世 寶

浙江世寶股份有限公司

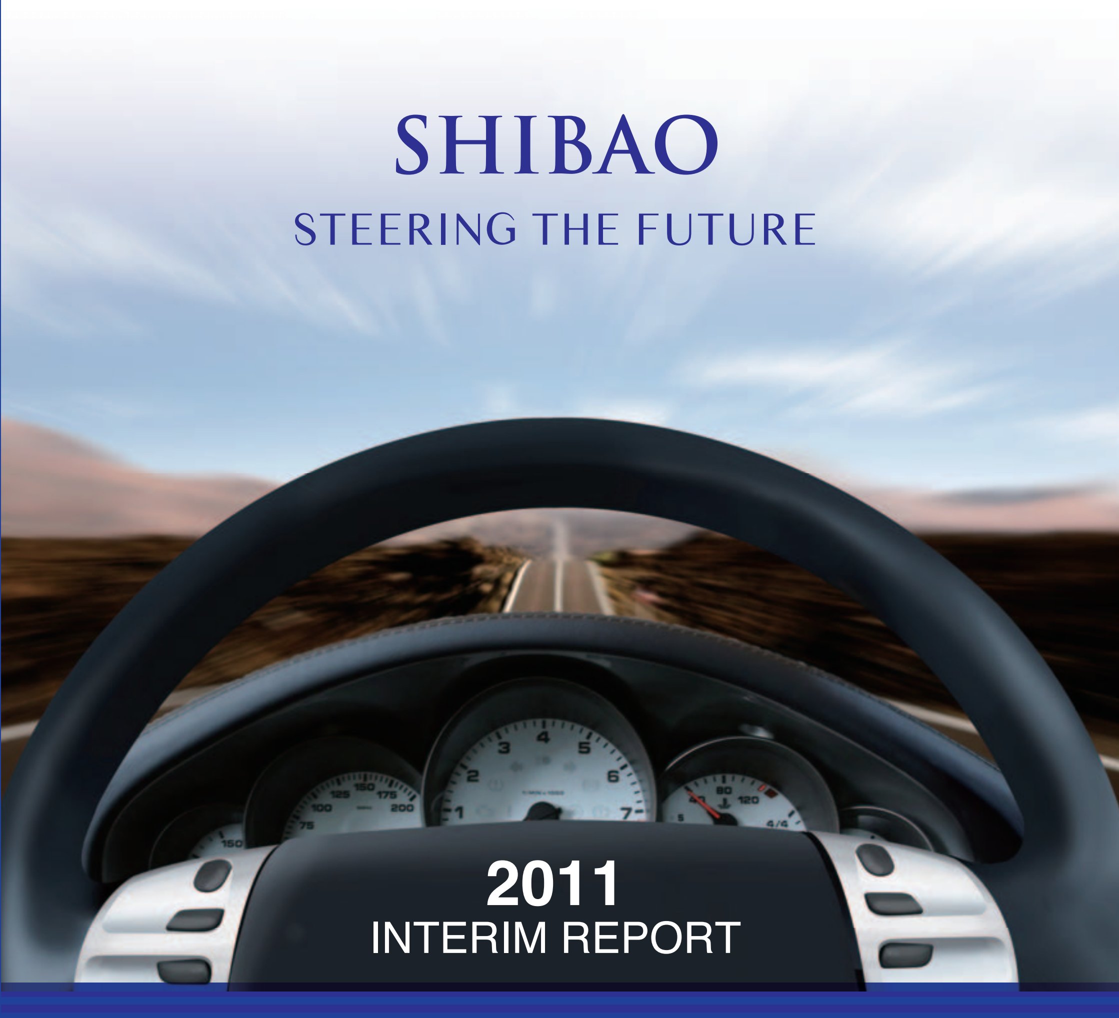
ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 1057

SHIBAO

STEERING THE FUTURE



2011 INTERIM REPORT

* For identification purposes only

SUMMARY

- Revenue for the six months ended 30 June 2011 amounted to RMB332,827,528.55, an increase of 23.7% compared with RMB269,054,738.33 for the corresponding period in 2010.
- Net profit for the six months ended 30 June 2011 amounted to RMB60,061,650.74, an increase of 11.7% compared with RMB53,757,281.77 for the corresponding period in 2010.
- Net profit attributable to equity holders of the parent for the six months ended 30 June 2011 amounted to RMB60,996,018.28, an increase of 14.5% compared with RMB53,259,365.98 for the corresponding period in 2010.
- Basic Earnings per share for the six months ended 30 June 2011 was RMB0.23, an increase of 15.0% compared with RMB0.20 for the corresponding period in 2010.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2011.

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Zhejiang Shibao Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011, together with the comparative figures for the corresponding periods in 2010. The consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

Reference is made to the announcement of the Company dated 12 August 2011 which mentioned that The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has accepted matters relating to the adoption of Mainland accounting and auditing standards and the appointment of Mainland audit firms. In view of such arrangement and in order to improve efficiency and reduce the cost of disclosure, the Board has decided to prepare only one set of financial statements for the Company under China Accounting Standards for any financial period commencing on or after 1 January 2011 for the purpose of fulfilling its statutory obligation and the periodic financial reporting requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board confirms that there will have no material financial impact on the financial statements which will be brought by the adoption of China Accounting Standards only for fulfillment of its statutory obligation and the periodic financial reporting requirements of the Listing Rules.

CONSOLIDATED BALANCE SHEET

30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

Assets	Note (5)	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Current Assets			
Cash on hand and at bank	1	42,986,051.12	65,301,493.65
Notes receivable	2	70,077,760.11	60,152,693.51
Accounts receivable	3	205,601,080.63	127,888,570.64
Prepayments		11,199,205.48	6,971,004.76
Other receivables		5,159,632.99	3,914,239.70
Inventories	4	137,665,928.60	138,006,793.84
Other current assets		1,412,965.88	1,004,992.67
Total current assets		474,102,624.81	403,239,788.77
Non-current Assets			
Long-term equity investments		6,642,934.45	6,615,273.15
Fixed assets	5	294,838,671.57	282,301,214.46
Construction in progress		68,855,827.29	12,297,067.81
Intangible assets	6	76,407,661.86	78,640,983.02
Deferred income tax assets		4,956,938.14	3,696,580.97
Other non-current assets		19,961,435.80	24,226,795.00
Total non-current assets		471,663,469.11	407,777,914.41
Total Assets		945,766,093.92	811,017,703.18

CONSOLIDATED BALANCE SHEET *(CONTINUED)*

30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

Liabilities and Shareholders' Equity	*Note (5)*	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Current Liabilities			
Short-term borrowings	7	80,300,000.00	30,000,000.00
Notes payable		24,890,000.00	14,730,000.00
Accounts payable	8	134,242,708.18	119,447,751.59
Receipts in advance		2,431,409.82	1,104,151.26
Staff cost payable		6,832,360.82	8,737,908.35
Taxes payable		14,661,663.29	12,958,662.68
Interests payable		1,376,644.16	1,167,729.19
Other payables		1,847,252.49	3,721,551.24
Non-current liabilities due within one year	9	5,000,000.00	5,000,000.00
Other current liabilities		10,864,264.44	10,644,849.00
Total current liabilities		282,446,303.20	207,512,603.31
Non-current Liabilities			
Long-term borrowings	10	35,090,000.00	20,090,000.00
Deferred income tax liabilities		1,794,333.33	1,890,458.33
Other non-current liabilities		15,036,945.46	4,748,573.33
Total non-current liabilities		51,921,278.79	26,729,031.66

CONSOLIDATED BALANCE SHEET *(CONTINUED)*

30 June 2011
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

Liabilities and Shareholders' Equity	Note (5)	30 June 2011 (unaudited)	31 December 2010 (audited and restated)
Total Liabilities		334,367,581.99	234,241,634.97
Shareholders' Equity			
Share capital	11	262,657,855.00	262,657,855.00
Capital reserve		27,587,397.23	27,500,772.59
Statutory reserve funds		91,531,648.11	84,961,353.85
Retained earnings		207,715,529.57	176,929,012.57
Equity attributable to equity holders of the parent		589,492,429.91	552,048,994.01
Minority interest	12	21,906,082.02	24,727,074.20
Total Shareholders' Equity		611,398,511.93	576,776,068.21
Total Liabilities and Shareholders' Equity		945,766,093.92	811,017,703.18

CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	**Jan.-June 2011** *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Revenue	13	**332,827,528.55**	269,054,738.33
Less: Operating costs	13	**213,669,247.61**	169,833,851.56
Business taxes and surcharges		**2,042,154.50**	829,142.97
Selling expenses		**18,194,640.86**	17,753,904.57
General and administrative expenses		**27,053,275.60**	19,296,354.97
Financial expenses / (income)	14	**1,932,584.96**	(76,746.31)
Assets impairment losses		**911,429.73**	—
Add: Investment gain / (losses)	15	**173,570.99**	(107,112.26)
Including: Share of gain / (losses) of an associate		**173,570.99**	(107,112.26)
Operating profit		**69,197,766.28**	61,311,118.31
Add: Non-operating income	16	**4,382,082.79**	1,328,230.72
Less: Non-operating expenses	17	**624,774.20**	161,301.11
Including: Loss on disposal of non-current assets		**241,915.36**	15,939.43
Total profit		**72,955,074.87**	62,478,047.92
Less: Income tax expenses	18	**12,893,424.13**	8,720,766.15

CONSOLIDATED INCOME STATEMENT *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	Jan.-June 2011 (unaudited)	Jan.-June 2010 (unaudited and restated)
Net Profit		60,061,650.74	53,757,281.77
Net profit attributable to equity holders of the parent		60,996,018.28	53,259,365.98
Minority interests		(934,367.54)	497,915.79
Earnings per share			
Basic earnings per share	19	0.23	0.20
Diluted earnings per share	19	0.23	0.20
Other comprehensive income		—	—
Total comprehensive income		60,061,650.74	53,757,281.77
Including:			
Total comprehensive income attributable to equity holders of the parent		60,996,018.28	53,259,365.98
Total comprehensive income attributable to minority shareholders		(934,367.54)	497,915.79

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

		Six months ended 30 June 2011 (unaudited) Attributable to equity holders of the Parent						
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Sub-total	Minority interests	Total shareholders' equity
1.	Balance at the beginning of period	262,657,855.00	27,500,772.59	84,961,353.85	176,929,012.57	552,048,994.01	24,727,074.20	576,776,068.21
2.	Increase/decrease during the period							
(1)	Net profit	–	–	–	60,996,018.28	60,996,018.28	(934,367.54)	60,061,650.74
(2)	Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	60,996,018.28	60,996,018.28	(934,367.54)	60,061,650.74
(3)	contribution by shareholders and decrease in capital							
a.	Purchase of minority interests in subsidiaries	–	86,624.64	–	–	86,624.64	(1,236,624.64)	(1,150,000.00)
(4)	Appropriation of profits							
a.	Transfer to statutory reserve funds	–	–	6,570,294.26	(6,570,294.26)	–	–	–
b.	Distribution to shareholders	–	–	–	(23,639,207.02)	(23,639,207.02)	(650,000.00)	(24,289,207.02)
3.	Balance at the end of period	262,657,855.00	27,587,397.23	91,531,648.11	207,715,529.57	589,492,429.91	21,906,082.02	611,398,511.93

