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

Annual Report 2007

* For identification purposes only

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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.

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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. Du Min （杜敏） Mr. Feng Ping （馮平） Mr. Ge Bao Shan (葛寶山) Mr. Shen Song Sheng (沈松生) Mr. Wang Kui Quan (王奎泉)
Senior Management	Mr. Du Chun Mao (杜春茂) 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, 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, CPA*
Company Secretary	Ms. Chow Kit Mei (周潔媚), *ACCA, CPA*
Authorised Representatives	Mr. Zhu Jie Rong (朱頡榕) Ms. Chow Kit Mei (周潔媚), *ACCA, 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	Room 603 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong
Compliance Advisor	Evolution Watterson Securities Limited 5/F 8 Queen's Road Central Hong Kong
Legal Advisers	*as to Hong Kong law* Charltons 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
Place of Listing	H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 8331
Website	www.zjshibao.com

CORPORATE PROFILE

Zhejiang Shibao Company Limited (the "Company") is a joint stock limited company registered in the People's Republic of China (the "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 (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 May 2006 (the "Listing Date"), and its stock code is 8331.HK.

Zhejiang Shibao Company Limited and its subsidiaries (together, the "Group") is a leading automotive steering system manufacturer in the PRC.

The Group has been mainly engaged in the design, manufacture and sales of various types of automotive manual and power steering gears and related components, accumulating extensive industry experience in the PRC. The Group is one of the early enterprises to develop automotive power steering gear system in the PRC, and also the first domestic enterprise having built the capabilities to design and manufacture electronic power steering system.

Mr. Zhang Shi Quan, the founder of the Group and Chairman, entered into the manufacture of automotive steering gear products in 1984, and established Zhejiang Shibao Steering Gear Co., Ltd., the predecessor of the Company in Yiwu, Zhejiang Province in 1993, which was reorganized into a joint stock company in 2004.

In recent years, the Group's business has developed rapidly. The Yiwu Plant have been expanded, Hangzhou Plant was newly built, and the current Siping Steering Gear Co., Ltd. ("Siping Steering") was established through the acquisition and expansion of Siping Power Steering Gear Factory in Jilin Province. Meanwhile, a joint venture was established with Chery in Wuhu, Anhui Province. These resulted in an integrated annual production capacity of one million units/sets of steering system products for the Group.

The Group is dedicated in the provision of four core products to large automakers: manual and power recirculating ball steering gear assemblys for use in light, medium and heavy duty trucks and buses and manual and power rack-and-pinion steering gear assemblys, the newly-developed energy-saving environment-friendly electronic power steering system with our own intellectual property rights and steering knuckle assemblys for use in sedans.

The Group has an increasing customer base, including FAW Group, Dongfeng Motor Group, Anhui Jianghuai Automobile Co.,Ltd. ("Jianghuai Automobile"), Kinglong United Automobile Industry (Suzhou) Co., Ltd., Beiqi Foton Motor Co., Ltd., Chery Automobile Co., Ltd. ("Chery Automobile"), FAW Car Co., Ltd. ("FAW Car") and FAW-VW Automobile Co., Ltd. ("FAW-VW") . In order to provide high quality services and products promptly to customers, the Group has also set up sales centres in various provinces and cities in the PRC.

The Group has rich OEMs experiences, strong design capability, and has adopted lean production system. It is our business objective to become one of the leading brands in the automotive parts and components industry in the PRC. We also actively expand the overseas automotive parts and components procurement market and are dedicated to become a steering parts and components supplier of the world's leading automakers.

The audited results, assets and liabilities of the Group for the past four years ended 31 December 2007. The relevant information were prepared on a consolidated basis and based on IFRSs.

Results

	For the year ended 31 December			
	2007	**2006**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	211,970	152,369	149,148	140,323
Profit before tax	47,603	38,674	41,600	48,515
Profit for the year	38,906	33,178	38,025	35,526
Minority interests	665	583	553	1,058
Profits attributable to equity holders of the parent	38,241	32,595	37,472	34,468
Earnings per share – Basic (RMB)	0.15	0.14	0.21	0.20

Assets and Liabilities

	As at 31 December			
	2007	**2006**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	222,108	187,497	181,117	130,507
Current assets	258,135	251,366	197,638	207,412
Current liabilities	83,466	66,243	126,480	120,077
Net current assets	174,669	185,123	71,158	87,335
Equity attributable to equity holders of the parent	385,446	360,338	234,885	197,413
Total equity	389,306	364,133	242,597	202,022

I would like to present on behalf of the Board of Directors (the "Board") the report of the audited results of the Group for the year ended 31 December 2007.

The Group is mainly engaged in the research and development, manufacture and sale of steering products for automobiles and steering knuckle products for mid-tier and premium sedans. The Group is also the first enterprise having built the capabilities to design and manufacture electronic power steering in the PRC.

For the year ended 31 December 2007, the Group recorded a revenue of approximately RMB211,970,000, representing a significant increase of approximately 39.1% as compared with 2006. The increase was mainly contributed by a significant increase in the sales of recirculating ball and rack-and-pinion steering gear products as well as the growth sales volume from new customers that the Company acquired in 2006.

The gross profit margin of the Group during the year under review was approximately 39.0% (2006: approximately 44.1%), representing a decrease as compared with the whole year of 2006. The adverse impact on gross profit margin was mainly caused by the decline in the selling price of power recirculating ball steering gear products and the rise in the price of materials. Meanwhile the maturing Mazda M6 sedan market and the price cutting factor also led to a slight decline in the gross profit margin of M6 steering knuckles.

For the year ended 31 December 2007, profit of the Group was approximately RMB38,906,000 (2006: approximately RMB 33,178,000), representing an increase of approximately 17.3% compared with 2006. Profit attributable to shareholders was approximately RMB38,241,000 (2006: approximately RMB32,595,000), representing an increase of approximately 17.3% compared with 2006.

During the year under review, the quantity and quality of the Company's customer base were improved, and the products have been applied to wider ranges of the automobile models made by the Company's key customers. The sales from the top five customers of the Group accounted for more than 40% of the total sales. During 2007, the Group newly developed the market of FAW-VW.

Being one of the key automotive component manufacturers in the PRC, Zhejiang Shibao is fully dedicated in facilitating the industrial development. As standing member of the Steering Gear Committee of China Association of Automobile Manufacturers, the Group participated in industrial meetings on a regular basis.

From the perspective of macro economic environment and policies, the government adheres to continuously pushing domestic demand. At the same time automobiles play an increasingly important role in the improvement of residents' consumption structure. For market demand, the automobile penetration ratio in the PRC is far below the global average level and many households in the PRC do not own their first car, so there is huge growth potential in the domestic automobile market.

The automotive parts and components market is facing great expansion and emerging opportunities. The automakers accelerate the localization process of the procurement of parts and components while global procurement provides export opportunities for local parts manufacturers. The export of the vehicles made by local automakers provide local parts and components enterprises with the opportunity to demonstrate themselves in the international market. Futhermore, there are emerging markets for fuel battery, electric and hybrid electric vehicles.

OUTLOOK

Looking forward, it is anticipated that sales of automobiles and parts in the PRC will maintain its rapid growing trend in 2008. Through market development and production capacity building in recent years, the Group recorded a large increase in operating results in 2007, and is expect to maintain such growing trend in the future.

According to orders and marketing feedback, it is expected that sales of the rack-and-pinion steering gear products this year will increase significantly comparing with 2007.

Based on the Group's existing electronic power steering system (EPS), a range of EPS products are developed for use in the customers' new car models, with various engine capacities, which were well received by the customers. One of the EPS products developed by the Group was designated to be installed in the "hybrid electric sedans" produced by a local automake. The model has been qualified to be the special purpose automobile for use in the service of Beijing Olympic Games and represented the latest science and technology of automobile energy in the PRC. It is expected that EPS products will bring the company with new competitive strengths and profit growth.

Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
20 March 2008

MARKET REVIEW

Automobile manufacture and sales

In 2007, the automobile industry continued to indicate comparatively good developing trend with robust production and sales. Both production and sales volume exceeded 8,790,000 units, amounting to 8,882,400 units and 8,791,500 units respectively, an increase of 22.0% and 21.8% as compared with 2006. Demand in the passenger cars market increased steadily, with sales of sedans exceeding 4,700,000 units the first time. It is noteworthy that the market of sedans made by local automakers performed well in whole in 2007. As at the end of 2007, the sales of sedans made by local automakers reached 1,242,200 units, accounting for 26.0% of the total sedan sales. In 2007, commercial vehicles performed obviously better than last year on the whole. As at the end of 2007, the production and sales volume of commercial vehicles were 2,501,300 units and 2,494,000 units respectively, an increase of 22.2% and 22.3% as compared with 2006. The sales of buses and coaches was 247,500 units, indicated a significant increase of 29.6% as compared with last year. In 2007, automobile export continued the fast growth trend of last year on the whole, with export volume exceeding 600,000 units to 612,700 units, an increase of 79.0% as compared with last year.

In 2007, the PRC continued to be the second largest automobile consumption country in the world. Looking into 2008, from the perspective of macro economic environment and policies, the government adheres to promote economic growth by continuous domestic demand push. At the same time automobiles play an increasingly important role in the improvement of residents' consumption structure. From the perspective of market demand, the related research reports indicated that the current number of automobiles per 1,000 persons in the PRC are less than 50 units as compared with a global average of 120 units and 750 units in the U.S.. As many households in the PRC do not own their first car, there will be huge growth potential in the domestic automobile market. Furthermore, with the improvement in automobile manufacturing technology in the PRC, automobiles made in the PRC will have an improving cost performance and become more and more appealing to the overseas market.

