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 2012

FINANCIAL SUMMARY

- Revenue of the Group was RMB548,384,676.25, a decrease of 12.39% as compared with RMB625,917,119.21 in 2011.
- Gross profit margin of the Group was 30.74%, a decrease of 4.96% as compared with 35.47% in 2011.
- Net profit attributable to equity holders of the Parent was RMB72,127,189.72, a decrease of 36.10% as compared with RMB112,872,143.11 in 2011.
- Basic earnings per share was RMB0.27, a decrease of 37.21% as compared with RMB0.43 in 2011.
- The Board recommended the payment of a final dividend of RMB0.08 per share, dividend payout ratio of approximately 30.80%.

** For identification purpose only*

AUDITED ANNUAL RESULTS

The board of directors ("Board") of Zhejiang Shibao Company Limited ("Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 December 2012 prepared pursuant to China Accounting Standards for Business Enterprises, together with the comparative figures in 2011. The consolidated annual results for 2012 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 2012**	**31 December 2011**
Current Assets			
Cash on hand and at bank	1	78,543,676.91	43,234,111.34
Notes receivable	2	117,298,613.04	137,538,266.04
Accounts receivable	3	285,788,006.40	203,618,895.42
Prepayments		7,492,521.04	6,354,952.61
Other receivables		8,858,237.88	9,216,366.98
Inventories		136,467,615.08	122,418,117.92
Available-for-sale financial assets		4,000,000.00	-
Other current assets		1,224,181.63	1,876,410.23
Total current assets		639,672,851.98	524,257,120.54
Non-current Assets			
Long-term equity investments		9,376,207.19	11,696,900.10
Fixed assets		352,252,860.50	290,304,220.05
Construction in progress		92,861,833.52	140,976,414.81
Intangible assets		70,278,922.57	74,352,887.70
Goodwill		-	-
Deferred income tax assets		3,540,202.68	1,525,065.14
Other non-current assets		14,255,150.05	8,239,189.54
Total non-current assets		542,565,176.51	527,094,677.34
Total Assets		1,182,238,028.49	1,051,351,797.88

Liabilities and Shareholders' Equity	Note 4	31 December 2012	31 December 2011
Current Liabilities			
Short-term loans	5	191,500,000.00	114,079,832.00
Notes payable	6	19,849,353.45	14,771,590.00
Accounts payable	7	163,609,486.56	165,119,836.40
Receipts in advance		2,280,342.43	2,235,262.83
Staff cost payable		4,214,108.09	3,524,754.51
Taxes payable		(2,571,272.18)	5,743,037.16
Interests payable		1,497,183.50	1,366,471.76
Other payables		831,632.70	951,788.17
Non-current liabilities due within one year	8	13,790,400.00	13,000,000.00
Other current liabilities		8,290,557.10	10,653,379.56
Total current liabilities		403,291,791.65	331,445,952.39
Non-current Liabilities			
Long-term borrowings	9	15,630,000.00	30,020,400.00
Deferred income tax liabilities		1,505,958.33	1,698,208.33
Other non-current liabilities		27,984,418.23	26,202,378.62
Total non-current liabilities		45,120,376.56	57,920,986.95
Total Liabilities		448,412,168.21	389,366,939.34
Shareholders' Equity			
Share capital	10	277,657,855.00	262,657,855.00
Capital reserve		42,299,204.72	27,587,397.23
Surplus reserve		107,210,809.82	95,087,541.52
Retained earnings		289,773,896.98	256,035,761.06
Equity attributable to equity holders of the Parent		716,941,766.52	641,368,554.81
Minority interests	14	16,884,093.76	20,616,303.73
Total Shareholders' Equity		733,825,860.28	661,984,858.54
Total Liabilities and Shareholders' Equity		1,182,238,028.49	1,051,351,797.88

