



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 ANNUAL REPORT

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Important Notice:

This annual report is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

CORPORATE INFORMATION

| | |
|------------------------|---|
| Legal Name | Zhejiang Shibao Company Limited* 浙江世寶股份有限公司 |
| Board of Directors | Executive Directors Mr. Zhang Shi Quan (張世權) <i>(Chairman and General Manager)</i> Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚) Mr. Zhu Jie Rong (朱韻榕) Ms. Zhang Lan Jun (張蘭君) Non-executive Directors Mr. Zhang Shi Zhong (張世忠) Mr. Lou Run Zheng (樓潤正) Independent Non-executive Directors Mr. Zhao Chun Zhi (趙春智) Mr. Chau Kam Wing, Donald (周錦榮) Mr. Zhang Hong Zhi (張洪智) Mr. Li Zi Biao (李自標) Mr. Chen Guo Feng (陳國峰) (resigned on 10 February 2012) |
| Supervisors | Mr. Du Min (杜敏) Mr. Yang Di Shan (楊迪山) Mr. Wu Lang Ping (吳琅平) Mr. Shen Song Sheng (沈松生) Mr. Wang Kui Quan (王奎泉) |
| Senior Management | Mr. Yu Zhong Chao (虞忠潮) Ms. Liu Xiao Ping (劉曉平) |
| Audit Committee | Mr. Chau Kam Wing, Donald (周錦榮) <i>(Chairman)</i> Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智) Mr. Chen Guo Feng (陳國峰) (resigned on 10 February 2012) |
| Remuneration Committee | Mr. Chau Kam Wing, Donald (周錦榮) <i>(Chairman)</i> Mr. Zhang Shi Zhong (張世忠) Mr. Zhang Hong Zhi (張洪智) Mr. Chen Guo Feng (陳國峰) (resigned on 10 February 2012) |

CORPORATE INFORMATION

| | |
|--|---|
| Nomination Committee | Mr. Chau Kam Wing, Donald (周錦榮) (<i>Chairman</i>) Mr. Zhao Chun Zhi (趙春智) Ms. Zhang Lan Jun (張蘭君) |
| Compliance Officer | Mr. Zhu Jie Rong (朱韻榕) |
| Company Secretary | Ms. Huen Lai Chun (禰麗珍) |
| Authorised Representatives | Mr. Zhu Jie Rong (朱韻榕) Ms. Huen Lai Chun (禰麗珍) |
| Registered Office | No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China |
| Head Office and Principal Place of Business in Hong Kong | Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong |
| Legal Advisers | <i>as to PRC law</i> Grandall Law Firm (Shanghai) 45th-46th Floor Nan Zheng Building 580 Nanjing Xilu Jingan District, Shanghai China |
| Auditors | Ernst & Young Hua Ming Level 16, Ernst & Young Tower Tower E3, Oriental Plaza No.1 East Chang An Ave. Dong Cheng District Beijing, China |

CORPORATE INFORMATION

Principal Bankers

Agricultural Bank of China,
Yiwu Branch — Fotang Sub-branch
85 Jianshe Road, Fotang
Yiwu
Zhejiang Province
China

Industrial and Commercial Bank of China,
Yiwu Branch — Yiwu Sub-branch
128 Huangyuan Road
Yiwu
Zhejiang Province
China

China Construction Bank,
Hangzhou Branch — Qiutao Sub-branch
5 Qingchun East Road
Jianggang District
Hangzhou
Zhejiang Province
China

Industrial and Commercial Bank of China,
Siping Branch — Zhongyang Dong Lu Sub-branch
1 Tiedong District
Siping
Jilin Province
China

Industrial and Commercial Bank of China,
Hangzhou Branch — Jingkai Sub-branch
No. 5, No. 6 Road
Hangzhou Economic and Technological Development Zone
Hangzhou
Zhejiang Province
China

CORPORATE INFORMATION

China Construction Bank,
Siping Branch — Tiedong Sub-branch
No. 1155, Zhongyang Dong Lu, Tiedong District
Siping
Jilin Province
China

Industrial Bank Co., Ltd.,
Hangzhou Branch — Jingkai Sub-branch
No. 67, Ying Bin Road
Hangzhou Economic and Technological Development Zone
Hangzhou
Zhejiang Province
China

Industrial and Commercial Bank of China,
Beijing Branch — Zi Zhu Yuan Road Sub-branch
No. 10, Zhong Guan Cun South Road Jia
Hai Dian District
Beijing
China

Industrial and Commercial Bank of China (Asia) Limited
Hong Kong Headquarters
33rd Floor ICBC Tower
3 Garden Road
Central
Hong Kong

**Hong Kong H Share registrar and
transfer office**

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Place of Listing

H Shares: The Stock Exchange of Hong Kong Limited (the "Stock Exchange")
Stock Code: **1057**

Website

www.zjshibao.com

CORPORATE PROFILE

Zhejiang Shibao Company Limited (the "Company") is a joint stock limited company registered in the People's Republic of China (the "PRC") on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), a limited liability company established in the PRC. The Company's H Shares were listed on the Growth Enterprise Market ("GEM") of the Stock Exchange on 16 May 2006 and were transferred to the Main Board of the Stock Exchange on 9 March 2011, and its stock code is 1057.HK.

The Company and its subsidiaries (together, the "Group") is a leading OEM supplier of automotive steering system in the PRC.

The Group has committed itself to the research and development of automotive steering products and mainly engaged in the develop, design, manufacture and sales of automotive steering gears and other key components and parts of steering system, and accumulated extensive industry experience in the PRC. The Group is one of the early movers in the development of hydraulic power steering gears in the PRC, and also the early domestic enterprise having built the capacity of independent mechanical and electrical integration technologies and volume production of electric power steering (EPS) system.

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

The Group has established manufacturing and research bases in Hangzhou and Yiwu, Zhejiang Province, Siping, Jilin Province, Wuhu, Anhui Province and Beijing respectively, and supply four types of steering products to large automakers: power recirculating ball steering gear for use in light, medium and heavy duty trucks and buses, hydraulic power rack-and-pinion steering gear and steering knuckle for use in passenger cars and EPS system for use in green cars and fuel-efficient and low-emission vehicles (with own intellectual property rights).

The Group has a large and reputable customer base of automakers, including FAW Group Corporation ("FAW Group"), Dongfeng Motor Group Co. Ltd. ("DFM"), Anhui Jianghuai Automobile Group Co., Ltd. ("JAC"), Kinglong United Automobile Industry (Suzhou) Co., Ltd. ("Kinglong Bus"), Beiqi Foton Motor Co., Ltd. ("Foton Motor"), Chery Automobile Co., Ltd. ("Chery Auto"), Geely Automobile Holdings Limited ("Geely Auto"), Iran Saipa Automotive Group ("Iran Saipa"). The Group also is the core supplier of FAW Car Co., Ltd. ("FAW Car") and the qualified supplier of FAW-VW Automobile Co., Ltd. ("FAW-VW"). In order to develop aftermarket sales, the Group has also set up aftermarket sales network that covers major areas in the PRC.

The Group has rich OEMs experiences, strong R&D and design capacity and adopted lean production system. By continuously investing on research and development, the Group is now capable of joint-design with the local and international vehicle design team. The Group is further exploring opportunities with leading auto-makers in modular supply and "Just-In-Time" delivery. The Group's business objective is to be an outstanding steering system supplier and a reliable and long-term partner of China and International leading automakers.

FIVE YEARS FINANCIAL SUMMARY

The audited results, assets and liabilities of the Group for the past five years ended 31 December 2011. The relevant information were prepared on a consolidated basis, and based on PRC Accounting Standards for Business Enterprises for year 2011 and 2010, and based on International Financial Reporting Standards for year 2009, 2008 and 2007.

RESULTS

| | 2011 RMB0'000 | For the year ended 31 December | | | |
|---|------------------|--------------------------------|------------------|------------------|------------------|
| | | 2010 RMB0'000 (Restated) | 2009 RMB0'000 | 2008 RMB0'000 | 2007 RMB0'000 |
| Revenue | 62,592 | 54,594 | 36,352 | 25,622 | 21,197 |
| Total profit | 12,589 | 11,866 | 7,664 | 4,864 | 4,760 |
| Net profit | 11,065 | 10,434 | 6,716 | 4,150 | 3,891 |
| Minority interests | (222) | 94 | 80 | 63 | 67 |
| Net profits attributable to equity holders of the Parent | 11,287 | 10,340 | 6,635 | 4,088 | 3,824 |
| Basic earnings per share (RMB) | 0.43 | 0.39 | 0.2526 | 0.1556 | 0.1456 |

ASSETS AND LIABILITIES

| | 2011 RMB0'000 | As at 31 December | | | |
|--|------------------|--------------------------------|------------------|------------------|------------------|
| | | 2010 RMB0'000 (Restated) | 2009 RMB0'000 | 2008 RMB0'000 | 2007 RMB0'000 |
| Non-current assets | 52,709 | 40,778 | 30,842 | 25,244 | 22,211 |
| Current assets | 52,426 | 40,324 | 29,178 | 26,159 | 25,814 |
| Current liabilities | 33,145 | 20,751 | 12,430 | 9,029 | 8,347 |
| Net current assets | 19,281 | 19,573 | 16,748 | 17,130 | 17,467 |
| Equity attributable to equity holders of the Parent | 64,137 | 55,205 | 46,641 | 41,319 | 38,545 |
| Total liabilities and shareholders' equity | 105,135 | 81,102 | 47,050 | 41,708 | 38,931 |

CHAIRMAN'S STATEMENT

I would like to present on behalf of the Board of Directors (the "Board") the report of the audited results of the Group for the year ended 31 December 2011.

The Group has committed itself to the research and development of automotive steering products and mainly engaged in the development, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The Group is also the early domestic enterprise having built the capacity of independent mechanical and electrical integration technologies and volume production of electric power steering (EPS) system.

For the year ended 31 December 2011, the Group recorded a revenue of RMB625,917,119.21, representing an increase of approximately 14.65% as compared with 2010. The increase was mainly due to a significant increase in the sales of hydraulic power rack-and-pinion steering gear for passenger cars.

The gross profit margin of the Group during the year under review was approximately 35.47% (2010: approximately 35.91%), representing a slight decrease as compared with 2010. The slight decrease in the gross profit margin was mainly due to a price cut of steering knuckle resulting in a decrease in the gross profit margin of steering knuckle, however the gross profit margin of hydraulic power rack-and-pinion steering gear for passenger cars was increased, therefore reduced the impact of decrease of gross profit margin of steering knuckle to the gross profit margin of the Group and resulted in a slight decrease of the gross profit margin of the Group.

For the year ended 31 December 2011, net profit of the Group was RMB110,647,997.28 (2010: RMB104,339,149.32), representing an increase of approximately 6.05% as compared with 2010. Net profit attributable to equity holders of the Parent was RMB112,872,143.11 (2010: RMB103,403,049.81), representing an increase of approximately 9.16% as compared with 2010.

During the year under review, growth of automobile industry slowed down and therefore impacted to the growth of the Group's revenue. However, with the advantages in technology and quality, the Group's revenue generated from hydraulic power rack-and-pinion steering gear for passenger cars was largely increased. During the year under review, revenue generated from the Group's key customers kept increased. The revenue from top five customers of the Group accounted for more than 69.53% of the total revenue.

During the year under review, the Group has been awarded the "Supplier of the Year" by FAW Car for the fifth consecutive year. Also, the Group has been awarded the "Supplier of the Year" by FAW Group and DFM Liuzhou Automobile Company as well as the "Quality Perfection" by JAC.

During the year under review, the Company proposed the resolutions of issue of A Shares and 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. Since the Company's H Shares were listed on the Stock Exchange, the Company has established sound corporate governance practices and achieved large increase in revenue. Reasons for propose issue of A Shares are as follows: i) to increase the Group's reputation in China mainland market; ii) to establish a flexible mechanism for staff incentive and recruitment; iii) to raise fund to support the development of the Company.

CHAIRMAN'S STATEMENT

OUTLOOK

In 2011, both the growth of automobile production and sales in China, being the global largest automobile market, have slowed down remarkably due to its macroeconomic adjustment and retreat of automobile consumption incentive policy. Looking forward, under the perspective that China economy will keep growing fast in the foreseeable future, China automobile industry, being the supporting industry of China, will keep up with stable and healthy growth trend. After fast growth of automobile industry and stable increase of resident income in China in the past ten years, China has formed multi-level demands for automobile consumption. At the same time when demand for the first automobile is keep increasing, demand for second automobile is arising, and together driving the market growth.

2011 is the first year of "12th Five-year Plan" of China. In the "12th Five-year Plan of China Automotive Steering Industry", the objective of the industry has been stated clearly and strongly as to develop China-brand steering enterprises, increase China innovation capacity and shift to energy-saving and light-weight steering system and expand applications of electric power steering (EPS) system for green-car. Under this background, the Group has planned to increase its capacity to achieve a consolidated annual steering products capacity of 4,050,000 units/sets, which consist of 1,000,000 units/sets of hydraulic power rack-and-pinion steering gear and electric power steering system each, 1,400,000 units of steering knuckle and 650,000 units/sets of hydraulic power recirculating ball steering gear.

The Group has strong capacity in technology innovation and development which are demonstrated by the projects that the Group has worked together with China leading automakers in the areas of technology improvement of hydraulic steering gear and customized development of electric power steering (EPS) system. Meanwhile, the Group has invested a lot on the upstream industry and the start of volume production of electric power steering (EPS) system. The Group is also planned to build a state-level automotive steering R&D center. Among which, the skid pad project has been completed in 2011. It is the first skid pad built by steering manufacturer in China. The Group believes that by taking the above measures, it will provide sustaining drive forces for the future growth of the Group.

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC

16 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

AUTOMOBILE MANUFACTURE AND SALES

In 2011, automobile production and sales in China both exceeded 18 million units, representing a slight increase as compared to last year. Being the global largest automobile market, the increase of production and sales of automobile in China has been slowed down remarkably due to macroeconomic adjustment and control, and withdrawal of stimulating policies by the China government.

In 2011, production and sales volume of China auto industry was 18,419,000 units and 18,505,000 units respectively, representing an increase of approximately 0.84% and 2.45% as compared with 2010. Among these, production and sales of passenger cars were 14,485,000 units and 14,472,000 units respectively, representing an increase of approximately 4.23% and 5.19% as compared with 2010; production and sales of commercial vehicles were 3,934,000 units and 4,033,000 units respectively, representing a decrease of approximately 9.94% and 6.31% as compared with 2010. In 2011, growth of passenger cars was better than the growth of auto industry as a whole, among which sales of sedans with engine size 1.6 liter and below was increased slightly. Sales of China-brand sedans was 2,946,000 units, representing an increase of approximately 0.46%, which accounted for 29.11% of total sales of sedans, representing an increase of approximately 1.78%. Among commercial vehicles, sales of buses was kept growing and sales of trucks and lorry were depressed.

In 2011, top ten automaker groups in China produced 16,024,000 units of automobiles, representing 87.00% of the production of automobile industry, an increase of 0.86% as compared to last year, and an increase in industry concentration.

TREND OF THE CHINA AUTOMOTIVE STEERING INDUSTRY

Independent R&D capacity of China automotive steering enterprises has been escalating, especially in the R&D of steerings for commercial vehicles and economical sedans. Types and models of steerings made by China automotive steering enterprises are expanded and their quality and technical level are improved. These provided solid foundation for the development, replacement and technology improvement of China-brand vehicles.

According to the description of the "12th Five-year Plan of China Automotive Steering Industry", China automotive steering industry is expected to grow stably and in line with the growth of China automobile industry, independent innovation capacity will be enhanced remarkably, and China-brand steering products will be further penetrated into the passenger cars market in China and entered into global automotive components supply chain. Industrial concentration ratio will increase in China automotive steering industry. As a result, four to five leading enterprises will emerge, each with independent intellectual property and international competition ability and having 4,000,000 units annual production capacity. Conventional hydraulic power steering system will be improved in terms of energy saving, efficiency and light-weight. Development of electric power steering (EPS) system used in green-car will grow strongly.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

OPERATION RESULT

For the year ended 31 December 2011, the Group recorded a revenue of RMB625,917,119.21, representing an increase of approximately 14.65% as compared with 2010. Net profit attributable to the equity holders of the Parent was RMB112,872,143.11, representing an increase of approximately 9.16% as compared with 2010.

The increase of the Group's revenue was mainly due to a significant increase in the sales of hydraulic power rack-and-pinion steering gear for passenger cars.

During the year under review, the Group's entire gross profit increased by approximately 13.25% as compared with 2010. The gross profit margin of the Group was approximately 35.47% (2010: approximately 35.91%). The slight decrease in the gross profit margin was mainly due to a price cut of steering knuckle resulting in a decrease in the gross profit margin of steering knuckle, however the gross profit margin of hydraulic power rack-and-pinion steering gear for passenger cars was increased, therefore reduced the impact of decrease of gross profit margin of steering knuckle to the gross profit margin of the Group and resulted in a slight decrease of the gross profit margin of the Group.

During the year under review, the Group's selling expenses decreased by RMB1,626,831.55 as compared with 2010. The ratio of selling expenses to revenue also decreased as compared to 2010. Decrease in selling expenses was mainly due to: i) a decrease in transportation expenses as delivery destination for some of the products were close; ii) a decrease in salesperson's commission as the growth of revenue was decreased comparing with 2010; and iii) a decrease in the provision of warranty expenses as a result of improvement of production processes and quality control.

During the year under review, the Group's general and administrative expenses increased by RMB10,675,678.23 as compared with 2010. The ratio of general and administrative expenses to revenue also increased as compared with 2010. Increase in general and administrative expenses was mainly due to an increase in administrative staff costs and research and development expenses as a result of the development of the Group's new businesses, i.e. volume production preparation for electric power steering (EPS) system and precious iron casting.

During the year under review, the Group's financial expenses increased by RMB5,178,886.81 as compared with 2010. Increase in financial expenses was mainly due to an increase in interest costs for bank borrowings to meet demands on increasing capital expenditures and operating expenses when the Group's operation and production scale expanded.

In view of the above, for the year ended 31 December 2011, the Group has a net profit of RMB110,647,997.28, representing an increase of approximately 6.05% as compared with approximately RMB104,339,149.32 for the previous year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKETING AND NEW PRODUCTS

The Group secured six new development projects during the year under review and held nineteen development projects in total as at the end of the year under review. During the year under review, the Group has four development projects started volume production, among which the Group's electric power steering (EPS) system started volume production for Changhe Auto.

During the year under review, the application of precious casting products of Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao") to the Group's steering knuckles and recirculating ball steering gears represented 30% and 15% respectively of the Group's total production of steering knuckles and recirculating ball steering gears. The volume was increased by month.

PRODUCTION FACILITIES

During the year under review, the second production line for precious casting has arrived for installation and testing in Jilin Shibao. Main products of the second line for precious casting are same as the first line, that are precious iron castings for steering knuckle and housing of recirculating ball steering gear, and will be supplied to intra-group market entirely.

During the year under review, transfer of electric power steering (EPS) system R&D and manufacture from Hangzhou Shibao Auto Steering Gear Co., Ltd. ("Hangzhou Shibao") to Hangzhou New Shibao Electric Power Steering Co., Ltd. ("Hangzhou New Shibao") has been completed. Meanwhile, Hangzhou New Shibao has added new testing, inspection and production facilities and prepared for the volume production.

During the year under review, an assembly line for manual rack-and-pinion steering gear has been arrived for installation and testing in Hangzhou Shibao, to support the volume production of electric power steering (EPS) system. The annual production capacity of the above assembly line is 200,000 units of manual rack-and-pinion steering gears. Meanwhile, Hangzhou Shibao has added relevant machining facilities to solve the bottleneck of the production capacity of steering control valve. Steering control valve is the key parts of hydraulic power steering gear.

RESEARCH AND DEVELOPMENT

During the year under review, the Group has four applications been issued certificate of patent by the State Intellectual Property Office, among which one application was patent of invention. As at the date of this report, the Group holds twenty-four patents and two software copy-rights.

During the year under review, the Group has built a skid pad in Hangzhou which is the first one in automotive steering industry in China. The skid pad is part of the Group's project of building a state-level automotive steering R&D center.

During the year under review, the Group has been awarded the "Supplier of the Year" by FAW Car for the fifth consecutive year. Also, the Group has been awarded the "Supplier of the Year" by FAW Group and DFM Liuzhou Automobile Company as well as the "Quality Perfection" by JAC.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

TURNOVER

REVENUE

For the year ended 31 December 2011, the Group recorded a revenue of RMB625,917,119.21, representing an increase of approximately 14.65% as compared with 2010. The increase was mainly due to a significant increase in the sales of hydraulic power rack-and-pinion steering gear for passenger cars.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the year ended 31 December 2011, the Group's gross profit was RMB222,030,000.81, increased by approximately 13.25% as compared with RMB196,049,746.15 in 2010. The gross profit margin of the Group during the year under review was approximately 35.47% (2010: approximately 35.91%). The slight decrease in the gross profit margin was mainly due to a price cut of steering knuckle resulting in a decrease in the gross profit margin of steering knuckle, however the gross profit margin of hydraulic power rack-and-pinion steering gear for passenger cars was increased, therefore reduced the impact of decrease of gross profit margin of steering knuckle to the gross profit margin of the Group and resulted in a slight decrease of the gross profit margin of the Group.

NON-OPERATING INCOME

Non-operating income mainly included government grants income. Such income for the year ended 31 December 2011 was RMB5,406,050.02, representing an increase of approximately 20.95% as compared with RMB4,469,816.98 in 2010.

SELLING EXPENSES

The Group's selling expenses for the year ended 31 December 2011 were RMB35,881,539.03, representing a decrease of approximately 4.34% compared with RMB37,508,370.58 in 2010. Decrease in selling expenses was mainly due to: i) a decrease in transportation expenses as the delivery destination for some of the products were close; ii) a decrease in salesperson's commission as the growth of revenue was decreased comparing with 2010; and iii) a decrease in the provision of warranty expenses as a result of improve of production processes and quality control. The ratio of selling expenses to the Group's revenue for the year ended 31 December 2011 was approximately 5.73%, representing a decrease as compared to approximately 6.87% in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's general and administrative expenses for the year ended 31 December 2011 were RMB54,553,179.60, representing an increase of approximately 24.33% compared with approximately RMB43,877,501.37 in 2010. Increase in general and administrative expenses was mainly due to an increase in administrative staff costs and research and development expenses as a result of the development of the Group's new businesses, i.e. volume production preparation for electric power steering (EPS) system and precious iron casting. The ratio of general and administrative expenses to the Group's revenue for the year ended 31 December 2011 was approximately 8.72%, representing an increase as compared to approximately 8.04% in 2010.

FINANCIAL EXPENSES

The Group's financial expenses for the year ended 31 December 2011 were RMB5,694,893.68, representing an increase as compared with RMB516,006.87 in 2010. Increase in financial expenses was mainly due to an increase in interest costs for bank borrowings to meet demands on increasing capital expenditures and operating expenses when the Group's operation and production scale expanded.

RESEARCH AND DEVELOPMENT EXPENSES

The Group's research and development expenses for the year ended 31 December 2011 were RMB14,678,574.46, representing a ratio of approximately 2.35% to the Group's revenue and an increase of RMB2,349,178.00 as compared with RMB12,329,396.46 in 2010.

NET PROFIT AND NET PROFIT MARGIN

Based on the above factors, the Group's net profit for the year ended 31 December 2011 was RMB110,647,997.28, representing an increase of approximately 6.05% compared with RMB104,339,149.32 of the previous year. The Group's net profit margin (percentage of net profit to the Group's revenue) for the year ended 31 December 2011 was approximately 17.68% (2010: approximately 19.11%).

LIQUIDITY AND FINANCIAL RESOURCES

LIQUIDITY RATIOS

As at 31 December 2011, the Group had cash of RMB43,234,111.34 (2010: RMB65,301,493.65), including restricted cash on hand and at banks of RMB2,522,130.61 (2010: RMB16,363,229.50). The restricted cash on hand and at banks of the Group with limited ownership right refers to the deposits for issuance of bank bills and letters of credit.

As at 31 December 2011, the current ratio of the Group was approximately 1.58 (2010: approximately 1.94), the quick ratio was approximately 1.21 (2010: approximately 1.28).

Net current assets as at 31 December 2011 was RMB192,811,168.15 (2010: RMB195,727,185.46).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2011, non-current liabilities were RMB57,920,986.95 (2010: RMB26,729,031.66), increased by RMB31,191,955.29 when compared with last year mainly as a result of an increase in long-term bank borrowings and other non-current liabilities. Other non-current liabilities refer to asset-related government grants, including the grants provided by the National Development and Reform Commission for the manufacturing and processing projects of precision cast automotive components, the special grants provided by the National Development and Reform Commission to support the sedans steering knuckle assembly project developed by the Group and the grants provided by the Management Committee of the Siping Tiedong Economic Development Zone for the manufacturing and processing projects of precision cast automotive components.

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

CAPITAL STRUCTURE

The Group's gearing ratio as at 31 December 2011 was approximately 37.03% (2010: approximately 28.88%). The calculation of gearing ratio is to divide total liabilities by the total assets. Total liabilities is the sum of liabilities bearing by the Group, includes current liabilities and long-term liabilities. Total assets is the sum of assets holding by the Group, includes current assets and non-current assets.

As at 31 December 2011, the amount of total loans and borrowings was RMB157,100,232.00 (2010: RMB55,090,000.00), in which RMB144,079,832.00 (2010: RMB50,000,000.00) were bank loans. Total loans and borrowings increased by RMB102,010,232.00 when compared with last year, the increased loans and borrowings were mainly used for expansion of production capacity of automotive steering gear, preparation of volume production of electric power steering (EPS) system and capacity building of automotive component precious casting. Short-term and current of long term loans and borrowings amounted to RMB127,079,832.00 (2010: RMB35,000,000.00), representing a share of 80.89% (2010: approximately 63.53%) in total loans and borrowings. Loans and borrowings at fixed interest rates were RMB8,300,232.00.

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

PLEDGE OF ASSETS

As at 31 December 2011, the restricted cash on hand and at banks of the Group was RMB2,522,130.61 (2010: RMB16,363,229.50) which refers to the deposits for issuance of bank bills and letters of credit.

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

MATERIAL ACQUISITIONS AND DISPOSALS

For the year of 2011, the Group did not have any material acquisition and disposal concerning subsidiaries and associated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER MATTERS

PROPOSED ISSUE OF A SHARES

All resolutions proposed at the EGM, H Shares Class Meeting and Domestic Shares Class Meeting all 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 share"), 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 announcement dated 7 April 2011 and 20 June 2011, and circular dated 4 May 2011.

INCREASE IN EQUITY IN AN ASSOCIATE 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 Steering System Co., Ltd. ("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 holds 46% of the equity of Wuhu Sterling.


Amendment of the business registration in relation to the transfer of the equity has been completed. The Company used internal resources to pay the transfer consideration.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2011, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk. No hedge arrangement has been entered into by the Group.

CAPITAL COMMITMENTS

Apart from commitments set out on page 159 in the annual report, the Group has no other material capital commitments as at 31 December 2011.



MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 31 December 2011.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had a total of 1,605 employees as at 31 December 2011 (2010: 1,592).

For the year ended 31 December 2011, total salaries and welfares costs of the employees amounted to RMB66,452,998.00 (2010: RMB62,957,000.00). The Group provides substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 62, is the Chairman and General Manager of the Company. He is a senior economist. From 1990 to 1993, he was appointed as the legal representative and general manager of Qianjin Steering Gear Factory (前進方向機廠). From 1993 to 2004, he was appointed as the Chairman of Zhejiang Shibao Steering. Since 2004, he has been appointed as the Chairman and General Manager of the Company. Mr. Zhang Shi Quan was awarded the title of "China Outstanding Private Entrepreneurs" (中國優秀民營企業家). He was also awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" (第二屆中國工業經濟年度十大傑出人物) granted by the Office for Election of Distinguished Persons for China's Industrial Economy (中國工業經濟年度人物評選辦公室) in 2006. Mr. Zhang Shi Quan is the father of Mr. Zhang Bao Yi and Ms. Zhang Lan Jun; father-in-law of Mr. Tang Hao Han; and elder brother of Mr. Zhang Shi Zhong, all are Directors of the Company. Mr. Zhang Shi Quan is also a director of Zhejiang Shibao Holding.