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

		Six months ended 30 June 2010 (unaudited and restated) Attributable to equity holders of the Parent						
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Sub-total	Minority interests	Total shareholders' equity
1.	Balance at the beginning of the period	262,657,855.00	26,879,156.19	69,233,445.61	107,639,920.97	466,410,377.77	4,088,888.59	470,499,266.36
2.	Increase/decrease during the period							
(1)	Net profit	–	–	–	53,259,365.98	53,259,365.98	497,915.79	53,757,281.77
(2)	Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	53,259,365.98	53,259,365.98	497,915.79	53,757,281.77
(3)	Appropriation of profits							
a.	Distribution to shareholders	–	–	–	(18,386,049.85)	(18,386,049.85)	(600,000.00)	(18,986,049.85)
3.	Balance at the end of period	262,657,855.00	26,879,156.19	69,233,445.61	142,513,237.10	501,283,693.90	3,986,804.38	505,270,498.28

CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2011
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
1. Cash flows from operating activities			
Cash received from sale of goods or rendering services		320,499,557.44	198,033,893.68
Cash received relating to other operating activities		22,675,000.21	5,377,040.61
Sub-total of cash inflow		343,174,557.65	203,410,934.29
Cash paid for goods and services		224,615,679.55	158,683,329.04
Cash paid to and on behalf of employees		32,066,197.50	12,904,901.19
Payments of taxes and levies		32,053,616.23	5,758,405.59
Cash paid relating to other operating activities		30,412,356.31	4,373,456.16
Sub-total of cash outflow		319,147,849.59	181,720,091.98
Net cash flows from operating activities	20	24,026,708.06	21,690,842.31

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

Six months ended 30 June 2011
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	**Jan.-June 2011** *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
2. Cash flows from investing activities			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**367,149.59**	109,915.87
Cash received relating to other investing activities		**267,492.21**	1,045,245.33
Sub-total of cash inflow		**634,641.80**	1,155,161.20
Cash paid to acquire fixed asset, intangible assets and other long term assets		**76,124,339.19**	35,941,662.82
Net cash paid for purchase of minority interests in subsidiaries		**1,150,000.00**	—
Sub-total of cash outflow		**77,274,339.19**	35,941,662.82
Net cash flow from investing activities		**(76,639,697.39)**	(34,786,501.62)

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

Six months ended 30 June 2011
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	Jan.-June 2011 (unaudited)	Jan.-June 2010 (unaudited and restated)
3. Cash flows from financing activities			
Cash received from borrowings		96,800,000.00	30,000,000.00
Sub-total of cash inflow		96,800,000.00	30,000,000.00
Cash paid for debt repayments		31,500,000.00	—
Cash payments for distribution of dividends, profit or interest expenses		25,230,136.04	18,767,526.50
Including: Dividends and profit paid to minority interests by subsidiaries		650,000.00	100,000.00
Sub-total of cash outflow		56,730,136.04	18,767,526.50
Net cash flow from financing activities		40,069,863.96	11,232,473.50

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	Jan.-June 2011 (unaudited)	Jan.-June 2010 (unaudited and restated)
4. Effect of changes in foreign exchange rate on cash and cash equivalents		—	—
5. Net decrease in cash and cash equivalents		(12,543,125.37)	(1,863,185.81)
Add: Opening balance of cash and cash equivalents		48,938,264.15	32,808,786.07
6. Closing balance of cash and cash equivalents	20	36,395,138.78	30,945,600.26

BALANCE SHEET

30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

Assets	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Current Assets		
Cash on hand and at bank	20,896,460.94	628,878.36
Notes receivable	480,000.00	310,000.00
Accounts receivable	13,851,883.35	17,307,693.08
Prepayments	471,494.73	303,797.16
Other receivables	236,439,589.54	193,304,212.19
Inventories	5,085,997.28	6,061,516.05
Other current assets	12,213.76	29,356.14
Total current assets	277,237,639.60	217,945,452.98
Non-current Assets		
Long-term equity investments	135,402,949.09	134,079,378.10
Fixed assets	6,678,733.14	6,956,455.50
Intangible assets	5,700,036.10	5,786,359.12
Deferred income tax assets	155,252.97	155,252.97
Total non-current assets	147,936,971.30	146,977,445.69
Total Assets	425,174,610.90	364,922,898.67

BALANCE SHEET *(CONTINUED)*

30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

Liabilities and Shareholders' Equity	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Current Liabilities		
Short-term borrowings	55,000,000.00	20,000,000.00
Notes payable	18,570,000.00	—
Accounts payable	6,147,026.48	5,542,381.54
Receipts in advance	73,534.00	73,534.00
Staff cost payable	938,606.19	962,564.69
Taxes payable	509,564.93	249,772.73
Interests payable	101,635.92	51,359.75
Other payables	6,726,825.15	7,806,169.70
Other current liabilities	—	400,000.00
Total current liabilities	88,067,192.67	35,085,782.41
Total liabilities	88,067,192.67	35,085,782.41

BALANCE SHEET *(CONTINUED)*

30 June 2011
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

Liabilities and Shareholders' Equity	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Shareholders' Equity		
Share capital	262,657,855.00	262,657,855.00
Capital reserve	26,879,156.19	26,879,156.19
Statutory reserve funds	49,340,466.38	46,249,515.48
Undistributed deficit	(1,770,059.34)	(5,949,410.41)
Total Shareholders' Equity	337,107,418.23	329,837,116.26
Total Liabilities and Shareholders' Equity	425,174,610.90	364,922,898.67

INCOME STATEMENT

Six months ended 30 June 2011
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
Revenue	23,010,229.22	25,100,290.90
Less: Operating costs	19,067,611.88	20,659,222.62
Business taxes and surcharges	111,981.26	41,969.58
Selling expenses	265,625.48	356,446.78
General and administrative expenses	5,022,222.53	2,535,855.70
Financial expenses / (income)	809,702.91	(318,518.80)
Assets impairment losses	—	—
Add: Investment gain	30,023,570.99	19,792,887.99
Including: Share of gain / (losses) of an associate	173,570.99	(107,112.01)
Operating profit	27,756,656.15	21,618,203.01
Add: Non-operating income	3,457,856.40	8,325.05
Less: Non-operating expenses	2,051.56	2,897.26
Including: Loss on disposal of non-current assets	—	—

INCOME STATEMENT *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
Total profit	31,212,460.99	21,623,630.80
Less: Income tax expenses	302,952.00	465,773.11
Net Profit	30,909,508.99	21,157,857.69
Other comprehensive income	—	—
Total comprehensive income	30,909,508.99	21,157,857.69

STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)				
	Share capital	Capital reserve	Statutory reserve funds	Undistributed deficit	Total shareholders' equity
1. Balance at the beginning of period	262,657,855.00	26,879,156.19	46,249,515.48	(5,949,410.41)	329,837,116.26
2. Increase/decrease during the period					
(1) Net profit	–	–	–	30,909,508.99	30,909,508.99
(2) Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	30,909,508.99	30,909,508.99
(3) Appropriation of profits					
a. Transfer to statutory reserve funds	–	–	3,090,950.90	(3,090,950.90)	–
b. Distribution to shareholders	–	–	–	(23,639,207.02)	(23,639,207.02)
3. Balance at the end of period	262,657,855.00	26,879,156.19	49,340,466.38	(1,770,059.34)	337,107,418.23

STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Six months ended 30 June 2010 (unaudited)				
	Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Total shareholders' equity
1. Balance at the beginning of the period	262,657,855.00	26,879,156.19	35,899,412.48	1,012,968.53	326,449,392.20
2. Increase/decrease during the period					
(1) Net profit	–	–	–	21,157,857.69	21,157,857.69
(2) Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	21,157,857.69	21,157,857.69
(3) Appropriation of profits					
a. Distribution to shareholders	–	–	–	(18,386,049.85)	(18,386,049.85)
3. Balance at the end of period	262,657,855.00	26,879,156.19	35,899,412.48	3,784,776.37	329,221,200.04

STATEMENT OF CASH FLOWS

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
1. Cash flows from operating activities		
Cash received from sale of goods or rendering services	36,085,495.88	14,891,068.79
Cash received relating to other operating activities	871,758.60	4,552,513.33
Sub-total of cash inflow	36,957,254.48	19,443,582.12
Cash paid for goods and services	17,972,601.11	26,380,239.40
Cash paid to and on behalf of employees	1,059,903.63	2,730,160.69
Payments of taxes and levies		
Cash paid relating to	1,067,052.48	4,595,209.94
other operating activities	42,377,292.96	1,880,886.38
Sub-total of cash outflow	62,476,850.18	35,586,496.41
Net cash flows from operating activities	(25,519,595.70)	(16,142,914.29)

STATEMENT OF CASH FLOWS *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
2. Cash flows from investing activities		
Cash received from gains of investments	29,850,000.00	19,900,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—	10,471.87
Cash received relating to other investing activities	18,187.63	413,000.12
Sub-total of cash inflow	29,868,187.63	20,323,471.99
Cash paid to acquire fixed asset, intangible assets and other long term assets	116,647.46	123,357.80
Net cash paid for purchase of minority interests in subsidiaries	1,150,000.00	—
Sub-total of cash outflow	1,266,647.46	123,357.80
Net cash flow from investing activities	28,601,540.17	20,200,114.19

STATEMENT OF CASH FLOWS *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
3. Cash flows from financing activities		
Cash received from borrowings	55,000,000.00	20,000,000.00
Sub-total of cash inflow	55,000,000.00	20,000,000.00
Cash paid for debt repayments	20,000,000.00	—
Cash payments for distribution of dividends, profit or interest expenses	23,385,361.89	18,439,149.85
Sub-total of cash outflow	43,385,361.89	18,439,149.85
Net cash flow from financing activities	11,614,638.11	1,560,850.15
4. Effect of changes in foreign exchange rate on cash and cash equivalents	—	—

STATEMENT OF CASH FLOWS *(CONTINUED)*

Six months ended 30 June 2011

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
5. Net increase in cash and cash equivalents	14,696,582.58	5,618,050.05
Add: Opening balance of cash and cash equivalents	628,878.36	1,654,957.44
6. Closing balance of cash and cash equivalents	15,325,460.94	7,273,007.49

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

(1) GENERAL

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

The Company's H Shares was listed on GEM of the Stock Exchange on 16 May 2006 and were transfer listed from GEM to the Main Board of the Stock Exchange on 9 March 2011.

The Group is principally engaged in the R&D, design, manufacture and sale of automotive steering gears and other key components of steering system.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation of financial statements

These interim financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises No. 32 — Interim Financial Reporting issued by the Ministry of Finance and therefore do not include all the information and disclosures in the audited financial statements of 2010.

These financial statements are presented on the going concern basis.

The financial statements are prepared under the historical cost convention except for certain financial instruments. In case of impairment, the corresponding impairment provision shall be accrued based on the relevant regulations.

