**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 2011

## FINANCIAL SUMMARY

- Revenue of the Group amounted to RMB625,917,119.21, an increase of 14.65% compared with RMB545,943,926.52 in 2010.
- Net profit of the Group amounted to RMB110,647,997.28, an increase of 6.05% compared with RMB104,339,149.32 in 2010.
- Net profit attributable to equity holders of the Parent amounted to RMB112,872,143.11, an increase of 9.16% compared with RMB103,403,049.81 in 2010.
- Basic earnings per share was RMB0.43, an increase of 10.26% compared with RMB0.39 in 2010.
- The Board recommended payment of a final dividend of RMB0.10 per share, dividend payout ratio of approximately 23.26%.

** For identification purpose only*

## AUDITED ANNUAL RESULTS

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 2011 prepared pursuant to China Accounting Standards for Business Enterprises, together with the comparative figures in 2010. The consolidated annual results for 2011 have been reviewed by the Company's audit committee.

## I. FINANCIAL INFORMATION

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

**CONSOLIDATED BALANCE SHEET**

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

| Liabilities and Shareholders' Equity | Note 4 | 31 December 2011 | 31 December 2010 (Restated) |
|---|---|---|---|
| Current Liabilities | | | |
| Short-term loans | 5 | 114,079,832.00 | 30,000,000.00 |
| Bills payable | 6 | 14,771,590.00 | 14,730,000.00 |
| Accounts payable | 7 | 165,119,836.40 | 119,447,751.59 |
| Receipts in advance | | 2,235,262.83 | 1,104,151.26 |
| Staff cost payable | | 3,524,754.51 | 8,737,908.35 |
| Taxes payable | | 5,743,037.16 | 12,958,662.68 |
| Interests payable | | 1,366,471.76 | 1,167,729.19 |
| Other payables | | 951,788.17 | 3,721,551.24 |
| Non-current liabilities due within one year | 8 | 13,000,000.00 | 5,000,000.00 |
| Other current liabilities | | 10,653,379.56 | 10,644,849.00 |
| Total current liabilities | | 331,445,952.39 | 207,512,603.31 |
| Non-current Liabilities | | | |
| Long-term borrowings | 9 | 30,020,400.00 | 20,090,000.00 |
| Deferred income tax liabilities | | 1,698,208.33 | 1,890,458.33 |
| Other non-current liabilities | | 26,202,378.62 | 4,748,573.33 |
| Total non-current liabilities | | 57,920,986.95 | 26,729,031.66 |
| Total Liabilities | | 389,366,939.34 | 234,241,634.97 |
| Shareholders' Equity | | | |
| Share capital | 10 | 262,657,855.00 | 262,657,855.00 |
| Capital reserve | | 27,587,397.23 | 27,500,772.59 |
| Statutory reserve funds | | 95,087,541.52 | 84,961,353.85 |
| Retained earnings | | 256,035,761.06 | 176,929,012.57 |
| Equity attributable to equity holders of the Parent | | 641,368,554.81 | 552,048,994.01 |
| Minority interests | 11 | 20,616,303.73 | 24,727,074.20 |
| Total Shareholders' Equity | | 661,984,858.54 | 576,776,068.21 |
| Total Liabilities and Shareholders' Equity | | 1,051,351,797.88 | 811,017,703.18 |

**CONSOLIDATED INCOME STATEMENT**

| | Note 4 | 2011 | 2010 (Restated) |
|---|---|---|---|
| Revenue | 12 | 625,917,119.21 | 545,943,926.52 |
| Less: Operating costs | 12 | 403,887,118.40 | 349,894,180.37 |
| Business taxes and surcharges | | 5,156,884.62 | 1,599,061.69 |
| Selling expenses | 13 | 35,881,539.03 | 37,508,370.58 |
| General and administrative expenses | 14 | 54,553,179.60 | 43,877,501.37 |
| Financial expenses/(income) | 15 | 5,694,893.68 | 516,006.87 |
| Assets impairment losses | | (1,014,037.16) | (1,522,528.50) |
| Add: Investment gain/(losses) | 16 | (127,683.62) | 1,146,008.13 |
| Including: Share of gain/(losses) from associates | | (127,683.62) | 1,146,008.13 |
| Operating profit | | 121,629,857.42 | 115,217,342.27 |
| Add: Non-operating income | 17 | 5,406,050.02 | 4,469,816.98 |
| Less: Non-operating expenses | 18 | 1,141,411.63 | 1,025,627.63 |
| Including: Loss on disposal of non-current assets | | 318,526.97 | 126,458.03 |
| Total profit | | 125,894,495.81 | 118,661,531.62 |
| Less: Income tax expenses | 19 | 15,246,498.53 | 14,322,382.30 |
| Net Profit | | 110,647,997.28 | 104,339,149.32 |
| Net profit attributable to equity holders of the Parent | | 112,872,143.11 | 103,403,049.81 |
| Minority interests | | (2,224,145.83) | 936,099.51 |
| Earnings per share | | | |
| Basic earnings per share | 20 | 0.43 | 0.39 |
| Diluted earnings per share | 20 | 0.43 | 0.39 |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 110,647,997.28 | 104,339,149.32 |
| Including: | | | |
| Total comprehensive income attributable to equity holders of the Parent | | 112,872,143.11 | 103,403,049.81 |
| Total comprehensive income attributable to minority shareholders | | (2,224,145.83) | 936,099.51 |

