Zhejiang Shibao Company Limited*

浙江世寶股份有限公司

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

(Stock Code: 1057)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Financial summary for the year ended of 31 December 2010

Revenue of the Group amounted to approximately RMB543,746,000, an increase of approximately 49.6% compared with approximately RMB363,521,000 in 2009.

Profit of the Group amounted to approximately RMB104,340,000, an increase of approximately 55.4% compared with approximately RMB67,156,000 in 2009.

Profit attributable to shareholders amounted to approximately RMB103,404,000, an increase of approximately 55.8% compared with approximately RMB66,353,000 in 2009.

Earnings per share was RMB0.3937, an increase of approximately 55.9% compared with RMB0.2526 in 2009.

The Board recommended payment of a final dividend of RMB0.09 per share, dividend payout ratio of approximately 22.9%.

The board of directors (the "Board") of Zhejiang Shibao Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures. The consolidated annual results have been reviewed by the Company's audit committee.

* *For identification purposes only*

ZHEJIANG SHIBAO COMPANY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	4	543,746	363,521
Cost of sales		(349,452)	(227,437)
Gross profit		194,294	136,084
Other income and gains	4	4,263	3,924
Selling and distribution costs		(37,508)	(25,645)
Administrative expenses		(40,932)	(37,277)
Other expenses		(1,360)	(428)
Finance costs		(1,241)	(290)
Share of profits of an associate		1,146	275
PROFIT BEFORE TAX	5	118,662	76,643
Income tax expense	6	(14,322)	(9,487)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME		104,340	67,156
Total profit and comprehensive income attributable to:			
Owners of the parent		103,404	66,353
Non-controlling interests		936	803
		104,340	67,156
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		RMB0.3937	RMB0.2526

ZHEJIANG SHIBAO COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		294,599	270,632
Prepaid land lease payments		37,729	24,647
Goodwill	9	-	-
Other intangible assets		27,230	254
Advance payments for property, plant and equipment		24,226	5,041
Investment in an associate		6,615	5,853
Deferred tax assets		3,696	1,994
Total non-current assets		394,095	308,421
CURRENT ASSETS			
Inventories		138,007	96,289
Trade and notes receivables	10	170,978	123,368
Prepayments, deposits and other receivables		16,995	21,308
Due from an associate		17,064	11,901
Due from the ultimate holding company		-	300
Pledged deposits		16,363	-
Cash and cash equivalents		48,938	38,609
Total current assets		408,345	291,775
CURRENT LIABILITIES			
Interest-bearing bank borrowings	11	35,000	-
Trade and bills payables	12	116,083	71,089
Other payables and accruals		35,101	36,706
Tax payable		17,326	15,268
Deferred income		173	1,234
Total current liabilities		203,683	124,297
NET CURRENT ASSETS		204,662	167,478
TOTAL ASSETS LESS CURRENT LIABILITIES		598,757	475,899

ZHEJIANG SHIBAO COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION ***(continued)***
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	11	20,090	5,090
Deferred income		-	310
Deferred tax liabilities		1,890	-
Total non-current liabilities		21,980	5,400
Net assets		576,777	470,499
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	262,658	262,658
Reserves		265,753	185,366
Proposed final dividends	7	23,639	18,386
		552,050	466,410
Non-controlling interest		24,727	4,089
Total equity		576,777	470,499

ZHEJIANG SHIBAO COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

	Attributable to owners of the parent								
	Issued capital RMB'000	**Share premium** RMB'000	**Reserve arising from acquisition of non-controlling interests** RMB'000	**Statutory surplus reserves** RMB'000	**Retained earnings** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
At 1 January 2009	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
Profit for the year	-	-	-	-	103,404	-	103,404	936	104,340
Acquisition of a subsidiary	-	-	-	-	-	-	-	2,924	2,924
Disposal of partial interest in a subsidiary	-	-	-	-	622	-	622	17,378	18,000
Final 2009 dividend declared	-	-	-	-	-	(18,386)	(18,386)	(600)	(18,986)
Transfer to statutory surplus reserves	-	-	-	15,728	(15,728)	-	-	-	-
Proposed final 2010 dividend	-	-	-	-	(23,639)	23,639	-	-	-
At 31 December 2010	262,658	21,144*	5,736*	84,962*	153,911*	23,639	552,050	24,727	576,777