2 Statement of compliance with the Accounting Standards for Business Enterprises

These financial statements comply with the requirements of the Accounting Standards for Business Enterprises and fairly and completely reflect the financial positions of the Company and the Group as at 30 June 2011 and their operating results and cash flows for the six months then ended.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

3. Accounting Year

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

4. Functional currency

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. All values are presented to the nearest Yuan, except when otherwise indicated.

5. Business combination

Business combination represents a transaction or matter of combining two or more individual enterprises into one reporting entity. Business combination comprises business combination under common control and business combination not under common control.

Business combinations under common control

A business combination under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. In a business combination under common control, the party which obtains control of other combining enterprise(s) on the combination date is the merging party, the other combining enterprise(s) is (are) the merged party. The "combination date" refers to the date on which the merging party actually obtains control of the merged parties.

The assets and liabilities that the merging party obtains in a business combination shall be measured on the basis of their carrying amounts in the merged parties on the date of combination. The difference between the carrying amount of the net assets which the merging party obtains and the carrying amount of the consideration which it pays (or the total par value of the shares issued) shall adjust the additional capital reserves. If the additional capital reserves are not sufficient to be offset, the retained earnings shall be adjusted.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

5. Business combination

Business combinations not under common control

A business combination not under common control is a business combination in which the combining enterprises are not ultimately controlled by the same party or parties both before and after the business combination. In a business combination not under common control, the party which obtains control of other combining enterprise(s) on the purchase date is the acquirer, other combining enterprise(s) is (are) the acquirees. The "acquisition date" refers to the date on which the acquirer actually obtains control of the acquirees.

The identifiable assets, liabilities or contingent liabilities under business combination not under common control shall be measured at fair value at the date of acquisition.

Any excess of the sum of the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is subsequently measured at cost less any accumulated impairment losses. If the acquirer's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date, the fair value of the identifiable assets, liabilities or contingent liabilities as well as the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date are reassessed, and after reassessment, any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the sum of the fair value of the consideration payable for a business combination and the fair value of the acquiree's equity held before the acquisition date is recognized as current profit and loss in the consolidated income statement.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

6. Consolidated financial statements

The consolidation scope is determined based on the control, the consolidated financial statements include the financial statements of the Company and its subsidiaries for the six months ended 30 June 2011. Subsidiaries represent entities controlled by the Company.

When preparing the consolidated financial statements, same accounting year/period and accounting policies are applied to subsidiaries and the Company. All balance, transactions and unrealized gains and losses resulting from intercompany transactions and dividends within the Group are eliminated on consolidation in full.

Where the current loss assumed by the minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance of minority interests shows as deficits. Any changes in the minority interests without losing its control is recognized as an equity transaction.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities not under common control, the results and cash flows of the subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains the control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, the identifiable assets, liabilities and contingent liabilities of the subsidiary are consolidated from the date that control commences, based on the fair value of those identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the results and cash flows of the subsidiary are consolidated from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

7. Cash and cash equivalents

Cash represents cash on hand and bank deposits which can be used for payment at any time; cash equivalents represent short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Foreign currency business

The Group converts the amount of foreign currency transactions in to its functional currency.

Foreign currency transactions are initially recorded using the functional currency rate of exchange on the first day of the month 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. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of borrowing cost capitalization, are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate 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, and the differences are taken to the income statement or other comprehensive income.

Cash flows in foreign currency are translated into RMB at the exchange rates ruling at the dates of the cash flows. Effect of foreign exchange rate fluctuation on cash is separately disclosed in consolidated cash flow statements.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial assets

The Group recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

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

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

(2) the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (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.

A financial liability is derecognized 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 recognized in the income statement.

All regular way purchases and sales of financial assets are recognized on the trade date, the day 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) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments *(continued)*

Category and measurement of financial assets

Financial assets of the Group are categorized into the following categories upon initial recognition: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; available-far-sale financial assets; derivatives designated as effective hedging instruments. The Group determines the categorization of the financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value. In the case of investments not at fair value through profit or loss, fair value plus directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those measured at fair value through profits and losses designated upon initial recognition. Financial assets are classified as held for trading if it satisfies one of the following conditions: the purpose to acquire such financial assets is to sell in the near term; belonging to part of identifiable combined financial instruments and objective evidence exists that it is acquired principally for the purpose of obtaining profit in the near term; derivatives, are also classified as held for trading unless they are designed as effective hedging instruments, financial guarantee agreement, or related to an equity instrument which has no quoted market price, its fair value cannot be measured reliably and settled through exchange of the equity instrument. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated income statement. Dividends or interest income derived from financial assets at fair value through profit or loss are recognized in the consolidated income statement.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments *(continued)*

Category and measurement of financial assets (continued)

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 amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment are recognized in the income statement.

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 above categories. After initial recognition, such financial assets are measured at fair value. Its discount or premium is amortized using effective interest rate method and recognized as interest income or expense. Except for impairment loss and exchange differences of monetary financial assets denominated in foreign currency which are recognised in the income statement, changes in fair value of available-for-sale financial assets are recognized as other comprehensive income in the capital reserve until the investment is derecognized or there is an impairment, then the cumulative gain or loss will be included in the consolidated income statement. Interests and dividends earned are reported as interest income and dividend income, respectively and are recognized in the income statement.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments *(continued)*

Category and measurement of financial assets (continued)

Available-for-sale financial assets (continued)

When the fair value of unlisted equity securities cannot be reliably measured, such securities are stated at cost.

Category and measurement of financial liabilities

The financial liabilities of the Group are classified initially as financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as hedging instruments in an effective hedge. The transaction costs of financial liabilities at fair value through profit or loss are charged to the income statement, while the transaction costs of other financial liabilities are recognized as part of the initial amount of liabilities.

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit and loss. Financial liabilities are classified as held for trading if they satisfy one of the following conditions: they are acquired for the purpose of sale in the near term, belong to a part of identifiable combined financial instruments which are managed centrally and objective evidence exists that they are acquired principally for the purpose of obtaining profit in the near term; belong to derivatives, unless those are designated as effective hedging instruments, under financial guarantee agreements or related to equity instruments without quoted market price, its fair values of which cannot be measured reliably and settled through exchanges of the equity instruments. These financial liabilities are subsequently measured at fair value, and all the realized or unrealized gains or losses are recognized in the income statement.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments *(continued)*

Category and measurement of financial liabilities

Other financial liabilities

The financial liabilities are subsequently measured at amortized cost using effective interest method.

Fair value of financial instruments

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid price. 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 option pricing 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. If any such evidence exists, impairment loss will be provided. There is objective evidence that an impairment loss exists when the present value of the estimated future cash flows is adversely affected after initial recognition, and the amount can be measured reliably.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss 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 rate computed initial recognition) after taking into consideration of the value of the collaterals, if any. In respect of floating interest rate, the current effective interest rate is used as the discount rate in calculating the present future cash flow.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments *(continued)*

Financial assets carried at amortized cost (continued)

Where impairment is assessed on an individual basis for individually significant financial assets, an impairment loss is recognized in the consolidated income statement when there is objective evidence that an impairment loss has been incurred. For individually insignificant financial assets, an impairment assessment is made collectively for financial assets which share similar credit risk characteristics. For the financial assets without impairment loss based on individual test (including individually significant or insignificant financial assets), an assessment is made collectively for financial assets which share similar credit risk characteristics. For financial assets with impairment loss recognized based on individual test basis, another assessment is not required to be made collectively for the financial assets which share similar credit risk characteristics.

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 recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Available-for-sale financial assets

If there is objective evidence that an available-for-sale asset is impaired, accumulated losses arising from decreases in fair values will be removed from other comprehensive income and recognized in the profit or loss. Accumulated losses represent an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

9. Financial instruments *(continued)*

Available-for-sale financial assets (continued)

Impairment loss on debt instruments can be reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized. Impairment losses on equity instruments are not reversed through the profit or loss. An increase in fair value after impairment is recognized as other comprehensive income.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

According to the Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investment, the above accounting principle should also apply to the long-term equity investment under cost method whose active market price and fair value cannot be reliably measured.

Transfers of financial assets

If the Group has transferred substantially all of the risks and rewards related to the ownership of a financial asset to the transferee, the Group derecognizes the financial asset. However, if it has substantially retained all of the risks and rewards related to the ownership of a financial asset, the Group continues recognizing the asset.

When the Group does not either transfer substantially or retain all of the risks and rewards related to the ownership of a financial asset, the Group treats it as follows, according to the individual circumstances: (i) if the Group relinquishes control over the financial asset, the Group derecognizes the financial asset; (ii) if the Group does not relinquish control over the financial asset, the Group, to the extent of its continuous involvement in the financial asset, recognizes it as a related financial asset and recognizes the relevant liability accordingly.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

10. Receivables

Individually significant receivables

The Group recognizes the account receivables with an individual balance exceeding RMB100 million and other receivables as individually significant receivables.

The Group conducts an independent impairment test on the individually significant receivables to separately test financial assets that have never been impaired, including impairment tests conducted within a group of financial assets sharing similar credit risk features. Accounts receivable the impairment loss of which has been recognised are separately tested, excluding impairment tests conducted for a group of accounts receivable sharing similar credit risk features.

Receivables individually insignificant but to be greater risks after arrival at by credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Group classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses and losses that are expected to incur in the group of accounts receivable.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Inventories

Inventories include raw materials, work-in-progress, finished goods and low-value consumables.

Inventories are stated at cost initially. Inventories costs comprise purchase costs, processing costs and other costs. The actual cost of delivery of inventories is determined by weighted average method. Low-value consumables are amortised using the one-off write-off method.

The Group adopts inventory perpetual physical count method.

On balance sheet date, inventories are stated at the lower of cost and net realisable value, the excess of the cost over the net realisable value of the inventories is recognized as a provision for diminution in the value of inventories in the income statement. If the factor for diminution in the value of inventories disappears and the net realisable value of inventories is higher than its carrying amount, the provision previously recognized can be reversed in the consolidated income statement to the extent of the previously recognized provision amount.

Net realisable value is based on the estimated selling price in the ordinary course of business, less any estimated costs to completion and estimated costs necessary to make the sale and relevant taxes. Inventories provision is made according to category of inventories with respect of raw materials and finished goods.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

12. Long-term equity investments

Long-term equity investments comprise equity investments in subsidiaries, long-term equity investments in its jointly-controlled entities as well as other long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured.

The initial recognition of long-term equity investment is measured at initial investment cost upon acquisition. For business combination under common control, the initial investment cost is the share of the investee's equity. For business combination not under common control, the initial investment cost is the combination cost. The combination cost comprises the sum of the assets provided by the acquirer, the liability incurred or taken and the fair value of the equity securities issued. For the long-term equity investment acquired by a way other than business combination, the initial investment cost is recognized as follows: for a long-term equity investment acquired by cash payment, the initial investment cost shall be the actual purchase price, and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the longterm equity investment. For a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued. For the long-term equity investment made by investors, the initial investment cost is determined based on the amount as agreed in the investment contract or agreement, unless the amount agreed does not represent the fair value.

