed the capital injection in cash to DHB-Shibao in August 2006.

* Amounts in Hong Kong dollars have been converted into Renminbi at the rate of HK$1.00=RMB1.04.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the Prospectus	Actual business progress
Expansion of production capacity	
Acquire additional machineries and equipment to expand power recirculating ball steering gears production capacity and to improve quality of heat treatment process	Purchased certain machinery and equipment
Acquire additional machineries and equipment and, or expand assembly line(s) to expand rack-and-pinion steering gears production and, or assembly capacity	Purchased certain machinery and equipment
Acquire machineries and equipment in preparation of electronic power steering gears production	Purchased certain machinery and equipment
Acquire machineries and equipment to expand our rack-and-pinion steering gears production capacity	Purchased equipment and commenced operation in the fourth quarter of 2006
Acquire additional machineries and equipment in preparation for trial production of our electronic power steering gears	Purchased certain equipment and scheduled to commence operation by the end of 2007
Acquire additional machinery and equipment, or expand production plant, so as to enhance the production capacity of M6 steering knuckles	Expanded production plant
Acquire additional machinery and equipment, so as to expand the production capacity of recirculating ball steering gears	Purchased certain machinery and equipment
Research and development	
Acquire additional computer equipment and design software to improve research and development capability	Purchased certain equipment and software to improve the research and development capability
Continue in the design, development and testing on new product models and, where appropriate, apply for relevant quality certifications	Design, development and testing on new product models, and the application for quality certifications are in progress
Acquire testing equipment for the new research and development centre of Hangzhou Shibao	Purchased part of the testing equipment
Send some selected technicians for technical training at DHB-CA	Have sent some selected technicians for technical training at DHB-CA
R&D of rack-and-pinion type of EPS project of high class sedans (hybrid synergy sedans) undertaken and under preparation	Started research and development and trial production

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the Prospectus	Actual business progress
Sales and marketing	
Expand sales network and coverage	New customers were established, such as bracket of vent-pipe and enforced gas spring board of sedans for FAW-Volkswagen Automotive Co., Ltd., and new retail network in over ten provinces were set up, which basically covered the whole country
Continue to develop complementary after sales services	Expanded the after service department, visited key customers, and enhanced the quality of ancillary after sales services
Introduce and promote new products to the existing customers with an aim to procuring them to switch from using imported parts to the Group's products	Developed some products to replace imported products, and convinced certain customers (including Jianghuai Automobile, Beiqi Foton and Yunnan Lifan) to use the Company's products
Deployment of resources to advertise and promote the Group's rack-and-pinion steering gears	Contacted and visited potential customers to promote the Company's rack-and-pinion steering gears
Continue to perform other general marketing and promotion activities in respect of the Group's other existing products	Participated in domestic and overseas parts and components exhibitions, and expanded the Company's influence and awareness
Provide internal training to the Group's sales and marketing personnel	Provided training to the Company's sales and marketing personnel
Human resources	
Recruit about 7 to 9 technicians and quality control personnel to support the business development	Recruited 5 technicians and 2 quality assurance personnel
Recruit about 4 to 6 sales and marketing personnel to support the increased sales and marketing activities	Recruited 6 sales and marketing personnel
Establish a team of 3 to 5 to focus on new product research, development and testing	Established a special team comprising 6 persons to be dedicated in the research and development and testing of new products

Executive Directors

Mr. Zhang Shi Quan (張世權) , aged 56, is the founder of our Group and the chairman and general manager of our Company. He is responsible for our Group's overall strategic planning, business development, and new product sales and marketing strategies. He is also a director of Zhejiang Shibao Holding which holds 165,387,223 Domestic Shares representing 94% of the Domestic Shares in issue and approximately 62.97% of the total issued share capital of the Company. He has over 20 years of extensive experience in automotive steering gears, and is a senior economist.

Mr. Zhang Bao Yi (張寶義) , aged 34, is deputy general manager of our Company. He graduated from Zhejiang Industrial University Zhexi Branch School (浙江工業大學浙西分校) in 1995. He worked in Zhejiang Shibao Steering in 1996 and was appointed as general manager of Zhejiang Shibao Steering in February 2000. He was granted the title of "Labour Model" (勞動模範) of Yiwu City in 2004. He is the son of Mr. Zhang.

Mr. Tang Hao Han (湯浩瀚) aged 38, is deputy general manager of our Company. He is a representative of the Jilin People's Congress (吉林省人大代表) , an executive member of the Siping City Industry and Commerce Union (四平市工商業聯合會執行委員), member of the Standing Committee of Jilin Province Siping City People's Political Consultative Conference (中國人民政治協商會議吉林省四平市常務委員會常委) and "Leader of the National Outstanding Youth in Industrial Development" (全國傑出青年興業領頭人). Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province Privately-Owned Enterprises" (吉林省優秀民營企業家). Mr. Tang graduated from the Renmin University of China (中國人民大學). He was a tutor at Nanjing College For Population Programme Management (南京人口管理幹部學院助教) in 1990. He was appointed as assistant to general manager and office manager of Zhejiang Shibao Steering in 1995, and deputy general manager of Zhejiang Shibao Steering in 1997. Since 1998, he has been the deputy general manager of Siping Steering. Mr. Tang obtained his master degree in business administration (工商管理碩士) from Jilin University (吉林大學) in 2004. He is currently studying for a doctorate degree in technical economics and management (技術經濟及管理專業博士) at Jilin University. He is the husband of Zhang Mei Jun (and the son-in-law of Mr. Zhang).

Mr. Zhu Jie Rong (朱頡榕), aged 58, has been deputy general manager of our Company responsible for investors and public relations since joining our Group in February 2002. He is also the compliance officer and authorised representative of our Company. In addition, he is a supervisor of Zhejiang Shibao Holding which holds 165,387,223 Domestic Shares representing 94% of the Domestic Shares in issue and approximately 62.97% of the total issued share capital of the Company. From 1966 to 1990, he worked in a number of leading automobile parts and components manufacturers in Shanghai, Hubei and Zhejiang, and has over 20 years of experience in the automobile parts and components industry.

Ms. Zhang Lan Jun (張蘭君), aged 31, is responsible for supervising the finance and accounting functions of our Company. She graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1996 and obtained a master degree in business administration (工商管理碩士學位) in Guizhou University (貴州大學). She joined our Group's accounting department in 1997 and has over 7 years of experience in finance and accounting. Ms. Zhang has also been a director of Hangzhou Shibao since November 1996 and finance manager of Hangzhou Shibao since 2001. She is a daughter of Mr. Zhang.

Non-executive Directors

Mr. Zhang Shi Zhong (張世忠), aged 45, is deputy general manager of our Group responsible for overseeing our steering gears production. He was deputy general manager of Yiwu Qianjin Steering Gear Factory until 1993 when its operations were taken over by Zhejiang Shibao Steering. Since then, he has been deputy general manager of Zhejiang Shibao Steering. He is also the chairman of Zhejiang Shibao Holding which holds 165,387,223 Domestic Shares representing 94% of the Domestic Shares in issue and approximately 62.97% of the total issued share capital of the Company. He has over 15 years experience in the automotive steering gears. He is the brother of Mr. Zhang.

Ms. Zhang Mei Jun (張美君), aged 36, graduated from the People's Liberation Army Transportation Engineering Institute (中國人民解放軍運輸工程學院) with a major in automobile design and manufacture (主修汽車設計與製造) in 1992. She was responsible for overseeing the finance and accounting functions of Zhejiang Shibao Steering from 1993 to 1998 and has been in charge of the finance and accounting functions of Siping Steering since 1999. She is a daughter of Mr. Zhang and the wife of Mr. Tang.

Mr. Gu Qun (顧群), aged 37, graduated from Zhejiang University (浙江大學) in 1991 with a bachelor's degree in chemical engineering (化學工程學士學位). He has been a managing director of Zhoushan Shibao since September 2000.

Independent non-executive Directors

Mr. Bao Zhi Chao (包志超), aged 70, worked in FAW Group Corporation as senior research engineer in 1994 and chief engineer in 1998. Mr. Bao retired from FAW Group Corporation. He was appointed as an independent non-executive Director since September 2004 and our senior consultant in November 2004.

Mr. Chen Guo Feng (陳國峰), aged 60, worked in the Hangzhou Turbine Factory (杭州汽輪機廠), Hangzhou Mechanical Industry Bureau (杭州市機械工業局) and Hangzhou Mechanical Electronic Holding (Group) Company Limited (杭州機械電子控股(集團)有限公司) as finance accountant, accounts supervisor, deputy chief accountant, financial director and department head. Mr. Chen is an independent director of Ningbo MOS Group Corporation Limited (寧波摩士集團股份有限公司). He was appointed as an independent non-executive Director since December 2004.

Mr. Lui Wing Hong, Edward (呂榮匡), aged 44, obtained a diploma in financial management from the University of New England in Australia in 1990. He is a member of the Australian Society of Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He has been appointed as an independent non-executive Director since December 2004.

Supervisors

Mr. Ge Bao Shan (葛寶山), aged 44, is a professor of the management school and a tutor for doctorate students at Jilin University (吉林大學). He is also standing deputy director of the Entrepreneurship Research Center of Jilin University (吉林大學創業研究中心). Mr. Ge has been appointed as a Supervisor since January 2005.

Ms. Liu Xiao Ping (劉曉平), aged 34, graduated from Zhejiang Radio & TV University (浙江廣播電視大學) with a diploma in foreign trade English in 1991, and obtained a master degree in business administration from Murdoch University in Australia in 2003. Ms. Liu has been appointed as a Supervisor since January 2005.

Mr. Shen Song Sheng (沈松生), aged 70, worked in Hangzhou Hong Qi Spare Parts Factory (杭州紅旗汽車零部件廠) in 1980. He joined our Group in 1993. He has been appointed as a Supervisor since June 2004.

Mr. Wang Kui Quan (王奎泉), aged 42, obtained his undergraduate degree from the Jiangxi Finance and Economics Institute (江西財經學院) (currently known as Jiangxi Finance and Economics Vocational College (江西財經職業學院)) and a master degree in economics from Dongbei University of Finance and Economics (東北財經大學) in 1986 and 1989 respectively. From 1997 to 2000, he was deputy head of Zhejiang School of Finance (浙江財政學校), and from October, 2002, he was deputy director of the post-graduate department of Zhejiang Finance and Economics Institute (浙江財經學院研究生部). Mr. Wang has been appointed as a Supervisor since January 2005.

