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"

2012 INTERIM REPORT

* For identification purposes only

SUMMARY

- Revenue for the six months ended 30 June 2012 amounted to RMB311,654,779.31, a decrease of 6.36% compared with RMB332,827,528.55 for the corresponding period in 2011.
- Gross profit margin for the six months ended 30 June 2012 was approximately 33.21% (corresponding period of 2011: approximately 35.80%), entire gross profit decreased by approximately 13.14% over the corresponding period of 2011.
- Net profit attributable to equity holders of the Parent for the six months ended 30 June 2012 amounted to RMB49,850,190.72, a decrease of 18.27% compared with RMB60,996,018.28 for the corresponding period in 2011.
- Basic earnings per share for the six months ended 30 June 2012 was RMB0.19, a decrease of 17.39% compared with RMB0.23 for the corresponding period in 2011.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012.

UNAUDITED INTERIM FINANCIAL STATEMENTS

The board of directors (the "Board") of Zhejiang Shibao Company Limited (the "Company") is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012, together with the comparative figures for the corresponding period in 2011. The accounting information contained in the interim report has not been audited, but the interim report has been reviewed by the Company's Audit Committee.

CONSOLIDATED BALANCE SHEET

30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	30 June 2012 (unaudited)	31 December 2011 (audited)
Assets			
Current Assets			
Cash on hand and at bank	1	32,633,595.60	43,234,111.34
Notes receivable	2	81,397,773.44	137,538,266.04
Accounts receivable	3	290,961,741.25	203,618,895.42
Prepayments		5,897,000.27	6,354,952.61
Other receivable		11,355,742.96	9,216,366.98
Inventories	4	116,287,055.24	122,418,117.92
Other current assets		2,068,330.45	1,876,410.23
Total current assets		540,601,239.21	524,257,120.54

CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Non-current Assets			
Long-term equity investments		10,883,226.86	11,696,900.10
Fixed assets	6	298,966,211.19	290,304,220.05
Construction in progress		143,807,145.54	140,976,414.81
Intangible assets	7	72,802,344.60	74,352,887.70
Goodwill		—	—
Deferred tax assets		1,234,106.72	1,525,065.14
Other non-current assets		4,217,273.56	8,239,189.54
Total non-current assets		531,910,308.47	527,094,677.34
Total Assets		1,072,511,547.68	1,051,351,797.88

CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Liabilities and Shareholders' Equity			
Current Liabilities			
Short-term loans	8	150,950,000.00	114,079,832.00
Notes payable		1,450,000.00	14,771,590.00
Accounts payable	9	147,546,555.20	165,119,836.40
Advance from customers		2,185,791.79	2,235,262.83
Employee benefits payable		4,310,215.34	3,524,754.51
Taxes payable		(379,443.33)	5,743,037.16
Interests payable		1,508,778.34	1,366,471.76
Other payable		1,190,479.97	951,788.17
Non-current liabilities due within one year	10	14,390,400.00	13,000,000.00
Other current liabilities		10,325,917.13	10,653,379.56
Total current liabilities		333,478,694.44	331,445,952.39

CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Non-current Liabilities			
Long-term borrowings	11	28,630,000.00	30,020,400.00
Deferred tax liabilities		1,602,083.33	1,698,208.33
Other non-current liabilities		24,905,898.44	26,202,378.62
Total non-current liabilities		55,137,981.77	57,920,986.95
Total Liabilities		388,616,676.21	389,366,939.34
Shareholders' Equity			
Share capital	14	262,657,855.00	262,657,855.00
Capital reserve		27,587,397.23	27,587,397.23
Surplus reserve		102,100,146.76	95,087,541.52
Retained earnings		272,607,561.04	256,035,761.06

CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Equity attributable to equity holders of the Parent		664,952,960.03	641,368,554.81
Minority interests	15	18,941,911.44	20,616,303.73
Total Shareholders' Equity		683,894,871.47	661,984,858.54
Total Liabilities and Shareholders' Equity		1,072,511,547.68	1,051,351,797.88

CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Revenue	16	311,654,779.31	332,827,528.55
Less:Cost of sales	16	208,157,763.51	213,669,247.61
Sales taxes and surcharges		2,340,817.49	2,042,154.50
Selling expenses		15,833,875.00	18,194,640.86
General and administrative expenses		27,489,435.93	27,053,275.60
Financial expenses	17	3,721,460.61	1,932,584.96
Assets impairment losses/(gains)		(1,752,338.39)	911,429.73
Add: Investment gains/(losses)	18	(580,355.14)	173,570.99
Including: Share of gains/(losses) from associates		(580,355.14)	173,570.99
Operating profit		55,283,410.02	69,197,766.28
Add: Non-operating income	19	3,139,412.78	4,382,082.79
Less: Non-operating expenses	20	264,423.82	624,774.20
Including: Loss on disposal of non-current assets		5,216.20	241,915.36

CONSOLIDATED INCOME STATEMENT *(continued)*

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Total profit		58,158,398.98	72,955,074.87
Less: Income tax expenses	21	9,982,600.55	12,893,424.13
Net Profit		48,175,798.43	60,061,650.74
Net profit attributable to equity holders of the Parent		49,850,190.72	60,996,018.28
Minority interests		(1,674,392.29)	(934,367.54)
Earnings per share			
Basic earnings per share	22	0.19	0.23
Diluted earnings per share	22	0.19	0.23
Other comprehensive income		—	—
Total comprehensive income		48,175,798.43	60,061,650.74

CONSOLIDATED INCOME STATEMENT *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	**Jan.-June 2012** *(unaudited)*	Jan.-June 2011 *(unaudited)*
Including:			
Total comprehensive income attributable to equity holders of the Parent		**49,850,190.72**	60,996,018.28
Total comprehensive income attributable to minority shareholders		**(1,674,392.29)**	(934,367.54)

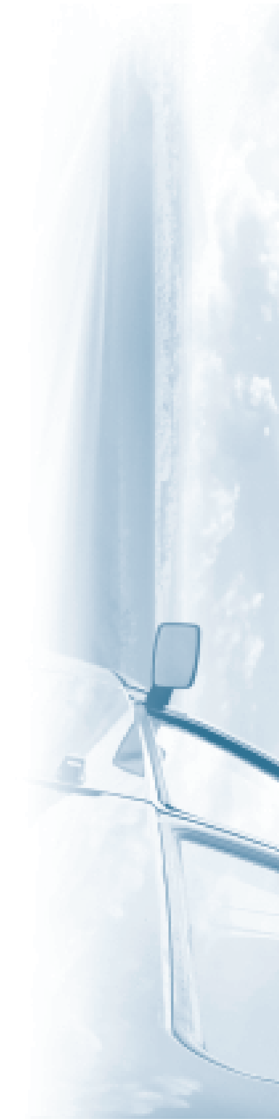
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Six months ended 30 June 2012 (unaudited) Attributable to equity holders of the Parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	Total shareholders' equity
1. Balance at the beginning of period	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
2. Movements during the period							
(1) Net profit	–	–	–	49,850,190.72	49,850,190.72	(1,674,392.29)	48,175,798.43
(2) Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	49,850,190.72	49,850,190.72	(1,674,392.29)	48,175,798.43



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Six months ended 30 June 2012 (unaudited)						
	Attributable to equity holders of the Parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	Total shareholders' equity
(3) Appropriation of profits							
a. Surplus reserve	—	—	7,012,605.24	(7,012,605.24)	—	—	—
b. Distribution to shareholders	—	—	—	(26,265,785.50)	(26,265,785.50)	—	(26,265,785.50)
3. Balance at the end of period	262,657,855.00	27,587,397.23	102,100,146.76	272,607,561.04	664,952,960.03	18,941,911.44	683,894,871.47