Mr. Zhang Bao Yi (張寶義), aged 39, is a vice Chairman and deputy general manager of the Company. He has a Bachelor's degree. From 1996 to 2004, he was appointed as production manager and the general manager of Zhejiang Shibao Steering successively. Since 2004, he has been appointed as vice Chairman and deputy general manager of the Company. Mr. Zhang Bao Yi was granted the title of "Labour Model" of Yiwu City (義烏市勞動模範) in 2004. Mr. Zhang Bao Yi is the son of Mr. Zhang Shi Quan.

Mr. Tang Hao Han (湯浩瀚), aged 44, is a vice Chairman and deputy general manager of the Company. He has a Doctor's degree and a qualification of senior professional manager of China. Mr. Tang Hao Han was a tutor at Nanjing College for Population Programme Management (南京人口管理幹部學院教師), a secretary, an assistant to general manager and head of general office concurrently and deputy general manager of Zhejiang Shibao Steering successively. Since 1998, Mr. Tang Hao Han has been appointed as the general manager of Siping Steering Gear Co., Ltd. ("Siping Steering"). Since 2004, he has been appointed as a vice Chairman and deputy general manager of the Company. Since 2008, he has been appointed the Chairman of Jilin Shibao. Mr. Tang Hao Han is currently a vice chairman of Siping City Federation of Industry and Commerce, a standing member of the 6th Term Committee of Siping People's Political Consultative Conference, an executive member of Jilin Province Federation of Industry and Commerce, a representative of the 8th Term of Jilin Province Party Congress, a representative of the 10th Term and 11th Term of Jilin People's Congress. Mr. Tang Hao Han was awarded the "Outstanding Entrepreneur of Jilin Province", "Labour Model of Jilin Province", "National Outstanding Youth Entrepreneur Leader", "Outstanding Entrepreneur of National Privately-Owned Technological Enterprises" and "National Labour Day Medal". Mr. Tang Hao Han is the son-in-law of Mr. Zhang Shi Quan.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhu Jie Rong (朱頡榕), aged 64, is a director and deputy general manager of the Company. He has a college's degree and is an engineer. Mr. Zhu Jie Rong was a manager of technical department of DMF(中國第二汽車廠) steering transmission company, a deputy plant manager of technical and a deputy chief engineer of automotive steering plant of Zhejiang Wanda Group and a deputy general manager of Zhejiang Shibao Steering successively. Since 2004, he was appointed as a director and deputy general manager of the Company. Mr. Zhu Jie Rong is also a supervisor of Zhejiang Shibao Holding.

Ms. Zhang Lan Jun (張蘭君), aged 37, is a director and deputy general manager of the Company. She has a master's degree. Ms. Zhang Lan Jun has over 10 years of experience in finance and accounting. She was a director of Hangzhou Shibao and a finance manager of Zhejiang Shibao Steering. Since 2004, she has been appointed as a director and deputy general manager of the Company and concurrently the finance manager of Hangzhou Shibao. Ms. Zhang Lan Jun is the daughter of Mr. Zhang Shi Quan.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Zhong(張世忠), aged 51, is a director of the Company. From 1990 to 1993, he was a deputy general manager of Qianjin Steering Gear Factory (前進方向機廠). From 1993 to 2004, he was a deputy general manager of Zhejiang Shibao Steering. Since 2004, he has been appointed as a director of the Company. Mr. Zhang Shi Zhong is the younger brother of Mr. Zhang Shi Quan.

Mr. Lou Run Zheng(樓潤正), aged 48, is a director of the Company. He was graduated from Open University of Hong Kong and has a master's degree. He was a tutor at faculty of agriculture machine of Zhejiang Agriculture University, a general manager of Zhejiang Yuanzheng Technology Industry Company, a standing deputy general manager of Zhejiang Yuanzheng Technology Industry Controlling Company, a vice president of Zhejiang University Yuanzheng Group successively. Since 2009, he has been the general manager of Zhejiang Yuan Zheng Hotel Management Co. Ltd. He was first appointed as a director of the Company on 4 November 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald (周錦榮), aged 49, is an independent director of the Company. He is a graduate of University of San Francisco, USA and has a master's degree. Mr. Chau Kam Wing, Donald has over 20 years' experience in corporate finance. He is a Fellow of the Association of Chartered Certified Accountants and a practising member of Hong Kong Institute of Certified Public Accountants. He is now practising as a Certified Public Accountant in Hong Kong and is a council member of the Society of Chinese Accountants & Auditors in Hong Kong. He is an independent director of China Water Affairs Group Limited and Carpenter Tan Holdings Limited (both are listed on the main board of the Stock Exchange); and an independent director of Eco-Tek Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange); a finance director of Winox Holdings Limited (a company listed on the main board of the Stock Exchange); a director and the general manager of Donald & Associates Consulting Services Limited; a director of Gold Concord (H.K.) Limited and Brilliant Concept Technologies Limited; and a partner of CC Alliance CPA & Co. He was first appointed as an independent director of the Company on 4 November 2009.

Mr. Zhao Chun Zhi (趙春智), aged 66, is an independent director of the Company. He is a senior economist. Mr. Zhao Chun Zhi was a manager and an assistant to general manager of FAW Forging Factory, a deputy general manager of FAW steering gear factory and the general manager of FAW Liao-Beng Factory (一汽遼泵廠) successively and retired in 2006. He was first appointed as an independent director of the Company on 5 June 2009.

Mr. Zhang Hong Zhi (張洪智), aged 46, is an independent director of the Company. He has a bachelor's degree and is an economist. Mr. Zhang Hong Zhi has over 20 years of experience in areas of banking, securities and investment. He was a manager of Bank of China, Minsheng Securities and Wuzhou Securities successively. He is a vice general manager of Henan Nanyang Cijan Auto Shock Absorber Co., Ltd. (河南南陽浙減汽車減震器有限公司) and a supervisor of Henan Honghui Technology Co., Ltd. (湖南鴻輝科技有限公司) currently. He was first appointed as an independent director of the Company on 20 June 2011.

Mr. Li Zi Biao (李自標), aged 66, is an independent director of the Company. He is a professor grade senior engineer. He was a vice section chief (副科長) and a vice chief engineer (副總工程師) in China Nanjing Automobile (Group) Corporation Steering Gear Plant (南京汽車集團公司轉向器廠) and retired in 2008. Since 1984, he has been a member and Deputy Director of the Association of Steering Technology under the Society of Automobile Engineers of China (中國汽車工程協會轉向技術分會委員及副主任). Since 1991, he has been Secretary-General of Steering Committee of the China Association of Automobile Manufacturers (中國汽車工業協會轉向器委員會秘書長) and Secretary-General of steering-net under CAIN (全國汽車經濟技術資訊網轉向專業網秘書長). Since 2008, he has been Standing Vice Secretary-General of Steering System Technical Sub-Committee of National Automotive Standardisation Technical Committee (全國汽車標準化技術委員會轉向系統技術委員分會常務秘書長). He was first appointed as an independent director of the Company on 10 February 2012.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Du Min (杜敏), aged 57, is the chairman of the Supervisory Committee of the Company. He has a bachelor's degree. Mr. Du Min was a section chief and a deputy directorial inspector of Bureau of Finance of Siping City. Since 2002, he was appointed as an assistant to general manager of Siping Steering. Since March 2007, he was appointed as the chairman of the Supervisory Committee of the Company.

Mr. Yang Di Shan (楊迪山), aged 74, is a supervisor of the Company. He has a bachelor's degree and is a senior engineer. Mr. Yang Di Shan was an engineer of R&D Center, deputy manager of chassis department and light car department of FAW Group (一汽集團) and retired from Changchun Auto Research Institute (長春汽車研究所) in 1998. He is a deputy general manager of Beijing Keguan Vehicle Hi-tech Development Co., Ltd. currently. Mr. Yang Di Shan has been appointed as a supervisor of the Company since 5 June 2009. Mr. Yang Di Shan is also director of Zhejiang Shibao Holding.

Mr. Wu Lang Ping (吳琅平), age 49, is a supervisor of the Company. He has a college degree. Mr. Wu Lang Ping was a chief controller of production of Qianjin Steering Gear Factory (前進方向機廠). Since 1993, he was appointed as a manager of production process of Hangzhou Shibao. Mr. Wu Lang Ping has been appointed as a supervisor of the Company since 5 June 2009.

Mr. Shen Song Sheng (沈松生), aged 75, is a supervisor of the Company. Mr. Shen Song Sheng was a staff of Hangzhou Hong Qi Spare Parts Factory (杭州紅旗汽車零部件廠) and sales manager of Hangzhou Shibao. He retired from the Company in 2009. Mr. Shen Song Sheng has been appointed as a supervisor of the Company since June 2004.

Mr. Wang Kui Quan (王奎泉), aged 48, is a supervisor of the Company. He has a master's degree. Mr. Wang Kui Quan was a tutor at Jiangxi University of Finance and Economics (江西財經大學) and a tutor at and vice president of Zhejiang School of Finance (浙江財經學校). He is a tutor and a director of the Development and Planning Office of Zhejiang University of Finance & Economics (浙江財經學院). Mr. Wang Kui Quan has been appointed as a supervisor of the Company since January 2005.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Yu Zhong Chao (虞忠潮), age 47, is a deputy general manager of the Company. He has a bachelor's degree and is an engineer. Mr. Yu Zhong Chao was a designer of automobile layout of DFM Hangzhou Automobile Company, a manager of purchase of DFM Nissan Diesel Automobile Co., Ltd., a vice president of Zhejiang Changxing Auto Leasing Sales Co., Ltd.. Since 2004, he was appointed as a deputy general manager of Hangzhou Shibao. Since 2006, he was appointed as a deputy general manager of the Company.

Ms. Liu Xiao Ping (劉曉平), age 41, is the Board secretary of the Company. She has a Master's degree. Ms. Liu Xiao Ping was a manager of overseas department of Beijing Kerui Group Co., Ltd., a manager of investors' relations department of Xiniao Gas Holding Co., Ltd., the head of general office of Zhejiang Shibao Holding. Since 2006, she was appointed as a director of securities and investment department of the Company. Since May 2011, she was appointed as the Board secretary of the Company.

COMPANY SECRETARY AS DEFINED BY THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

Ms. Huen Lai Chun (禰麗珍), aged 46, is the company secretary of the Company. She was appointed as the company secretary and authorised representative of the Company under the Listing Rules since May 2009. Ms. Huen Lai Chun is a Fellow of The Association of Chartered Certified Accountants, and an Associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Huen Lai Chun has over 10 years of professional experience in company secretarial work, professional auditing, accounting and financial management.

REPORT OF THE DIRECTORS

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group has committed itself to the research and development of automotive steering products and mainly engaged in the development, design, manufacture and sales of automotive steering gears and other key components and parts of steering system. The activities of its subsidiaries and associated companies are set out on page 89 and page 104 in the annual report respectively.

No segmental analysis by business and geographical segments is presented for the year and its explanation is set out on page 145 in the annual report.

RESULTS

Results and financial position of the Group for the year ended 31 December 2011 are set out on page 47 to page 50 in the annual report.

FINANCIAL SUMMARY

Summary of the Group's results and assets and liabilities for the past five financial years are set out on page 7 in the annual report.

FINAL DIVIDENDS

The Board recommended the payment of a final cash dividend of RMB0.10 per share (inclusive of applicable tax) for the year ended 31 December 2011 ("Final Dividend"), with a total amount of approximately RMB26,266,000. For distribution of the final cash dividends, cash dividends for holders of Domestic Shares will be distributed and paid in Renminbi, while cash dividends for holders of H Shares will be declared in Renminbi but paid in Hong Kong dollars (conversion rate of Renminbi into Hong Kong dollars shall be calculated on the average price of the conversion of Renminbi into Hong Kong dollars in five (5) days as announced by the People's Bank of China five (5) working days preceding 25 May 2012).

The Company will submit a proposal for the distribution of final cash dividends on the forthcoming annual general meeting. Subject to the approval by the shareholders, the Company is expected to distribute final cash dividends to shareholders, whose names are listed on the register of members as at Wednesday 30 May 2012 (the "Record Date"), on or about 22 June 2012. The register of members of the Company will be closed from Thursday, 31 May 2012 to Tuesday, 5 June 2012, both days inclusive, during which period no transfer of Shares of the Company will be registered. All transfers accompanied by the relevant H Share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares only) at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 30 May 2012.

The Company did not pay any interim dividends to shareholders for the year under review.

REPORT OF THE DIRECTORS

WITHHOLDING AND PAYMENT OF FINAL DIVIDEND INCOME TAX

Withholding and Payment of Enterprise Income Tax on behalf of Overseas Non-Resident Enterprises Shareholders

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes Final Dividend to non-resident enterprise holders of H shares (including any H shares registered in the name of HKSCC Nominees Limited).

Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementing rules as well as the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)) (the "Tax Notice"), the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of individual holders of H shares who are entitled to receive the Final Dividend ("Individual H Shareholders"):

- For Individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend;
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H share registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to competent tax authorities and, after their examination and approval, the Company will assist in refunding the excess amount of tax withheld and paid;
- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of the Individual H Shareholders in the distribution of Final Dividend; and

REPORT OF THE DIRECTORS

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the Individual H Shareholders in the distribution of Final Dividend.

Should the H shareholders of the Company have any doubt as to the aforesaid arrangements, they are recommended to consult their tax advisors on the relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of H shares of the Company.

DISTRIBUTABLE RESERVE

For the year ended 31 December 2011, the Group's distributable reserve is approximately RMB256,035,761.06 (2010: RMB176,929,012.57).

SHARE CAPITAL

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

CONVERTIBLE DEBENTURES

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

RESERVES

Reserves of the Group as at 31 December 2011, its preparation is based on PRC Accounting Standards for Business Enterprises, and its changes during the year are set out in the Consolidated Statement of Changes in Equity. Details of the relevant reserves are set out in note 30, 31, and 32 of the notes to the major items of the consolidated financial statements.

PROPERTIES, PLANT AND EQUIPMENT

Details of changes of the Group's properties, plant and equipment are set out in note 10 of the notes to the major items of the consolidated financial statements.

BANK AND OTHERS BORROWINGS

Details of the Group's bank and other borrowings are set out in note 17, 25, and 27 of the notes to the major items of the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Zhang Shi Quan (張世權) (*Chairman and General Manager*)

Mr. Zhang Bao Yi (張寶義)

Mr. Tang Hao Han (湯浩瀚)

Mr. Zhu Jie Rong (朱頡榕)

Ms. Zhang Lan Jun (張蘭君)

Non-executive Directors

Mr. Zhang Shi Zhong (張世忠)

Mr. Lou Run Zheng (樓潤正)

Ms. Zhang Mei Jun (張美君) (resigned on 20 June 2011)

Independent Non-executive Directors

Mr. Zhao Chun Zhi (趙春智)

Mr. Chau Kam Wing, Donald (周錦榮)

Mr. Zhang Hong Zhi (張洪智) (appointed on 20 June 2011)

Mr. Li Zi Biao (李自標) (appointed on 10 February 2012)

Mr. Chen Guo Feng (陳國峰) (resigned on 10 February 2012)

Supervisors

Mr. Du Min (杜敏)

Mr. Yang Di Shan (楊迪山)

Mr. Wu Lang Ping (吳琅平)

Mr. Shen Song Sheng (沈松生)

Mr. Wang Kui Quan (王奎泉)

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

REPORT OF THE DIRECTORS

None of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

The Company confirms that it has received annual letter of confirmation from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that they are independent as referred to in Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of Directors, Supervisors and the five highest paid employees are set out on page 165 to page 169 in the annual report.

STANDARDS FOR DETERMINING THE REMUNERATION OF DIRECTORS AND SUPERVISORS

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

CONNECTED PARTY TRANSACTIONS

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 wife 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 issued shares of the Company. Pursuant to Chapter 14A of the Listing Rules, the Seller is the 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 transactions are required to comply with the reporting and announcement requirements contained in Chapter 20 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

REPORT OF THE DIRECTORS

holds 99% and 1% of the equity interest in the Target Company respectively. The Consideration is decided through fare negotiation between the Company and the Seller take 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, in relation to the related party transactions as set out in Note 8 in the annual report, the Board has confirmed that during the year under review these transactions (other than the sale of goods to and purchase of goods from Wuhu Sterling, an associate of the Company) constitute connected transactions within the meaning of the Listing Rules, however, such transactions are intra-group transactions exempted under Rule 14A.31(1) of the Listing Rules from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

Apart from the above transaction, for the year ended 31 December 2011, the Group has no transaction which required to be made connected transaction disclosures under the Listing Rules.

REPORT OF THE DIRECTORS

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 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 interests or short positions which are required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Exchange were as follows:

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

| Name of Director | Capacity | Number of Domestic Shares | Approximate percentage of shareholding in same class of shares | Approximate percentage in the Company's total issued share capital |
|-------------------------------------|--|---------------------------|--|--|
| Mr. Zhang Shi Quan ("Mr. Zhang") | Interest in a controlled corporation (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, the ultimate holding company of the Company, which in turn holds 165,387,223 Domestic Shares. As Mr. Zhang is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in all of the 165,387,223 Domestic Shares held by Zhejiang Shibao Holding.
- (2) Mr. Zhang himself has acquired from eight nature persons, i.e., 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 Share with a nominal value of RMB1.00 each, representing approximately 4.02% of the issued capital of the Company as at the date of 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.

REPORT OF THE DIRECTORS

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

- (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.

REPORT OF THE DIRECTORS

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

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

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

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

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

REPORT OF THE DIRECTORS

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (continued)

- (5) Long positions in the registered capital of a fellow subsidiary of the Company, 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 Shibao |
|------------------|--------------------------------------|--|--|
| Mr. Zhang | Interest in a controlled corporation | RMB10,000,000 | 100% |

Note: Anhui Changshan, a subsidiary of Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 100% by Zhejiang Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 100% interest directly held by Zhejiang Shibao Holding in Anhui Changshan.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the Exchange pursuant to the Division 7 & 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Exchange.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As of 31 December 2011, so far as is known to the Directors, Supervisors or Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

| Name of Shareholder | Capacity | Number and class of Shares | Approximate percentage of shareholding in same class of Shares | Approximate percentage in the Company's total issued share capital |
|----------------------------|---|--------------------------------|--|--|
| Zhejiang Shibao Holding | Beneficial owner (Note 1&3) | 165,387,223 Domestic Shares | 94.00% | 62.97% |
| Mr. Zhang | Interest in 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 Weirong (Mr. Gu) | Beneficial owner | 4,432,000 H Shares | 5.11% | 1.69% |

Note:

- (1) As at 31 December 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 himself has acquired from eight nature persons, i.e., 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 Share with a nominal value of RMB1.00 each, representing approximately 4.02% of the issued capital of the Company as at the date of 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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2011, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

For the year ended 31 December 2011, the Company has not implemented any share option scheme.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed above in the service contracts of directors, no contract of significance to which the Company, any of its subsidiaries, its controlling shareholder or any of its subsidiaries was a party and in which the Directors were directly and indirectly materially interested subsisted at the end of the year or at any time during the year.

EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2011, the Group had a total of 1,605 employees. For the year ended 31 December 2011, total salaries and welfares of the employees amounted to RMB66,452,998.00 (2010: RMB62,957,000.00). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

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

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2011.

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

REPORT OF THE DIRECTORS

COMPETING INTERESTS

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, purchases attributable to the Group's five largest suppliers and revenue attributable to the five largest customers represented approximately 34.32% and 69.53% of the Group's total purchases and total revenue respectively. In addition, the largest supplier and the largest customer represented approximately 22.28% and 26.33% of the Group's total purchases and revenue respectively.

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

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 26 April 2006 and has stipulated written terms of reference for the Audit Committee. 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. Chau Kam Wing, Donald, Mr. Zhang Hong Zhi and Mr. Zhang Shi Zhong. Mr. Chau Kam Wing, Donald and Mr. Zhang Hong Zhi 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 Company's financial statements for the year ended 31 December 2011 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 26 April 2006 and has stipulated written terms of reference for the Remuneration Committee. The principal duties of the Remuneration Committee include (i) making recommendations to the Board on the remuneration policies and structure for the Directors and senior management of the Company; (ii) setting up a formal and transparent procedure for determination of such remuneration policies; and (iii) evaluating performances and formulating the remuneration policies based on such evaluations.

REPORT OF THE DIRECTORS

The Remuneration Committee consists of three members, comprising Mr. Chau Kam Wing, Donald, Mr. Zhang Hong Zhi and Mr. Zhang Shi Zhong. Mr. Chau Kam Wing, Donald and Mr. Zhang Hong Zhi are independent non-executive Directors and Mr. Zhang Shi Zhong is a non-executive Director. The Chairman of the Remuneration Committee is Mr. Chau Kam Wing, Donald.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 13 May 2011 and has stipulated written terms of reference for the Nomination Committee. The principal duties of the Nomination Committee include (i) study the standards and processes of the selection of directors, general manager and other senior executives, and make suggestions to the Board; (ii) look for qualified candidates of directors, general manager and other senior executives extensively; and (iii) examine and make suggestions on the candidates of directors, general manager and other senior executives.

The Nomination Committee consists of three members, comprising Mr. Chau Kam Wing, Donald, Mr. Zhao Chun Zhi and Ms. Zhang Lan Jun. Mr. Chau Kam Wing, Donald and Mr. Zhao Chun Zhi are independent non-executive Directors and Ms. Zhang Lan Jun is an executive Director. The Chairman of the Nomination Committee is Mr. Chau Kam Wing, Donald.

THE MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company 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 year under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 have purchased, sold or redeemed any listed shares of the Company.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, as at the date of this report, the Company is in compliance with the Listing Rules which required at least 25% of the total issued share capital of the Company be held by the public.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out on page 39 to page 44 in the annual report.

AUDITORS

As set out in the company's announcement dated 12 August 2011, based on the acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms by the Stock Exchange, 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 Listing Rules. Ernst & Young has tendered its resignation letter to resign as international auditors of the Company on 12 August 2011. Ernst & Young Hua Ming, the current domestic auditors of the Company is taken over from the international auditors all responsibilities under the Listing Rules, includes but not limited to the preliminary announcement of annual results and annual audit of continuing connected transactions. Ernst & Young has confirmed that there were no matters regarding its resignation that need to be brought to the attention of the shareholders of the Company. The Board confirms that there is no matter regarding the resignation of Ernst & Young that needs to be brought to the attention of the shareholders of the Company. The Board and the audit committee of the Company confirmed that there were no disagreement among the Company and Ernst & Young regarding the resignation of Ernst & Young.

The financial statements for the year ended 31 December 2011 have been audited by Ernst & Young Hua Ming. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Ernst & Young Hua Ming as the Company's auditor.

By order of the Board

Zhang Shi Quan

Chairman

Hangzhou, Zhejiang, the PRC

16 March 2012

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

For the year 2011, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the Listing Rules of GEM and the Listing Rules of Main Board, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

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

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of shareholders and made great efforts for better operating results of the company in 2011. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company has been discovered during the discharge of their duties. The Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2011 prepared by Ernst & Young Hua Ming based on PRC Accounting Standards for Business Enterprises, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

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

By order of the Supervisory Committee

Du Min

Convenor of the Supervisory Committee

Hangzhou, Zhejiang, the PRC

16 March 2012

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2011, the Group had been in compliance with majority of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules by adopting a compliance manual that requires compliance with, amongst others, the Code on Corporate Governance Practices. This report describes its corporate governance practices, and explains the application of and deviation (if any) from the principles of the Code on Corporate Governance Practices.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company 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 year under review.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD AND BOARD PRACTICES

The Board comprises eleven Directors, of which five are executive Directors, two are non-executive Directors and four are independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

The Board holds regular board meetings at least four times each year. For the year under review, the Board held fourteen meetings in total. Records of Directors' attendance in Board meetings during the year under review are as follows:

| | Number of attendance in the whole year |
|--|---|
| Executive Directors | |
| Mr. Zhang Shi Quan (<i>Chairman and General Manager</i>) | 14/14 |
| Mr. Zhang Bao Yi | 14/14 |
| Mr. Tang Hao Han | 14/14 |
| Mr. Zhu Jie Rong | 13/14 |
| Ms. Zhang Lan Jun | 14/14 |
| Non-executive Directors | |
| Mr. Zhang Shi Zhong | 14/14 |
| Mr. Lou Run Zheng | 13/14 |
| Ms. Zhang Mei Jun | (resigned on 20 June 2011) 7/14 |
| Independent Non-executive Directors | |
| Mr. Zhao Chun Zhi | 13/14 |
| Mr. Chau Kam Wing, Donald | 13/14 |
| Mr. Zhang Hong Zhi | (appointed on 20 June 2011) 5/14 |
| Mr. Li Zi Biao | (appointed on 10 February 2012) Nil |
| Mr. Chen Guo Feng | (resigned on 10 February 2012) 13/14 |

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

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

The Company has fully complied with Rule 3.10(1) and (2) of the Listing Rules, and has appointed four independent non-executive Directors, of which at least one possesses appropriate professional qualification or accounting or related financial management expertise. The Board considers that all the independent non-executive Directors are independent parties under Rule 3.13 of the Listing Rules, and has received annual independence confirmation letters from each of the independent non-executive Directors as required by the Listing Rules.

CORPORATE GOVERNANCE REPORT

Mr. Zhang Shi Zhong (a non-executive Director of the Company) is the younger brother of Mr. Zhang Shi Quan (Chairman and General Manager of the Company). Mr. Zhang Bao Yi (an executive Director of the Company) is the son of Mr. Zhang Shi Quan (Chairman of the Company). Ms. Zhang Lan Jun (an executive Director of the Company) and Ms. Zhang Mei Jun (resigned as a non-executive Director of the Company on 20 June 2011) are daughters of Mr. Zhang Shi Quan (Chairman of the Company). Mr. Tang Hao Han (an executive Director of the Company) is husband of Ms. Zhang Mei Jun (resigned as a non-executive Director of the Company on 20 June 2011) and the son-in-law of the Mr. Zhang Shi Quan (Chairman of the Company). Save for the above, there is no other financial, business, family or material relationship between the members of the Board.

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE

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

INTERNAL CONTROL

An effective internal control system is very important for the protection of the Group's assets and shareholders' investments, ensuring the reliability of financial information announcements and compliance with the Listing Rules. The Board is also aware of its responsibility towards the Group's internal control, financial control and risk management, and its responsibility of supervising the efficiency from time to time.

The Internal Audit Team of the Group carried out reviews and submitted report on the internal control system of the Group in 2011. The scope of the review covered all important aspects of the control, including the control in finance, operation, compliance and risk management, as well as the adequacy of resources, qualifications and experience of staffs of the Group's accounting and financial reporting function, and their training programs and budget. With reference to the assessment made by the Audit Committee on the report of internal control submitted by the Internal Audit Team, the Board considered that the existing internal control system is sufficient and effective.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company set up the Remuneration Committee on 26 April 2006 and has stipulated written terms of reference for the Remuneration Committee. The main duties of the Remuneration Committee include (i) propose to the Board in respect of the remuneration policy and structure of the Company's directors and senior management; (ii) set up a formal and transparent procedure for the determination of such remuneration policy; and (iii) assess performances and set up remuneration policy based on such assessment.

During the year under review, the Remuneration Committee comprises three members, comprising Mr. Chau Kam Wing, Donald (independent non-executive Director), Mr. Chen Guo Feng (independent non-executive Director, resigned on 10 February 2012), Mr. Zhang Shi Zhong (non-executive Director, appointed on 20 June 2011) and Ms. Zhang Mei Jun (non-executive Director, resigned on 20 June 2011). The Chairman of the Remuneration Committee is Mr. Chau Kam Wing, Donald (independent non-executive Director). During the year under review, the Remuneration Committee held one meeting to review the remuneration packages of Directors and Supervisors, and records of attendance of members of the committee in the meeting of the Remuneration Committee are as follows:

| | | Number of attendance in the whole year |
|---------------------------|---------------------------------|---|
| Mr. Chau Kam Wing, Donald | | 1/1 |
| Mr. Zhang Shi Zhong | (appointed on 20 June 2011) | 1/1 |
| Mr. Zhang Hong Zhi | (appointed on 10 February 2012) | Nil |
| Ms. Zhang Mei Jun | (resigned on 20 June 2011) | 0/0 |
| Mr. Chen Guo Feng | (resigned on 10 February 2012) | 1/1 |

NOMINATION COMMITTEE

The Company established the Nomination Committee on 13 May 2011 and has stipulated written terms of reference for the Nomination Committee. The principal duties of the Nomination Committee include (i) study the standards and processes of the selection of directors, general manager and other senior executives, and make suggestions to the Board; (ii) look for qualified candidates of directors, general manager and other senior executives extensively; and (iii) examine and make suggestions on the candidates of directors, general manager and other senior executives.