Trend of the automotive parts and components market

1 Huge room for market growth and better profitability than that of automobile manufacturing industry

The automotive parts and components industry enjoys stable profitability which is higher than that of the automobile manufacturing industry. In addition, the automotive parts and components industry has potential growth. In 2006, the ratio of the scale of vehicles to parts and components was 100:68 in the PRC, while according to the theory by the International Automobile Industry Organizations, such ratio is supposed to be 100:170. Therefore, there is a huge room for market growth in the PRC, which is the country attracting the most investment.

2 Facing enormous emerging opportunities for development

The automotive parts and components market in the PRC is facing enormous new opportunities of development. While automakers accelerate localization of parts procurement, global procurement also provides export opportunities for local parts and components manufacturers. The export of vehicles made by local automakers provide local parts and components enterprises an opportunity to demonstrate themselves in the international market. Furthermore, there are emerging markets of fuel battery, electric and hybrid electric vehicles. The investment worth of RMB450 billion in the PRC's rural highways in the coming years will also provide new growth points for the components enterprises of commercial and agricultural vehicles.

3 Recognition of the power of capital and leveraging on the capital

Vehicles selling price is decreasing whilst cost for energy and materials is increasing, redistribution of interests is driven by automakers, vehicle import tariff is declined, which will result in further squeeze to the profit margin of parts and components enterprises. These enterprises are facing serious challenges to their innovation abilities and changing management skills. The changing environment also brings up huge opportunities. As industries and enterprises undergo substantial restructuring, it is also the time when the demand for the capital is the strongest. The lack of effective fund-raising channels for equity capital has become a hurdle for the growth of industry and enterprises. Shifting from labor-intensive driven mode to capital-intensive driven mode is the inevitable approach for the sound development of the parts and components industry in the PRC during the process of globalization.

BUSINESS REVIEW

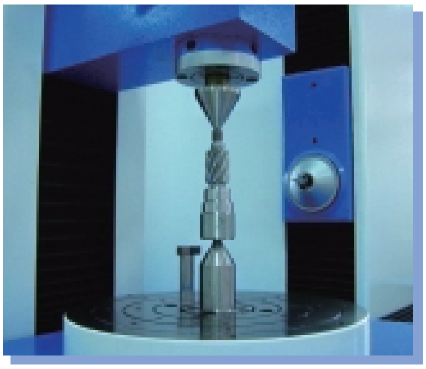
Operation result

For the year ended 31 December 2007, the Group recorded a revenue of approximately RMB211,970,000, representing an increase of approximately 39.1% as compared with 2006.

The gross profit margin of the Group during the year under review was approximately 39.0%, representing a decrease as compared with the whole year of 2006 (2006: approximately 44.1%). The adverse impact on gross profit margin was mainly due to the decline in the selling price of power recirculating ball steering gear products and the rise in the price of materials. At the same time, the maturing Mazda M6 sedan market and the price cutting factor also led to a slight decline in the gross profit margin of M6 steering knuckles.

During the year under review, the quantity and quality of the Group's customer base were improved. The Group newly developed FAW-VW market and the products have been applied to wider ranges of the automobile models made by the Group's key customers. The customers acquired in 2006 started to contribute to the total sales in 2007. It is expected that sales from these new customers will increase significantly in 2008.

In order to improve machining and assembly capacity, number of imported and local-made equipment were procured during the year under review, which mainly led to the increase of approximately RMB945,000 in depreciation for the year ended 31 December 2007. In addition, during the year under review, the research and development cost increased by approximately RMB2,525,000 compared with last year, which is mainly used for the new test projects and for recruiting more research and development personnel, in order to shorten the product development period and further meet automakers' test requirements.



For the year ended 31 December 2007, the selling expenses increased by approximately RMB4,630,000 comparing with 2006. During the year, the Group appointed agents in major provinces in the PRC to initially build an aftermarket sales network to serve customers of passenger cars. To support future business development of the Group, in 2007, sales staff were recruited and the training for sales team was intensified. During the year under review, there was a large increase in the Group's transportation cost, mainly due to the increase in business volume and emergency demand from the customers due to unexpected market performance, which led to the needs for express delivery.

Foreign exchange loss of approximately RMB1,241,000 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 RMB85,448,000 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 Hong Kong dollars will be translated into Renminbi according to the relevant regulations of the PRC.

As result of the above major factors, the Group's profit after tax increased by approximately RMB5,728,000, and approximately 17.3% compared with 2006.

Marketing and new products

For the year ended 31 December 2007, the number of new projects closed and undergoing recorded the highest in the Company's history. Numbers of rack-and-pinion steering gear products and recirculating ball steering gear products were successfully developed for key customers, including FAW Car, Chery Automobile, and Jianghuai Automobile.

During the year under review, the bracket of vent-pipe, developed by Siping Steering for FAW VW, started bulk supply as scheduled.

During the year under review, the Group also successfully secured a parts procurement localization project of one joint venture brand car model for the provision of power rack-and-pinion steering gear products, and the production is expected to be started in the third quarter of 2008.

Production facilities

During the year under review, the Group continued to expand its production facilities. It is expected that the new assembly line for the power rack-and-pinion steering gear assembly in Hangzhou Shibao Auto Steering Bear Sales Co. Ltd. ("Hangzhou Shibao") will commence operation in the second quarter of 2008. Siping Steering commenced the new plant during the year under review as scheduled. The construction of a new workshop of Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao") with an area of 13,000 square meters, located next to Hangzhou Shibao Plant, was completed during the year under review. These lead to the increase in production capacity of the Group and preset future development.

Research and development

During the year under review, with the customers' support, the Group developed a range of EPS products applicable to car models with various engine capacities. One of the EPS products developed by the Group was designated to be installed in the "hybrid electric sedans" produced by a local automaker. The model has been qualified to be the special purpose automobile for use in the service of Beijing Olympic Games and represented the latest science and technology of automobile energy in the PRC.

The Group's electronic power steering system ("EPS") product was the only project that 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) in the automotive steering gear industry in the PRC. The subsidy in the amounts of RMB4,500,000 granted from the General Office of the National Development and Reform Commission for technology development relating to industrial projects of information industry key technologies was granted to the Group's account at the end of 2007.

During the year under review, the Group was awarded the "National Best 100 Automotive Components Suppliers" by China Automotive News. In addition, Hangzhou Shibao was awarded "Excellent Supplier" by Dongfeng Liuzhou Motor Co., Ltd. in 2007. Siping Steering was awarded the "Excellent Supplier" by FAW Car and "Quality Assurance Prize" by FAW Group.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2007, the Group recorded turnover of approximately RMB211,970,000, representing a growth of approximately 39.1% as compared with approximately RMB152,369,000 in 2006. The big increase in the Group's revenue in 2007 was mainly due to the increase in the sales of power recirculating ball steering gear and the commencement of scale sales of power rack-and-pinion steering gears.

Gross profit and gross profit margin

The Group's gross profit increased from approximately RMB67,143,000 in 2006 to approximately RMB82,651,000 for the year ended 31 December 2007, representing an increase of approximately 23.1%. During the year under review, the Group's gross profit margin was approximately 39.0% (2006: approximately 44.1%), representing a decline as compared with the whole year of 2006. The adverse impact on gross profit margin was mainly due to the decline in the selling price of power recirculating ball steering gear products and the rise in the price of materials. At the same time, the maturing Mazda M6 sedan market and the price cutting factor also led to a slight decline in the gross profit margin of M6 steering knuckles.

Other income

Other income mainly included government subsidies income and interest income. Such income increased approximately 1.6 times to approximately RMB8,251,000 for the year ended 31 December 2007 from approximately RMB3,156,000 in 2006.

Selling and distribution costs

The Group's selling and distribution costs for the year ended 31 December 2007 were approximately RMB13,843,000, representing approximately 6.5% of the Group's total turnover, largely the same as approximately 6.0% of the total turnover in 2006.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2007 were approximately RMB26,508,000, representing an increase of approximately 50.0% comparing with approximately RMB17,668,000 in 2006. 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 12.5% of the Group's total turnover for the year ended 31 December 2007, largely the same as approximately 11.6% of the total turnover in the previous year.

Finance costs

The Group's finance costs for the year ended 31 December 2007 were approximately RMB265,000, a decrease of approximately 88.7% comparing with approximately RMB2,343,000 in 2006. Decrease in the finance costs was mainly due to the repayment of loans of approximately RMB57,090,000 in 2006.

Research and development expenses

The Group's research and development expenses for the year ended 31 December 2007 was approximately RMB4,999,000, representing approximately 2.4% of the Group's total turnover, and an increase of approximately RMB2,525,000 comparing with 2006.

Annual profit and profit margin

Basing on the above factors, the Group's profit for the year ended 31 December 2007 was approximately RMB38,906,000, representing an increase of approximately 17.3% comparing with approximately RMB33,178,000 of the previous year. The Group's profit margin (percentage of profit to the Group's total turnover) for the year ended 31 December 2007 was approximately 18.4% (2006: approximately 21.8%).

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity ratios

As at 31 December 2007, the Group had cash and cash equivalents of approximately RMB70,610,000, in comparison with approximately RMB103,102,000 as at 31 December 2006. As at 31 December 2007, current ratio of the Group was approximately 3.1 and the quick ratio was approximately 2.5.