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Six months ended 30 June 2011 (unaudited)						
	Attributable to equity holders of the Parent						
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	Total shareholders' equity
1. Balance at the beginning of period	262,657,855.00	27,500,772.59	84,961,353.85	176,929,012.57	552,048,994.01	24,727,074.20	576,776,068.21
2. Movements during the period							
(1) Net profit	–	–	–	60,996,018.28	60,996,018.28	(934,367.54)	60,061,650.74
(2) Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	60,996,018.28	60,996,018.28	(934,367.54)	60,061,650.74

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

		Six months ended 30 June 2011 (unaudited)						
		Attributable to equity holders of the Parent						
		Share capital	Capital reserve	Surplus reserve	Retained earnings	Sub-total	Minority interests	Total shareholders' equity
(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	–	–	6,570,294.26	(6,570,294.26)	–	–	–
b.	Distribution to shareholders	–	–	–	(23,639,207.02)	(23,639,207.02)	(650,000.00)	(24,289,207.02)
3.	Balance at the end of period	262,657,855.00	27,587,397.23	91,531,648.11	207,715,529.57	589,492,429.91	21,906,082.02	611,398,511.93

CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	**Jan.-June 2012** ***(unaudited)***	Jan.-June 2011 *(unaudited)*
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		**335,314,614.95**	320,499,557.44
Cash received relating to other operating activities		**2,329,777.59**	22,675,000.21
Sub-total of cash inflows from operating activities		**337,644,392.54**	343,174,557.65
Cash paid for goods and services		**225,107,359.38**	224,615,679.55
Cash paid to and on behalf of employees		**35,718,577.62**	32,066,197.50
Payments of taxes and levies		**39,447,904.44**	32,053,616.23
Cash paid relating to other operating acitivities		**19,472,683.24**	30,412,356.31

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	Jan.-June 2012 (unaudited)	Jan.-June 2011 (unaudited)
Sub-total of cash outflows from operating activities		319,746,524.68	319,147,849.59
Net cash flows from operating acitivities	23	17,897,867.86	24,026,708.06
2. Cash flows from investing activities			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		277,010.06	367,149.59
Cash received relating to other investing activities		366,112.77	267,492.21
Sub-total of cash inflows from investing activities		643,122.83	634,641.80

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	**Jan.-June 2012** **(unaudited)**	Jan.-June 2011 (unaudited)
Cash paid for acquisition of fixed asset, intangible assets and other long-term assets		**31,729,433.66**	76,124,339.19
Net cash paid for purchase of minority interests in subsidiaries		—	1,150,000.00
Sub-total of cash outflows from investing activities		**31,729,433.66**	77,274,339.19
Net cash flows from investing activities		**(31,086,310.83)**	(76,639,697.39)
3. Cash flows from financing activities			
Cash received from borrowings		**70,950,000.00**	96,800,000.00
Sub-total of cash inflows from financing activities		**70,950,000.00**	96,800,000.00

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Note (5)	**Jan.-June 2012** *(unaudited)*	Jan.-June 2011 *(unaudited)*
Cash paid for debt repayments		**34,079,832.00**	31,500,000.00
Cash payments for distribution of dividends and profit, or interest expenses		**31,686,000.57**	25,230,136.04
Including: Dividends and profit to minority shareholders by a subsidiary		**—**	650,000.00
Cash paid relating to other financing activities		**1,524,162.76**	—
Sub-total of cash outflows from financing activities		**67,289,995.33**	56,730,136.04
Net cash flows from financing activities		**3,660,004.67**	40,069,863.96

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Note (5)	**Jan.-June 2012** **(unaudited)**	Jan.-June 2011 (unaudited)
4. Effect of changes in foreign exchange rate on cash and cash equivalents		**—**	—
5. Net decease in cash and cash equivalents		**(9,528,438.30)**	(12,543,125.37)
Add: Cash and cash equivalents at the beginning of period		**40,711,980.73**	48,938,264.15
6. Cash and cash equivalents at the end of period		**31,183,542.43**	36,395,138.78

BALANCE SHEET

30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Assets		
Current Assets		
Cash on hand and at bank	1,006,660.73	997,762.45
Notes receivable	374,557.26	350,000.00
Accounts receivable	15,201,711.62	18,242,228.66
Prepayments	388,973.14	48,575.75
Dividend receivable	15,000,000.00	–
Other receivable	212,004,270.92	223,681,859.79
Inventories	5,171,865.72	5,872,699.92
Other current assets	94,072.50	41,813.34
Total current assets	249,242,111.89	249,234,939.91
Non-current Assets		
Long-term equity investments	138,883,226.86	139,696,900.10
Fixed assets	6,830,469.96	6,567,783.15
Intangible assets	5,527,390.06	5,613,713.08
Deferred tax assets	124,995.44	125,580.45
Total non-current assets	151,366,082.32	152,003,976.78
Total Assets	400,608,194.21	401,238,916.69

BALANCE SHEET *(continued)*

30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term loans	50,000,000.00	55,000,000.00
Accounts payable	5,479,232.77	6,097,383.53
Advance from customers	46,500.00	91,100.00
Employee benefits payable	574,761.76	638,263.53
Taxes payable	524,790.40	(18,414.33)
Interests payable	115,435.49	163,848.82
Other payables	1,714,986.79	682,672.00
Other current liabilities	500,000.00	1,200,000.00
Total current liabilities	58,955,707.21	63,854,853.55
Total Liabilities	58,955,707.21	63,854,853.55

BALANCE SHEET *(continued)*

30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Shareholders' Equity		
Share capital	262,657,855.00	262,657,855.00
Capital reserve	26,879,156.19	26,879,156.19
Surplus reserve	52,421,551.80	49,368,130.86
Accumulated losses	(306,075.99)	(1,521,078.91)
Total Shareholders' Equity	341,652,487.00	337,384,063.14
Total Liabilities and Shareholders' Equity	400,608,194.21	401,238,916.69

INCOME STATEMENT

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Revenue	21,863,036.63	23,010,229.22
Less:Cost of sales	15,149,523.13	19,067,611.88
Sales taxes and surcharges	107,764.83	111,981.26
Selling expenses	235,200.17	265,625.48
General and administrative expenses	2,862,269.98	5,022,222.53
Financial expenses	1,726,092.77	809,702.91
Add: Investment gains	29,186,326.76	30,023,570.99
Including: Share of gains/(losses) from associates	(813,673.24)	173,570.99
Operating profit	30,968,512.51	27,756,656.15
Add: Non-operating income	35,496.34	3,457,856.40
Less: Non-operating expenses	7,251.20	2,051.56
Total profit	30,996,757.65	31,212,460.99
Less: Income tax expenses	462,548.29	302,952.00
Net Profit	30,534,209.36	30,909,508.99
Other comprehensive income	–	–
Total comprehensive income	30,534,209.36	30,909,508.99

STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

	Six months ended 30 June 2012 (unaudited)				
	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Total shareholders' equity
1. Balance at the beginning of period	262,657,855.00	26,879,156.19	49,368,130.86	(1,521,078.91)	337,384,063.14
2. Movements during the period					
(1) Net profit	–	–	–	30,534,209.36	30,534,209.36
(2) Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	30,534,209.36	30,534,209.36
(3) Appropriation of profits					
a. Surplus reserve	–	–	3,053,420.94	(3,053,420.94)	–
b. Distribution to shareholders	–	–	–	(26,265,785.50)	(26,265,785.50)
3. Balance at the end of period	262,657,855.00	26,879,156.19	52,421,551.80	(306,075.99)	341,652,487.00