CORPORATE GOVERNANCE REPORT

The Nomination Committee consists of three members, comprising Mr. Chau Kam Wing, Donald, Mr. Zhao Chun Zhi and Ms. Zhang Lan Jun. Mr. Chau Kam Wing, Donald and Mr. Zhao Chun Zhi are independent non-executive Directors and Ms. Zhang Lan Jun is an executive Director. The Chairman of the Nomination Committee is Mr. Chau Kam Wing, Donald (independent non-executive Director). During the year under review, the Nomination Committee held one meeting to examine and make suggestions on director candidates. Records of attendance of members of the committee in the meeting of the Nomination Committee are as follows:

| | Number of attendance in the whole year |
|---------------------------|---|
| Mr. Chau Kam Wing, Donald | 1/1 |
| Mr. Zhao Chun Zhi | 1/1 |
| Ms. Zhang Lan Jun | 1/1 |

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five members, Mr. Du Min, Mr. Yang Di Shan, Mr. Wu Lang Ping, Mr. Shen Song Sheng and Mr. Wang Kui Quan, and Mr. Du Min is the chairman of the Supervisory Committee.

The establishment of the Supervisory Committee is in compliance with the Company Law of the PRC. Each of the Supervisors have made their best efforts to discharge their duties, and effectively supervise whether the financial matters of the Company are in compliance with the laws and regulatory requirements, and supervise the Directors and senior management in performing their duties.

REMUNERATION OF THE AUDITORS

Remuneration received by Ernst & Young Hua Ming, the auditors of the Company, in respect of their audit services for the year ended 31 December 2011 was approximately RMB1,200,000. The auditors did not provide any non-audit services in 2011.

AUDIT COMMITTEE

The Company established the Audit Committee on 26 April 2006 and has stipulated written terms of reference for the Audit Committee. The main responsibilities of the Audit Committee are to provide proposals to the Board in respect of the appointment and removal of external auditors, approve the remuneration and appointment terms of external auditors, review financial information and supervise financial reporting system and internal control procedures. The Committee shall also supervise the Company's progress on the implementation of the provisions under the Code on Corporate Governance Practices as required by the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the year under review, the Audit Committee comprises three members, who are Mr. Chau Kam Wing, Donald (independent non-executive director), Mr. Chen Guo Feng (independent non-executive director, resigned on 10 February 2012), Mr. Zhang Shi Zhong (non-executive director, appointed on 20 June 2011) and Ms. Zhang Mei Jun (non-executive director, resigned on 20 June 2011). Mr. Chau Kam Wing, Donald (independent non-executive Director) is the Chairman of the Audit Committee.

The Group's unaudited interim results for the six months ended 30 June 2011 had been reviewed by the Audit Committee, and the Audit Committee considers that these reports had been prepared in compliance with the relevant accounting standards and provisions. The Group's audited consolidated results for the year ended 31 December 2011 had also been reviewed by the Audit Committee. In addition, the Audit Committee had reviewed the system of internal control in 2011.

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

| | | Number of attendance in the whole year |
|---------------------------|---------------------------------|---|
| Mr. Chau Kam Wing, Donald | | 2/2 |
| Mr. Zhang Shi Zhong | (appointed on 20 June 2011) | 1/2 |
| Mr. Zhang Hong Zhi | (appointed on 10 February 2012) | Nil |
| Mr. Chen Guo Feng | (resigned on 10 February 2012) | 2/2 |
| Ms. Zhang Mei Jun | (resigned on 20 June 2011) | 1/2 |

RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

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

Statements of the Company's auditors in respect of their reporting responsibilities on the Group's financial statements are set out on page 45 of the Auditors' Report in this annual report.

RELATIONSHIP WITH SHAREHOLDERS

The Group has undertaken to maintain the highest level of transparency, and to apply the policy of making public and timely disclosures of the relevant information to shareholders. The Company also maintains communications with shareholder through its annual reports and interim reports.

RELATIONSHIP WITH INVESTORS

The Group regularly met with analysts and attended various forums, so as to strengthen relationship with the investment sector.

AUDITORS' REPORT

(English Translation for Reference Only)



Ernst & Young Hua Ming (2012) Shen Zi No. 60468008_B02

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

We have audited the accompanying financial statements of Zhejiang Shibao Company Limited, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and the notes to the financial statements.

I. Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

II. Certified Public Accountants' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

AUDITORS' REPORT

(English Translation for Reference Only)

III. Opinion

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company financial position of Zhejiang Shibao Company Limited as at 31 December 2011 and the consolidated and company financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming
Beijing, the People's Republic of China

Chinese Certified Public Accountant: Qian Jiang
Chinese Certified Public Accountant: Yi Fan

16 March 2012

CONSOLIDATED BALANCE SHEET

31 December 2011

RMB Yuan

(English Translation for Reference Only)

| Assets | Note 5 | 31 December 2011 | 31 December 2010 |
|------------------------------|--------|--------------------------------|------------------------------|
| Current Assets | | | |
| Cash | 1 | 43,234,111.34 | 65,301,493.65 |
| Notes receivable | 2 | 137,538,266.04 | 60,152,693.51 |
| Accounts receivable | 3 | 203,618,895.42 | 127,888,570.64 |
| Prepayments | 4 | 6,354,952.61 | 6,971,004.76 |
| Other receivables | 5 | 9,216,366.98 | 3,914,239.70 |
| Inventories | 6 | 122,418,117.92 | 138,006,793.84 |
| Other current assets | 7 | 1,876,410.23 | 1,004,992.67 |
| Total current assets | | <u>524,257,120.54</u> | <u>403,239,788.77</u> |
| Non-current Assets | | | |
| Long-term equity investments | 9 | 11,696,900.10 | 6,615,273.15 |
| Fixed assets | 10 | 290,304,220.05 | 282,301,214.46 |
| Construction in progress | 11 | 140,976,414.81 | 12,297,067.81 |
| Intangible assets | 12 | 74,352,887.70 | 78,640,983.02 |
| Goodwill | 13 | — | — |
| Deferred tax assets | 14 | 1,525,065.14 | 3,696,580.97 |
| Other non-current assets | 15 | 8,239,189.54 | 24,226,795.00 |
| Total non-current assets | | <u>527,094,677.34</u> | <u>407,777,914.41</u> |
| Total Assets | | <u><u>1,051,351,797.88</u></u> | <u><u>811,017,703.18</u></u> |

CONSOLIDATED BALANCE SHEET (continued)

31 December 2011

RMB Yuan

(English Translation for Reference Only)

| Liabilities and Shareholders' Equity | Note 5 | 31 December 2011 | 31 December 2010 |
|---|--------|-----------------------|-----------------------|
| Current Liabilities | | | |
| Short-term loans | 17 | 114,079,832.00 | 30,000,000.00 |
| Notes payable | 18 | 14,771,590.00 | 14,730,000.00 |
| Accounts payable | 19 | 165,119,836.40 | 119,447,751.59 |
| Advance from customers | 20 | 2,235,262.83 | 1,104,151.26 |
| Employee benefits payable | 21 | 3,524,754.51 | 8,737,908.35 |
| Taxes payable | 22 | 5,743,037.16 | 12,958,662.68 |
| Interests payable | 23 | 1,366,471.76 | 1,167,729.19 |
| Other payables | 24 | 951,788.17 | 3,721,551.24 |
| Non-current liabilities due within one year | 25 | 13,000,000.00 | 5,000,000.00 |
| Other current liabilities | 26 | 10,653,379.56 | 10,644,849.00 |
| Total current liabilities | | <u>331,445,952.39</u> | <u>207,512,603.31</u> |
| Non-current Liabilities | | | |
| Long-term borrowings | 27 | 30,020,400.00 | 20,090,000.00 |
| Deferred tax liabilities | 14 | 1,698,208.33 | 1,890,458.33 |
| Other non-current liabilities | 28 | 26,202,378.62 | 4,748,573.33 |
| Total non-current liabilities | | <u>57,920,986.95</u> | <u>26,729,031.66</u> |
| Total Liabilities | | <u>389,366,939.34</u> | <u>234,241,634.97</u> |

CONSOLIDATED BALANCE SHEET *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | | 31 December 2011 | 31 December 2010 |
|---|--------|-------------------------|-----------------------|
| Liabilities and Shareholders' Equity | Note 5 | | |
| Owners' Equity | | | |
| Share capital | 29 | 262,657,855.00 | 262,657,855.00 |
| Capital reserve | 30 | 27,587,397.23 | 27,500,772.59 |
| Surplus reserve | 31 | 95,087,541.52 | 84,961,353.85 |
| Retained earnings | 32 | 256,035,761.06 | 176,929,012.57 |
| | | <u>641,368,554.81</u> | <u>552,048,994.01</u> |
| Equity attributable to equity holders of the Parent | | | |
| Minority interests | 33 | 20,616,303.73 | 24,727,074.20 |
| | | <u>661,984,858.54</u> | <u>576,776,068.21</u> |
| Total Owners' Equity | | | |
| | | <u>661,984,858.54</u> | <u>576,776,068.21</u> |
| Total Liabilities and Owners' Equity | | <u>1,051,351,797.88</u> | <u>811,017,703.18</u> |

Signature:

Legal representative:

Finance director:

Finance manager:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | Note 5 | 2011 | 2010 |
|---|--------|----------------|----------------|
| Revenue | 34 | 625,917,119.21 | 545,943,926.52 |
| Less: Cost of sales | 34 | 403,887,118.40 | 349,894,180.37 |
| Sales taxes and surcharges | 35 | 5,156,884.62 | 1,599,061.69 |
| Selling expenses | 36 | 35,881,539.03 | 37,508,370.58 |
| General and administrative expenses | 37 | 54,553,179.60 | 43,877,501.37 |
| Financial expenses | 38 | 5,694,893.68 | 516,006.87 |
| Provision for assets impairment | 39 | (1,014,037.16) | (1,522,528.50) |
| Add: Investment gains /(losses) | 40 | (127,683.62) | 1,146,008.13 |
| Including: Share of gains /(losses) from associates | | (127,683.62) | 1,146,008.13 |
| Operating profit | | 121,629,857.42 | 115,217,342.27 |
| Add: Non-operating income | 41 | 5,406,050.02 | 4,469,816.98 |
| Less: Non-operating expenses | 42 | 1,141,411.63 | 1,025,627.63 |
| Including: Loss on disposal of non-current assets | | 318,526.97 | 126,458.03 |
| Total profit | | 125,894,495.81 | 118,661,531.62 |
| Less: Income tax expenses | 43 | 15,246,498.53 | 14,322,382.30 |
| Net profit | | 110,647,997.28 | 104,339,149.32 |
| Net profit attributable to equity holders of the Parent | | 112,872,143.11 | 103,403,049.81 |
| Minority interests | | (2,224,145.83) | 936,099.51 |
| Earnings per share | | | |
| Basic earnings per share | 44 | 0.43 | 0.39 |
| Diluted earnings per share | 44 | 0.43 | 0.39 |
| Other comprehensive income | | — | — |
| Total comprehensive income | | 110,647,997.28 | 104,339,149.32 |
| Including: | | | |
| Total comprehensive income attributable to equity holders of the Parent | | 112,872,143.11 | 103,403,049.81 |
| Total comprehensive income attributable to minority shareholders | | (2,224,145.83) | 936,099.51 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | 2011 | | | | | | Total Owners' equity |
|--|----------------|--|-----------------|-------------------|-----------------|--------------------|-------------------------|
| | Share capital | Attributable to equity holders of the Parent | | | Sub-total | Minority interests | |
| | | Capital reserve | Surplus reserve | Retained earnings | | | |
| 1. Balance at the beginning of year | 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. Movements during the year | | | | | | | |
| (1) Net profit | — | — | — | 112,872,143.11 | 112,872,143.11 | (2,224,145.83) | 110,647,997.28 |
| (2) Other comprehensive income | — | — | — | — | — | — | — |
| Total comprehensive income | — | — | — | 112,872,143.11 | 112,872,143.11 | (2,224,145.83) | 110,647,997.28 |
| (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. Surplus reserve | — | — | 10,126,187.67 | (10,126,187.67) | — | — | — |
| b. Distribution to shareholders | — | — | — | (23,639,206.95) | (23,639,206.95) | (650,000.00) | (24,289,206.95) |
| 3. Balance at the end of year | 262,657,855.00 | 27,587,397.23 | 95,087,541.52 | 256,035,761.06 | 641,368,554.81 | 20,616,303.73 | 661,984,858.54 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | 2010 | | | | | | | Total Owners' equity |
|---|-----------------------|--|----------------------|-----------------------|-----------------------|----------------------|-----------------------|-------------------------|
| | Share capital | Attributable to equity holders of the Parent | | | Subtotal | Minority interests | | |
| | | Capital reserve | Surplus reserve | Retained earnings | | | | |
| 1. Balance at the beginning of year | 262,657,855.00 | 26,879,156.19 | 69,233,445.61 | 107,639,921.00 | 466,410,377.80 | 4,088,888.59 | 470,499,266.39 | |
| 2. Movements during the year | | | | | | | | |
| (1) Net profit | — | — | — | 103,403,049.81 | 103,403,049.81 | 936,099.51 | 104,339,149.32 | |
| (2) Other comprehensive income | — | — | — | — | — | — | — | |
| Total comprehensive income | — | — | — | 103,403,049.81 | 103,403,049.81 | 936,099.51 | 104,339,149.32 | |
| (3) Contribution by shareholders and decrease in capital | | | | | | | | |
| a. Purchase of minority interests in subsidiaries | — | — | — | — | — | 2,923,702.50 | 2,923,702.50 | |
| b. Increase in registered capital by minority interests in subsidiaries | — | 621,616.40 | — | — | 621,616.40 | 17,378,383.60 | 18,000,000.00 | |
| (4) Appropriation of profits | | | | | | | | |
| a. Transfer to statutory reserve funds | — | — | 15,727,908.24 | (15,727,908.24) | — | — | — | |
| b. Distribution to shareholders | — | — | — | (18,386,050.00) | (18,386,050.00) | (600,000.00) | (18,986,050.00) | |
| 3. Balance at the end of year | <u>262,657,855.00</u> | <u>27,500,772.59</u> | <u>84,961,353.85</u> | <u>176,929,012.57</u> | <u>552,048,994.01</u> | <u>24,727,074.20</u> | <u>576,776,068.21</u> | |

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | Note 5 | 2011 | 2010 |
|---|--------|------------------|-----------------|
| 1. Cash flows from operating activities | | | |
| Cash received from sale of goods or rendering of services | | 610,777,602.75 | 613,445,192.44 |
| Cash received relating to other operating activities | 45 | 18,246,017.93 | 2,951,630.72 |
| Sub-total of cash inflows from operating activities | | 629,023,620.68 | 616,396,823.16 |
| Cash paid for goods and services | | 391,331,440.54 | 395,581,613.39 |
| Cash paid to and on behalf of employees | | 64,110,244.73 | 46,001,868.68 |
| Cash paid for taxes and levies | | 61,961,709.17 | 45,853,664.85 |
| Cash paid relating to other operating activities | 45 | 66,661,925.83 | 62,216,556.21 |
| Sub-total of cash outflows from operating activities | | 584,065,320.27 | 549,653,703.13 |
| Net cash flows from operating activities | 46 | 44,958,300.41 | 66,743,120.03 |
| 2. Cash flows from investing activities | | | |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | 334,729.87 | 717,453.12 |
| Cash received relating to other investing activities | 45 | 25,780,761.72 | 791,368.76 |
| Sub-total of cash inflows from investing activities | | 26,115,491.59 | 1,508,821.88 |
| Cash paid for acquisition of fixed assets, intangible assets and other long term assets | | 142,167,862.11 | 75,978,069.24 |
| Cash paid for acquisition of an associate | | 4,840,000.00 | — |
| Net cash paid for acquisition of a subsidiary | 46 | — | 6,191,967.16 |
| Net cash paid for purchase of minority interests in a subsidiary | | 1,150,000.00 | — |
| Sub-total of cash outflows from investing activities | | 148,157,862.11 | 82,170,036.40 |
| Net cash flows used in investing activities | | (122,042,370.52) | (80,661,214.52) |

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | Note 5 | 2011 | 2010 |
|--|--------|----------------|---------------|
| 3. Cash flows from financing activities | | | |
| Cash received from borrowings | | 190,600,000.00 | 50,000,000.00 |
| Sub-total of cash inflows from financial activities | | 190,600,000.00 | 50,000,000.00 |
| Cash paid for debt repayments | | 88,589,768.00 | — |
| Cash payments for distribution of dividends, profit or interest expenses | | 30,818,188.55 | 19,952,427.43 |
| <i>Including: dividends and profit to minority interests by a subsidiary</i> | | 650,000.00 | 600,000.00 |
| Cash paid relating to other financing activities | | 2,334,256.76 | — |
| Sub-total of cash outflows from financing activities | | 121,742,213.31 | 19,952,427.43 |
| Net cash flow froms financing activities | | 68,857,786.96 | 30,047,572.57 |
| 4. Effect of changes in foreign exchange rates on cash and cash equivalents | | — | — |
| 5. Net Increase/ (decrease) in cash and cash equivalents | | (8,226,283.42) | 16,129,478.08 |
| Add: cash and cash equivalents at beginning of year | | 48,938,264.15 | 32,808,786.07 |
| 6. Cash and cash equivalents at end of year | 46 | 40,711,980.73 | 48,938,264.15 |

BALANCE SHEET

31 December 2011

RMB Yuan

(English Translation for Reference Only)

| Assets | Note 7 | 31 December 2011 | 31 December 2010 |
|------------------------------|--------|------------------------------|------------------------------|
| Current Assets | | | |
| Cash | | 997,762.45 | 628,878.36 |
| Notes receivable | | 350,000.00 | 310,000.00 |
| Accounts receivable | 1 | 18,242,228.66 | 17,307,693.08 |
| Prepayments | | 48,575.75 | 303,797.16 |
| Other receivables | 2 | 223,681,859.79 | 193,304,212.19 |
| Inventories | | 5,872,699.92 | 6,061,516.05 |
| Other current assets | | 41,813.34 | 29,356.14 |
| Total current assets | | <u>249,234,939.91</u> | <u>217,945,452.98</u> |
| Non-current Assets | | | |
| Long-term equity investments | 3 | 139,696,900.10 | 134,079,378.10 |
| Fixed assets | | 6,567,783.15 | 6,956,455.50 |
| Intangible assets | | 5,613,713.08 | 5,786,359.12 |
| Deferred tax assets | | 125,580.45 | 155,252.97 |
| Total non-current assets | | <u>152,003,976.78</u> | <u>146,977,445.69</u> |
| Total Assets | | <u><u>401,238,916.69</u></u> | <u><u>364,922,898.67</u></u> |

BALANCE SHEET (continued)

31 December 2011

RMB Yuan

(English Translation for Reference Only)

| Assets | Note 7 | 31 December 2011 | 31 December 2010 |
|---|--------|------------------------------|------------------------------|
| Current Liabilities | | | |
| Short-term loans | | 55,000,000.00 | 20,000,000.00 |
| Accounts payable | | 6,097,383.53 | 5,542,381.54 |
| Advance from customers | | 91,100.00 | 73,534.00 |
| Employee benefits payable | | 638,263.53 | 962,564.69 |
| Taxes payable | | (18,414.33) | 249,772.73 |
| Interests payable | | 163,848.82 | 51,359.75 |
| Other payables | | 682,672.00 | 7,806,169.70 |
| Other current liabilities | | 1,200,000.00 | 400,000.00 |
| Total current liabilities | | <u>63,854,853.55</u> | <u>35,085,782.41</u> |
| Total Liabilities | | <u>63,854,853.55</u> | <u>35,085,782.41</u> |
| Owners' Equity | | | |
| Share capital | | 262,657,855.00 | 262,657,855.00 |
| Capital reserve | | 26,879,156.19 | 26,879,156.19 |
| Surplus reserve | | 49,368,130.86 | 46,249,515.48 |
| Accumulated losses | | (1,521,078.91) | (5,949,410.41) |
| Total Owners' Equity | | <u>337,384,063.14</u> | <u>329,837,116.26</u> |
| Total Liabilities and Owners' Equity | | <u><u>401,238,916.69</u></u> | <u><u>364,922,898.67</u></u> |

INCOME STATEMENT

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | Note 7 | 2011 | 2010 |
|---|--------|---------------|---------------|
| Revenue | 4 | 46,431,236.29 | 44,644,895.85 |
| Less: Operating costs | 4 | 35,782,492.96 | 37,654,232.91 |
| Business taxes and surcharges | | 240,323.76 | 94,031.49 |
| Selling expenses | | 391,652.40 | 548,074.78 |
| General and administrative expenses | | 7,923,195.26 | 5,604,259.97 |
| Financial expenses | | 2,371,040.09 | 87,124.36 |
| Provision for assets impairment | | 148,578.58 | — |
| Add: Investment gains | 5 | 28,907,586.00 | 21,046,008.13 |
| Including: Share of gains /(losses) from associates | | (942,414.00) | 1,146,008.13 |
| Operating profit | | 28,481,539.24 | 21,703,180.47 |
| Add: Non-operating income | | 3,485,402.51 | 321,522.04 |
| Less: Non-operating expenses | | 5,827.31 | 8,197.26 |
| Total profit | | 31,961,114.44 | 22,016,505.25 |
| Less: Income tax expenses | | 774,960.61 | 242,731.19 |
| Net Profit | | 31,186,153.83 | 21,773,774.06 |
| Other comprehensive income | | — | — |
| Total comprehensive income | | 31,186,153.83 | 21,773,774.06 |

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | 2011 | | | | Total shareholders' equity |
|--|-----------------------|----------------------|----------------------------|-----------------------|-------------------------------|
| | Share capital | Capital reserve | Statutory reserve funds | Accumulated losses | |
| 1. Balance at the beginning of year | 262,657,855.00 | 26,879,156.19 | 46,249,515.48 | (5,949,410.41) | 329,837,116.26 |
| 2. Movements in current year | | | | | |
| (1) Net profit | — | — | — | 31,186,153.83 | 31,186,153.83 |
| (2) Other comprehensive income | — | — | — | — | — |
| Total comprehensive income | — | — | — | 31,186,153.83 | 31,186,153.83 |
| (3) Appropriation of profits | | | | | |
| a. Surplus reserve | — | — | 3,118,615.38 | (3,118,615.38) | — |
| b. Distribution to shareholders | — | — | — | (23,639,206.95) | (23,639,206.95) |
| 3. Balance at the end of year | <u>262,657,855.00</u> | <u>26,879,156.19</u> | <u>49,368,130.86</u> | <u>(1,521,078.91)</u> | <u>337,384,063.14</u> |

STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | 2010 | | | | Total shareholders' equity |
|--|-----------------------|----------------------|-------------------------|--|----------------------------|
| | Share capital | Capital reserve | Statutory reserve funds | Retained earnings/ Accumulated losses | |
| 1. Balance at the beginning of year | 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 year | | | | | |
| (1) Net profit | — | — | — | 21,773,774.06 | 21,773,774.06 |
| (2) Other comprehensive income | — | — | — | — | — |
| Total comprehensive income | — | — | — | 21,773,774.06 | 21,773,774.06 |
| (3) Appropriation of profits | | | | | |
| a. Surplus reserve | — | — | 10,350,103.00 | (10,350,103.00) | — |
| b. Distribution to shareholders | — | — | — | (18,386,050.00) | (18,386,050.00) |
| 3. Balance at the end of year | <u>262,657,855.00</u> | <u>26,879,156.19</u> | <u>46,249,515.48</u> | <u>(5,949,410.41)</u> | <u>329,837,116.26</u> |

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | 2011 | 2010 |
|--|-----------------|-----------------|
| 1. Cash flows from operating activities | | |
| Cash received from sale of goods or rendering of services | 93,851,256.05 | 37,451,412.10 |
| Cash received relating to other operating activities | 3,485,402.51 | 124,266.64 |
| | <hr/> | <hr/> |
| Sub-total of cash inflows from operating activities | 97,336,658.56 | 37,575,678.74 |
| | <hr/> | <hr/> |
| Cash paid for goods and services | 39,156,102.55 | 40,869,560.50 |
| Cash paid to and on behalf of employees | 3,389,304.17 | 3,287,132.97 |
| Cash paid for taxes and levies | 3,411,910.08 | 3,267,420.99 |
| Cash paid relating to other operating activities | 81,326,284.81 | 3,433,395.59 |
| | <hr/> | <hr/> |
| Sub-total of cash outflows from operating activities | 127,283,601.61 | 50,857,510.05 |
| | <hr/> | <hr/> |
| Net cash flows used in operating activities | (29,946,943.05) | (13,281,831.31) |
| | <hr/> | <hr/> |
| 2. Cash flows from investing activities | | |
| Cash received from investment gains | 29,850,000.00 | 19,900,000.00 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | — | 519,240.12 |
| Cash received relating to other investing activities | 348,681.16 | 525,600.00 |
| | <hr/> | <hr/> |
| Sub-total of cash inflows from investing activities | 30,198,681.16 | 20,944,840.12 |
| | <hr/> | <hr/> |
| Cash paid for acquisition of fixed assets, intangible assets and other long term assets | 396,659.22 | 689,437.89 |
| Cash paid for acquisition of an associate | 4,840,000.00 | — |
| Cash paid to invest in a subsidiary | — | 2,000,000.00 |
| Net cash paid for acquisition of a subsidiary | — | 7,000,000.00 |
| Net cash paid for purchase of minority interests in a subsidiary | 1,150,000.00 | — |
| | <hr/> | <hr/> |
| Sub-total of cash outflows from investing activities | 6,386,659.22 | 9,689,437.89 |
| | <hr/> | <hr/> |
| Net cash flows from investing activities | 23,812,021.94 | 11,255,402.23 |
| | <hr/> | <hr/> |

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

RMB Yuan

(English Translation for Reference Only)

| | 2011 | 2010 |
|--|--------------------------|--------------------------|
| 3. Cash flows from financing activities | | |
| Cash received from borrowings | 110,000,000.00 | 20,000,000.00 |
| Sub-total of cash inflows from financing activities | <u>110,000,000.00</u> | <u>20,000,000.00</u> |
| Cash paid for debt repayments | 75,000,000.00 | — |
| Cash payments for distribution of dividends, profit or interest expenses | 26,161,938.04 | 18,999,650.00 |
| Cash paid relating to other financing activities | 2,334,256.76 | — |
| Sub-total of cash outflows from financing activities | <u>103,496,194.80</u> | <u>18,999,650.00</u> |
| Net cash flows from financing activities | <u>6,503,805.20</u> | <u>1,000,350.00</u> |
| 4. Effect of changes in foreign exchange rates on cash and cash equivalents | — | — |
| 5. Net increase / (decrease) in cash and cash equivalents | 368,884.09 | (1,026,079.08) |
| Add: cash and cash equivalents at beginning of year | <u>628,878.36</u> | <u>1,654,957.44</u> |
| 6. Cash and cash equivalents at end of year | <u><u>997,762.45</u></u> | <u><u>628,878.36</u></u> |

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

RMB Yuan

(English Translation for Reference Only)

1. GENERAL INFORMATION

Zhejiang Shibao Company Limited (the "Company") is a joint stock limited company registered in Zhejiang Province of the People's Republic of China (the "PRC") and approved by the document (ZHE SHANG SHI [2004] 37) (浙上市] 2004] 37號) issued by the Listing Affairs Team (上市工作領導小組) of the People's Government of Zhejiang Province on 30 April 2004. The Company was established by ways of promotion jointly by Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), Wu Wei Xu (吳偉旭), Wu Lang Yue (吳琅躍), Du Chun Mao (杜春茂) and Chen Wen Hong (陳文洪). The Company was approved by and registered with Zhejiang Administration For Industry & Commerce. Its business license registration number is 3300001010738. The Company's H Shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The headquarters of the Company is located at No.1 Shuanglin Road, Fotang Town, Yiwu, Zhejiang Province. The Company and its subsidiaries (together, the "Group") is mainly engaged in the manufacture and sale of automotive steering gear products. The Group mainly produces automotive steering gear products and is classified to automotive components manufacturing industry.