Net current assets as at 31 December 2007 was approximately RMB174,669,000 (2006: approximately RMB185,123,000).

Non-current liabilities as at 31 December 2007 was approximately RMB7,471,000 (2006: approximately RMB8,487,000).

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 was approximately 0.5% (2006: approximately (14.6%)). The calculation of gearing ratio is to divide net debt by the total capital plus net debt. Net debt includes interest-bearing other borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents, and excludes discontinued operations. Capital represents equity attributable to equity holders of the parent.

Total loans and borrowings as at 31 December 2007 were approximately RMB5,560,000, of which amount repayable within one year was nil (2006: NIL), and amount repayable after one year was approximately RMB5,560,000 (2006: approximately RMB5,560,000). The loans carried commercial interests of 5% per annum (2006: 5%).

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

PLEDGE OF ASSETS

As at 31 December 2007, the Group did not have any pledges on its assets (2006: NIL).

MATERIAL ACQUISITIONS AND DISPOSALS

As at 31 December 2007, the Group did not have any material aquisition and disposal concerning subsidiaries and associates.

DHB-Shibao

On 16 February 2006, Hangzhou Shibao, a subsidiary of the Company, entered into a sino-foreign equity joint venture agreement (the "JV Agreement") with DHB Componentes Automotivos S.A. ("DHB-CA"), a subsidiary of DHB Industria e Comercio S.A. (a company listed on the Sao Paulo Stock Exchange of Brasil), for the establishment of a joint venture company, DHB-Shibao Steering Co., Ltd. ("DHB-Shibao") . According to the JV Agreement, DHB-Shibao is expected to be established with a total investment of US$20,000,000 and a registered capital of US$12,136,836. The registered capital is to be contributed as to US$9,102,627 (representing 75% of the registered capital of DHB-Shibao) by Hangzhou Shibao in the form of cash, equipment, machinery, buildings and land use right, and as to US$3,034,209 (representing 25% of the registered capital of DHB-Shibao) by DHB-CA in the form of cash and technology transfer. Pursuant to the JV Agreement, DHB-Shibao is expected to be engaged in the manufacture and sales of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps.

The incorporation of DHB-Shibao was completed on 22 May 2006. According to the JV Agreement, Hangzhou Shibao has made capital contribution in form of cash, equipment and machinery amounted to RMB33,959,476 in total to DHB-Shibao. However, DHB-CA has not made any capital contribution either in form of cash or technology transfer since the incorporation of DHB-Shibao. There were difference in opinion between the joint venture partners concerning certain aspects of the implementation of the JV Agreement and the continuation of operation of DHB-Shibao.

Pursuant to the announcement dated 21 January 2008 of the Company, following friendly negotiations, the joint venture parties signed a termination agreement to terminate the JV Agreement and the related Articles of Association of DHB-Shibao on 21 January 2008 for the following reasons :

1. No contribution either in kind or in the form of cash has been made by DHB-CA to the capital of DHB-Shibao; and

2. No technology transfer agreement has been signed by the joint venture parties and therefore no technology or proprietary intellectual rights has been transferred by DHB-CA.

In accordance with the Termination Agreement, since no contribution has been or will be made by DHB-CA, either in kind or in the form of cash to the capital of DHB-Shibao, Hangzhou Shibao will take up all assets and liabilities of DHB-Shibao upon its dissolution. Also, in accordance with the Termination Agreement, the joint venture parties have agreed not to make any claims to counter parties, hence Hangzhou Shibao is not subject to any compensation or liability to DHB-CA as a result of the termination of the JV Agreement.

The existing business which was originally transferred from the Group, will be transferred back to the Group after the termination of the JV Agreement. Therefore, the termination of the JV Agreement is not expected to have any material adverse impact on the business of the Group.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2007, 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.

CAPITAL COMMITMENTS

Apart from capital commitments set out in note 31 to the financial statements, the Group has no other material capital commitments as at 31 December 2007.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 30 to the financial statements.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had a total of 995 employees as at 31 December 2007 (2006: 928).

For the year ended 31 December 2007, total salaries and welfares of the employees amounted to approximately RMB25,877,000 (2006: approximately RMB17,899,000). 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 2007

	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 plants and/or capability	13,000	12,173	38,721

Notes:

For the year ended 31 December 2007, actual amount of cash paid was approximately RMB38,721,000.

Of this, approximately RMB25,553,000 was used to pay for the remaining balance of equipment purchases in 2006 and for conversion into 2007 investment funds under the adjustment plan for some 2006 projects.

The balance of approximately RMB13,168,000 was applied in 2007 projects. Due to the appreciation in RMB, approximately RMB995,000 was overused than as previously scheduled.

* Amounts in Hong Kong dollars have been converted into Renminbi at the rate of HK$1.00=RMB0.93638.

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 machineries and equipment to expand into the production of electronic and hydraulic power steering gears	Acquired some of the machineries
Acquire additional equipment and tools for the Group's production of manual recirculating ball steering gears	Acquired some of the equipment and tools
Acquire additional machineries and equipment to increase the Group's production capacity on rotary valves and other components used in power recirculating ball steering gears	Acquired most of the equipment; component machining capacity basically meets the demand of planned assembly capacity
Acquire machineries and equipment for the production of electronic and hydraulic power steering gears	Acquired some of the machining and testing equipment
Research and development	
Commence standardisation of the Group‘s products and production flow of electronic and hydraulic power steering gears	Established the Standard Production Flow of electronic power steering system used in small sedans (preparation before start of production)
Commence initial development of electronic power steering gears model series	Completed prototype development of electronic power steering system used in medium to large sedans

Sales and marketing	
Enhance existing sales network of the Group	Sales network countrywide covering commercial vehicles and passenger vehicles customers
Commence initial computerisation for management and control of marketing and promotional activities of the Group	Realised computerised management of the sales department, hence increasing the speed for follow-up of and response to customers
Devote resourses for the initial development of overseas markets, including establishment of overseas sales offices	In progress
Human resources	
Recruit about 10 to 12 additional technicians to support the overall business expansion of the Group	Recruited 2 technical experts and 8 technicians
Provide in-house technical training to production workers of the Group and collaborate with third party institutions to provide training to technicians	Implemented an in-house training system and started skill training for production and sales; invited quality control experts from automarkers and university professors to conduct training for knowledge on automobiles, steering systems and quality control; provided selected employees with knowledge training run by external organizations
Provide training on general management skills to management and supervisory staff of the Group	Organised management skill trainings conducted by internal senior management and external experts
Recruit about 2 sales and marketing personnel to support overseas markets development of the Group	Employed 2 marketing staff

Executive Directors

Mr. Zhang Shi Quan (張世權) , aged 57, 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. He has over 20 years of extensive experience in automotive steering gears, and is a senior economist. In 2006 in the Great Hall of the People in Beijing, Mr. Zhang was awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" granted by the Office for Election of Distinguished Persons for China's Industrial Economy.

Mr. Zhang Bao Yi (張寶義) , aged 35, 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 40, is deputy general manager of our Company. He is a representative of the Jilin People's Congress (吉林省人大代表) , the vice president of the Siping City Industry and Commerce Union (四平市工商業聯合會副會長), 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 59, 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. 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 32, 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 10 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 46, is deputy general manager of our Group responsible for overseeing our manual 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 younger brother of Mr. Zhang.

Ms. Zhang Mei Jun (張美君), aged 37, was 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 parts and components 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 38, graduated from Zhejiang University (浙江大學) in 1991 with a bachelor 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 71, worked in FAW Group as senior research engineer in 1994 and deputy chief engineer in 1998. Mr. Bao retired from FAW Group. 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 61, 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) and Zhejiang Hangcha Engineering Machinery Co.,Ltd (浙江杭叉工程機械股份公司). He was appointed as an independent non-executive Director since December 2004.

Mr. Lui Wing Hong, Edward (呂榮匡), aged 45, 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. Du Min（杜敏）, aged 52, joined Siping Steering Gear Co., Ltd.（四平市方向機械有限公司）, a subsidiary of our Company, since 2002, and is a senior economist. Mr. Du was graduated from the Jilin Institute of Finance and Trade （吉林財貿學院） with a bachelor degree in economics. Mr. Du has been appointed as a Supervisor from staff representatives since June 2007.

Mr. Feng Ping（馮平）, aged 55, joined FAW Car Co., Ltd.（一汽轎車股份有限公司） since 1970, and is a deputy chief engineer responsible for the management of production preparations. Mr. Feng was a graduate from the post-secondary class of the Jilin Provincial Society of Mechanical Engineering（吉林省機械工程學會）. Mr. Feng has been appointed as a Supervisor since June 2007.

Mr. Ge Bao Shan (葛寶山), aged 45, 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.

Mr. Shen Song Sheng (沈松生), aged 71, worked in Hangzhou Hong Qi Spare Parts Factory (杭州紅旗汽車零部件廠) in 1980. Mr.Shen joined our Group in 1993. He has been appointed as a Supervisor since June 2004.

Mr. Wang Kui Quan (王奎泉), aged 43, 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), from 2002 to 2005, he was vice director of postgraduates department of Zhejiang University of Finance & Economics (浙江財經學院) and from 2006, he was director of the Principal Office and Party Secretary Office of Zhejiang University of Finance & Economics (浙江財經學院). Mr. Wang has been appointed as a Supervisor since January 2005.

Senior management

Mr. Du Chun Mao (杜春茂), aged 52, is deputy general manager of Siping Steering responsible for its assembly workshop and mechanical workshop since 2001.