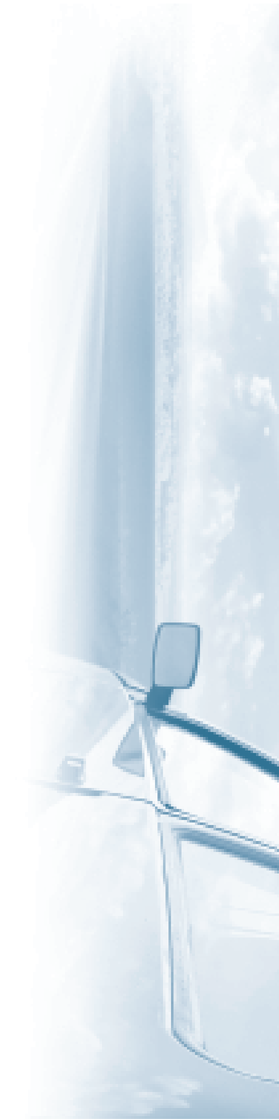
STATEMENT OF CHANGES IN EQUITY *(continued)*

Six months ended 30 June 2012

(All amounts in RMB Yuan unless otherwise stated)

(English translation for reference only)

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



STATEMENT OF CASH FLOWS

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	44,740,531.85	36,085,495.88
Cash received relating to other operating activities	120,782.52	871,758.60
Sub-total of cash inflows from operating activities	44,861,314.37	36,957,254.48
Cash paid for goods and services	17,356,007.27	17,972,601.11
Cash paid to and on behalf of employees	2,140,324.82	1,059,903.63
Payments of taxes and levies	801,313.08	1,067,052.48
Cash paid relating to other operating acitivities	4,514,542.41	42,377,292.96
Sub-total of cash outflows from operating activities	24,812,187.58	62,476,850.18
Net cash flows from operating acitivities	20,049,126.79	(25,519,595.70)

STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
2. Cash flows from investing activities		
Cash received from investment gains	15,000,000.00	29,850,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	100,000.00	–
Cash received relating to other investing activities	124,325.54	18,187.63
Sub-total of cash inflows from investing activities	15,224,325.54	29,868,187.63
Cash paid for acquisition of fixed asset, intangible assets and other long-term assets	652,076.90	116,647.46
Net cash paid for purchase of minority interests in subsidiaries	–	1,150,000.00
Sub-total of cash outflows from investing activities	652,076.90	1,266,647.46
Net cash flows from investing activities	14,572,248.64	28,601,540.17

STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
3. Cash flows from financing activities		
Cash received from borrowings	–	55,000,000.00
Sub-total of cash inflows from financing activities	–	55,000,000.00
Cash paid for debt repayments	5,000,000.00	20,000,000.00
Cash payments for distribution of dividends and profit, or interest expenses	28,088,314.39	23,385,361.89
Cash paid relating to other financing activities	1,524,162.76	–
Sub-total of cash outflows from financing activities	34,612,477.15	43,385,361.89
Net cash flows from financing activities	(34,612,477.15)	11,614,638.11

STATEMENT OF CASH FLOWS *(continued)*

Six months ended 30 June 2012
(All amounts in RMB Yuan unless otherwise stated)
(English translation for reference only)

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
4. Effect of changes in foreign exchange rate on cash and cash equivalents	–	–
5. Net incease in cash and cash equivalents	8,898.28	14,696,582.58
Add: Cash and cash equivalents at the beginning of period	997,762.45	628,878.36
6. Cash and cash equivalents at the end of period	1,006,660.73	15,325,460.94

NOTES TO THE FINANCIAL STATEMENTS

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

(1) GENERAL

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 Sharess are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The headquarter of the Company is located at No.1 Shuanglin Road, Fotang Town, Yiwu, Zhejiang Province. The Company and its subsidiaries (together, the "Group") are mainly engaged in the manufacture and sale of automotive steering gear products. The Group mainly produces automotive steering gear products and is classified as 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.

Upon registration, the Company's registered capital was RMB175,943,855, with 175,943,855 shares in total, 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.

(1) GENERAL *(continued)*

On 24 March 2010, the Company submitted an application to the China Securities Regulatory Commission ("CSRC") for the transfer listing from the Growth Enterprise Market ("GEM") to the Main Board of Hong Kong 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 to the Main Board of Hong Kong Stock Exchange. The Company then submitted an application to Hong Kong Stock Exchange for the transfer listing of the Company's H shares from the GEM to the Main Board of Hong Kong 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 Hong Kong Stock Exchange.

The business scope of the Company is: manufacture and sale of automotive components, sale of metal materials, eletromechanical 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, namely 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).

These financial statements were authorized for issue by the Company's Board of Directors on 29 August 2012.

These financial statements are not audited.

(2) SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation of financial statements

The interim financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises No.32 – Interim Financial Reporting issued by the Ministry of Finance of the PRC.

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. Accounting year

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

3. Functional currency

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

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

4. Business combination

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

Business combinations under common control

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

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

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

4. Business combination *(continued)*

Business combinations not under common control

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

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

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

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

5. Consolidated financial statements

The consolidation scope is determined based on the control, the consolidated financial statements include the financial statements of the Company and its subsidiaries for the six months ended 30 June 2012. Subsidiaries represent entities controlled by the Company.

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

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

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

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

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

6. 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.

7. Foreign currency business and translation

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

Foreign currency transactions are initially recorded using the functional currency rate of exchange on the first day of the month of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of borrowing cost capitalization, are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined, and the differences are taken to the income statement or other comprehensive income.

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

8. 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 instruments

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

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

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

(2) the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the income statement.

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

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

8. Financial instruments *(continued)*

Category and measurement of financial assets

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

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

Financial assets at fair value through profit or loss

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

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

8. Financial instruments *(continued)*

Category and measurement of financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

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

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

8. Financial instruments *(continued)*

Category and measurement of financial assets *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories. After initial recognition, such financial assets are measured at fair value. Its discount or premium is amortized using effective interest rate method and recognized as interest income or expense. Except for impairment loss and exchange differences of monetary financial assets denominated in foreign currency which are recognised in the income statement, changes in fair value of available-for-sale financial assets are recognized as other comprehensive income in the capital reserve until the investment is derecognized or there is an impairment, then the cumulative gain or loss will be included in the consolidated income statement. Interests and dividends earned are reported as interest income and dividend income, respectively and are recognized in the income statement.

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

8. Financial instruments *(continued)*

Category and measurement of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

8. Financial instruments *(continued)*

Fair value of financial instruments

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid price. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, impairment loss will be provided. There is objective evidence that an impairment loss exists when the present value of the estimated future cash flows is adversely affected after initial recognition, and the amount can be measured reliably.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, (i.e., the effective rate computed initial recognition) after taking into consideration of the value of the collaterals, if any. In respect of floating interest rate, the current effective interest rate is used as the discount rate in calculating the present future cash flow.

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

8. Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortized cost (continued)

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

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

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

8. 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 the profit or loss. Accumulated losses represent an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement.

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

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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

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

8. 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 as follows, according to the individual circumstances: (i) if the Group relinquishes control over the financial asset, the Group derecognizes the financial asset; (ii) if the Group does not relinquish control over the financial asset, the Group, to the extent of its continuous involvement in the financial asset, recognizes it as a related financial asset and recognizes the relevant liability accordingly.

9. Receivables

Individually significant receivables

The Group recognizes the account receivables with an individual balance exceeding RMB1 million and other receivables as individually significant receivables.

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

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

9. Receivables *(continued)*

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

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

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

10. Inventories

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

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

The Group adopts inventory perpetual physical count method.

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

10. Inventories *(continued)*

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

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

11. 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.

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

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

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

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

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

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

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

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

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

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

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

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

For the details of impairment test and provision for long term equity investments related to subsidiaries, jointly-controlled entities and associates, please refer to Note (2) 21. For details of impairment test and provision for other long-term equity investments without quoted price in the active market and fair values of which cannot be measured reliably, please refer to Note (2) 8.

12. 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.