Ms. Zheng Yan (鄭豔), aged 36, joined Siping Steering in 1999. She was assistant production supervisor and project manager in 2001. She was transferred to Jilin Shibao in 2003. Ms. Zheng has been appointed as a Supervisor since January 2005.

Senior management

Mr. Du Chun Mao (杜春茂), aged 51, is deputy general manager of Siping Steering responsible for its assembly workshop and mechanical workshop since 2001.

Mr. Du Yu Xuan (杜玉宣), aged 62, has been deputy general manager of Siping Steering since joining our Group in June, 2002. He worked in Siping City Reinforced Steel Machinery Factory (四平市鋼筋拉伸機廠) in 1989. He also worked as factory head of FAW Group Siping City Designated Automobile Factory (中國第一汽車集團四平專用汽車廠) in 1997.

Mr. Shen Rong Jin (沈榮金), aged 59, is a deputy chief engineer of our Group. He joined Zhejiang Shibao Steering in 1993 and became deputy general manager in 1996. He was appointed chief engineer of Zhejiang Shibao Steering in 1997 prior to taking up the position as deputy chief engineer of our Group.

Senior management *(continued)*

Mr. Zhou Long (周瓏), aged 50, has been deputy general manager of Hangzhou Shibao overseeing its product development department since joining our Group in April, 2003. He graduated from Nanjing University of Mechanical Industry Workers (南京市機械工業局職工大學) in 1983 majoring in heat processing skills and equipment. He was an engineer of an automobile spare parts factory in Nanjing from 1989 to 1995, and was appointed as the deputy factory manager in 1997.

Mr. Yu Zhong Chao (虞忠潮), aged 42, joined the Group since 1 December 2004, and is at present the vice president of the Company overseeing the operations of the Company and daily operations of Hangzhou Shibao. He worked for Dongfeng Hangzhou in 1984 as an engineer in the research institute, and was the head of the purchase department of Dongfeng Nissan Diesel Motor Co., Ltd. from 1994 to 1999, and was the marketing vice president of Zhejiang Changxing Automobile Leasing Co., Ltd. from 1999 to 2004.

Mr. Ise Mitsuo (伊勢光男), aged 66, has been deputy general manager of Hangzhou Shibao responsible for the development and production of power rack-and-pinion steering gears since joining our Group in January, 2003. He was appointed as department head of a leading manufacturer of automotive parts in Japan in 1996. From 1997 to 2001, he was relocated to China where he was the deputy general manager of a Sino-Japanese joint venture engaged in the manufacture of rack-and-pinion steering gears.

Ms. Chow Kit Mei (周潔媚), aged 37, has been appointed the qualified accountant, company secretary and authorized representative of our Company in September 2006. Ms. Chow is an associate member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Chow has over seven years experience with one of the big four international accounting firms and listed companies in Hong Kong.

The Board hereby present the annual report and audited financial statements of the Group for the year ended 31 December 2006.

Principal operations

The Group is engaged in the development and manufacture and sale of automobile steering gear system products. The business of its subsidiaries and associated companies are set out in note 17 and note 18 to the financial statement.

Results

Results and financial situation of the Group for the year ended 31 December 2006 are set out in page 47 to page 92 in the annual report.

Financial summary

Summary of the Group's results and assets and liabilities for the past three financial years are set out in page 6 of the annual report.

Dividends

The Board recommended to declare final dividends of RMB0.05 per share for the year ended 31 December 2006, with a total amount of approximately RMB13,133,000. The Company will submit a proposal for the distribution of final dividends on the forthcoming annual general meeting. Subject to the approval by the shareholders, the Company is expected to distribute final dividends to shareholders whose names are listed on the register of members as at Thursday, 31 May 2007 on or about Friday, 22 June 2007.

For distribution of the final dividends, dividends for holders of domestic shares will be distributed and paid in Renminbi, while dividends for holders of H shares will be declared in Renminbi but paid in Hong Kong dollars (conversion rate of Renminbi into Hong Kong dollars shall be calculated on the average price of the conversion of Renminbi into Hong Kong dollars in five (5) days as announced by the People's Bank of China five (5) working days preceding 1 June 2007).

The Company had not declared any interim dividends to shareholders for the year under reivew.

Share capital

Details of changes of the Company's share capital during the year are set out in note 29 to the financial statements.

Convertible debentures

The Group has not granted any convertible debentures, futures, options or other similar rights.

Reserves

Reserves of the Group for the year ended 31 December 2006 and changes during the year prepared in accordance with IFRSs are set out in the consolidated statements of changes in equity, and details of the relevant reserves are set out in note 30 to the financial statements.

Donations

For the year ended 31 December 2006, the Group has made donations of RMB34,000.

Properties, plants and equipment

Details of changes of the Group's properties, plants and equipment are set out in note 13 to the financial statements.

Bank loans and overdraft

Details of the Group's bank loans and overdraft are set out in note 26 to the financial statements.

Directors and Supervisors

The Company's Directors and Supervisors during the year and as at the date of this report are as follows:

Executive Directors

Mr. Zhang Shi Quan (張世權) (Chairman and General Manager)	Re-elected with effect from 16 May 2006
Mr. Zhang Bao Yi (張寶義)	Re-elected with effect from 16 May 2006
Mr. Tang Hao Han (湯浩瀚)	Re-elected with effect from 16 May 2006
Mr. Zhu Jie Rong (朱頡榕)	Re-elected with effect from 16 May 2006
Ms. Zhang Lan Jun (張蘭君)	Re-elected with effect from 16 May 2006

Non-Executive Directors

Mr. Zhang Shi Zhong (張世忠)	Re-elected with effect from 16 May 2006
Ms. Zhang Mei Jun (張美君)	Re-elected with effect from 16 May 2006
Mr. Gu Qun (顧群)	Re-elected with effect from 16 May 2006

Independent Non-executive Directors

Mr. Bao Zhi Chao (包志超)	Re-elected with effect from 16 May 2006
Mr. Chen Guo Feng (陳國峰)	Re-elected with effect from 16 May 2006
Mr. Lui Wing Hong, Edward (呂榮匡)	Re-elected with effect from 16 May 2006

Supervisors

Mr. Ge Bao Shan (葛寶山)	Re-elected with effect from 16 May 2006
Ms. Liu Xiao Ping (劉曉平)	Re-elected with effect from 16 May 2006
Mr. Shen Song Sheng (沈松生)	Re-elected with effect from 16 May 2006
Mr. Wang Kui Quan (王奎泉)	Re-elected with effect from 16 May 2006
Ms. Zheng Yan (鄭艷)	Re-elected with effect from 16 May 2006

Contracts of Directors and Supervisors

Each of the Directors (including executive Directors, non-executive Directors and Independent non-executive Directors) and each of the Supervisors has entered into a service contract with the Company for an initial term of 3 years commencing from the Listing Date and thereafter to be renewed subject to the consent of both parties and re-election of the Directors in accordance with the provisions of the Articles of Association until terminated by either party by giving no less than 1 month notice in writing to the other party thereafter or by the Company upon the occurance of certain events as set out in the contract.

Other than as disclosed above, none of the Directors and Supervisors has entered into any service contract with any subsidiary of the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

The Board confirms that the Company has received annual letter of confirmation from each of the Independent non-executive Directors pursuant to Rule 5.09 of GEM Listing Rules. The Board considers that they are independent as referred to in Rule 5.09 of GEM Listing Rules.

Directors' and Supervisors' remuneration and the five highest paid persons

Details of the remuneration of Directors, Supervisors and the five highest paid persons are set out in note 7 to the financial statements.

Standards for determining the remuneration of Directors and Supervisors

The Company's remuneration concepts are applicable to Directors and Supervisors. When determining the remuneration of Directors and Supervisors, besides taking reference to market basis, considerations will also be made on personal responsibilities, experiences, workload and the time of service in the Company and its subsidiary. Other welfare treatments such as medical insurance which the Directors and Supervisors are entitled to shall be in accordance with the relevant laws and regulations of the State and the Company's internal regulations. The Directors are entitled to the discretionary bonuses as determined under the full discretionary of the Board. In addition to the above service fees and discretionary bonuses, the Directors shall also be entitled to allowances and benefits given by the Company to other staff. The Directors are entitled to Share Option Schemes (if any) under the relevant provisions of the Company.

Connected party transactions

For the year ended 31 December 2006, the Group has no transaction which required to make connected transaction disclosures under the GEM Listing Rules.

In relation to the related party transactions as set out in note 32 of the notes to the financial statements, the board of directors of the Company has confirmed that (other than (i) the acquisition from Ms. Zhang Hai Qin of additional equity interest in a subsidiary which took place on 22 February, 2006 prior to listing of the H shares in the Company and (ii) the sale of finished goods to Wuhu Sterling, an associate of Shibao), these transactions constitute connected transactions within the meaning of the GEM Listing Rules of Shibao. However, the sales of property, plant and equipment, raw materials and finished goods to Hangzhou Shibao and sales of finished goods to Siping Steering are intra-group transactions exempted under GEM Listing Rule 20.31(1) from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules.

Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, underlying Shares and debentures

As at 31 December 2006, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or interests or short positions which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(1) Long position in Domestic Shares of the Company:

Name of Director	Capacity	Number of Domestic Shares	Proximate percentage of shareholding in same class of Shares	Proximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan ("Mr. Zhang")	Interest in controlled corporation	165,387,223	94.00%	62.97%

Note: Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, which in turn holds 165,387,223 Domestic Shares. As Mr. Zhang is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in all of the 165,387,223 Domestic Shares held by Zhejiang Shibao Holding.

(2) Long positions in the registered capital of the ultimate holding company, Zhejiang Shibao Holding, an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Zhejiang Shibao Holding
Mr. Zhang	Beneficial owner	RMB20,000,000	40%
Mr. Zhang Bao Yi	Beneficial owner	RMB10,000,000	20%
Mr. Tang Hao Han	Beneficial owner	RMB10,000,000	20%
Ms. Zhang Lan Jun	Beneficial owner	RMB7,500,000	15%
Mr. Zhang Shi Zhong	Beneficial owner	RMB2,500,000	5%

Note: Zhejiang Shibao Holding, holds 165,387,223 Domestic Shares representing 94% of the Domestic Shares in issue and approximately 62.97% of the total issued share capital of the Company and accordingly is an associated corporation of the Company.

Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, underlying Shares and debentures *(continued)*

(3) Long positions in the registered capital of a subsidiary of the Company, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Hangzhou Shibao
Mr. Zhang	Family interest (note 1)	RMB400,000	1%
	Interest in a controlled corporation (note 2)	RMB39,600,000	99%

Notes:

(1) Hangzhou Shibao is a subsidiary of the Company which is owned as to 99% by the Company and as to 1% by Ms. Zhang Hai Qin ("Mrs. Zhang"), the wife of Mr. Zhang. Mr. Zhang is taken or deemed to be interested in the 1% interest directly held by his wife in Hangzhou Shibao.

(2) Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company holding approximately 62.97% of the total issued share capital of the Company. As Mr. Zhang is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding and the Company, Mr. Zhang is taken or deemed to be interested in the 99% interest directly held by the Company in Hangzhou Shibao.

(4) Long positions in the registered capital of a fellow subsidiary of the Company, Jilin Shibao Automotive Parts Co., Ltd. ("Jilin Shibao"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Jilin Shibao
Mr. Zhang	Interest in a controlled corporation	RMB19,000,000	95%
Ms. Zhang Mei Jun	Beneficial owner	RMB1,000,000	5%

Note: Jilin Shibao, a subsidiary of the Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 95% by Zhejiang Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 95% interest directly held by Zhejiang Shibao Holding in Jilin Shibao.

Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, underlying Shares and debentures *(continued)*

(5) Long positions in the registered capital of a fellow subsidiary of the Company, Jilin Shibao Mechanical and Electrical Automation Co., Ltd. ("Jilin Shibao Automation"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Jilin Shibao
Mr. Zhang	Interest in a controlled corporation	RMB1,600,000	80%

Note: Jilin Shibao Automation, a subsidiary of the Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 80% by Zhejiang Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 80% interest directly held by Zhejiang Shibao Holding in Jilin Shibao Automation.

(6) Long positions in the registered capital of a fellow subsidiary of the Company, Changchun Shili Automotive Brake Parts Co., Ltd. ("Changchun Shili Automotive"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Changchun Shili Automotive
Mr. Zhang	Interest in a controlled corporation	RMB6,300,000	90%

Note: Changchun Shili Automotive, a subsidiary of the Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 90% by Zhejiang Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 90% interest directly held by Zhejiang Shibao Holding in Changchun Shili Automotive.

Save as disclosed above, as at 31 December 2006, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Division 7 & 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Stock Exchange.

Arrangements for purchase of Shares or debentures

None of the Company, its ultimate holding company or any subsidiaries of its ultimate holding company has entered into any arrangement, allowing Directors of the Company can be benefited from the purchase of the shares or debentures of the Company or any other legal person entities, and none of the Directors, Supervisors and Chief Executive or their respectively spouse or children under 18 has any right or granted or has exercised any right to subscribe for securities (or warrants or debentures (if applicable)) or to subscribe for H Shares in the Company.

Share Option Scheme

For the year ended 31 December 2006, the Company has not implemented any Share Option Scheme.

Substantial Shareholders

As of 31 December 2006, so far as is known to the Directors or Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Proximate percentage of shareholding in same class of Shares	Proximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding (Note 1)	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang (Note 1)	Interest in controlled corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang (Note 1)	Interest in spouse	165,387,223 Domestic Shares	94.00%	62.97%
Manulife Asset Management (Hong Kong) Limited	Investment manager	6,054,000 H Shares	6.98%	2.30%
Atlantis Investment Management Limited	Investment manager	16,000,000 H Shares	18.45%	6.09%

Substantial Shareholders *(continued)*

Name of Shareholder	Capacity	Number and class of Shares	Proximate percentage of shareholding in same class of Shares	Proximate percentage in the Company's total issued share capital
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	5,476,000 H Shares	6.32%	2.08%
Galaxy China Opportunities Fund	Beneficial owner	5,476,000 H Shares	6.32%	2.08%
United Overseas Bank Limited (Note 2)	Interest in controlled corporation	11,134,000 H Shares	12.84%	4.24%
UOB Asset Management Limited (Note 2)	Investment Manager	11,134,000 H Shares	12.84%	4.24%

Note 1: As at 31 December 2006, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Directors' Interests and Long Positions in Shares". Mrs Zhang, as the wife of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Note 2: The 11,134,000 Shares are held by UOB Asset Management Limited. United Overseas Bank Limited holds 100% interest in UOB Asset Management Limited and is therefore deemed to be interested in all of these H shares held by UOB Asset Management Limited.

Save as disclosed above, as at 31 December 2006, Directors are not aware of any other person (other than the Directors, Chief Executive and Supervisors of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the registered to be kept under section 336 of the SFO.

Contract of significance

(a) A share transfer agreement (in Chinese) dated 22 February, 2006 entered into between the Company and Mrs. Zhang pursuant to which Mrs. Zhang agreed to transfer a 10% equity interest in Hangzhou New Shibao to the Company.

(b) A deed of indemnity dated 3 May, 2006 (in Chinese) executed by Zhejiang Shibao Holding, Mr. Zhang, Zhang Bao Yi, Mr. Tang Hao Han, Ms. Zhang Lan Jun and Mr. Zhang Shi Zhong in favour of the Company.

Save as disclosed above and in Note 32 to the financial statement, no contract of significance to which the Company, any of its subsidiaries, its controlling shareholder or any of its subsidiaries was a party and in which the Directors and Supervisors were directly and indirectly materially interested subsisted at the end of the year or at any time during the year.

Employee and remuneration policy

For the year ended 31 December 2006, the Group had a total of 928 employees. For the year ended 31 December 2006, total salaries and welfares of the employees amounted to approximately RMB17,899,000 (2005: approximately RMB16,601,000). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

Our Directors believe that our Group maintains good working relationships with its employees and has not experienced any significant difficulties in recruiting and retaining employees. Our Group has not experienced any significant disruption in its operations due to labour disputes.

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2006.

The contributions to be made by employees under the scheme are charged to the income statement at the respective rates equivalent to the contributions paid or payable by our Company and its subsidiaries under the rules of the scheme.

Competing Interests

None of the Directors, the substantial shareholders or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has any other conflicts of interest with the Group.

Interest of Compliance Adviser

As at 31 December 2006, as updated and notified by Anglo Chinese Corporate Finance Limited (the "Compliance Adviser"), the compliance adviser of the Company, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the Company's securities, including share options and the other rights to subscribe the Company's securities.

Pursuant to the compliance adviser agreement dated 3 May 2006 entered into between the Company and the Compliance Adviser, the Compliance Adviser received and will receive advisory fees in acting as the compliance adviser of the Company from the date when the shares of the Company are listed on the GEM, until the earlier of the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the financial year ending 31 December 2008 or the date on which the appointment of the Compliance Adviser is terminated pursuant to the terms thereof.

Management Contracts

There were no management or administrative contract relating with the entire or any material operation of the Company entered or existed during the year.

Major customers and suppliers

For the year ended 31 December 2006, purchases attributable to the Group's five largest suppliers and the turnover attributable to the five largest customers represented approximately 42% and 53% of the Group's total cost of sales and total turnover respectively.In addition, the largest supplier and the largest customer represented approximately 9% and 25% of the Group's total purchases and turnover respectively.

To the best of the Directors' knowledge, neither the Directors, their respective associates nor any shareholders who to the knowledge of the Directors owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers or suppliers during the year.

Audit Committee

The Company established an audit committee on 26 April 2006 with written terms of reference in compliance with the Code of Best Practice set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has three members, namely Mr. Chen Guo Feng, Mr. Lui Wing Hong, Edward and Ms. Zhang Mei Jun. Mr Chen Guo Feng and Mr. Lui Wing Hong, Edward are independent non-executive Directors and Ms. Zhang Mei Jun is a non-executive Director. The chairman of the audit committee is Mr. Lui Wing Hong, Edward.

The Company's financial statements for the year ended 31 December 2006 have been reviewed by the audit committee.

Remuneration Committee

The Company has established a remuneration committee on 26 April 2006 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The remuneration committee consists of three members, comprising Mr. Lui Wing Hong, Edward, Mr. Chen Guo Feng and Zhang Mei Jun. The Chairman of the remuneration committee is Mr. Lui Wing Hong, Edward. The principal duties of the remuneration committee include (i) making recommendations to the Board of Directors on the remuneration policies and structure for the Directors and senior management of the Company; (ii) setting up a formal and transparent procedure for determination of such remuneration policies; and (iii) evaluating performances and formulating the remuneration policies based on such evaluations.

Board Practices and Procedures

During the period from the Listing Date to 31 December 2006, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

Model Code for Securities Transactions by Directors

During the period from the Listing Date to 31 December 2006, the Company had adopted a Model Code regarding securities transactions by Directors on terms no less exacting than the required standard of dealings by the Stock Exchange and as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard of dealings and Model Code regarding securities transactions by the Directors.

Code on Corporate Governance Practices

The Stock Exchange has promulgated the Code on Corporate Governance Practices, to be effective for accounting periods commencing on or after 1 January 2005, details of which are set in Appendix 15 of "Code on Corporate Governance Practices" of the GEM Listing Rules. The Company has been in compliance with the Code on Corporate Governance Practices since its listing date up to the year ended 31 December 2006, except for the following:

Pursuant to Rule A.2.1 of the Code on Corporate Governance Practices, the roles of the chairman and the chief executive should be separated, and should not be undertaken by the same individual. Mr. Zhang Shi Quan was the Company's Chairman and General Manager during the year under review. Mr. Zhang Shi Quan was the founder of the Group, overlooking the overall strategic plans, business development and new product marketing strategies. In view of the business nature of the Company, the Board considered that the present management structure and arrangement were effective to respond to market changes and finalization of strategic plans. The Board will review the efficiency of such management arrangement from time to time.

Purchase, Sale or Redemption of Securities

Since the commencement of listing of the H Shares of the Company on GEM on 16 May 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

Pre-Emptive Rights

There are no provisions for pre-emptive right under the Articles of Association and the laws of the PRC, the place of jurisdiction where the Company was established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Sufficient Public Floating

The Company has always maintained sufficient public floating during the period from its Listing to 31 December 2006.

Post Balance-Sheet Events

Details of major post balance-sheet events are set out in note 35 to the financial statements.

Corporate governance

The Corporate governance report adopted by the Company is set out in page 40 to page 45 in the annual report.

Auditors

The financial statements have been audited by Ernst & Young, certified public accountants, who has retired and is eligible to be re-appointed.

By order of the Board
Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
23 March 2007

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

I on behalf of the Supervisory Committee would hereby submit the report of the Supervisory Committee of Zhejiang Shibao Company Limited for the review by the shareholders.