* These reserve accounts comprise the consolidated reserves of RMB265,753,000 (2009: RMB185,366,000) in the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE PROFILE

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 "Exchange") on 16 May 2006. Pursuant to the special resolution (the "Special Resolution") passed in the extraordinary general meeting (the "EGM") and the two separate class meetings (the "Class Meeting") held on 22 March 2010, the board of directors (the "Board") was authorised to propose migration of the listing of the Company's H shares from the GEM to the Main Board of the Exchange (the "Migration"). Pursuant to the approval documents issued by the China Securities Regulatory Commission and the Exchange on 16 December 2010 and 8 March 2011, respectively, the listing of the Company's H shares was changed from the GEM to the Main Board on 9 March 2011.

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 BASIS OF CONSOLIDATION

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previous recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2 BASIS OF CONSOLIDATION *(continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not allocated between non-controlling interests and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that represents primarily manufacture and sale of automotive steering products in Mainland China, which are subject to similar risks and returns. All of the Group's assets are located in Mainland China. Management reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group. Accordingly, no operating segmental analysis by business activity or geographical information is presented.

Information about major customers

Revenue from operations of approximately RMB201,086,000 (2009: RMB166,858,000) was derived from sales to two major customers.

4. 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:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods	545,345	364,801
Less: Government surcharges	(1,599)	(1,280)
	543,746	363,521
Other income		
Government grants	2,050	2,280
Sale of raw materials	-	451
Bank interest income	765	398
Others	1,228	776
	4,043	3,905
Gain		
Gain on disposal of items of property, plant and equipment	220	19
Other income and gains	4,263	3,924

5. PROFIT BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	288,160	187,043
Depreciation	22,802	18,182
Amortisation of prepaid land lease payments	1,070	604
Amortisation of other intangible assets	269	88
Research and development costs	12,329	9,526
Auditors' remuneration	1,200	1,100
Amortisation of deferred income	(1,371)	(1,141)
Impairment of goodwill	178	-
Employee benefit expense (including directors' and supervisors' remuneration):		
Salaries and other staff costs	59,055	39,055
Retirement costs - defined contribution scheme	3,902	3,372
	62,957	42,427
Finance costs	1,241	290
(Reversal of impairment)/impairment of trade and notes receivables	(2,601)	2,102
Impairment of inventories	900	-
Bank interest income	(765)	(398)
Foreign exchange differences, net	6	9
Gain on disposal of items of property, plant and equipment	(220)	(19)

6. 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 2010 (2009: 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	2010	2009
The Company	(a)	25%	25%
Hangzhou Shibao Auto Steering Gear Co., Ltd. ("Hangzhou Shibao")	(b)	15%	15%
Siping Steering Gear Co., Ltd. ("Siping Steering")	(c)	15%	15%
Hangzhou New Shibao Electric Power Steering Co., Ltd. ("Hangzhou New Shibao")	(a)	25%	25%
Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao")	(a)	25%	25%
Beijing Autonic Technologies Co., Ltd. ("Beijing Autonic")	(a)	25%	N/A

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

(b) Hangzhou Shibao obtained an approval certificate from the relevant tax authority 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 2010.

(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-New Technology Enterprise and would enjoy the preferential tax rate of 15% according to the new Enterprise Income Tax Law effective on 1 January 2008.