The Company was reformed to a joint stock limited company from Zhejiang Shibao Steering Gear Co., Ltd., the predecessor of the Company, on 12 July 2004.

As at the registration, the Company's registered capital was RMB175,943,855, and total share capital was 175,943,855 shares, among which 165,387,223 shares were legal person shares and 10,556,632 shares were natural person shares. The nominal value of the Company's shares is RMB1.00 each.

On 22 August 2005, the Company was granted the document of "Approval of Issuance of Offshore Listing Foreign Shares of Zhejiang Shibao Company Limited" issued by China Securities Regulatory Committee (the "CSRC") (ZHENG JIAN GUO HE ZI [2005] 22) (證監國合字 [2005] 22號), whereas the CSRC approved the Company to issue offshore listing foreign shares. On 16 May 2006, the Company completed the initial public offering of H Shares and the Company's H Shares were listed on the GEM of the Stock Exchange. The total number of issued H Shares of the Company was 86,714,000 H Shares with a nominal value of RMB1.00 each. After the issuance, the Company's registered capital was increased to RMB262,657,855, among which Zhejiang Shibao Holding, holders of H Shares and Wu Wei Xu together with three other natural persons held 62.97%, 33.01% and 4.02% of the Company's shares respectively. The increased capital contribution of RMB86,714,000 was verified by Ernest & Young Hua Ming (AN YONG HUA MING [2007] YAN ZI DI 60468008_B01) (安永華明 [2007] 驗資第 60468008_B01號). In November 2007, Wu Wei Xu (吳偉旭) and three other natural person shareholders signed the "Share Transfer Agreement Of Zhejiang Shibao Company Limited" with Wang Yu Jie (王玉潔) and five other natural persons respectively to transfer a total of 2.87% of the Company's shares. After the completion of the transfer, Zhejiang Shibao Holding, holders of H Shares and Wu Wei Xu (吳偉旭) together with seven other natural persons held 62.97%, 33.01% and 4.02% of the Company's shares respectively.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

1. GENERAL INFORMATION *(continued)*

On 19 April, 2011, Zhang Shi Quan (張世權) signed the "Share Transfer Agreement Of Zhejiang Shibao Company Limited" with Wu Wei Xu (吳偉旭), Zhang Jun Yi (張俊義), Fu Zhong Xian (傅忠仙), Hui Yan (惠岩), Wang Yu Jie (王玉潔), Zhang Qin Fang (張琴芳), Zheng Yong Ping (鄭永平) and Du Chun Mao (杜春茂) respectively, whereas Wu Wei Xu (吳偉旭) and the seven other natural persons transferred a total of 4.02% of the Company's shares to Zhang Shi Quan (張世權). After the completion of the transfer, Zhejiang Shibao Holding, holders of H Shares and Zhang Shi Quan (張世權) held 62.97%, 33.01% and 4.02% of the Company's shares respectively.

On 24 March 2010, the Company submitted an application to the CSRC for the transfer listing from the GEM of the Stock Exchange to the Main Board of the Stock Exchange. On 22 December 2010, the Company received the approval letter from the CSRC dated 16 December 2010, and the CSRC approved the Company's proposal of transfer listing of the Company's H Shares from the GEM of the Stock Exchange to the Main Board of the Stock Exchange. The Company then submitted an application of transfer listing of the Company's H Shares from the GEM of the Stock Exchange to the Main Board of the Stock Exchange to the Stock Exchange on 17 January 2011. On 9 March 2011, the Company's H Shares were approved to be listed and traded on the Main Board of the Stock Exchange.

The business scope of the Company is: manufacture and sale of automotive components, sale of metal materials, electromechanical products and electronic products and sale of automobiles.

The Group's parent company is Zhejiang Shibao Holding Group Co., Ltd., which was registered in the PRC. The Group's ultimate holding parties are Zhang Shi Quan (張世權) and his family members, i.e. Zhang Bao Yi (張寶義), Tang Hao Hang (湯浩瀚), Zhang Lan Jun (張蘭君) and Zhang Shi Zhong (張世忠).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Accounting Standards for Business Enterprises – General Standards (「會計準則－基本準則」) and 38 items of specific accounting standards, application guidance issued thereafter, interpretations and other related stipulations (together, “Accounting Standards for Business Enterprises”) (「會計準則」) issued by the Ministry of Finance of the PRC in February 2006.

The Company’s financial statements were used to be prepared in accordance with International Financial Reporting Standards for information disclosure purposes on the Stock Exchange. According to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” published by the Stock Exchange in December 2010, with effect from this financial year, the Company decided to prepare its financial statements using “Accounting Standards for Business Enterprises” and the related regulations issued by the PRC’s Ministry of Finance (“PRC Accounting Standards”) for information disclosure purposes on the Stock Exchange.

The 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

The financial statements comply with the requirements of Accounting Standards for Business Enterprises and fairly and completely reflect the financial position of the Group and the Company as at 31 December 2011 and their operating results and cash flows for the year then ended.

(3) ACCOUNTING YEAR

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

(4) FUNCTIONAL CURRENCY

The 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011
RMB Yuan
(English Translation for Reference Only)

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

(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.

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 combinations not under common control shall be measured at fair value at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(5) BUSINESS COMBINATION *(continued)*

Business combinations not under common control (continued)

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 or loss in the consolidated income statement.

(6) CONSOLIDATED FINANCIAL STATEMENTS

The consolidation scope is determined based on control. The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. Subsidiaries represent entities controlled by the Company.

When preparing the consolidated financial statements, same accounting year and accounting policies are applied to subsidiaries and the Company. All balances, 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 equity of the beginning of year, the balance of minority interests shows as a deficit. Any change 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(6) CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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.

(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 AND FOREIGN CURRENCY STATEMENT TRANSLATION

The Group converts the amounts 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 for those arising from special foreign currency borrowings for the construction of assets eligible for capitalization, which 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 currencies are translated into RMB at the exchange rates ruling at the dates of the cash flows. The effect of foreign exchange rate fluctuation on cash is separately disclosed in the consolidated statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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; or
- (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. Trade date means the date when the Group is committed to purchase or sell the financial asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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-for-sale financial assets; or 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. Transaction costs on financial assets at fair value through profit or loss are expensed immediately, while on other financial assets they are expensed at the amount subsequent to initial recognition.

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 profit or loss designated upon initial recognition. Financial assets are classified as held for trading if they satisfy one of the following conditions: the purpose to acquire such financial assets is to sell them in the near term; they belong to a part of identifiable combined financial instruments and objective evidence exists that they are acquired principally for the purpose of obtaining profit in the near term; they are derivatives which are also classified as held for trading unless they are designated as effective hedging instruments, financial guarantee agreements, or related to an equity instrument which has no quoted market price, and their 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(9) FINANCIAL INSTRUMENTS *(continued)*

Category and measurement of financial assets (continued)

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. Their discount or premium is amortized using effective interest rate method and recognized as interest income or expense. Except for impairment losses and exchange differences of monetary financial assets denominated in foreign currencies which are recognized 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011
RMB Yuan
(English Translation for Reference Only)

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

(9) FINANCIAL INSTRUMENTS *(continued)*

Category and measurement of financial liabilities (continued)

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 or 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 a quoted market price, and the 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.

Other financial liabilities

Other 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(9) FINANCIAL INSTRUMENTS *(continued)*

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 the floating interest rate, the current effective interest rate is used as the discount rate in calculating the present future cash flows.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(9) FINANCIAL INSTRUMENTS *(continued)*

Impairment of financial assets (continued)

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 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.

An impairment loss on debt instruments can be reversed through 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 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 Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments, the above accounting principle should also apply to the long-term equity investments under the cost method when the active market price and fair value cannot be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011
RMB Yuan
(English Translation for Reference Only)

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

(9) FINANCIAL INSTRUMENTS *(continued)*

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 depending on individual circumstances as follows: if the Group relinquishes control over the financial asset, the Group derecognizes the financial asset; or 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.

(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 recognized are separately tested, excluding impairment tests conducted for a group of accounts receivable sharing similar credit risk features.

Receivables individually insignificant but of greater credit risk after aggregation by credit risk characteristics

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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 the weighted average method. Low-value consumables are amortized using the one-off write-off method.

The Group adopts the inventory perpetual physical count method.

On the 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 their 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.

(12) LONG-TERM EQUITY INVESTMENTS

Long-term equity investments comprise equity investments in subsidiaries and associates 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 investments 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 investments 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(12) LONG-TERM EQUITY INVESTMENTS *(continued)*

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.

When the 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 the 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011
RMB Yuan
(English Translation for Reference Only)

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 owners' 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 a long-term equity investment is disposed of, the differences between the 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 the portion disposed of are transferred to 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 a quoted price in the active market and fair values of which cannot be measured reliably, please refer to Note 2 (9).

NOTES TO THE FINANCIAL STATEMENTS (continued)

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(English Translation for Reference Only)

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 and structures | 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 values, useful lives and the 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).

(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 is ready for use.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(English Translation for Reference Only)

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

(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 currencies, 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, borrowing costs are recognized as financial expenses in the consolidated income statement when incurred.

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

- (a) Capital expenditures 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(English Translation for Reference Only)

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

(15) BORROWING COSTS *(continued)*

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.

(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 the useful economic life. If it is impossible to forecast the useful economic life, the intangible asset is regarded to have an indefinite useful life.

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. For 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.

An intangible asset with a finite useful life is amortized using the straight line method over its useful life. 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 and are adjusted when necessary.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

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(English Translation for Reference Only)

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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RMB Yuan

(English Translation for Reference Only)

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 sale of goods

Revenue from the sale 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 the sale of goods is determined according to amounts received or receivable from buyers stipulated in contracts or agreements, 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.

(19) GOVERNMENT GRANTS

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 recognised in the current year'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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(English Translation for Reference Only)

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

(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 differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

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(English Translation for Reference Only)

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 assets 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 the consolidated income statement when they are incurred.

(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 sheet 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31 December 2011

RMB Yuan

(English Translation for Reference Only)

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

(22) IMPAIRMENT OF ASSETS *(continued)*

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.

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 the 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 sets of asset groups, and then deducted from the carrying amount of the remaining assets of the asset group or sets of asset groups 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 the 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 recognizes retirement benefits in the income statement when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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RMB Yuan

(English Translation for Reference Only)

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 by the shareholders at a 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.

Fair value of unlisted equity investments

The valuation of unlisted equity investments represents the expected future cash flows discounted at the prevailing discount rate of other financial instruments with similar contract terms and risk features. It requires the Group to estimate the expected future cash flows, credit risks, fluctuation and discount rates, so the valuation is uncertain.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

(26) SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

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 combination in line with the credit risk characteristics. If there is objective evidence indicating that an amount receivable is impaired, then an impairment loss will be recognized and a provision for bad debts will be made according to the difference when the present value of future cash flows is fewer than its carrying amounts. For other receivables, management divides the amount together with other receivables which are unimpaired through separately test of impairment into certain portfolio according to similar credit risk characteristics, then determines the impairment loss in 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 reassessment results and the current estimates will have an effect on the carrying amount of inventories for the period of change.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(English Translation for Reference Only)

3. TAXATION

(1) MAJOR TAXES AND TAX RATES

- Value added tax – Taxable revenue is subject to value added tax (“VAT”) at a tax rate of 17%. The VAT payable is determined by the output VAT net of deductible input VAT of the period.
- Urban maintenance and construction tax – 5-7% on turnover tax paid.
- Education surcharge – 3% on turnover tax paid.
- Individual income tax – The Group withholds individual income tax on salaries paid to staff in accordance with the tax laws.
- Corporate income tax – Except for the following entities of the Group which are entitled to tax concession under the income tax concession policies, the entities comprising the Group are subject to enterprise income tax at a rate of 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.

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 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 Co., Ltd. was re-accepted for the qualifications as a high-tech enterprise and is subject to an income tax rate of 15% from 2011 to 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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4. CONSOLIDATION SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Particulars of subsidiaries

| Name of subsidiaries | Place of registration | Business scope | Representative | Registered capital '000 | Investment amount '000 | Percentage of shareholding | | | | Code of entity |
|--|------------------------|--|----------------|-------------------------|------------------------|----------------------------|--------------|---------------------|--------------|----------------|
| | | | | | | At 31 December 2011 | | At 31 December 2010 | | |
| | | | | | | Direct (%) | Indirect (%) | Direct (%) | Indirect (%) | |
| 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 Co., Ltd ("Hangzhou Shibao") | Hangzhou City (Note 1) | Manufacture of steering gear and automotive parts and components | Zhang Shi Quan | 40,000 | 40,000 | 100 | — | 99 | — | 25392555-4 |
| Hangzhou New Shibao Electric Power Steering Co., Ltd. ("Hangzhou New Shibao") | Hangzhou City (Note 2) | Sale of steering gears components and other components for automobiles | Zhang Bao Yi | 60,000 | 42,000 | 70 | — | 70 | — | 76823319-4 |
| Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao") | Siping City | Processing of stamping machinery, manufacture and sale of automotive parts and components, sale of metal materials, electromechanical products and electronic products, as well as casting and forging | Tang Hao Han | 30,000 | 30,000 | 100 | — | 100 | — | 67730447-9 |
| Beijing Autonic Technologies Co., Ltd. ("Beijing Autonic") | Beijing City (Note 3) | Technology development | Zhang Bao Yi | 10,000 | 7,000 | 70 | — | 70 | — | 77861581-5 |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

(1) Particulars of subsidiaries *(continued)*

Notes:

- (1) 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) On 12 December 2010, the Company increased its investment in Hangzhou New Shibao, the registered capital of which increased from RMB 40 million to RMB 60 million, representing an increase of 20 million. Among which, the Company increased its investment by RMB 2 million to RMB 42 million, representing 70% of the revised registered capital. Mr. Wang Chao Jiu invested in Hangzhou New Shibao with non-patented proprietary technology valued at RMB 18 million, representing 30% of the revised registered capital.
- (3) Beijing Autonic was the acquiree of the Group in 2010, not involving enterprises under common control.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(English Translation for Reference Only)

5. NOTES TO THE MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(1) CASH

| | 31 December 2011 | | | 31 December 2010 | | |
|--|----------------------|--------------------|-----------------------------|----------------------|--------------------|-----------------------------|
| | Original currency | Conversion rate | Equivalent RMB | Original currency | Conversion rate | Equivalent RMB |
| Cash | | | | | | |
| –RMB | 153,654.33 | 1.00 | 153,654.33 | 126,251.37 | 1.00 | 126,251.37 |
| Bank deposits | | | | | | |
| –RMB | 40,527,148.18 | 1.00 | 40,527,148.18 | 48,787,416.98 | 1.00 | 48,787,416.98 |
| –US\$ | 1,612.91 | 7.32 | 11,802.04 | 1,611.09 | 6.62 | 11,791.61 |
| –HK\$ | 23,339.25 | 0.81 | 19,016.82 | 15,176.62 | 0.85 | 12,444.83 |
| –CHF | 55.41 | 6.49 | 359.36 | 55.41 | 7.06 | 359.36 |
| Other monetary funds | | | | | | |
| –RMB | 2,522,130.61 | 1.00 | 2,522,130.61 | 16,363,229.50 | 1.00 | 16,363,229.50 |
| Total cash on hand and at banks | | | <u>43,234,111.34</u> | | | <u>65,301,493.65</u> |
| less: Restricted cash on hand and at banks (note) | | | <u>2,522,130.61</u> | | | <u>16,363,229.50</u> |
| Cash and cash equivalents | | | <u><u>40,711,980.73</u></u> | | | <u><u>48,938,264.15</u></u> |

Note: As at 31 December 2011 and 31 December 2010, the restricted cash on hand and at banks of the Group refers to the deposits for issuance of bank bills and letters of credit.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(1) CASH (continued)

As at 31 December 2011 and 2010, details of the monetary funds of the Group placed in overseas banks are as follows:

| | 31 December 2011 | 31 December 2010 |
|--------------------|---------------------|---------------------|
| Bank deposits | | |
| – HK\$ | 23,339.25 | 14,246.97 |
| Converted into RMB | 19,016.82 | 11,682.52 |

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.

(2) NOTES RECEIVABLE

| | 31 December 2011 | 31 December 2010 |
|----------------------|---------------------|---------------------|
| Banker's acceptances | 137,538,266.04 | 60,152,693.51 |

As at 31 December 2011 and 31 December 2010, the Group had no notes receivable converted to accounts receivables, because of the drawer's inability to perform.

As at 31 December 2011, notes receivable with a carrying value of RMB43,710,760.44 have been endorsed to other parties, but not yet expired (31 December 2010: nil).

As at 31 December 2011, notes receivable with a carrying value of RMB11,006,590.00 have been pledged to obtain notes payable (31 December 2010: nil).

As at 31 December 2011, banker's acceptances with a carrying value of RMB4,079,832.00 have been discounted to obtain short-term borrowings (31 December 2010: nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

(3) ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

| | 31 December 2011 | 31 December 2010 |
|--------------------------------|------------------------------|------------------------------|
| Within 1 year | 199,521,502.26 | 125,202,408.62 |
| 1-2 years | 3,459,272.27 | 1,667,438.80 |
| 2-3 years | 550,022.61 | 1,388,162.62 |
| Over 3 years | 2,378,172.51 | 2,010,394.29 |
| | <u>205,908,969.65</u> | <u>130,268,404.33</u> |
| Less: Provision for impairment | <u>(2,290,074.23)</u> | <u>(2,379,833.69)</u> |
| | <u><u>203,618,895.42</u></u> | <u><u>127,888,570.64</u></u> |

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

| | At the beginning of year | Provision during the year | Decrease during the year | | At the end of year |
|------|-----------------------------|------------------------------|--------------------------|-----------------|-----------------------|
| | | | Reversal | Write-off | |
| 2011 | <u>2,379,833.69</u> | <u>105,350.44</u> | <u>(195,109.90)</u> | <u>—</u> | <u>2,290,074.23</u> |
| 2010 | <u>4,981,002.69</u> | <u>161,731.00</u> | <u>(2,762,660.00)</u> | <u>(240.00)</u> | <u>2,379,833.69</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(3) ACCOUNTS RECEIVABLE (continued)

Analysis of accounts receivable by categories is as follows:

| | 31 December 2011 | | | |
|---|-----------------------|---------------|---------------------|-------|
| | Carrying balance | | Bad debt provision | |
| | Amount | (%) | Amount | (%) |
| Individually significant balance | 190,367,370.40 | 92.45 | 1,414,779.55 | 0.74 |
| Individually insignificant but significant based on credit risk characteristics | 2,337,424.41 | 1.14 | 875,294.68 | 37.45 |
| Other insignificant balances | 13,204,174.84 | 6.41 | — | — |
| | <u>205,908,969.65</u> | <u>100.00</u> | <u>2,290,074.23</u> | |

| | 31 December 2010 | | | |
|---|-----------------------|---------------|---------------------|-------|
| | Carrying balance | | Bad debt provision | |
| | Amount | (%) | Amount | (%) |
| Individually significant balance | 111,497,017.63 | 85.59 | 1,262,726.35 | 1.13 |
| Individually insignificant but significant based on credit risk characteristics | 5,089,125.70 | 3.91 | 1,117,107.34 | 21.95 |
| Other insignificant balances | 13,682,261.00 | 10.50 | — | — |
| | <u>130,268,404.33</u> | <u>100.00</u> | <u>2,379,833.69</u> | |

Individually insignificant but significant based on credit risk characteristics mainly refers to the individually insignificant receivables with long ageing.

In 2011, no significant accounts receivable were reversed or recovered.

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

(3) ACCOUNTS RECEIVABLE (continued)

In 2010, the particulars of the reversed and recovered significant accounts receivable are as follows:

| | Reasons for being reversed or recovered | Basis for determining the original bad debt provision | Accumulated accrual bad debt provision before being reversed or recovered | Amounts being reversed or recovered |
|--|---|---|---|-------------------------------------|
| Tian He Fu Ao Commercial Vehicle Steering Gear Changchun Co., Ltd. | Remaining balances recovered | Unrecovered for more than 2 years, and no business relations maintained | 1,182,025.42 | 1,182,025.42 |

Accounts receivable write-off instructions: in 2011 and 2010, the Group did not write off any significant accounts receivable.

As at 31 December 2011 and 31 December 2010, the Group did not hold accounts receivable for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

As at 31 December 2011, the five largest accounts receivable are as follows:

| | Relationship with the Group | Amount | Ageing | Percentage of total accounts receivable (%) |
|---|-----------------------------|----------------|---------------|---|
| FAW Jiefang Qingdao Automobile Co., Ltd. | Third party customer | 46,421,191.81 | Within 1 year | 22.54 |
| FAW Car Co., Ltd. | Third party customer | 31,329,970.69 | Within 1 year | 15.22 |
| Wuhu Sterling Steering System Co., Ltd. | Associate | 25,391,425.25 | Within 1 year | 12.33 |
| Shanghai Dintech International Corp. Ltd. | Third party customer | 22,192,872.00 | Within 1 year | 10.78 |
| Dongfeng Liuzhou Motor Co., Ltd. | Third party customer | 5,607,613.56 | Within 1 year | 2.72 |
| | | 130,943,073.31 | | 63.59 |

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

(3) ACCOUNTS RECEIVABLE (continued)

As at 31 December 2010, the five largest accounts receivable are as follows:

| | Relationship with the Group | Amount | Ageing | Percentage of total accounts receivable (%) |
|--|--------------------------------|---------------|---------------|---|
| FAW Car Co., Ltd. | Third party customer | 25,622,691.17 | Within 1 year | 19.67 |
| FAW Jiefang Qingdao Automobile Co.,Ltd. | Third party customer | 22,491,289.99 | Within 1 year | 17.27 |
| Wuhu Sterling Steering System Co., Ltd. | Associate | 17,063,803.27 | Within 1 year | 13.10 |
| Zhejiang Yuanjing Auto Parts Co., Ltd. | Third party customer | 8,213,472.75 | Within 1 year | 6.31 |
| Dongfeng Liuzhou Motor Co., Ltd | Third party customer | 6,104,264.57 | Within 1 year | 4.69 |
| | | 79,495,521.75 | | 61.04 |

As at 31 December 2011 and 31 December 2010, an amount due from a related party is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---------------------|---------------------|
| Wuhu Sterling Steering System Co., Ltd. | 25,391,425.25 | 17,063,803.27 |

On 9 October 2011, Zhejiang Shibao Company Limited undertook the domestic factoring of recourse rights with the Yi Wu branch of ICBC, pledged by its accounts receivable, so as to obtain a loan of RMB 30,000,000.00, details of which set out in note 5(17).

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

(4) PREPAYMENTS

| | 31 December 2011 | | 31 December 2010 | |
|---------------|---------------------|---------------|---------------------|---------------|
| | Amount | Ratio (%) | Amount | Ratio (%) |
| Within 1 year | 6,104,440.66 | 96.06 | 6,635,413.26 | 95.19 |
| 1-2 years | 250,511.95 | 3.94 | 335,591.50 | 4.81 |
| | <u>6,354,952.61</u> | <u>100.00</u> | <u>6,971,004.76</u> | <u>100.00</u> |

As at 31 December 2011, the five largest prepayments are as follows:

| | Relationship with the Group | Amount | Prepayment time | Reasons for outstanding |
|---|--------------------------------|---------------------|--------------------|---|
| Hang zhou customs of PRC | Third party | 1,770,671.42 | With 1 year | Tariff margin unsettled |
| Benxi City Juxinda Machinery Manufacturing Co., Ltd. | Third party | 939,040.00 | With 1 year | Prepayment for materials unsettled |
| Siping City Dongda Industry and Trade Co., Ltd. | Third party | 650,901.50 | With 1 year | Prepayment for processing charge unsettled |
| Zhejiang Yuantong Auto Group Co., Ltd. | Third party | 344,600.00 | With 1 year | Prepayment for materials unsettled |
| GEBR.SAACKR GMBH & CO.KG | Third party | 329,595.24 | With 1 year | Prepayment for materials unsettled |
| | | <u>4,034,808.16</u> | | |

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

(4) PREPAYMENTS (continued)

As at 31 December 2010, the five largest prepayments are as follows:

| | Relationship with the Group | Amount | Prepayment time | Reasons for outstanding |
|--|--------------------------------|--------------|--------------------|---------------------------------------|
| Yuhuan Shengda Automobile & Motorcycle Parts Industrial Co., Ltd. | Third party | 729,815.55 | With 1 year | Prepayment for materials unsettled |
| Jianrong Precision Machinery (Shanghai) Co., Ltd. | Third party | 553,244.00 | With 1 year | Prepayment for materials unsettled |
| Shanghai Beite Metal Works Co., Ltd. | Third party | 501,000.00 | With 1 year | Prepayment for materials unsettled |
| Jilin Province Ange Trade Co., Ltd. | Third party | 408,685.45 | With 1 year | Prepayment for materials unsettled |
| Ningbo Jiwang Forging Co., Ltd. | Third party | 400,393.29 | With 1 year | Prepayment for materials unsettled |
| | | <hr/> | | |
| | | 2,593,138.29 | | |

As at 31 December 2011 and 31 December 2010, the Group did not hold any prepayment for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

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

(5) OTHER RECEIVABLES

Ageing analysis of other receivables is as follows:

| | 31 December 2011 | 31 December 2010 |
|--|---------------------|---------------------|
| Within 1 year | 6,483,059.12 | 3,526,088.70 |
| 1-2 years | 2,473,963.40 | 162,843.00 |
| 2-3 years | 130,159.60 | 49,241.00 |
| Over 3 years | 129,184.86 | 176,067.00 |
| | <u>9,216,366.98</u> | <u>3,914,239.70</u> |
| Less: bad debt provision for other receivables | — | — |
| | <u>9,216,366.98</u> | <u>3,914,239.70</u> |

Analysis for other receivables by categories is as follows:

| | 31 December 2011 | | | |
|---|---------------------|---------------|--------------------|-----------|
| | Carrying balance | | Bad debt provision | |
| | Amount | Ratio (%) | Amount | Ratio (%) |
| Individually significant balance | 5,864,256.76 | 63.63 | — | — |
| Individually insignificant but significant based on credit risk characteristics | 1,203,307.86 | 13.06 | — | — |
| Other insignificant other receivables | 2,148,802.36 | 23.31 | — | — |
| | <u>9,216,366.98</u> | <u>100.00</u> | <u>—</u> | <u>—</u> |

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

(5) OTHER RECEIVABLES (continued)

| | 31 December 2010 | | | |
|---|---------------------|---------------|--------------------|-----------|
| | Carrying balance | | Bad debt provision | |
| | Amount | Ratio (%) | Amount | Ratio (%) |
| Individually significant balance | 1,635,590.86 | 41.78 | — | — |
| Individually insignificant but significant based on credit risk characteristics | 388,151.00 | 9.92 | — | — |
| Other insignificant other receivables | 1,890,497.84 | 48.30 | — | — |
| | <u>3,914,239.70</u> | <u>100.00</u> | <u>—</u> | <u>—</u> |

Individually insignificant but significant based on credit risk characteristics mainly refers to the individually insignificant receivables with long ageing.

In 2011 and 2010, the Group did not have any other receivables written off.

As at 31 December 2011 and 31 December 2010, the Group did not hold other receivables for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

In the opinion of the management of the Company, as at 31 December 2011 and 31 December 2010, no evidence implied that other receivables have been impaired, so there is no need to make any impairment provision.

