浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 8331

Shibao steering the future

Annual Report 2009

* For identification purposes only

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This report, for which the directors of Zhejiang Shibao Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange for the purpose of giving information with regard to Zhejiang Shibao Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

Legal Name	Zhejiang Shibao Company Limited* 浙江世寶股份有限公司
Board of Directors	**Executive Directors** Mr. Zhang Shi Quan (張世權) *(Chairman and General Manager)* Mr. Zhang Bao Yi (張寶義) Mr. Tang Hao Han (湯浩瀚) Mr. Zhu Jie Rong (朱頡榕) Ms. Zhang Lan Jun (張蘭君)
	Non-executive Directors Mr. Zhang Shi Zhong (張世忠) Ms. Zhang Mei Jun (張美君) Mr. Lou Run Zheng (樓潤正)
	Independent Non-executive Directors Mr. Zhao Chun Zhi (趙春智) Mr. Chen Guo Feng (陳國峰) Mr. Chau Kam Wing, Donald (周錦榮)
Supervisors	Mr. Du Min (杜敏) Mr. Yang Di Shan (楊迪山) Mr. Wu Lang Ping (吳琅平) Mr. Shen Song Sheng (沈松生) Mr. Wang Kui Quan (王奎泉)
Senior Management	Mr. Du Chun Mao (杜春茂) Mr. Shen Rong Jin (沈榮金) Mr. Zhou Long (周瓏) Mr. Yu Zhong Chao (虞忠潮) Mr. Ise Mitsuo (伊勢光男) Ms. Huen Lai Chun (禤麗珍), *FCCA*
Audit Committee	Mr. Chau Kam Wing, Donald (周錦榮) *(Chairman)* Mr. Chen Guo Feng (陳國峰) Ms. Zhang Mei Jun (張美君)
Remuneration Committee	Mr. Chau Kam Wing, Donald (周錦榮) *(Chairman)* Mr. Chen Guo Feng (陳國峰) Ms. Zhang Mei Jun (張美君)
Compliance Officer	Mr. Zhu Jie Rong (朱頡榕)
Company Secretary	Ms. Huen Lai Chun (禤麗珍), *FCCA*

* *For identification purposes only*

CORPORATE INFORMATION

Authorised Representatives	Mr. Zhu Jie Rong (朱頡榕) Ms. Huen Lai Chun (禤麗珍), *FCCA*
Registered Office	No. 1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China
Head Office and Principal Place of Business in Hong Kong	Room 1204 C C Wu Building 302-308 Hennessy Road Wanchai Hong Kong
Legal Advisers	*as to Hong Kong law* Charltons 10th Floor Hutchison House No. 10, Harcourt Road Hong Kong *as to PRC law* Grandall Legal Group (Shanghai) 31st Floor Nan Zheng Building 580 Nanjing Xilu Shanghai China
Auditors	Ernst & Young *Certified Public Accountants* 18th Floor Two International Finance Centre 8 Finance Street Central Hong Kong

CORPORATE INFORMATION

Principal Bankers

Agricultural Bank of China,
Yiwu Branch – Fotang Subbranch
85 Jianshe Road, Fotang
Yiwu
Zhejiang Province
China

Industrial and Commercial Bank of China,
Yiwu Branch – Yiwu Subbranch
128 Huangyuan Road
Yiwu
Zhejiang Province
China

China Construction Bank,
Hangzhou Branch – Qiutao Subbranch
5 Qingchun East Road
Jianggang District
Hangzhou
Zhejiang Province
China

Industrial and Commercial Bank of China,
Siping Branch – Zhongyang Dong Lu Subbranch
1 Tiedong District
Siping
Jilin Province
China

Industrial and Commercial Bank of China,
Hangzhou Branch – Jingkai Subbranch
No. 5, No. 6 Road
Hangzhou Economic and Technological Development Zone
Hangzhou
Zhejiang Province
China

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

CORPORATE INFORMATION

Hong Kong H Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Place of Listing	H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 8331
Website	www.zjshibao.com

CORPORATE PROFILE

Zhejiang Shibao Company Limited (the "Company") is a joint stock limited company registered in the People's Republic of China (the "PRC") on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), a limited liability company established in the PRC. The Company's H Shares were listed on the GEM of the Exchange on 16 May 2006 (the "Listing Date"), and its stock code is 8331.HK.

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

The Group has been mainly engaged in the design, manufacture and sales of various types of automotive manual and power steering gears and related components, accumulating extensive industry experience in the PRC. The Group is one of the early movers in the development of electric power steering gear system (EPS) for fuel efficient and low-emission vehicles in the PRC, and also the early domestic enterprise having built the capabilities to design and manufacture EPS with in-house mechanical and electronic know-how.

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

The Group has automotive components and parts machining and assembly plants in Hangzhou and Yiwu, Zhejiang Province, Siping, Jilin Province and Wuhu, Anhui Province respectively. These resulted in the Group's combined annual production capacity of 1,000,000 units/sets of steering system products and is planned to be expanded to 3,000,000 units/sets in the next five years. Among these, capacity of electric power steering gear system (EPS) will be largely increased.

The Group is dedicated in the provision of four core products to large automakers: power recirculating ball steering gear assemblys for use in light, medium and heavy duty trucks and buses, power rack-and-pinion steering gear assemblys and steering knuckle assemblys for use in passenger cars and electric power steering gear system (EPS) for use in fuel efficient and low-emission vehicles (with own intellectual property rights).

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

The Group has rich OEMs experiences, strong design capability and has adopted lean production system. By continuously investing on research and development, the Group is now capable of joint-design with the local and international vehicle design team. The Group is further exploring opportunities with leading auto-makers in the modular supply and "Just-In-Time" delivery. It is our business objective to become one of the leading brands in the automotive steering industry in the PRC and a steering module supplier of the world's leading automakers.

FIVE YEARS FINANCIAL SUMMARY

The audited results, assets and liabilities of the Group for the past five years ended 31 December 2009. The relevant information were prepared on a consolidated basis and based on International Financial Reporting Standards ("IFRSs").

RESULTS

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**363,521**	256,215	211,970	152,369	149,148
Profit before tax	**76,643**	48,640	47,603	38,674	41,600
Profit for the year	**67,156**	41,503	38,906	33,178	38,025
Minority interests	**803**	626	665	583	553
Profits attributable to equity holders of the parent	**66,353**	40,877	38,241	32,595	37,472
Earnings per share – Basic (RMB)	**0.2526**	0.1556	0.1456	0.1403	0.2130

ASSETS AND LIABILITIES

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**308,421**	252,442	222,108	187,497	181,117
Current assets	**291,775**	261,588	258,135	251,366	197,638
Current liabilities	**124,297**	90,291	83,466	66,243	126,480
Net current assets	**167,478**	171,297	174,669	185,123	71,158
Equity attributable to equity holders of the parent	**466,410**	413,190	385,446	360,338	234,885
Total equity	**470,499**	417,076	389,306	364,133	242,597

CHAIRMAN'S STATEMENT

I would like to present on behalf of the Board of Directors (the "Board") the report of the audited results of the Group for the year ended 31 December 2009.

The Group is mainly engaged in the research and development, manufacture and sale of steering products for automobiles and steering knuckle products for mid-tier and premium sedans. The Group is also the first enterprise having built the capabilities to design and manufacture electric power steering gear system (EPS) for fuel efficient and low-emission vehicles in the PRC with in-house mechanical and electronic know-how.

For the year ended 31 December 2009, the Group recorded a revenue of approximately RMB363,521,000, representing an increase of approximately 41.9% as compared with 2008. The large increase was mainly contributed by a significant increase in the sale of steering products for passenger cars. During the reporting period, revenue generated from steering products for passenger cars represented 50% of the Group's entire revenue, and this percentage is expected to increase in the future.

The gross profit margin of the Group during the year under review was approximately 37.4% (2008: approximately 36.0%), representing an increase as compared with 2008. The increase in the gross profit margin was mainly due to a reduction in the manufacturing costs after new steering products for passenger cars started of bulk production.

For the year ended 31 December 2009, profit of the Group was approximately RMB67,156,000 (2008: approximately RMB41,503,000), representing a large increase of approximately 61.8% compared with 2008. Profit attributable to shareholders was approximately RMB66,353,000 (2008: approximately RMB40,877,000), representing a large increase of approximately 62.3% compared with 2008.

The production and sales volume of the China auto industry both exceeded 10 million units in 2009, representing an increase of over 40% as compared with last year, which is a milestone in the Chinese auto industry developing history. At the same time, after several years of investment on product development, manufacturing capacity building and market exploration, the Group's steering products for passenger cars started bulk production, which resulted in the large increase of the Group's revenue. During the year under review, the Group's revenue generated from steering products for passenger cars exceeded those from commercial vehicles for the first time. It is expected that the Group's revenue from passenger cars will continue to increase in the future. During the year under review, the Group's products have been used in more vehicle models, and the sales generated from the Group's key customers increased. The sales from top five customers of the Group accounted for more than 61.8% of the total sales.

During the year under review, the Group had engineering and commercial discussions with Volkswagen, General Motor and Italian vehicle design company IDG. The Group was also awarded "China Automotive Steering Industry Leading Enterprises" and "Zhejiang Enterprise of Innovation" by CAAM (China Association of Automobile Manufacturers) and Zhejiang Provincial Government respectively in 2009. On the 60th National Day celebrations, the Red Flag limousine ride by the State Leaders to inspect the defense forces and the leading military jeep of the defense forces both used heavy duty and high performance steering products developed and manufactured by the Group.

CHAIRMAN'S STATEMENT

OUTLOOK

Look forward, China auto market will keep growing. Among these, China's local brand and fuel efficient and low-emission vehicles both have great prospect. Such as FAW-CAR own brand passenger car BESTURN(奔騰) series, is expected to have large increase on both production and sales volume in 2010. Due to the continuous increase of living standard in small-medium size cities in the PRC, large demand for automobiles is cultivated there. Furthermore, in 2009 the Chinese government announced a list of first thirteen cities to be model cities to encourage the use of fuel efficient and low-emission vehicles, which facilitates the development of China's local brand, fuel efficient and low-emission vehicles.

Stimulated by the market demand, government support, and the several years of investment by the Group on product development, manufacturing capacity building and market exploration, especially the investment on the electric power steering gear system (EPS) for fuel efficient and low-emission vehicles, sustainable growth of the Group's revenue and profit is foreseeable in the future.

To speed up the industrialization of the electric power steering gear (EPS) products for fuel efficient and low emission vehicles, the Company plans to form a new subsidiary company dedicating to the development, manufacturing and sales of the EPS in the near future. Management team of this subsidiary company will include senior experts with international and renowned background in the EPS area.

Jilin Shibao Mechanical Manufacturing Company Limited, a wholly owned subsidiary company of the Company, has largely completed the civil work and workshop construction of a plant. Also, some of the purchased equipment will be arrived and installed at the plant in the near future. It is expected that the plant will start initial trial production in June 2010.

The Group is one of the first nineteen core suppliers of FAW-CAR, and as such the Group is in a good position in the development and supply for the FAW-CAR new models. Further, it provides the Group with opportunities to explore the new business cooperation model with FAW-CAR in the area of modular supply and "Just-In-Time" delivery. With the movements on this new business cooperation model, the Group is building more solid and stable relations with FAW Group, and it is possible to copy similar business cooperation model with other auto-makers, therefore significantly enhancing the Group's competitiveness.

Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
22 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

AUTOMOBILE MANUFACTURE AND SALES

In 2009, with the global economy still struggling to recover, China economy maintained developing. Further, the automobile market recovered and developed rapidly as a result of the automobiles consumption stimulating packages launched by the government at the beginning of 2009. The achievement of the China automobile market with both production and sales volume exceeding 10 million units made a milestone in the Chinese auto industry developing history. China is the largest global automobile manufacturer and market.

In 2009, production and sales volume of the China auto industry is 13,791,000 units and 13,644,800 units respectively, an increase of 48% and 46% as compared with 2008. Among these, production and sales of passenger cars is 10,383,800 units and 10,331,300 units respectively, an increase of 54% and 53% as compared with 2008; production and sales of commercial vehicles is 3,407,200 units and 3,313,500 units respectively, an increase of 33% and 28% as compared with 2008. In 2009, sales of China local brand passenger cars is 4,577,000 units, representing 44% of the entire sales of the passenger cars, an increase of 4% as compared with 2008. In 2009, automobile export amounted to 332,400 units, a decrease of 46% as compared with 2008.

For the past years, China's economy has been growing fast and living standard has been increasing stably. However, given the large population, the number of automobile per capita is still relatively low. The large purchasing prospects is likely to stimulate the fast growth of China's auto industry and this will make the auto industry the key supporting industry of China economy. The achievement of China automobile market strongly demonstrated the growing prospects of China domestic market and it is expected that China's auto industry will continue to grow repidly in the next ten years.

TREND OF THE CHINA AUTOMOTIVE STEERING MARKET

China's local brand steering industry achieved significant growth in the recent years. Among the automobiles made in China, more than 95% of the commercial vehicles (especially trucks) used local brand steering products; approximately 2/3 of the medium-high end passenger cars used steering products made by FDI (foreign direct investment) companies and the remaining 1/3 used local brand steering products; all low end passenger cars almost used local brand steering products. In the segmented China automotive steering market, the high-end market is dominated by FDI companies, the middle-end market is dominated by the large state-own-enterprises and private companies, and the low-end market is dominated by the small companies.

Steering companies are not only making steering gear products for auto-makers, but also moving to the modular supply. Production volume of hydraulic power steering gear was increasing in the past years and is now representing more than 50% of the entire production volume of steering gear. Numbers of universities and research institutions are working together with enterprises in developing, prototype making and commercialization of the electric power steering gear system (EPS). Manufacturing technologies of EPS is maturing in China. It is foreseen that the production of electric vehicles will be the future trend of EPS development.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

OPERATION RESULT

For the year ended 31 December 2009, the Group recorded a revenue of approximately RMB363,521,000, representing a large increase of approximately 41.9% as compared with 2008. The large increase was mainly due to a significant increase in the sale of steering products for passenger cars. In this reporting period, revenue generated from steering products for passenger cars represents 50% of the Group's entire revenue, and this percentage is expected to increase in the future.

The gross profit margin of the Group during the year under review was approximately 37.4%, (2008: approximately 36.0%), and the entire gross profit increased by 47.7% as compared with 2008. The increase in the gross profit margin was mainly due to a reduction in the manufacturing costs after new steering products for passenger cars started bulk production.

During the year under review, the Group's selling and distribution costs increased by approximately RMB8,725,000 compared with 2008, and the ratio of selling and distribution costs to revenue increased slightly as compared with 2008. Increase in selling and distribution costs was mainly due to the exploration of new markets.

During the year under review, the Group's administrative expenses increased by approximately RMB7,327,000 comparing with 2008. However, the ratio of administrative expenses to revenue dropped slightly as compared to 2008. The increase in administrative expenses was mainly due to an increase in staff costs and research and development expenses.

During the year under review, the Group's research and development cost increased by approximately RMB1,980,000 compared with last year, which is mainly used for the new test projects and design improvement, as well as the development of new electric power steering gear (EPS) products in order to meet further market demands and reduce manufacturing cost.

In view of the above, for the year ended 31 December 2009, the Group has a profit after tax of approximately RMB67,156,000, representing a large increase of approximately 61.8% compared with approximately RMB41,503,000 for the previous year.

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

MARKETING AND NEW PRODUCTS

During the year under review, after several years of investment on product development, manufacturing capacity building and market exploration, the Group's steering products for passenger cars started bulk production, and there will be more new products in production in the future. For the year ended 31 December 2009, the Group also acquired numbers of new developing projects which will start production after the completion of development.

The Group is one of the first nineteen core suppliers of FAW-CAR and has priority in the development and supply for the FAW-CAR new models, which may also bring more business opportunities to the Group. Such as FAW-CAR own brand passenger car BESTURN (奔騰) series, is expected to have large increase on both production and sales volume in 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group independently developed a series of electric power steering gear system (EPS) products and built bulk production capacity. The EPS product range covered vehicles with engine size from 1.0 liters to 2.0 liters. At present, the Group has built the capacity to supply various types of steering products that covers full range of vehicles from commercial vehicles, passenger cars to fuel efficient and low-emission vehicles.

FAW BESTURN (一汽奔騰) hybrid electric sedan was served as a special purpose vehicle for The World Economic Forum Summer Davos 2009. The car used an electric power steering gear system (EPS) supplied by the Group.

PRODUCTION FACILITIES

During the year under review, except the construction of Jilin Shibao's production base, the Group has no large investment on production facilities. Nevertheless, the Group achieved capacity increase by improving technology and making supplemental investment on the insufficient bottle-net working procedures. Jilin Shibao has largely completed the civil work and workshop construction of a plant. Also, some of the purchased equipment will be arrived and installed at the plant in the near future. It is expected that the plant will start initial trial production in June 2010.

During the year under review, the Group continued to adopt lean production system in its operations and improve work flow to reduce waste and cost and increase effectiveness.

RESEARCH AND DEVELOPMENT

During the year under review, product development capability of the Group was recognized by various parties. The Group's R&D center was awarded "Provincial Level R&D Center" by Zhejiang and Jilin provincial government authorities respectively. For the year ended 31 December 2009, the Group has been issued eleven patent certificates and among these, three are patent of invention. The Group has also been issued a software copyright for ECU controlling software. There are three more application of patent of invention have been accepted by the State Intellectual Property Office. The Group has built the capabilities of electric power steering gear system (EPS) developing and manufacturing with in-house mechanical and electronic know-how, which is in the leading position compared with other China local players. To speed up the industrialization of the electric power steering gear (EPS) products for fuel efficient and low emission vehicles, the Company plans to form a new subsidiary company dedicating to the development, manufacturing and sales of the EPS in the near future. Management team of this subsidiary company will include senior experts with international and renowned background in the EPS area.

During the year under review, the Group had engineering and commercial discussions with Volkswagen, General Motor and Italian vehicle design company IDG.

On the 60th National Day celebrations, the Red Flag limousine ride by the State Leaders to inspect the defense forces and the leading military jeep of the defense forces used heavy duty and high performance power rack-and-pinion steering gear and power recirculating ball steering gear was developed and manufactured by the Group respectively.

The Group was awarded "China Automotive Steering Industry Leading Enterprises" and "Zhejiang Enterprise of Innovation" by CAAM (China Association of Automobile Manufacturers) and Zhejiang Provincial Government respectively in 2009. Siping Steering was issued certificate of "High-New Technology Enterprises" by the Jilin Province in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

TURNOVER

For the year ended 31 December 2009, the Group recorded a revenue of approximately RMB363,521,000, representing a large increase of approximately 41.9% as compared with 2008. The large increase was mainly due to a significant increase in the sale of steering products for passenger cars. In this reporting period, revenue generated from steering products for passenger cars represents half of the Group's entire revenue, and this percentage is expected to increase in the future.

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's gross profit increased from approximately RMB92,117,000 in 2008 to approximately RMB136,084,000 for the year ended 31 December 2009, representing an increase of approximately 47.7%. The gross profit margin of the Group during the year under review was approximately 37.4% (2008: approximately 36.0%), the increase in the gross profit margin was mainly due to a reduction in the manufacturing costs after new steering products for passenger cars started bulk production.

OTHER INCOME AND GAINS

Other income mainly included government subsidies income, interest income and others. Such income was approximately RMB3,924,000 for the year ended 31 December 2009, representing a decrease of approximately 11.8% as compared with approximately RMB4,450,000 in 2008.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs for the year ended 31 December 2009 were approximately RMB25,645,000, representing an increase of approximately 51.6% compared with approximately RMB16,920,000 in 2008. The amount represented approximately 7.1% of the Group's total turnover for the year ended 31 December 2009, representing a slight increase compared approximately 6.6% of the total turnover in 2008.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses for the year ended 31 December 2009 were approximately RMB37,277,000, representing an increase of approximately 24.5% compared with approximately RMB29,950,000 in 2008. Increase in the administrative expenses was mainly due to the increase in labour cost and research and development expenses. The amount represented approximately 10.3% of the Group's total turnover for the year ended 31 December 2009, representing a decrease compared to approximately 11.7% of the total turnover in the previous year.

FINANCE COSTS

The Group's finance costs for the year ended 31 December 2009 were approximately RMB290,000, which was a slight increase compared with approximately RMB257,000 in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

RESEARCH AND DEVELOPMENT EXPENSES

The Group's research and development expenses for the year ended 31 December 2009 was approximately RMB9,526,000, representing approximately 2.6% of the Group's total turnover which was an increase of approximately RMB1,980,000 compared with 2008.

ANNUAL PROFIT AND PROFIT MARGIN

Based on the above factors, the Group's profit for the year ended 31 December 2009 was approximately RMB67,156,000, representing an increase of approximately 61.8% compared with approximately RMB41,503,000 of the previous year. The Group's profit margin (percentage of profit to the Group's total turnover) for the year ended 31 December 2009 was approximately 18.5% (2008: approximately 16.2%).

LIQUIDITY AND FINANCIAL RESOURCES

LIQUIDITY RATIOS

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB38,609,000, in comparison with approximately RMB50,052,000 as at 31 December 2008. As at 31 December 2009, current ratio of the Group was approximately 2.3 (2008: approximately 2.9) and quick ratio was approximately 1.6 (2008: approximately 2.2).

Net current assets as at 31 December 2009 was approximately RMB167,478,000 (2008: approximately RMB171,297,000).

Non-current liabilities as at 31 December 2009 was approximately RMB5,400,000 (2008: approximately RMB6,663,000).

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

CAPITAL STRUCTURE

The Group's gearing ratio as at 31 December 2009 was approximately 13.7% (2008: approximately 7.0%). The calculation of gearing ratio is to divide net debt by the total capital plus net debt. Net debt includes interest-bearing other borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to equity holders of the parent company.

Total loans and borrowings as at 31 December 2009 were approximately RMB5,090,000 (2008: approximately RMB5,090,000), among which borrowings of RMB2,530,000 (2008: RMB2,530,000) bear interest at a commercial rate of 5% (2008: 5%) per annum and are repayable in 2016 and borrowings of RMB2,560,000 (2008: RMB2,560,000) bear interest at a commercial rate of 5% (2008: 5%) and are repayable in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company and its subsidiaries own six industrial lands in total in 3 cities, namely Hangzhou, Yiwu and Siping. Total land size is approximately 255,287 square meters and most of them are located in the state and provincial level development areas. Total consideration for granting the land use right of these properties is approximately RMB47,455,000. As at 31 December 2009, the price of these lands has increased to various extents. According to VIGERS International Property Consultants' valuation, total value of these lands as at 31 December 2009 is approximately RMB114,000,000. Since the Group's gearing ratio is relatively low, in case the Group needs fund for future business development, other than the Company can raise share capital, the Group can obtain loans from banks using these industrial lands as pledges.