For the year ended 31 December 2006, each Supervisor of the Supervisory Committee has strictly complied with the Company Law of the PRC, Hong Kong GEM Listing Rules and the Articles of Association, complied with the fiduciary principles, and honestly discharged the duties and obligations of supervision, protected the interests of shareholders, the Company and its employees, and be responsible to the shareholders.

During the reporting period, one meeting had been held by the Supervisory Committee. The Supervisory Committee attended activities such as the Company's Board meetings, and exercise of supervisory functions to the Board and its members and senior management such as the general manager, deputy general managers and the operation management of the Company.

Having made the above works, the Supervisory Committee issued independent opinions on the following matters:

1. The Supervisory Committee seriously verified financial information such as the financial reports, results report and profit distribution plan submitted by the Board to the shareholder meeting. The Supervisory Committee considered that the financial report for the year ended 31 December 2006 as audited by Ernst & Young truly and fairly reflected the operating results and assets of the Company.

2. During the year, the Supervisory Committee participated in Board meetings in compliance with the relevant provisions under the related laws, regulations of the State and the Articles of Association, and conducted supervisions on the procedures for convening Board meetings, decision procedures and implementation of resolutions, performance of duties by the senior management and the Company's management system. The Supervisory Committee considered that the Company's Directors and senior management were able to comply with the relevant requirements under the related laws and regulations of the State and the Articles of Association in the operation management. The Board has on the basis of the interests of shareholder and the Company taken as a whole, seriously implemented the various resolutions and authorizations of the general meetings, internal management and internal control systems were continuously improved and upgraded in the operations. The Supervisory Committee also strictly implemented Board resolutions, and made reviews and inspections whether investments on major projects complied with regulatory procedures, established and continuously upgraded internal control system, making timely, accurate and transparent information disclosures. The Supervisory Committee also believes that the Directors and all senior management honestly and diligently discharged their duties, and no violation of law, regulation, the Articles of Association or harming of the Company's interests have been discovered during the discharge of their duties, and no abuse of powers and actions harming the interests of the shareholders and the staff.

3. During the year, the Company has not incurred any material litigation, nor any action taken by the Supervisory Committee on the Board or Directors.

In 2006, the Supervisory Committee had seriously discharged its duties and exercised its functions in strict compliance with the relevant provisions of the laws and regulations, continued strengthening its efforts in supervision and inspections and protected the interests of all investors. Meantime, I on behalf of the Supervisory Committee would like to express our most esteemed respect and sincere thanks to all shareholders and staff for their support and help to the Supervisory Committee in the past year.

By order of the Supervisory Committee
Liu Xiao Ping
Convenor of the Supervisory Committee

Hangzhou, Zhejiang, the PRC
23 March 2007

For the year ended 31 December 2006, the Group had been in compliance with majority of the Code on Corporate Governance Practices ("Code on Corporate Governance") as set out in Appendix 15 to the GEM Listing Rules by adopting a compliance manual that requires compliance with, amongst others, the Code on Corporate Governance. This Report describes its corporate governance practices, and explains the application of and deviation (if any) from the principles of the Code on Corporate Governance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the period from the Listing Date to 31 December 2006, the Company had adopted a Model Code regarding securities transactions by Directors on terms no less exacting than the required standard of dealings by the Stock Exchange and as set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard of dealings and Model Code regarding securities transactions by the Directors.

BOARD OF DIRECTORS

Composition of the Board and Board Practices

The Board comprises 11 Directors, of which five are executive Directors, three are non-executive Directors and three are independent non-executive Directors.

Each of the Directors (including executive Directors, non-executive Directors and Independent non-executive Directors) and each of the Supervisors has entered into a service contract with the Company for an initial term of 3 years commencing from the Listing Date and thereafter to be renewed subject to the consent of both parties and re-election of the Directors in accordance with the provisions of the Articles of Association until terminated by either party by giving no less than 1 month notice in writing to the other party thereafter or by the Company upon the occurance of certain events as set out in the contract.

Other than as disclosed above, none of the Directors and Supervisors has entered into any service contract with any subsidiary of the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

The Company has fully complied with Rule 5.05(1) and (2) of the GEM Listing Rules, and has appointed three independent non-executive Directors, of which at least one possesses appropriate professional qualification or accounting or related financial management expertise. The Board considers that all the independent non-executive Directors are independent parties, and has received confirmation letters from each of the Directors of its independence for the year as specified in Rule 5.09 of the GEM Listing Rules.

Mr. Zhang Shi Zhong (a non-executive Director of the Group) is the brother of Mr. Zhang Shi Quan (Chairman and General Manager of the Group). Mr. Zhang Bao Yi (an executive Director of the Group) is the son of Mr. Zhang Shi Quan (Chairman of the Group). Ms. Zhang Lan Jun (an executive Director of the Group) and Ms. Zhang Mei Jun (a non-executive Director of the Group) are daughters of Mr. Zhang Shi Quan (Chairman of the Group). Mr. Tang Hao Han (an executive Director of the Group) is husband of Ms. Zhang Mei Jun (a non-executive Director) and the son-in-law of the Mr. Zhang Shi Quan (Chairman of the Group). Save for the above, there is no other financial, business, family or material relationship between the members of the Board.

Members of the Board for the year ended 31 December 2006 were as follows:

Executive Directors
Mr. Zhang Shi Quan (張世權) (Chairman and General Manager)
Mr. Zhang Bao Yi (張寶義)
Mr. Zhang Hao Han (湯浩翰)
Mr. Zhu Jie Rong (朱頡榕)
Ms. Zhang Lan Jun (張蘭君)

Non-Executive Directors
Mr. Zhang Shi Zhong (張世忠)
Ms. Zhang Mei Jun (張美君)
Mr. Gu Qun (顧群)

Independent Non-executive Directors
Mr. Bao Zhi Chao (包志超)
Mr. Chen Guo Feng (陳國峰)
Mr. Lui Wing Hong, Edward (呂榮匡)

The Board is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of business plans, assessment of the Group's performance and supervision on the management. The Board is also responsible to instruct and supervise the Company's businesses to promote the success of the Company and its businesses.

The Board is focused on the overall strategies and policies, in particular on the growth and financial performance of the Group.

The Board designates the Group's daily operation works to be handled by the executive Directors and senior management, the Board of Directors makes decisions on certain important matters, including annual business plans; annual financial budgets; annual remuneration plans; quarterly, interim and annual financial reports; preliminary distribution plans in respect of quarterly, interim profit and full year profit; and material issues involving development, acquisition or corporate reorganization of the Company. The Board transmits its decisions to the management through executive Directors who attend Board meetings.

Chairman and Chief Executive

Under Rule A.2.1 of the Code of Corporate Governance, the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual. Mr. Zhang has been the Chairman and General Manager of the Company during the year under review. Mr. Zhang was the Group's founder, responsible overlooking the overall strategic planning, business development and marketing strategies of new products. In view of the nature of the Company's business, the Board considers that the current management structure and arrangement are considerably effective in making response over market changes and finalization of strategic plans. The Board will review the efficiency of such management arrangement from time to time.

The Board will hold board meetings at least four times each year. For the year under review, the Board held 5 meetings in total (including 2 meetings after the Listing). Records of Directors' attendance in Board meetings during the year under review are as follows:

	Number of attendance in the whole year	Number of attendance after the Listing
Executive Directors		
Mr. Zhang Shi Quan (Chairman and General Manager)	5/5	2/2
Mr. Zhang Bao Yi	5/5	2/2
Mr. Tang Hao Han	5/5	2/2
Mr. Zhu Jie Rong	5/5	2/2
Ms. Zhang Lan Jun	5/5	2/2
	Number of attendance in the whole year	**Number of attendance after the Listing**
Non-executive Directors		
Mr. Zhang Shi Zhong	5/5	2/2
Ms. Zhang Mei Jun	5/5	2/2
Mr. Gu Qun	5/5	2/2
Independent Non-executive Directors		
Mr. Bao Zhi Chao	5/5	2/2
Mr. Chen Quo Feng	5/5	2/2
Mr. Lui Wing Hong, Edward	5/5	2/2

Internal control

An effective internal control system is very important for the protection of the Group's assets, shareholders' investments, ensuring the reliability of financial information announcements and compliance with the GEM Listing Rules. The Board is also aware of its responsibility towards the Group's internal control, financial control and risk management, and its responsibility of supervising its efficiency from time to time. Accordingly, the Group has established an internal audit team ("Internal Audit Team"), the members of which include the qualified accountant, to carry out reviews on the internal control system of the Group.

The Internal Audit Team sets annual audit plans based on risk assessments, so as to ensure the audits cover all important scopes of internal audits, the relevant audit plans shall be submitted for consideration by the Audit Committee. The scope and time of audit reviews shall be decided in accordance with risk assessments. The Audit Committee shall report to the Board for discovery of all significant risks and issues during review of internal control systems. Besides the works of internal audits, in order to enhance the independence on internal control reviews, the Group shall appoint independent accountants to make a review on the Group's internal control systems in 2007 and to submit a report.

Prior to the Listing, the Company had appointed Baker Tilly Hong Kong to inspect the Group's internal control system and management and raise management proposals. During the year, the Internal Audit Team had also submitted internal control report to the Audit Committee, the Supervisory Committee and the Board covering financial control, operation control and compliance control as well as risk management functions. The Audit Committee's, Supervisory Committee's and the Board's conclusion were that they accepted the Group's existing internal control system, and confirmed that they have duly implemented the system, and that there were no significant control weakness discovered.

Remuneration Committee

The Company set up a Remuneration Committee on 26 April 2006, with written terms of reference in compliance with paragraph B1 of the Code of Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The Remuneration Committee comprised three members, majority of which are Independent Non-executive Directors, and which are:

Mr. Lui Wing Hong, Edward (Chairman)
Mr. Chen Guo Feng
Ms. Zhang Mei Jun

The main duties of the Remuneration Committee include (i) to make proposals to the Board in respect of the remuneration policy and structure of the Company's directors and senior management: (ii) to set up a formal and transparent procedure for the determination of such remuneration policy; and (iii) to assess performances and set up remuneration policy based on such assessment. During the year under review, the Remuneration Committee reviewed the remuneration packages of Directors and Supervisors. The Remuneration Committee held 1 meeting during the year under review and records of attendance of members of the committee in the meeting of the Remuneration Committee are as follows:

	Number of attendance after the Listing
Mr. Lui Wing Hong, Edward (Chairman)	1/1
Mr. Chen Guo Feng	1/1
Ms. Zhang Mei Jun	1/1

Nomination of Directors

The Board has been authorized under the Articles of Association to appoint any person as director to make up temporary vacancy, or to appoint additional members of the Board under the authorization by the shareholders' general meeting of the Company. Proposals for qualified candidates shall be submitted to the Board for its consideration, while principles of election shall be based on the appraisals on its professional qualifications and experiences. The Board shall select and proposal candidates for directors after considerations on the balancing of its skills and experiences as may be suitable for the Group's business.