12. Fixed assets *(continued)*

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

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

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

For details of impairment test and provision methods of fixed assets, please refer to Note (2) 21.

13. Construction in progress

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

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

For details of impairment test and provision methods of construction in progress, please refer to Note (2) 21.

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

14. Borrowing costs

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

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of the assets. Except for the above other borrowing costs are recognized as financial expenses in the consolidated income statement when incurred.

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

(a) Capital expenditure were incurred;

(b) Borrowing costs were incurred;

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

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

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

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

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

14. Borrowing costs *(continued)*

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

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

15. Intangible assets

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

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

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

15. Intangible assets *(continued)*

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. 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 amortised 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.

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) 21.

16. 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;

(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.

17. Revenue

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

Revenue from the sales of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

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

17. Revenue *(continued)*

Interest income

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

18. Government Grant

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attached conditions can be complied with. If the fair value could not be reasonably determined, the government grant is measured based on the nominal value. Where the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant is for compensation of expenses or losses incurred, the grant is recongnised in the current period's consolidated income statement. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. Government grants measured based on the nominal value are recognized in the consolidated income statement directly.

19. 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.

19. Income tax *(continued)*

Deferred tax is provided using the liability method, on all temporary difference at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

(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.

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

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

19. Income tax *(continued)*

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The Group reassesses unrecognized deferred tax assets at each balance sheet date and recognizes deferred tax asset to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

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

20. Lease

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

As a lessee under operating lease

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

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

21. Impairment of assets

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

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

An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are mainly independent of those from other assets or groups of assets, in which case the recoverable amount is determined for cash-generating unit to which the asset belongs.

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

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

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

21. Impairment of assets *(continued)*

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

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

22. Employee benefits

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

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

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

23. Profit distribution

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

24. 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.

25. Significant accounting judgements and estimates

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

Estimates with uncertainty

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

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

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

Deferred tax assets

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

Provision for doubtful debt

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

Provision for inventory obsolescence

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

(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 and dividend paid to individual shareholder 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 during the relevant period, other entities are subject to corporate income tax at a rate of 25% on their taxable income.

(3) TAXATION *(continued)*

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. ("Siping Steering"), a subsidiary of the Company, was recognized as a high-tech corporate, and was subject to a corporate income tax rate of 15% from 2009 to 2011.

In April 2012, Siping Steering submitted an application for high-tech enterprise qualifications review to the Department of Science of Jilin province. As at the date of this report, the review is in progress. Siping Steering is adopting a tax rate of 15% for income tax pre-declaration during the period under review.

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. ("Hangzhou Shibao"), a subsidiary of the Company, was recognized as a high-tech enterprise, and was subject to a corporate income tax rate of 15% from 2008 to 2010. In 2011, Hangzhou Shibao was re-accepted for the qualifications as a high-tech enterprise and is subjected to an income tax rate of 15% from 2011 to 2013.

(4) CONSOLIDATION SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

1. Particulars of subsidiaries

Name of subsidiaries	Place of registration	Business scope	Represen-tative	Registered capital '000	Investment amount '000	Percentage of shareholding At 30 June 2012 Direct (%)	Indirect (%)	At 31 December 2011 Direct (%)	Indirect (%)	Code of entity
Siping Steering Gear Co., Ltd. ("Siping Steering")	Siping City	Manufacture of power steering gears, steering knuckles for sedans, and automotive parts and components	Zhang Shi Quan	11,000	8,250	75	–	75	–	70221708-7
Hangzhou Shibao Auto Steering Gear Co., Ltd. ("Hangzhou Shibao")	Hangzhou City (Note 1)	Manufacure of steering gear and automotive parts and components	Zhang Shi Quan	40,000	40,000	100	–	100	–	25392555-4
Hangzhou New Shibao Electric Power Steering Co., Ltd. ("Hangzhou New Shibao")	Hangzhou City	Sale of steering gear components and other components for automobiles	Zhang Bao Yi	60,000	42,000	70	–	70	–	76823319-4

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

1. Particulars of subsidiaries *(continued)*

Name of subsidiaries	Place of registration	Business scope	Representative	Registered capital '000	Investment amount '000	Percentage of shareholding At 30 June 2012 Direct (%)	Percentage of shareholding At 30 June 2012 Indirect (%)	Percentage of shareholding At 31 December 2011 Direct (%)	Percentage of shareholding At 31 December 2011 Indirect (%)	Code of entity
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	Technology development	Zhang Bao Yi	10,000	7,000	70	–	70	–	77861581-5

Note:

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

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

1. Cash on hand and at bank

	30 June 2012 *(unaudited)*			31 December 2011 *(audited)*		
	Original currency	Conversion rate	Equivalent RMB	Original currency	Conversion rate	Equivalent RMB
Cash						
—RMB	215,448.52	1.00	215,448.52	153,654.33	1.00	153,654.33
Bank deposits						
—RMB	30,937,643.99	1.00	30,937,643.99	40,527,148.18	1.00	40,527,148.18
—US$	1,613.73	6.32	11,807.06	1,612.91	7.32	11,802.04
—HK$	22,439.25	0.82	18,283.50	23,339.25	0.81	19,016.82
—CHF	55.41	6.59	359.36	55.41	6.49	359.36
Other monetary funds						
—RMB	1,450,053.17	1.00	1,450,053.17	2,522,130.61	1.00	2,522,130.61
Total cash on hand and at bank			32,633,595.60			43,234,111.34
Less: Restricted cash on hand and at bank (note)			1,450,053.17			2,522,130.61
Cash and cash equivalents			31,183,542.43			40,711,980.73

Note: As at 30 June 2012 and 31 December 2011, the restricted cash on hand and at bank of the Group refers to the deposits for issuance of bank bills and letters of credit.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between 7 days and 6 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

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

2. Notes receivable

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Banker's acceptances	81,397,773.44	137,538,266.04

As at 30 June 2012, the Group has no notes receivable converted to accounts receivable because of the drawer's inability to perform.

As at 30 June 2012, notes receivable with carrying value of RMB2,000,000.00 has been pledged to obtain notes payable (31 December 2011: RMB11,006,590.00).

3. Accounts receivable

The ageing analysis of accounts receivable is as follows:

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Within 1 year	286,959,069.81	199,521,502.26
1-2 years	2,168,432.55	3,459,272.27
2-3 years	451,113.69	550,022.61
Over 3 years	2,126,871.14	2,378,172.51
	291,705,487.19	205,908,969.65
Less: Provision for impairment	(743,745.94)	(2,290,074.23)
	290,961,741.25	203,618,895.42

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

3. Accounts receivable *(continued)*

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

	At beginning of the period	Provision during the period	Decrease during the period		At end of the period
			Reversal	Write-off	
Jan.–June 2012	2,290,074.23	–	(1,543,988.26)	(2,340.03)	**743,745.94**

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

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

4. Inventories

	30 June 2011 *(unaudited)*	31 December 2011 *(audited)*
Raw materials	53,535,319.64	50,096,519.37
Work-in-progress	17,343,486.61	18,143,413.98
Finished goods	44,950,014.14	54,518,023.83
Low-value consumables	1,398,813.06	969,428.73
	117,227,633.45	123,727,385.91
Less: Provision for impairment of inventories	(940,578.21)	(1,309,267.99)
	116,287,055.24	122,418,117.92

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

	At beginning of the period	Provision during the period	Decrease during the period: Reversal	Decrease during the period: Write-off	At end of the period
Raw materials	843,510.23	—	(231,801.27)	(160,339.65)	451,369.31
Finished goods	465,757.76	23,451.14	—	—	489,208.90
	1,309,267.99	23,451.14	(231,801.27)	(160,339.65)	940,578.21

As at 30 June 2012, the Group made provision for impairment of inventories, which is mainly attributable to long aging and obsolete inventories.