Mr. Shen Rong Jin (沈榮金), aged 60, is a deputy chief engineer of our Group. He joined Zhejiang Shibao Steering in 1993. 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 51, 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 43, 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 marketing vice president of Zhejiang Changxing Automobile Leasing Co., Ltd. from 1999 to 2004.

Mr. Ise Mitsuo (伊勢光男), aged 67, 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 38, has been appointed the qualified accountant, company secretary and authorised 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 2007.

Principal activities

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

Results

Results and financial position of the Group for the year ended 31 December 2007 are set out in page 43 to page 102 in the annual report.

Financial summary

Summary of the Group's results and assets and liabilities for the past four 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 2007, 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 12 June 2008 (Thursday) on or about 27 June 2008 (Friday).

The H Share register of the Company will be temporarily closed from Tuesday 13 May 2008 to Thursday 12 June 2008 (both days inclusive) during which no transfer of shares of the Company will be registered. Shareholders whose names appear on the register of holders of H Shares on Thursday 12 June 2008 shall be entitled to attend the Annual General Meeting of the Company to be held on Friday 13 June 2008 and to receive final dividends. All transfers accompanied by the relevant H Share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday 9 May 2008.

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 13 June 2008).

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 28 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 2007 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 29 to the financial statements.

Donations

For the year ended 31 December 2007, the Group has made donations of approximately RMB60,000.

Properties, plant and equipment

Details of changes of the Group's properties, plants and equipment are set out in note 14 to the financial statements.

Borrowings

Details of the Group's borrowings are set out in note 27 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)
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. Du Min (杜敏)
Mr. Feng Ping (馮平)
Mr. Ge Bao Shan (葛寶山)
Mr. Shen Song Sheng (沈松生)
Mr. Wang Kui Quan (王奎泉)

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 a term of three years 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 one 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 the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

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

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

Details of the remuneration of Directors, Supervisors and the five highest paid employees are set out in note 7 and note 8 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 subsidiaries. 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 2007, 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 to the financial statements, the Board has confirmed that (other than the sale of property, plant and equipment, raw materials and finished goods to Wuhu Sterling Steering System Co., Ltd. ("Wuhu Steering"), an associate of the Company), these transactions constitute connected transactions within the meaning of the GEM Listing Rules of the Company, however, such transactions are intra-group transactions exempted under Rule 20.31(1) of the GEM Listing Rules 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 of the Company and its associated corporations

As at 31 December 2007, 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	Approximate percentage of shareholding in same class of shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan ("Mr. Zhang")	Interest in a controlled corporation	165,387,223	94.00%	62.97%

Note: Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company, 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 of the Company and its associated corporations *(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 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 Automation**
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.

Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations *(continued)*

(5) 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 2007, 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 has exercised any right to subscribe for securities of the Company.

Share Option Scheme

For the year ended 31 December 2007, the Company has not implemented any Share Option Scheme.

Substantial Shareholders

As of 31 December 2007, so far as is known to the Directors, Supervisors 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	Approximate percentage of shareholding in same class of Shares	Approximate 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 of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Fang Zheng Chun	Beneficial owner	15,704,000 H Shares	18.11%	5.98%

Note 1: As at 31 December 2007, 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 these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations". 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.

Save as disclosed above, as at 31 December 2007, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executive 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

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 2007, the Group had a total of 995 employees. For the year ended 31 December 2007, total salaries and welfares of the employees amounted to approximately RMB25,877,000 (2006: approximately RMB17,899,000). 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 2007.

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 2007, as updated and notified by Evolution Watterson Securities 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 6A.31 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 5 July 2007 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 6A.19 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.

Pursuant to the announcement dated 30 July 2007, Evolution Watterson Securities Limited was appointed as the Compliance Adviser of the Company to replace Anglo Chinese Corporate Finance, Limited effective from 1 August 2007.

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 2007, purchases attributable to the Group's five largest suppliers and turnover attributable to the five largest customers represented approximately 52.9% and 40.3% of the Group's total purchases and total turnover respectively.In addition, the largest supplier and the largest customer represented approximately 39.1% and 16.5% 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 on Corporate Governance Practices 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 2007 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 principal duties of the remuneration committee include (i) making recommendations to the Board 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.

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.

Board Practices and Procedures

During the period from the Listing Date to 31 December 2007, 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 2007, 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 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 2007, 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 structure 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 2007.

Post Balance-Sheet Events

Details of major post balance-sheet events are set out in note 36 to the financial statements.

Corporate governance

The Corporate Governance Report adopted by the Company is set out in page 35 to page 40 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
20 March 2008

To all shareholders:

For the year 2007, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the GEM Listing Rules, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

During the reporting period, the Supervisory Committee held one meeting, attended Board meetings, and heard reports regarding the finance and profit distribution, connected transactions and operating results of the Company. Through the aforementioned work, the Supervisory Committee reinforced its supervision over the financial staff and senior management of the Company during their discharge of duties, improved the effect of supervision and protected the interests of shareholders and the Company.

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of shareholders and made great efforts for better operating results of the company in 2007. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company has been discovered during the discharge of their duties. The Supervisory Committee was satisfied with the achievements of the Company in 2007 , and is optimistec about the prospect of the Company.

Having review the financial statements for the year ended 31 December 2007 prepared by Ernst & Young in accordance with International Financial Reporting Standards, the Supervisory Committee is of the view that the financial statements give an objective, true and full view of the financial position and operating results of the Company.

The Supervisory Committee hopes that the Company will further strengthen its technology development, accelerates the commercialization process of new products and tries to enhance market competitiveness and profitability, so as to realize the long-term and stable development of the Company.

In 2008, the Supervisory Committee will continue to strictly comply with the Articles of Association of the Company and the relevant provisions, to regard maintaining of the interests of the Company and shareholders as its own duty, and to supervise the Company to realize its commitments to the shareholders for the best of performance.

By order of the Supervisory Committee
Du Min
Convenor of the Supervisory Committee

Hangzhou, Zhejiang, the PRC
20 March 2008

For the year ended 31 December 2007, the Group had been in compliance with majority of the Code on Corporate Governance Practices 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 Practices. 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 Practices.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the period from the Listing Date to 31 December 2007, 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 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 a term of three years 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 one 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 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 Company) is the brother of Mr. Zhang Shi Quan (Chairman and General Manager of the Company). Mr. Zhang Bao Yi (an executive Director of the Company) is the son of Mr. Zhang Shi Quan (Chairman of the Company). Ms. Zhang Lan Jun (an executive Director of the Company) and Ms. Zhang Mei Jun (a non-executive Director of the Company) are daughters of Mr. Zhang Shi Quan (Chairman of the Company). Mr. Tang Hao Han (an executive Director of the Company) is husband of Ms. Zhang Mei Jun (a non-executive Director of the Company) and the son-in-law of the Mr. Zhang Shi Quan (Chairman of the Company). 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 2007 were as follows:

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 Company, 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 on Corporate Governance Practices, the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual. Mr. Zhang Shi Quan has been the Chairman and General Manager of the Company during the year under review. Mr. Zhang Shi Quan was the Group's founder, responsible for 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 arrangement is considerably effective in making response over market changes and finalization of strategic plans. The Board will review the efficiency of such management structure 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 four meetings in total. Records of Directors' attendance in Board meetings during the year under review are as follows:

	Number of attendance in the whole year
Executive Directors	
Mr. Zhang Shi Quan (Chairman and General Manager)	4/4
Mr. Zhang Bao Yi	4/4
Mr. Tang Hao Han	4/4
Mr. Zhu Jie Rong	4/4
Ms. Zhang Lan Jun	4/4
Non-executive Directors	
Mr. Zhang Shi Zhong	4/4
Ms. Zhang Mei Jun	4/4
Mr. Gu Qun	4/4
Independent Non-executive Directors	
Mr. Bao Zhi Chao	4/4
Mr. Chen Quo Feng	4/4
Mr. Lui Wing Hong, Edward	4/4

Internal control

An effective internal control system is very important for the protection of the Group's assets and 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 the efficiency from time to time.

The Group has established an internal audit team ("Internal Audit Team") in 2007 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 that 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 work of internal audits, the Group appointed independent accountants to make a review on the Group's internal control systems in 2007 and to submit a report. With reference to the report, the Board made an assessment based on the evaluation regarding the effectiveness of internal control conducted by the Audit Committee and the Internal Audit Team, and considered that the internal control was handled properly.

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 on 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 one 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 in the whole year
Mr. Lui Wing Hong, Edward (Chairman)	1/1
Mr. Chen Guo Feng	1/1
Ms. Zhang Mei Jun	1/1

Nomination of Directiors

The Board has been authorised 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 comprises five members, who are Mr.Du Min, Mr.Feng Ping, Mr. Ge Bao Shan,Mr. Shen Zhong Sheng and Mr. Wang Kui Quan, and Mr. Du Min 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 performing 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 Ernst & Young, the auditors of the Company, in respect of their audit services for the year ended 31 December 2007 was approximately RMB1,556,000. The auditors had not provided any non-audit services in 2007.

Audit Committee

The Company established an audit committee on 26 April 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices 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 quarterly results for the three months ended 31 March 2007, unaudited interim results for the six months ended 30 June 2007 and the unaudited quarterly results for the nine months ended 30 September 2007 had been reviewed by the Audit Committee, and the Audit Committee considers that these reports had been prepared in compliance with the relevant accounting standards and provisions. The Group's audited consolidated results for the year ended 31 December 2007 had also been reviewed by the Audit Committee. In addition, the Audit Committee had reviewed the system of internal control in 2007.