## II . NOTES TO THE FINANCIAL STATEMENTS

### (I) Significant accounting policies and accounting estimates

### 1. Basis of preparation of financial statements

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

The Company’s financial statements were used to be prepared in accordance with HKFRS for information disclosure purposes on the Stock Exchange. According to the ‘‘Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong’’ published by the Stock Exchange in December 2010, with effect from this financial year, the Company decided to adopt the ‘‘Accounting Standards for Business Enterprises’’ and related regulations issued by the China Ministry of Finance for the preparation of its financial statements.

These financial statements are presented on the going concern basis.

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

### 2. Statement of compliance with the Accounting Standards for Business Enterprises

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

### 3. Accounting Year

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

### 4. Functional currency

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

## (II) Taxation

### 1. Major taxes and tax rates

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

### 2. Tax concession and approval documents

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

According to the Document (Zhe Ke Fa Gao [2008] No.250) issued by the Department of Science and Technology, the Department of Finance, the Bureau of State Taxation and the Bureau of Local Taxation of Zhejiang province, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd., a subsidiary of the Company, was recognized as a high-tech enterprise, and was subject to an enterprise income tax rate of 15% from 2008 to 2010. In 2011, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. passed the qualification re-assessment as a high-tech enterprise and is subject to an income tax rate of 15% from 2011 to 2013.

## (III) Consolidation scope of consolidated financial statements

### 1. Particulars of subsidiaries

| Name of subsidiaries | Place of registration | Business scope | Represent-ative | Registered capital ('000) | Investment amount ('000) | Shareholding percent. As at 31 December 2011 Direct (%) | Shareholding percent. As at 31 December 2011 Indirect (%) | Shareholding percent. As at 31 December 2010 Direct (%) | Shareholding percent. As at 31 December 2010 Indirect (%) | Organizat-ion code |
|---|---|---|---|---|---|---|---|---|---|---|
| Siping Steering Gear Co., Ltd. ("Siping Steering") | Siping City | Manufacture of power steering gears, steering knuckles for sedans, and automotive parts and components | Zhang Shi Quan | 11,000 | 8,250 | 75 | - | 75 | - | 70221708-7 |
| Hangzhou Shibao Auto Steering Gear Co., Ltd. ("Hangzhou Shibao") | Hangzhou City (Note 1) | Manufacture of steering gear and automotive parts and components | Zhang Shi Quan | 40,000 | 40,000 | 100 | - | 99 | - | 25392555-4 |
| Hangzhou New Shibao Electric Power Steering Co., Ltd. ("Hangzhou New Shibao") | Hangzhou City (Note 2) | Sales of steering gears components and other components for automobiles | Zhang Bao Yi | 60,000 | 42,000 | 70 | - | 70 | - | 76823319-4 |
| Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao") | Siping City | Processing of stamping machinery, manufacture and sales of automotive parts and components, sales of metal materials, electro-mechanical products and electronic products, as well as casting and forging | Tang Hao Han | 30,000 | 30,000 | 100 | - | 100 | - | 67730447-9 |
| Beijing Autonic Technologies Co., Ltd. ("Beijing Autonic") | Beijing City (Note 3) | Technology development | Zhang Bao Yi | 10,000 | 7,000 | 70 | - | 70 | - | 77861581-5 |

Notes:

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

(2) On 12 December 2010, the Company increased its investment in Hangzhou New Shibao, the registered capital of which increased from RMB40 million to RMB60 million, representing an increase of RMB20 million. Among which, the Company increased its investment by RMB2 million to RMB42 million, representing 70% of the revised registered capital, and Mr. Wang Chao Jiu invested in Hangzhou New Shibao with non-patented proprietary technology valued at RMB18 million, representing 30% of the revised registered capital.

(3) Beijing Autonic was the acquiree of the Group in 2010, not involving enterprises under common control.