Other long-term equity investments where the Group does not have control, joint control or significant influence over the investee, not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method. Long-term equity investments where the Company has the control over the investees are accounted for using the cost method when preparing the financial statements of the Company. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from operating earnings of the company.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

12. Long-term equity investments *(continued)*

When cost method is used, long-term equity investments are measured at initial investment costs. Cash dividends or profit appropriation declared by the investees are recognized as investment income in the current period, except for the declared but unpaid parts of the cash dividends or profit appropriation which were included in the cash payment for acquiring the investment. Impairment is tested for long-term investments in accordance with the relevant asset impairment policies.

When the Group has joint control or significant influence over the investees, the Group's interests in these entities are accounted for using equity accounting method. Joint control represents the contractually agreement in sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

When equity accounting method is used, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in the consolidated income statement for the current period and the cost of the long-term equity investment is adjusted accordingly.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

12. Long-term equity investments *(continued)*

The Group's share of net profit or loss of the investee is determined based on the fair value of identifiable assets of investee on the acquisition date and the Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealized losses provide evidence of an impairment of the asset. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has an obligation to assume additional losses. For changes in owner's equity of the investee other than those arising from its net profit or loss, the Group records directly in equity its share of net book value changes.

When long-term equity investment is disposed, the differences between carrying amount and actual consideration received are recognized in the income statement. If long-term equity investments are accounted for using equity accounting, on disposal, the amounts previously recognized in equity and disposed portion are transferred to the profit or loss.

For the details of impairment test and provision for long term equity investments related to subsidiaries, jointly-controlled entities and associates, please refer to Note 2 (22). For details of impairment test and provision for other long-term equity investments without quoted price in the active market and fair values of which cannot be measured reliably, please refer to Note 2 (9).

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

13. Fixed assets

Fixed assets shall be recognized if, and only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For subsequent expenditures of fixed assets, if the recognition conditions are satisfied, they are recognized as cost of fixed assets and the carrying amount of replaced components is derecognized. Otherwise, it is normally charged to the consolidated income statement in the period in which it is incurred.

Fixed assets are measured at cost initially, the cost of fixed assets comprises purchase price, including relevant taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of fixed assets to its residual value over its estimated useful life. The estimated useful lives, estimated residual value and annual depreciation rates of fixed assets are as follows:

	Useful lives	Estimated residual value	Annual depreciation rates
Buildings	10-35 years	5%	2.7%-9.5%
Machinery and equipment	10 years	5%	9.5%
Motor vehicles	5 years	5%	19.0%
Office equipment and others	5 years	5%	19.0%

Residual value, useful lives and depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

For details of impairment test and provision methods of fixed assets, please refer to Note 2 (22).

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

14. Construction in progress

The cost of construction in progress is determined by actual construction expenditures, which comprise the direct expenditures of construction, capitalised borrowing costs before the construction is ready for use and other relevant expenses.

Construction in progress is reclassified to the appropriate category of fixed assets when completed and are ready for use.

For details of impairment test and provision methods of construction in progress, please refer to Note 2 (22).

15. Borrowing costs

Borrowing costs refer to the interest on or other cost of loan borrowed by the Group, including interest, amortization of discount or premium, auxiliary expenses and exchange difference from loans in foreign currency, etc..

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., fixed assets, investment properties and inventories 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 the assets. Except for the above other borrowing costs are recognized as financial expenses in the consolidated income statement when incurred.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

15. Borrowing costs *(continued)*

Borrowing costs are capitalised when satisfying all of the following conditions:

(a) Capital expenditure were incurred;

(b) Borrowing costs were incurred;

(c) Acquisition or construction activities for the assets to be ready for use or sale have started.

The capitalisation of such borrowing costs ceases when the qualifying assets are substantially ready for their intended use or sale, subsequent borrowing costs are charged to the income statement.

In the capitalisation period, the amount of interest to be capitalised in each accounting period is determined as follows:

(a) where funds are borrowed specifically for the construction of a qualifying asset, the amount of interest to be capitalised is the interest expense incurred during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset;

(b) where funds are borrowed generally and used for the construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over the above amounts of specific borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs is suspended when the acquisition or construction activities are interrupted abnormally and the interruption lasts over three months and the borrowing costs are recognized in the income statement until the construction or production activities resume.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

16. Intangible assets

The intangible assets are recognized and initially measured at cost when it is probably that the related economic benefits will flow to the Group the cost of which can be reliably measured. The intangible assets acquired in the business combination the fair value of which can be reliably measured are separately recognized as intangible assets at fair value.

The useful lives of intangible assets are determined on the basis of useful economic life. If it is impossible to forecast the useful economic life, it is regarded as intangible asset with indefinite useful lives.

The useful lives of various intangible assets are presented as follows:

	Useful lives
Land use rights	50 years
Patented technology	10 years
Software	5 years
Non-patented technology	5-10 years

The land use rights acquired by the Group are generally accounted for as intangible assets. Or self development and construction of plant and buildings, the related land use rights and buildings are accounted for as intangible assets or fixed assets respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be reasonably apportioned.

The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

16. Intangible assets *(continued)*

The Group categorizes the research and development costs into research costs and development costs. All research costs are charged to the consolidated 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.

For details of impairment test and provision methods of intangible assets, please refer to Note 2 (22).

17. Provision

Except for the contingent consideration and contingent liabilities under business combination, a provision is recognized when:

(a) a present obligation has arisen as a result of a past event;

(b) it is probable that a future outflow of resources will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured based on the best estimate of the expenditure for performing the current obligation, taking into account the related risks, uncertainties and time value factor. At each balance sheet date, the amount of provisions is reassessed and if there is solid evidence that the carrying value cannot reflect the best estimate, the provisions should be adjusted based on the best estimate.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

18. Revenue

Revenue is recognized when it is probable that the economic benefit will flow to the Group, the revenue can be reliably measured and the following conditions are satisfied.

Revenue from the sales of goods

Revenue from sales of goods is recognized 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 and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

Interest income

Interest income is recognized on a time proportion basis and the applicable effective interest rate.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

19. Government Grant

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attached conditions can be complied with. If the fair value could not be reasonably determined, the government grant is measured based on the nominal value. Where the grant relates to an expense item, it is recognized 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 is for compensation of expenses or losses incurred, the grant is recongnised in the current period's consolidated income statement. 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 installments. Government grants measured based on the nominal value are recognized in the consolidated income statement directly.

20. Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statement as a tax expense or income, except that it is a goodwill adjustment arising from business combination, or items directly recognized in equity, in which case they are recognized 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 difference at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

20. Income tax *(continued)*

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

(a) where the taxable temporary difference arises from the initial recognition of goodwill, or 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

(b) in respect of taxable temporary differences associated with investments in subsidiaries, investments in jointly-controlled entities and investments in associates, 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 recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

(a) 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

(b) in respect of deductible temporary differences associated with investments in subsidiaries, investments in jointly-controlled entities and investments in associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

20. Income tax *(continued)*

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

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 assets to be utilised. The Group reassesses unrecognized deferred tax assets at each balance sheet date and recognizes deferred tax asset to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Where the taxable entity has a statutory right to set off current tax assets against current tax liabilities, and the deferred tax is related to the same taxable entity and the same tax authority, the net deferred tax assets or deferred tax liabilities will be presented in the financial statements.

21. Lease

Leases where substantially all the risks and rewards of ownership of assets were transferred to the lessee are accounted for as financial leases, otherwise as operating leases.

As a lessee under operating lease

Rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms. Contingent rentals are charged to consolidated income statement when they are incurred.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

22. Impairment of assets

The impairment of an asset other than inventories, deferred income tax and financial assets is determined as follows:

The Group assesses if there is any indicator that an asset may be impaired at the balance date. If there is any indicator that an asset may be impaired, the Group will assess its recoverable amount and perform impairment test. Goodwill recognized from business combination and intangible assets with indefinite useful lives are tested at least annually for impairment, irrespective of whether there is any indication that the asset may be impaired. Asset impairment test is conducted annually for intangible assets which are not yet available for use.

An asset's recoverable amount is the higher of the asset'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 mainly independent of those from other assets or groups of assets, in which case the recoverable amount is determined for cash-generating unit to which the asset belongs.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. A provision for impairment loss of the asset is recognized accordingly.

For the purpose of impairment testing of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, which are expected to benefit from the synergies of the combination, and is within the business segment of the Group.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

22. Impairment of assets *(continued)*

The Group first measures the recoverable amount of the cash-generating unit on groups of cash-generating units without allocating goodwill, and if it is less than the carrying amount, there is an indication that impairment may exist. The recoverable amount of cash-generating unit or groups of cash-generating units with allocated goodwill is compared with its carrying amount. If the impairment loss is recognized, it is first deducted from the carrying amount of goodwill allocated to the asset group or groups of asset group, and then deducted from the carrying amount of the remaining assets of the asset group or groups of asset group executions goodwill on a pro rata basis.

An impairment loss recognized for goodwill is not reversed in subsequent periods.

23. Employee benefits

Employee benefits are all forms of considerations given and other related expenditure incurred in exchange for services rendered by employees. Employee benefits are recognized as a liability in the period which the associated services are rendered by employees. The amount of the employee benefits should be discounted to its present value if the amount is material and is due over one year after the balance sheet date.

All employees of the Group are covered by the social insurances administrated by the local government, including pension, medical care and unemployment insurance as well as housing fund, and the contributions are recognized as cost of assets or charged to income statement.

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises retirement benefits in the income statement when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

24. Profit distribution

The cash dividends of the Company are recognized as a liability upon the approval at the shareholders general meeting.

25. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties.

26. Significant accounting judgements and estimates

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

Estimates with uncertainty

On the balance sheet date, the following uncertainties about those key assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

26. Significant accounting judgements and estimates *(continued)*

Deferred tax assets

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

Provision for doubtful debt

The Group adopts the allowance method to account for bad debt loss. The Group conducts impairment tests for the individually significant or insignificant receivables but with relatively large risk after comblination in line with the credit risk characteristics. if there is objective evidence indicating that the accounts receivable is impaired, then impairment loss will be recognised and provision for bad debts will be made according to the difference when the present value of future cash flow is fewer than its carrying amounts. For other receivables, the management divides the amount together with other receivables which are unimpaired through separately test of impairement into certain protofolio according to similar credit risk characteristics, then determines the impairement loss in some proportion to the balance at the balance sheet date for provision of bad debts.

Provision for inventory obsolescence

According to the Group's accounting policy of inventories, which are stated at the lower of cost and net realisable value, provision for inventory impairment is made for obsolete and slow moving items, when its cost is higher than its net realisable value. The Group will reassess whether specific inventory is obsolete and slow moving, or its net realisable is lower than its cost on the balance sheet date. The difference between the reassess results and the current estimates will have an effect on the carry amount of inventories for the period of change.

(3) TAXATION

1. Major taxes and tax rates

Value added tax	—	The Group's taxable revenue is subject to value added tax ("VAT") at tax rates of 17%. The VAT payable is determined by the output VAT net of deductible input VAT of the period.
Urban maintenance and construction tax	—	The Group pays 5-7% of turnover tax as urban maintenance and construction tax.
Education surcharge	—	The Group pays 3% of turnover tax as education surcharge.
Individual income tax	—	The Group withholds individual income tax on their behalf for the staff costs paid to the individuals.
Corporate income tax	—	Except for the following entities comprising the Group are entitled for the income tax concession policies, the enterprise income tax was payable by other entities on 25% of their taxable income.