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

(5) OTHER RECEIVABLES (continued)

As at 31 December 2011, the five largest other receivables are as follows:

| | Amount | Ageing | Percentage of total other receivables |
|--|--------------|----------------|---------------------------------------|
| Management Committee of Siping Tiedong Economic Development Zone | 4,430,000.00 | | 48.07 |
| Among: provisional borrowings | 900,000.00 | Within 2 years | 9.77 |
| provisional borrowings | 3,530,000.00 | Within 1 year | 38.30 |
| Listing expense | 2,334,256.76 | Within 1 year | 25.33 |
| Zhang Liang | 517,058.28 | Within 1 year | 5.61 |
| Hang zhou customs of PRC | 400,000.00 | Within 1 year | 4.34 |
| Ministry of Finance in Tiedong District, Siping Mu City | 100,000.00 | Within 3 years | 1.09 |
| | 7,781,315.04 | | 84.44 |

As at 31 December 2010, the five largest other receivables are as follows:

| | Amount | Ageing | Percentage of total other receivables |
|--|--------------|---------------|---------------------------------------|
| Huang Dan | 1,635,590.86 | Within 1 year | 41.79 |
| Management Committee of Siping Tiedong Economic Development Zone | 900,000.00 | Within 1 year | 22.99 |
| Tang chunjin | 357,523.33 | Within 1 year | 9.13 |
| Jia Jianfeng | 203,000.00 | Within 1 year | 5.19 |
| Zheng Xiaoqin | 100,000.00 | Within 1 year | 2.55 |
| | 3,196,114.19 | | 81.65 |

As at 31 December 2011 and 31 December 2010, the Group did not have other receivables due from related parties.

As at 31 December 2011 and 31 December 2010, the Group did not have other receivables transferred as financial assets for derecognition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(6) INVENTORIES

| | 31 December 2011 | 31 December 2010 |
|---|------------------------------|------------------------------|
| Raw materials | 50,096,519.37 | 49,476,351.98 |
| Work-in-progress | 18,143,413.98 | 10,424,303.09 |
| Finished goods | 54,518,023.83 | 80,978,028.20 |
| Low-value consumables | 969,428.73 | 262,029.26 |
| | <u>123,727,385.91</u> | <u>141,140,712.53</u> |
| Less: Provision for impairment of inventories | <u>(1,309,267.99)</u> | <u>(3,133,918.69)</u> |
| | <u><u>122,418,117.92</u></u> | <u><u>138,006,793.84</u></u> |

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

31 December 2011

| | At the beginning of year | Provision during the year | Decrease during the year | | At the end of year |
|----------------|-----------------------------|------------------------------|--------------------------|---------------------|-----------------------|
| | | | Reversal | Write-off | |
| Raw materials | 1,791,952.24 | — | (948,422.01) | — | 843,510.23 |
| Finished goods | 1,341,966.45 | 112,300.45 | (88,136.14) | (900,373.00) | 465,757.76 |
| | <u>3,133,918.69</u> | <u>112,300.45</u> | <u>(1,036,578.15)</u> | <u>(900,373.00)</u> | <u>1,309,267.99</u> |

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

(6) INVENTORIES (continued)

31 December 2010

| | At the beginning of year | Provision during the year | Decrease during the year | | At the end of year |
|----------------|-----------------------------|------------------------------|--------------------------|-----------|-----------------------|
| | | | Reversal | Write-off | |
| Raw materials | 1,791,952.24 | — | — | — | 1,791,952.24 |
| Finished goods | 441,593.45 | 900,373.00 | — | — | 1,341,966.45 |
| | <u>2,233,545.69</u> | <u>900,373.00</u> | <u>—</u> | <u>—</u> | <u>3,133,918.69</u> |

As at 31 December 2011 and 31 December 2010, the Group made provision for impairment of inventories, which is mainly attributable to long ageing and obsolete inventories.

As at 31 December 2011 and 31 December 2010, the Group had no inventories as debt guarantees or with restricted ownership.

(7) OTHER CURRENT ASSETS

| | 31 December 2011 | 31 December 2010 |
|------------------|---------------------|---------------------|
| Prepaid expenses | <u>1,876,410.23</u> | <u>1,004,992.67</u> |

Prepaid expenses are mainly amortization for the moulds purchased and heating expenses.

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

(8) INVESTMENT IN AN ASSOCIATE

Details of the associate of the Group are as follows:

| | Type of entity | Place of registration | Authorized representative | Nature of business | Registered capital | Organization code |
|--|---------------------------------|-----------------------|---------------------------|--|--------------------|-------------------|
| Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling") | Other limited liability company | Wuhu | Zhang Shi Quan | Development, manufacture and sale of automobile steering systems and related products, and provision of after-sale service | 20,000,000.00 | 76900919-4 |

The Company previously held 36% of equity of Wuhu Sterling. On 8 April 2011, the Company and Sun Ya Hong (one of the shareholders of Wuhu Sterling) entered into an equity transfer agreement, pursuant to which Sun Ya Hong agreed to transfer 10% of the equity of Wuhu Sterling to the Company, the total consideration was RMB4,840,000.00 in cash. Meanwhile, the Company assumed the relevant tax and expenses arising from equity transfer, amounting to RMB 569,936.00. Sun Ya Hong transferred the remaining 5% of equity to another shareholder of Wuhu Sterling, Wuhu Qirui Technology Co., Ltd. Pursuant to the equity transfer agreement, the major shareholder rights and obligations in relation to the target equity shall be assumed by the Company since the date when the Company complete the payment of the equity transfer proceedings. Wuhu Sterling has completed the change of industrial and commercial registration. The Company has paid the transfer consideration in one time on 21 November 2011. As at 31 December 2011, the Company held 46% of equity in Wuhu Sterling.

As at 31 December 2011 and 31 December 2010, the summarized financial information of the Group's associate is as follows:

| | 31 December 2011 | 31 December 2010 |
|-------------------|------------------|------------------|
| Total assets | 108,938,265.52 | 93,464,244.36 |
| Total liabilities | 89,136,450.16 | 73,376,038.73 |
| Total net assets | 19,801,815.36 | 20,088,205.63 |
| Revenue | 101,993,746.36 | 100,038,992.09 |
| Net profit/(loss) | (286,390.27) | 3,183,355.93 |

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

(9) LONG-TERM EQUITY INVESTMENTS

As at 31 December 2011 and 31 December 2010, details of long-term equity investments in associates are as follows:

Unlisted investments:

Equity method:

| | 31 December 2011 | 31 December 2010 |
|---------------------------------------|---------------------|---------------------|
| Investment cost | 12,609,936.00 | 7,200,000.00 |
| Balance at the beginning of the year | 6,615,273.15 | 5,853,270.97 |
| Increase/decrease during the year | 5,081,626.95 | 762,002.18 |
| Balance at the end of the year | 11,696,900.10 | 6,615,273.15 |
| Percentage of shareholding | 46% | 36% |
| Percentage of voting rights | 46% | 36% |
| Impairment provision | — | — |
| Impairment provision made in the year | — | — |
| Cash bonus in the year | — | — |

In the opinion of the management of the Company, as at 31 December 2011 and 31 December 2010, there was no need to make impairment provision for the above long-term equity investments.

In 2011 and 2010, the Group had no long-term equity investments accounted using the cost method.

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

(10) FIXED ASSETS

| | Buildings and structures | Machinery and equipment | Motor vehicles | Office equipment and others | Total |
|-----------------------------|-----------------------------|----------------------------|-------------------|-----------------------------------|----------------|
| Cost: | | | | | |
| At 31 December 2009 | 104,363,477.09 | 172,686,266.81 | 15,712,389.72 | 4,476,089.02 | 297,238,222.64 |
| Additions | 2,652,890.31 | 9,411,928.57 | 1,714,733.00 | 1,202,086.00 | 14,981,637.88 |
| Transfer from | | | | | |
| construction in progress | 26,214,898.00 | 55,980,279.33 | 743,615.01 | 391,776.98 | 83,330,569.32 |
| Addition due to acquisition | | | | | |
| of a subsidiary | — | — | — | 292,488.00 | 292,488.00 |
| Disposal | — | (4,071,129.98) | (1,034,528.00) | (642,971.00) | (5,748,628.98) |
| At 31 December 2010 | 133,231,265.40 | 234,007,344.73 | 17,136,209.73 | 5,719,469.00 | 390,094,288.86 |
| Additions | 264,049.00 | 5,728,560.97 | 1,619,154.06 | 1,475,713.73 | 9,087,477.76 |
| Transfer from construction | | | | | |
| in progress | 1,224,571.00 | 24,990,520.07 | 1,302,412.58 | 431,992.32 | 27,949,495.97 |
| Disposal | — | (1,818,001.36) | (314,587.00) | — | (2,132,588.36) |
| At 31 December 2011 | 134,719,885.40 | 262,908,424.41 | 19,743,189.37 | 7,627,175.05 | 424,998,674.23 |

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

(10) FIXED ASSETS (continued)

| | Buildings and structures | Plant and equipment | Transportation vehicles | Office equipment and others | Total |
|--|-----------------------------|------------------------|----------------------------|-----------------------------------|----------------|
| Less: accumulated depreciation: | | | | | |
| At 31 December 2009 | 18,752,211.75 | 59,521,531.95 | 8,076,180.40 | 3,548,462.56 | 89,898,386.66 |
| Provision | 3,155,598.52 | 17,024,694.40 | 1,360,772.40 | 1,260,572.84 | 22,801,638.16 |
| Addition due to acquisition of a subsidiary | — | — | — | 228,946.00 | 228,946.00 |
| Disposal | — | (3,807,282.82) | (728,043.04) | (600,570.56) | (5,135,896.42) |
| At 31 December 2010 | 21,907,810.27 | 72,738,943.53 | 8,708,909.76 | 4,437,410.84 | 107,793,074.40 |
| Provision | 3,607,994.60 | 21,664,389.84 | 1,276,400.98 | 1,837,567.51 | 28,386,352.93 |
| Disposal | — | (1,230,789.49) | (254,183.66) | — | (1,484,973.15) |
| At 31 December 2011 | 25,515,804.87 | 93,172,543.88 | 9,731,127.08 | 6,274,978.35 | 134,694,454.18 |
| Book value: | | | | | |
| At 31 December 2010 | 111,323,455.13 | 161,268,401.20 | 8,427,299.97 | 1,282,058.16 | 282,301,214.46 |
| At 31 December 2011 | 109,204,080.53 | 169,735,880.53 | 10,012,062.29 | 1,352,196.70 | 290,304,220.05 |

The management of the Company believes that there is no need to make impairment provisions for the aforesaid fixed assets as at 31 December 2011 and 31 December 2010.

As at 31 December 2011 and 31 December 2010, 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 31 December 2011, the original value of fixed assets that had been fully depreciated but still in use was RMB32,066,706.86 (31 December 2010: RMB26,396,281.40)

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

(10) FIXED ASSETS *(continued)*

On 31 December 2011 and 31 December 2010, the 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. | Obtaining ownership certificates is in progress |
| Building complex and plants of Jilin Shibao Machinery Manufacturing Co., Ltd. | Obtaining ownership certificates is in progress |

As at 31 December 2011, the carrying value of the fixed assets that had not obtained ownership certificates amounted to RMB29,361,219.05 (31 December 2010: RMB30,164,883.83).

(11) CONSTRUCTION IN PROGRESS

| | 31 December 2011 | 31 December 2010 |
|---|-----------------------|----------------------|
| Buildings | 38,492,326.82 | 4,424,372.96 |
| Machinery equipment | 101,223,194.97 | 7,872,694.85 |
| Transportation equipment | 86,664.27 | |
| Other equipment | 1,174,228.75 | |
| | 140,976,414.81 | 12,297,067.81 |
| Impairment provision for construction in progress | — | — |
| | <u>140,976,414.81</u> | <u>12,297,067.81</u> |

In the opinion of the management of the Company, as at 31 December 2011 and 31 December 2010, there was no need to make impairment provision for the above construction in progress.

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

(11) CONSTRUCTION IN PROGRESS *(continued)*

In 2011

| | Balance at the beginning of the year | Increase in the year | Transferred from fixed assets in the year | Balance at the end of the year | Fund resources |
|--|--|-------------------------|---|--------------------------------------|-------------------|
| Capacity expansion project of Siping Steering | 251,598.81 | 20,224,318.37 | (205,128.20) | 20,270,788.98 | Self-owned funds |
| Capacity expansion project of Hangzhou New Shibao | 990,014.80 | 22,267,297.62 | (7,648,393.78) | 15,608,918.64 | Self-owned funds |
| Capacity expansion project of Hangzhou Shibao | 7,460,191.20 | 75,332,323.69 | (20,071,973.99) | 62,720,540.90 | Self-owned funds |
| Jilin precision casting, processing and construction project | 3,595,263.00 | 38,804,903.29 | (24,000.00) | 42,376,166.29 | Self-owned funds |
| | <u>12,297,067.81</u> | <u>156,628,842.97</u> | <u>(27,949,495.97)</u> | <u>140,976,414.81</u> | |

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

(11) CONSTRUCTION IN PROGRESS (continued)

In 2010

| | Balance at the beginning of the year | Increase in the year | Transferred from fixed assets in the year | Balance at the end of the year | Fund resources |
|--|--|-------------------------|---|--------------------------------------|-------------------|
| Capacity expansion project of Siping Steering | 1,124,998.81 | 251,600.00 | (1,125,000.00) | 251,598.81 | Self-owned funds |
| Capacity expansion project of Hangzhou New Shibao | 611,344.80 | 378,670.00 | — | 990,014.80 | Self-owned funds |
| Capacity expansion project of Hangzhou Shibao | 8,388,870.36 | 31,366,775.16 | (32,295,454.32) | 7,460,191.20 | Self-owned funds |
| Jilin precision casting, processing and construction project | 53,168,196.00 | 337,182.00 | (49,910,115.00) | 3,595,263.00 | Self-owned funds |
| | <u>63,293,409.97</u> | <u>32,334,227.16</u> | <u>(83,330,569.32)</u> | <u>12,297,067.81</u> | |

In 2011 and 2010, there was no capitalization interest attributed to the Group's construction in progress.

The Group had no construction in progress used as pledges and guarantees.

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

(12) INTANGIBLE ASSETS

| | Land use right | Patented technology | Software | Non-patented technology | Total |
|---|----------------------|------------------------|-------------------|----------------------------|----------------------|
| Cost: | | | | | |
| As at 31 December 2009 | 30,204,436.50 | — | 450,550.00 | — | 30,654,986.50 |
| Addition | 27,447,042.50 | — | — | — | 27,447,042.50 |
| Addition due to acquisition of a subsidiary | — | 1,281,666.67 | — | 7,963,095.33 | 9,244,762.00 |
| Addition by investment of minority shareholders of a subsidiary | — | — | — | 18,000,000.00 | 18,000,000.00 |
| As at 31 December 2010 | <u>57,651,479.00</u> | <u>1,281,666.67</u> | <u>450,550.00</u> | <u>25,963,095.33</u> | <u>85,346,791.00</u> |
| As at 31 December 2011 | <u>57,651,479.00</u> | <u>1,281,666.67</u> | <u>450,550.00</u> | <u>25,963,095.33</u> | <u>85,346,791.00</u> |
| Less: accumulated amortization | | | | | |
| As at 31 December 2009 | 4,952,908.00 | — | 196,871.69 | — | 5,149,779.69 |
| Amortization | 1,287,448.25 | 21,361.11 | 90,110.31 | 157,108.62 | 1,556,028.29 |
| As at 31 December 2010 | <u>6,240,356.25</u> | <u>21,361.11</u> | <u>286,982.00</u> | <u>157,108.62</u> | <u>6,705,807.98</u> |
| Amortization | 1,340,572.42 | 128,166.62 | 76,702.90 | 2,742,653.38 | 4,288,095.32 |
| As at 31 December 2011 | <u>7,580,928.67</u> | <u>149,527.73</u> | <u>363,684.90</u> | <u>2,899,762.00</u> | <u>10,993,903.30</u> |
| Book value: | | | | | |
| As at 31 December 2010 | <u>51,411,122.75</u> | <u>1,260,305.56</u> | <u>163,568.00</u> | <u>25,805,986.71</u> | <u>78,640,983.02</u> |
| As at 31 December 2011 | <u>50,070,550.33</u> | <u>1,132,138.94</u> | <u>86,865.10</u> | <u>23,063,333.33</u> | <u>74,352,887.70</u> |

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

(12) INTANGIBLE ASSETS (continued)

The leased land is located in Mainland China, and is held under a medium term lease.

The management of the Company believes that there is no need to make impairment provisions for the aforesaid intangible assets as at 31 December 2011 and 31 December 2010.

As at 31 December 2011 and 31 December 2010, the Group had no intangible assets with restricted ownership or formed through internal research and development.

The original values of the patented technology, the EPS controller of Beijing Autonic, was RMB1,281,666.67, with its patent number of ZL200630098869.0. This patent takes the evaluation report no. Zhe Tian Hui Evaluation report [2011] 2 offered by Zhejiang Tian Hui Asset Evaluation Company as a reference basis. The value determined after negotiation was recognized as the entry value of the intangible assets.

Details of the non-patented technology with original values totalling RMB25,963,095.33 are as follows:

| Name of the non-patented technology | Original values | Carrying value 31 December 2011 |
|--|----------------------|---------------------------------------|
| EPS control software copyright (note 1) | 2,990,555.56 | 2,641,657.41 |
| Test platform of the EPS controller (note 1) | 2,136,111.10 | 1,886,898.14 |
| EPS controller (note 1) | 1,281,666.67 | 1,132,138.89 |
| EPS electronic control units (note 1) | 1,554,762.00 | 1,202,638.89 |
| Proprietary technology for the EPS controller (note 2) | 18,000,000.00 | 16,200,000.00 |
| Total | <u>25,963,095.33</u> | <u>23,063,333.33</u> |

Notes:

- (1) The four non-patented technologies are owned by Beijing Autonic, taking the evaluation report no. Zhe Tian Hui Evaluation report [2011]2 offered by Zhejiang Tian Hui Asset Evaluation Company as a reference basis. The value determined after negotiation was recognized as the entry value of the intangible assets.
- (2) The proprietary technology for the electric power steering system amounts to RMB18,000,000.00 with which (valued at RMB18,000,000.00) the natural person Wang Chao Jiu became a shareholder of Hang Zhou New Shibao, and held its 30% of shares. This non-patented technology takes the evaluation report no. Zhe Tian Hui Evaluation report [2010] no. 20 offered by Zhejiang Tian Hui Asset Evaluation Company as a reference basis. The value determined after negotiation was recognized as the entry value of the intangible assets.

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

(13) GOODWILL

As at 31 December 2011 and 31 December 2010, the goodwill was nil. In 2010, the Company incurred goodwill of RMB178,027.50 because of the business combination under the common control. The management of the Company considered that the amount is insignificant, so it was written off in the year.

(14) DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred tax liabilities are not stated at the net amount after offset:

Recognized deferred tax assets and liabilities:

| | 31 December 2011 | 31 December 2010 |
|--|---------------------|---------------------|
| Deferred tax assets | | |
| Bad debt provision | 382,513.34 | 392,349.40 |
| Provision for decline in price of inventories | 207,620.18 | 526,326.05 |
| Warranty fee | 934,931.62 | 1,344,827.59 |
| Deductible loss | — | 1,289,232.00 |
| Other | — | 143,845.93 |
| | <u>1,525,065.14</u> | <u>3,696,580.97</u> |
| Deferred tax liabilities | | |
| Adjustment to fair value of the business combination not under the common control | <u>1,698,208.33</u> | <u>1,890,458.33</u> |

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

(14) DEFERRED TAX ASSETS/LIABILITIES (continued)

The deductible loss of the unrecognized deferred tax assets will expire in the following years:

| | 31 December 2011 | 31 December 2010 |
|------|----------------------|---------------------|
| 2015 | 6,378,868.81 | 6,378,868.81 |
| 2016 | 25,710,278.19 | — |
| | <u>32,089,147.00</u> | <u>6,378,868.81</u> |

The temporary differences corresponding to the asset or liability items giving rise to the temporary differences are as follows:

| | 31 December 2011 | 31 December 2010 |
|--|---------------------|----------------------|
| Taxable temporary differences | | |
| Adjustment to fair value of the business combination not under the common control | 6,792,833.32 | 7,561,833.32 |
| Deductible temporary differences | | |
| Bad debt provision | 2,290,074.23 | 2,379,833.69 |
| Provision for decline in price of inventories | 1,309,267.99 | 3,133,918.69 |
| Warranty fee | 6,232,877.44 | 8,965,517.27 |
| Deductible loss | — | 5,156,928.00 |
| Other | — | 780,793.00 |
| | <u>9,832,219.66</u> | <u>20,416,990.65</u> |

(15) OTHER NON-CURRENT ASSETS

Other non-current assets are prepayments for purchasing fixed assets and land.

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

16. PROVISION FOR IMPAIRMENT OF ASSETS

31 December 2011

| | Balance at the beginning of the year | Provision during the year | Decrease in the year | | Balance at the end of the year |
|---|--|------------------------------|-----------------------|-----------------------|-----------------------------------|
| | | | Reversal | Write-off | |
| Bad debt provision | 2,379,833.69 | 105,350.44 | (195,109.90) | — | 2,290,074.23 |
| Provision for decline in price of inventories | 3,133,918.69 | 112,300.45 | (1,036,578.15) | (900,373.00) | 1,309,267.99 |
| Goodwill | 178,027.50 | — | — | (178,027.50) | — |
| | <u>5,691,779.88</u> | <u>217,650.89</u> | <u>(1,231,688.05)</u> | <u>(1,078,400.50)</u> | <u>3,599,342.22</u> |

31 December 2010

| | Balance at the beginning of the year | Provision during the year | Decrease in the year | | Balance at the end of the year |
|---|--|------------------------------|-----------------------|-----------------|-----------------------------------|
| | | | Reversal | Write-off | |
| Bad debt provision | 4,981,002.69 | 161,731.00 | (2,762,660.00) | (240.00) | 2,379,833.69 |
| Provision for decline in price of inventories | 2,233,545.69 | 900,373.00 | — | — | 3,133,918.69 |
| Goodwill | — | 178,027.50 | — | — | 178,027.50 |
| | <u>7,214,548.38</u> | <u>1,240,131.50</u> | <u>(2,762,660.00)</u> | <u>(240.00)</u> | <u>5,691,779.88</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(17) SHORT-TERM LOANS

| | 31 December 2011 | 31 December 2010 |
|------------------|-----------------------|----------------------|
| Guaranteed loans | 60,000,000.00 | 30,000,000.00 |
| Secured loans | 25,000,000.00 | — |
| Pledged loans | 4,079,832.00 | — |
| Credit loans | 25,000,000.00 | — |
| | <u>114,079,832.00</u> | <u>30,000,000.00</u> |

As at 31 December 2011, interest rates for the above loans were between 5.85% to 8.50% per annum (31 December 2011: 5.31%)

Zhejiang Shibao Company Limited obtained a loan of RMB5,000,000.00 from the Xia Sha branch of Industrial Bank Co., Ltd. on 19 April 2011, for a term of 12 months, expiring on 18 April 2012, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time. The loan was guaranteed by Zhejiang Shibao Holding Group Co., Ltd. and Zhang Shi Quan. The Company obtained a loan of RMB30,000,000.00 from the Yi Wu branch of ICBC on 9 October 2011, for a term of 12 months, expiring on 20 September 2012, the annual interest rate of which was 1% higher than the national benchmark interest rate of the same grade at the same time, floating every three months. The loan was secured by the accounts receivable of Zhejiang Shibao Company Limited, which applied domestic factoring of recourse rights with the Yi Wu branch of ICBC and repaid RMB5,000,000.00 on 15 November 2011. The Company obtained a credit loan of RMB25,000,000.00 from the Yi Wu branch of ICBC on 16 November 2011, for a term of 12 months, expiring on 14 November 2012, the annual interest rate of which was 1% higher than the national benchmark interest rate of the same grade at the same time, floating every three months. Hangzhou Shibao Auto Steering Gear Co., Ltd. obtained a loan of RMB25,000,000.00 from the Xia Sha branch of Industrial Bank Co., Ltd. on 18 April 2011, for a term of 12 months, expiring on 17 April 2012, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time. The loan was guaranteed by Zhejiang Shibao Holding Group Co., Ltd. and Zhang Shi Quan. The Company obtained a loan of RMB30,000,000.00 from the Hang Zhou branch of Industrial Bank Co., Ltd. on 5 September 2011 for a term of 12 months, expiring on 4 September 2012, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time. The loan was guaranteed by Zhejiang Shibao Holding Group Co., Ltd. and Zhang Shi Quan. Jilin Shibao Machinery Manufacturing Co., Ltd. transferred banker's acceptances amounting to RMB4,079,832.00 to the Jilin branch of China Construction Bank for discount at the discount rate of 8.50%. The expiry date of the banker's acceptances was 17 February 2012.

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

(17) SHORT-TERM LOANS *(continued)*

Zhejiang Shibao Company Limited obtained a loan of RMB5,000,000.00 from the Hang Zhou branch of Industrial Bank Co.,Ltd. on 3 June 2010, for a term of 11 months, expiring on 18 April 2011, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time. The loan was guaranteed by Zhejiang Shibao Holding Group Co., Ltd. and Zhang Shi Quan. Hangzhou Shibao Auto Steering Gear Co., Ltd. obtained a loan of RMB10,000,000.00 from the Hang Zhou branch of Industrial Bank Co.,Ltd. on 12 May 2010, for a term of 11 months, expiring on 15 April 2011, the annual interest rate of which was the national benchmark interest rate of the same grade at the same time. The loan was guaranteed by Zhejiang Shibao Holding Group Co., Ltd. and Zhang Shi Quan.

As at 31 December 2011 and 31 December 2010, the Group had no short-term loans which were past due but remained unpaid.

(18) NOTES PAYABLE

As at 31 December 2011 and 31 December 2010, all notes payable of the Group were banker's acceptances.

Notes payable were non-interest-bearing and were normally settled on terms of six months to one year.

As at 31 December 2011 and 31 December 2010, all notes payable of the Group would be due in the next accounting year.

(19) ACCOUNTS PAYABLE

| | 31 December 2011 | 31 December 2010 |
|---------------|-----------------------|-----------------------|
| Within 1 year | 158,573,598.72 | 112,449,747.54 |
| 1-2 years | 3,781,087.89 | 6,096,755.33 |
| 2-3 years | 931,376.11 | 238,609.29 |
| Over 3 years | 1,833,773.68 | 662,639.43 |
| | <u>165,119,836.40</u> | <u>119,447,751.59</u> |

As at 31 December 2011 and 31 December 2010, the Group had no amounts payable to the shareholders or related parties holding 5% (inclusive) or more of the voting rights of the Company.

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

(19) ACCOUNTS PAYABLE (continued)

As at 31 December 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.

(20) ADVANCE FROM CUSTOMERS

| | 31 December 2011 | 31 December 2010 |
|---------------|---------------------|---------------------|
| Within 1 year | 1,151,145.72 | 313,174.23 |
| 1 to 2 years | 1,084,117.11 | 790,977.03 |
| | <u>2,235,262.83</u> | <u>1,104,151.26</u> |

As at 31 December 2011 and 31 December 2010, there were no receipts in advance due from shareholders or other related parties holding 5% (inclusive) or more of the voting rights of the Company. There was no significant balance of receipts in advance which was aged over one year.

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

(21) EMPLOYEE BENEFITS PAYABLE

| | I January 2011 | Increase during the year | Decrease during the year | 31 December 2011 |
|--|---------------------|-----------------------------|-----------------------------|---------------------|
| Salaries, bonuses, allowances and subsidies | 7,150,052.93 | 47,059,337.61 | 51,101,592.47 | 3,107,798.07 |
| Staff welfare | — | 4,528,677.34 | 4,528,677.34 | — |
| Social insurances | 780,793.45 | 7,150,655.83 | 7,931,449.28 | — |
| Including: | | | | |
| Medical insurance | 286,399.94 | 2,343,718.38 | 2,630,118.32 | — |
| Basic pension insurance | 389,434.05 | 4,148,052.41 | 4,537,486.46 | — |
| Unemployment insurance | 58,982.67 | 226,490.01 | 285,472.68 | — |
| Work injury insurance | 22,383.72 | 58,627.12 | 81,010.84 | — |
| Maternity insurance | 23,593.07 | 127,805.91 | 151,398.98 | — |
| Housing funds | — | 245,962.00 | 245,962.00 | — |
| Labour union funds and employee education funds | 807,061.97 | 158,420.11 | 548,525.64 | 416,956.44 |
| | <u>8,737,908.35</u> | <u>58,897,090.89</u> | <u>64,110,244.73</u> | <u>3,524,754.51</u> |

| | I January 2010 | Increase during the year | Decrease during the year | 31 December 2010 |
|--|---------------------|-----------------------------|-----------------------------|---------------------|
| Salaries, bonuses, allowances and subsidies | 4,112,206.84 | 40,072,127.97 | 37,034,281.88 | 7,150,052.93 |
| Staff welfare | 195,833.90 | 3,384,837.20 | 3,580,671.10 | — |
| Social insurances | 780,793.45 | 4,802,928.72 | 4,802,928.72 | 780,793.45 |
| Including: | | | | |
| Medical insurance | 230,205.54 | 1,291,645.16 | 1,235,450.76 | 286,399.94 |
| Basic pension insurance | 445,628.45 | 2,927,514.75 | 2,983,709.15 | 389,434.05 |
| Unemployment insurance | 58,982.67 | 323,817.30 | 323,817.30 | 58,982.67 |
| Work injury insurance | 22,383.72 | 156,856.82 | 156,856.82 | 22,383.72 |
| Maternity insurance | 23,593.07 | 103,094.69 | 103,094.69 | 23,593.07 |
| Labour union funds and employee education funds | 911,183.62 | 479,865.33 | 583,986.98 | 807,061.97 |
| | <u>6,000,017.81</u> | <u>48,739,759.22</u> | <u>46,001,868.68</u> | <u>8,737,908.35</u> |

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

(21) EMPLOYEE BENEFITES PAYABLE (continued)

As at 31 December 2011 and 31 December 2010, the Group had no balance in arrears.