## (IV) Notes to the major items of the consolidated financial statements

### 1. Cash on hand and at bank

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Total cash on hand and at bank | 43,234,111.34 | 65,301,493.65 |
| Less: Restricted cash on hand and at bank (note) | 2,522,130.61 | 16,363,229.50 |
| Cash and cash equivalents | 40,711,980.73 | 48,938,264.15 |

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

### 2. Bills receivable

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

As at 31 December 2011 and 31 December 2010, the Group had bills receivable converted to accounts receivables, because of the drawer's inability to perform.

As at 31 December 2011, bills receivable with carrying value of RMB43,710,760.44 has been endorsed to the other party, but not yet expired (31 December 2010: Nil).

As at 31 December 2011, bills receivable with carrying value of RMB11,006,590.00 has been pledged to obtain bills payable (31 December 2010: Nil).

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

### 3. Accounts receivable

The ageing analysis of accounts receivable is as follows:

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

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

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

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 balance are reviewed regularly by senior management.

## 4. Investment in associates

The main informations for the associates of the Group are as follows:

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

The Company previously held 36% of equity of Wuhu Sterling. On 8 April 2011, the Company and Sun Ya Hong (one of the shareholders of Wuhu Sterling) entered into an equity transfer agreement, pursuant to which Sun Ya Hong agreed to transfer 10% of the equity of Wuhu Sterling to the Company, the total consideration was RMB4,840,000.00 in cash. Meanwhile, the Company assumed the relevant tax and expenses arising from equity transfer, amounting to RMB569,936.00. Sun Ya Hong transferred the remaining 5% of equity to another shareholder of Wuhu Sterling, Wuhu Qirui Technology Co., Ltd. Pursuant to the equity transfer agreement, the major shareholder rights and obligations in relation to the target equity shall be assumed by the Company since the date when the Company completed the payment of the equity transfer proceedings. Wuhu Sterling completed the change of industrial and commercial registration on 24 October 2011. The Company paid the transfer consideration in full on 21 November 2011. As at 31 December 2011, the Company held 46% of equity in Wuhu Sterling.

## 5. Short-term loans

| | **31 December 2011** | **31 December 2010** (Restated) |
|---|---|---|
| Guaranteed loans | 60,000,000.00 | 30,000,000.00 |
| Secured loans | 25,000,000.00 | - |
| Pledged loans | 4,079,832.00 | - |
| Credit loans | 25,000,000.00 | - |
| | 114,079,832.00 | 30,000,000.00 |

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

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

### 6. Bills payable

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

Bills payables was non-interest-bearing and normally settled on terms of six months to one year.

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

### 7. Accounts payable

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

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

As at 31 December 2011, the Group had no significant balance of accounts payable which was aged over one year.

### 8. Non-current liabilities due within one year

| | 31 December 2011 | 31 December 2010 (Restated) |
|---|---|---|
| Long-term borrowings due within one year - guaranteed loans | 13,000,000.00 | 5,000,000.00 |

Jilin Shibao Machinery Manufacturing Co., Ltd. obtained a loan of RMB20,000,000.00 from the Siping Branch of China Construction Bank on 1 December 2010, the annual interest rate of which was 5.96% to 6.90%, and it was secured by Siping Steering Gear Co., Ltd.. Among such amount, RMB5,000,000.00 was due and repaid on 30 November 2011, RMB13,000,000.00 will be due for repayment on 30 November 2012, and the remaining RMB2,000,000.00 will be due for repayment on 30 November 2013.

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

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

## 9. Long-term borrowings

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

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

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

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

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

Special fund for treasury bond refers to the loan under the special fund for treasury bond on the state key projects of technological transformation granted by the Siping Municipal Bureau of Finance. The borrowings from Management Committee of Tiedong Economic Development Zone of Siping refers to the capital loan for Jilin Shibao to expand production.

## 10. Share capital

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

## 11. Minority interests

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

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

## 12. Revenue and costs

Revenue is as follows:

| | **2011** | **2010** (Restated) |
|---|---|---|
| Revenue from main business | 623,423,137.12 | 545,344,703.15 |
| Revenue from other business | 2,493,982.09 | 599,223.37 |
| | 625,917,119.21 | 545,943,926.52 |

Costs is as follows:

| | **2011** | **2010** (Restated) |
|---|---|---|
| Costs from main business | 403,659,490.72 | 349,794,180.37 |
| Costs from other business | 227,627.68 | 100,000.00 |
| | 403,887,118.40 | 349,894,180.37 |

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

Principal operations by products are as follows:

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

## 13. Selling expenses

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

## 14. General and administrative expenses

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

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

## 15. Financial expenses/(income)

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

## 16. Investment gains/(losses)

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

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

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

## 17. Non-operating income

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

## 18. Non-operating expenses

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

## 19. Income tax expenses

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

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

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

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

## 20. Earnings per share

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

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

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

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

## (V) Operating segment information

### Operating segment

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

### Other information

**<u>Geographical information</u>**

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

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

## (VI) Related party relationships and transactions

1. **Parent company**

| Name | Place of registrat-ion | Corpor-ate type | Corporate represent-ative | Business nature | Re-gistered capital | Share-holding percent. in the Company | Voting proportion in the Company | Organiz-ation code |
|---|---|---|---|---|---|---|---|---|
| Zhejiang Shibao Holding Group Co., Ltd. | Yiwu City | Limited liability | Zhang Shi Zhong | Industrial investment | 50 million | 62.97% | 62.97% | 75193535 -X |

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

2. **Subsidiary**

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

3. **Associate**

Associates are listed in Note (IV)4.