As at 30 June 2012, the Group had no inventories as debt guarantees or with restricted ownership.

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

5. 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 City	Zhang Shi Quan	Develop, 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 the equity transfer amounting to RMB569,936.00. 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 consideration for the equity transfer. Wuhu Sterling has completed the change of industrial and commercial registration. The Company paid the transfer consideration in one time on 21 November 2011. As at 31 December 2011 and 30 June 2012, the Company held 46% of equity in Wuhu Sterling.

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

6. Fixed assets

	Buildings and structures	Plant and equipment	Transportation vehicles	Office equipment and others	Total
Cost:					
At 31 December 2011 (audited)	134,719,885.40	262,908,424.41	19,743,189.37	7,627,175.05	424,998,674.23
Additions	158,370.20	1,561,353.64	352,351.47	195,725.92	2,267,801.23
Transfer from construction in progress	17,007,974.65	3,547,519.83	637,108.10	427,885.04	21,620,487.62
Disposal	–	(615,788.14)	(302,732.00)	–	(918,520.14)
At 30 June 2012 (unaudited)	151,886,230.25	267,401,509.74	20,429,916.94	8,250,786.01	447,968,442.94
Less: Accumulated depreciation:					
At 31 December 2011 (audited)	25,515,804.87	93,172,543.88	9,731,127.08	6,274,978.35	134,694,454.18
Provision	1,886,298.29	11,516,549.90	1,421,210.93	281,737.61	15,105,796.73
Disposal	–	(514,173.76)	(283,845.40)	–	(798,019.16)
At 30 June 2012 (unaudited)	27,402,103.16	104,174,920.02	10,868,492.61	6,556,715.96	149,002,231.75
Book value:					
At 30 June 2012 (unaudited)	124,484,127.09	163,226,589.72	9,561,424.33	1,694,070.05	298,966,211.19
At 31 December 2011 (audited)	109,204,080.53	169,735,880.53	10,012,062.29	1,352,196.70	290,304,220.05

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

6. Fixed assets *(continued)*

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

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

On 30 June 2012, the original values of fixed assets that had been fully depreciated but still in use were RMB34,516,161.68 (31 December 2011: RMB32,066,706.86).

On 30 June 2012, fixed assets that had not obtained ownership certificates were as follows:

Project	Reasons for not yet obtaining ownership certificates
High and low voltage substation of Jilin Shibao Machinery Manufacturing Co., Ltd.	Obtaining ownership cetificates is in progress

On 30 June 2012, the carrying value of the fixed assets that had not obtained ownership certificates amounted to RMB985,895.26 (31 December 2011: RMB29,361,219.05).

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

7. Intangible assets

	Land use right	Patented technology	Software	Non-patented technology	Total
Cost:					
As at 31 December 2011 (audited)	57,651,479.00	1,281,666.67	450,550.00	25,963,095.33	85,346,791.00
Additions	–	–	538,247.78	–	538,247.78
As at 30 June 2012 (unaudited)	57,651,479.00	1,281,666.67	988,797.78	25,963,095.33	85,885,038.78
Less: Accumulated amortization					
As at 31 December 2011 (audited)	7,580,928.67	149,527.73	363,684.90	2,899,762.00	10,993,903.30
Amortization	574,876.32	64,083.31	78,507.24	1,371,324.01	2,088,790.88
Book value:					
As at 30 June 2012 (unaudited)	8,155,804.99	213,611.04	442,192.14	4,271,086.01	13,082,694.18
As at 30 June 2012 (unaudited)	49,495,674.01	1,068,055.63	546,605.64	21,692,009.32	72,802,344.60
As at 31 December 2011 (audited)	50,070,550.33	1,132,138.94	86,865.10	23,063,333.33	74,352,887.70

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

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

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

8. Short-term loans

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Guaranteed loans	100,950,000.00	60,000,000.00
Secured loans	25,000,000.00	25,000,000.00
Pledged loans	—	4,079,832.00
Credit loans	25,000,000.00	25,000,000.00
	150,950,000.00	114,079,832.00

As at 30 June 2012, interest rates for above loans are between 6.31% to 8.50% per year (31 December 2011: 5.85% to 8.50%).

The Company obtained a loan of RMB30,000,000.00 from Yiwu branch of ICBC on 9 October 2011, for a term of 12 months, expiring on 20 Spetember 2012, the annual interest rate of which was 1% over 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 the Company, which applied domestic factoring of recourse rights with Yiwu branch of ICBC. The Company repaid RMB5,000,000.00 on 15 November 2011.

The Company obtained a credit loan of RMB25,000,000.00 from Yiwu 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% over the national benchmark interest rate of the same grade at the same time, floating every three months.

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

8. Short-term loans *(continued)*

Hangzhou Shibao obtained a loan of RMB30,000,000.00 from Hangzhou branch of Industrial Bank Co., Ltd. on 5 September 2011, for a term of 12 months, expiring on 4 Spetember 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 and Zhang Shi Quan.

Hangzhou Shibao obtained a loan of RMB6,950,000.00 from Hangzhou Cheng Xi branch of Industrial Bank Co., Ltd. on 31 January 2012, for a term of 12 months, expiring on 30 January 2013, 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 and Zhang Shi Quan.

Hangzhou Shibao obtained a loan of RMB24,000,000.00 from Hangzhou Cheng Xi branch of Industrial Bank Co., Ltd. on 27 March 2012, for a term of 12 months, expiring on 26 March 2013, 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 and Zhang Shi Quan.

Hangzhou Shibao obtained a loan of RMB20,000,000.00 from Hangzhou branch of CITIC on 16 April 2012, for a term of 12 months, expiring on 16 April 2013, the annual interest rate of which was 6.56%. The loan was guaranteed by Zhejiang Shibao Holding.

Hangzhou Shibao obtained a loan of RMB10,000,000.00 from Hangzhou branch of CITIC on 21 June 2012, for a term of 12 months, expiring on 20 June 2013, the annual interest rate of which was 6.31%. The loan was guaranteed by Zhejiang Shibao Holding.

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

8. Short-term loans *(continued)*

Hangzhou Shibao obtained a loan of RMB10,000,000.00 from Hangzhou branch of CITIC on 25 June 2012, for a term of 12 months, expiring on 25 June 2013, the annual interest rate of which was 6.31%. The loan was guaranteed by Zhejiang Shibao Holding.

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

9. Accounts payable

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Within 1 year	138,390,272.42	158,573,598.72
1-2 years	6,568,687.15	3,781,087.89
2-3 years	862,786.65	931,376.11
Over 3 years	1,724,808.98	1,833,773.68
	147,546,555.20	165,119,836.40

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

As at 30 June 2012, the Group had no large amount of accounts payable which was aged over 1 year.

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

10. Non-current liabilities due within one year

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Long-term borrowings due within one year — guaranteed loans	**14,390,400.00**	13,000,000.00

On 1 December 2010, Jilin Shibao 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%. The loan was secured by Siping Steering. 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.

On 1 January 2002, Siping Steering obtained a loan of RMB2,260,000.00 under the special fund for treasury bond on the state key projects of technological transformation from the Siping Municipal Bureau of Finance, for a term of 15 years, with a grace period of 4 years, the annual interest rate of which was 5%. Among such amount, RMB869,600.00 was repaid on 30 December 2011 and the remaining RMB1,390,400.00 will be repaid according to the requirement of the Siping Municipal Bureau of Finance.