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

PLEDGE OF ASSETS

As at 31 December 2009, the Group did not have any pledges on its assets (2008: nil).

MATERIAL ACQUISITIONS AND DISPOSALS

As at 31 December 2009, the Group did not have any material acquisition and disposal concerning subsidiaries and associates.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2009, both the sales and purchases of the Group were principally denominated in Renminbi. The Group were not subject to significant exposure in foreign currency risk. No hedge arrangement has been entered into by the Group.

CAPITAL COMMITMENTS

Apart from capital commitments set out in note 31 to the financial statements, the Group has no other material capital commitments as at 31 December 2009.

CONTINGENT LIABILITIES

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

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had a total of 1,179 employees as at 31 December 2009 (2008: 1,018).

For the year ended 31 December 2009, total salaries and welfares of the employees amounted to approximately RMB42,427,000 (2008: approximately RMB29,652,000). The Group provided substantial remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權), aged 59, is the founder of our Group and the Chairman and General Manager of our Company. He is responsible for our Group's overall strategic planning, business development, new product sales and marketing strategies. He is also a director of Zhejiang Shibao Holding. He has over 20 years of extensive experience in automotive steering gears, and is a senior economist. In 2006 in the Great Hall of the People in Beijing, Mr. Zhang was awarded "Top Ten Distinguished Persons for the Second Year for China's Industrial Economy" granted by the Office for Election of Distinguished Persons for China's Industrial Economy.

Mr. Zhang Bao Yi (張寶義), aged 37, is the deputy general manager of our Company. He graduated from Zhejiang Industrial University Zhexi Branch School (浙江工業大學浙西分校) in 1995. He worked in Zhejiang Shibao Steering in 1996 and was appointed as general manager of Zhejiang Shibao Steering in February 2000. He was granted the title of "Labour Model" (勞動模範) of Yiwu City in 2004. He is the son of Mr. Zhang.

Mr. Tang Hao Han (湯浩瀚), aged 42, is the deputy general manager of our Company. He is a representative of the Jilin People's Congress (吉林省人大代表), the vice president of the Siping City Industry and Commerce Union (四平市工商業聯合會副會長), member of the Standing Committee of Jilin Province Siping City People's Political Consultative Conference (中國人民政治協商會議吉林省四平市常務委員會常委) and "Leader of the National Outstanding Youth in Industrial Development" (全國傑出青出興業領頭人). Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province Privately-Owned Enterprises" (吉林省優秀民營企業家). Mr. Tang graduated from the Renmin University of China (中國人民大學). He was a tutor at Nanjing College For Population Programme Management (南京人口管理幹部學院助教) in 1990. He was appointed as assistant to general manager and office manager of Zhejiang Shibao Steering in 1995, and deputy general manager of Zhejiang Shibao Steering in 1997. Since 1998, he has been the deputy general manager of Siping Steering. Mr. Tang obtained his master degree in business administration (工商管理碩士) and doctorate degree in technical economics and management (技術經濟及管理專業博士) both at Jilin University (吉林大學) in 2004 and 2008 respectively. He is the husband of Zhang Mei Jun (and the son-in-law of Mr. Zhang).

Mr. Zhu Jie Rong (朱頡榕), aged 61, has been deputy general manager of our Company responsible for investors and public relations since joining our Group in February 2002. He is also the compliance officer and authorised representative of our Company. In addition, he is a supervisor of Zhejiang Shibao Holding. From 1966 to 1990, he worked in a number of leading automobile parts and components manufacturers in Shanghai, Hubei and Zhejiang, and has over 20 years of experience in the automobile parts and components industry.

Ms. Zhang Lan Jun (張蘭君), aged 34, is responsible for supervising the finance and accounting functions of our Company. She graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1996 and obtained a master degree in business administration (工商管理碩士學位) in Guizhou University (貴州大學). She joined our Group's accounting department in 1997 and has over 10 years of experience in finance and accounting. Ms. Zhang has also been a director of Hangzhou Shibao since November 1996 and finance manager of Hangzhou Shibao since 2001. She is the daughter of Mr. Zhang.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Zhong (張世忠), aged 48, is deputy general manager of our Group responsible for overseeing our manual steering gears production. He was deputy general manager of Yiwu Qianjin Steering Gear Factory until 1993 when its operations were taken over by Zhejiang Shibao Steering. Since then, he has been deputy general manager of Zhejiang Shibao Steering. He is also the chairman of Zhejiang Shibao Holding which holds 165,387,223 Domestic Shares representing 94% of the Domestic Shares in issue and approximately 62.97% of the total issued share capital of the Company. He has over 15 years experience in the automotive steering gears. He is the younger brother of Mr. Zhang.

Ms. Zhang Mei Jun (張美君), aged 39, was graduated from the People's Liberation Army Transportation Engineering Institute (中國人民解放軍運輸工程學院) with a major in automobile parts and components design and manufacture (主修汽車零部件設計與製造) in 1992. She was responsible for overseeing the finance and accounting functions of Zhejiang Shibao Steering from 1993 to 1998. She is the daughter of Mr. Zhang and the wife of Mr. Tang.

Mr. Lou Run Zheng (樓潤正), aged 46, obtained a Bachelor Degree from the Zhejiang University in 1985 and a Master Degree in Business Administration from the Open University of Hong Kong in 2003, and has attended certian courses for Master of Law in Zhejiang University. Mr. Lou is the vice president of Zhejiang Yuan Zheng Hotel Management Company Limited. Save as disclosed above, Mr. Lou neither hold directorship in nor entered into major appointment with any other listed companies over the last three years. He was appointed as a non-executive Director since 4 November 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Chun Zhi (趙春智), aged 63, senior economist. Mr. Zhao was the deputy plant manager of the steering gear plant and the general manager of Liao-Beng sub-company (遼泵分公司) of China FAW Group Corporation (中國第一汽車集團公司) before he retired in 2006. He was appointed as an independent non-executive Director since 5 June 2009.

Mr. Chen Guo Feng (陳國峰), aged 63, worked in the Hangzhou Turbine Factory (杭州汽輪機廠), Hangzhou Mechanical Industry Bureau (杭州市機械工業局) and Hangzhou Mechanical Electronic Holding (Group) Company Limited (杭州機械電子控股(集團)有限公司) as finance accountant, accounts supervisor, deputy chief accountant, financial director and department head. Mr. Chen is an independent director of Ningbo MOS Group Corporation Limited (寧波摩士集團股份有限公司) and Zhejiang Hangcha Engineering Machinery Co., Ltd. (浙江杭義工程機械股份有限公司). He was appointed as an independent non-executive Director since December 2004.

Mr. Chau Kam Wing, Donald (周錦榮), aged 47, obtained a Master Degree in Business Administration from the University of San Francisco, USA and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of Hong Kong Institute of Certified Chartered Accountants. He is now practicing as a Certified Public Accountant in Hong Kong and is a council member of the Society of Chinese Accountants & Auditors in Hong Kong. He has over 20 years' experience in auditing, taxation and financial management of various listed companies. He was appointed as an independent non-executive Director since 4 November 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Du Min (杜敏), aged 54, joined Siping Steering Gear Co., Ltd. (四平市方向機械有限公司), a subsidiary of our Company, since 2002, and is a senior economist. Mr. Du graduated from the Jilin Institute of Finance and Trade (吉林財貿學院) with a bachelor degree in economics. Mr. Du has been appointed as a Supervisor from staff representatives since June 2007.

Mr. Yang Di Shan (楊迪山), aged 72, was the deputy manager of chassis department and light car department at Changchun Auto Research Institute (長春汽車研究所) (now known as FAW Group Corporation R&D Center (一汽集團公司技術中心)) and retired in 1998. Mr. Yang is the deputy general manager of Beijing Keguan Vehicle Hi-tech Development Co., Ltd. currently. Mr. Yang has been appointed as a Supervisor since 5 June 2009.

Mr. Wu Lang Ping (吳琅平), aged 47, joined the Company in 1985 and worked in the area of steering gear manufacturing. He is the manager of manufacturing process department of Hangzhou Shibao. The staff has elected Mr. Wu as staff representative supervisor with effect from the conclusion of the AGM. Mr. Wu has been appointed as a Supervisor since 5 June 2009.

Mr. Shen Song Sheng (沈松生), aged 73, worked in Hangzhou Hong Qi Spare Parts Factory (杭州紅旗汽車零部件廠) in 1980. Mr.Shen joined our Group in 1993 and retired in 2009. He has been appointed as a Supervisor since June 2004.

Mr. Wang Kui Quan (王奎泉), aged 45, obtained his undergraduate degree from the Jiangxi Finance and Economics Institute (江西財經學院) (currently known as Jiangxi Finance and Economics Vocational College (江西財經職業學院) and a master degree in economics from Dongbei University of Finance and Economics (東北財經大學) in 1986 and 1989 respectively. From 1997 to 2000, he was deputy head of Zhejiang School of Finance (浙江財政學院), from 2002 to 2005, he was vice director of postgraduates department of Zhejiang University of Finance & Economics (浙江財經學院) and from 2006, he was director of the Principal Office and Party Secretary Office of Zhejiang University of Finance & Economics (浙江財經學院). From 2010, Mr. Wang is the director of the Development and Planning Office of Zhejiang University of Finance & Economics (浙江財經學院). Mr. Wang has been appointed as a Supervisor since January 2005.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Du Chun Mao (杜春茂), aged 54, is the deputy general manager of Siping Steering responsible for its assembly workshop and mechanical workshop since 2001.

Mr. Shen Rong Jin (沈榮金), aged 62, is a deputy chief engineer of our Group. He joined Zhejiang Shibao Steering in 1993. He was appointed chief engineer of Zhejiang Shibao Steering in 1997 prior to taking up the position as deputy chief engineer of our Group.

Mr. Zhou Long (周瓏), aged 53, has been deputy general manager of Hangzhou Shibao overseeing its product development department since joining our Group in April, 2003. He graduated from Nanjing University of Mechanical Industry Workers (南京市機械工業局職工大學) in 1983 majoring in heat processing skills and equipment. He was an engineer of an automobile spare parts factory in Nanjing from 1989 to 1995, and was appointed as the deputy factory manager in 1997.

Mr. Yu Zhong Chao (虞忠潮), aged 45, joined the Group since 1 December 2004, and is currently the vice president of the Company overseeing the operations of the Company and daily operations of Hangzhou Shibao. He worked for Dongfeng Hangzhou in 1984 as an engineer in the research institute, and was the head of the purchase department of Dongfeng Nissan Diesel Motor Co., Ltd. from 1994 to 1999, and marketing vice president of Zhejiang Changxing Automobile Leasing Co., Ltd. from 1999 to 2004.

Mr. Ise Mitsuo (伊勢光男), aged 69, has been deputy general manager of Hangzhou Shibao responsible for the development and production of power rack-and-pinion steering gears since joining our Group in January, 2003. He was appointed as department head of a leading manufacturer of automotive parts in Japan in 1996. From 1997 to 2001, he was relocated to China where he was the deputy general manager of a Sino-Japanese joint venture engaged in the manufacture of rack-and-pinion steering gears.