There were no directors being nominated during the year.

Supervisory Committee

The Supervisory Committee of the Company ("Supervisory Committee") comprises five members, who are Mr. Ge Bao Shan, Ms. Liu Xiao Ping, Mr. Shen Zhong Sheng, Mr. Wang Kui Quan and Ms. Zheng Yan, and Ms. Liu Xiao Ping is the convenor of the Supervisory Committee. Each of the Supervisors have made their best efforts to discharge their duties, and effectively supervise whether the financial matters of the Company are in compliance with the laws and regulatory requirements, and supervise the Directors and senior management in the implementation of their duties.

The establishment of the Supervisory Committee is in compliance with the Company Law of the PRC.

Remuneration of the Auditors

Remuneration received by the auditors of the Company in respect of their audit services for the year ended 31 December 2006 was approximately RMB1,437,000, while remunerations in respect of audit services of auditors of the Group appointed in the PRC was approximately RMB6,000. The auditors had not provided any non-audit services in 2006.

Audit Committee

The Company set up an Audit Committee on 26 April 2006 in compliance with the Cost of Best Practice as set out in Appendix 15 to the GEM Listing Rules, in order to review the Group's financial reports and internal control, and to make relevant recommendations to the Board.

The Audit Committee comprises three members, who are Mr. Chen Guo Feng, Mr. Lui Wing Hong, Edward and Ms. Zhang Mei Jun. Mr. Chen Guo Feng and Mr. Lui Wing Hong, Edward are Independent Non-executive Directors, while Ms. Zhang Mei Jun is a Non-executive Director. Mr. Lui Wing Hong, Edward is the chairman of the Audit Committee.

The Group's unaudited interim results for the six months ended 30 June 2006 and the unaudited quarterly results for the nine months ended 30 September 2006 had been reviewed by the Audit Committee, and the Audit Committee considers that these reports had been prepared in compliance with the accounting standards and provisions. The Group's audited consolidated results for the year ended 31 December 2006 had also been reviewed by the Audit Committee. In addition, the Audit Committee had reviewed the system of internal control in 2006.

The main responsibility of the Audit Committee is to provide proposals to the Board in respect of the appointment and removal of external auditors, and to approve the remuneration and appointment terms of external auditors, review financial information and supervise financial reporting system and internal control procedures. The Committee shall also supervise the Company's progress on the implementation of the provisions under the Code of Corporate Governance Practices as required by the GEM Listing Rules.

Two meetings had been held by the Audit Committee in 2006. Records of attendance in the meetings of the Audit Committee are as follows:

	Number of attendance after the Listing
Mr. Lui Wing Hong, Edward (Chairman)	2/2
Mr. Chen Guo Feng	2/2
Ms. Zhang Mei Jun	2/2

Responsibility of Directors and Auditors on the accounts

The Board confirms its responsibilities on the preparation of the Group's financial statements. The Directors shall ensure that the Group's financial statements have been prepared in accordance with the statutory requirements and the applicable accounting standards.

Statements of the Company's auditors in respect of their reporting responsibilities on the Group's financial statements are set out in page 46 of the Independent Auditors' Report in this annual report.

Relationship with shareholders

The Group has undertaken to maintain the highest level of transparency, and to apply the policy of making public and timely disclosures of the relevant information to shareholders. Such undertakings of making fair disclosures and full reporting can be reflected in many respects.The Company also maintains communications with shareholder through its annual reports, interim reports and quarterly reports.

Relationship with investors

The Group shall regular meet with analysts, and attend various forums and press meetings, so as to strengthen relationship with the investment sector.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

To the shareholders of Zhejiang Shibao Company Limited
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Zhejiang Shibao Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 92, which comprise the consolidated and company balance sheets as at 31 December 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility forward or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

23 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Revenue	5	152,369	149,148
Cost of sales		(85,226)	(82,579)
Gross profit		67,143	66,569
Other income	5	3,156	1,071
Selling and distribution costs		(9,213)	(6,282)
Administrative expenses		(17,668)	(15,437)
Other expenses		(2,342)	(162)
Operating profit		41,076	45,759
Finance costs	6	(2,343)	(3,931)
Share of losses of an associate	18	(59)	(228)
Profit before tax	6	38,674	41,600
Income tax expense	8	(5,496)	(3,575)
Profit for the year		33,178	38,025
Attributable to			
Equity holders of the parent	9	32,595	37,472
Minority interests		583	553
		33,178	38,025
Dividends	10		
Proposed final		13,133	15,000
		13,133	15,000
Earnings per share	11		
Basic, attributable to ordinary equity holders of the parent		RMB0.14	RMB0.21

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	31 December 2006 RMB'000	31 December 2005 RMB'000
Non-current assets			
Property, plant and equipment	13	146,447	111,618
Construction in progress	14	2,226	32,777
Land use rights	15	26,792	27,471
Intangible assets	16	95	—
Advance payments for property, plant and equipment		2,729	1,904
Investment in an associate	18	6,913	6,972
Deferred tax assets	19	2,295	375
		187,497	181,117
Current assets			
Inventories	21	43,270	35,636
Trade and notes receivables	22	95,371	109,241
Prepayments, deposits and other receivables	23	4,325	15,119
Due from a director	24	—	7
Due from an associate	25	5,298	274
Cash and cash equivalents		103,102	37,361
		251,366	197,638
Total assets		438,863	378,755
Current liabilities			
Interest-bearing loans and borrowings	26	—	56,820
Trade and notes payables	27	38,225	40,070
Accrued liabilities and other payables	28	13,425	18,350
Tax payable		13,577	10,329
Deferred income	20	1,016	911
		66,243	126,480
Net current assets		185,123	71,158
Total assets less current liabilities		372,620	252,275
Non-current liabilities			
Interest-bearing loans and borrowings	26	5,560	5,830
Deferred income	20	2,927	3,848
		8,487	9,678
Net assets		364,133	242,597

	Notes	31 December 2006 RMB'000	31 December 2005 RMB'000
Equity			
Equity attributable to equity holders of the parent			
Issued capital	29	262,658	175,944
Reserves	30(a)	84,547	43,941
Proposed final dividends	10	13,133	15,000
		360,338	234,885
Minority interests		3,795	7,712
Total equity		364,133	242,597

Zhang Shi Quan
Director

Zhang Lan Jun
Director

BALANCE SHEET

31 December 2006

	Notes	31 December 2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	13	8,610	9,954
Land use rights	15	6,478	6,650
Investments in subsidiaries	17	87,850	83,850
Investment in an associate	18	7,200	7,200
Deferred tax assets	19	947	375
		111,085	108,029
Current assets			
Inventories	21	2,788	1,535
Trade and notes receivables	22	931	9,964
Prepayments, deposits and other receivables	23	499	13,225
Due from subsidiaries	25	91,786	85,023
Cash and cash equivalents		52,693	1,750
		148,697	111,497
Total assets		259,782	219,526
Current liabilities			
Interest-bearing loans and borrowings	26	—	44,000
Trade and notes payables	27	7,225	9,463
Accrued liabilities and other payables	28	6,747	9,344
Tax payable		—	872
Due to subsidiaries	25	—	2,000
		13,972	65,679
Net current assets		134,725	45,818
Net assets		245,810	153,847
Equity			
Equity attributable to equity holders of the Company			
Issued capital	29	262,658	175,944
Deficits	30(b)	(29,981)	(37,097)
Proposed final dividends	10	13,133	15,000
Total equity		245,810	153,847

Zhang Shi Quan
Director

Zhang Lan Jun
Director

	Notes	2006 RMB'000	2005 RMB'000
Attributable to equity holders of the parent			
Issued capital	29		
As at 1 January		175,944	175,944
Issue of ordinary shares		86,714	—
As at 31 December		262,658	175,944
Share premium	30(a)		
As at 1 January		—	—
Issue of ordinary shares		47,767	—
Share issue expenses		(26,623)	—
As at 31 December		21,144	—
Reserve arising from acquisition of minority interest			
As at 1 January and 31 December		5,736	5,736
Statutory surplus reserve	30(a)		
As at 1 January		15,526	10,983
Transferred from statutory public welfare fund		28,150	—
Transferred from retained earnings		3,928	4,543
As at 31 December		47,604	15,526
Statutory public welfare fund	30(a)		
As at 1 January		28,150	23,379
Transferred to statutory surplus reserve		(28,150)	—
Transferred from retained earnings		—	4,771
As at 31 December		—	28,150

For the year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Attributable to equity holders of the parent *(continued)*			
Retained earnings/(accumulated losses)	30(a)		
As at 1 January		(5,471)	(18,629)
Profit for the year		32,595	37,472
Transferred to statutory surplus reserve		(3,928)	(4,543)
Transfer to statutory public welfare fund		—	(4,771)
Proposed final dividends	10	(13,133)	(15,000)
As at 31 December		10,063	(5,471)
Reserves		84,547	43,941
Proposed final dividends	10		
As at 1 January		15,000	—
Dividends paid		(15,000)	—
Proposed final dividends		13,133	15,000
As at 31 December		13,133	15,000
Total		360,338	234,885
Minority interests			
As at 1 January		7,712	4,609
Profit for the year		583	553
Capital contribution		—	2,800
Acquisition of minority interests in a subsidiary		(4,000)	—
Dividends		(500)	(250)
As at 31 December		3,795	7,712
Total equity		364,133	242,597

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Cash flows from operating activities			
Profit before tax		38,674	41,600
Adjustments for:			
Share of losses of an associate	18	59	228
Depreciation	6	11,078	7,727
Amortisation of land use rights	6	679	487
Amortisation of intangible assets	6	13	—
Amortisation of deferred income	6	(1,016)	(911)
Exchange losses		1,736	—
Interest expenses	6	2,185	3,861
Interest income	5	(2,050)	(120)
Loss/(gain) on disposal of property, plant and equipment	6	123	(76)
		51,481	52,796
Increase in inventories		(7,634)	(29)
Decrease/(increase) in trade and notes receivables		13,870	(16,351)
Increase in prepayments, deposits and other receivables		(298)	(5,208)
Decrease in an amount due from a director		7	12,875
(Increase)/decrease in amounts due from related companies		(5,024)	5,886
Decrease in an amount due from a holding company		—	24,423
(Decrease)/increase in trade and notes payables		(1,845)	7,789
Decrease in accrued liabilities and other payables		(4,995)	(1,996)
Decrease in an amount due to a related company		—	(2,000)
Cash generated from operating activities		45,562	78,185
Interest paid		(2,185)	(3,861)
Income tax paid		(4,168)	(1,476)
Net cash flows from operating activities		39,209	72,848