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

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

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

11. Long-term borrowings

	30 June 2012 (unaudited)				
	Currency	Amount	Condition	Interest rate	Maturity date
Special fund for treasury bond	RMB	2,830,000.00	Credit borrowings	5.00%	31-Dec-2020
China Construction Bank	RMB	2,000,000.00	Guranteed borrowings	6.90%	30-Nov-2013
China Construction Bank	RMB	11,000,000.00	Guranteed borrowings	8.28%	30-Nov-2013
China Construction Bank	RMB	4,000,000.00	Guranteed 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		28,630,000.00			

	31 December 2011 (audited)				
	Currency	Amount	Condition	Interest rate	Maturity date
Special fund for treasury bond	RMB	2,830,000.00	Credit borrowings	5.00%	31-Dec-2020
Special fund for treasury bond	RMB	1,390,400.00	Credit borrowings	5.00%	31-Dec-2016
China Construction Bank	RMB	2,000,000.00	Guranteed borrowings	6.90%	30-Nov-2013
China Construction Bank	RMB	11,000,000.00	Guranteed borrowings	8.28%	30-Nov-2013
China Construction Bank	RMB	4,000,000.00	Guranteed 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		30,020,400.00			

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

11. Long-term borrowings *(continued)*

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

Special fund for treasury bond refers to the loan under the special fund for treasury bond on the stated key projects of technological transformation by the Siping Municipal Bureau of Finance. Borrowings from Administrative Committee of Tiedong Economic Development Zone of Siping are used for production expansion of Jilin Shibao.

12. Net current assets

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Current assets	540,601,239.21	524,257,120.54
Less: Current liabilities	333,478,694.44	331,445,952.39
	207,122,544.77	192,811,168.15

13. Total assets less current liabilities

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Total assets	1,072,511,547.68	1,051,351,797.88
Less: Current liabilites	333,478,694.44	331,445,952.39
	739,032,853.24	719,905,845.49

14. Share capital

	30 June 2012 (unaudited) and 31 December 2011 (audited)	
	No. of shares	Percentage
1. Unlisted shares		
Promoter's shares	175,943,855.00	66.99%
Including:		
Shares held by domestic legal persons	165,387,223.00	62.97%
Shares held by domestic natural persons	10,556,632.00	4.02%
Total unlisted shares	175,943,855.00	66.99%
2. Listed shares		
Overseas listed foreign shares	86,714,000.00	33.01%
Total listed shares	86,714,000.00	33.01%
3. Total shares	262,657,855.00	100.00%

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

15. Minority interests

Minority interests balance of subsidiaries of the Company is as follows:

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Siping Steering	3,500,000.00	3,250,000.00
Beijing Autonic	2,163,761.11	2,246,301.85
Hangzhou New Shibao	13,278,150.33	15,120,001.88
	18,941,911.44	20,616,303.73

16. Revenue and costs

Revenue is as follows:

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Revenue from main business	309,784,471.29	332,762,718.55
Revenue from other business	1,870,308.02	64,810.00
	311,654,779.31	332,827,528.55

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

16. Revenue and costs *(continued)*

Costs are as follows:

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Costs from main business	207,871,385.75	213,669,247.61
Costs from other business	286,377.76	–
	208,157,763.51	213,669,247.61

Details of principal operation by products are as follows:

	Jan.-June 2012 *(unaudited)*		Jan.-June 2011 *(unaudited)*	
	Revenue	Costs	Revenue	Costs
Power recirculating ball steering gears and its components	130,424,444.09	90,682,621.97	127,435,981.15	85,905,107.02
Steering knuckles	42,035,299.02	24,600,591.64	88,064,769.71	50,502,189.02
Power rack-and-pinion steering gears	92,312,822.94	56,484,060.09	71,428,882.78	47,446,932.69
Manual recirculating ball steering gears	5,804,408.76	5,196,109.63	6,519,945.44	5,443,702.10
Spare parts and others	39,207,496.48	30,908,002.42	39,313,139.47	24,371,316.78
	309,784,471.29	207,871,385.75	332,762,718.55	213,669,247.61

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

17. Financial expenses

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Interest expense	5,562,521.65	2,099,940.94
Less: Interest income	366,112.77	267,492.21
Amount of interest capitalized	1,548,009.82	–
Others	73,061.55	100,136.23
	3,721,460.61	1,932,584.96

18. Investment gains/(losses)

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Unlisted investments:		
Investment gains/(losses) from long-term equity investments under equity method of accounting	(580,355.14)	173,570.99
Including: Investment gains/(losses) from associates	(580,355.14)	173,570.99

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

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

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

19. Non-operating income

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Gains from disposal of fixed assets	161,725.28	1,321.46
Government grants	1,296,480.18	4,111,797.88
Advance from customers write-off	730,453.62	–
Others	950,753.70	268,963.45
	3,139,412.78	4,382,082.79

20. Non-operating expenses

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Loss on disposal of fixed assets	5,216.20	241,915.36
Water conservancy fund	181,987.07	184,678.46
Others	77,220.55	198,180.38
	264,423.82	624,774.20

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

21. Income tax expenses

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during January to June 2012 (January-June 2011: Nil).

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Current income tax expense	9,787,767.13	14,249,906.30
Deferred income tax expense	194,833.42	(1,356,482.17)
	9,982,600.55	12,893,424.13

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

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 Seperation 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.

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

22. Earnings per share

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

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

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

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Earnings		
Net profits attributable to the ordinary equity holders of the Company's shares for the period	49,850,190.72	60,996,018.28
Shares		
Weighted average of ordinary shares issued by the Company	262,657,855.00	262,657,855.00
Basic earnings per share (RMB)	0.19	0.23
Diluted earnings per share (RMB)	0.19	0.23

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

23. 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:

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Net profit	48,175,798.43	60,061,650.74
Add:		
Provision/(reversal) for impairment of assets	(1,752,338.39)	911,429.73
Depreciation of fixed assets	15,105,796.73	13,804,963.89
Amortisation of intangible assets	2,088,790.88	2,233,321.16
Amortisation of deferred income	(1,296,480.18)	(391,980.48)
Unrealized gains from sale to an associate	233,318.10	145,909.69
Losses/(gains) on disposal of fixed assets, intangible assets and other long-term assets	(156,509.08)	240,593.90
Financial expenses	3,648,399.06	1,832,448.73
Investment losses/(gains)	580,355.14	(173,570.99)
Decrease/(increase) in deferred tax assets	290,958.42	(1,260,357.17)
Decrease in deferred tax liabilities	(96,125.00)	(96,125.00)
Decrease/(increase) in inventories	6,339,412.81	(501,492.79)

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

23. Supplemental information on the statement of cash flows *(continued)*

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

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Increase in operating receivables	(28,435,468.63)	(93,588,215.51)
Increase/(decrease) in operating payables	(26,828,040.43)	40,808,132.16
Net cash flows from operating activities	17,897,867.86	24,026,708.06

Net change in cash and cash equivalents:

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Closing balance of cash	215,448.52	140,501.37
Less: Opening balance of cash	153,654.33	126,251.37
Add: Closing balance of cash equivalents	30,968,093.91	36,254,637.41
Less: Opening balance of cash equivalents	40,558,326.40	48,812,012.78
Net decrease in cash and cash equivalents	(9,528,438.30)	(12,543,125.37)

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

23. Supplemental information on the statement of cash flows *(continued)*

(2) Cash and cash equivalents:

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Cash		
Including: Cash on hand	215,448.52	153,654.33
Bank deposits readily available	30,968,093.91	40,558,326.40
Closing balance of cash and cash equivalents	31,183,542.43	40,711,980.73

(6) OPERATING SEGMENT INFORMATION

Operating segment

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

Other information

Geographical information

All external revenue of the Group was generated from Mainland China.

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

(7) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent company

Name	Place of registration	Corporate type	Corporate representative	Buiness nature	Registered capital	Shareholding % in the Company	Voting % in the Company	Organ-ization code
Zhejiang Shibao Holding Group Co., Ltd	Yiwu City	Limited liability	Zhang Shi Zhong	Industrial investment	50 million	62.97%	62.97%	75193 535-X

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

2. Subsidiary

The Company's subsidiaries are listed out in Note (4) – Consolidation scope of consolidated financial statements.