The major components of total tax charge for the years ended 31 December 2010 and 2009 are as follows:

	2010 RMB'000	2009 RMB'000
Provision for income tax in respect of profit for the year:		
- Current	15,725	9,987
- Underprovision in prior years	331	210
- Deferred	(1,734)	(710)
Total tax charge for the year	14,322	9,487

6. INCOME TAX *(continued)*

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:

	2010 RMB'000	2009 RMB'000
Accounting profit	118,662	76,643
Non-taxable share of profit of an associate	(762)	(408)
Profit of the Group subject to income tax	117,900	76,235
Tax at an applicable tax rate of 25% (2009: 25%)	29,475	19,059
Adjustment in respect of underprovision in prior years	331	210
Tax credits in respect of purchases of property, plant and equipment from domestic vendors	(2,662)	(1,992)
Tax effect of expense items which are not deductible for income tax purposes	362	425
Tax rate differential on subsidiaries	(12,400)	(7,566)
Effect of tax concessions and allowances	(784)	(649)
Tax charge at the Group's effective rate	14,322	9,487

7. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final dividend – RMB0.09 (2009: RMB0.07) per ordinary share	23,639	18,386

Pursuant to a resolution of the board of directors of the Company dated 18 March 2011, a final dividend of RMB0.09 per ordinary share totalling approximately RMB23,639,000 is proposed for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. 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 RMB103,404,000 in 2010 (2009: RMB66,353,000), and the weighted average number of ordinary shares of 262,657,855 in issue during the year (2009: 262,657,855).

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

9. GOODWILL

Group

	RMB'000
Cost at 1 January 2010, net of accumulated impairment	-
Acquisition of a subsidiary	178
Impairment during the year	(178)
Cost and net carrying amount at 31 December 2010	-
At 31 December 2010:	
Cost	178
Accumulated impairment	(178)
Net carrying amount	-

10. TRADE AND NOTES RECEIVABLES

	2010 RMB'000	2009 RMB'000
Group		
Trade and notes receivables	173,358	128,349
Impairment	(2,380)	(4,981)
	170,978	123,368

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.

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:

	2010 RMB'000	2009 RMB'000
Group		
Within 90 days	140,191	106,096
91 to 180 days	24,661	11,098
181 to 365 days	3,417	1,781
Over 365 days	2,709	4,393
	170,978	123,368

10. TRADE AND NOTES RECEIVABLES *(continued)*

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

Group	2010 RMB'000	2009 RMB'000
At 1 January	4,981	2,879
Impairment losses recognised (note 5)	162	3,076
Impairment losses reversed (note 5)	(2,763)	(974)
	2,380	4,981

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 RMB2,380,000 (2009: RMB4,981,000) with a carrying amount before provision of RMB2,380,000 (2009: RMB4,981,000). 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:

Group	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	141,249	108,372
Less than 90 days past due	22,097	9,617
91 to 180 days past due	2,504	852
181 to 365 days past due	2,442	1,994
Above 365 days past due	2,686	2,533
	170,978	123,368

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.

11. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2010			2009		
	Effective Interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	5.31	2010 - 2011	30,000	-	-	-
Current portion of long term bank loans - unsecured	5.96	2010 - 2011	5,000	-	-	-
			35,000			-
Non-current						
Bank loans – unsecured	5.96	2010 - 2015	15,000	-	-	-
Other borrowings - unsecured	5.00	2002 - 2020	5,090	5.00	2002 - 2020	5,090
			20,090			5,090
			55,090			5,090

	Group 2010 RMB'000	Group 2009 RMB'000
Analysed to:		
Bank loans repayable:		
Within one year	35,000	-
In the second year	13,000	-
In the third to fifth year, inclusive	2,000	-
Beyond five years	-	-
	50,000	-
Other borrowings repayable:		
Within one year	-	-
In the second year	-	-
In the third to fifth year, inclusive	-	-
Beyond five years	5,090	5,090
	5,090	5,090
	55,090	5,090

11. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

Notes:

(a) The Group's bank facilities amounted to RMB50,000,000 (2009: nil), of which RMB20,000,000 (2009: nil) had been utilised as at the end of reporting period.

(b) Certain of the Group's bank loans up to RMB30,000,000 (2009: nil) at the end of the reporting period are guaranteed by Zhejiang Shibao Holding, the Company's ultimate holding company.