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 on Corporate Governance Practices as required by the GEM Listing Rules.

Four meetings had been held by the Audit Committee during the year under review. Records of attendance in the meetings of the Audit Committee are as follows:

	Number of attendance in the whole year
Mr. Lui Wing Hong, Edward (Chairman)	4/4
Mr. Chen Guo Feng	4/4
Ms. Zhang Mei Jun	4/4

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 41 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 regularly meet with analysts, and attend various forums and press meetings, so as to strengthen relationship with the investment sector.

ERNST & YOUNG

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED
(Registered 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 43 to 102, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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' judgement, 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.

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED *(continued)*
(Registered in the People's Republic of China with limited liability)

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 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
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
20 March 2008

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	211,970	152,369
Cost of sales		(129,319)	(85,226)
Gross profit		82,651	67,143
Other income and gains	5	8,251	3,156
Selling and distribution costs		(13,843)	(9,213)
Administrative expenses		(26,508)	(17,668)
Other expenses		(1,585)	(2,342)
Finance costs	6	(265)	(2,343)
Share of losses of an associate	18	(1,098)	(59)
PROFIT BEFORE TAX	6	47,603	38,674
Tax	9	(8,697)	(5,496)
PROFIT FOR THE YEAR		38,906	33,178
Attributable to:			
Equity holders of the parent	10	38,241	32,595
Minority interests		665	583
		38,906	33,178
DIVIDENDS	11		
Proposed final		13,133	13,133
		13,133	13,133
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		RMB0.15	RMB0.14

	Notes	2007	2006
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	14	180,686	148,673
Prepaid land lease payments	15	26,187	26,792
Other intangible assets	16	342	95
Advance payments for property, plant and equipment		7,557	2,729
Investment in an associate	18	5,597	6,913
Deferred tax assets	19	1,739	2,295
Total non-current assets		222,108	187,497
CURRENT ASSETS			
Inventories	20	46,433	43,270
Trade and notes receivables	21	113,447	95,371
Prepayments, deposits and other receivables	22	10,135	4,325
Due from an associate	23	17,510	5,298
Cash and cash equivalents		70,610	103,102
Total current assets		258,135	251,366
CURRENT LIABILITIES			
Trade and notes payables	24	47,289	38,225
Other payables and accruals	25	19,621	13,425
Tax payable		15,540	13,577
Deferred income	26	1,016	1,016
Total current liabilities		83,466	66,243
NET CURRENT ASSETS		174,669	185,123
TOTAL ASSETS LESS CURRENT LIABILITIES		396,777	372,620
NON-CURRENT LIABILITIES			
Interest-bearing other borrowings	27	5,560	5,560
Deferred income	26	1,911	2,927
Total non-current liabilities		7,471	8,487
Net assets		389,306	364,133

	Notes	**2007** *RMB'000*	**2006** *RMB'000*
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	28	262,658	262,658
Reserves	29	109,655	84,547
Proposed final dividend	11	13,133	13,133
		385,446	360,338
Minority interests		3,860	3,795
Total equity		389,306	364,133

Director

Director

	Notes	2007 RMB'000	2006 RMB'000
Attributable to equity holders of the parent			
ISSUED CAPITAL	28		
At 1 January		262,658	175,944
Issue of ordinary shares		—	86,714
At 31 December		262,658	262,658
SHARE PREMIUM	29(a)		
At 1 January		21,144	—
Issue of ordinary shares		—	47,767
Share issue expenses		—	(26,623)
At 31 December		21,144	21,144
RESERVE ARISING FROM ACQUISITION OF MINORITY INTERESTS			
At 1 January and 31 December		5,736	5,736
STATUTORY SURPLUS RESERVE	29(a)		
At 1 January		47,604	15,526
Transferred from statutory public welfare fund		—	28,150
Transferred from retained earnings		4,647	3,928
At 31 December		52,251	47,604
STATUTORY PUBLIC WELFARE FUND	29(a)		
At 1 January		—	28,150
Transferred to statutory surplus reserve		—	(28,150)
At 31 December		—	—

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	**2007** *RMB'000*	**2006** *RMB'000*
Attributable to equity holders of the parent (continued)			
RETAINED EARNINGS/(ACCUMULATED LOSSES)	29(a)		
At 1 January		10,063	(5,471)
Profit for the year		38,241	32,595
Transferred to statutory surplus reserve		(4,647)	(3,928)
Proposed final dividend	11	(13,133)	(13,133)
At 31 December		30,524	10,063
RESERVES		109,655	84,547
PROPOSED FINAL DIVIDEND	11		
At 1 January		13,133	15,000
Dividend paid		(13,133)	(15,000)
Proposed final dividend		13,133	13,133
At 31 December		13,133	13,133
TOTAL		385,446	360,338
Minority interests			
At 1 January		3,795	7,712
Profit for the year		665	583
Acquisition of minority interests of a subsidiary		—	(4,000)
Dividends		(600)	(500)
At 31 December		3,860	3,795
TOTAL EQUITY		389,306	364,133

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		47,603	38,674
Adjustments for:			
Finance costs	6	265	2,185
Share of losses of an associate	18	1,098	59
Unrealised gains resulting from sales to an associate	18	218	—
Interest income	5	(1,619)	(2,050)
(Gain)/loss on disposal of items of property, plant and equipment	6	(132)	123
Depreciation	6	12,023	11,078
Provision for impairment of trade and notes receivables	6	265	(1,202)
Amortisation of prepaid land lease payments	6	605	679
Amortisation of other intangible assets	6	23	13
Amortisation of deferred income	6	(1,016)	(1,016)
Exchange losses		195	1,736
		59,528	50,279
Increase in inventories		(3,163)	(7,634)
(Increase)/ decrease in trade and notes receivables		(18,341)	15,072
Increase in prepayments, deposits and other receivables		(5,810)	(298)
Decrease in an amount due from a director		—	7
Increase in an amount due from an associate		(12,212)	(5,024)
Increase/(decrease) in trade and notes payables		9,064	(1,845)
Increase/(decrease) in other payables and accruals		5,931	(4,995)
Cash generated from operations		34,997	45,562
Interest paid		—	(2,185)
Tax paid		(6,178)	(4,168)
Net cash inflow from operating activities		28,819	39,209

	Note	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,619	2,050
Purchases of items of property, plant, and equipment		(52,700)	(16,800)
Proceeds from disposal of items of property, plant and equipment		3,968	496
Additions to other intangible assets		(270)	(108)
Acquisition of minority interests of a subsidiary		—	(4,000)
Net cash outflow from investing activities		(47,383)	(18,362)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29(a)	—	134,481
Share issue expenses		—	(15,531)
Repayment of interest-bearing other borrowings		—	(56,820)
Dividend paid		(13,133)	(15,000)
Dividends paid to minority shareholders		(600)	(500)
Net cash (outflow)/inflow from financing activities		(13,733)	46,630
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(32,297)	67,477
Cash and cash equivalents at beginning of year		103,102	37,361
Effect of foreign exchange rate changes, net		(195)	(1,736)
CASH AND CASH EQUIVALENTS AT END OF YEAR		70,610	103,102

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	8,709	8,610
Prepaid land lease payments	15	6,304	6,478
Investments in subsidiaries	17	87,850	87,850
Investment in an associate	18	7,200	7,200
Deferred tax assets	19	515	947
Total non-current assets		110,578	111,085
CURRENT ASSETS			
Inventories	20	3,235	2,788
Trade and notes receivables	21	2,261	931
Prepayments, deposits and other receivables	22	713	499
Due from subsidiaries	23	195,188	91,786
Due from an associate	23	14,423	—
Cash and cash equivalents		13,444	52,693
Total current assets		229,264	148,697
CURRENT LIABILITIES			
Trade and notes payables	24	6,077	7,225
Other payables and accruals	25	6,123	6,747
Due to subsidiaries	23	16,648	—
Total current liabilities		28,848	13,972
NET CURRENT ASSETS		200,416	134,725
Net assets		310,994	245,810
EQUITY			
Issued capital	28	262,658	262,658
Reserves/(accumulated losses)	29(b)	35,203	(29,981)
Proposed final dividend	11	13,133	13,133
Total equity		310,994	245,810

Director **Director**

1. CORPORATE INFORMATION

The Company is a joint stock limited liability company registered in the People's Republic of China (the "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 registered office of the Company is located at No. 1, Shuanglin Road, Fotang Village, Yiwu, Zhejiang Province, China.

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 products. Its holding company, Zhejiang Shibao Holding Group Co., Ltd., is an investment holding company established in the PRC on 28 May 2003.

2.1 BASIS OF PREPARATION

These 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, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under 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 Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises (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 include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

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 intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 IMPACT OF NEW AND REVISED IFRSs

In 2007, the Group adopted the following new and revised IFRSs, which are relevant to its operations.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised IFRSs does not have any significant impact on the accounting policies of the Group and the method of computation in the financial statements.

2.3 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 the consolidated financial statements.