4. **Other related parties**

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

## 5. Major transactions between the Group and related parties

(1) Transactions of goods and services with related parties

*Purchase of goods from related parties*

| | **2011** | **2010** |
|---|---|---|
| Wuhu Sterling | 698,434.95 | 3,886,042.00 |

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

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

*Sales of goods to related parties*

| | **2011** | **2010** |
|---|---|---|
| Wuhu Sterling | 36,750,390.25 | 27,573,702.91 |

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

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

(2) Equity transactions with related parties

*Purchase of equity from related parties*

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

(3) Guarantee with related parties

Receipt of guarantee from related parties

31 December 2011

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

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

Provision of guarantee to related parties

31 December 2011

| | Guaranted amount | Commencement date of guarantee | Expiry date of guarantee | Guarantee fully fulfilled |
|---|---|---|---|---|
| Wuhu Sterling | 10,000,000 | 19-Jan-2011 | 18-Jan-2012 | No |

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

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

(4) Other related transactions

| | **2011** | **2010** (Restated) |
|---|---|---|
| Key managerial personnel remuneration | 2,394,592.14 | 1,866,107.00 |

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

| | **2011** | **2010** |
|---|---|---|
| **Accounts receivable** | | |
| Wuhu Sterling | 25,391,425.25 | 17,063,803.27 |

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

**(VII) Commitments**

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

## III. FINAL DIVIDEND

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

The Company will submit a proposal for the distribution of final cash dividends at the forthcoming annual general meeting. Subject to the approval by the shareholders, the Company is expected to distribute the Final Dividend to shareholders, whose names are listed on the register of members as at Wednesday 30 May 2012 (the "Record Date"), on or about 22 June 2012.

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

**Withholding and payment of income tax on final dividend**

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

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

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

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

- For Individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders in the distribution of Final Dividend;

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

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of the Individual H Shareholders in the distribution of Final Dividend; and

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

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

## IV. MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

### AUTOMOBILE MANUFACTURE AND SALES

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

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

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

### TREND OF THE CHINA AUTOMOTIVE STEERING INDUSTRY

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

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

## BUSINESS REVIEW

### OPERATING RESULTS

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

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

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

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

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

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

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

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

## MARKETING AND NEW PRODUCTS

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

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

## PRODUCTION FACILITIES

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

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

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

## RESEARCH AND DEVELOPMENT

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

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

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

## FINANCIAL REVIEW

### REVENUE

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

### GROSS PROFIT AND GROSS PROFIT MARGIN

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

### NON-OPERATING INCOME

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

### SELLING EXPENSES

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

### GENERAL AND ADMINISTRATIVE EXPENSES

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

## FINANCIAL EXPENSES

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

## RESEARCH AND DEVELOPMENT EXPENSES

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

## NET PROFIT AND NET PROFIT MARGIN

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

## LIQUIDITY AND FINANCIAL RESOURCES

## LIQUIDITY RATIOS

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

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

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

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

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

**CAPITAL STRUCTURE**

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

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

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

**PLEDGE OF ASSETS**

As at 30 June 2011, the restricted cash on hand and at bank of the Group was RMB2,522,130.61 (31 December 2010: RMB16,363,229.50) which refers to the deposits for issuance of bank bills and letters of credit.

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

**MATERIAL ACQUISITIONS AND DISPOSALS**

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

**FOREIGN CURRENCY EXPOSURE**

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

**OUTLOOK**

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

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

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

## V. OTHER MATTERS

**PROPOSED ISSUE OF A SHARES**

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

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

**INCREASE IN EQUITY IN AN ASSOCIATE WUHU STERLING**

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

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

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

## VI. CODE ON CORPORATE GOVERNANCE PRACTICES

In 2011, the Group had been in compliance with the majority of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, with the exception of Rule A.2.1 of the Code on Corporate Governance Practices stating that the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual.

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

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

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

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

Hangzhou, Zhejiang, the PRC
16 March 2012

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

*This announcement will be posted on the Stock Exchange website (http://www.hkexnews.hk) and the Company website (http://www.zjshibao.com).*