Ms. Huen Lai Chun (禤麗珍), aged 44, has been appointed as the company secretary and authorised representative of the Company since May 2009. Ms. Huen is fellow member of The Association of Chartered Certified Accountants. Ms. Huen has over 10 years of professional experience in company secretarial work, professional auditing, accounting and financial management.

REPORT OF THE DIRECTORS

The Board hereby presents the annual report and audited financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

No segmental analysis by business and geographical segments is presented for the year as set out in note 4 to the financial statements.

RESULTS

Results and financial position of the Group for the year ended 31 December 2009 are set out in page 43 to page 112 in the annual report.

FINANCIAL SUMMARY

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

FINAL DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board recommended the payment of a final cash dividend of RMB0.07 per share (before deduction of corporate income tax for non-resident enterprise shareholders) for the year ended 31 December 2009, with a total amount of approximately RMB18,386,000. For distribution of the final cash dividends, cash dividends for holders of Domestic Shares will be distributed and paid in Renminbi, while cash dividends for holders of H Shares will be declared in Renminbi but paid in Hong Kong dollars (conversion rate of Renminbi into Hong Kong dollars shall be calculated on the average price of the conversion of Renminbi into Hong Kong dollars in five (5) days as announced by the People's Bank of China five (5) working days preceding 10 May 2010). In accordance with the Corporate Income Tax Law of the PRC and the Implementation Regulation of the Corporate Income Tax Law of the PRC both effective on 1 January 2008, non-resident enterprises shall pay corporate tax on their income generated within PRC, and the applicable tax rate is 10%, withholding by the issuer. Any shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the corporate income tax. The Company will not withhold and pay income tax in respect of the dividend payable to any natural person shareholders whose names appear on the Company's register of members for H shares on the record date.

The Company will submit a proposal for the distribution of final cash dividends on the forthcoming annual general meeting. Subject to the approval by the shareholders, the Company is expected to distribute final cash dividends to shareholders, whose names are listed on the register of members as at Monday 10 May 2010 (the "Record Date"), on or about Monday 24 May 2010.

REPORT OF THE DIRECTORS

The H Share register of the Company will be temporarily closed from Saturday 10 April 2010 to Monday 10 May 2010 (both days inclusive) during which no transfer of shares of the Company will be registered. Shareholders whose names appear on the register of holders of H Shares on Monday 10 May 2010 shall be entitled to attend the annual general meeting of the Company to be held on Monday 10 May 2010 and to receive final cash dividends. All transfers accompanied by the relevant H Share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday 9 April 2010.

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

DISTRIBUTABLE RESERVE

For the year ended 31 December 2009, the Group's distributable reserve is approximately RMB107,638,000 (2008: RMB65,030,000).

SHARE CAPITAL

Details of changes of the Company's share capital during the year are set out in note 28 to the financial statements.

CONVERTIBLE DEBENTURES

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

RESERVES

Reserves of the Group for the year ended 31 December 2009 and its changes during the year prepared in accordance with IFRSs are set out in the Consolidated Statements of Changes in Equity, and details of the relevant reserves are set out in note 29 to the financial statements.

DONATIONS

For the year ended 31 December 2009, the Group has made donations of approximately RMB100,000 (2008: RMB286,400).

PROPERTIES, PLANT AND EQUIPMENT

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

BORROWINGS

Details of the Group's borrowings are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Zhang Shi Quan (張世權) *(Chairman and General Manager)*	(re-elected on 5 June 2009)
Mr. Zhang Bao Yi (張寶義)	(re-elected on 5 June 2009)
Mr. Tang Hao Han (湯浩瀚)	(re-elected on 5 June 2009)
Mr. Zhu Jie Rong (朱頡榕)	(re-elected on 5 June 2009)
Ms. Zhang Lan Jun (張蘭君)	(re-elected on 5 June 2009)

Non-executive Directors

Mr. Zhang Shi Zhong (張世忠)	(re-elected on 5 June 2009)
Ms. Zhang Mei Jun (張美君)	(re-elected on 5 June 2009)
Mr. Lou Run Zheng (樓潤正)	(appointed on 4 November 2009)
Mr. Gu Qun (顧群)	(resigned on 4 November 2009)

Independent Non-executive Directors

Mr. Zhao Chun Zhi (趙春智)	(appointed on 5 June 2009)
Mr. Chen Guo Feng (陳國峰)	(re-elected on 5 June 2009)
Mr. Chau Kam Wing, Donald (周錦榮)	(appointed on 4 November 2009)
Mr. Bao Zhi Chao (包志超)	(resigned on 5 June 2009)
Mr. Lui Wing Hong, Edward (呂榮匡)	(resigned on 4 November 2009)

Supervisors

Mr. Du Min (杜敏)	
Mr. Yang Di Shan (楊迪山)	(appointed on 5 June 2009)
Mr. Wu Lang Ping (吳琅平)	(appointed on 5 June 2009)
Mr. Shen Song Sheng (沈松生)	
Mr. Wang Kui Quan (王奎泉)	(re-elected on 5 June 2009)
Mr. Feng Ping (馮平)	(resigned on 5 June 2009)
Mr. Ge Bao Shan (葛寶山)	(resigned on 5 June 2009)

REPORT OF THE DIRECTORS

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

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

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

Details of the remuneration of Directors, Supervisors and the five highest paid employees are set out in note 7 and note 8 to the financial statements.

STANDARDS FOR DETERMINING THE REMUNERATION OF DIRECTORS AND SUPERVISORS

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

CONNECTED PARTY TRANSACTIONS

For the year ended 31 December 2009, the Group has no transaction which required to make connected transaction disclosures under the GEM Listing Rules.

In relation to the related party transactions as set out in note 32 to the financial statements, the Board has confirmed that during the year under review these transactions (other than (i) the sale of raw materials and finished goods to Wuhu Sterling Steering System Co., Ltd., an associate of the Company and (ii) the purchase of finished goods from it) constitute connected transactions within the meaning of the GEM Listing Rules, however, such transactions are intra-group transactions exempted under Rule 20.31(1) of the GEM Listing Rules from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules.

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

As at 31 December 2009, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or interests or short positions which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Exchange were as follows:

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

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

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

REPORT OF THE DIRECTORS

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

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

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

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

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

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

Notes:

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

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

REPORT OF THE DIRECTORS

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

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

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

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

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

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

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

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

(6) Long positions in the registered capital of a fellow subsidiary of the Company, Anhui Shibao Casting Industry Co., Ltd. ("Anhui Shibao"), an associated corporation of the Company:

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

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

Save as disclosed above, as at 31 December 2009, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the Exchange pursuant to the Division 7 & 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Exchange.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

For the year ended 31 December 2009, the Company has not implemented any share option scheme.

SUBSTANTIAL SHAREHOLDERS

As of 31 December 2009, so far as is known to the Directors, Supervisors or Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding *(note 1)*	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang *(note 1)*	Interest in controlled corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang *(note 1)*	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Fang Zhen Chun (Mr. Fang)	Beneficial owner	25,136,000 H Shares	28.99%	9.57%

Note 1: As at 31 December 2009, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations". Mrs. Zhang, as the wife of Mr. Zhang, is deemed to be interested in all of these Domestic shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Save as disclosed above, as at 31 December 2009, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the registered to be kept under section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2009, the Group had a total of 1,179 employees. For the year ended 31 December 2009, total salaries and welfares of the employees amounted to approximately RMB42,427,000 (2008: approximately RMB29,652,000). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

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

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued for the year ended 31 December 2009.

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

COMPETING INTERESTS

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

INTEREST OF COMPLIANCE ADVISER

Pursuant to the compliance adviser agreement dated 5 July 2007 (the "Agreement") between the Company's compliance adviser, Evolution Watterson Securities Limited ("Evolution") and the Company, the Agreement expired on 31 March 2009 in accordance with the requirements under Rule 6A.19 of the GEM Listing Rules. Both the Company and Evolution have agreed not to renew the Agreement. Therefore, the interest of the compliance adviser was not an issue.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, purchases attributable to the Group's five largest suppliers and turnover attributable to the five largest customers represented approximately 58.9% and 61.8% of the Group's total purchases and total turnover respectively. In addition, the largest supplier and the largest customer represented approximately 32.4% and 27.9% of the Group's total purchases and turnover respectively.

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

AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Chau Kam Wing, Donald, Mr. Chen Guo Feng and Ms. Zhang Mei Jun. Mr. Chau Kam Wing, Donald and Mr Chen Guo Feng are independent non-executive Directors and Ms. Zhang Mei Jun is a non-executive Director. The Chairman of the Audit Committee is Mr. Chau Kam Wing, Donald.

The Company's financial statements for the year ended 31 December 2009 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") on 26 April 2006 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The principal duties of the Remuneration Committee include (i) making recommendations to the Board on the remuneration policies and structure for the Directors and senior management of the Company; (ii) setting up a formal and transparent procedure for determination of such remuneration policies; and (iii) evaluating performances and formulating the remuneration policies based on such evaluations.

The Remuneration Committee consists of three members, comprising Mr. Chau Kam Wing, Donald, Mr. Chen Guo Feng and Ms. Zhang Mei Jun. The Chairman of the Remuneration Committee is Mr. Chau Kam Wing, Donald.

REPORT OF THE DIRECTORS

BOARD PRACTICES AND PROCEDURES

During the year under review, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the year under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

As at the date of this report, the Company is in compliance with Rule 11.23(7) of the GEM Listing Rules which required at least 25% of the total issued share capital of the Company be held by the public.

POST BALANCE-SHEET EVENTS

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

CORPORATE GOVERNANCE

The Corporate Governance Report adopted by the Company is set out in page 34 to page 40 in the annual report.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements have been audited by Ernst & Young, certified public accountants. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as the Company's auditor.

By order of the Board
Zhang Shi Quan
Chairman

Hangzhou, Zhejiang, the PRC
22 March 2010

REPORT OF THE SUPERVISORY COMMITTEE

To all shareholders:

For the year 2009, the Supervisory Committee carefully discharged its duties in strict compliance with the related provisions of the Company Law of the PRC, the GEM Listing Rules, the Articles of Association and the Organization and Procedural Rules and Regulations for the Meetings of the Supervisory Committee.

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

The Supervisory Committee is of the view that all members of the Board and other senior management of the Company have honestly and diligently discharged their duties, strived to maintain the interests of shareholders and made great efforts for better operating results of the company in 2009. No violation of laws and regulations of the PRC or the place of listing and the Articles of Association of the Company has been discovered during the discharge of their duties. The Supervisory Committee is optimistic about the prospect of the Company.

Having reviewed the financial statements for the year ended 31 December 2009 prepared by Ernst & Young in accordance with International Financial Reporting Standards, the Supervisory Committee is of the view that the financial statements provide an objective, true and full view of the financial position and operating results of the Company.

The Supervisory Committee has seen the achievement of the Group in the development and reserve of electric power steering (EPS) technologies for fuel-efficient and low-emission vehicles. The Supervisory Committee hopes that the Group new technologies and products will penetrate to large market in the future, so as to realize the long-term and stable development of the Company.