(c) The Group's other unsecured borrowings were loans granted by Siping Municipal Ministry of Finance amounting to RMB5,090,000 (2009: RMB5,090,000), among which borrowings of RMB2,530,000 are repayable in 2016 and borrowings of RMB2,560,000 are repayable in 2020.

12. 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:

	2010 RMB'000	2009 RMB'000
Group		
Outstanding balances with ages:		
Within 90 days	97,781	58,449
91 to 180 days	12,191	6,915
181 to 365 days	2,442	1,629
Over 365 days	3,669	4,096
	116,083	71,089

The trade payables are non-interest-bearing and are normally settled within the terms of 90 to 180 days.

13. ISSUED CAPITAL

	Nominal value of shares RMB	Number of Domestic Shares	Number of H shares	Total number of shares	Value RMB'000
At 1 January 2010 and 31 December 2010	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.

14. COMMITMENTS

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

	2010 RMB'000	2009 RMB'000
Group		
Contracted, but not provided for:		
Acquisition of land	-	18,931
Acquisition of plant and machinery	64,144	13,817
	64,144	32,748

FINAL DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board recommended the payment of a final cash dividend of RMB0.09 per share (before deduction of corporate income tax for non-resident enterprise shareholders) for the year ended 31 December 2010, with a total amount of approximately RMB23,639,000. 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 13 May 2011). 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 Friday 13 May 2011 (the "Record Date"), on or about Friday 27 May 2011.

The H Share register of the Company will be temporarily closed from Wednesday 13 April 2011 to Friday 13 May 2011 (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 Friday 13 May 2011 shall be entitled to attend the annual general meeting of the Company to be held on Friday 13 May 2011 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 Tuesday 12 April 2011.

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

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Automobile manufacture and sales

In 2010, China's auto industry has continued the development from last year. Automobile production and sales both exceeded 18 million units benefited from numbers of preferential treatments for automobile consumption. The production and sales volume has created a global new record and ranked the global number one for the second executive year. All kinds of vehicles achieved growth and the market share of China-brand vehicles has increased, export of automobile was recovering and production and sales of large automakers has expanded in general.

In 2010, production and sales volume of the China auto industry is 18,265,000 units and 18,062,000 units respectively, an increase of approximately 32.4% and 32.4% as compared with 2009. Among these, production and sales of passenger cars is 13,897,000 units and 13,758,000 units respectively, an increase of approximately 33.8% and 33.2% as compared with 2009; production and sales of commercial vehicles is 4,368,000 units and 4,304,000 units respectively, an increase of approximately 28.2% and 29.9% as compared with 2009. In 2010, growth of China-brand vehicles is faster than the average growth of auto industry and market share of China-brand vehicles has increased. Sales of China-brand car is 2,933,000 units, representing an increase of 32.3% as compared with 2009.

Trend of the China automotive steering market

China’s automotive steering industry has increased its international competition capacity in certain level with bright future. Benefited from continuous healthy growth of China's economy, the steering industry is also expected to achieve growth in term of both production value and sales revenue. The steering industry is expanding and developing to achieve sustainable growth.

Green car has been included in the list of China's state strategic and emerging industries, which will facilitate the development of related automotive components, including the industrialization of EPS system. It is expected that by 2020, the industrialization and market size of green car in the PRC will rank the global number one and the accumulated number of green car reaches 5,000,000 units in the PRC.

BUSINESS REVIEW

Operation result

For the year ended 31 December 2010, the Group recorded a revenue of approximately RMB543,746,000, representing an increase of approximately 49.6% as compared with 2009. Profit attributable to owners of the Company was approximately RMB103,404,000, representing an increase of approximately 55.8% as compared with 2009.

During the year under review, the Group's revenue increased largely and the entire gross profit increased by approximately 42.8% as compared with 2009. The large increase of the Group's revenue was mainly due to an increase in the overall business and a significant increase in the sale of steering products for passenger cars.

The gross profit margin of the Group was approximately 35.7%, (2009: approximately 37.4%). The slight decrease in the gross profit margin was mainly due to a price cut of old products and an increase in costs.