3. Associate

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

4. Other related parties

	Relationship
Zhang Shi Quan and his family members, namely Zhang Bao Yi, Tang Hao Han, Zhang Lan Jun and Zhang Shi Zhong	Ultimate controlling parties
Zhang Hai Qin	Family members with close relation with main investors

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

5. Major transactions between the Group and related parties

(1) Transactions of goods and services with related parties

Purchase of goods from related parties

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Wuhu Sterling	593,448.64	662,809.17

During January to June 2012, the purchase amount of goods from related parties accounted for 0.41% of the Group's total purchases (Jan.-June 2011: 0.27%).

During the period, the Group purchased steering gears from Wuhu Sterling at market price.

Sales of goods to related parties

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Wuhu Sterling	13,580,517.87	20,483,812.79

During January to June 2012, the sale amount of goods to related parties accounted for 4.36% of the Group's total sales (Jan.-June 2011: 6.16%).

During the period, the Group sold spare parts and fittings to Wuhu Sterling at market price.

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

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

(2) Equity transactions with related parties

Purchase of equity from related parties

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

(3) Guarantee with related parties

Acceptance of guarantee from related parties

	Guaranted amount *('0,000)*	Commencement date of the guarantee	Expiry date of the guarantee	Guarantee fully fufilled
Zhejiang Shibao Holding	4,000	16-Apr-2012	25-Jun-2015	No
Zhejiang Shibao Holding	9,000	23-Aug-2011	26-Mar-2015	No
Zhang Shi Quan	9,000	23-Aug-2011	26-Mar-2015	No

As at 30 June 2012, Zhejiang Shibao Holding provided maximum guarantee of bank credit business to the Group, and the maximum principal balance of secured claim was RMB130 million. The Group's bank borrowings drawn and outstanding under this guarantee were RMB100.95 million. Zhang Shi Quan provided joint and several liability guarantee for bank borrowings of the Group amounting to RMB60.95 million.

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

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

(3) Guarantee with related parties (continued)

Provision of guarantee to related parties

As at 30 June 2012, no guarantee was provided to related parties.

(4) Other transactions with related parties

	Jan.-June 2012 *(unaudited)*	Jan.-June 2011 *(unaudited)*
Key managerial personnel remuneration	1,245,281.12	1,123,608.00

6. Balance of receivable/(payable) from/(to) related parties

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Accounts receivable		
Wuhu Sterling	19,181,370.81	25,391,425.25

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

(8) LEASING ARRANGEMENT

As lessee

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

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Within 1 year (inclusive)	332,614.25	354,615.75
1-2 years (inclusive)	–	161,100.50
2-3 years (inclusive)	–	–
	332,614.25	515,716.25

(9) COMMITMENTS

	30 June 2012 *(unaudited)*	31 December 2011 *(audited)*
Capital commitment		
Contracted, but not provided for	23,274,723.13	22,350,312.62

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating result

For the six months ended 30 June 2012, the Group recorded a revenue of RMB311,654,779.31, representing a decrease of approximately 6.36% over the corresponding period of 2011. Net profit attributable to equity holders of the Parent was RMB49,850,190.72, representing a decrease of approximately 18.27% over the corresponding period of 2011.

The decrease in the Group's revenue was mainly due to a significant decrease in the sale of steering knuckle. However, the sale of hydraulic power rack-and-pinion steering gear for passenger cars was increased fast, therefore reduced the impact of decrease in the sale of steering knuckle on the revenue of the Group.

During the period under review, the Group's entire gross profit decreased by approximately 13.14% over the corresponding period of 2011. The gross profit margin of the Group was approximately 33.21% (corresponding period of 2011: approximately 35.80%). The decrease in the gross profit margin was mainly due to price cuts of steering knuckle and hydraulic power re-circulating ball steering gear for commercial vehicles resulting in decrease in both the gross profit margins of such products. However the gross profit margin of hydraulic power rack-and-pinion steering gear for passenger cars was increased, therefore reduced the impact of decrease in gross profit margins of steering knuckle and hydraulic power re-circulating ball steering gear for commercial vehicles on the gross profit margin of the Group.

During the period under review, the Group's selling expenses decreased by RMB2,360,765.86 over the corresponding period of 2011. The ratio of selling expenses to revenue also decreased over the corresponding period of 2011. Decrease in selling expenses was mainly due to a decrease in transportation and storage costs as delivery destination for some of the products were close.

During the period under review, the Group's general and administrative expenses increased by RMB436,160.33 over the corresponding period of 2011. The ratio of general and administrative expenses to revenue also increased over the corresponding period of 2011. Increase in general and administrative expenses was mainly due to an increase in administrative staff costs 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 period under review, the Group's financial expenses increased by RMB1,788,875.65 over the corresponding period of 2011. 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 for the Group's expanded operation and production scale.

In view of the above, for the six months ended 30 June 2012, the Group has a net profit of RMB48,175,798.43, representing a decrease of approximately 19.79% compared with RMB60,061,650.74 for the corresponding period of 2011.

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

Marketing and business development

During the period under review, the Group obtained four new development projects. During the period under review, the Group has six development projects started volume production.

During the period under review, the Group participated in Automechanika Middle East 2012 in order to explore the opportunities in overseas market.

Production facilities

During the period under review, Hangzhou New Shibao established assembly capacities for column-assisted EPS (the "C-EPS"), rack-assisted EPS (the "R-EPS") and pinion-assisted EPS (the "P-EPS").

Research and development

During the period under review, the Group has one application been issued certificate of patent of invention by the State Intellectual Property Office.

Human resources

As at 30 June 2012, the Group employed a total of 1,749 employees. For the six months ended 30 June 2012, total staff salaries and welfare costs amounted to RMB39,173,756.17 (corresponding period of 2011: RMB29,582,196.72). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

FINANICAL REVIEW

Liquidity and financial resources

Liquidity ratios

As at 30 June 2012, the Group had cash on hand and at banks of RMB32,633,595.60 (31 December 2011: RMB43,234,111.34), including restricted cash on hand and at banks of RMB1,450,053.17 (31 December 2011: RMB2,522,130.61). 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 30 June 2012, the current ratio of the Group was approximately 1.62 (31 December 2011: approximately 1.58), the quick ratio was approximately 1.27 (31 December 2011: approximately 1.21).

Net current assets as at 30 June 2012 was RMB207,122,544.77 (31 December 2011: RMB192,811,168.15).

As at 30 June 2012, non-current liabilities were RMB55,137,981.77 (31 December 2011: RMB57,920,986.95), decreased by RMB2,783,005.18 when compared with beginning of the period mainly as a result of a decrease in long-term 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 30 June 2012 was approximately 36.23% (31 December 2011: approximately 37.03%). The calculation of gearing ratio is to divide total liabilities by total assets. Total liabilities is the sum of all items of liabilities bearing by the Group, including current-liabilities and long-term liabilities. Total assets is the sum of all items of assets holding by the Group, including current assets and non-current assets.

As at 30 June 2012, the amount of total loans and borrowings was RMB193,970,400.00 (31 December 2011: RMB157,100,232.00), in which RMB180,950,000.00 (31 December 2011: RMB144,079,832.00) were bank loans. Total loans and borrowings increased by RMB36,870,168.00 when compared with beginning of the period. 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. Loans and borrowings which are short-term and repayable within one year amounted to RMB165,340,400.00 (31 December 2011: RMB127,079,832.00), accounting for 85.24% (31 December 2011: approximately 80.89%) of the total loans and borrowings. Loans and borrowings at fixed interest rates were RMB44,220,400.00.