As at 31 December 2011 and 31 December 2010, all employee benefits cost payable would be settled in the next accounting period.

(22) TAXES PAYABLE

| | 31 December 2011 | 31 December 2010 |
|---|---------------------|----------------------|
| Value added tax | (10,749,453.17) | (4,807,265.75) |
| Corporate income tax | 14,861,666.55 | 17,324,715.42 |
| Business tax | 22,442.75 | 101,227.00 |
| Urban maintenance and Construction tax | 724,104.59 | 105,017.76 |
| Individual income tax | 89,674.08 | 141,045.00 |
| Others | 794,602.36 | 93,923.25 |
| | <u>5,743,037.16</u> | <u>12,958,662.68</u> |

The basis of taxes payable and the tax rates are disclosed in Note 3.

(23) INTERESTS PAYABLE

| | 31 December 2011 | 31 December 2010 |
|-----------------------------------|---------------------|---------------------|
| Interest of long-term borrowings | 1,160,633.33 | 1,110,158.00 |
| Interest of short-term borrowings | 205,838.43 | 57,571.19 |
| | <u>1,366,471.76</u> | <u>1,167,729.19</u> |

Interest of long-term borrowings refers to the loan interest attached to the special funds for treasury bonds on key technological improvement projects of the State granted by the Ministry of Finance in Siping.

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

(24) OTHER PAYABLES

| | 31 December 2011 | 31 December 2010 |
|--|---------------------|---------------------|
| Deposits | 95,050.00 | 96,050.00 |
| Merger and reorganization costs | — | 2,336,740.11 |
| Labour service company management fees | 680.13 | 216,828.14 |
| Taxes | 569,936.00 | — |
| Others | 286,122.04 | 1,071,932.99 |
| | <u>951,788.17</u> | <u>3,721,551.24</u> |

As at 31 December 2011 and 31 December 2010, the Group had no amounts payable to the shareholders or other related parties holding 5% (inclusive) or more of the voting rights of the Company.

As at 31 December 2011, there was no significant balance of other payables which was aged over one year.

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

| Type | Amounts payable | Reason for non-repayment |
|---------------------------------|-----------------|--|
| Merger and reorganization costs | 2,336,740.11 | Unpaid merger and reorganization costs |

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

(25) NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

| | 31 December 2011 | 31 December 2010 |
|--|----------------------|---------------------|
| Long-term borrowings due within one year-guaranteed loans | <u>13,000,000.00</u> | <u>5,000,000.00</u> |

Jilin Shibao Machinery Manufacturing Co., Ltd. obtained a loan of RMB20,000,000.00 from the Siping Branch of China Construction Bank, the annual interest rate of which was 5.96% to 6.90% , and it was secured by Siping Steering Gear Co., Ltd. Among such amount, RMB5,000,000.00 was due and repaid on 30 November 2011, RMB13,000,000.00 will be due for repayment on 30 November 2012, and the remaining RMB2,000,000.00 will be due for repayment on 30 November 2013.

As at 31 December 2011 and 31 December 2010, the Group had no amounts which were past due but were granted with extensions among the long-term borrowings due within one year.

As at 31 December 2011 and 31 December 2010, the Group had no long-term borrowings which were past due but remained unpaid.

(26) OTHER CURRENT LIABILITIES

| | 31 December 2011 | 31 December 2010 |
|------------------|----------------------|----------------------|
| Deferred income | 2,592,960.39 | 433,313.00 |
| Accrued expenses | <u>8,060,419.17</u> | <u>10,211,536.00</u> |
| | <u>10,653,379.56</u> | <u>10,644,849.00</u> |

Deferred income was the government grants related to assets which would be recognized as income in the next year, including the subsidies granted by the National Development and Reform Commission ("NDRC") in respect of the precious casting and processing of automotive components project, the special subsidies granted by NDRC to support the development of the Group's steering knuckle assembly project for sedans and the subsidies granted by the Management Committee of the Tiedong Economic Development Zone in Siping in respect of the precious casting and processing of automotive components project.

Accrued expenses mainly include warranty fee and accrued auditing costs.

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

(27) LONG-TERM BORROWINGS

| | 31 December 2011 | | | | |
|--|------------------|----------------------|-----------------------|-----------------------|---------------|
| | Currency | Amount | Conditions | Interest rate | Maturity date |
| Special fund for a treasury bond | RMB | 2,830,000.00 | Credit borrowings | 5.00% | 31 Dec. 2020 |
| Special fund for a treasury bond | RMB | 1,390,400.00 | Credit borrowings | 5.00% | 31 Dec. 2016 |
| China Construction Bank | RMB | 2,000,000.00 | Guaranteed borrowings | 6.90% | 30 Nov. 2013 |
| China Construction Bank | RMB | 11,000,000.00 | Guaranteed borrowings | 8.28% | 30 Nov. 2013 |
| China Construction Bank | RMB | 4,000,000.00 | Guaranteed borrowings | 8.28% | 30 Nov. 2014 |
| Administrative committee of Tiedong Economic Development Zone of Siping | RMB | 8,800,000.00 | Other borrowings | Not yet contracted | 1 Dec. 2014 |
| Total | | <u>30,020,400.00</u> | | | |

| | 31 December 2010 | | | | |
|----------------------------------|------------------|----------------------|-----------------------|---------------|---------------|
| | Currency | Amount | Conditions | Interest rate | Maturity date |
| Special fund for a treasury bond | RMB | 2,830,000.00 | Other borrowings | 5.00% | 31 Dec. 2020 |
| Special fund for a treasury bond | RMB | 2,260,000.00 | Other borrowings | 5.00% | 31 Dec. 2016 |
| China Construction Bank | RMB | 13,000,000.00 | Guaranteed borrowings | 5.96% | 30 Nov. 2012 |
| China Construction Bank | RMB | 2,000,000.00 | Guaranteed borrowings | 5.96% | 30 Nov. 2013 |
| Total | | <u>20,090,000.00</u> | | | |

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

(27) LONG-TERM BORROWINGS (continued)

The analysis of long-term borrowings by their maturity date is as follows:

| | 31 December 2011 | 31 December 2010 |
|--|----------------------|----------------------|
| Long-term borrowings: | | |
| Due within 1 year or payable on demand | 13,000,000.00 | 5,000,000.00 |
| Due within 2 years | 13,000,000.00 | 13,000,000.00 |
| Due within 3 to 5 years, inclusive | 14,190,400.00 | 2,000,000.00 |
| Over 5 years | 2,830,000.00 | 5,090,000.00 |
| | <u>43,020,400.00</u> | <u>25,090,000.00</u> |

As at 31 December 2011 and 31 December 2010, the Group had no long-term borrowings which were past due but remained unpaid.

Special funds for treasury bonds refer to the loans under the special funds for treasury bonds on the key projects of technological transformation of the State granted by the Siping Municipal Bureau of Finance. The borrowings from the Management Committee of the Tiedong Economic Development Zone in Siping refer to the capital loan for Jilin Shibao to expand production.

(28) OTHER NON-CURRENT LIABILITIES

| | 31 December 2011 | 31 December 2010 |
|-------------------------------------|----------------------|---------------------|
| Government grants related to assets | <u>26,202,378.62</u> | <u>4,748,573.33</u> |

Other non-current liabilities were government grants related to assets, including the subsidies granted by NDRC in respect of the precious casting and processing of automotive components project, the special subsidies granted by NDRC to support the development of the Group's steering knuckle assembly project for sedans and the subsidies granted by the Management Committee of the Tiedong Economic Development Zone in Siping in respect of the precious casting and processing of automotive components project.

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

(29) SHARE CAPITAL

| | 31 December 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 | <u>175,943,855.00</u> | <u>66.99%</u> |
| 2. Listed shares | | |
| Overseas listed foreign shares | <u>86,714,000.00</u> | <u>33.01%</u> |
| Total listed shares | <u>86,714,000.00</u> | <u>33.01%</u> |
| 3. Total of shares | <u><u>262,657,855.00</u></u> | <u><u>100.00%</u></u> |

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

(30) CAPITAL RESERVE

| | Amount at 31 December 2010 | Increase during the year | Decrease during the year | Amount at 31 December 2011 |
|-----------------------|----------------------------------|-----------------------------|-----------------------------|----------------------------------|
| Share premium | 21,143,008.19 | | — | 21,143,008.19 |
| Other capital reserve | 6,357,764.40 | 86,624.64 | — | 6,444,389.04 |
| | <u>27,500,772.59</u> | <u>86,624.64</u> | <u>—</u> | <u>27,587,397.23</u> |
| | Amount at 31 December 2009 | Increase during the year | Decrease during the year | Amount at 31 December 2010 |
| Share premium | 21,143,008.19 | — | — | 21,143,008.19 |
| Other capital reserve | 5,736,148.00 | 621,616.40 | — | 6,357,764.40 |
| | <u>26,879,156.19</u> | <u>621,616.40</u> | <u>—</u> | <u>27,500,772.59</u> |

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

(31) SURPLUS RESERVE

| | 31 December 2010 | Increase during the year | Decrease during the year | 31 December 2011 |
|---------------------------|----------------------|-----------------------------|-----------------------------|----------------------|
| Statutory surplus reserve | <u>84,961,353.85</u> | <u>10,126,187.67</u> | <u>—</u> | <u>95,087,541.52</u> |
| | 31 December 2009 | Increase during the year | Decrease during the year | 31 December 2010 |
| Statutory surplus reserve | <u>69,233,445.61</u> | <u>15,727,908.24</u> | <u>—</u> | <u>84,961,353.85</u> |

Pursuant to PRC Company Law and the Company's Articles of Association, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve. The appropriation may cease if the balance of the statutory surplus reserve has reached 50% of the Company's registered capital.

(32) RETAINED EARNINGS

| | 31 December 2011 | 31 December 2010 |
|---|-----------------------|-----------------------|
| Retained earnings at the beginning of the year | 176,929,012.57 | 107,639,921.00 |
| Net profit attributable to equity holders of the parent | 112,872,143.11 | 103,403,049.81 |
| Less: transfer to statutory reserve funds | 10,126,187.67 | 15,727,908.24 |
| Cash dividends payable (Note) | 23,639,206.95 | 18,386,050.00 |
| Retained earnings at the end of the year | <u>256,035,761.06</u> | <u>176,929,012.57</u> |

Note: cash dividends for the previous year were approved at the 2010 and 2011 general meetings.

Pursuant to the resolution of the board of the Company dated 18 March 2010, a cash dividend of RMB0.07 per share based on 262,657,855 shares in total with a nominal value of RMB1 each was paid to all shareholders, which was approved and passed at the 2010 general meeting.

Pursuant to the resolution of the board of the Company dated 18 March 2011, a cash dividend of RMB0.09 per share based on 262,657,855 shares in total with a nominal value of RMB1 each was paid to all shareholders, which was approved and passed at the 2011 general meeting.

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

(32) RETAINED EARNINGS *(continued)*

Pursuant to the resolutions of the Company's first extraordinary general meeting and class meetings on 20 June 2011, the retained earnings upon the issuance of A Shares of the Company will be shared by all shareholders of the Company (including new A shareholders, existing domestic shareholders and H shareholders) after the completion of the A Share issue; for the avoidance of doubt, new A shareholders are not entitled to any dividend declared prior to the A Share issue.

(33) MINORITY INTERESTS

The balance of minority interests of subsidiaries of the Company is as follows:

| | 31 December 2011 | 31 December 2010 |
|---------------------|----------------------|----------------------|
| Siping Steering | 3,250,000.00 | 3,250,000.00 |
| Hangzhou Shibao | — | 1,282,101.24 |
| Beijing Autonic | 2,246,301.85 | 2,816,589.36 |
| Hangzhou New Shibao | 15,120,001.88 | 17,378,383.60 |
| | <u>20,616,303.73</u> | <u>24,727,074.20</u> |

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

(34) REVENUE AND COST OF SALES

Revenue, also the Group's turnover, represents the net invoiced value of goods sold less goods returned and trade discounts.

Revenue is as follows:

| | 2011 | 2010 |
|-----------------------------------|-----------------------|-----------------------|
| Revenue from principle operations | 623,423,137.12 | 545,344,703.15 |
| Other revenue | 2,493,982.09 | 599,223.37 |
| | <u>625,917,119.21</u> | <u>545,943,926.52</u> |

Costs are as follows:

| | 2011 | 2010 |
|---------------------------------|-----------------------|-----------------------|
| Costs from principle operations | 403,659,490.72 | 349,794,180.37 |
| Other costs | 227,627.68 | 100,000.00 |
| | <u>403,887,118.40</u> | <u>349,894,180.37</u> |

The above operating costs include depreciation and amortization expenses amounting to RMB24,469,015.93 (2010: RMB19,522,033.60).

Principal operations by products are as follows:

| | 2011 | | 2010 | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | Revenue | Costs | Revenue | Costs |
| Power recirculating ball steering gears and its components | 262,191,095.26 | 178,956,835.39 | 256,216,512.28 | 174,848,058.51 |
| Steering knuckles | 134,406,458.54 | 80,868,082.74 | 140,879,658.16 | 74,876,530.57 |
| Power rack-and-pinion steering gears | 151,018,295.02 | 94,618,115.69 | 86,303,617.47 | 58,474,075.02 |
| Manual recirculating ball steering gears | 10,691,736.74 | 9,205,886.64 | 13,364,800.48 | 11,551,244.01 |
| Spare parts and others | 65,115,551.56 | 40,010,570.26 | 48,580,114.76 | 30,044,272.26 |
| | <u>623,423,137.12</u> | <u>403,659,490.72</u> | <u>545,344,703.15</u> | <u>349,794,180.37</u> |

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

(34) REVENUE AND COSTS (continued)

Revenue from the five largest customers in 2011 was as follows:

| | Amount | Proportion to revenue (%) |
|--------------------------------------|-----------------------|------------------------------|
| FAW Car Co., Ltd. | 164,808,106.24 | 26.33 |
| Dintech International Corp., Ltd. | 89,684,497.42 | 14.33 |
| FAW Jiefang Qingdao Auto Co., Ltd. | 77,091,795.97 | 12.32 |
| Anhui Jianghuai Automobile Co., Ltd. | 66,831,791.48 | 10.68 |
| Wuhu Sterling Co., Ltd. (蕪湖世特瑞有限公司) | 36,750,390.25 | 5.87 |
| | <u>435,166,581.36</u> | <u>69.53</u> |

Revenue from the five largest customers in 2010 was as follows:

| | Amount | Proportion to revenue (%) |
|--------------------------------------|-----------------------|------------------------------|
| FAW Car Co., Ltd. | 177,436,509.47 | 32.50 |
| FAW Jiefang Qingdao Auto Co., Ltd. | 86,794,831.73 | 15.90 |
| Anhui Jianghuai Automobile Co., Ltd. | 52,363,271.97 | 9.59 |
| Wuhu Sterling Co., Ltd. (蕪湖世特瑞有限公司) | 27,573,702.91 | 5.05 |
| Dintech International Corp., Ltd. | 21,594,991.45 | 3.96 |
| | <u>365,763,307.53</u> | <u>67.00</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(35) SALES TAXES AND SURCHARGES

| | 2011 | 2010 |
|---------------------------------------|---------------------|---------------------|
| City construction and maintenance tax | 3,017,590.34 | 898,678.19 |
| Education surcharges | 2,086,430.85 | 650,994.33 |
| Others | 52,863.43 | 49,389.17 |
| | <u>5,156,884.62</u> | <u>1,599,061.69</u> |

For the standards of calculation and payment of sales taxes and surcharges, please refer to Note 3.

(36) SELLING EXPENSES

| | 2011 | 2010 |
|------------------------------|----------------------|----------------------|
| Transportation cost | 13,302,721.96 | 13,116,042.03 |
| Wages, welfare and bonuses | 6,704,375.05 | 7,266,545.13 |
| Warranty fee | 7,842,173.66 | 10,066,805.46 |
| Travelling expenses | 3,167,263.24 | 2,894,270.09 |
| Entertainment charge | 1,906,139.46 | 1,773,608.62 |
| Depreciation of fixed assets | 361,038.43 | 5,480.10 |
| Others | 2,597,827.23 | 2,385,619.15 |
| | <u>35,881,539.03</u> | <u>37,508,370.58</u> |

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

(37) GENERAL AND ADMINISTRATIVE EXPENSES

| | 2011 | 2010 |
|------------------------------------|----------------------|----------------------|
| Wages, welfare and bonuses | 15,874,276.14 | 14,288,273.34 |
| Including: basic pension insurance | 4,148,052.41 | 2,927,514.75 |
| Medical insurance | 2,343,718.38 | 1,291,645.16 |
| Unemployment insurance | 226,490.01 | 323,817.30 |
| Work injury insurance | 58,627.12 | 156,856.82 |
| Maternity insurance | 127,805.91 | 103,094.69 |
| R&D expenses | 14,678,574.46 | 12,329,396.46 |
| Office cost | 4,254,776.26 | 4,303,514.95 |
| Professional service fee | 2,943,977.12 | 2,243,065.86 |
| Depreciation of fixed assets | 3,801,084.97 | 3,694,100.84 |
| Amortization of intangible assets | 4,043,308.92 | 1,136,051.91 |
| Other taxation | 3,280,687.13 | 2,485,400.23 |
| Travelling expenses | 1,571,936.46 | 1,467,182.27 |
| Entertainment charge | 955,116.36 | 602,338.52 |
| Others | 3,149,441.78 | 1,328,176.99 |
| | <u>54,553,179.60</u> | <u>43,877,501.37</u> |

The above general and administrative expenses include auditors' remuneration amounting to RMB1,200,000.00 (2010: RMB1,200,000.00).

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

(38) FINANCIAL EXPENSES

| | 2011 | 2010 |
|---|---------------------|-------------------|
| Interest expense | 6,727,724.17 | 1,240,759.87 |
| Including: interests of other loans fully repayable | | |
| within 5 years | 6,586,224.17 | 986,259.87 |
| interests of other loans not fully repayable within 5 years | 141,500.00 | 254,500.00 |
| Less: interest income | 880,761.72 | 791,368.76 |
| Others | (152,068.77) | 66,615.76 |
| | <u>5,694,893.68</u> | <u>516,006.87</u> |

(39) PROVISION FOR ASSET IMPAIRMENT

| | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Reversal of provision for bad debts | (89,759.46) | (2,600,929.00) |
| Provision/(reversal of provision) for impairment of inventories | (924,277.70) | 900,373.00 |
| Provision on impairment of goodwill | — | 178,027.50 |
| | <u>(1,014,037.16)</u> | <u>(1,522,528.50)</u> |

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

(40) INVESTMENT GAINS

| | 2011 | 2010 |
|---|---------------------|-----------------------|
| Unlisted investments: | | |
| Investment gains / (losses) from long-term equity investments under equity method of accounting | <u>(127,683.62)</u> | <u>(1,146,008.13)</u> |
| Including: Investment gains / (losses) from associates | <u>(127,683.62)</u> | <u>(1,146,008.13)</u> |

In 2011 and 2010, the Group had no investment income from long-term equity investments under the cost method of accounting.

In 2011 and 2010, none of the Group's investment losses from long-term equity investments under the equity method of accounting accounted for more than 5% of the total investment.

(41) NON-OPERATING INCOME

| | 2011 | 2010 |
|-------------------------------------|---------------------|---------------------|
| Gains from disposal of fixed assets | 5,641.63 | 231,178.59 |
| Government grants | 5,195,677.72 | 3,637,306.95 |
| Others | 204,730.67 | 601,331.44 |
| | <u>5,406,050.02</u> | <u>4,469,816.98</u> |

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

(41) NON-OPERATING INCOME *(continued)*

Government grants recognized in profit or loss during the period were as follows:

| | | 2011 | 2010 |
|---|------|---------------------|---------------------|
| Steering knuckle system for sedans | (1) | 173,313.00 | 1,370,341.00 |
| Subsidies for the precious casting and processing of automotive components project | (2) | 40,734.32 | 216,666.67 |
| Subsidies for investment plan for adjustment and improvement project for traditional industry bases including the Northeast Area within National Budget | (3) | 1,072,500.00 | — |
| Financial subsidy for economic compensation of the termination of employment relationship with employees by enterprise | (4) | 3,448,130.40 | — |
| Patent subsidies from Science and Technology Bureau of Jilin Province | (5) | 5,000.00 | — |
| Famous Brand awards given by Technical Supervision Bureau of Jilin Province | (6) | 50,000.00 | — |
| R&D center of high-new technology | (7) | — | 200,000.00 |
| Patent subsidies | (8) | 6,000.00 | 11,000.00 |
| Science and technology awards from Hangzhou Economic and Technological Development Zone | (9) | 400,000.00 | — |
| First batch of specific funds for auto industry development in 2010 | (10) | — | 700,000.00 |
| Employment subsidies for university students | (11) | — | 31,185.28 |
| Economic policy rewards | (12) | — | 445,700.00 |
| Subsidy for enterprise training base to university students in 2009 | (13) | — | 23,414.00 |
| Subsidy for employment of fresh graduates in development zone in 2009 | (14) | — | 2,000.00 |
| Advanced collective amount for job attachment and training to university students | (15) | — | 6,000.00 |
| Interest subsidy on imported products | (16) | — | 131,000.00 |
| Provincial specific funds for auto industry development in 2009 | (17) | — | 400,000.00 |
| Subsidy for listing | (18) | — | 100,000.00 |
| | | 5,195,677.72 | 3,637,306.95 |

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

(41) NON-OPERATING INCOME *(continued)*

- (1) Pursuant to "Forward of Notice on First Batch of Specific Fund (Treasury Bond) Investment Plan for Adjustment and Improvement Project for Traditional Industry Bases Including the Northeast Area within National Budget Issued by NDRC in 2004" (《轉發國家發展改革委關於下達 2004 年東北地區等老工業基地調整改造專項第一批國家預算內專項資金(國債)投資計劃的通知》) (Ji Fa Gai Tou Zi Zi [2004] No. 801) issued by the Development and Reform Commission of Jilin Province on 9 November 2004, Siping Steering received subsidies for its steering knuckle project for sedans of RMB5,670,000.00 on 28 December 2004. Revenues of RMB173,313.00 and RMB1,370,341.00 were recognized in 2011 and 2010 respectively.
- (2) Pursuant to "Description of Subsidy Funds for the Precious Casting and Processing of Automotive Components Project" (《關於汽車零部件精密鑄件及加工建設項目補貼資金的說明》) issued by Siping Tiedong Economic and Technology Development Zone Management Committee, Jilin Shibao received subsidies for the precious casting and processing of automotive components project of RMB2,000,000.00 and RMB3,225,240.00 on 1 February 2009 and 24 December 2009 respectively, totaling RMB5,225,240.00. Revenues of RMB40,734.32 and RMB216,666.67 were recognized in 2011 and 2010 respectively.
- (3) Pursuant to "Reply of the Office of NDRC on Investment Project for Adjustment and Improvement for Traditional Industry Bases Including the Northeast Area within National Budget in 2010" (《國家發展改革委辦公廳關於東北等老工業基地調整改造 2010 年中央預算內投資項目的復函》) issued by NDRC (Fa Gai Ban Chan Ye [2010] No.2684), Jilin Shibao received subsidies for the precious casting and processing of automotive components project of RMB24,900,000.00 in total on 27 April 2011, 8 June 2011, 11 August 2011 and 31 December 2011 respectively. Revenues of RMB1,072,500.00 were recognized in 2011.
- (4) Pursuant to "Issues on the Reform Pilot Scheme Relating to Large Collective Enterprises Including Siping City No.3 Steel Sling Factory" (《關於四平市第三鋼繩廠等廠辦大集體企業改革試點的有關問題》), meeting minutes for the special topic of Siping people's government office dated 9 December 2010, Zhejiang Shibao received a financial subsidy for the economic compensation of the termination of employment relationship with employees of RMB3,448,130.40 on 21 January 2011.
- (5) Pursuant to "Notice on Event Fund Relating to Patent Development Fund of Jilin Province for 2010" (《關於下達 2010 年度 < 吉林省專利發展資金 > 項目經費的通知》) issued by the Science and Technology Bureau of Jilin Province on 10 February 2011, Siping Steering received patent subsidies of RMB5,000.00 on 18 March 2011.

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

(41) NON-OPERATING INCOME *(continued)*

- (6) Pursuant to "Decision on Rewarding Manufacturers with Famous Brand Products in Jilin Province in 2010 by Jilin Province Famous Brand Products Promotion Commission" (《吉林省名牌產品推進委員會關於表彰2010年吉林省名牌產品生產企業的決定》) issued by the Jilin Province Famous Brand Products Promotion Commission on 20 December 2010, Siping Steering received Famous Brand awards of RMB50,000.00 on 11 May 2011.
- (7) Pursuant to "Hangzhou Science and Technology Development Plan Project Contract" (《杭州市科技發展計劃項目合同書》) (Plan No. 20082631P09) between the Company and the Hangzhou Science and Technology Bureau, Hangzhou Shibao received subsidies of RMB200,000.00 for its R&D center of high-new technology on 31 December 2010.
- (8) Pursuant to "Hangzhou Patent Special Funds Management Approach" (《杭州市專利專項資金管理辦法》) issued by the Science and Technology Bureau and Finance Bureau of Hangzhou on 20 June 2009, Hangzhou Shibao received patent subsidies of RMB6,000.00 on 18 July 2011; pursuant to "Policies on Encouraging Science and Technology Development (2010)" (《關於鼓勵科技發展的若干政策(2010年度)》) implemented on 1 January 2010 by the Hangzhou Economic and Technology Development Zone, Hangzhou Shibao received patent subsidies of RMB11,000.00 on 27 September 2010.
- (9) Pursuant to "Notice on the Establishment Plan of Second Batch of R&D Center in Provincial High-New Technology Enterprises Issued by Science and Technology Bureau of Zhejiang Province in 2009" (《浙江省科學技術廳關於下達2009年第二批省級高新技術企業研究開發中心建設計劃的通知》) (Zhe Ke Fa Tiao [2009] No.293) issued by the Zhejiang Science and Technology Bureau on 31 December 2009 and "Policies on Encouraging Science and Technology Development (2010)" (《關於鼓勵科技發展的若干政策(2010年度)》) implemented on 1 January 2010 by the Hangzhou Economic and Technology Development Zone, Hangzhou Shibao received science and technology awards of RMB400,000.00 on 12 February 2011.
- (10) Pursuant to "Notice on Issuance of Hangzhou First Batch of Specific Funds for Auto Industry Development in 2010" (《關於下達2010年第一批杭州市汽車產業發展專項資金的通知》) issued by the Hangzhou Finance Bureau and Economic Commission (Hang Cai Kuai [2010] No.786) on 10 August 2010, Hangzhou Shibao received specific funds for auto industry development of RMB700,000.00 on 12 October 2010.