IAS 27 (revised)	Consolidated and Separate Financial Statements[1]
IFRS 3 (revised)	Business Combinations [1]
IAS 32 & IAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 1 (revised)	Presentation of Financial Statements[2]
IAS 23 (revised)	Borrowing Costs[2]
IFRS 2 Amendment	Share-based Payment: Vesting Conditions and Cancellations[2]
IFRS 8	Operating Segments[2]
IFRIC-Int 11	IFRS 2-Group and Treasury Share Transaction[3]
IFRIC-Int 12	Service Concession Arrangements[4]
IFRIC-Int 13	Customer Loyalty Programmes[5]
IFRIC-Int 14	IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for accounting periods beginning on or after 1 July 2009
2 Effective for accounting periods beginning on or after 1 January 2009
3 Effective for accounting periods beginning on or after 1 March 2007
4 Effective for accounting periods beginning on or after 1 January 2008
5 Effective for accounting periods beginning on or after 1 July 2008

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. Up to the date of this report, it has been concluded that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investment in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investment in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the income statement in the period in which it arises.

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 recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment 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 items of 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 the 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% to 10%
Plant and machinery	10%
Office equipment	20%
Motor vehicles	20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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 the depreciation method 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 sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

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 are reviewed at least at each balance sheet date.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred 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 project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets 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.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised 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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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 at 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; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of 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 where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights 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.

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 in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where 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 at amortised cost (including interest-bearing other borrowings)

Financial liabilities including trade and notes payables, other payables and accruals and interest-bearing other 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. The related interest expense is recognised within "finance costs" in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated 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 based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- where the deferred tax liability 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 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 tax assets are recognised for all deductible temporary differences, carryforward 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 carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised 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 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 tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value 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 periods 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, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Retirement benefits

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This Company and its subsidiaries are required to contribute 20% to 21% of the average basic salaries earned within the geographical area where the employees are under employment to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings 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.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 at 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 at the balance sheet date.

(b) Impairment of trade and notes receivables and other receivables

Impairment of trade and notes receivables and other receivables is made based on assessment of the recoverability of trade and notes receivables and other receivables. The identification of bad and doubtful receivables requires management judgement 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 management 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, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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.

	2007 *RMB'000*	2006 *RMB'000*
Revenue		
Sale of goods	212,893	152,964
Less: Government surcharges	(923)	(595)
	211,970	152,369
Other income		
Bank interest income	1,619	2,050
Sale of raw materials	670	88
Government grants	5,576	977
Others	254	41
	8,119	3,156
Gains		
Gain on disposal of items of property, plant and equipment	132	—
Other income and gains	8,251	3,156

6. PROFIT BEFORE TAX

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		88,219	50,817
Depreciation	14	12,023	11,078
Amortisation of prepaid land lease payments	15	605	679
Amortisation of other intangible assets	16	23	13
Amortisation of deferred income	26	(1,016)	(1,016)
Research and development costs		4,999	2,474
Auditors' remuneration		1,556	1,443
Employee benefits expense (including directors', supervisors' and senior executives' remuneration as set out in note 7):			
Salaries and other staff costs		24,394	16,680
Retirement costs – defined contribution scheme		1,483	1,219
		25,877	17,899
Interest expenses		265	2,185
Bank charges and other finance costs		—	158
Total finance costs		265	2,343
Foreign exchange differences, net		1,241	2,163
Impairment/(write-back) of trade and notes receivables		265	(1,202)
(Write-back)/write-down of inventories to net realisable value		(117)	750
Bank interest income		(1,619)	(2,050)
(Gain)/loss on disposal of items of property, plant and equipment		(132)	123

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

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Fees	—	—
Other emoluments		
Salaries	1,556	1,001
Pension scheme contributions	22	16
	1,578	1,017
	1,578	1,017

(a) Independent non-executive directors

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

	2007	**2006**
Name	*RMB'000*	*RMB'000*
Mr. Lui Wing Hong	120	120
Mr. Bao Zhi Chao	36	36
Mr. Chen Guo Feng	30	27
	186	183

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

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

(b) Executive directors and non-executive directors

	Salaries *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2007			
Executive directors:			
Mr. Zhang Shi Quan	275	3	278
Mr. Tang Hao Han	190	3	193
Mr. Zhang Bao Yi	190	3	193
Mr. Zhu Jie Rong	190	—	190
Ms. Zhang Lan Jun	138	4	142
	983	13	996
Non-executive directors:			
Mr. Zhang Shi Zhong	80	3	83
Ms. Zhang Mei Jun	80	3	83
Mr. Gu Qun	80	—	80
	240	6	246
	1,223	19	1,242
2006			
Executive directors:			
Mr. Zhang Shi Quan	120	2	122
Mr. Tang Hao Han	100	3	103
Mr. Zhang Bao Yi	100	2	102
Mr. Zhu Jie Rong	105	—	105
Ms. Zhang Lan Jun	80	4	84
	505	11	516
Non-executive directors:			
Mr. Zhang Shi Zhong	80	2	82
Ms. Zhang Mei Jun	51	3	54
Mr. Gu Qun	—	—	—
	131	5	136
	636	16	652

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

(c) Supervisors

	Salaries RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2007			
Mr. Du Min	48	3	51
Mr. Shen Song Sheng	36	—	36
Mr. Ge Bao Shan	24	—	24
Mr. Wang Kui Quan	24	—	24
Mr. Feng Ping	15	—	15
	147	3	150
2006			
Ms. Liu Xiao Ping	72	—	72
Mr. Shen Song Sheng	36	—	36
Ms. Zheng Yan	26	—	26
Mr. Ge Bao Shan	24	—	24
Mr. Wang Kui Quan	24	—	24
	182	—	182

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 2007 (2006: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2006: one) non-director, non-supervisor highest paid employee for the year is as follows:

	2007 RMB'000	2006 RMB'000
Salary	395	248
Pension scheme contribution	—	—
	395	248

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

9. TAX

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 2007 (2006: 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 in 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 2007, Siping Steering was subject to corporate income tax at the rate of 15%.

The Company and other subsidiaries were subject to corporate income tax at the rate of 33% during the year ended 31 December 2007 (2006: 33%).

Save as disclosed above, effective from 1 January 2008, the Company and its subsidiaries shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the PRC (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable would be adjusted to 25% from 2008. According to IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Therefore, the tax rate of 25% is adopted in the calculation of deferred tax which is expected to be recovered after 31 December 2007. The effect of the tax rate change amounted to RMB355,000.

9. TAX *(continued)*

The major components of total tax charge for the year ended 31 December 2007 and 2006 are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Provision for income tax in respect of profit for the year		
— Current	7,962	8,701
— Under/(over) provision in prior years	179	(1,285)
— Deferred (note 19)	556	(1,920)
Total tax charge for the year	8,697	5,496

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Accounting profit	47,603	38,674
Non-deductible share of loss of an associate	1,316	59
Profit of the Group subject to income tax	48,919	38,733
Tax at an applicable tax rate of 33%	16,143	12,782
Adjustment in respect of under/(over) provision in prior years	179	(1,285)
Tax credits in respect of purchases of property, plant and equipment from domestic vendors	(4,773)	(1,831)
Tax effect of expense items which are not deductible for income tax purposes	2,617	896
Tax effect of change in tax rate	355	—
Tax rate differential on a subsidiary taxed at 15%	(5,593)	(5,229)
Deferred tax assets not recognised	—	163
Utilisation of previously unrecognised tax losses	(231)	—
Tax charge at the Group's effective rate	8,697	5,496

Pursuant to Tentative Regulation Regarding Income Tax Benefit for Investment in the PRC Made Equipment Used in Technical Reform, the Group was entitled to a deduction of corporate income tax amounting to RMB4,773,000 for the year ended 31 December 2007 (2006: RMB1,831,000) as a result of purchases of property, plant and equipment from domestic vendors.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a loss of RMB1,583,000 (2006: loss of RMB895,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. DIVIDENDS

	2007 *RMB'000*	2006 *RMB'000*
Proposed final dividend – RMB0.05 (2006: RMB0.05) per ordinary share	13,133	13,133

Pursuant to a resolution of the board of directors of the Company dated 20 March 2008, a final dividend of approximately RMB 13,133,000 was proposed for the year ended 31 December 2007, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB38,241,000 in 2007 (2006: RMB32,595,000), and the weighted average number of 262,657,855 ordinary shares in issue in 2007 (2006:232,307,955).

Diluted earnings per share amounts for the two years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during those years.

13. 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 20% to 21% 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.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2006	76,305	61,752	4,063	7,617	32,777	182,514
Additions	1,329	8,047	441	362	5,796	15,975
Transfers	10,660	25,220	—	467	(36,347)	—
Disposals	(79)	(702)	(956)	(216)	—	(1,953)
At 31 December 2006 and 1 January 2007	88,215	94,317	3,548	8,230	2,226	196,536
Additions	771	17,340	601	3,085	26,075	47,872
Transfers	2,141	8,278	—	144	(10,563)	—
Disposals	—	(4,376)	(70)	(940)	—	(5,386)
At 31 December 2007	91,127	115,559	4,079	10,519	17,738	239,022
Accumulated depreciation:						
At 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)
At 31 December 2006 and 1 January 2007	11,045	30,086	2,316	4,416	—	47,863
Charge for the year	2,367	7,845	445	1,366	—	12,023
Disposals	—	(987)	(67)	(496)	—	(1,550)
At 31 December 2007	13,412	36,944	2,694	5,286	—	58,336
Net book value:						
At 31 December 2006	77,170	64,231	1,232	3,814	2,226	148,673
At 31 December 2007	77,715	78,615	1,385	5,233	17,738	180,686

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

Company

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2006	11,438	5,487	1,219	3,987	—	22,131
Additions	—	433	55	124	27	639
Transfers	—	27	—	—	(27)	—
Disposals	—	(268)	(32)	(103)	—	(403)
Transferred to a subsidiary	—	—	—	(2,588)	—	(2,588)
At 31 December 2006 and 1 January 2007	11,438	5,679	1,242	1,420	—	19,779
Additions	—	634	9	879	—	1,522
Disposals	—	(665)	(70)	(829)	—	(1,564)
At 31 December 2007	11,438	5,648	1,181	1,470	—	19,737
Accumulated depreciation:						
At 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)
At 31 December 2006 and 1 January 2007	5,501	3,702	1,042	924	—	11,169
Charge for the year	366	275	71	181	—	893
Disposals	—	(471)	(67)	(496)	—	(1,034)
At 31 December 2007	5,867	3,506	1,046	609	—	11,028
Net book value:						
At 31 December 2006	5,937	1,977	200	496	—	8,610
At 31 December 2007	5,571	2,142	135	861	—	8,709

All buildings of the Group and the Company are located in the Mainland China.