In 2010, the Supervisory Committee will continue to strictly comply with the Articles of Association of the Company and the relevant provisions, so as to maintain the interests of the Company and shareholders as its own duty, and to supervise the Company to realize its commitments to the shareholders for the best of performance.

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

Hangzhou, Zhejiang, the PRC
22 March 2010

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2009, the Group had been in compliance with majority of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules by adopting a compliance manual that requires compliance with, amongst others, the Code on Corporate Governance Practices. This report describes its corporate governance practices, and explains the application of and deviation (if any) from the principles of the Code on Corporate Governance Practices.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the year under review.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD AND BOARD PRACTICES

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

CORPORATE GOVERNANCE REPORT

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

		Number of attendance in the whole year
Executive Directors		
Mr. Zhang Shi Quan *(Chairman and General Manager)*		5/5
Mr. Zhang Bao Yi		5/5
Mr. Tang Hao Han		5/5
Mr. Zhu Jie Rong		5/5
Ms. Zhang Lan Jun		5/5
Non-executive Directors		
Mr. Zhang Shi Zhong		5/5
Ms. Zhang Mei Jun		5/5
Mr. Lou Run Zheng	(appointed on 4 November 2009)	0/5
Mr. Gu Qun	(resigned on 4 November 2009)	4/5
Independent Non-executive Directors		
Mr. Zhao Chun Zhi	(appointed on 5 June 2009)	1/5
Mr. Chen Guo Feng		5/5
Mr. Chau Kam Wing, Donald	(appointed on 4 November 2009)	0/5
Mr. Bao Zhi Chao	(resigned on 5 June 2009)	3/5
Mr. Lui Wing Hong, Edward	(resigned on 4 November 2009)	4/5

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

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

The Internal Audit Team of the Group carried out reviews and submitted report on the internal control system of the Group in 2009. The scope of the review covered all important aspects of the control, including the control in finance, operation, compliance and risk management, as well as the adequacy of resources, qualifications and experience of staffs of the Group's accounting and financial reporting function, and their training programs and budget. With reference to the assessment made by the Audit Committee on the report of internal control submitted by the Internal Audit Team, the Board considered that the existing internal control system is sufficient and effective.

REMUNERATION COMMITTEE

The Company set up a Remuneration Committee on 26 April 2006, with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules.

The main duties of the Remuneration Committee include (i) to make proposals to the Board in respect of the remuneration policy and structure of the Company's directors and senior management: (ii) to set up a formal and transparent procedure for the determination of such remuneration policy; and (iii) to assess performances and set up remuneration policy based on such assessment.

The Remuneration Committee comprises three members, comprising Mr. Chau Kam Wing, Donald, Mr. Chen Guo Feng and Ms. Zhang Mei Jun. The Chairman of the Remuneration Committee is Mr. Chau Kam Wing, Donald. During the year under review, the Remuneration Committee reviewed the remuneration packages of Directors and Supervisors. The Remuneration Committee held one meeting during the year under review and records of attendance of members of the committee in the meeting of the Remuneration Committee are as follows:

		Number of attendance in the whole year
Mr. Chau Kam Wing, Donald	(appointed on 4 November 2009)	1/1
Mr. Lui Wing Hong, Edward	(resigned on 4 November 2009)	0/1
Mr. Chen Guo Feng		1/1
Ms. Zhang Mei Jun		1/1

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

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

For the year under review, the Board has nominated, considered and passed the proposal of the appointment of a new non-executive director and two independent non-executive directors to fill the vacancies. For the year under review, the Board held two meetings for the purpose of nomination of directors. Records of Directors' attendance in Board meetings are as follows:

		Number of attendance in the whole year
Executive Directors		
Mr. Zhang Shi Quan *(Chairman and General Manager)*		2/2
Mr. Zhang Bao Yi		2/2
Mr. Tang Hao Han		2/2
Mr. Zhu Jie Rong		2/2
Ms. Zhang Lan Jun		2/2
Non-executive Directors		
Mr. Zhang Shi Zhong		2/2
Ms. Zhang Mei Jun		2/2
Mr. Lou Run Zheng	(appointed on 4 November 2009)	0/2
Mr. Gu Qun	(resigned on 4 November 2009)	1/2
Independent Non-executive Directors		
Mr. Zhao Chun Zhi	(appointed on 5 June 2009)	1/2
Mr. Chen Guo Feng		2/2
Mr. Chau Kam Wing, Donald	(appointed on 4 November 2009)	0/2
Mr. Bao Zhi Chao	(resigned on 5 June 2009)	1/2
Mr. Lui Wing Hong, Edward	(resigned on 4 November 2009)	1/2

CORPORATE GOVERNANCE REPORT

SUPERVISORY COMMITTEE

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

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

REMUNERATION OF THE AUDITORS

Remuneration received by Ernst & Young, the auditors of the Company, in respect of their audit services for the year ended 31 December 2009 was approximately RMB1,100,000. The auditors had not provided any non-audit services in 2009.

AUDIT COMMITTEE

The Company established an Audit Committee on 26 April 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices set out in Appendix 15 to the GEM Listing Rules, in order to review the Group's financial reports and internal control, and to make relevant recommendations to the Board.

The Audit Committee comprises three members, who are Mr. Chau Kam Wing, Donald, Mr. Chen Guo Feng and Ms. Zhang Mei Jun. Mr. Chau Kam Wing, Donald and Mr. Chen Guo Feng are independent non-executive Directors, while Ms. Zhang Mei Jun is a non-executive Director. Mr. Chau Kam Wing, Donald is the Chairman of the Audit Committee.

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

The Group's unaudited quarterly results for the three months ended 31 March 2009, unaudited interim results for the six months ended 30 June 2009 and the unaudited quarterly results for the nine months ended 30 September 2009 had been reviewed by the Audit Committee, and the Audit Committee considers that these reports had been prepared in compliance with the relevant accounting standards and provisions. The Group's audited consolidated results for the year ended 31 December 2009 had also been reviewed by the Audit Committee. In addition, the Audit Committee had reviewed the system of internal control in 2009.

CORPORATE GOVERNANCE REPORT

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

		Number of attendance in the whole year
Mr. Chau Kam Wing, Donald	(appointed on 4 November 2009)	0/4
Mr. Lui Wing Hong, Edward	(resigned on 4 November 2009)	4/4
Mr. Chen Guo Feng		4/4
Ms. Zhang Mei Jun		4/4

RESPONSIBILITY OF DIRECTORS AND AUDITORS ON THE ACCOUNTS

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

Statements of the Company's auditors in respect of their reporting responsibilities on the Group's financial statements are set out in page 41 of the Independent Auditors' Report in this annual report.

RELATIONSHIP WITH SHAREHOLDERS

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

RELATIONSHIP WITH INVESTORS

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

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

TO THE SHAREHOLDERS OF ZHEJIANG SHIBAO COMPANY LIMITED

(Registered in the People's Republic of China with limited liability)

We have audited the financial statements of Zhejiang Shibao Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 112, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong
22 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	363,521	256,215
Cost of sales		(227,437)	(164,098)
Gross profit		136,084	92,117
Other income and gains	5	3,924	4,450
Selling and distribution costs		(25,645)	(16,920)
Administrative expenses		(37,277)	(29,950)
Other expenses		(428)	(794)
Finance costs	6	(290)	(257)
Share of profits and losses of an associate	18	275	(6)
PROFIT BEFORE TAX	6	76,643	48,640
Income tax expense	9	(9,487)	(7,137)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME		67,156	41,503
Total profit and comprehensive income attributable to:			
Owners of the parent	10	66,353	40,877
Minority interests		803	626
		67,156	41,503
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		RMB0.25	RMB0.16

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	270,632	215,488
Prepaid land lease payments	15	24,647	24,978
Other intangible assets	16	254	322
Advance payments for property, plant and equipment		5,041	4,925
Investment in an associate	18	5,853	5,445
Deferred tax assets	19	1,994	1,284
Total non-current assets		308,421	252,442
CURRENT ASSETS			
Inventories	20	96,289	62,798
Trade and notes receivables	21	123,368	114,736
Prepayments, deposits and other receivables	22	21,308	14,707
Due from an associate	23	11,901	19,295
Due from the ultimate holding company		300	—
Cash and cash equivalents		38,609	50,052
Total current assets		291,775	261,588
CURRENT LIABILITIES			
Trade and bills payables	24	71,089	59,227
Other payables and accruals	25	36,706	16,986
Tax payable		15,268	12,666
Due to the ultimate holding company		—	300
Deferred income	26	1,234	1,112
Total current liabilities		124,297	90,291
NET CURRENT ASSETS		167,478	171,297
TOTAL ASSETS LESS CURRENT LIABILITIES		475,899	423,739

continued/…

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing other borrowings	27	5,090	5,090
Deferred income	26	310	1,573
Total non-current liabilities		5,400	6,663
Net assets		470,499	417,076
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	262,658	262,658
Reserves	29(a)	185,366	137,399
Proposed final dividends	11	18,386	13,133
		466,410	413,190
Minority interests		4,089	3,886
Total equity		470,499	417,076

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to owners of the parent								
	Issued capital RMB'000 Note 28	Share premium RMB'000 Note 29(a)	Reserve arising from acquisition of minority interests RMB'000 Note 29(a)	Statutory surplus reserves RMB'000 Note 29(a)	Retained earnings RMB'000 Note 29(a)	Proposed final dividend RMB'000 Note 11	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	262,658	21,144	5,736	52,251	30,524	13,133	385,446	3,860	389,306
Profit for the year	–	–	–	–	40,877	–	40,877	626	41,503
Final 2007 dividend declared	–	–	–	–	–	(13,133)	(13,133)	(600)	(13,733)
Transfer to statutory surplus reserves	–	–	–	6,371	(6,371)	–	–	–	–
Proposed final 2008 dividend	–	–	–	–	(13,133)	13,133	–	–	–
At 31 December 2008	262,658	21,144	5,736	58,622	51,897	13,133	413,190	3,886	417,076
Profit for the year	–	–	–	–	66,353	–	66,353	803	67,156
Final 2008 dividend declared	–	–	–	–	–	(13,133)	(13,133)	(600)	(13,733)
Transfer to statutory surplus reserves	–	–	–	10,612	(10,612)	–	–	–	–
Proposed final 2009 dividend	–	–	–	–	(18,386)	18,386	–	–	–
At 31 December 2009	262,658	21,144*	5,736*	69,234*	89,252*	18,386	466,410	4,089	470,499

* These reserve accounts comprise the consolidated reserves of RMB185,366,000 (2008: RMB137,399,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		76,643	48,640
Adjustments for:			
Finance costs	6	290	257
Share of profit and losses of an associate	18	(275)	6
Unrealised gains resulting from sales to an associate	18	(133)	146
Bank interest income	5	(398)	(842)
Movement in government grants	5	(2,280)	(2,023)
(Gain)/loss on disposal of items of property, plant and equipment	6	(19)	81
Depreciation	6	18,182	15,062
Impairment/(reversal of impairment) of trade and notes receivables	6	2,102	(1,233)
Amortisation of prepaid land lease payments	6	604	605
Amortisation of other intangible assets	6	88	73
Amortisation of deferred income	6	(1,141)	(1,020)
Foreign exchange losses		—	2
		93,663	59,754
Increase in inventories		(33,491)	(16,365)
Increase in trade and notes receivables		(10,734)	(56)
Increase in prepayments, deposits and other receivables		(6,601)	(8,468)
Decrease/(increase) in an amount due from an associate		7,394	(1,785)
Increase in an amount due from the ultimate holding company		(300)	—
(Decrease)/increase in an amount due to the ultimate holding company		(300)	300
Increase in trade and bills payables		11,862	11,938
Increase in other payables and accruals		4,789	48
Cash generated from operations		66,282	45,366
Tax paid		(7,595)	(9,556)
Net cash flows from operating activities		58,687	35,810