CONSOLIDATED INCOME STATEMENT

	Note 4	2012	2011
Revenue	15	548,384,676.25	625,917,119.21
Less: Operating costs	15	379,802,713.65	403,887,118.40
Business taxes and surcharges		3,427,055.31	5,156,884.62
Selling expenses	16	33,163,289.07	35,881,539.03
General and administrative expenses	17	61,988,355.05	54,553,179.60
Financial expenses/(income)	18	8,569,382.77	5,694,893.68
Assets impairment losses		(1,981,818.96)	(1,014,037.16)
Add: Investment gains/(losses)	19	(2,320,296.63)	(127,683.62)
Including: Share of gains/(losses) from associates		(2,320,296.63)	(127,683.62)
Operating profit		61,095,402.73	121,629,857.42
Add: Non-operating income	20	20,899,618.87	5,406,050.02
Less: Non-operating expenses	21	2,498,499.60	1,141,411.63
Including: Loss on disposal of non-current assets		163,092.08	318,526.97
Total profit		79,496,522.00	125,894,495.81
Less: Income tax expenses	22	10,601,542.25	15,246,498.53
Net Profit		68,894,979.75	110,647,997.28
Net profit attributable to equity holders of the Parent		72,127,189.72	112,872,143.11
Minority interests		(3,232,209.97)	(2,224,145.83)
Earnings per share			
Basic earnings per share	24	0.27	0.43
Diluted earnings per share	24	0.27	0.43
Other comprehensive income		-	-
Total comprehensive income		68,894,979.75	110,647,997.28
Including:			
Total comprehensive income attributable to equity holders of the Parent		72,127,189.72	112,872,143.11
Total comprehensive income attributable to minority shareholders		(3,232,209.97)	(2,224,145.83)

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, "Accounting Standards for Business Enterprises") ("企業會計準則") issued by the Ministry of Finance of PRC in February 2006.

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.

There is no significant change in the accounting policies of the Group in the preparation of these financial statements.

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 2012 and their operating results and cash flows for the year 2012.

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 in Renminbi, 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. ("Siping Steering"), 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. In 2012, Siping Steering was re-accepted for the qualifications as a high-tech enterprise and is subjected to an income tax rate of 15% from 2012 to 2014.

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. ("Hangzhou Shibao"), 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 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	Representative	Registered capital ('000)	Investment amount ('000)	Shareholding percent. As at 31 December 2012 Direct (%)	Shareholding percent. As at 31 December 2012 Indirect (%)	Shareholding percent. As at 31 December 2011 Direct (%)	Shareholding percent. As at 31 December 2011 Indirect (%)	Organization 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	-	100	-	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 2012	31 December 2011
Total cash on hand and at bank	78,543,676.91	43,234,111.34
Less: Restricted cash on hand and at bank (note)	1,770,509.77	2,522,130.61
Cash and cash equivalents	76,773,167.14	40,711,980.73

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

2. Notes receivable

	31 December 2012	31 December 2011
Banker's acceptances	117,298,613.04	137,538,266.04

As at 31 December 2012 and 31 December 2011, the Group had no notes receivable converted to accounts receivables, because of the drawer's inability to perform.

As at 31 December 2012, notes receivable with carrying value of RMB32,149,000.00 has been endorsed to the other party, but not yet expired (31 December 2011: RMB 43,710,760.44).

As at 31 December 2012, notes receivable with carrying value of RMB11,523,006.00 has been pledged to obtain notes payable (31 December 2011: RMB11,006,590.00).

As at 31 December 2012, no banker's acceptances has been discounted to obtain short-term loans (31 December 2011: RMB 4,079,832.00).

3. Accounts receivable

The ageing analysis of accounts receivable is as follows:

	31 December 2012	31 December 2011
Within 1 year	282,502,420.92	199,521,502.26
1-2 years	1,476,642.22	3,459,272.27
2-3 years	1,678,563.32	550,022.61
Over 3 years	1,005,001.22	2,378,172.51
	286,662,627.68	205,908,969.65
Less: Provision for impairment	(874,621.28)	(2,290,074.23)
	285,788,006.40	203,618,895.42

As at 31 December 2012 and 31 December 2011, the Group had no accounts receivable from the shareholders or related parties holding 5% (inclusive) or more voting rights of the Company.

As at 31 December 2012 and 31 December 2011, an amount due from a related party is as follows:

	31 December 2012	31 December 2011
Wuhu Sterling Steering System Co., Ltd.	26,566,905.16	25,391,425.25

On 9 October 2011, a loan of RMB30,000,000.00 was secured by the accounts receivable of the Company, which applied domestic factoring of recourse rights with Yiwu branch of ICBC.