15. PREPAID LAND LEASE PAYMENTS

	Group *RMB'000*	Company *RMB'000*
Cost:		
At 1 Jauuary 2006,31 December 2006, 1 January 2007 and 31 December 2007	29,931	8,331
Accumulated amortisation:		
At 1 January 2006	2,460	1,681
Charge for the year	679	172
At 31 December 2006 and 1 January 2007	3,139	1,853
Charge for the year	605	174
At 31 December 2007	3,744	2,027
Net book value:		
At 31 December 2006	26,792	6,478
At 31 December 2007	26,187	6,304

16. OTHER INTANGIBLE ASSETS

Group

	Software licence *RMB'000*
Cost:	
At 1 January 2006	—
Additions	108
At 31 December 2006 and 1 January 2007	108
Additions	270
At 31 December 2007	378
Accumulated amortisation:	
At 1 January 2006	—
Charge for the year	13
At 31 December 2006 and 1 January 2007	13
Charge for the year	23
At 31 December 2007	36
Net book value:	
At 31 December 2006	95
At 31 December 2007	342

17. INVESTMENTS IN SUBSIDIARIES

	2007 *RMB'000*	2006 *RMB'000*
Company		
Unlisted investments, at cost	87,850	87,850

Particulars of the principal's subsidiaries as at 31 December 2007 are as follows:

Name	Legal status	Place and date of registration 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 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 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 and other automotive parts

Note 1: Since the date of the incorporation of DHB-Shibao, 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.

Pursuant to the announcement dated 21 January 2008 of the Company, following friendly negotiations, the joint venture parties, Hangzhou Shibao and DHB Components Automotivos S.A., signed a termination agreement to terminate the joint venture agreement and the related Articles of Association of DHB-Shibao on 21 January 2008. Hangzhou Shibao will take up all assets and liabilities of DHB-Shibao upon its dissolution. The existing business of DHB-Shibao which was originally transferred from the Group, will be transferred back to the Group after the termination of the joint venture agreement.

18. INVESTMENT IN AN ASSOCIATE

	2007 *RMB'000*	2006 *RMB'000*
Group		
Share of the associate's net assets		
Current assets	5,078	3,932
Non-current assets	11,504	7,301
Current liabilities	(10,767)	(4,320)
Net assets	5,815	6,913
Share of the associate's revenue and loss		
Revenue	6,791	3,773
Loss	1,098	59
Unrealised gains resulting from sales to the associate	218	—
Carrying amount of the investment	5,597	6,913
Company		
Unlisted investment, at cost	7,200	7,200

Particulars of the Company's associate as at 31 December 2007 are as follows:

Name	Legal status	Place and date of registration and operations	Registered /paid-up capital RMB'000	Percentage of equity directly attributable to the Company	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

The two corporation shareholders of the associate, the Company and Wuhu Qirui Technology Co., Ltd., have undertaken to provide continuing financial support to enable the associate to meet its liabilities as and when they fall due. Therefore, in the opinion of the Directors of the Company, the associate will have sufficient funds to meet its daily working capital requirements for the foreseeable future, and will not encounter going concern problems due to inadequate working capital.

19. DEFERRED TAX ASSETS

Recognised deferred tax assets

Deferred tax assets are attributable to items set out as follows:

	Tax losses *RMB'000*	Accrued warranty *RMB'000*	Deferred income *RMB'000*	Accrued expense *RMB'000*	Impairment of assets *RMB'000*	Total *RMB'000*
Group						
At 1 January 2006	—	—	—	—	375	375
Charged to the income statement (note 9)	646	144	592	—	538	1,920
At 31 December 2006 and 1 January 2007	646	144	592	—	913	2,295
(Charged) / credited to the income statement (note 9)	(223)	269	(592)	257	88	(201)
Effect of change in tax rate charged to the income statement	(103)	(82)	—	(62)	(108)	(355)
At 31 December 2007	320	331	—	195	893	1,739

19. DEFERRED TAX ASSETS *(continued)*

Recognised deferred tax assets *(continued)*

Deferred tax assets are attributable to items set out as follows:

	Tax losses *RMB'000*	Accrued warranty *RMB'000*	Deferred income *RMB'000*	Accrued expense *RMB'000*	Impairment of assets *RMB'000*	Total *RMB'000*
Company						
At 1 January 2006	—	—	—	—	375	375
Charged to the income statement	646	33	—	—	(107)	572
At 31 December 2006 and 1 January 2007	646	33	—	—	268	947
(Charged)/credited to the the income statement	(223)	(33)	—	88	(99)	(267)
Effect of change in tax rate charged to the income statement	(103)	—	—	(21)	(41)	(165)
At 31 December 2007	320	—	—	67	128	515

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

Unrecognised deferred tax asset

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

	2007 *RMB'000*	2006 *RMB'000*
Group		
Tax losses of a subsidiary	459	794
Total	459	794

20. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
Group		
Raw materials	18,917	16,875
Work in progress	8,250	11,278
Finished goods	17,503	14,091
Low value consumables	1,763	1,026
	46,433	43,270
Company		
Raw materials	1,202	1,592
Work in progress	1,844	1,145
Finished goods	—	36
Low value consumables	189	15
	3,235	2,788

21. TRADE AND NOTES RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Group		
Trade and notes receivables	117,565	99,224
Impairment	(4,118)	(3,853)
	113,447	95,371
Company		
Trade and notes receivables	2,773	1,443
Impairment	(512)	(512)
	2,261	931

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days, extending up to 180 days for major customers. Overdue balances are reviewed regularly by senior management. Trade and notes receivables are non-interest-bearing.

21. TRADE AND NOTES RECEIVABLES *(continued)*

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

	2007	2006
	RMB'000	*RMB'000*
Group		
Within 90 days	92,472	65,587
91 to 180 days	9,657	15,631
181 to 365 days	8,117	9,573
Over 365 days	3,201	4,580
	113,447	95,371
Company		
Within 90 days	1,146	—
91 to 180 days	511	—
181 to 365 days	604	—
Over 365 days	—	931
	2,261	931

The movements in provision for impairment of trade and notes receivables are as follows:

	2007	2006
	RMB'000	*RMB'000*
Group		
At 1 January	3,853	5,055
Impairment losses recognised (note 6)	1,979	1,455
Impairment losses reversed (note 6)	(1,714)	(2,657)
	4,118	3,853
Company		
At 1 January	512	1,137
Impairment losses recognised	—	—
Impairment losses reversed	—	(625)
	512	512

Included in the above provision for impairment of trade and notes receivables is a provision for individually impaired trade and notes receivables of RMB4,118,000 (2006: RMB3,853,000) with a carrying amount of RMB5,028,000 (2006: RMB5,842,000). The individually impaired trade and notes receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

21. TRADE AND NOTES RECEIVABLES *(continued)*

The aged analysis of the trade and notes receivables that are not considered to be impaired is as follows:

	2007 *RMB'000*	2006 *RMB'000*
Group		
Neither past due nor impaired	109,460	85,796
Less than 90 days past due	2,196	3,640
91 to 180 days past due	1,360	1,705
181 to 365 days past due	431	4,230
	113,447	95,371
Company		
Neither past due nor impaired	1,657	—
Less than 90 days past due	604	—
91 to 180 days past due	—	—
181 to 365 days past due	—	931
	2,261	931

The carrying amounts of trade and notes receivables approximate to their fair value.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2007 *RMB'000*	2006 *RMB'000*
Group		
Deposits	257	244
Prepayments	3,420	2,722
Other receivables	6,458	1,359
	10,135	4,325
Company		
Deposits	41	60
Prepayments	396	297
Other receivables	276	142
	713	499

23. BALANCES WITH SUBSIDIARIES AND AN ASSOCIATE

Amounts due from subsidiaries and an associate as at 31 December 2007 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 due for repayment on demand.

24. TRADE AND NOTES PAYABLES

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

	2007	**2006**
	RMB'000	*RMB'000*
Group		
Outstanding balances with ages:		
Within 90 days	30,195	23,663
91 to 180 days	6,419	6,228
181 to 365 days	6,086	3,188
Over 365 days	4,589	5,146
	47,289	38,225
Company		
Outstanding balances with ages:		
Within 90 days	2,815	3,684
91 to 180 days	897	581
181 to 365 days	314	137
Over 365 days	2,051	2,823
	6,077	7,225

25. OTHER PAYABLES AND ACCRUALS

	2007	2006
	RMB'000	*RMB'000*
Group		
Advances from customers	1,112	571
Payroll payables	1,244	1,194
Welfare payables	2,444	3,498
Other payables	14,821	8,162
	19,621	13,425
Company		
Advances from customers	431	100
Payroll payables	12	219
Welfare payables	1,872	2,655
Other payables	3,808	3,773
	6,123	6,747

26. DEFERRED INCOME

	2007	2006
	RMB'000	*RMB'000*
Group		
At 1 January	3,943	4,759
Government grants recognised as deferred income	—	200
Amortisation	(1,016)	(1,016)
At 31 December	2,927	3,943
Current	1,016	1,016
Non-current	1,911	2,927
	2,927	3,943

Government grants received are for the purchases of certain items of property, plant and equipment. The government grants received are accounted for as deferred income and are released to the income statement over the expected useful lives of the underlying items of property, plant and equipment.