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		398	842
Purchases of items of property, plant and equipment		(59,109)	(50,543)
Payments of land lease payments		(273)	—
Proceeds from disposal of items of property, plant and equipment		327	290
Additions to other intangible assets		(20)	(53)
Receipt of government grants		2,280	7,301
Net cash flows used in investing activities		(56,397)	(42,163)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest-bearing other borrowings		—	(470)
Dividends paid		(13,133)	(13,133)
Dividends paid to minority shareholders		(600)	(600)
Net cash flows used in financing activities		(13,733)	(14,203)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(11,443)	(20,556)
Cash and cash equivalents at beginning of year		50,052	70,610
Effect of foreign exchange rate changes, net		—	(2)
CASH AND CASH EQUIVALENTS AT END OF YEAR		38,609	50,052

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	14	7,748	8,313
Prepaid land lease payments	15	5,787	5,959
Investments in subsidiaries	17	117,850	117,850
Investment in an associate	18	7,200	7,200
Deferred tax assets	19	155	155
Total non-current assets		138,740	139,477
CURRENT ASSETS			
Inventories	20	2,339	2,802
Trade and notes receivables	21	840	1,487
Prepayments, deposits and other receivables	22	745	739
Due from subsidiaries	23	183,451	164,352
Due from an associate	23	11,858	16,510
Cash and cash equivalents		1,655	5,857
Total current assets		200,888	191,747
CURRENT LIABILITIES			
Trade and bills payables	24	5,722	6,020
Other payables and accruals	25	5,967	5,785
Tax payable		376	—
Total current liabilities		12,065	11,805
NET CURRENT ASSETS		188,823	179,942
Net assets		327,563	319,419

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 *RMB'000*	2008 *RMB'000*
EQUITY			
Issued capital	28	262,658	262,658
Reserves	29(b)	46,519	43,628
Proposed final dividends	11	18,386	13,133
Total equity		327,563	319,419

Director

Director

NOTES TO FINANCIAL STATEMENTS

31 December 2009

1. CORPORATE INFORMATION

The Company is a joint stock limited liability company registered in the People's Republic of China (the "PRC") on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), a limited liability company established in the PRC. The registered office of the Company is located at No. 1, Shuanglin Road, Fotang Village, Yiwu, Zhejiang Province, China.

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

The Group is principally engaged in the manufacture and sale of automotive steering products. Its ultimate holding company, Zhejiang Shibao Holding, is an investment holding company established in the PRC on 28 May 2003.

2.1 BASIS OF PREPARATION

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

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new and revised IFRSs has had no effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (October 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in May 2009).

Other than as further explained below regarding the impact of IAS 1 (Revised), the adoption of these new and revised IFRSs has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

The principal effect of adopting IAS 1 (Revised) is as follows:

IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards* [1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
IFRS 3 (Revised)	*Business Combinations* [1]
IFRS 9	*Financial Instruments* [6]
IAS 24 (Revised)	*Related Party Disclosures* [5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [5]
IFRIC 17	*Distributions of Non-cash Assets to Owners* [1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in October 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 38 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that except for the adoption of IFRS 3 (Revised), IFRS 9 and IAS 27 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ASSOCIATES

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

RELATED PARTIES

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

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

(b) the party is an associate;

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION *(continued)*

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software are stated at cost less any impairment losses and amortised on the straight-line basis over their estimated useful lives of five years.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INTANGIBLE ASSETS (OTHER THAN GOODWILL) *(continued)*

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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

LEASES

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurements

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and notes receivables and prepayment, deposit and other receivables.

Subsequent measurement

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. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in the operating expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised , at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously is recognised in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

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

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

DERECOGNITION OF FINANCIAL ASSETS

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into pass-though arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment 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). The present value of the estimated future cash flow is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(continued)*

Available-for-sale financial instruments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing other borrowings.

Subsequent measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL LIABILITIES *(continued)*

Loans and borrowings

After initial recognition, interest-bearing other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

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

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

PROVISIONS

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INCOME TAX *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

REVENUE RECOGNITION

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

OTHER EMPLOYEE BENEFITS

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This Company and its subsidiaries are required to contribute 25% to 30% of the average basic salaries earned within the geographical area where the employees are under employment to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

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

FOREIGN CURRENCIES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Deferred tax assets

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period, and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group's management determines the deferred tax assets based on the enacted or substantively enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred tax assets are expected to be utilised. Management will revise the assumptions and profit projections at the end of the reporting period.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

ESTIMATION UNCERTAINTY *(continued)*

(c) Useful lives of property, plant and equipment

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

4. OPERATING SEGMENT INFORMATION

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

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from operations of approximately RMB166,858,000 (2008: RMB92,711,000) was derived from sales to two customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowance for returns, trade discounts and various types of government surcharges where applicable.

An analysis of revenue, other income and gains is as follows:

	2009 *RMB'000*	2008 *RMB'000*
Revenue		
Sale of goods	364,801	257,092
Less: Government surcharges	(1,280)	(877)
	363,521	256,215
Other income		
Government grants	2,280	2,023
Sale of raw materials	451	855
Bank interest income	398	842
Others	776	811
	3,905	4,531
Gain/(loss)		
Gain/(loss) on disposal of items of property, plant and equipment	19	(81)
Other income and gains	3,924	4,450

NOTES TO FINANCIAL STATEMENTS

31 December 2009

6. PROFIT BEFORE TAX

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

	Notes	2009 *RMB'000*	2008 *RMB'000*
Cost of inventories sold		187,043	161,176
Depreciation	14	18,182	15,062
Amortisation of prepaid land lease payments	15	604	605
Amortisation of other intangible assets	16	88	73
Research and development costs		9,526	7,546
Auditors' remuneration		1,100	1,100
Amortisation of deferred income	26	(1,141)	(1,020)
Employee benefit expense (including directors' and supervisors' remuneration as set out in note 7):			
Salaries and other staff costs		39,055	27,741
Retirement costs			
– defined contribution scheme		3,372	1,911
		42,427	29,652
Finance costs		290	257
Foreign exchange differences, net		9	162
Impairment/(reversal of impairment) of trade and notes receivables	21	2,102	(1,233)
Write-down of inventories to net realisable value		—	1,302
Bank interest income	5	(398)	(842)
(Gain)/loss on disposal of items of property, plant and equipment	5	(19)	81

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2009 *RMB'000*	2008 *RMB'000*
Fees	—	—
Other emoluments:		
Salaries	1,589	1,678
Pension scheme contributions	32	21
	1,621	1,699
	1,621	1,699

(a) Independent non-executive directors

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

Name	2009 *RMB'000*	2008 *RMB'000*
Mr. Lui Wing Hong	108	120
Mr. Chen Guo Feng	30	30
Mr. Chau Kam Wing, Donald	19	—
Mr. Bao Zhi Chao	18	36
Mr. Zhao Chun Zhi	15	—
	190	186

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

7. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Salaries *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2009			
Executive directors:			
Mr. Zhang Shi Quan	300	5	305
Mr. Zhu Jie Rong	240	—	240
Mr. Tang Hao Han	200	5	205
Mr. Zhang Bao Yi	200	5	205
Ms. Zhang Lan Jun	150	5	155
	1,090	20	1,110
Non-executive directors:			
Mr. Zhang Shi Zhong	80	5	85
Ms. Zhang Mei Jun	80	5	85
Mr. Lou Run Zheng	5	—	5
	165	10	175
	1,255	30	1,285

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

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

	Salaries *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2008			
Executive directors:			
Mr. Zhang Shi Quan	300	3	303
Mr. Zhu Jie Rong	240	—	240
Mr. Tang Hao Han	200	3	203
Mr. Zhang Bao Yi	200	3	203
Ms. Zhang Lan Jun	150	3	153
	1,090	12	1,102
Non-executive directors:			
Mr. Zhang Shi Zhong	80	3	83
Ms. Zhang Mei Jun	80	3	83
Mr. Gu Qun	80	—	80
	240	6	246
	1,330	18	1,348

NOTES TO FINANCIAL STATEMENTS

31 December 2009

7. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(c) Supervisors

	Salaries *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2009			
Mr. Du Min	48	—	48
Mr. Shen Song Sheng	36	—	36
Mr. Wu Lang Ping	24	2	26
Mr. Wang Kui Quan	24	—	24
Mr. Yang Di Shan	12	—	12
	144	2	146
2008			
Mr. Du Min	48	3	51
Mr. Shen Song Sheng	36	—	36
Mr. Feng Ping	30	—	30
Mr. Ge Bao Shan	24	—	24
Mr. Wang Kui Quan	24	—	24
	162	3	165

No remuneration was paid by the Group to the directors, supervisors or the other highest paid, non-director, non-supervisor employees as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office. No director or supervisor has waived or agreed to waive any emoluments during the year ended 31 December 2009 (2008: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2008: one) non-director, non-supervisor highest paid employee for the year are as follows:

	2009 *RMB'000*	2008 *RMB'000*
Salary	503	503
Pension scheme contribution	—	—
	503	503

The remuneration of the highest paid, non-director, non-supervisor employee fell within the range of nil to HK$1,000,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2009 (2008: Nil).

In accordance with the Corporate Tax Law of the PRC, the profits of the Company and following PRC subsidiaries are taxed at the following tax rates:

	Notes	2009	2008
The Company	(a)	25%	25%
Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao")	(b)	15%	15%
Siping Steering Gear Co., Ltd. ("Siping Steering")	(c)	15%	12.5%
Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao"	(a)	25%	25%
Jilin Shibao Machinery Co., Ltd. ("Jilin Shibao")	(a)	25%	25%

(a) The Company, Hangzhou New Shibao and Jilin Shibao are subject to a corporate income tax rate of 25% this year.

(b) Hangzhou Shibao obtained approval certificate from the relevant tax authorities as a High-New Technology Enterprise. Consequently, Hangzhou Shibao is subject to a corporate income tax rate of 15% with effect for the year ended 31 December 2009.