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 in 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 in 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 Chery Technology Co., Ltd. ("Chery Technology"). 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.

On 30 January 2013, the Company entered into the Equity Transfer Contract with Chery Technology, the existing shareholder of Wuhu Sterling, pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000.00; at the same time, the Company increased its capital contribution to Wuhu Sterling and entered into the Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company will increase its investment by RMB7,000,000.00, of which RMB2,800,000.00 is contributed as registered capital and RMB4,200,000.00 is contributed as capital surplus. Upon the completion of the Transactions, the registered capital of Wuhu Sterling will be increased to RMB22,800,000.00, among which registered capital of RMB13,200,000.00 from the Company representing 57.89% of equity interests; registered capital of RMB6,600,000.00 from Chery Technology representing 28.95% of equity interests; registered capital of RMB3,000,000.00 from An Qing Hui representing 13.16% of equity interests. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets.

As at 31 December 2012 and 31 December 2011, the Company held 46% of the equity interests in Wuhu Sterling.

5. Short-term loans

	31 December 2012	31 December 2011
Guaranteed loans	126,500,000.00	60,000,000.00
Secured loans	-	25,000,000.00
Pledged loans	-	4,079,832.00
Credit loans	65,000,000.00	25,000,000.00
	191,500,000.00	114,079,832.00

As at 31 December 2012, interest rates for above loans were between 6.00% to 6.56% per year (31 December 2011: 5.85%-8.50%)

As at 31 December 2012 and 31 December 2011, the Group had no short-term loans which was past due but remained unpaid.

6. Notes payable

As at 31 December 2012 and 31 December 2011, all notes payables of the Group were banker's acceptances.

Notes payables was non-interest-bearing and normally settled on terms of six months.

As at 31 December 2012 and 31 December 2011, all notes payables of the Group would be due in the next accounting year.

7. Accounts payable

	31 December 2012	31 December 2011
Within 1 year	153,244,102.50	158,573,598.72
1-2 years	7,262,957.72	3,781,087.89
2-3 years	1,128,525.17	931,376.11
Over 3 years	1,973,901.17	1,833,773.68
	163,609,486.56	165,119,836.40

As at 31 December 2012 and 31 December 2011, the Group had no accounts payable to the shareholders or related parties holding 5% (inclusive) or more voting rights of the Company.

8. Non-current liabilities due within one year

	31 December 2012	31 December 2011
Long-term borrowings due within one year		
- Guaranteed loans	13,000,000.00	13,000,000.00
- Credit loans	790,400.00	-
	13,790,400.00	13,000,000.00

Jilin Shibao obtained a loan of RMB20,000,000.00 from the Siping Branch of China Construction Bank on 1 December 2010, and a loan of RMB15,000,000.00 from the Siping Branch of China Construction Bank on 20 May 2011, the annual interest rate of which was 8.28%, and it was secured by Siping Steering. Among such amount, RMB5,000,000.00 was due and repaid on 30 November 2011, RMB13,000,000.00 was due and repaid on 16 November 2012, RMB13,000,000.00 will be due for repayment on 30 November 2013, and the remaining RMB4,000,000.00 will be due for repayment on 30 November 2014.

On 1 January 2002, Siping Steering obtained a loan of RMB2,260,000.00 under the special fund for treasury bond on the state key projects of technological transformation by the Siping Municipal Bureau of Finance, for a term of 15 years, with a grace period of 4 years, the annual interest rate of which was 5%. Among such amount, RMB869,600.00 was repaid on 30 December 2011, RMB600,000.00 was repaid on 30 December 2012 and the remaining RMB790,400.00 will be repaid according to the requirement of the Finance Bureau of Siping.

As at 31 December 2012 and 31 December 2011, 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 2012 and 31 December 2011, the Group had no long-term borrowings which was past due but remained unpaid.