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

(41) NON-OPERATING INCOME *(continued)*

- (11) Pursuant to "Notice on Implementation Measures (Trial) for Job Attachment and Training to University Students in Hangzhou issued by the Office of Hangzhou People's Government" (《杭州市人民政府辦公廳關於印發杭州市大學生見習訓練實施辦法(試行)的通知》) (Hang Zheng Ban [2009] No.74) dated 23 February 2009, Hangzhou Shibao received employment subsidies for providing job attachment and training to university students of RMB31,185.28 on 12 January 2010.
- (12) Pursuant to "Circular on Awards in Recognition of Industrial Advanced Enterprises in 2009" (《關於對2009年度工業先進企業予以表彰獎勵的通報》) (Hang Jing Kai Guan Fa [2010] No.64) issued by the Hangzhou Economic and Technology Development Zone Management Committee on 1 March 2010 and "Circular on Awards in Recognition of Science and Technology Advanced Enterprises in 2009" (《關於對2009年度科技先進企業予以表彰獎勵的通報》) (Hang Jing Kai Guan [2010] No.74) issued by the Hangzhou Economic and Technology Development Zone Management Committee on 2 March 2010, Hangzhou Shibao received awards amounting to RMB445,700.00 in total with respect to high-new technology enterprise award, R&D center award, patent award and double-digit growth award on 1 April 2010.
- (13) Pursuant to "Notice on 'University Student Training in Enterprises in Hangzhou'" (《關於印發〈杭州市大學生企業實訓工作方案〉的通知》) (Hang Ren [2008] No.163) issued by the Personnel Bureau and Finance Bureau of Hangzhou on 29 April 2008, Hangzhou Shibao received a subsidy of RMB23,414.00 for enterprise training base to university students on 1 September 2010.
- (14) Pursuant to "Notice on 'University Student Training in enterprises in Hangzhou'" (《關於印發〈杭州市大學生企業實訓工作方案〉的通知》) (Hang Ren [2008] No.163) issued by the Personnel Bureau and Finance Bureau of Hangzhou on 29 April 2008, Hangzhou Shibao received a subsidy for employment of fresh graduates of RMB2,000.00 on 1 September 2010.
- (15) Pursuant to "Circular on Awards in Recognition of Advanced Collectives and Individuals for job attachment and training to university students in Hangzhou in 2010" (《關於表彰2010年杭州市大學生見習訓練工作先進集體和先進個人的通報》) (Hang Lao She Jiu [2010] No.303) issued by the Labour and Social Security Bureau, the Personnel Bureau and the Finance Bureau of Hangzhou, Hangzhou Shibao received an amount for advanced collectives of job attachment and training to university students of RMB6,000.00 on 15 December 2010.
- (16) Pursuant to "Notice on appropriation of Interest Subsidy for imported products in 2009" (《關於撥付2009年度進口產品貼息資金的通知》) (Ji Cai Qi Zhi [2010] No.1164) issued by the Finance Bureau of Jilin Province on 25 October 2010, Jilin Shibao received an interest subsidy for imported products of RMB131,000.00 on 29 December 2010.

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

(41) NON-OPERATING INCOME (continued)

(17) Pursuant to "Notice on Issuance of Specific Funds for Provincial Auto Industry Development in 2009" (《關於下達 2009 年全省汽車產業發展專項資金項目計劃的通知》) [Ji Gong Xin Ban [2009] No.603] issued by the Industry and Information Technology Bureau of Jilin Province on 27 September 2009, Jilin Shibao received specific funds for auto industry development of RMB400,000.00 on 13 May 2010.

(18) Pursuant to "Circular of Yiwu People's Government on Encouraging the Establishment of Corporation Limited and Nurturing Its listing" (《義烏市人民政府關於鼓勵設立股份有限公司培育企業上市的若干意見》) (Yi Zheng Fa [2004] No.63) issued by the People's Government of Yiwu on 22 June 2004, Zhejiang Shibao received subsidies for listing of RMB100,000.00 on 27 December 2010.

(42) NON-OPERATING EXPENSES

| | 2011 | 2010 |
|--------------------------------------|---------------------|---------------------|
| Loss on the disposal of fixed assets | 318,526.97 | 126,458.03 |
| Water conservancy fund | 392,983.21 | 289,768.91 |
| Loss on settlement of debts | — | 143,618.50 |
| External donations | — | 150,000.00 |
| Others | 429,901.45 | 315,782.19 |
| | <u>1,141,411.63</u> | <u>1,025,627.63</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(43) INCOME TAX EXPENSES

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

| | 2011 | 2010 |
|-----------------------------|----------------------|----------------------|
| Current income tax expense | 13,267,232.70 | 14,134,380.02 |
| Deferred income tax expense | 1,979,265.83 | 188,002.28 |
| | <u>15,246,498.53</u> | <u>14,322,382.30</u> |

Relationship between income tax expense and total profit:

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Total profit | 125,894,495.81 | 118,661,531.62 |
| Tax payable by the Company and its subsidiaries under the statutory rate | 31,473,623.95 | 29,665,382.91 |
| Tax adjustment during the year as a result of events in previous year | (8,963,243.85) | 331,512.53 |
| Tax on profit and loss of an associate | 82,077.26 | (190,500.55) |
| Tax on non-deductible expense | 453,281.58 | 361,716.77 |
| Effect of different tax rates applicable to certain subsidiaries | (12,079,320.13) | (15,591,908.77) |
| Unrecognized losses deductible for tax | 5,909,556.26 | 1,594,717.20 |
| Tax exemption for domestic equipment purchase | — | (1,064,639.18) |
| Tax exemption for tax-exempt income – financial subsidy | (268,125.00) | — |
| Additional deduction for R&D expenses | (1,361,351.54) | (783,898.61) |
| | <u>15,246,498.53</u> | <u>14,322,382.30</u> |

The income tax of the Group is estimated based on the taxable income in Mainland China and applicable tax rates, please refer to Note 3.

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

(43) INCOME TAX EXPENSES (continued)

Siping Steering met "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》)(Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004, and it was entitled to income tax exemption. However, as it did not get the approval reply from the tax authority during the year, Siping Steering fully provided for the corporate income tax for the relevant period. In November 2011, Siping Steering got the approval reply from the State Administration of Taxation in the Siping Economic Development Zone, which agreed to implement the provisions of "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》)(Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004 to exempt Siping Steering from corporate income tax, and therefore Siping Steering offset the provision for corporate income tax of RMB8,963,243.85 for the relevant period.

(44) 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 year and the weighted average number of the ordinary shares in issue.

In 2011 and 2010, the Company had no dilutive potential ordinary shares.

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

| | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Earnings | | |
| Net profit attributable to the ordinary equity holders of the Company | <u>112,872,143.11</u> | <u>103,403,049.81</u> |
| Shares | | |
| Weighted average of ordinary shares issued by the Company | <u>262,657,855.00</u> | <u>262,657,855.00</u> |
| Basic earnings per share (RMB) | <u>0.43</u> | <u>0.39</u> |
| Diluted earnings per share (RMB) | <u>0.43</u> | <u>0.39</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

(45) NOTES TO ITEMS OF THE STATEMENT OF CASH FLOWS

Other cash received in relation to operating activities:

| | 2011 | 2010 |
|---------------------------------------|----------------------|---------------------|
| Recovery of restricted monetary funds | 13,841,098.89 | — |
| Subsidy income | 3,909,130.40 | 2,050,299.00 |
| Non-operating income | 204,730.67 | 601,331.44 |
| Others | 291,057.97 | 300,000.28 |
| Total | <u>18,246,017.93</u> | <u>2,951,630.72</u> |

Other cash payable in relation to operating activities:

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Selling expense | 30,967,242.38 | 30,236,345.48 |
| General and administrative expenses | 25,580,399.55 | 18,337,367.47 |
| Compensation of the termination of employment relationship with employees by enterprise | 4,310,163.00 | — |
| Non-operating expense | 822,884.66 | 899,169.60 |
| Financial expenses | 138,989.20 | 66,615.76 |
| Petty cash advanced | 317,237.73 | 640,454.67 |
| Increase of restricted monetary funds | — | 10,563,229.50 |
| Others | 4,525,009.31 | 1,473,373.73 |
| Total | <u>66,661,925.83</u> | <u>62,216,556.21</u> |

Other cash received in relation to investment activities:

| | 2011 | 2010 |
|-----------------|----------------------|-------------------|
| Interest income | 880,761.72 | 791,368.76 |
| Subsidy income | 24,900,000.00 | — |
| Total | <u>25,780,761.72</u> | <u>791,368.76</u> |

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

(46) SUPPLEMENTAL INFORMATION ON THE STATEMENT OF CASH FLOWS

(1) *Supplemental information on the statement of cash flows*

Reconciliation of net profit to cash flows from operating activities:

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Net profit | 110,647,997.28 | 104,339,149.32 |
| Add: | | |
| Provision/(reversal) for impairment of assets | (1,014,037.17) | (1,522,528.50) |
| Depreciation of fixed assets | 28,386,352.93 | 22,801,638.16 |
| Amortisation of intangible assets | 4,288,095.32 | 1,556,028.29 |
| Amortisation of deferred revenue | (1,286,547.32) | (1,587,007.67) |
| Unrealized gains sold to an associate | 200,625.44 | 384,005.95 |
| Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets | 312,885.34 | (104,720.56) |
| Financial expenses | 5,846,962.45 | 449,391.11 |
| Investment losses/(gains) | 127,683.62 | (1,146,008.13) |
| Decrease/(increase) in deferred tax assets | 2,171,515.83 | (1,702,456.05) |
| Decrease in deferred tax liabilities | (192,250.00) | (32,041.67) |
| Decrease/(increase) in inventories | 16,512,953.62 | (41,069,023.95) |
| Increase in operating receivables | (142,408,274.89) | (63,728,995.00) |
| Increase in operating payables | 21,364,337.96 | 48,105,688.73 |
| Net cash flows from operating activities | <u>44,958,300.41</u> | <u>66,743,120.03</u> |

Net change in cash and cash equivalents:

| | 31 December 2011 | 31 December 2010 |
|--|-----------------------|----------------------|
| Closing balance of cash | 153,654.33 | 126,251.37 |
| Less: Opening balance of cash | 126,251.37 | 60,514.51 |
| Add: Closing balance of cash equivalents | 40,558,326.40 | 48,812,012.78 |
| Less: Opening balance of cash equivalents | 48,812,012.78 | 32,748,271.56 |
| Net increase/(decrease) in cash and cash equivalents | <u>(8,226,283.42)</u> | <u>16,129,478.08</u> |

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

(46) SUPPLEMENTAL INFORMATION ON STATEMENT OF CASH FLOWS *(continued)*

(2) *Information on acquisition and disposal of subsidiaries and other operating entities*

Information on acquisition of subsidiaries and other operating entities

| | 2010 |
|--|---------------------|
| Price for acquisition of subsidiaries and other operating entities | 7,000,000.00 |
| Cash and cash equivalents paid for acquisition of subsidiaries and other operating entities | 7,000,000.00 |
| Less: Cash and cash equivalents held by subsidiaries and other operating entities being acquired | 808,032.84 |
| Net cash paid for acquisition of subsidiaries and other operating entities | <u>6,191,967.16</u> |

(3) *Cash and cash equivalent:*

| | 31 December 2011 | 31 December 2010 |
|--|----------------------|----------------------|
| Cash | | |
| Including: Cash on hand | 153,654.33 | 126,251.37 |
| Bank deposit readily available | <u>40,558,326.40</u> | <u>48,812,012.78</u> |
| Closing balance of cash and cash equivalents | <u>40,711,980.73</u> | <u>48,938,264.15</u> |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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6. OPERATING SEGMENT INFORMATION

OPERATING SEGMENT

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

OTHER INFORMATION

Geographical information

Almost all external revenue of the Group was generated from Mainland China.

Almost all non-current assets of the Group were located in Mainland China.

INFORMATION ABOUT MAJOR CUSTOMERS

Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Group in 2011 is as follows:

| | Amount | Proportion to revenue (%) |
|--------------------------------------|----------------|------------------------------|
| FAW Car Co., Ltd. | 164,808,106.24 | 26.33 |
| Dintech International Corp., Ltd. | 89,684,497.42 | 14.33 |
| FAW Jiefang Qingdao Auto Co., Ltd. | 77,091,795.97 | 12.32 |
| Anhui Jianghuai Automobile Co., Ltd. | 66,831,791.48 | 10.68 |

Information on customers from whom the revenue individually accounted for 10% or more of the total revenue of the Group in 2010 is as follows:

| | Amount | Proportion to revenue (%) |
|------------------------------------|----------------|------------------------------|
| FAW Car Co., Ltd. | 177,436,509.47 | 32.50 |
| FAW Jiefang Qingdao Auto Co., Ltd. | 86,794,831.73 | 15.90 |

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS

(1) ACCOUNTS RECEIVABLE

The ageing analysis of accounts receivable is as follows:

| | 31 December 2011 | 31 December 2010 |
|--------------------------------|-----------------------------|-----------------------------|
| Within 1 year | 18,242,228.66 | 17,307,693.08 |
| 1-2 years | 97,042.94 | — |
| 2-3 years | — | — |
| Over 3 years | 292,979.00 | 353,743.20 |
| | <u>18,632,250.60</u> | <u>17,661,436.28</u> |
| Less: Provision for impairment | <u>(390,021.94)</u> | <u>(353,743.20)</u> |
| | <u><u>18,242,228.66</u></u> | <u><u>17,307,693.08</u></u> |

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

| | At the beginning of year | Provision during the year | Reversal during the year | At the end of year |
|------|-----------------------------|------------------------------|-----------------------------|-----------------------|
| 2011 | <u>353,743.20</u> | <u>36,278.74</u> | <u>—</u> | <u>390,021.94</u> |
| 2010 | <u>353,743.20</u> | <u>—</u> | <u>—</u> | <u>353,743.20</u> |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS *(continued)*

(1) ACCOUNTS RECEIVABLE *(continued)*

Analysis of accounts receivable by categories is as follows:

| | 31 December 2011 | | | |
|---|----------------------|---------------|--------------------|--------|
| | Carrying balance | | Bad debt provision | |
| | amount | (%) | amount | (%) |
| Individually significant balance | 18,242,228.66 | 97.91 | — | — |
| Individually insignificant but significant based on credit risk characteristics | 390,021.94 | 2.09 | 390,021.94 | 100.00 |
| Other insignificant balances | — | — | — | — |
| | <u>18,632,250.60</u> | <u>100.00</u> | <u>390,021.94</u> | |

| | 31 December 2010 | | | |
|---|----------------------|---------------|--------------------|--------|
| | Carrying balance | | Bad debt provision | |
| | amount | (%) | amount | (%) |
| Individually significant balance | 17,261,724.62 | 97.74 | — | — |
| Individually insignificant but significant based on credit risk characteristics | 353,743.20 | 2.00 | 353,743.20 | 100.00 |
| Other insignificant balances | 45,968.46 | 0.26 | — | — |
| | <u>17,661,436.28</u> | <u>100.00</u> | <u>353,743.20</u> | |

As at 31 December 2011 and 31 December 2010, no significant accounts receivable were reversed or recovered.

In 2011 and 2010, no significant accounts receivable were written off.

As at 31 December 2011 and 31 December 2010, the Group did not hold accounts receivable for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

(1) ACCOUNTS RECEIVABLE (continued)

As at 31 December 2011, the five largest accounts receivable are as follows:

| | Relationship with the Group | Amount | Ageing | Percentage of total accounts receivable(%) |
|---|--------------------------------|---------------|---------------|--|
| Wuhu Sterling Steering System Co., Ltd. | Associated company | 18,242,228.66 | Within 1 year | 97.91 |
| Ganzhou Jianghuan Automobile Manufacturing Co., Ltd. | Third party customer | 125,000.00 | Over 3 years | 0.67 |
| Nanjing Donghua Automotive Steering Co., Ltd. | Third party customer | 97,042.94 | 1-2 years | 0.52 |
| Hubei Sanhuan Company Sepcial Vehicle Plant | Third party customer | 43,400.00 | Over 3 years | 0.23 |
| Dongfeng Shiyan Transmission Shaft Company | Third party customer | 36,000.00 | Over 3 years | 0.19 |
| | | 18,543,671.60 | | 99.52 |

As at 31 December 2010, the five largest accounts receivable are as follows:

| | Relationship with the Group | Amount | Ageing | Percentage of total accounts receivable(%) |
|--|--------------------------------|---------------|---------------|--|
| Wuhu Sterling Steering System Co., Ltd. | Associated company | 17,063,803.27 | Within 1 year | 96.62 |
| Ganzhou Jianghuan Automobile Manufacturing Co., Ltd. | Third party customer | 125,000.00 | Over 3 years | 0.71 |
| Nanjing Donghua Automotive Steering Co., Ltd. | Third party customer | 97,839.46 | Within 1 year | 0.55 |
| Hubei Sanhuan Company Sepcial Vehicle Plant | Third party customer | 43,400.00 | Over 3 years | 0.25 |
| Dongfeng Shiyan Transmission Shaft Company | Third party customer | 36,000.00 | Over 3 years | 0.20 |
| | | 17,366,042.73 | | 98.33 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

(1) ACCOUNTS RECEIVABLE (continued)

As at 31 December 2011 and 31 December 2010, an amount due from a related party is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|----------------------|----------------------|
| Wuhu Sterling Steering System Co., Ltd. | <u>18,242,228.66</u> | <u>17,063,803.27</u> |

In 2011 and 2010, the Company did not have other receivables transferred as financial assets for derecognition.

(2) OTHER RECEIVABLES

Ageing analysis of other receivables is as follows:

| | 31 December 2011 | 31 December 2010 |
|--|-----------------------|-----------------------|
| Within 1 year | 85,874,740.18 | 101,179,868.86 |
| 1-2 years | 70,005,762.60 | 92,040,022.00 |
| 2-3 years | 67,775,909.80 | 1,930.00 |
| Over 3 years | 25,447.21 | 82,391.33 |
| | <u>223,681,859.79</u> | <u>193,304,212.19</u> |
| Less: bad debt provision for other receivables | — | — |
| | <u>223,681,859.79</u> | <u>193,304,212.19</u> |

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

(2) OTHER RECEIVABLES (continued)

Analysis for other receivables by categories is as follows:

| | 31 December 2011 | | | |
|---|-----------------------|---------------|--------------------|----------|
| | Carrying amount | | Bad debt provision | |
| | amount | (%) | amount | (%) |
| Individually significant balance | 223,358,374.92 | 99.86 | — | — |
| Individually insignificant but significant based on credit risk characteristics | 29,159.22 | 0.01 | — | — |
| Other insignificant other receivables | 294,325.65 | 0.13 | — | — |
| | <u>223,681,859.79</u> | <u>100.00</u> | <u>—</u> | <u>—</u> |

| | 31 December 2010 | | | |
|---|-----------------------|---------------|--------------------|----------|
| | Carrying amount | | Bad debt provision | |
| | amount | (%) | amount | (%) |
| Individually significant balance | 193,087,453.00 | 99.89 | — | — |
| Individually insignificant but significant based on credit risk characteristics | 87,321.33 | 0.04 | — | — |
| Other insignificant other receivables | 129,437.86 | 0.07 | — | — |
| | <u>193,304,212.19</u> | <u>100.00</u> | <u>—</u> | <u>—</u> |

Individually insignificant but significant based on credit risk characteristics mainly refers to the individually insignificant receivables with long ageing.

In 2011 and 2010, the Company did not have any other receivables written off.

As at 31 December 2011 and 31 December 2010, the Company did not hold other receivables for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

In the opinion of the management of the Company, as at 31 December 2011 and 31 December 2010, there was no need to make impairment provision for the abovementioned other receivables.

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS *(continued)*

(2) OTHER RECEIVABLES *(continued)*

In 2011 and 2010, the Company did not have any other receivables written off.

As at 31 December 2011 and 31 December 2010, the Company did not hold other receivables for shareholding units with 5% (inclusive) or more of the voting rights of the Company.

As at 31 December 2011, the five largest other receivables are as follows:

| | Relationship with the Company | Amount | Ageing | Percentage of total (%) |
|---------------------|----------------------------------|----------------|----------------|----------------------------|
| Hangzhou Shibao | Subsidiary of the Comoany | 100,357,960.39 | Within 3 years | 44.87 |
| Jilin Shibao | Subsidiary of the Comoany | 66,070,000.00 | Within 3 years | 29.54 |
| Hangzhou New Shibao | Subsidiary of the Company | 33,000,000.00 | Within 1 year | 14.75 |
| Siping Steering | Subsidiary of the Comoany | 17,696,157.77 | Within 1 year | 7.91 |
| Beijing Autonic | Subsidiary of the Comoany | 3,900,000.00 | Within 1 year | 1.74 |
| | | 221,024,118.16 | | 98.81 |
| | | 221,024,118.16 | | 98.81 |

As at 31 December 2010, the five largest other receivables are as follows:

| | Relationship with the Company | Amount | Ageing | Percentage of total (%) |
|-----------------|----------------------------------|----------------|----------------|----------------------------|
| Hangzhou Shibao | Subsidiary of the Comoany | 140,817,453.00 | Within 2 years | 72.85 |
| Jilin Shibao | Subsidiary of the Comoany | 52,270,000.00 | Within 2 years | 27.04 |
| Sifang Comany | Third party | 69,666.71 | Within 1 year | 0.04 |
| CAAM | Third party | 47,619.23 | Within 1 year | 0.02 |
| Zhang Gen Fu | Staff of the Company | 12,297.46 | Within 1 year | 0.01 |
| | | 193,217,036.40 | | 99.96 |
| | | 193,217,036.40 | | 99.96 |

In 2011 and 2010, the Company did not have other receivables transferred as financial assets for derecognition.

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

(3) LONG TERM EQUITY INVESTMENTS

| | | 31 December 2011 | 31 December 2010 |
|--|------|-----------------------|-----------------------|
| Unlisted investments: | | | |
| Equity investments under cost method of accounting | | | |
| - subsidiaries | (i) | 128,000,000.00 | 126,850,000.00 |
| Equity investments under equity method of accounting | | | |
| - equity holding in an associate | (ii) | 11,696,900.10 | 7,229,378.10 |
| Balance at the end of year | | <u>139,696,900.10</u> | <u>134,079,378.10</u> |

(i) Subsidiaries

| Investee | 31 December 2011 Carrying amount | 31 December 2010 Carrying amount | Percentage in investee's registered capital |
|---------------------|-------------------------------------|-------------------------------------|--|
| Hangzhou Shibao | 40,750,000.00 | 39,600,000.00 | Note |
| Siping Steering | 8,250,000.00 | 8,250,000.00 | Note |
| Jilin Shibao | 30,000,000.00 | 30,000,000.00 | Note |
| Hangzhou New Shibao | 42,000,000.00 | 42,000,000.00 | Note |
| Beijing Autonic | 7,000,000.00 | 7,000,000.00 | Note |
| | <u>128,000,000.00</u> | <u>126,850,000.00</u> | |

Note: details are set out in Note 4.(1).

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

(3) LONG TERM EQUITY INVESTMENTS (continued)

(ii) Equity in an associate

| Investee | 31 December 2011 Carrying amount | 31 December 2010 Carrying amount | Percentage in investee's registered capital |
|---------------|-------------------------------------|-------------------------------------|--|
| Wuhu Sterling | <u>11,696,900.10</u> | <u>7,229,378.10</u> | Note |

Note: According to the capital investment agreement, the Company paid its contribution of RMB 7,200,000 before 10 November 2004 and held 36% of equity of Wuhu Sterling. On 8 April 2011, the Company and Sun Ya Hong (one of the shareholders of Wuhu Sterling) entered into an equity transfer agreement, pursuant to which Sun Ya Hong agreed to transfer 10% of the equity of Wuhu Sterling to the Company. The Company paid the transfer consideration in full on 21 November 2011 and increased its equity shareholding to 46% in Wuhu Sterling.

The summarized financial information of the Company's associate is set out in Note 5. (8).

(4) REVENUE AND OPERATING COSTS

Revenue is as follows:

| | 2011 | 2010 |
|-----------------------------------|----------------------|----------------------|
| Revenue from principal operations | <u>46,431,236.29</u> | <u>44,644,895.85</u> |

Costs is as follows:

| | 2011 | 2010 |
|---------------------------------|----------------------|----------------------|
| Cost froms principal operations | <u>35,782,492.96</u> | <u>37,654,232.91</u> |

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7. NOTES TO MAJOR ITEMS OF THE PARENT'S FINANCIAL STATEMENTS (continued)

(5) INVESTMENT GAINS

| | 2011 | 2010 |
|------------------------------------|----------------------|----------------------|
| Unlisted investments: | | |
| Investment gains from | | |
| long-term equity investments under | | |
| cost method of accounting | | |
| – Hangzhou Shibao | 14,850,000.00 | 9,900,000.00 |
| – Siping Steering | 15,000,000.00 | 10,000,000.00 |
| | <u>29,850,000.00</u> | <u>19,900,000.00</u> |
| Unlisted investments: | | |
| Investment gains/(losses) from | | |
| long-term equity investments under | | |
| equity method of accounting | | |
| – Wuhu Sterling | (942,414.00) | 1,146,008.13 |
| | <u>28,907,586.00</u> | <u>21,046,008.13</u> |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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8. 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 | Limited liability | Zhang Shi Zhong | Industrial investment | 50 million | 63% | 63% | 75193535X |

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

(2) SUBSIDIARIES

The Company's subsidiaries are listed in Note 4 – consolidation scope of the consolidated financial statements.

Other receivables from and payables to subsidiaries in current assets and liabilities of the Company were RMB221,024,118.16 (2010: RMB193,087,453.00) and RMB0.00 (2010: RMB4,679,549.14) respectively, which were unsecured, interest-free and repayable on demand or due within one year.

(3) ASSOCIATE

Details of the Company's associate are disclosed in Note 5. (8).

(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 |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES

(a) Transactions of goods and services with related parties

Purchase of goods from a related party

| | 2011 | 2010 |
|---------------|-------------------|---------------------|
| Wuhu Sterling | <u>698,434.95</u> | <u>3,886,042.00</u> |

In 2011, purchase of goods from a related party accounted for 0.23% of the Group's total purchases (2010: 1.22%).

In 2011 and 2010, the Group purchased steering gears from Wuhu Sterling Steering System Co., Ltd. at the market price.

Sales of goods to a related party

| | 2011 | 2010 |
|---------------|----------------------|----------------------|
| Wuhu Sterling | <u>36,750,390.25</u> | <u>27,573,702.91</u> |

In 2011, sales of goods to a related party accounted for 5.87% of the Group's total sales (2010: 5.05%).

In 2011 and 2010, the Group sold spare parts and fittings to Wuhu Sterling Steering System Co., Ltd. at the market price.

(b) Equity transactions with a related party

Purchase of equity from a related party

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 assets of Hangzhou Shibao as at 31 December 2010 after deduction of the distributed profits of 2010.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES *(continued)*

(c) Guarantees with related parties

Receipt of guarantees from related parties

31 December 2011

| | Guaranteed amount ('0,000) | Commencement date of guarantee | Expiry date of guarantee | Guarantee fully fulfilled |
|---|----------------------------|--------------------------------|--------------------------|---------------------------|
| Zhejiang Shibao Holding Group Co., Ltd. | 2,000 | 29 April 2010 | 18 April 2014 | No |
| Zhejiang Shibao Holding Group Co., Ltd. | 3,000 | 4 May 2010 | 17 April 2014 | No |
| Zhejiang Shibao Holding Group Co., Ltd. | 9,000 | 23 August 2011 | 4 September 2014 | No |
| Zhang Shi Quan | 7,500 | 11 April 2011 | 10 October 2013 | No |
| Zhang Shi Quan | 2,500 | 18 April 2011 | 17 April 2014 | No |
| Zhang Shi Quan | 500 | 19 April 2011 | 18 April 2014 | No |
| Zhang Shi Quan | 9,000 | 23 August 2011 | 4 September 2014 | No |

As at 31 December 2011, Zhejiang Shibao Holding Group Co., Ltd. provided a maximum guarantee of bank credit business to the Group, and the maximum principal balance of secured claims was RMB140 million. The Group's bank borrowings drawn and outstanding under this guarantee were RMB60 million. Zhang Shi Quan provided joint and several liability guarantees for the bank borrowings of the Group amounting to RMB60 million.