2. Tax concession and approval documents

According to the Document (Ji Ke Ban Zi [2009] No.115) issued by the Department of Science and Technology, the Department of Finance, the Bureau of State Taxation and the Bureau of Local Taxation of Jilin province, Siping Steering Gear Co., Ltd., a subsidiary of the Company, was recognized as a high-tech enterprise, and was subject to an enterprise income tax rate of 15% from 2009 to 2011.

(3) TAXATION *(continued)*

2. Tax concession and approval documents *(continued)*

According to the Document (Zhe Ke Fa Gao [2008] No.250) issued by the Department of Science and Technology, the Department of Finance, the Bureau of State Taxation and the Bureau of Local Taxation of Zhejiang province, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd., a subsidiary of the Company, was recognized as a high-tech enterprise, and was subject to an enterprise income tax rate of 15% from 2008 to 2010. In 2011, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. was re-applying for the qualifications as a high-tech enterprise and is adopting an income tax rate of 15% for the time being.

(4) CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

1. Particulars of subsidiaries

Name of subsidiaries	Place of registration	Business cope	Representative	Registered capital '000	Investment amount '000	At 30 June 2011 Direct (%)	At 30 June 2011 Indirect (%)	At 31 December 2010 Direct (%)	At 31 December 2010 Indirect (%)	Code of entity
Siping Steering Gear Co., Ltd. ("Siping Steering")	Siping City	Manufacture of power steering gears, steering knuckles for sedans and automotive parts and components	Zhang Shi Quan	11,000	8,250	75	–	75	–	70221708-7
Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao")	Hangzhou City (note)	Manufacture of steering gears and automotive parts and components	Zhang Shi Quan	40,000	40,000	100	–	99	–	25392555-4
Hangzhou New Shibao ElectricPower Steering Co., Ltd. ("Hangzhou New Shibao")	Hangzhou City	Sales of steering gears components and other components for automobiles	Zhang Bao Yi	60,000	42,000	70	–	70	–	76823319-4

(4) CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

1. Particulars of subsidiaries *(continued)*

Name of subsidiaries	Place of registration	Business cope	Representative	Registered capital '000	Investment amount '000	At 30 June 2011 Direct (%)	At 30 June 2011 Indirect (%)	At 31 December 2010 Direct (%)	At 31 December 2010 Indirect (%)	Code of entity
Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao")	Siping City	Processing of stamping machinery, manufacture and sales of automotive parts and components, sales of metal materials, electromechanical products and electronic products, as well as casting and forging	Tang Hao Han	30,000	30,0 00	100	–	100	–	67730447-9
Beijing Autonic Technologies Co., Ltd. ("Beijing Autonic")	Beijing City	Technology development	Zhang Bao Yi	10,000	7,000	70	–	70	–	77861581-5

Note: On 11 March 2011, the Company acquired the 1% interest in Hangzhou Shibao from Ms. Zhang Hai Qin, the spouse of Zhang Shi Quan

2. Business combination not involving enterprises under common control

On 18 October 2010, the Company signed an agreement with Metal Group Co., Ltd.("Metal Group"), the former corporate shareholder of Beijing Autonic Technologies Co., Ltd. ("Beijing Autonic"), regarding stock acquisition. The Company subsequently acquired the 70% interest in Beijing Autonic held by Metal Group for a cash consideration of RMB 2 million and RMB 5 million on 20 July 2010 and 13 September 2010 respectively. The registered capital of Beijing Autonic is RMB10 million. The remaining 30% of the shares of Beijing Autonic are held by two individuals.

(4) CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Business combination not involving enterprises under common control *(continued)*

The management engaged Zhejiang Tian Hui Asset Evaluation Company (浙江天匯資產評估公司) to evaluate the fair value of identifiable net assets of Beijing Autonic as at the acquisition date. The fair value and carrying amount of the respective identifiable net assets are as follows:

	Fair value as at the acquisition date	Carrying amount as at the acquisition date
Monetary assets	808,032.84	808,032.84
Inventories	1,548,954.05	1,548,954.05
Other current assets	217,849.43	217,849.43
Fixed assets	63,541.86	63,541.86
Intangible assets	9,244,762.27	1,554,762.27
Current liabilities	(214,965.45)	(214,965.45)
Deferred income tax liabilities	(1,922,500.00)	—
	9,745,675.00	3,978,175.00
Minority interests	2,923,702.50	1,193,452.50
	6,821,972.50	2,784,722.50
Goodwill	178,027.50	
	7,000,000.00	

(4) CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Business combination not involving enterprises under common control *(continued)*

The operating results and cash flows of Beijing Autonic from the acquisition date to the end of 2010 is set out below:

	Acquisition date to 31 December 2010
Operating income	48,052.19
Net loss	(357,043.81)
Net cash flow from operating activities	(298,241.44)

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Monetary funds

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Original currency	Conversion rate	Equivalent RMB	Original currency	Conversion rate	Equivalent RMB
Cash						
– RMB	140,501.37	1.00	140,501.37	126,251.37	1.00	126,251.37
Bank deposits						
– RMB	36,231,290.63	1.00	36,231,290.63	48,787,416.98	1.00	48,787,416.98
– US$	1,612.09	6.47	11,796.90	1,611.09	6.62	11,791.61
– HK$	13,646.97	0.83	11,190.52	15,176.62	0.85	12,444.83
– CHF	55.41	7.77	359.36	55.41	7.06	359.36
Other monetary funds						
– RMB	6,590,912.34	1.00	6,590,912.34	16,363,229.50	1.00	16,363,229.50
Total monetary funds			42,986,051.12			65,301,493.65
Less: restricted monetary funds (Note)			6,590,912.34			16,363,229.50
Cash and cash equivalents			36,395,138.78			48,938,264.15

Note: The restricted cash on hand and at bank of the Group for the period refers to the deposits for issuance of bank bills and letter of credit.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between seven days and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2. Notes receivable

	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Banker's acceptances	70,077,760.11	60,152,693.51

As at 30 June 2011, the Group's pledged notes receivable amounted to RMB1,500,000.00 (31 December 2010: nil).

As at 30 June 2011, the Group had no notes receivable transferred to accounts receivables, because of the drawer's inability to perform and had no discounted but not past due notes receivable.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Accounts receivable

The ageing analysis of accounts receivable is as follows:

	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Within 1 year	202,896,544.80	125,202,408.62
1-2 years	2,239,899.70	1,667,438.80
2-3 years	347,432.05	1,388,162.62
Over 3 years	2,566,109.47	2,010,394.29
	208,049,986.02	130,268,404.33
Less: Provision for impairment	(2,448,905.39)	(2,379,833.69)
	205,601,080.63	127,888,570.64

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Accounts receivable *(continued)*

The movements in provision for impairment of accounts receivable are as follow:

	1 January 2011 *(audited and restated)*	Provision during the period	Decrease during the period Reversal	Decrease during the period Write-off	30 June 2011 *(unaudited)*
Jan. — June 2011	2,379,833.69	69,071.70	—	—	2,448,905.39

4. Inventories

	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Raw materials	50,530,242.39	49,476,351.98
Work-in-progress	17,840,803.84	10,424,303.09
Finished goods	69,885,205.56	80,978,028.20
Low-value consumables	2,823,571.53	262,029.26
	141,079,823.32	141,140,712.53
Less: Provision for impairment of inventories	(3,413,894.72)	(3,133,918.69)
	137,665,928.60	138,006,793.84

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4. Inventories *(continued)*

The analysis of provision for impairment of inventories is as follows:

	1 January 2011 *(audited and restated)*	Provision during the period	Decrease during the period Reversal	Decrease during the period Write-off	30 June 2011 *(unaudited)*
Raw materials	1,791,952.24	524,615.39	—	—	2,316,567.63
Finished goods	1,341,966.45	317,742.64	—	562,382.00	1,097,327.09
	3,133,918.69	842,358.03	—	562,382.00	3,413,894.72

As at 30 June 2011, the Group made provision for impairment of inventories, which is mainly attributable to long aging and obsolete inventories.

During the period, the Group had no inventories as debt guarantees or with restricted ownership.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Fixed assets

	Buildings and structures	Plant and equipment	Transportation vehicles	Office equipment and others	Total
Cost:					
At 31 December 2010 (audited and restated)	133,231,265.40	234,007,344.73	17,136,209.73	5,719,469.00	390,094,288.86
Additions	179,293.00	4,282,493.94	1,073,273.06	839,084.10	6,374,144.10
Transfer from construction in progress	24,571.00	19,064,394.92	1,105,831.38	381,223.09	20,576,020.39
Disposal	—	(1,364,231.67)	—	(101,587.19)	(1,465,818.86)
At 30 June 2011 (unaudited)	133,435,129.40	255,990,001.92	19,315,314.17	6,838,189.00	415,578,634.49
Less: accumulated depreciation					
At 31 December 2010 (audited and restated)	21,907,810.27	72,738,943.53	8,708,909.76	4,437,410.84	107,793,074.40
Provision	1,773,629.45	10,610,059.08	619,453.24	801,822.12	13,804,963.89
Disposal	—	(848,516.59)	—	(9,558.78)	(858,075.37)
At 30 June 2011 (unaudited)	23,681,439.72	82,500,486.02	9,328,363.00	5,229,674.18	120,739,962.92
Carrying amount:					
At 30 June 2011 (unaudited)	109,753,689.68	173,489,515.90	9,986,951.17	1,608,514.82	294,838,671.57
At 31 December 2010 (audited and restated)	111,323,455.13	161,268,401.20	8,427,299.97	1,282,058.16	282,301,214.46

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Fixed assets *(continued)*

The management of the Company believes that there is no need to make impairment provisions for the aforesaid fixed assets during the period.

During the period, the Group had no fixed assets with restricted ownership, no fixed assets which were temporarily idle, no fixed assets for lease financing, no fixed assets for operating lease, and no fixed assets held for sale.

On 30 June 2011, the original values of fixed assets that had been fully depreciated but still in use were RMB 31,690,093.07(31 December 2010: RMB 26,396,281.40)

On 30 June 2011 and 31 December 2010, fixed assets that had not obtained ownership certificates were as follows:

Project	Reasons for not yet obtaining ownership certificates
Main workshop of Hangzhou New Shibao Electric Power Steering Co., Ltd.	The overall project has not yet completed and so has not obtained acceptance of completion
Building complex and plants of Jilin Shibao Machinery Manufacturing Co., Ltd.	The overall project has not yet completed and so has not obtained acceptance of completion

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

6. Intangible assets

	Land use right	Patented technology	Software	Non-patented technology	Total
Cost:					
At 31 December 2010 (audited and restated)	57,651,479.00	7,690,000.00	450,550.00	19,554,762.00	85,346,791.00
At 30 June 2011 (unaudited)	57,651,479.00	7,690,000.00	450,550.00	19,554,762.00	85,346,791.00
Less: accumulated amortization					
At 31 December 2010 (audited and restated)	6,240,356.25	128,166.73	286,982.00	50,303.00	6,705,807.98
Amortization	757,455.30	384,499.91	40,455.86.	1,050,910.09	2,233,321.16
At 30 June 2011 (unaudited)	6,997,811.55	512,666.64	327,437.86	1,101,213.09	8,939,129.14
Carrying amount:					
At 30 June 2011 (unaudited)	50,653,667.45	7,177,333.36	123,112.14	18,453,548.91	76,407,661.86
At 31 December 2010 (audited and restated)	51,411,122.75	7,561,833.27	163,568.00	19,504,459.00	78,640,983.02

The management of the Company believes that there is no need to make impairment provisions for the aforesaid intangible assets during the period.