During the year under review, the Group's selling and distribution costs increased by approximately RMB11,863,000 compared with 2009. Increase in selling and distribution costs was mainly due to an increase in sales volume resulted in an increase in the transportation and storage expenses as well as other sales expenses.

During the year under review, the Group's administrative expenses increased by approximately RMB3,655,000 comparing with 2009. However, the ratio of administrative expenses to revenue dropped slightly as compared to 2009. The increase in administrative expenses was mainly due to an increase in staff costs and research and development expenses.

In view of the above, for the year ended 31 December 2010, the Group has a profit after tax of approximately RMB104,340,000, representing an increase of approximately 55.4% compared with approximately RMB67,156,000 for the previous year.

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

Marketing and new products

During the year under review, the Group secured two new projects of developing passenger car hydraulic power steering gear (HPS). Meanwhile, the Group has other two types of HPS have started volume production.

During the year under review, the Group has one type of EPS products going to the market. At the same time, the Group's EPS also has been used in Shanghai EXPO VIP service car and performed well.

During the year under review, precious casting products produced by Jilin Shibao has been used in one type of the Group's commercial vehicle steering gear (RBS) and received sound feedback from the OEM clients.

Production facilities

During the year under review, the first production line of Jilin Shibao first stage construction has been started production,which can meet 40% of the Group's current blank-casting purchasing demand for power steering assemblies. The first stage construction of Jilin Shibao has planned to invest three production lines with main products of various kinds of precious casting of automotive components and will be supplied to intra-group market.

During the year under review, a new advanced passenger car HPS assembly line has started production in Hangzhou Shibao, which resulted in an increase of the annual production capacity of the Group's HPS assemblies by 250,000 units/sets.

During the year under review, the annual production capacity of passenger car steering knuckle products has been doubled in Siping Steering to 450,000 pieces, thus to meet the increasing demand from FAW-CAR.

Research and development

During the year under review, one of the Group's passenger car hydraulic steering gear (HPS) technologies has been issued certificate of patent of invention by the State Intellectual Property Office.

During the year under review, the Group's EPS development project has been issued the "State High-tech Industrialization Model Project" by National Development and Reform Commission.

During the year under review, the Group has participated in the draft of the "12th Five-year Plan" of China Automotive Component Industry as the vice team leader of steering sector.

During the year under review, The Group has been awarded the "Supplier of the Year" by FAW-CAR for the fourth consecutive year. During the year under review, the Group has also been awarded the "Supplier of the Year" by Dongfeng Liuzhou Plant, Jianghuai Automobile and Foton Motor.

OUTLOOK

Look forward, China auto industry is expected to keep sound growth. On one side, China macro economy will keep growing fast, living standards of residents in both urban and country is increasing stably, progress of urbanization and industrialization is accelerating and export is recovering; on the other side, numbers of preferential treatments for automobile consumption has been withdrawn. Beijing municipal has launched a restriction policy on vehicle purchase, which will result in an cost increase in the automobile related consumption. Both positive and negative factors and other arising uncertainties may have impact to the development of China's auto industry. According to the forecast made by China Association of Automobile Manufacturers, the growth of production and sales of China automobile in 2011 is to be around 10% - 15%, and the key of the industry is structure reform and support of small size and fuel-efficient and low-emission vehicle.

After continuous investment on the research and industrialization of new technologies related to steering products, the Group has seen the results of comprehensive upgrade of its products and technologies and has formed series of products that able to support the growth of the Group's business in long term. Four of the Group's major clients were in the list of top ten auto makers in term of sales in the PRC in 2010. The growth of China-brand auto market which is the Group's main target market was faster than the average growth of the auto industry and the market share of China-brand automobile was increased. Based on the above, it is expected that the Group's sales and profit will keep growing fast in the foreseeable years.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2010, the Group recorded a revenue of approximately RMB543,746,000, representing an increase of approximately 49.6% as compared with 2009. The large increase was mainly due to an increase in the overall business and a significant increase in the sale of steering products for passenger cars.