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Cash flows from investing activities			
Purchases of property, plant, and equipment and construction in progress		(16,800)	(60,587)
Payment for land use rights		—	(2)
Purchases of intangible assets		(108)	—
Government grants in respect of acquisition of property, plant and equipment		—	5,670
Acquisition of minority interests of a subsidiary		(4,000)	—
Proceeds from disposal of property, plant and equipment		496	2,477
Interest received		2,050	120
Net cash flows used in investing activities		(18,362)	(52,322)
Cash flows from financing activities			
New interest-bearing loans and borrowings		—	98,830
Repayment of interest-bearing loans and borrowings		(56,820)	(79,180)
Dividends paid to equity holders of the parent		(15,000)	(29,000)
Dividends paid to minority interests		(500)	(250)
Capital contribution by minority interests		—	2,800
Proceeds from issue of shares	30(a)	134,481	—
Share issue expenses		(15,531)	—
Net cash flows generated from/(used in) financing activities		46,630	(6,800)
Net increase in cash and cash equivalents		67,477	13,726
Cash and cash equivalents at beginning of year		37,361	23,635
Effect of foreign exchange rate changes, net		(1,736)	—
Cash and cash equivalents at end of year		103,102	37,361

1. CORPORATE INFORMATION

The Company is a joint stock limited company registered in the People's Republic of China ("PRC") on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), a limited liability company established in the PRC.

The Company's H Shares were listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2006 (the "Listing").

The Group is principally engaged in the manufacture and sale of automotive steering gear products.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on the historical cost convention. This basis of accounting differs from that used in the statutory and management accounts of the companies comprising the Group, which were prepared in accordance with the PRC GAAP. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2006.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All significant inter-company balances and transactions within the Group are eliminated on consolidation.

Minority interests represent the portion of profit or loss and net assets of the Company's subsidiaries not held by the Group and are presented in the consolidated balance sheet within equity, separately from shareholders' equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impact of New and Revised IFRSs

The following new and revised IFRSs affect the Group and are adopted for the first time for the current year's financial statements:

IAS 19 Amendment	Employee Benefits
IAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates
IAS 39 Amendment	Financial Instruments: Recognition and Measurement
IFRS 3	Business Combinations
IFRIC 4	Determining Whether an Arrangement Contains a Lease

The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

Impact of Issued But Not Yet Effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 - Group and Treasury Share Transaction
IFRIC 12	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 10 and IFRIC 11 and IFRIC 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008 respectively.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impact of Issued But Not Yet Effective IFRSs *(continued)*

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of the IAS 1 Amendment and IFRS 7 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in an associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The result of the associate is included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in an associate are treated as non-current assets and are stated at cost less any impairment losses.

Foreign currency transactions

The Group's functional and presentation currency is RMB.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the appropriate exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% – 10%
Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents property, plant and machinery during the course of acquisition and/or under construction and is stated at cost less any impairment losses. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing.

Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Other borrowing costs are recognised as an expense when incurred.

Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

— represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

— is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

Land use rights

Land use rights are stated at costs less accumulated amortisation and any impairment losses. Land use rights are amortised on the straight-line basis over the unexpired period of the rights of 50 years.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period of which the asset is not yet in use it is tested for impairment annually.

Software licence

Purchased software licence is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 December either individually or at the cash generating unit level, as appropriate.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

Associate

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the income statement.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the net unrealised gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as 'Dividends received' when the right of payment has been established.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when liabilities are derecognised, as well as through the amortisation process.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

— the rights to receive cash flows from the asset have expired;

— the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

— the Group has transferred its rights to receive cash flows from the asset 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.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets and liabilities *(continued)*

Financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement schedule administered by local government agencies are charged to the income statement as incurred.

Operating leases

Leases where the lessor retains substantially all the risks and ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on the straight-line basis over the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is set up as deferred income. Where the Group receives non-monetary grants, the asset and that grant are recorded at nominal amounts and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxes *(continued)*

Deferred income tax (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

— where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

— where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS

The preparation of the financial statements in conformity with IFRS requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The following judgements have the most significant effect on the amounts recognised in the financial statements.

(a) Deferred tax assets

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections by the balance sheet date.

(b) Impairment of trade and other receivables

Impairment of trade and other receivables is made based on assessment of the recoverability of trade and other receivables. The identification of bad and doubtful receivables requires management judgment and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and related asset impairment charge or write-back in the period in which such estimate has been changed.

(c) Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. SEGMENT INFORMATION

The Group's revenue and profit are mainly derived from the sale of automotive steering products in the PRC. The products of the Group are subject to similar risks and returns. The Group mainly conducts its business activities in Mainland China, and all of the Group's assets are located in Mainland China. Accordingly, no segmental analysis by business and geographical segments is presented.

5. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowance for returns, trade discounts and various types of government surcharges where applicable.

	2006	**2005**
	RMB'000	*RMB'000*
Sale of goods	152,964	149,777
Less: Government surcharges	(595)	(629)
Revenue	152,369	149,148
Interest income	2,050	120
Sale of raw materials	88	510
Government grants	977	160
Gain on disposal of properly, plant and equipment	—	76
Others	41	205
Other income	3,156	1,071
Total revenue	155,525	150,219

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		2006	**2005**
	Notes	*RMB'000*	*RMB'000*
Staff costs (including directors', supervisors' and senior executives' remuneration as set out in note 7):			
Salaries and other staff costs		16,680	15,435
Retirement costs			
– defined contribution scheme		1,219	1,166
Total staff costs		17,899	16,601
Interest expenses		2,185	3,861
Bank charges and other finance costs		158	70
Total finance costs		2,343	3,931
Costs of inventories sold		50,817	48,154
Depreciation	13	11,078	7,727
Amortisation of land use rights	15	679	487
Amortisation of intangible assets	16	13	—
Amortisation of deferred income	20	(1,016)	(911)
Research and development costs		2,474	1,550
Foreign exchange differences, net		2,163	—
Write-back of impairment of trade receivables		(1,202)	—
Write-down of inventories to net realisable value		750	—
Loss/(gain) on disposal of property, plant and equipment		123	(76)
Auditors' remuneration		1,443	120

7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION

Details of the remuneration of directors and supervisors are as follows:

	2006 *RMB'000*	2005 *RMB'000*
Fees	—	—
Other emoluments		
Salaries, allowances, bonuses and benefits in kind	1,001	732
Pension scheme contributions	16	18
	1,017	750

An analysis of directors' and supervisors' remuneration by each individual is as follows:

Name	2006 *RMB'000*	2005 *RMB'000*
Directors:		
Mr. Zhang Shi Quan	122	123
Mr. Lui Wing Hong	120	—
Mr. Zhu Jie Rong	105	100
Mr. Tang Hao Han	103	103
Mr. Zhang Bao Yi	102	103
Ms. Zhang Lan Jun	83	84
Mr. Zhang Shi Zhong	81	82
Ms. Zhang Mei Jun	56	23
Mr. Bao Zhi Chao	36	36
Mr. Chen Guo Feng	27	24
Mr. Gu Qun	—	—
	835	678
Supervisors:		
Ms. Liu Xiao Ping	72	—
Mr. Shen Song Sheng	36	24
Ms. Zheng Yan	26	—
Mr. Ge Bao Shan	24	24
Mr. Wang Kui Quan	24	24
	182	72
	1,017	750

7. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION *(continued)*

During the year ended 31 December 2006, the five highest paid individuals of the Group included four (2005: three) directors. They were Mr. Zhang Shi Quan, Mr. Lui Wing Hong, Mr. Zhu Jie Rong and Mr. Tang Hao Han. Information relating to these directors' emoluments has been disclosed above. Details of the remuneration of the remaining one (2005: two) non-director, highest paid employees are as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances, bonuses and benefits in kind	248	358
Pension scheme contributions	—	5
	248	363

The remuneration of the highest paid, non-director, non-supervisor employee fell within the range of nil to HK$500,000.

No remuneration was paid by the Group to the directors, supervisors or the other highest paid, non-director, non-supervisor employees as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office. No director or supervisor has waived or agreed to waive any emoluments during the year ended 31 December 2006 (2005: Nil).

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2006 (2005: Nil).

Siping Steering re-registered as a Sino-foreign co-operative joint venture on 17 June 2004. Pursuant to a document numbered "Guo Shui Fa (2003) No. 60" dated 28 May 2003 issued by the State Tax Bureau and an approval document numbered "Si Ping Guo Shui Jing Kai No.001" issued by Siping Economic Development Zone State Tax Branch on 24 January 2004, effective 17 June 2004, Siping Steering is exempt from corporate income tax of the PRC for years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years. For the year ended 31 December 2006, Siping Steering was subject to corporate income tax at the rate of 15%.

DHB-Shibao is registered as a Sino-foreign co-operative joint venture on 22 May 2006. Pursuant to a document numbered "Hang Guo Shui Kai Fa (2006) No. 249" dated 19 October 2006 issued by the Hangzhou State Tax Bureau, DHB-Shibao is exempt from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. DHB-Shibao was in a tax loss position for the year ended 31 December 2006.

The Company and other subsidiaries were subject to corporate income tax at the rate of 33% during the year ended 31 December 2006 (2005: 33%).

8. INCOME TAX EXPENSE *(continued)*

The major components of income tax expenses for the years ended 31 December 2006 and 2005 are as follows:

	2006 *RMB'000*	2005 *RMB'000*
Provision for income tax in respect of profit for the year		
– Current	8,701	1,889
– (Over)/under provision in prior years	(1,285)	646
– Deferred *(note 19)*	(1,920)	1,040
Income tax expense	5,496	3,575

A numerical reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rate is as follows:

	2006 *RMB'000*	2005 *RMB'000*
Accounting profit	38,674	41,600
Non-taxable profit of subsidiaries	—	(30,039)
Non-deductible share of loss of an associate	59	228
Profit of the Group subject to income tax	38,733	11,789
Tax at an applicable tax rate of 33%	12,782	3,890
Adjustment in respect of (over)/under provision in prior years	(1,285)	646
Tax credits in respect of purchases of property, plant and equipment from domestic vendors	(1,831)	(2,185)
Tax effect of expense items which are not deductible for income tax purposes	896	1,224
Tax rate differential on subsidiary taxed at 15%	(5,229)	—
Deferred tax assets not recognised	163	—
Income tax expenses	5,496	3,575

Pursuant to Tentative Regulation Regarding Income Tax Benefit for Investment in the PRC Made Equipment Used in Technical Reform, the Group was entitled to deduction of corporate income tax of RMB1,831,000 for the year ended 31 December 2006 (2005: RMB2,185,000) as a result of purchases of property, plant and equipment from domestic vendors.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of RMB895,000 (2005: profit of RMB140,459,000) which has been dealt with in the financial statements of the Company (note 30(b)).