9. Long-term borrowings

	31 December 2012				
	Currency	Amount	Conditions	Interest rate	Maturity date
Special fund for treasury bond	RMB	2,830,000.00	Credit borrowings	5.00%	31-Dec-2020
China Construction Bank	RMB	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		15,630,000.00			
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	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			
		===========			

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

	31 December 2012	**31 December 2011**
Long-term borrowings:		
Due within 1 year or payable on demand	13,790,400.00	13,000,000.00
Due within 2 years	12,800,000.00	13,000,000.00
Due within 3 to 5 years, inclusive	-	14,190,400.00
Over 5 Years	2,830,000.00	2,830,000.00
	29,420,400.00	43,020,400.00

As at 31 December 2012 and 31 December 2011, 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 2012	31 December 2011
Registered and paid-in capital	277,657,855.00	262,657,855.00
Nominal value per share	1	1

The types and structure of the shares are as follows:

	At beginning of year	Issue of new shares	At end of year
Shares with selling restrictions			
Shares held by domestic legal person	165,387,223.00	-	165,387,223.00
Shares held by domestic natural person	10,556,632.00	-	10,556,632.00
Shares with selling restrictions, in aggregate	175,943,855.00	-	175,943,855.00
Shares without selling restrictions			
RMB-donominated ordinary shares	-	15,000,000.00	15,000,000.00
Overseas listed foreign shares	86,714,000.00	-	86,714,000.00
Shares without selling restrictions, in aggregate	86,714,000.00	15,000,000.00	101,714,000.00
Total number of shares	262,657,855.00	15,000,000.00	277,657,855.00

With the approval regarding "Reply Relating to the Approval of the Initial Public Offering of Zhejiang Shibao Company Limited" (CSRC Approval [2012] No.898) by China Securities Regulatory Commission, the Company commenced the initial public offering of RMB-denominated ordinary shares (A Shares) in November 2012, and was listed on the SME Board of Shenzhen Stock Exchange. The offer size is 15,000,000 shares with nominal value of RMB1 each. The issue price is RMB2.58 per share. The aggregate subscription by shareholders upon the issue was RMB38,700,000.00. After deducting the underwriting commissions of securities dealers and other issuance costs incurred, the actual net proceeds raised amounting to RMB29,711,807.49, of which RMB15,000,000.00 was credited to share capital, and share premium of RMB 14,711,807.49 was credited to capital reserve. Following the issue, the total share capital of the Company increased from RMB262,657,855.00 to RMB277,657,855.00. The net proceeds raised from the issue will be applied to the increase of production of power automotive steering gears project (汽車液壓助力轉向器擴產項目), the precious casting and processing of automotive components project (汽車零件部精密鑄件及加工建設項目) and the research and development, examination and inspection and trial production centre of automotive steering gear system project (汽車轉向系統研發、檢測及試製中心項目). The capital increase was verified by Shulun Pan Certified Public Accountants (Special General Partnership) and a capital verification report Xinkuaishibaozi [2012] No.310403 was issued.

11. Retained earnings

	31 December 2012	31 December 2011
Retained earnings at beginning of the year	256,035,761.06	176,929,012.57
Net profit attributable to equity holders of the parent	72,127,189.72	112,872,143.11
Less: Transfer to statutory reserve funds	12,123,268.30	10,126,187.67
Cash dividends payable (note)	26,265,785.50	23,639,206.95
	289,773,896.98	256,035,761.06

Note: cash dividends for the previous year were approved at the 2011 and 2012 general meetings.

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

Pursuant to the resolution of the board of the Company dated 16 March 2012, a cash dividend of RMB0.10 per share based on 262,657,855 shares in total with a nominal value of RMB1 each was paid to all shareholders, which was approved and passed at the 2012 general meeting. The dividend was paid in the mid of year 2012 and reflected in the financial statements for year 2012.

Pursuant to the resolution passed by the Board on 22 March 2013, it was proposed by the Board to distribute cash dividend to all shareholders of RMB0.08 per share. On the basis of 277,657,855 shares in total (at nominal value of RMB1 each), cash dividend of RMB22,212,628.40 would be distributed in total. The recommendation above was subject to the approval by the shareholders in the general meeting, and would not be classified as a liability of the Company prior to the approval in the general meeting. Therefore the amount was not reflected in the financial statements this year.