Gross profit and gross profit margin

For the year ended 31 December 2010, the Group’s gross profit was approximately RMB194,294,000, increased by approximately 42.8% as compared with approximately RMB136,084,000 in 2009. The gross profit margin of the Group during the year under review was approximately 35.7% (2009: approximately 37.4%), the slight decrease in the gross profit margin was mainly due to a price cut of old products and an increase in costs.

Other income and gains

Other income mainly included government subsidies income, interest income and others. Such income was approximately RMB4,263,000 for the year ended 31 December 2010, representing an increase of approximately 8.6% as compared with approximately RMB3,924,000 in 2009.

Selling and distribution costs

The Group's selling and distribution costs for the year ended 31 December 2010 were approximately RMB37,508,000, representing an increase of approximately 46.3% compared with approximately RMB25,645,000 in 2009. Increase in selling and distribution costs was mainly due to an increase in sales volume resulted in an increase in the transportation and storage expenses as well as other sales expenses. The amount represented approximately 6.9% of the Group's total turnover for the year ended 31 December 2010, representing a slight decrease compared approximately 7.1% of the total turnover in 2009.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2010 were approximately RMB40,932,000, representing an increase of approximately 9.8% compared with approximately RMB37,277,000 in 2009. Increase in the administrative expenses was mainly due to the increase in staff cost and research and development expenses. However, the amount represented approximately 7.5% of the Group's total turnover for the year ended 31 December 2010, representing a large decrease compared to approximately 10.3% of the total turnover in 2009.

Finance costs

The Group's finance costs for the year ended 31 December 2010 were approximately RMB1,241,000, which was increased largely compared with approximately RMB290,000 in 2009.

Research and development expenses

The Group's research and development expenses for the year ended 31 December 2010 was approximately RMB12,329,000, representing approximately 2.3% of the Group's total turnover, which was increased approximately RMB2,803,000 compared with RMB9,526,000 in 2009.

Annual profit and profit margin

Based on the above factors, the Group's profit for the year ended 31 December 2010 was approximately RMB104,340,000, representing an increase of approximately 55.4% compared with approximately RMB67,156,000 of the previous year. The Group's profit margin (percentage of profit to the Group's total turnover) for the year ended 31 December 2010 was approximately 19.2% (2009: approximately 18.5%).

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity ratios

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB48,938,000, in comparison with approximately RMB38,609,000 as at 31 December 2009. As at 31 December 2010, current ratio of the Group was approximately 2.0 (2009: approximately 2.3) and quick ratio was approximately 1.3 (2009: approximately 1.6).

Net current assets as at 31 December 2010 was approximately RMB204,662,000 (2009: approximately RMB167,478,000).

Non-current liabilities as at 31 December 2010 was approximately RMB21,980,000 (2009: approximately RMB5,400,000).

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 2010 was approximately 22.2% (2009: approximately 13.7%). The calculation of gearing ratio is to divide net debt by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to equity holders of the company.

Total loans and borrowings as at 31 December 2010 were approximately RMB55,090,000 (2009: approximately RMB5,090,000), among which borrowings of RMB2,530,000 (2009: RMB2,530,000) bear interest at a commercial rate of 5% (2009: 5%) per annum and are repayable in 2016; borrowings of RMB2,560,000 (2009: RMB2,560,000) bear interest at a commercial rate of 5% (2009: 5%) per annum and are repayable in 2020; borrowings of RMB30,000,000 (2009: Nil) bear interest at a commercial rate of 5.31% (2009: Nil) per annum and are repayable in 2011; and borrowings of RMB20,000,000 (2009: Nil) bear interest at a commercial rate of 5.96% (2009: Nil) per annum and in which RMB5,000,000 are repayable in 2011 and RMB15,000,000 are repayable in 2015.

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

PLEDGE OF ASSETS

At 31 December 2010, the Group's pledged deposits with a net carrying amount of approximately RMB16,363,000 (2009: nil) were pledged to secure bills payables amounting to RMB14,730,000 (2009: nil) granted to the Group.