10. DIVIDENDS

	2006	**2005**
	RMB'000	*RMB'000*
Proposed final dividends – RMB0.05 (2005: RMB0.09) per ordinary share	13,133	15,000

Pursuant to a resolution of the board of directors of the Company dated 23 March 2007, a final dividend of approximately RMB13,133,000 was proposed for the year ended 31 December 2006, which is subject to the approval of the Company's shareholders at the forthcoming annual meeting.

11. EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2006 were calculated based on profit attributable to the Company's shareholders of RMB32,595,000 (2005: RMB37,472,000) and the weighted average total number of 232,307,955 shares (2005: 175,943,855 shares).

Diluted earnings per share amounts have not been calculated as there were no dilutive potential ordinary shares in existence during the year ended 31 December 2006 (2005: Nil).

12. RETIREMENT BENEFITS

As stipulated by the PRC state regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount earned within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the local social security bureau at rates ranging from 22.7% to 25% of the average basic salaries earned within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligations for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost:					
As at 1 January 2005	31,064	41,302	3,567	7,139	83,072
Additions	48	10,576	619	2,561	13,804
Transferred from construction in progress (note 14)	45,193	11,351	—	—	56,544
Disposals	—	(1,477)	(123)	(2,083)	(3,683)
As at 31 December 2005 and 1 January 2006	76,305	61,752	4,063	7,617	149,737
Additions	1,329	8,047	441	362	10,179
Transferred from construction in progress (note 14)	10,660	25,220	—	467	36,347
Disposals	(79)	(702)	(956)	(216)	(1,953)
As at 31 December 2006	88,215	94,317	3,548	8,230	194,310
Accumulated depreciation:					
As at 1 January 2005	7,056	19,914	2,251	2,453	31,674
Charge for the year	1,830	4,264	422	1,211	7,727
Disposals	—	(643)	(86)	(553)	(1,282)
As at 31 December 2005 and 1 January 2006	8,886	23,535	2,587	3,111	38,119
Charge for the year	2,165	7,019	505	1,389	11,078
Disposals	(6)	(468)	(776)	(84)	(1,334)
As at 31 December 2006	11,045	30,086	2,316	4,416	47,863
Net book value:					
As at 31 December 2005	67,419	38,217	1,476	4,506	111,618
As at 31 December 2006	77,170	64,231	1,232	3,814	146,447

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost:					
As at 1 January 2005	11,403	16,052	1,209	4,249	32,913
Additions	35	534	10	61	640
Transferred from construction in progress (note 14)	—	998	—	—	998
Disposals	—	(1,137)	—	(323)	(1,460)
Transferred to a subsidiary	—	(10,960)	—	—	(10,960)
As at 31 December 2005 and 1 January 2006	11,438	5,487	1,219	3,987	22,131
Additions	—	433	55	124	612
Transferred from construction in progress (note 14)	—	27	—	—	27
Disposals	—	(268)	(32)	(103)	(403)
Transferred to a subsidiary	—	—	—	(2,588)	(2,588)
As at 31 December 2006	11,438	5,679	1,242	1,420	19,779
Accumulated depreciation:					
As at 1 January 2005	4,616	8,868	875	1,791	16,150
Charge for the year	515	1,022	90	681	2,308
Disposals	—	(480)	—	(104)	(584)
Transferred to a subsidiary	—	(5,697)	—	—	(5,697)
As at 31 December 2005 and 1 January 2006	5,131	3,713	965	2,368	12,177
Charge for the year	370	247	103	214	934
Disposals	—	(258)	(26)	(56)	(340)
Transferred to a subsidiary	—	—	—	(1,602)	(1,602)
As at 31 December 2006	5,501	3,702	1,042	924	11,169
Net book value:					
As at 31 December 2005	6,307	1,774	254	1,619	9,954
As at 31 December 2006	5,937	1,977	200	496	8,610

All of the Group's and the Company's buildings are located in the PRC.

14. CONSTRUCTION IN PROGRESS

	2006 *RMB'000*	2005 *RMB'000*
Group		
As at 1 January	32,777	42,538
Additions	5,796	46,783
Transferred to property, plant and equipment (note 13)	(36,347)	(56,544)
As at 31 December	2,226	32,777
Company		
As at 1 January	—	883
Additions	27	115
Transferred to property, plant and equipment (note 13)	(27)	(998)
As at 31 December	—	—

15. LAND USE RIGHTS

	Group *RMB'000*	Company *RMB'000*
Cost:		
As at 1 January 2005	29,929	8,331
Additions	2	—
As at 31 December 2005, 1 January 2006 and 31 December 2006	29,931	8,331
Accumulated amortisation:		
As at 1 January 2005	1,973	1,509
Charge for the year	487	172
As at 31 December 2005 and 1 January 2006	2,460	1,681
Charge for the year	679	172
As at 31 December 2006	3,139	1,853
Net book value:		
As at 31 December 2005	27,471	6,650
As at 31 December 2006	26,792	6,478

16. INTANGIBLE ASSETS

Group

	Software licence *RMB'000*
Cost:	
As at 1 January 2005, 31 December 2005 and 1 January 2006	—
Additions	108
31 December 2006	108
Accumulated amortisation:	
As at 1 January 2005, 31 December 2005 and 1 January 2006	—
Charge for the year	13
As at 31 December 2006	13
Net book value:	
As at 31 December 2005	—
As at 31 December 2006	95

17. INVESTMENTS IN SUBSIDIARIES

	31 December 2006 *RMB'000*	 2005 *RMB'000*
Company		
Unlisted investments, at cost	87,850	83,850

17. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's subsidiaries as at 31 December 2006 are set out below:

Name	Legal status	Place and date of incorporation and operations	Registered/ paid-up capital RMB'000	Percentage of equity directly attributable to the Company	Principal activities
Siping Steering Gear Co., Ltd. ("Siping Steering")	Sino-foreign co-operative joint venture	The PRC 28 October 1999	11,000/ 11,000	75%	Manufacture of steering gear and other automotive parts
Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao")	Limited liability company	The PRC 3 November 1996	40,000/ 40,000	99%	Manufacture of steering gear and other automotive parts
Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao")	Limited liability company	The PRC 14 December 2004	40,000/ 40,000	100%	Dormant
DHB-Shibao Steering Co., Ltd. ("DHB-Shibao") (Note 1)	Sino-foreign co-operative joint venture	The PRC 22 May 2006	97,041/ 33,959	75%	Manufacture and sale of steering gear and other automotive parts

Note 1: As at 31 December 2006, DHB Components Automotivos S.A., the foreign investor, has not contributed any capital to DHB-Shibao. Accordingly, no minority interest has been recognised in the consolidated financial statements.

18. INVESTMENT IN AN ASSOCIATE

	31 December 2006 RMB'000	31 December 2005 RMB'000
Group		
Share of the associate's balance sheet		
Current assets	3,932	3,153
Non-current assets	7,301	3,844
Current liabilities	(4,320)	(25)
Net assets	6,913	6,972
Share of associate's revenue and loss		
Revenue	3,773	—
Loss	59	228
Carrying amount of the investment	6,913	6,972
Company		
Unlisted investment, at cost	7,200	7,200

Particulars of the Company's associate as at 31 December 2006 are as follows:

Name	Legal status	Place and date of incorporation and operations	Registered/ paid-up capital RMB'000	Percentage of equity directly attributable to the Group	Principal activities
Wuhu Sterling Steering System Co., Ltd ("Wuhu Sterling")	Limited liability company	The PRC 18 November 2004	20,000/ 20,000	36%	Sale and manufacture of steering systems

19. DEFERRED TAX ASSETS

Recognised deferred tax assets

Deferred tax assets are attributable to items set out below:

	Tax losses	Accrued warranty	Deferred income	Write-off of know-how	Impairment of assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Group						
As at 1 January 2005	—	—	—	886	529	1,415
Charged to the income statement (note 8)	—	—	—	(886)	(154)	(1,040)
As at 31 December 2005 and 1 January 2006	—	—	—	—	375	375
Credited to the income statement (note 8)	646	144	592	—	538	1,920
As at 31 December 2006	646	144	592	—	913	2,295
Company						
As at 1 January 2005	—	—	—	886	529	1,415
Charged to the income statement	—	—	—	(886)	(154)	(1,040)
As at 31 December 2005 and 1 January 2006	—	—	—	—	375	375
Credited/(Charged) to the income statement	646	33	—	—	(107)	572
As at 31 December 2006	646	33	—	—	268	947

The Group and the Company recognised deferred tax assets for the temporary differences not deductible for tax purpose but are expected to give rise to future deductible amounts.

19. DEFERRED TAX ASSETS *(continued)*

Unrecognised deferred tax asset

A deferred tax asset has not been recognised in respect of the following item:

	2006 *RMB'000*	2005 *RMB'000*
Group		
Tax losses of a subsidiary	794	—
Total	794	—

A deferred tax asset has not been recognised in respect of the above item because it is not probable that sufficient future taxable profits will be available against which the Group can utilise the benefits therefrom.

20. DEFERRED INCOME

	2006 *RMB'000*	2005 *RMB'000*
Group		
As at 1 January	4,759	—
Government grants recognised as deferred income	200	5,670
Amortisation	(1,016)	(911)
As at 31 December	3,943	4,759
Current	1,016	911
Non-current	2,927	3,848
	3,943	4,759

During the year ended 31 December 2006, the Group received a government grant for purchase of certain property, plant and equipment to the amount of RMB200,000 (2005: RMB5,670,000). The government grant received is accounted for as deferred income and is released to the income statement over the expected useful lives of the underlying property, plant and equipment.