During the period, the Group had no intangible assets with restricted ownership or formed through internal research and development.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Short-term loans

	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Guaranteed loans	60,000,000.00	30,000,000.00
Credit loans	20,000,000.00	—
Pledged loans	300,000.00	—
	80,300,000.00	30,000,000.00

30 June 2011 (unaudited)

	Currency	Amount	Conditions	Interest rate	Maturity date
Industrial and Commercial Bank of China	RMB	300,000.00	Pledged loans	7.61%	5 July 2011
Industrial and Commercial Bank of China	RMB	30,000,000.00	Guaranteed loans	5.85%	10 Oct. 2011
Industrial and Commercial Bank of China	RMB	20,000,000.00	Credit loans	6.31%	30 May 2012
Industrial Bank	RMB	5,000,000.00	Guaranteed loans	6.31%	18 April 2012
Industrial Bank	RMB	25,000,000.00	Guaranteed loans	6.31%	17 April 2012
		80,300,000.00			

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Short-term loans *(continued)*

	31 December 2010 (audited and restated)				
	Currency	Amount	Conditions	Interest rate	Maturity date
Industrial Bank	RMB	20,000,000.00	Guaranteed loans	5.31%	18 April 2011
Industrial Bank	RMB	10,000,000.00	Guaranteed loans	5.31%	15 April 2011
		30,000,000.00			

During the period, the Group had no short-term loans which was past due but remained unpaid.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

8. Accounts payable

	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Within 1 year	**131,479,150.97**	112,449,747.54
1-2 years	**2,053,017.55**	6,096,755.33
2-3 years	**112,729.38**	238,609.29
Over 3 years	**597,810.28**	662,639.43
	134,242,708.18	119,447,751.59

During the period, the Group had no amounts payable to the shareholders or related parties holding 5% or more voting rights of the Company.

As at 30 June 2011, the Group had no significant balance of accounts payable which was aged over one year.

Significant balance of accounts payable which was aged over one year as at 31 December 2010 is set forth below:

Company	Amount payable	Reason
Yangzhong Municipal Huari Plastic Electrical Apparatus Plant （揚中市華日塑膠電器廠）	1,195,009.17	Not settled by supplier

The above significant balance of accounts payable which was aged over one year was fully repaid after the balance sheet date.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Non-current liabilities due within one year

	30 June 2011 *(unaudited)*	31 December 2010 *(audited and restated)*
Long-term borrowings due within one year—guaranteed loans	5,000,000.00	5,000,000.00

Jilin Shibao Machinery Manufacturing Co., Ltd. obtained a loan of RMB20,000,000.00 from the Siping Branch of China Construction Bank, which was bearing an annual interest rate of 5.96% and secured by Siping Steering Gear Co., Ltd., for a term begining from 1 December 2010 to 30 November 2015, of which RMB5,000,000.00 will be due for payment on 30 November 2011.

During the period, the Group had no amounts which was past due but was granted with extensions among the long-term borrowings due within one year.

During the period, the Group had no long-term borrowings which was past due but remained unpaid.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

10. Long-term borrowings

	30 June 2011 (unaudited)				
	Currency	Amount	Conditions	Interest rate	Maturity date
Special fund for treasury bond	RMB	2,830,000.00	Other borrowings	5.00%	31 Dec. 2020
Special fund for treasury bond	RMB	2,260,000.00	Other borrowings	5.00%	31 Dec. 2016
China Construction Bank	RMB	13,000,000.00	Guranteed borrowings	5.96%	30 Nov. 2012
China Construction Bank	RMB	2,000,000.00	Guranteed borrowings	5.96%	30 Nov. 2013
China Construction Bank	RMB	11,000,000.00	Guranteed borrowings	7.98%	30 Nov. 2013
China Construction Bank	RMB	4,000,000.00	Guranteed borrowings	7.98%	30 Nov. 2014
Total		35,090,000.00			

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

10. Long-term borrowings *(continued)*

	31 December 2010 (audited)				
	Currency	Amount	Conditions	Interest rate	Maturity date
Special fund for treasury bond	RMB	2,830,000.00	Other borrowings	5.00%	31 Dec. 2020
Special fund for treasury bond	RMB	2,260,000.00	Other borrowings	5.00%	31 Dec. 2016
China Construction Bank	RMB	13,000,000.00	Guranteed borrowings	5.96%	30 Nov. 2012
China Construction Bank	RMB	2,000,000.00	Guranteed borrowings	5.96%	30 Nov. 2013
Total		20,090,000.00			

During the period, the Group had no long-term borrowings which was past due but remained unpaid.

Other borrowings refer to the loan under the special fund for treasury bond on the state key projects of technological transformation granted by the Siping Municipal Bureau of Finance.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Share capital

	30 June 2011 and 31 December 2010	
	No. of shares	Percentage
1. Unlisted shares		
Promoter's shares	175,943,855.00	66.99%
Including:		
Shares held by domestic legal persons	165,387,223.00	62.97%
Shares held by domestic natural persons	10,556,632.00	4.02%
Total unlisted shares	175,943,855.00	66.99%
2. Listed shares		
Overseas listed foreign shares	86,714,000.00	33.01%
Total listed shares	86,714,000.00	33.01%
3. Total of shares	262,657,855.00	100.00%

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Minority interest

Minority interest balance of subsidiary of the Company is as follows:

	30 June 2011 *(unaudited)*	31 December 2010 *(audited)*
Siping Steering	3,000,000.00	3,250,000.00
Hangzhou Shibao	—	1,282,101.24
Beijing Autonic	2,708,244.63	2,816,589.36
Hangzhou New Shibao	16,197,837.39	17,378,383.60
	21,906,082.02	24,727,074.20

13. Revenue and costs

Revenue is as follows:

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Revenue from main business	332,762,718.55	269,002,010.42
Revenue from other business	64,810.00	52,727.91
	332,827,528.55	269,054,738.33

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Revenue and costs *(continued)*

Operating costs is as follows:

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Costs from main business	213,669,247.61	169,833,851.56

Main business by productsis as follows:

	Jan.-June 2011 (unaudited)		Jan.-June 2010 (unaudited and restated)	
	Revenue	Costs	Revenue	Costs
Power recirculating ball steering gears and its components	127,435,981.15	85,905,107.02	119,145,285.66	78,453,752.60
Steering knuckles	88,064,769.71	50,502,189.02	70,777,043.05	40,627,092.03
Power rack-and-pinion steering gears	71,428,882.78	47,446,932.69	38,277,608.92	26,527,618.60
Manual recirculating ball steering gears	6,519,945.44	5,443,702.10	8,379,458.12	7,019,219.77
Spare parts and others	39,313,139.47	24,371,316.78	32,422,614.67	17,206,168.56
	332,762,718.55	213,669,247.61	269,002,010.42	169,833,851.56

During the relevant period, all of the Group's revenue from main business derived from sales of goods.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14. Finance expenses/(income)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Interest expense	2,099,940.94	281,476.66
Less: Interest income	(267,492.21)	(542,245.34)
Others	100,136.23	184,022.37
	1,932,584.96	(76,746.31)

15. Investment gains/(losses)

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Investment gains/(losses) from long-term equity investments under equity method of accounting	173,570.99	(107,112.26)
Including: Investment gains/(losses) from an associate	173,570.99	(107,112.26)

During the period, the Group had no investment gain from long-term equity investments under cost method of accounting.

During the period, none of the Group's investment gain from long-term equity investments under equity method of accounting accounted for over 5% of the total profit.

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Non-operating income

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Gains from disposal of fixed assets	1,321.46	20,966.69
Government grants	4,111,797.88	654,833.00
Others	268,963.45	652,431.03
	4,382,082.79	1,328,230.72

17. Non-operating expenses

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Losses from disposal of fixed assets	241,915.36	15,939.43
Water conservancy fund	184,678.46	141,515.21
Others	198,180.38	3,846.47
	624,774.20	161,301.11

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Income tax expenses

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
Current income tax expenses	14,249,906.30	9,148,755.62
Deferred tax expenses	(1,356,482.17)	(427,989.47)
	12,893,424.13	8,720,766.15

The Group's income tax is calculated based on its estimated taxable income derived from the PRC and the applicable tax rate (see Note (3)).

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2011 (30 June 2010: Nil).

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Earnings per share

The basic earnings per share is calculated based on the net profit attributable to the ordinary equity holders of the Company in the current period and weighted average number of the ordinary shares in issue.

During the period, the Company had no potential diluted ordinary shares.

The detailed calculation information for basic earnings per share is presented as follows:

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited)*
Earnings		
Net profits attributable to the ordinary equity holders of the Company	60,996,018.28	53,259,365.98
Shares		
Weighted average of ordinary shares issued by the Company	262,657,855.00	262,657,855.00
Basic earnings per share (RMB)	0.23	0.20
Diluted earnings per share (RMB)	0.23	0.20

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20. Supplemental information on cash flow statement

a. Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Net profit	60,061,650.74	53,757,281.77
Add:		
Provision for impairment of assets	911,429.73	—
Depreciation of fixed assets	13,804,963.89	9,998,898.99
Amortisation of intangible assets	2,233,321.16	347,379.24
Amortisation of deferred revenue	(391,980.48)	(654,833.00)
Unrealized gains sold to an associate	145,909.69	(47,897.95)
Loss/(income) on disposal of fixed assets, intangible assets and other long-term assets	240,593.90	(5,027.26)
Finance expenses/(income)	1,832,448.73	(260,768.67)
Investment loss/(income)	(173,570.99)	107,112.23
Increase in deferred income tax assets	(1,260,357.17)	(800,779.43)
Decrease in deferred income tax liabilities	(96,125.00)	—
Decrease/(increase) in inventories	(501,492.79)	9,203,086.15
Increase in operating receivables	(93,588,215.51)	(81,254,819.15)
Increase in operating payables	40,808,132.16	31,301,209.39
Net cash flows from operating activities	24,026,708.06	21,690,842.31

(5) NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20. Supplemental information on cash flow statement

a. Supplemental information on cash flow statement (continued)

Net change in cash and cash equivalents:

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Closing balance of cash	140,501.37	185,903.39
Less: Opening balance of cash	126,251.37	60,514.51
Add: Closing balance of cash equivalents	36,254,637.41	30,759,696.87
Less: Opening balance of cash equivalents	48,812,012.78	32,748,271.56
Net decrease in cash and cash equivalents	(12,543,125.37)	(1,863,185.81)

b. Cash and cash equivalents:

	Jan.-June 2011 *(unaudited)*	31 December 2010 *(audited)*
Cash		
Including: Cash on hand	140,501.37	126,251.37
Bank deposit readily available	36,254,637.41	48,812,012.78
Closing balance of cash and cash equivalents	36,395,138.78	48,938,264.15

(6) OPERATING SEGMENT INFORMATION

For business management purposes, the Group is organised into one single business unit that represents primarily sale of automotive steering products and its corresponding components in Mainland China. Accordingly, no detailed information about operating segment is presented.