(c) Pursuant to the document "Ji Ke Ban Zi (2009) No.115" dated 24 July 2009 issued by the relevant tax authorities of Jilin province, Siping Steering was qualified as a high-tech enterprise and would enjoy the preferential tax rate of 15% according to the new Enterprise Income Tax Law effective on 1 January 2008.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

9. INCOME TAX *(continued)*

The major components of total tax charge for the years ended 31 December 2009 and 2008 are as follows:

	2009 RMB'000	2008 RMB'000
Provision for income tax in respect of profit for the year:		
– Current	9,987	6,397
– Underprovision in prior years	210	285
– Deferred *(note 19)*	(710)	455
Total tax charge for the year	9,487	7,137

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2009 RMB'000	2008 RMB'000
Accounting profit	76,643	48,640
Non-deductible share of loss of an associate	—	152
Non-taxable share of profit of an associate	(408)	—
Profit of the Group subject to income tax	76,235	48,792
Tax at an applicable tax rate of 25% (2008: 25%)	19,059	12,198
Adjustment in respect of underprovision in prior years	210	285
Tax credits in respect of purchases of property, plant and equipment from domestic vendors	(1,992)	—
Tax effect of expense items which are not deductible for income tax purposes	425	622
Tax effect of change in tax rate	—	487
Tax rate differential on subsidiaries	(7,566)	(5,894)
Effect of tax concessions and allowances	(649)	(561)
Tax charge at the Group's effective rate	9,487	7,137

NOTES TO FINANCIAL STATEMENTS

31 December 2009

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB21,277,000 (2008: RMB21,558,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. DIVIDENDS

	2009 *RMB'000*	2008 *RMB'000*
Proposed final dividend – RMB0.07 (2008: RMB0.05) per ordinary share	18,386	13,133

Pursuant to a resolution of the board of directors of the Company dated 22 March 2010, a final dividend of RMB0.07 per ordinary share totalling approximately RMB18,386,000 for the year ended 31 December 2009, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB66,353,000 in 2009 (2008: RMB40,877,000), and the weighted average number of ordinary shares of 262,657,855 in issue during the year (2008: 262,657,855).

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2008 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

13. RETIREMENT BENEFITS

As stipulated by the PRC state regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount earned within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the local social security bureau at rates ranging from 25% to 30% of the average basic salaries earned within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligations for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2009						
At 31 December 2008 and at1 January 2009:						
Cost	101,616	140,576	4,245	13,850	27,418	287,705
Accumulated depreciation	(16,031)	(46,773)	(3,087)	(6,326)	—	(72,217)
Net carrying amount	85,585	93,803	1,158	7,524	27,418	215,488
At 1 January 2009, net of accumulated depreciation	85,585	93,803	1,158	7,524	27,418	215,488
Additions	122	6,402	146	148	66,816	73,634
Disposals	—	(119)	—	(189)	—	(308)
Depreciation provided during the year	(2,721)	(13,106)	(473)	(1,882)	—	(18,182)
Transfers	2,625	26,185	96	2,035	(30,941)	—
At 31 December 2009, net of accumulated depreciation	85,611	113,165	927	7,636	63,293	270,632
At 31 December 2009:						
Cost	104,363	172,687	4,476	15,712	63,293	360,531
Accumulated depreciation	(18,752)	(59,522)	(3,549)	(8,076)	—	(89,899)
Net carrying amount	85,611	113,165	927	7,636	63,293	270,632

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

Group *(continued)*

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2008						
At 1 January 2008:						
Cost	91,127	115,559	4,079	10,519	17,738	239,022
Accumulated depreciation	(13,412)	(36,944)	(2,694)	(5,286)	—	(58,336)
Net carrying amount	77,715	78,615	1,385	5,233	17,738	180,686
At 1 January 2008, net of accumulated depreciation	77,715	78,615	1,385	5,233	17,738	180,686
Additions	52	9,772	245	3,977	36,189	50,235
Disposals	—	(169)	(1)	(201)	—	(371)
Depreciation provided during the year	(2,619)	(10,487)	(471)	(1,485)	—	(15,062)
Transfers	10,437	16,072	—	—	(26,509)	—
At 31 December 2008, net of accumulated depreciation	85,585	93,803	1,158	7,524	27,418	215,488
At 31 December 2008:						
Cost	101,616	140,576	4,245	13,850	27,418	287,705
Accumulated depreciation	(16,031)	(46,773)	(3,087)	(6,326)	—	(72,217)
Net carrying amount	85,585	93,803	1,158	7,524	27,418	215,488

NOTES TO FINANCIAL STATEMENTS

31 December 2009

14. PROPERTY, PLANT AND EQUIPMENT

Company

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 December 2009					
At 1 January 2009, net of accumulated depreciation	5,217	2,058	102	936	8,313
Additions	—	326	28	—	354
Depreciation provided during the year	(356)	(299)	(28)	(236)	(919)
At 31 December 2009, net of accumulated depreciation	4,861	2,085	102	700	7,748
At 31 December 2009:					
Cost	11,438	6,024	1,138	1,745	20,345
Accumulated depreciation	(6,577)	(3,939)	(1,036)	(1,045)	(12,597)
Net carrying amount	4,861	2,085	102	700	7,748

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

Company *(continued)*

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2008					
At 1 January 2008:					
Cost	11,438	5,648	1,181	1,470	19,737
Accumulated depreciation	(5,867)	(3,506)	(1,046)	(609)	(11,028)
Net carrying amount	5,571	2,142	135	861	8,709
At 1 January 2008, net of accumulated depreciation	5,571	2,142	135	861	8,709
Additions	—	278	8	280	566
Disposal	—	(76)	(1)	(5)	(82)
Depreciation provided during the year	(354)	(286)	(40)	(200)	(880)
At 31 December 2008, net of accumulated depreciation	5,217	2,058	102	936	8,313
At 31 December 2008:					
Cost	11,438	5,698	1,110	1,745	19,991
Accumulated depreciation	(6,221)	(3,640)	(1,008)	(809)	(11,678)
Net carrying amount	5,217	2,058	102	936	8,313

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

As at 31 December 2009, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB9,339,000 (2008: RMB9,584,000).

NOTES TO FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

Group

	2009 *RMB'000*	2008 *RMB'000*
Carrying amount at 1 January	25,582	26,187
Additions	273	—
Recognised during the year	(604)	(605)
Carrying amount at 31 December	25,251	25,582
Current portion included in prepayments, deposits and other receivables	(604)	(604)
Non-current portion	24,647	24,978

Company

	2009 *RMB'000*	2008 *RMB'000*
Carrying amount at 1 January	6,131	6,304
Recognised during the year	(172)	(173)
Carrying amount at 31 December	5,959	6,131
Current portion included in prepayments, deposits and other receivables	(172)	(172)
Non-current portion	5,787	5,959

The Group and the Company's leasehold lands are held under long term leases and are situated in Mainland China.

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16. OTHER INTANGIBLE ASSETS

Group

	Software licence *RMB'000*
31 December 2009	
Cost at 1 January 2009, net of accumulated amortisation	322
Additions	20
Amortisation provided during the year	(88)
At 31 December 2009	254
At 31 December 2009:	
Cost	451
Accumulated amortisation	(197)
Net carrying amount	254
31 December 2008	
At 1 January 2008:	
Cost	378
Accumulated amortisation	(36)
Net carrying amount	342
Cost at 1 January 2008, net of accumulated amortisation	342
Additions	53
Amortisation provided during the year	(73)
At 31 December 2008	322
At 31 December 2008 and at 1 January 2009:	
Cost	431
Accumulated amortisation	(109)
Net carrying amount	322

NOTES TO FINANCIAL STATEMENTS

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17. INVESTMENTS IN SUBSIDIARIES

	2009 *RMB'000*	2008 *RMB'000*
Company		
Unlisted investments, at cost	117,850	117,850

Particulars of the subsidiaries as at 31 December 2009 are as follows:

Name	Legal status	Place and date of registration and operations	Registered /paid-up capital RMB'000	Percentage of equity directly attributable to the Company	Principal activities
Siping Steering Gear Co., Ltd. ("Siping Steering")	Sino-foreign co-operative joint venture	The PRC/ Mainland China 28 October 1999	11,000/ 11,000	75%	Manufacture of steering and other automotive parts
Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao")	Limited liability company	The PRC/ Mainland China 3 November 1996	40,000/ 40,000	99%	Manufacture of steering and other automotive parts
Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao")	Limited liability company	The PRC/ Mainland China 14 December 2004	40,000/ 40,000	100%	Dormant
Jilin Shibao Machinery Co., Ltd. ("Jilin Shibao")	Limited liability company	The PRC/ Mainland China 22 July 2008	30,000/ 30,000	100%	Dormant

NOTES TO FINANCIAL STATEMENTS

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18. INVESTMENT IN AN ASSOCIATE

	2009 *RMB'000*	2008 *RMB'000*
Group		
Share of the associate's assets and liabilities		
Current assets	11,801	4,921
Non-current assets	16,987	14,360
Current liabilities	(22,704)	(13,472)
Net assets	6,084	5,809
Share of the associate's result:		
Revenue	22,955	11,681
Profit/(loss)	275	(6)
Unrealised gains resulting from sales to an associate	231	364
Carrying amount of the investment	5,853	5,445
Company		
Unlisted investment, at cost	7,200	7,200

NOTES TO FINANCIAL STATEMENTS

31 December 2009

18. INVESTMENT IN AN ASSOCIATE *(continued)*

Particulars of the Company's associate as at 31 December 2009 are as follows:

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

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

19. DEFERRED TAX ASSETS

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

	Tax losses RMB'000	Accrued warranty RMB'000	Accrued expense RMB'000	Impairment of assets RMB'000	Total RMB'000
Group					
At 1 January 2008	320	331	195	893	1,739
Credited to profit or loss *(note 9)*	—	127	56	124	307
Effect of change in tax rate charged to the profit or loss *(note 9)*	(320)	(154)	(74)	(214)	(762)
At 31 December 2008 and 1 January 2009	—	304	177	803	1,284
(Charged)/credited to profit or loss *(note 9)*	—	429	(34)	315	710
At 31 December 2009	**—**	**733**	**143**	**1,118**	**1,994**
Company					
At 1 January 2008	320	—	67	128	515
(Charged)/credited to the profit or loss	—	—	—	(40)	(40)
Effect of change in tax rate charged to profit or loss	(320)	—	—	—	(320)
At 31 December 2008 and 31 December 2009	—	—	67	88	155

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

NOTES TO FINANCIAL STATEMENTS

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20. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Group		
Raw materials	28,608	23,695
Work in progress	12,140	10,089
Finished goods	55,533	27,603
Low value consumables	8	1,411
	96,289	62,798
Company		
Raw materials	1,210	1,232
Work in progress	1,072	1,558
Finished goods	49	—
Low value consumables	8	12
	2,339	2,802

NOTES TO FINANCIAL STATEMENTS

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21. TRADE AND NOTES RECEIVABLES

	2009 *RMB'000*	2008 *RMB'000*
Group		
Trade and notes receivables	128,349	117,615
Impairment	(4,981)	(2,879)
	123,368	114,736
Company		
Trade and notes receivables	1,194	1,841
Impairment	(354)	(354)
	840	1,487

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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of manufacturers of automobiles customers, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

21. TRADE AND NOTES RECEIVABLES *(continued)*

An aged analysis of the trade and notes receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2009 *RMB'000*	2008 *RMB'000*
Group		
Within 90 days	106,096	87,035
91 to 180 days	11,098	17,283
181 to 365 days	1,781	8,277
Over 365 days	4,393	2,141
	123,368	114,736
Company		
Within 90 days	310	965
91 to 180 days	530	522
181 to 365 days	—	—
	840	1,487

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

	2009 *RMB'000*	2008 *RMB'000*
Group		
At 1 January	2,879	4,118
Impairment losses recognised (note 6)	3,076	234
Impairment losses reversed (note 6)	(974)	(1,467)
Amount written off as uncollectible	—	(6)
	4,981	2,879

21. TRADE AND NOTES RECEIVABLES *(continued)*

	2009 RMB'000	2008 RMB'000
Company		
At 1 January	354	512
Impairment losses recognised	—	36
Impairment losses reversed	—	(194)
	354	354

Included in the above provision for impairment of trade and notes receivables for the Group is a provision for impaired trade and notes receivables of RMB4,981,000 (2008: RMB2,879,000) with a carrying amount before provision of RMB4,981,000 (2008: RMB2,879,000). The impaired trade and notes receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2009 RMB'000	2008 RMB'000
Group		
Neither past due nor impaired	108,372	92,849
Less than 90 days past due	9,617	11,983
91 to 180 days past due	852	7,487
181 to 365 days past due	1,994	2,417
Above 365 days past due	2,533	—
	123,368	114,736
Company		
Neither past due nor impaired	840	1,487
Less than 90 days past due	—	—
	840	1,487

NOTES TO FINANCIAL STATEMENTS

31 December 2009

21. TRADE AND NOTES RECEIVABLES *(continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009 *RMB'000*	2008 *RMB'000*
Group		
Deposits	903	988
Prepayments	17,716	12,069
Other receivables	2,689	1,650
	21,308	14,707
Company		
Deposits	76	65
Prepayments	376	366
Other receivables	293	308
	745	739

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

23. BALANCES WITH SUBSIDIARIES AND AN ASSOCIATE

Amounts due from subsidiaries and an associate as at 31 December 2009 were trade in nature, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

All balances with subsidiaries and an associate are unsecured, interest-free and due for repayment on demand.