21. INVENTORIES

	31 December 2006 RMB'000	31 December 2005 RMB'000
Group		
Raw materials	16,875	12,673
Work in progress	11,278	10,765
Finished goods	14,091	11,299
Low value consumables	1,026	899
	43,270	35,636
Company		
Raw materials	1,592	729
Work in progress	1,145	760
Finished goods	36	36
Low value consumables	15	10
	2,788	1,535

22. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at the balance sheet date, based on due date, are as follows:

	31 December 2006 RMB'000	31 December 2005 RMB'000
Group		
Outstanding balances with ages:		
Within 90 days	65,587	72,542
Between 91 days and 180 days	15,631	9,265
Between 181 days and 365 days	9,573	12,204
Over 365 days	4,580	15,230
	95,371	109,241
Company		
Outstanding balances with ages:		
Within 90 days	—	3,098
Between 91 days and 180 days	—	391
Between 181 days and 365 days	—	6,214
Over 365 days	931	261
	931	9,964

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2006	31 December 2005
	RMB'000	*RMB'000*
Group		
Deposits	244	261
Prepayments	2,722	1,254
Other receivables	1,359	13,604
	4,325	15,119
Company		
Deposits	60	120
Prepayments	297	445
Other receivables	142	12,660
	499	13,225

24. DUE FROM A DIRECTOR

Details of the amount due from a director of the Group are set out below:

Group

Name	As at 31 December 2006 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	As at 1 January 2006 *RMB'000*
Mr. Zhang Shi Quan	—	7	7

The amount due from a director was unsecured, interest-free, with no fixed terms of repayment.

25. BALANCES WITH SUBSIDIARIES AND AN ASSOCIATE

Amounts due from subsidiaries and an associate as at 31 December 2006 are trade in nature, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

All balances with subsidiaries and an associate are unsecured, interest-free and have no fixed terms of repayment.

26. INTEREST-BEARING LOANS AND BORROWINGS

	31 December 2006 RMB'000	31 December 2005 RMB'000
Group		
Bank loans, secured	—	12,820
Bank loans, unsecured	—	44,000
Other borrowings, unsecured	5,560	5,830
	5,560	62,650
Repayable:		
Within one year	—	56,820
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	5,560	5,830
	5,560	62,650
Portion classified as current liabilities	—	(56,820)
Long-term portion	5,560	5,830
Company		
Bank loans, unsecured	—	44,000
Repayable:		
Within one year	—	44,000
	—	44,000
Portion classified as current liabilities	—	(44,000)
Long-term portion	—	—

Bank loans bear interest at commercial rates ranging from 5.742% to 6.786% (2005: 5.742% to 6.786%) per annum.

As at 31 December 2006, included in other unsecured borrowings are loans granted by Siping Municipal Ministry of Finance amounting to RMB5,560,000 (2005: RMB5,830,000). Borrowings of RMB3,000,000 (2005: RMB3,000,000) bear interest at a commercial rate of 5% (2005: 5%) per annum and are repayable in 2016. Borrowings of RMB2,560,000 (2005: RMB2,830,000) bear interest at a commercial rate of 5% (2005: 5%) and are repayable in 2020.

27. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at the balance sheet date, based on the due date, are as follows:

	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*
Group		
Outstanding balances with ages:		
Within 90 days	23,663	19,331
Between 91 days and 180 days	6,228	5,702
Between 181 days and 365 days	3,188	10,304
Over 365 days	5,146	4,733
	38,225	40,070
Company		
Outstanding balances with ages:		
Within 90 days	3,684	2,265
Between 91 days and 180 days	581	947
Between 181 days and 365 days	137	2,313
Over 365 days	2,823	3,938
	7,225	9,463

28. ACCRUED LIABILITIES AND OTHER PAYABLES

	31 December 2006 *RMB'000*	31 December 2005 *RMB'000*
Group		
Advances from customers	571	335
Payroll payables	1,194	819
Welfare payables	3,498	5,231
Other payables	8,162	11,965
	13,425	18,350
Company		
Advances from customers	100	106
Payroll payables	219	278
Welfare payables	2,655	3,523
Other payables	3,773	5,437
	6,747	9,344

29. ISSUED CAPITAL

	Nominal value of shares	Number of Domestic Shares	Number of H shares	Total number of shares	Value
	RMB				*RMB'000*
At 1 January 2006 (note (a))	1 per share	175,943,855	—	175,943,855	175,944
Issue of H shares (note (b))	1 per share	—	86,714,000	86,714,000	86,714
At 31 December 2006	1 per share	175,943,855	86,714,000	262,657,855	262,658

Notes:

(a) Pursuant to an approval document numbered "Zhe Shang Shi [2004] No.37" issued by Zhejiang Provincial Government, the Company was re-registered as a joint stock company on 12 July 2004 by the issuance of 175,943,855 fully paid domestic shares with a nominal value of RMB1 each to the then shareholders.

(b) On 11 May 2006, 86,714,000 H Shares of RMB1 each were issued by the Company at HK$1.5 per share for cash by way of placing.

30. RESERVES/(DEFICITS)

(a) Group

Share premium

On 11 May 2006, 86,714,000 H Shares of RMB1 each were issued at HK$1.5 per share for a total cash consideration, before related issue expenses of RMB26,623,000, of HK$130,071,000 (equivalent to RMB134,481,000).

The application of the share premium is governed by Article 169 of the Company Law of the PRC.

Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with their statutory financial statements prepared under PRC GAAP, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company and its subsidiaries, respectively. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

30. RESERVES/(DEFICITS) *(continued)*

(a) Group *(continued)*

Statutory public welfare fund

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with their statutory financial statements prepared under PRC GAAP, to the statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of liquidation of the Company and its subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company and its subsidiaries.

When the PWF is utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF is transferred from the PWF to the general surplus reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

According to the revised Company Law of the PRC effective from 1 January 2006, the Company and its subsidiaries are not required to transfer their profit after tax to the PWF. As permitted by the revised Company Law of the PRC, the Company and its subsidiaries have transferred the PWF balance to the SSR during the year ended 31 December 2006.

Distributable reserves

In accordance with the Articles of Association of the Company, profit available for distribution to shareholders should be based on the lower of the amount determined under the financial statements prepared under PRC GAAP and the amount determined under the financial statements prepared under IFRS after deduction of the current year's appropriation to the SSR.

Subsequent to 31 December 2006, Siping Steering and Hangzhou Shibao, subsidiaries of the Company, proposed final dividends totalling RMB80,000,000 to the Company, which are subject to the approval by the shareholders of the subsidiaries.

As at 31 December 2006, the accumulated losses of the Company was approximately RMB76,997,000, being the lower of the amount determined under PRC GAAP and IFRS financial statements. Considering the proposed dividend income from the subsidiaries, the board of directors of the Company are of the opinion that the Company has adequate reserves for distribution of the proposed dividends as set out in note 10.

30. RESERVES/(DEFICITS) *(continued)*

(b) Company

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2005	—	4,912	4,912	5,736	(178,116)	(162,556)
Profit for the year	—	—	—	—	140,459	140,459
Transfer to reserves	—	3,608	3,608	—	(7,216)	—
Proposed final dividends	—	—	—	—	(15,000)	(15,000)
As at 31 December 2005 and 1 January 2006	—	8,520	8,520	5,736	(59,873)	(37,097)
Loss for the year	—	—	—	—	(895)	(895)
Issue of ordinary shares	47,767	—	—	—	—	47,767
Share issue expenses	(26,623)	—	—	—	—	(26,623)
Transfer to reserves	—	11,616	(8,520)	—	(3,096)	—
Proposed final dividends	—	—	—	—	(13,133)	(13,133)
As at 31 December 2006	21,144	20,136	—	5,736	(76,997)	(29,981)

31. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main financial risks faced by the Group are interest rate risk and credit risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

Credit risk

Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

31. FINANCIAL INSTRUMENTS *(continued)*

Credit risk exposures

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparties fail to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

Significant concentrations of credit risk

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has a significant concentration of credit risk as there are few manufacturers of automobiles in the PRC market.

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

32. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2006, the Group and the Company had the following transactions with related parties:

Group

Name of related party	Nature of transactions	2006 RMB'000	2005 RMB'000
Ms. Zhang Hai Qin	Acquisition of additional equity interest in a subsidiary (note (a))	4,000	—
Wuhu Sterling	Sales of finished goods to an associate (note (b))	4,528	274

Company

Name of related party	Nature of transactions	2006 RMB'000	2005 RMB'000
Ms. Zhang Hai Qin	Acquisition of additional equity interest in a subsidiary (note (a))	4,000	—
Hangzhou Shibao	Sales of property, plant and equipment to a subsidiary (note (c))	985	5,263
	Sales of raw materials to a subsidiary (note (d))	6,316	10,664
	Sales of finished goods to a subsidiary (note (e))	16,583	11,317
Siping Steering	Sales of finished goods to a subsidiary (note (b))	35	2,087

Notes:

(a) On 22 February 2006, pursuant to a capital contribution transfer agreement entered into between the Company and Ms. Zhang Hai Qin, the spouse of Mr. Zhang Shi Quan, a director of the Company, the Company acquired an additional 10% equity interest in Hangzhou New Shibao from Ms. Zhang Hai Qin at a purchase consideration of RMB4,000,000, thereby increasing the Company's equity interest in Hangzhou New Shibao to 100%.

Hangzhou New Shibao remains dormant since its date of establishment and has yet to commence any operation. Hence, no profit or loss has been attributable to the Company.

(b) The sales of finished goods were carried out based on normal commercial terms.

(c) The property, plant and equipment were sold at their net book values.

(d) The raw materials were sold at cost.

(e) The finished goods were sold at cost plus 10% margin.

The Board of Directors of the Company are of the opinion that the above transactions with related parties were carried out in the ordinary course of business.

33. COMMITMENTS

Capital commitments

	31 December 2006 RMB'000	31 December 2005 RMB'000
Group		
Capital commitments in respect of the acquisition of property, plant and equipment:		
Contracted, but not provided for	1,941	5,889
Authorised, but not contracted	45,449	4,872
	47,390	10,761
Company		
Capital commitment in respect of an investment in a subsidiary:		
Contracted, but not provided for	38,822	—

34. CONTINGENT LIABILITIES

There is no contingent liability as at 31 December 2006 for the Group and the Company.

35. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2006:

(1) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group and the Company cannot be reasonably estimated at this stage.

(2) On 23 March 2007, the board of directors of the Company proposed a final dividend of RMB0.05 per ordinary share, totalling approximately RMB13,133,000 for the year ended 31 December 2006, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (notes 10 and 30(a)).

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors of the Company on 23 March 2007.