12. Net current assets

	31 December 2012	31 December 2011
Current assets	639,672,851.98	524,257,120.54
Less: Current liabilities	403,291,791.65	331,445,952.39
	236,381,060.33	192,811,168.15

13. Total assets less current liabilities

	31 December 2012	31 December 2011
Total assets	1,182,238,028.49	1,051,351,797.88
Less: Current liabilities	403,291,791.65	331,445,952.39
	778,946,236.84	719,905,845.49

14. Minority interests

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

	31 December 2012	31 December 2011
Siping Steering	3,250,000.00	3,250,000.00
Beijing Autonic	2,413,637.05	2,246,301.85
Hangzhou New Shibao	11,220,456.71	15,120,001.88
	16,884,093.76	20,616,303.73

15. Revenue and costs

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

Revenue is as follows:

	2012	2011
Revenue from main business	544,845,899.31	623,423,137.12
Revenue from other business	3,538,776.94	2,493,982.09
	548,384,676.25	625,917,119.21

Costs is as follows:

	2012	2011
Costs from main business	379,244,389.43	403,659,490.72
Costs from other business	558,324.22	227,627.68
	379,802,713.65	403,887,118.40

The above operating costs include depreciation and amortization expenses amounting to RMB26,107,898.55 (2011: RMB24,469,015.93).

Principal operations by products are as follows:

	2012		2011	
	Revenue	Costs	Revenue	Costs
Power recirculating ball steering gears and its components	213,423,648.48	151,122,187.72	262,191,095.26	178,956,835.39
Steering knuckles	74,888,408.24	45,497,404.35	134,406,458.54	80,868,082.74
Power rack-and-pinion steering gears	154,490,019.42	101,843,634.36	151,018,295.02	94,618,115.69
Manual recirculating ball steering gears	11,814,602.21	10,444,497.00	10,691,736.74	9,205,886.64
Spare parts and others	90,229,220.96	70,336,666.00	65,115,551.56	40,010,570.26
	544,845,899.31	379,244,389.43	623,423,137.12	403,659,490.72

16. Selling expenses

	2012	2011
Transportation cost	12,266,563.88	13,302,721.96
Wage, welfare and bonus	5,885,182.91	6,704,375.05
Warranty fee	5,997,980.67	7,842,173.66
Travelling expenses	3,727,388.24	3,167,263.24
Entertainment charge	1,675,782.29	1,906,139.46
Depreciation of fixed assets	422,577.51	361,038.43
Others	3,187,813.57	2,597,827.23
	33,163,289.07	35,881,539.03

17. General and administrative expenses

	2012	2011
Wage, welfare and bonus	20,905,578.42	15,874,276.14
Including: Basic pension insurance	5,032,614.43	4,148,052.41
Medical insurance	3,906,591.70	2,343,718.38
Unemployment insurance	439,864.02	226,490.01
Work injury insurance	218,392.34	58,627.12
Maternity insurance	195,193.53	127,805.91
Research and development expenses	16,292,793.29	14,678,574.46
Office cost	4,931,987.67	4,254,776.26
Professional service fee	4,179,706.83	2,943,977.12
Depreciation of fixed assets	4,231,054.40	3,801,084.97
Amortization of intangible assets	3,925,136.65	4,043,308.92
Other taxation	3,545,068.97	3,280,687.13
Travelling expenses	1,735,350.92	1,571,936.46
Entertainment charge	1,087,109.84	955,116.36
Others	1,154,568.06	3,149,441.78
	61,988,355.05	54,553,179.60

The above general and administrative expenses include auditor's remuneration amounting to RMB1,000,000.00 (2011: RMB1,200,000.00).

18. Financial expenses/(income)

	2012	2011
Interest expenses	9,120,319.28	6,727,724.17
Including: Interests of other loans fully repayable within 5 years	8,978,819.28	6,586,224.17
Interests of other loans not fully repayable within 5 years	141,500.00	141,500.00
Less: Interest income	631,257.41	880,761.72
Others	80,320.90	(152,068.77)
	8,569,382.77	5,694,893.68

19. Investment gains/(losses)

	2012	2011
Unlisted investment:		
Investment losses from long-term equity investments under equity method of accounting	(2,320,296.63)	(127,683.62)
Including: Investment losses from an associate	(2,320,296.63)	(127,683.62)

In 2012 and 2011, the Group had no investment income from long-term equity investments under cost method of accounting.