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2009 *RMB'000*	2008 *RMB'000*
Group		
Outstanding balances with ages:		
Within 90 days	58,449	29,774
91 to 180 days	6,915	19,666
181 to 365 days	1,629	6,022
Over 365 days	4,096	3,765
	71,089	59,227
Company		
Outstanding balances with ages:		
Within 90 days	1,931	3,504
91 to 180 days	2,635	731
181 to 365 days	202	10
Over 365 days	954	1,775
	5,722	6,020

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

25. OTHER PAYABLES AND ACCRUALS

	2009 *RMB'000*	2008 *RMB'000*
Group		
Advances from customers	3,088	2,353
Payroll payables	3,716	1,683
Welfare payables	574	1,623
Other payables	29,328	11,327
	36,706	16,986
Company		
Advances from customers	381	925
Payroll payables	387	220
Welfare payables	196	1,117
Other payables	5,003	3,523
	5,967	5,785

Other payables are non-interest-bearing and have an average term of one month.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

26. DEFERRED INCOME

	2009 *RMB'000*	2008 *RMB'000*
Group		
Balance at 1 January	2,685	2,927
Government grants recognised as deferred income	—	778
Amortisation	(1,141)	(1,020)
Balance at 31 December	1,544	2,685
Current	1,234	1,112
Non-current	310	1,573
	1,544	2,685

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

27. INTEREST-BEARING OTHER BORROWINGS

	2009 *RMB'000*	2008 *RMB'000*
Group		
Other borrowings, unsecured	5,090	5,090
Repayable:		
Within one year	—	—
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	5,090	5,090
	5,090	5,090
Portion classified as current liabilities	—	—
Long-term portion	5,090	5,090

As at 31 December 2009, included in other unsecured borrowings were loans granted by Siping Municipal Ministry of Finance amounting to RMB5,090,000 (2008: RMB5,090,000), among which borrowings of RMB2,530,000 (2008: RMB2,530,000) bear interest at a commercial rate of 5% (2008: 5%) per annum and are repayable in 2016 and borrowings of RMB2,560,000 (2008: RMB2,560,000) bear interest at a commercial rate of 5% (2008: 5%) and are repayable in 2020.

NOTES TO FINANCIAL STATEMENTS

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28. ISSUED CAPITAL

	Nominal value of shares	Number of Domestic Shares	Number of H shares	Total number of shares	Value
	RMB				*RMB'000*
At 1 January 2009 and 31 December 2009	1 per share	175,943,855	86,714,000	262,657,855	262,658

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

29. RESERVES

(A) GROUP

Share premium

On 11 May 2006, 86,714,000 H Shares of RMB1 each were issued at HK$1.50 per share for a total cash consideration, before related issue expenses of RMB26,623,000, of HK$130,071,000 (equivalent to RMB134,481,000).

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

Statutory surplus reserve

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

29. RESERVES *(continued)*

(A) GROUP *(continued)*

Distributable reserve

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

Subsequent to 31 December 2009, Siping Steering and Hangzhou Shibao, subsidiaries of the Company, proposed final dividends totalling RMB20,000,000 to the shareholders, which were subject to the approval by the shareholders of the subsidiaries.

As at 31 December 2009, the accumulated losses of the Company was approximately RMB16,260,000 being the lower of the amount determined under PRC GAAP and IFRS financial statements. Considering the proposed dividend income from the subsidiaries, the board of directors of the Company are of the opinion that the Company has adequate reserves for distribution of the proposed dividend as set out in note 11.

(B) COMPANY

	Share Premium *RMB'000*	Statutory surplus reserve *RMB'000*	Reserve arising from acquisition of minority interests *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2008	21,144	23,612	5,736	(15,289)	35,203
Profit for the year	—	—	—	21,558	21,558
Transfer to statutory surplus reserve	—	4,672	—	(4,672)	—
Proposed final dividend	—	—	—	(13,133)	(13,133)
At 31 December 2008 and 1 January 2009	21,144	28,284	5,736	(11,536)	43,628
Profit for the year	—	—	—	21,277	21,277
Transfer to statutory surplus reserve	—	7,615	—	(7,615)	—
Proposed final dividend	—	—	—	(18,386)	(18,386)
At 31 December 2009	21,144	35,899	5,736	(16,260)	46,519

NOTES TO FINANCIAL STATEMENTS

31 December 2009

30. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

31. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2009 *RMB'000*	2008 *RMB'000*
Group		
Contracted, but not provided for:		
Acquisition of land	18,931	27,720
Acquisition of plant and machinery	13,817	3,175
	32,748	30,895

NOTES TO FINANCIAL STATEMENTS

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32. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, the Group and the Company had the following transactions with related parties:

Group

Name of related party	Nature of transaction	2009 *RMB'000*	2008 *RMB'000*
Wuhu Sterling	Sale of raw materials to an associate *(note (a))*	565	5,750
	Sale of finished goods to an associate *(note (b))*	17,683	18,754
	Purchase of raw materials from an associate *(note (a))*	—	25
	Purchase of finished goods from an associate *(note (b))*	796	123

NOTES TO FINANCIAL STATEMENTS

31 December 2009

32. RELATED PARTY TRANSACTIONS *(continued)*

Company

Name of related party	Nature of transaction	2009 RMB'000	2008 RMB'000
Wuhu Sterling	Sale of raw materials to an associate *(note (a))*	155	5,390
	Sale of finished goods to an associate *(note (b))*	17,488	16,839
	Purchase of finished goods from an associate *(note (b))*	—	123
Hangzhou Shibao	Sale of raw materials to a subsidiary *(note (a))*	2,209	2,106
	Sale of finished goods to a subsidiary *(note (c))*	17,982	11,472
	Purchase of raw materials from a subsidiary *(note (a))*	159	5,499
	Purchase of finished goods from a subsidiary *(note (c))*	24,262	20,037
Siping Steering	Sale of finished goods to a subsidiary *(note (b))*	5	9

Notes:

(a) The sales and purchases of raw materials were priced at cost.

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

(c) The sale and purchase of finished goods were priced at cost plus a 10% margin.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2009

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

	2009 Loans and receivables *RMB'000*	2008 Loans and receivables *RMB'000*
Financial assets		
Trade and notes receivables *(note 21)*	123,368	114,736
Financial assets included in prepayments, deposits and other receivables *(note 22)*	3,592	2,638
Due from an associate *(note 23)*	11,901	19,295
Cash and cash equivalents	38,609	50,052
Total	177,470	186,721

	Financial liabilities at amortised cost *RMB'000*	Financial liabilities at amortised cost *RMB'000*
Financial liabilities		
Trade and bills payables *(note 24)*	71,089	59,227
Financial liabilities included in other payables and accruals *(note 25)*	33,618	14,633
Interest-bearing other borrowings *(note 27)*	5,090	5,090
Total	109,797	78,950

NOTES TO FINANCIAL STATEMENTS

31 December 2009

33. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

	2009 Loans and receivables RMB'000	2008 Loans and receivables RMB'000
Financial assets		
Trade and notes receivables *(note 21)*	840	1,487
Financial assets included in prepayments, deposits and other receivables *(note 22)*	369	373
Due from subsidiaries *(note 23)*	183,451	164,352
Due from an associate *(note 23)*	11,858	16,510
Cash and cash equivalents	1,655	5,857
Total	198,173	188,579

	Financial liabilities at amortised cost RMB'000	Financial liabilities at amortised cost RMB'000
Financial liabilities		
Trade and bills payables *(note 24)*	5,722	6,020
Financial liabilities included in other payables and accruals *(note 25)*	5,586	4,860
Total	11,308	10,880

NOTES TO FINANCIAL STATEMENTS

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34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

INTEREST RATE RISK

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

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

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

FOREIGN CURRENCY RISK

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

CREDIT RISK

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables and amount due from an associate, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

NOTES TO FINANCIAL STATEMENTS

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

CREDIT RISK *(continued)*

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has no significant concentration of credit risk as there is large number of manufacturers of automobiles customers in the PRC market.

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

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

LIQUIDITY RISK

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

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

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

LIQUIDITY RISK *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009				
	On demand	Within 90 days	91 to 365 days	Over 365 days	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables *(note 24)*	9,394	61,695	—	—	71,089
Financial liabilities included in other payables and accruals *(note 25)*	33,618	—	—	—	33,618
Interest-bearing other borrowings *(note 27)*	—	—	—	5,090	5,090
	43,012	61,695	—	5,090	109,797

	2008				
	On demand	Within 90 days	91 to 365 days	Over 365 days	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables *(note 24)*	16,271	42,956	—	—	59,227
Financial liabilities included in other payables and accruals *(note 25)*	14,633	—	—	—	14,633
Interest-bearing other borrowings *(note 27)*	—	—	—	5,090	5,090
	30,904	42,956	—	5,090	78,950

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

LIQUIDITY RISK *(continued)*

Company

	2009		
	On demand	Within 90 days	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables *(note 24)*	1,102	4,620	5,722
Financial liabilities included in other payables and accruals *(note 25)*	5,586	—	5,586
	6,688	4,620	11,308

	2008		
	On demand	Within 90 days	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables *(note 24)*	2,231	3,789	6,020
Financial liabilities included in other payables and accruals *(note 25)*	4,860	—	4,860
	7,091	3,789	10,880

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing other borrowings, trade and bills payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2009 *RMB'000*	2008 *RMB'000*
Interest-bearing other borrowings	**5,090**	5,090
Trade and bills payables	**71,089**	59,227
Other payables and accruals	**36,706**	16,986
Less: Cash and cash equivalents	**(38,609)**	(50,052)
Net debt	**74,276**	31,251
Total capital	**466,410**	413,190
Total capital and net debt	**540,686**	444,441
Gearing ratio	**13.7%**	7.0%

NOTES TO FINANCIAL STATEMENTS

31 December 2009

35. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

36. EVENTS AFTER THE REPORTING PERIOD

On 22 March 2010, the board of directors of the Company proposed a final dividend of RMB0.07 per ordinary share totalling approximately RMB18,386,000 for the year ended 31 December 2009, which is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (notes 11 and 29(b)).

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2010.