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

MATERIAL ACQUISITIONS AND DISPOSALS

As at 31 December 2010, the Group did not have any material acquisition and disposal concerning subsidiaries and associates.

OTHER MATTERS

Beijing Autonic

In October 2010, the Company signed an agreement with Beijing Autonic Technologies Co., Ltd. ("Beijing Autonic"), an independent third party, regarding stock acquisition and acquired 70% of the shares of Beijing Autonic with cash payment of RMB7 million. The registered capital of Beijing Autonic is RMB10 million. The remaining 30% of the shares of Beijing Autonic are held by two individuals whom representing the team of Beijing Autonic. The relevant industrial and commercial registration procedures have been completed regarding the aforesaid stock acquisition.

Beijing Autonic is a limited liability company registered in Beijing. It is mainly engaged in the development of electronic technologies of automotive electric power steering (EPS) system and manufacturing and sales of ECU related electronic units. The Company believes that after the acquisition, it can enhance the Group's follow-up R&D ability of EPS electronic technologies, therefore to further consolidate the Group's leading position in the development and manufacturing of automotive EPS system in China. The products of Beijing Autonic will mainly be supplied to the Group and used in the Group's EPS assembly for the time being.

Hangzhou New Shibao

In October 2010, the Company reached an agreement with Mr. Wang Chao Jiu and his team, independent third parties, regarding technologies investment into Hangzhou New Shibao and the appointment of Mr. Wang as the general manager of Hangzhou New Shibao. Mr. Wang had carried out research and development as well as manufacturing of automotive EPS system in a renowned auto factory in Japan for many years. Hangzhou New Shibao will mainly be engaged in the industrialization of EPS products and plans to build an annual production capacity of 1,000,000 units/sets of EPS system in the next five years.

In November 2010, the Company has signed the aforesaid technologies investment agreement with Mr. Wang Chao Jiu. Mr. Wang and his team invest to Hangzhou New Shibao with their technologies valued at RMB18 million. Meanwhile, the Company increases its investment in Hangzhou New Shibao by RMB2 million in cash. The relevant industrial and commercial registration procedures regarding the aforesaid investment and increase of capital have been completed. After then, the registered capital of Hangzhou New Shibao is RMB60 million, where as the Company holds 70% of the shares and Mr. Wang, representing himself and his team, holds 30% of the shares.

The above two transactions with Beijing Autonic and Mr. Wang Chao Jiu with his team, all being independent third parties, respectively are not notifiable transactions pursuant to both Chapter 19 of the Rules Governing the Listing of Securities on the GEM and Chapter 14 of the Rules Governing the Listing of Securities on the Exchange (the “Main Board Listing Rules”).

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2010, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk. No hedge arrangement has been entered into by the Group.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

The Group had a total of 1,592 employees as at 31 December 2010 (2009: 1,179).

For the year ended 31 December 2010, total salaries and welfares costs of the employees amounted to approximately RMB62,957,000 (2009: approximately RMB42,427,000). 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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

The Audit Committee has three members, namely Mr. Chau Kam Wing, Donald, Mr. 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 2010 have been reviewed by the Audit Committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has been in compliance with the code provisions set out in Appendix 14 "Code on Corporate Governance Practices" of the Main Board Listing Rules, except for the following:

Pursuant to Rule A.2.1 of the Code on Corporate Governance Practices, the roles of the chairman and the chief executive should be separated, and should not be undertaken by the same individual. Mr. Zhang Shi Quan was the Company's Chairman and General Manager during the year under review. Mr. Zhang Shi Quan was the founder of the Group, overlooking the overall strategic plans, business development and new product sales and marketing strategies. In view of the business nature of the Company, the Board considered that the present management structure arrangement were effective to respond to market changes and finalization of strategic plans. The Board will review the efficiency of such management structure arrangement from time to time.

MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 "Model Code for Securities Transactions by Directors of Listed Issuer" of the Main Board 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.

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

Hangzhou, Zhejiang, the PRC
18 March 2011

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

This announcement is available on the Exchange's website (http://www.hkexnews.hk) and also on the Company's website (http://www.zjshibao.com).