Almost all of the Group's external operating income is earned in Mainland China.

Almost all of the Group's non-current assets are located in Mainland China.

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent company

Name	Place of registration	Corporate type	Corporate representative	Business nature	Registered capital	Shareholding percent. in the Company	Voting proportion in the Company	Organization code
Zhejiang Shibao Holding Group Co., Ltd.	Yiwu City	Limited liability	Zhang Shi Zhong	industrial investment	50 million	62.97%	62.97%	75193535-X

The ultimate holding parties of the Company are Zhang Shi Quan and his family members, i.e., Zhang Bao Yi, Tang Hao Han, Zhang Lan Jun and Zhang Shi Zhong.

2. Subsidiary

The Company's subsidiaries are listed in Note (4) — consolidation scope of consolidated financial statements.

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

3. Associate

The main information about our associates is as follows:

	Corporate type	Place of registration	Corporate representative	business nature	Registered capital	Organization code
Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling")	Other limited liability company	Wuhu City	Zhang Shi Quan	Development, manufacture and sale of steering system and its related products and provision of after-sale services	20,000,000.00	76900919-4

The Company's proportation both of shareholding and voting in the associates is 36%.

4. Other related parties

	Relationship
Zhang Shi Quan and his family members, i.e., Zhang Bao Yi, Tang Hao Han, Zhang Lan Jun and Zhang Shi Zhong	Ultimate holding parties
Zhang Hai Qin	Family members with a close relation with main investors

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties

(1) *Transaction of goods and services with related parties*

Purchase of goods from related parties

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Wuhu Sterling	662,809.17	1,802,785.00

During the period, purchase of goods from related parties accounted for 0.27% of the Group's total purchases (Jan.-June 2010: 0.34%). The Group purchased the steering gear from Wuhu Sterling Steering System Co., Ltd. at the market price.

Sales of goods to related parties

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Wuhu Sterling	20,483,812.79	20,253,627.47

During the period, sales of goods to related parties accounted for 6.16% of the Group's total sales (Jan.-June 2010: 7.53%). The Group sold the spare parts and fittings to Wuhu Sterling Steering System Co., Ltd. at the market price.

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties *(continued)*

(2) *Equity transactions with related parties*

Purchase of equity from related parties

The Company purchased the 1% equity in Hangzhou Shibao from Zhang Hai Qin on 11 March 2011 at the consideration of RMB1.15 million, which was determined with reference to the net asset of Hangzhou Shibao as at 31 December 2010 after deduction of the distributed profits of 2010.

(3) *Guarantee with related parties*

Receipt of guarantee from related parties

30 June 2011

	Utilized amount	Guaranteed amount *'0,000*	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Zhejiang Shibao Holding Group Co., Ltd.	Note 1	2,000	29 April 2010	10 April 2013	No
Zhang Shi Quan	Note 2	7,500	11 April 2011	10 April 2013	No
Zhejiang Shibao Holding Group Co., Ltd.	Note 3	3,000	4 May 2010	16 April 2014	No
Zhang Shi Quan	Note 3	2,500	17 April 2011	16 April 2014	No
Zhang Shi Quan	Note 1	500	19 April 2011	18 April 2014	No

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties *(continued)*

(3) *Guarantee with related parties* (continued)

Receipt of guarantee from related parties *(continued)*

Note 1: As at 30 June 2011, these two guarantee contracts together provided the joint liability guarantee for bank borrowings of RMB5 million for Zhejiang Shibao Company Limited.

Note 2: As at 30 June 2011, the guarantee contract provided the joint liability guarantee for bank borrowings of RMB30 million for Zhejiang Shibao Company Limited.

Note 3: As at 30 June 2011, these two guarantee contracts together provided the joint liability guarantee for bank borrowings of RMB25 million for Hangzhou Shibao Auto Steering Gear Sales Co., Ltd..

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

5. Major transactions between the Group and related parties *(continued)*

(3) *Guarantee with related parties* (continued)

Provision of guarantee to related parties

30 June 2011

	Guaranteed amount *'0,000*	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Wuhu Sterling Steering System Co., Ltd.	1,000	19 Jan. 2011	18 Jan. 2012	No

As at 30 June 2011, the Company provided the maximum guarantee in terms of bank credit business to Wuhu Sterling Steering System Co., Ltd., our related party, with a maximum principal balance of RMB10 million, of which RMB10 million was already utilized by Wuhu Sterling Steering System Co., Ltd..

(4) *Other related transactions*

	Jan.-June 2011 *(unaudited)*	Jan.-June 2010 *(unaudited and restated)*
Key managerial personnel remuneration	1,123,608.00	931,177.00

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

6. Balance of receivables/(payables) from/(to) related parties

	30 June 2011 *(unaudited)*	31 December 2010 *(audited)*
Accounts receivable		
Wuhu Sterling Steering System Co., Ltd.	13,806,711.87	17,063,803.27

Amounts receivable from related parties are free of interest, unsecured and have no fixed repayment term.

(8) LEASING ARRANGEMENT

As lessee:

Significant operating leases: According to the lease contract signed with lessor, the group had the minimum lease payments under non-cancellable operating leases as follows:

	30 June 2011 *(unaudited)*
Within 1 year (incl. the 1st year)	354,615.75
1-2 years (incl. the 2nd year)	354,615.75
2-3 years (incl. the 3rd year)	174,879.00
	884,110.50

(9) COMMITMENTS

	30 June 2011 *(unaudited)*	31 December 2010 *(audited)*
Capital commitment		
Contracted, but not provided for	53,834,269.69	64,144,432.00

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating result

For the six months ended 30 June 2011, the Group recorded a revenue of RMB332,827,528.55, representing an increase of 23.7% over the corresponding period in 2010. Net profit attributable to equity holders of the parent was RMB60,996,018.28, representing an increase of 14.5% over the corresponding period in 2010.

During the period under review, the Group's revenue continued to grow, and the overall gross profit increased by 20.1% over the corresponding period in 2010. The increase in the Group's revenue was mainly due to a continuous increase in the sales of passenger car steering products.

The Group's gross profit margin was 35.8% (corresponding period in 2010: 36.9%). The slight decrease in the gross profit margin was mainly due to an increase in the raw material purchasing cost.

During the period under review, selling expenses increased by RMB440,736.29 over the corresponding period in 2010. Increase in selling expenses was mainly due to an increase in sales volume resulted in an increase in the other selling expenses. The ratio of selling expenses to revenue of the Group for the six months ended 30 June 2011 was 5.5%, representing a slight decrease comparing 6.6% of the corresponding period in 2010 due to a decrease of express transportation fee caused by the emergency order placing by the clients.

During the period under review, the Group's general and administrative expenses increased by RMB7,756,920.63 over the corresponding period in 2010. The increase in general and administrative expenses was mainly due to an increase in staff costs, office expenses and other tax expenses. The ratio of general and administrative expenses to revenue of the Group for the six months ended 30 June 2011 was 8.1%, representing a slight increase comparing 7.2% of the corresponding period in 2010 due to the newly added general and administrative expenses of Hangzhou New Shibao, Jilin Shibao and Beijing Autonic.

In view of the above, for the six months ended 30 June 2011, the Group has a net profit of RMB60,061,650.74, representing an increase of 11.7% compared with RMB53,757,281.77 for the corresponding period last year.

During the period under review, there were no material changes in the business and regional segments.

Marketing and new products

During the period under review, the Group had nineteen contract projects under stages of development, trial production or production preparation, and four contract projects started volume production.

Research and development

During the period under review, the Group had two patent applications been issued certificate of patent by the State Intellectual Property Office. As at the date of this report, the Group has twenty-one patents and two software copyrights in total.

Human resources

As at 30 June 2011, the Group employed a total of 1,606 employees. For the six months ended 30 June 2011, total staff salaries and welfare costs amounted to RMB29,582,196.72 (corresponding period in 2010: RMB25,201,472.16). 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.

FINANICAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity ratios

As at 30 June 2011, the Group had cash on hand and at bank of RMB42,986,051.12 in comparison with RMB65,301,493.65 as at 31 December 2010.

Net current assets as at 30 June 2011 were RMB191,656,321.61 (31 December 2010: RMB195,727,185.46). The current ratio of the Group was 1.7 (31 December 2010: 1.9) and the quick ratio was 1.2 (31 December 2010: 1.3).

Non-current liabilities as at 30 June 2011 were RMB51,921,278.79 (31 December 2010: RMB26,729,031.66).

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

Capital structure

As at 30 June 2011, the Group's gearing ratio was 31.8% (31 December 2010: 21.8%). The calculation of gearing ratio is net debt divided by total capital plus net debt. Net debt includes interest-bearing loans and borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to equity holders of the parent.

Total borrowings as at 30 June 2011 were RMB120,390,000.00 (31 December 2010: RMB55,090,000.00). Among which RMB85,300,000.00 (31 December 2010: RMB35,000,000.00) were short-term loans, representing 70.9% (31 December 2010: 63.5%) of the total borrowings and are repayable within one year. Borrowings of RMB120,390,000.00 (31 December 2010: RMB55,090,000.00) bear fix interest rate. For the six months ended 30 June 2011, the average effective interest rate of borrowings of the Group is between 5.0% and 7.98% (corresponding period in 2010: between 5.0% and 5.31%).

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

PLEDGE OF ASSETS

As at 30 June 2011, the Group´s deposits with a net carrying amount of RMB6,590,912.34 (31 December 2010: RMB16,363,229.50) were pledged to secure bills payables amounting to RMB24,890,000.00 (31 December 2010: RMB14,730,000.00) granted to the Group, and the Group´s notes receivable with a net carrying amount of RMB1,500,000.00 (31 December 2010: Nil) were pledged to secure short-term loans amounting to RMB300,000.00 (31 December 2010: Nil) granted to the Group.

Save as disclosed above, the Group did not have any other pledges on it's assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the period under review, the Group did not have any material acquisition and disposal concerning subsidiaries and associated companies.

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2011, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure to foreign currency risk. No hedge arrangement has been entered into by the Group.

CAPITAL COMMITMENTS

As at 30 June 2011, except the capital commitments as set out in Note 9 to the financial statements, the Group had no other material capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no material contingent liabilities.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2011 (30 June 2010: Nil).

OUTLOOK

After the production and sales of automobiles in China experienced rapid growth, it was slowed down to smooth growth during the period under review due to effects of the adjustment of the State macro economy policy and the cease of policies of preferential purchasing tax and others. China Association of Automobile Manufacturers (中國汽車工業協會) forecasts that China automobile market is entering into a stage of smooth growth and recognized that it is good for the long term and rational healthy development of the industry.