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

PLEDGE OF ASSETS

As at 30 June 2012, the restricted cash on hand and at banks of the Group was RMB1,450,053.17 (31 December 2011: RMB2,522,130.61) 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 it's assets.

MATERIAL ACQUISITIONS AND DISPOSALS

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

FOREIGN CURRENCY EXPOSURE

For the six months ended 30 June 2012, 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

As at 30 June 2012, except the capital commitments as set out in Note (9) to the financial statements, the Group had no other material capital commitments.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group had no material contingent liabilities.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2012 (30 June 2011: Nil).

OUTLOOK

Under the background that the world economy recovery faces many uncertainties and China economy still faces the pressure of downturn, the China automobile industry is unlikely to grow fast in near future. Performance of commercial vehicles is depressed. Restriction policies on the purchase of automobiles bring negative impact on passenger cars.

However, the Group has accumulated strong competitiveness on its main products, i.e. hydraulic power steering gears for commercial vehicles and passenger cars, which will help the Group to obtain sufficient businesses under the downturn market situation. Furthermore, purchase subsidies provided by the Chinese government on green cars and energy-saving cars will bring sound demand for the Group's electric power steering system ("EPS") products.

The Group has started to invest in production capacity expansion projects and a state-level automotive steering R&D center since 2011. Although the investment may have negative impact on the Group's profit in short-term, the Group is confident that the investment will provide sustainable growth and sound economic benefits in the future.

OTHER MATTERS

PROPOSED ISSUE OF A SHARES

At a meeting held by the Public Offering Review Committee of CSRC on 18 May 2012, the application for initial Issue of A Shares of the Company has been reviewed and passed while the formal written approval from CSRC is still pending. For detailed information of Issue of A Shares, please refer to the announcements of the Company dated 7 April 2011, 20 June 2011, 18 May 2012 and 25 May 2012 and the circular of the Company dated 4 May 2011.

CONNECTED TRANSACTIONS

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, pursuant to which Zhejiang Shibao Holding has conditionally agreed to dispose of and the Company has conditionally agreed to acquire 90% equity interest in Changchun Shili Automotive Brake Parts Co., Ltd. ("Changchun Shili Automotive") for a total consideration of RMB10,467,600.00 (the "Considerantion"). Zhejiang Shibao Holding held 165,387,223 Domestic Shares, representing 62.97% of the total issued share capital of the Company. Therefore, Zhejiang Shibao Holding is a controlling shareholder of the Company. Zhejiang Shibao Holding is, hence, a connected person of the Company under the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "Listing Rules"). Accordingly, the transaction under the Acquisition Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios in respect of the transaction under the Acquisition Agreement are more than 0.1% but lower than

5%, the Acquisition Agreement is exempt from the independent shareholders' approval requirement and are only subject to the reporting and announcement requirements under the Listing Rules. Completion of the Acquisition shall take place within six months after the listing and commencement of trading of the A Shares on the Shenzhen Stock Exchange. As at the date of this report, equity interest of Changchun Shili Automotive is owned as to 90% by Zhejiang Shibao Holding and 10% by Changchun Mengjia Automotive Parts Company Ltd.. Upon completion of the Acquisition Agreement, Changchun Shili Automotive will become a direct non-wholly owned subsidiary of the Company and the accounts of which will be consolidated into the accounts of the Group. The Acquisition would assist to resolve the potential competition issue between the Company and its controlling shareholder, Zhejiang Shibao Holding, in order to comply with the relevant regulatory authorities requirements in the PRC in relation to the Issue of A Shares. The Consideration is to be satisfied in cash and will be funded by internal resources of the Company. For detailed information of the connected transaction, please refer to the announcement of the Company dated 17 May 2012.

Save as disclosed above, for the six months ended 30 June 2012, the Group has no transaction which required to be made connected transaction disclosures under the Listing Rules.

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

As at 30 June 2012, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange were as follows:

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

Name of Director	Capacity	Number of Domestic Shares	Approximate percentage of shareholding in the same class of Shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Shi Quan ("Mr. Zhang")	Interest in a controlled corporation *(Note 1)*	165,387,223	94.00%	62.97%
	Beneficial owner *(Note 2)*	10,556,632	6.00%	4.02%

Notes:

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

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

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

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

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

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

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

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

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, pursuant to which Zhejiang Shibao Holding has conditionally agreed to dispose of and the Company has conditionally agreed to acquire 90% equity interest in Changchun Shili Automotive for a total consideration of RMB10,467,600.00. Zhejiang Shibao Holding is a controlling shareholder of the Company. Zhejiang Shibao Holding is, hence, a connected person of the Company under the Listing Rules. Accordingly, the transaction under the Acquisition Agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios in respect of the transaction under the Acquisition Agreement are more than 0.1% but lower than 5%, the Acquisition Agreement is exempt from the independent shareholders' approval requirement and are only subject to the reporting and announcement requirements under the Listing Rules. Completion of the Acquisition shall take place within six months after the listing and commencement of trading of the A Shares on the Shenzhen Stock Exchange. For detailed information of this connected transaction, please refer to the disclosures in the paragraph headed "Connected Transactions" in this report.

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

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

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

Save as disclosed above, as at 30 June 2012, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company who had or was deemed to have any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Division 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to the Model Code relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, so far as is known to the Directors, Supervisors and Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in Shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in the same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejing Shibao Holding	Beneficial owner *(Note 1&3)*	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang	Interest in a controlled corporation *(Note 1&3)*	165,387,223 Domestic Shares	94.00%	62.97%
	Beneficial owner *(Note 2&3)*	10,556,632 Domestic Shares	6.00%	4.02%
Mr. Gu Wei Rong	Beneficial owner	4,432,000 H Shares	5.11%	1.69%

Note:

(1) As at 30 June 2012, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding.

(2) Mr. Zhang has acquired from Du Chun Mao, Hui Yan, Wang Yu Jie, Zheng Yong Ping, Fu Zhong Xian, Zhang Qin Fang, Zhang Jun Yi and Wu Wei Xu, in aggregate 10,556,632 Domestic Shares with a nominal value of RMB1.00 each, representing approximately 4.02% of the issued capital of the Company as at the date of 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 Shares of the Company directly owned by himself, are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its associated corporations". These 165,387,223 Domestic Shares of the Company owned by Zhejiang Shibao Holding represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding and Mr. Zhang.

Save as disclosed above, as at 30 June 2012, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives 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

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

SHARE OPTION SCHEMES

As at 30 June 2012, the Company has not implemented any share option scheme.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 26 April 2006 with written terms of reference. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee has three members, namely Mr. 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 Group's interim report for the six months ended 30 June 2012 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.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE CODE

For the period under review, the Company had been in compliance with the majority of the code provisions set out in the Code on Corporate Governance Practices (effective till 31 March 2012) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, effective from 1 April 2012) contained in Appendix 14 to the Listing Rules with the exception of (i) code provision A.2.1 which states that the roles of the chairman and the chief executive shall be separated and shall not be undertaken by the same individual; and (ii) code provision A.1.8 which states that an issuer should arrange appropriate insurance cover in respect of legal action against its directors.

Mr. Zhang Shi Quan has been the Chairman and General Manager of the Company during the period under review. Mr. Zhang Shi Quan is the Company's founder, and is responsible for overseeing the overall strategic planning and development, new business investment, acquisition and merging. In view of the nature of the Company's business, the Board considers that the current management structure arrangement is considerably effective in response to market changes and finalization of strategic plans. The Board will review the efficiency of this management structure arrangement from time to time.

The Board did not arrange a liability insurance for the directors and senior executives taking into the consideration that the industry and business, and financial situation of the Company is stable at present, and the Company has established sufficient internal control system. The Board will review the need for the insurance cover from time to time.

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

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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.

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

Hangzhou, Zhejiang, the PRC

29 August 2012

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