31 December 2010

| | Guaranteed amount ('0,000) | Commencement date of guarantee | Expiry date of guarantee | Guarantee fully fulfilled |
|---|----------------------------|--------------------------------|--------------------------|---------------------------|
| Zhejiang Shibao Holding Group Co., Ltd. | 2,000 | 29 April 2010 | 28 April 2011 | No |
| Zhejiang Shibao Holding Group Co., Ltd. | 3,000 | 4 May 2010 | 28 April 2011 | No |
| Zhang Shi Quan | 1,000 | 12 May 2010 | 15 April 2011 | No |
| Zhang Shi Quan | 2,000 | 3 June 2010 | 18 April 2011 | No |

As at 31 December 2010, Zhejiang Shibao Holding Group Co., Ltd. provided a maximum guarantee of bank credit business to the Group, and the maximum principal balance of secured claims was RMB50 million. The Group's bank borrowings drawn and outstanding under this guarantee were RMB30 million. Zhang Shi Quan provided joint and several liability guarantees for the bank borrowing of the Group amounting to RMB30 million.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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8. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(5) MAJOR TRANSACTIONS BETWEEN THE GROUP AND RELATED PARTIES *(continued)*

(c) *Guarantees with related parties (continued)*

Provision of a guarantee to a related party

31 December 2011

| | Guaranteed amount | Commencement date of guarantee | Expiry date of guarantee | Guarantee fully fulfilled |
|---|----------------------|-----------------------------------|-----------------------------|------------------------------|
| Wuhu Sterling Steering System Co., Ltd. | 10,000,000 | 19 January 2011 | 18 January 2012 | No |

As at 31 December 2010, no guarantee was provided to the related party.

As at 31 December 2011, the Company provided a maximum guarantee in terms of bank credit business to Wuhu Sterling (a related party), with a maximum principal balance of RMB10 million, of which RMB5 million was already utilized by Wuhu Sterling. The guarantee contract expired on 18 January 2012.

(d) *Other related party transactions*

| | 2011 | 2010 |
|---------------------------------------|---------------------|---------------------|
| Key management personnel remuneration | <u>2,394,592.14</u> | <u>1,866,107.00</u> |

(6) BALANCE OF RECEIVABLE/(PAYABLE) FROM/(TO) A RELATED PARTY

| | 2011 | 2010 |
|---|----------------------|----------------------|
| Accounts receivable | | |
| Wuhu Sterling Steering System Co., Ltd. | <u>25,391,425.25</u> | <u>17,063,803.27</u> |

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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9. LEASING ARRANGEMENT

As lessee:

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

| | 31 December 2011 |
|------------------------------------|---------------------|
| Within 1 year (incl. the 1st year) | 354,615.75 |
| 1-2 years (incl. the 2nd year) | 161,100.50 |
| 2-3 years (incl. the 3rd year) | — |
| | <hr/> |
| | 515,716.25 |
| | <hr/> <hr/> |

10. COMMITMENTS

| | 31 December 2011 | 31 December 2010 |
|--|---------------------|---------------------|
| Capital commitment Contracted, but not provided for | 22,350,312.62 | 64,144,432.00 |
| | <hr/> <hr/> | <hr/> <hr/> |

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings as well as monetary funds. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivables, other receivables, accounts and bills payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. Management reviews and agrees policies for managing each of these risks and they are summarized below.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK

Credit risk is the risk of financial losses arising from default of the counterparty.

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

The credit risk of the Group's other financial assets, which comprise monetary funds, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As at 31 December 2011, the Group had specific concentration of credit risk as 63.59% (31 December 2010: 61.04%) of the Group's accounts receivable were due from the five largest customers. The Group does not hold any collateral or other credit enhancements over the balance of receivables.

The amounts of financial assets that are not past due or impaired, and the ageing analysis of the financial assets that are past due but are not impaired are as follows:

31 December 2011

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|---------------------|-----------------------|----------------------------------|---------------------------|---------------------|-------------------|
| | | | Within 1 year | 1 to 2 years | Over 2 years |
| Cash | 43,234,111.34 | 43,234,111.34 | — | — | — |
| Notes receivable | 137,538,266.04 | 137,538,266.04 | — | — | — |
| Accounts receivable | 203,618,895.42 | 154,292,963.05 | 41,843,270.26 | 6,502,327.53 | 980,334.58 |
| Other receivables | 9,216,366.98 | 9,216,366.98 | — | — | — |
| | <u>393,607,639.78</u> | <u>344,281,707.41</u> | <u>41,843,270.26</u> | <u>6,502,327.53</u> | <u>980,334.58</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

31 December 2010

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|---------------------|-----------------------|----------------------------------|---------------------------|---------------------|---------------------|
| | | | Within 1 year | 1 to 2 years | Over 2 years |
| Cash | 65,301,493.65 | 65,301,493.65 | — | — | — |
| Notes receivable | 60,152,693.51 | 60,152,693.51 | — | — | — |
| Accounts receivable | 127,888,570.64 | 98,158,959.66 | 27,043,448.96 | 1,667,438.80 | 1,018,723.22 |
| Other receivables | 3,914,239.70 | 3,914,239.70 | — | — | — |
| | <u>257,256,997.50</u> | <u>227,527,386.52</u> | <u>27,043,448.96</u> | <u>1,667,438.80</u> | <u>1,018,723.22</u> |

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk may arise when an entity is not able to sell financial assets at fair value in a timely manner; or the counterparties encounter difficulty in repaying contractual liabilities; or the entity could be required to pay its liabilities earlier than expected; or the entity could not obtain sufficient cash flow as expected.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of several financing methods such as notes settlement and bank borrowings, as well as optimizing financing structure through the combination of long and short term financing. The Group has obtained banking facilities from several commercial banks to fund the working capital requirements and capital expenditure.

Management of the Group monitors the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

LIQUIDITY RISK *(continued)*

The table below summarizes the maturity profile of the financial assets based on the remaining maturity:

| 31 December 2011 | Carrying value | Contractual undiscounted amount | Within 1 year |
|---------------------|-----------------------|---------------------------------------|-----------------------|
| Cash | 43,234,111.34 | 43,234,111.34 | 43,234,111.34 |
| Notes receivable | 137,538,266.04 | 137,538,266.04 | 137,538,266.04 |
| Accounts receivable | 203,618,895.42 | 203,618,895.42 | 203,618,895.42 |
| Other receivables | 9,216,366.98 | 9,216,366.98 | 9,216,366.98 |
| | <u>393,607,639.78</u> | <u>393,607,639.78</u> | <u>393,607,639.78</u> |

| 31 December 2010 | Carrying value | Contractual undiscounted amount | Within 1 year |
|---------------------|-----------------------|---------------------------------------|-----------------------|
| Cash | 65,301,493.65 | 65,301,493.65 | 65,301,493.65 |
| Notes receivable | 60,152,693.51 | 60,152,693.51 | 60,152,693.51 |
| Accounts receivable | 127,888,570.64 | 127,888,570.64 | 127,888,570.64 |
| Other receivables | 3,914,239.70 | 3,914,239.70 | 3,914,239.70 |
| | <u>257,256,997.50</u> | <u>257,256,997.50</u> | <u>257,256,997.50</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the financial liabilities based on the remaining maturity:

| 31 December 2011 | Carrying value | Contractual | Within 1 year | 1 to 3 years | Over 3 years |
|---------------------------|-----------------------|-----------------------|-----------------------|----------------------|---------------------|
| | | undiscounted amount | | | |
| Bank borrowings | 157,100,232.00 | 167,128,086.68 | 133,941,173.35 | 27,978,473.33 | 5,208,440.00 |
| Notes payable | 14,771,590.00 | 14,771,590.00 | 14,771,590.00 | — | — |
| Accounts payable | 165,119,836.40 | 165,119,836.40 | 165,119,836.40 | — | — |
| Employee benefits payable | 3,524,754.51 | 3,524,754.51 | 3,524,754.51 | — | — |
| Interest payable | 1,366,471.76 | 1,366,471.76 | 1,366,471.76 | — | — |
| Other payables | 951,788.17 | 951,788.17 | 951,788.17 | — | — |
| | <u>342,834,672.84</u> | <u>352,862,527.52</u> | <u>319,675,614.19</u> | <u>27,978,473.33</u> | <u>5,208,440.00</u> |

| 31 December 2010 | Carrying value | Contractual | Within 1 year | 1 to 3 years | Over 3 years |
|---------------------------|-----------------------|-----------------------|-----------------------|----------------------|---------------------|
| | | undiscounted amount | | | |
| Bank borrowings | 55,090,000.00 | 59,802,154.79 | 36,932,152.05 | 16,448,720.55 | 6,421,282.19 |
| Notes payable | 14,730,000.00 | 14,730,000.00 | 14,730,000.00 | — | — |
| Accounts payable | 119,447,751.59 | 119,447,751.59 | 119,447,751.59 | — | — |
| Employee benefits payable | 8,737,908.35 | 8,737,908.35 | 8,737,908.35 | — | — |
| Interest payable | 1,167,729.19 | 1,167,729.19 | 1,167,729.19 | — | — |
| Other payables | 3,721,551.24 | 3,721,551.24 | 3,721,551.24 | — | — |
| | <u>202,894,940.37</u> | <u>207,607,095.16</u> | <u>184,737,092.42</u> | <u>16,448,720.55</u> | <u>6,421,282.19</u> |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

MARKET RISK

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk mainly includes interest rate risk and foreign exchange risk.

1. Interest rate risk

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

As at 31 December 2011, the bank borrowings of the Company with floating interest rates were RMB140,000,000.00 (31 December 2010: RMB50,000,000.00), and a reasonable and possible 50% base point change in interest rates, with all other variables held constant, will not have any significant impact on total profit and shareholders' equity of the Company.

2. Foreign exchange risk

The Group operates in Mainland China, and transactions of its main operation are presented in RMB. Therefore, the Group's exposure to foreign exchange risk is not significant.

3. Fair values

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

12. OTHER IMPORTANT MATTERS

(1) OTHER FINANCIAL INFORMATION

| | 2011 | | 2010 | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | The Group | The Company | The Group | The Company |
| Net current assets | 192,811,168.15 | 185,380,086.36 | 195,727,185.46 | 182,859,670.57 |
| Total assets less current liabilities | <u>719,905,845.49</u> | <u>337,384,063.14</u> | <u>603,505,099.87</u> | <u>329,837,116.26</u> |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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12. OTHER IMPORTANT MATTERS *(continued)*

(2) RETIREMENT BENEFITS

According to the "Labour Law of the People's Republic of China" and the relevant laws and regulations, the Company and its subsidiaries should participate in the basic pension insurance. Annual pension of all employees is equal to a fixed proportion of the average basic salary of the last employment areas. In the areas where employees are hired by the Company and its subsidiaries, the Company and its subsidiaries contribute to the local social security departments based on 25-30% of the average basic salary. The Company and its subsidiaries have no obligation to pay to the local social security departments other than the annual contributions described above.

(3) DIRECTORS' REMUNERATION

Directors' remuneration for the year is disclosed as follows:

| | 2011 | Group 2010 |
|---|---------------------|---------------------|
| Fees | 195,833.00 | 180,000.00 |
| Other emoluments: | | |
| Wages, allowances and non-cash benefit amount | 1,826,660.00 | 1,468,555.00 |
| Pension scheme contributions | 35,370.54 | 32,858.00 |
| | <u>2,057,863.54</u> | <u>1,681,413.00</u> |

(1) *Independent non-executive directors*

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

| | 2011 | 2010 |
|-----------------------|-------------------|-------------------|
| Chau Kam Wing, Donald | 120,000.00 | 120,000.00 |
| Zhao Chun Zhi | 30,000.00 | 30,000.00 |
| Chen Guo Feng | 30,000.00 | 30,000.00 |
| Zhang Hong Zhi | 15,833.00 | — |
| | <u>195,833.00</u> | <u>180,000.00</u> |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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12. OTHER IMPORTANT MATTERS *(continued)*

(3) DIRECTORS' REMUNERATION *(continued)*

(2) Executive directors and non-executive directors

| | Wages, allowances and non-cash benefit amount | Pension scheme contributions | Total remuneration |
|-------------------------|--|---------------------------------|----------------------------|
| 2011 | | | |
| Executive directors | | | |
| Zhang Shi Quan | 400,000.00 | — | 400,000.00 |
| Tang Hao Han | 300,000.00 | 7,680.00 | 307,680.00 |
| Zhang Bao Yi | 300,000.00 | 7,276.58 | 307,276.58 |
| Zhu Jie Rong | 240,000.00 | — | 240,000.00 |
| Zhang Lan Jun | 222,000.00 | 5,031.30 | 227,031.30 |
| | <u>1,462,000.00</u> | <u>19,987.88</u> | <u>1,481,987.88</u> |
| Non-executive directors | | | |
| Zhang Shi Zhong | 80,000.00 | 7,276.58 | 87,276.58 |
| Zhang Mei Jun | 40,000.00 | 3,840.00 | 43,840.00 |
| Lou Run Zheng | 30,000.00 | — | 30,000.00 |
| | <u>150,000.00</u> | <u>11,116.58</u> | <u>161,116.58</u> |
| | <u><u>1,612,000.00</u></u> | <u><u>31,104.46</u></u> | <u><u>1,643,104.46</u></u> |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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12. OTHER IMPORTANT MATTERS *(continued)*

(3) DIRECTORS' REMUNERATION *(continued)*

(2) Executive directors and non-executive directors *(continued)*

| | Wages, allowances and non-cash benefit amount | Pension scheme contributions | Total remuneration |
|-------------------------|--|---------------------------------|-----------------------|
| 2010 | | | |
| Executive directors | | | |
| Zhang Shi Quan | 300,000.00 | 4,694.00 | 304,694.00 |
| Tang Hao Han | 200,000.00 | 4,694.00 | 204,694.00 |
| Zhang Bao Yi | 200,000.00 | 4,694.00 | 204,694.00 |
| Zhu Jie Rong | 240,000.00 | — | 240,000.00 |
| Zhang Lan Jun | 150,000.00 | 4,694.00 | 154,694.00 |
| | <u>1,090,000.00</u> | <u>18,776.00</u> | <u>1,108,776.00</u> |
| Non-executive directors | | | |
| Zhang Shi Zhong | 80,000.00 | 4,694.00 | 84,694.00 |
| Zhang Mei Jun | 80,000.00 | 4,694.00 | 84,694.00 |
| Lou Run Zheng | 30,000.00 | — | 30,000.00 |
| | <u>190,000.00</u> | <u>9,388.00</u> | <u>199,388.00</u> |
| | <u>1,280,000.00</u> | <u>28,164.00</u> | <u>1,308,164.00</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year 2011 and 2010.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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12. OTHER IMPORTANT MATTERS *(continued)*

(3) DIRECTORS' REMUNERATION *(continued)*

(3) Supervisors

| | Wages, allowances and non-cash benefit amount | Pension scheme contributions | Total remuneration |
|-----------------|--|---------------------------------|-----------------------|
| 2011 | | | |
| Wu Lang Ping | 93,120.00 | 4,266.08 | 97,386.08 |
| Du Min | 48,000.00 | — | 48,000.00 |
| Shen Song Sheng | 25,540.00 | — | 25,540.00 |
| Yang Di Shan | 24,000.00 | — | 24,000.00 |
| Wang Kui Quan | 24,000.00 | — | 24,000.00 |
| | 214,660.00 | 4,266.08 | 218,926.08 |
| | 214,660.00 | 4,266.08 | 218,926.08 |
| 2010 | | | |
| Wu Lang Ping | 68,555.00 | 4,694.00 | 73,249.00 |
| Du Min | 48,000.00 | — | 48,000.00 |
| Shen Song Sheng | 24,000.00 | — | 24,000.00 |
| Yang Di Shan | 24,000.00 | — | 24,000.00 |
| Wang Kui Quan | 24,000.00 | — | 24,000.00 |
| | 188,555.00 | 4,694.00 | 193,249.00 |
| | 188,555.00 | 4,694.00 | 193,249.00 |

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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12. OTHER IMPORTANT MATTERS *(continued)*

(4) FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2010: four) directors, details of whose remuneration are set out in Note 12. (3) (2) above. Details of the remuneration of the remaining one (2010: one) non-director employee for the year are as follows:

| | 2011 | Group 2010 |
|--|-------------------|-------------------|
| Wages, allowances and non-cash benefit amount | 517,228.22 | 490,193.00 |
| Pension scheme contributions | — | — |
| | <u>517,228.22</u> | <u>490,193.00</u> |

The remuneration of the non-director employee fell within the range of nil to RMB1,000,000.00.

13. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 16 March 2012.

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

I. NON-RECURRING GAIN AND LOSS

According to Declaration of the China Securities Regulatory Commission [2008] No. 43 "Declaration on Explanation of Information Disclosure of companies issuing Securities Publicly No. 1 – non-recurring gain and loss" (《公開發行證券的公司信息披露解釋性公告第1號—非經常性損益》), the Group recognized non-recurring gain and loss.

| | 2011 | 2010 |
|---|----------------|----------------|
| Net profit attributable to shareholders | | |
| of ordinary shares of the Group | 112,872,143.11 | 103,403,049.81 |
| Less: Non-recurring gain and loss item | | |
| Gain or loss on disposal of non-current assets | (312,885.34) | 104,720.56 |
| Government grants recognized in gain or loss during the period | 5,195,677.72 | 3,637,306.95 |
| Reversal of impairment provision on receivables tested for impairment on an individual basis | 195,109.90 | 2,762,660.00 |
| Net donation income or expenditure | — | (150,000.00) |
| Income tax exemption for the previous year recognized in the current period (Note) | 8,963,243.85 | — |
| Other net non-operating income and expenses other than aforesaid items | (225,170.78) | 141,930.75 |
| Total non-recurring gain or loss | 13,815,975.35 | 6,496,618.26 |
| Less: Income tax effect on non-recurring gain or loss | 1,160,474.33 | 1,070,591.81 |
| Less: Effect on non-recurring gain or loss attributable to minority shareholders | 130,358.84 | 839,947.12 |
| Effect on non-recurring gain or loss attributable to shareholders of ordinary shares of the Company, net of tax | 12,525,142.18 | 4,586,079.33 |
| Net profit attributable to shareholders of ordinary shares of the Company, net of non-recurring gain or loss | 100,347,000.93 | 98,816,970.48 |

Note: Siping Steering met "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》) (Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004, and it was entitled to income tax exemption. However, as it did not get the approval reply from the tax authority during the year, Siping Steering fully provided for the corporate income tax for the relevant period. In November 2011, Siping Steering got the approval reply from the State Administration of Taxation in the Siping Economic Development Zone, which agreed to implement the provisions of "Implementation Provisions Regarding Separation between Main Business and Auxiliary Business of Large and Medium-sized State-owned Enterprises, Reform of the System of Auxiliary Business and Arrangement for Redundant Workers" (《關於國有大中型企業主輔分離輔業改制分流安置富餘人員的實施辦法》) (Guo Jing Mao Qi Gai [2002] No.859) from 1 January 2003 to 30 June 2004 to exempt Siping Steering from corporate income tax, and therefore Siping Steering offset the provision for corporate income tax of RMB8,963,243.85 for the relevant period.

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

II. DIFFERENCES IN PREPARATION OF FINANCIAL STATEMENTS BETWEEN DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

There is no substantial difference between the financial statements of the Group prepared in accordance with Accounting Standards of Business Enterprises and the financial statements prepared in accordance with International Financial Reporting Standards for the year ended 2010, and therefore no reconciliation on adjustments is required. In 2011, according to "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by the Stock Exchange in December 2010, the Company decided to prepare the financial statements in accordance with Accounting Standards of Business Enterprises for information disclosure on the Stock Exchange.

The overseas auditors of the Company was Ernst & Young in 2010.

III. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2011

| | Weighted average return on net assets ratio (%) | Earnings per share | |
|---|--|--------------------|---------|
| | | Basic | Diluted |
| Net profit attributable to shareholders of ordinary shares of the Company | 18.98 | 0.43 | 0.43 |
| Net profit, after deduction of non-recurring gain and loss, attributable to shareholders of ordinary shares of the Company | 16.87 | 0.38 | 0.38 |

2010

| | Weighted average return on net assets ratio (%) | Earnings per share | |
|---|--|--------------------|---------|
| | | Basic | Diluted |
| Net profit attributable to shareholders of ordinary shares of the Company | 20.38 | 0.39 | 0.39 |
| Net profit, after deduction of non-recurring gain and loss, attributable to shareholders of ordinary shares of the Company | 19.48 | 0.38 | 0.38 |

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON

The statement items which data change 30% or more for both periods, or account for 5% of total assets as at the balance sheet date or more than 10% of total profit for the reporting period are analyzed as follows:

- Items of the consolidated balance sheet as at 31 December 2011 with relatively material changes as compared with those as at 31 December 2010 are set forth below:

| | | Unit: RMB | | |
|-------------------------------|----|------------------|------------------|------------|
| | | 31 December 2011 | 31 December 2010 | change (%) |
| Cash | 1 | 43,234,111.34 | 65,301,493.65 | (33.79) |
| Notes receivable | 2 | 137,538,266.04 | 60,152,693.51 | 128.65 |
| Accounts receivable | 3 | 203,618,895.42 | 127,888,570.64 | 59.22 |
| Other receivables | 4 | 9,216,366.98 | 3,914,239.70 | 135.46 |
| Inventories | 5 | 122,418,117.92 | 138,006,793.84 | (11.30) |
| Other current assets | 6 | 1,876,410.23 | 1,004,992.67 | 86.71 |
| Long-term equity investments | 7 | 11,696,900.10 | 6,615,273.15 | 76.82 |
| Fixed assets | 8 | 290,304,220.05 | 282,301,214.46 | 2.83 |
| Construction in progress | 9 | 140,976,414.81 | 12,297,067.81 | 1,046.42 |
| Intangible assets | 10 | 74,352,887.70 | 78,640,983.02 | (5.45) |
| Deferred tax assets | 11 | 1,525,065.14 | 3,696,580.97 | (58.74) |
| Other non-current assets | 12 | 8,239,189.54 | 24,226,795.00 | (65.99) |
| Short-term borrowings | 13 | 114,079,832.00 | 30,000,000.00 | 280.27 |
| Accounts payable | 14 | 165,119,836.40 | 119,447,751.59 | 38.24 |
| Advance from customers | 15 | 2,235,262.83 | 1,104,151.26 | 102.44 |
| Employee benefits payable | 16 | 3,524,754.51 | 8,737,908.35 | (59.66) |
| Taxes payable | 17 | 5,743,037.16 | 12,958,662.68 | (55.69) |
| Other payables | 18 | 951,788.17 | 3,721,551.24 | (74.42) |
| Non-current liabilities | | | | |
| due within one year | 19 | 13,000,000.00 | 5,000,000.00 | 160.00 |
| Long-term borrowings | 13 | 30,020,400.00 | 20,090,000.00 | 49.43 |
| Other non-current liabilities | 20 | 26,202,378.62 | 4,748,573.33 | 451.79 |
| Suplus reserve | 21 | 95,087,541.52 | 84,961,353.85 | 11.92 |
| Retained earnings | 22 | 256,035,761.06 | 176,929,012.57 | 44.71 |

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON *(continued)*

1. Items of the consolidated balance sheet as at 31 December 2011 with relatively material changes as compared with those as at 31 December 2010 are set forth below: *(continued)*
 - (1) The decrease in cash was mainly due to cash outflow used in investment activities;
 - (2) The increase in notes receivable was mainly due to the increase of sales;
 - (3) The increase in accounts receivable was mainly due to the increase of sales;
 - (4) The increase in other receivables was due to the increase attributable to the borrowings of the Tiedong Economic Development Zone and listing expense;
 - (5) The decrease in inventories was due to the consumption of finished goods reserved in the previous year;
 - (6) The increase in other non-current assets was due to the increase of moulds purchased in the current year amortized within one year;
 - (7) The increase in long-term equity investments was due to the increase of investment in Wuhu Sterling during the current year;
 - (8) The increase in fixed assets was mainly due to the addition to manufacture equipment in the current year;
 - (9) The increase in construction in progress was mainly due to the increase of equipment which is not ready for use to expand productivity;
 - (10) The decrease in intangible assets was mainly due to amortization during the year;
 - (11) The decrease in deferred tax assets was mainly due to the decrease in deductible temporary differences and deductible loss which probably will be available in the future;
 - (12) The decrease in other non-current assets was mainly due to a prepayment of fixed assets;
 - (13) The increase in short-term and long-term borrowings was mainly due to the increase of bank borrowings to meet the requirements of operation;
 - (14) The increase in accounts payable was mainly due to the increase of purchase during the year;
 - (15) The increase in advance from customers was mainly due to the increase of sales order from sporadic customers, to whom a "delivery upon payment" settlement method was adopted;
 - (16) The decrease in employee benefits payable was mainly due to the payment of year-end bonus provided for at the end of last year and the nil provision for year-end bonus during the year;

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON *(continued)*

1. Items of the consolidated balance sheet as at 31 December 2011 with relatively material changes as compared with those as at 31 December 2010 are set forth below: *(continued)*
 - (17) The decrease in taxes payable was mainly due to the increase in purchase of fixed assets and raw materials, which resulted in an increase in input of value-added tax payable at the end of the period;
 - (18) The decrease in other payables was mainly due to the settlement of merger and restructuring charges during the year;
 - (19) The increase in non-current liabilities due within one year was mainly due to the increase in long-term borrowings which would mature within one year;
 - (20) The increase in other non-current liabilities was mainly due to the receipt of government subsidies relating to assets during the year;
 - (21) The increase in surplus reserve was mainly due to the transfer of 10% of the net profit for the year to surplus reserve; and
 - (22) The increase in retained earnings was mainly due to the earnings recorded during the year.

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON (continued)

2. Items of the consolidated income statement for 2011 with relatively material changes as compared with those for 2010 are set forth below:

Unit: RMB

| | | 2011 | 2010 | Change (%) |
|-------------------------------------|---|----------------|----------------|------------|
| Revenue | 1 | 625,917,119.21 | 545,943,926.52 | 14.65 |
| Cost of sales | 2 | 403,887,118.40 | 349,894,180.37 | 15.43 |
| Sales taxes and surcharges | 3 | 5,156,884.62 | 1,599,061.69 | 222.49 |
| Selling expenses | 4 | 35,881,539.03 | 37,508,370.58 | (4.34) |
| General and administrative expenses | 5 | 54,553,179.60 | 43,877,501.37 | 24.33 |
| Financial expenses | 6 | 5,694,893.68 | 516,006.87 | 1003.65 |
| Provision for asset impairment | 7 | (1,014,037.17) | (1,522,528.50) | (33.40) |
| Investment gains/(losses) | 8 | (127,683.62) | 1,146,008.13 | (111.14) |
| Income tax expenses | 9 | 15,246,498.53 | 14,322,382.30 | 6.45 |

SUPPLEMENTARY INFORMATION

(English Translation for Reference Only)

IV. DESCRIPTION ON IRREGULAR MOVEMENTS IN MAJOR ITEMS OF THE FINANCIAL STATEMENTS AND THE REASON *(continued)*

2. Items of the consolidated income statement for 2011 with relatively material changes as compared with those for 2010 are set forth below: *(continued)*
 - (1) The increase in revenue was mainly due to the rapid development of the industry, the substantial growth in market demand and the improvement in production capacity due to the scalable commissioning of the Group's production lines for passenger cars.
 - (2) The increase in cost of sales was mainly due to the increase in raw material prices and sales;
 - (3) The increase in sales taxes and surcharges was mainly because Siping Steering started to pay city construction taxes and education surcharges and sales increased during the year, while it was exempt from such taxes and surcharges before December 2010 as a foreign invested enterprise;
 - (4) The decrease in selling expenses was mainly due to the decrease in staff costs as a result of the management's decision of not to pay year-end bonus in view of the sales for the year and the decrease in warranty fees as a result of the Group's strengthening of product quality control;
 - (5) The increase in general and administrative expenses was mainly due to the increase in R&D expenses and amortization of intangible assets;
 - (6) The increase in financial expenses was mainly due to the substantial increase in bank loans in the year which were used to finance the Group's production expansion plan;
 - (7) The decrease in provision for assets impairment was mainly due to the write-back of provision for bad debts and provision for diminution in the value of inventories for the current year to the previous year;
 - (8) The decrease in investment gain was mainly due to the decrease in earnings for the year attributable to the Group due to the decreased profit as a result of the decrease in sales by Wuhu Sterling, an investee of the Group, to Chery Automobile; and
 - (9) The increase in income tax expenses was mainly due to the increase in profit for the year.