During the period under review, the Group´s overall business continued to grow with low impact by the slowdown of growth of the production and sales of automobiles in China. Among which, the sales of the Group´s passenger car steering products increased largely. The Group has built the reputation of leading technology and reliable quality at China leading automobile manufactures named FAW, DFM and JAC etc., that made a solid foundation for the Group in developing new market and acquiring new business. The Group´s passenger car power steering gear has entered into emerging market OEM supply. As at the date of this report, the Group had fulfilled sales of 100,000 sets of passenger car power steering gears to Iran automaker and follow-up order is to be increased. It is expected that the Group´s sales will have sound growth in the second half of this year.

Year 2011 is the first year of the "12th Five-year Plan" for China, as the participant of the draft of "12th Five-year Plan" of China Automotive Component Industry steering sector, the Group is planned to achieve the combined capacity of 4.05 million units/ sets of steering products, including 1 million sets of passenger car steering gears, 1.4 million units of passenger car steering knuckles, 650,000 sets of commercial vehicle steering gears and 1 million sets of green-car/fuel-efficient and low-emission car electric power steerings (EPS).

OTHER MATTERS

PROPOSED ISSUE OF A SHARES

All resolutions proposed at the EGM, H Shares Class Meeting and Domestic Shares Class Meeting held on 20 June 2011 were duly passed, which included the resolutions of proposed issue of not more than 65,000,000 A Shares with a nominal value of RMB1.00 each ("Issue of A Shares"), proposed amendments to the Articles and the rules of procedures and proposed adoption of the internal rules.

The Issue of A Shares will be subject to, among other things, the approval by the CSRC. Details of the Issue of A Shares are set out in the Company´s announcements dated 7 April 2011 and 20 June 2011, and circular dated 4 May 2011.

INCREASE IN EQUITY IN ASSOCIATES WUHU STERLING

On 8 April 2011, the Company (the "Transferee") and Sun Ya Hong (the "Transferor") entered into an equity transfer agreement where the Transferor agreed to transfer 10% of the equity of Wuhu Sterling to the Company. The transfer consideration is RMB4,840,000.00 in cash. Wuhu Sterling is mainly engaged in the development, manufacturing and sale of automobile steering system and related products.

Before the completion of the equity transfer agreement, the Company and the Transferor hold 36% and 15% of equity of Wuhu Sterling respectively. The Transferor intended to sell all his interest in the equity of Wuhu Sterling, among which 10% of the equity of Wuhu Sterling selling to the Company and the remaining 5% selling to an existing shareholder of Wuhu Sterling. After the completion of the equity transfer agreement, the Company will hold 46% of the equity of Wuhu Sterling.

As at the date of this report, amendment of the business registration has not been completed. The Company will use internal resources to pay the transfer consideration.

CONNECTED PARTY TRANSACTIONS

On 11 March 2011, the Company (the "Buyer") and Ms. Zhang Hai Qin (the "Seller") entered into a share transfer agreement (the "Share Transfer Agreement") for the transfer of 1% equity interest of Hangzhou Shibao (the "Target Company") at a purchase consideration of RMB1,150,000.00 in cash (the " Consideration").

The Seller is the spouse of Mr. Zhang Shi Quan (an executive Director, Chairman and General Manager of the Company). Mr. Zhang Shi Quan holds 40% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company, which in turns holds 62.97% of the total issued shares of the Company. Pursuant to Chapter 14A of the Listing Rules, the Seller is a connected party of the Company. Therefore the transaction pursuant to the Share Transfer Agreement forms the connected party transaction of the Company. Take into consideration that the applicable percentage ratio (except profit ratio) of the proposed transaction pursuant to the Share Transfer Agreement is exceeded 0.1% but less than 5%, such transaction is required to comply with the reporting and announcement requirements contained in Chapter 14A of the Listing Rules, but exempted from the independent shareholders´ approval requirement.

Before the completion of the Share Transfer Agreement, the Company and the Seller hold 99% and 1% of the equity interest of the Target Company respectively.

The Consideration is decided through fare negotiation between the Company and the Seller taking into consideration of the latest audited net assets of the Target Company after the distribution of dividends of the financial year of 2010. The Consideration is paid by internal resources of the Company.

At the time of establishment of the Target Company, the Company Law of the PRC required that there shall be at least two investors. At present, the Directors are of the view that, by acquiring 1% equity interest in the Target Company and making it a direct wholly-owned subsidiary of the Company would enhance the governance of the Company, improve its shareholding structure and benefit its long-term development. Upon the completion of the Share Transfer Agreement, the Target Company will become a direct wholly-owned subsidiary of the Company and the related accounts will continue to be consolidated to the Group´s accounts. On 25 March 2011, the share transfer was completed.

Details of the connected party transaction are set out in the Company´s announcement dated 1 April 2011.

Apart from the above transaction, for the six months ended 30 June 2011, the Group has no transaction required to be disclosed as connected party transactions pursuant to the 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 30 June 2011, 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 which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), 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 the 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 *(Note 1)*	165,387,223	94.00%	62.97%
	Beneficial owner *(Note 2)*	10,556,632	6.00%	4.02%

Note:

(1) Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding which in turn holds 165,387,223 Domestic Shares 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, Mr. Zhang is taken or deemed to be interested in all of the 165,387,223 Domestic Shares held by Zhejiang Shibao Holding.

(2) Mr. Zhang has acquired from Du Chun Mao, Hui Yan, Wang Yu Jie, Zheng Yong Ping, Fu Zhong Xian, Zhang Qin Fang, Zhang Jun Yi and Wu Wei Xu, in aggregate 10,556,632 Domestic Shares with a nominal value of RMB1.00 each, representing approximately 4.02% of the issued capital of the Company as at the date of the announcement and at present, at RMB2.64 per Domestic Share. Details of the share transfer are set out in the Company's announcement dated 19 April 2011. On 23 June 2011, the share transfer was completed.

(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.

(3) 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: Zhejiang Shibao Holding, the ultimate holding company of the Company, owns 80% of Jinlin Shibao Automation. As Mr. Zhang holds 40% of 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.

On 8 August 2011, the registration of Jilin Shibao Automation was officially cancelled.

(4) 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: Zhejiang Shibao Holding, the ultimate holding company of the Company, owns 90% of Changchun Shili Automotive. As Mr. Zhang holds 40% of 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.

(5) Long positions in the registered capital of a fellow subsidiary of the Company, Anhui Changshan Auto Parts Manufacturing Co., Ltd. ("Anhui Changshan", formerly known as Anhui Shibao Casting Industry Co., Ltd.), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Anhui Changshan
Mr. Zhang	Interest in a controlled corporation	RMB10,000,000	100%

Note: Zhejiang Shibao Holding, the ultimate holding company of the Company, owns 100% of Anhui Changshan. As Mr. Zhang holds 40% of 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 100% interest directly held by Zhejiang Shibao Holding in Anhui Changshan.

Save as disclosed above, as at 30 June 2011, Directors are not aware of any Director, Supervisor and Chief Executive of the Company who had or was deemed to have any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Division 7 and 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 the Model Code relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, so far as is known to the Directors, Supervisors and 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 the same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejing Shibao Holding	Beneficial owner *(Note 1&3)*	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang	Interest in a controlled corporation *(Note 1&3)*	165,387,223 Domestic Shares	94.00%	62.97%
	Beneficial owner *(Note 2&3)*	10,556,632 Domestic Shares	6.00%	4.02%
Mr. Gu Wei Rong	Beneficial owner	4,432,000 H Shares	5.11%	1.69%

Note:

(1) As at 30 June 2011, 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.

(2) Mr. Zhang has acquired from Du Chun Mao, Hui Yan, Wang Yu Jie, Zheng Yong Ping, Fu Zhong Xian, Zhang Qin Fang, Zhang Jun Yi and Wu Wei Xu, in aggregate 10,556,632 Domestic Shares with a nominal value of RMB1.00 each, representing approximately 4.02% of the issued capital of the Company as at the date of the announcement and at present, at RMB2.64 per Domestic Share. Details of the share transfer are set out in the Company's announcement dated 19 April 2011. On 23 June 2011, the share transfer was completed.

(3) Mr. Zhang's interest in these 175,943,855 Domestic Shares of the Company, including 165,387,223 Domestic Shares of the Company owned by Zhejiang Shibao Holding and 10,556,632 Domestic Share of the Company directly owned by himself, 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". These 165,387,223 Domestic Shares of the Company owned by Zhejiang Shibao Holding represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 30 June 2011, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives of the Company as disclosed above) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CHANGES IN DIRECTORS' INFORMATION

The Company's independent non-executive director, Mr. Chau Kam Wing, Donald was appointed as Finance Director of Winox Holdings Limited (stock code: 6838) on 11 March 2011, which was listed on the main board of the Stock Exchange on 20 July 2011. In addition, Mr. Chau had been retired from the office of independent non-executive director of China Nonferrous Metals Company Limited (stock code: 8306) on 5 May 2011.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

At no time during the period under review was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and no Directors, Supervisors and Chief Executives of the Company nor any of their spouses or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.

SHARE OPTION SCHEMES

As at 30 June 2011, the Company has not implemented any share option scheme.

COMPETING INTERESTS

During the period under review, none of the Directors, the substantial shareholders or the management shareholders of the Company (as defined in the Listing Rules) or their respective associates had an interest in a business which competed or might compete with the business of the Group, or had any other conflicts of interest with the Group.

AUDIT COMMITTEE

The Company established an audit committee on 26 April 2006 with written terms of reference. 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. Chau Kam Wing, Donald and Mr. Zhang Shi Zhong. Mr. Chen Guo Feng and Mr. Chau Kam Wing, Donald are independent non-executive Directors and Mr. Zhang Shi Zhong is a non-executive Director. The chairman of the audit committee is Mr. Chau Kam Wing, Donald.

The Group's unaudited interim results for the six months ended 30 June 2011 have been reviewed by the audit committee.

THE MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out In the Model Code. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the period under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the period under review, the Group had been in compliance with the majority of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "Code on Corporate Governance Practices"), with the exception of Rule A.2.1 of the Code on Corporate Governance Practices stating that 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 period under review. Mr. Zhang Shi Quan is the Group's founder, and is responsible for overseeing the overall strategic planning, new business investment, acquisition and merging. In view of the nature of the Company's business, the Board considers that the current management structure arrangement is considerably effective in response to market changes and finalization of strategic plans. The Board will review the efficiency of this management structure arrangement from time to time.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the commencement of listing of the H Shares of the Company on GEM on 16 May 2006 and the transfer listing from GEM to the Main Board on 9 March 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights 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.

PUBLIC FLOAT

As at the date of this report, the Company is in compliance with Rule 8.08(1)(a) of the Listing Rules which requires at least 25% of the total issued share capital of the Company be held by the public.

By order of the Board
Zhejiang Shibao Company Limited
Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
26 August 2011

As at the date of this report, the Board comprises Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Mr. Zhu Jie Rong and Ms. Zhang Lan Jun as executive Directors, Mr. Zhang Shi Zhong and Mr. Lou Run Zheng as non-executive Directors, and Mr. Zhao Chun Zhi, Mr. Chen Guo Feng, Mr. Chau Kam Wing, Donald and Mr. Zhang Hong Zhi as independent non-executive Directors.