27. INTEREST-BEARING OTHER BORROWINGS

	2007 RMB'000	2006 RMB'000
Group		
Other borrowings, unsecured	5,560	5,560
Repayable:		
Within one year	—	—
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	5,560	5,560
	5,560	5,560
Portion classified as current liabilities	—	—
Long-term portion	5,560	5,560

As at 31 December 2007, included in other unsecured borrowings are loans granted by Siping Municipal Ministry of Finance amounting to RMB5,560,000 (2006: RMB5,560,000). Borrowings of RMB3,000,000 (2006: RMB3,000,000) bear interest at a commercial rate of 5% (2006: 5%) per annum and are repayable in 2016. Borrowings of RMB2,560,000 (2006: RMB2,560,000) bear interest at a commercial rate of 5% (2006: 5%) and are repayable in 2020.

28. ISSUED CAPITAL

	Nominal value of shares RMB	Number of Domestic Shares	Number of H shares	Total number of shares	Value RMB'000
At 1 January 2007 and 31 December 2007	1 per share	175,943,855	86,714,000	262,657,855	262,658

The Domestic Shares are not currently listed on any stock exchange. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

29. RESERVES/(ACCUMULATED LOSSES)

(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.

29. RESERVES/(ACCUMULATED LOSSES) *(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 reserve

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 2007, Siping Steering and Hangzhou Shibao, subsidiaries of the Company, proposed final dividends totalling RMB20,000,000 to the shareholders, which were subject to the approval by the shareholders of the subsidiaries.

As at 31 December 2007, the accumulated losses of the Company was approximately RMB15,289,000, 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 dividend as set out in note 11.

29. RESERVES/(ACCUMULATED LOSSES) *(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*
At 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 dividend	—	—	—	—	(13,133)	(13,133)
At 31 December 2006 and 1 January 2007	21,144	20,136	—	5,736	(76,997)	(29,981)
Profit for the year	—	—	—	—	78,317	78,317
Transfer to reserves	—	3,476	—	—	(3,476)	—
Proposed final dividend	—	—	—	—	(13,133)	(13,133)
At 31 December 2007	21,144	23,612	—	5,736	(15,289)	35,203

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees given to banks in connection with facilities granted to an associate	5,500	—	5,500	—

As at 31 December 2007, the banking facilities guaranteed by the Group to an associate were utilised to the extent of RMB4,000,000 (2006: Nil).

31. COMMITMENTS

Capital commitments

	2007	2006
	RMB'000	*RMB'000*
Group		
Capital commitments in respect of the acquisition of property, plant and equipment:		
Contracted, but not provided for	1,445	1,941
Authorised, but not contracted	6,728	45,449
	8,173	47,390
Company		
Capital commitment in respect of an investment in a subsidiary:		
Contracted, but not provided for	—	38,822

32. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2007, the Group and the Company had the following transactions with related parties:

Group

Name of related party	**Nature of transaction**	**2007** RMB'000	**2006** RMB'000
Ms. Zhang Hai Qin	Acquisition of additional equity interest in a subsidiary (note (a))	—	4,000
Wuhu Sterling	Sales of property, plant and equipment to an associate (note (b))	3,127	—
	Sales of raw materials to an associate (note (c))	8,092	—
	Sales of finished goods to an associate (note (d))	8,744	4,528

Company

Name of related party	**Nature of transaction**	**2007** RMB'000	**2006** RMB'000
Ms. Zhang Hai Qin	Acquisition of additional equity interest in a subsidiary (note (a))	—	4,000
Wuhu Sterling	Sales of raw materials to an associate (note (c))	594	—
	Sales of finished goods to an associate (note (d))	878	—
Hangzhou Shibao	Sales of property, plant and equipment to a subsidiary (note (b))	—	985
	Sales of raw materials to a subsidiary (note (c))	1,517	6,316
	Sales of finished goods to a subsidiary (note (e))	15,046	16,583
	Purchase of raw materials from a subsidiary (note (c))	834	—
	Purchase of finished goods from a subsidiary (note (e))	1,421	—
Siping Steering	Sales of finished goods to a subsidiary (note (d))	22	35

32. RELATED PARTY TRANSACTIONS *(continued)*

(I) 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, an executive 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 property, plant and equipment were sold at their net book values.

(c) The sales and purchase of raw materials were sold at cost.

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

(e) The sales and purchase of finished goods were sold at cost plus 10% margin.

The board of directors of the Company is of the opinion that the above transactions with related parties were carried out in the ordinary course of business.

(II) Guarantees provided to an associate of the Company

As set out in note 30, a bank guarantee of RMB5,500,000 was given by the Company to Wuhu Sterling, an associate of the Company, free of charge. As at 31 December 2007, the bank guarantee of RMB4,000,000 was utilised by the associate.

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

	2007	**2006**
Financial assets		
	Loans and receivables *RMB'000*	**Loans and receivables** *RMB'000*
Trade and notes receivables (note 21)	113,447	95,371
Financial assets included in prepayments, deposits and other receivables (note 22)	6,715	1,603
Due from an associate (note 23)	17,510	5,298
Cash and cash equivalents	70,610	103,102
Total	208,282	205,374
Financial liabilities		
	Financial liabilities at amortised cost *RMB'000*	**Financial liabilities at amortised cost** *RMB'000*
Trade and notes payables (note 24)	47,289	38,225
Financial liabilities included in other payables and accruals (note 25)	18,509	12,854
Interest-bearing other borrowings (note 27)	5,560	5,560
Total	71,358	56,639

33. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

Financial assets

	2007	2006
	Loans and receivables *RMB'000*	**Loans and receivables** *RMB'000*
Trade and notes receivables (note 21)	2,261	931
Financial assets included in prepayments, deposits and other receivables (note 22)	317	202
Due from subsidiaries (note 23)	195,188	91,786
Due from an associate (note 23)	14,423	—
Cash and cash equivalents	13,444	52,693
Total	225,633	145,612

Financial liabilities

	2007	2006
	Financial liabilities at amortised cost *RMB'000*	**Financial liabilities at amortised cost** *RMB'000*
Trade and notes payables (note 24)	6,077	7,225
Financial liabilities included in other payables and accruals (note 25)	5,692	6,647
Due to subsidiaries (note 23)	16,648	—
Total	28,417	13,872

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise interest-bearing other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and notes payables, which arise directly from its operations. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

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

The effective interest rates and terms of repayment of the interest-bearing other borrowings of the Group are set out in note 27 above.

A reasonably possible change of 50 basis points in interest rates would have no material impact on the Group's profit or loss during the year and there is no material impact on the Group's equity.

Foreign currency risk

The Group operates in Mainland China and its principal activities are conducted in RMB. Therefore, the Group's exposure to market risk for changes in foreign currency exchange rate is not significant.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables and amount due from an associate, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 30 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. 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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 21 to the financial statements.

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.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and notes receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and interest-bearing other borrowings. The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank and other borrowings to meet its working capital requirements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007				
	On demand	**Within 90 days**	**91 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables (note 24)	5,718	41,571	—	—	47,289
Financial liabilities included in other payables and accruals (note 25)	18,509	—	—	—	18,509
Interest-bearing other borrowings (note 27)	—	—	—	5,560	5,560
	24,227	41,571	—	5,560	71,358

	2006				
	On demand	**Within 90 days**	**91 to 365 days**	**Over 365 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables (note 24)	8,010	30,215	—	—	38,225
Financial liabilities included in other payables and accruals (note 25)	12,854	—	—	—	12,854
Interest-bearing other borrowings (note 27)	—	—	—	5,560	5,560
	20,864	30,215	—	5,560	56,639

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Company

	2007		
	On demand	**Within 90 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Trade and notes payables (note 24)	2,134	3,943	6,077
Financial liabilities included in other payables and accruals (note 25)	5,692	—	5,692
Due to subsidiaries (note 23)	16,648	—	16,648
	24,474	3,943	28,417

	2006		
	On demand	**Within 90 days**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Trade and notes payables (note 24)	3,081	4,144	7,225
Financial liabilities included in other payables and accruals (note 25)	6,647	—	6,647
	9,728	4,144	13,872

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing other borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents, and excludes discontinued operations. Capital represents equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	2007	**2006**
	RMB'000	*RMB'000*
Interest-bearing other borrowings	5,560	5,560
Trade and notes payables	47,289	38,225
Other payables and accruals	19,621	13,425
Less: cash and cash equivalents	(70,610)	(103,102)
Net debt/(asset)	1,860	(45,892)
Total capital	385,446	360,338
Capital and net debt	387,306	314,446
Gearing ratio	0.5%	(14.6%)

35. FINANCIAL INSTRUMENTS

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.

36. POST BALANCE SHEET EVENTS

On 20 March 2008, 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 2007, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (notes 11 and 29(a)).

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2008.