In 2012 and 2011, 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.

20. Non-operating income

	2012	2011
Gains from disposal of non-current assets	9,233,699.03	5,641.63
Government grants	9,950,660.37	5,195,677.72
Others	1,715,259.47	204,730.67
	20,899,618.87	5,406,050.02

21. Non-operating expenses

	2012	2011
Loss on the disposal of fixed assets	163,092.08	318,526.97
Water conservancy fund	357,387.35	392,983.21
Others	1,978,020.17	429,901.45
	2,498,499.60	1,141,411.63

22. Income tax expenses

No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong in 2012 (2011: Nil).

	2012	2011
Current income tax expense	12,808,929.79	13,267,232.70
Deferred income tax expense	(2,207,387.54)	1,979,265.83
	10,601,542.25	15,246,498.53

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.

23. Depreciation and amortization expenses

	2012	2011
Depreciation of fixed assets	31,461,993.67	28,386,352.93
Amortization of intangible assets	4,212,537.85	4,288,095.32
	35,674,531.52	32,674,448.25

24. 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 2012 and 2011, the Company had no potential diluted ordinary shares.

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

	2012	2011
Earnings		
Net profits attributable to the ordinary equity holders of the Company	72,127,189.72	112,872,143.11
Shares		
Weighted average of ordinary shares issued by the Company	265,157,855.00	262,657,855.00
Basic earnings per share (RMB)	0.27	0.43
Diluted earnings per share (RMB)	0.27	0.43

(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

Geographical information

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

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

(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. ("Zhejiang Shibao")	Yiwu City	Limited liability	Zhang Shi Zhong	Industrial investment	50 million	59.57%	59.57%	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.

Other receivables from subsidiaries in current assets of the Company's financial statements is RMB231,178,887.12 (2011: RMB221,024,118.16) which is unsecured, interest-free and has no fixed repayment term.

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

	2012	**2011**
Wuhu Sterling	680,402.57	698,434.95

In 2012, purchase of goods from related parties accounted for 0.23% of the Group's total purchases (2011: 0.23%).

In 2012 and 2011, the Group purchased the steering gears from Wuhu Sterling at market price.

Sales of goods to related parties

	2012	2011
Wuhu Sterling	27,934,012.86	36,750,390.25

In 2012, sales of goods to related parties accounted for 5.10% of the Group's total sales (2011: 5.87%).

In 2012 and 2011, 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.

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, pursuant to which the Company has conditionally agreed to acquire 90% equity interest in Changchun Shili Automotive Brake Parts Co., Ltd. ("Changchun Shili Automotive") for a total consideration of RMB10,467,600. The completion of the acquisition shall take place within six months after the listing and commencement of trading of the A Shares on Shenzhen Stock Exchange. As at the date of the announcement, equity interest of Changchun Shili Automotive is owned as to 90% by Zhejiang Shibao Holding and 10% by Changchun Mengjia Automotive Parts Company Ltd. Upon completion of the Acquisition Agreement, Changchun Shili Automotive will become a subsidiary of the Company and the accounts of which will be consolidated into the accounts of the Group.

On 30 January 2013, the Company entered into the Equity Transfer Contract with Chery Technology, the existing shareholder of Wuhu Sterling, pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000; at the same time, the Company increased its capital contribution to Wuhu Sterling and entered into the Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company will increase its investment by RMB7,000,000, of which RMB2,800,000 is contributed as registered capital and RMB4,200,000 is contributed as capital surplus. Upon the completion of the Transactions, the registered capital of Wuhu Sterling will be increased to RMB22,800,000, among which: registered capital of RMB13,200,000 from the Company representing 57.89% of equity interests; registered capital of RMB6,600,000 from Chery Technology representing 28.95% of equity interests; registered capital of RMB3,000,000 from An Qing Hui representing 13.16% of equity interests. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets.

(3) Guarantee with related parties

Receipt of guarantee from related parties

31 December 2012

	Guaranted amount ('0,000)	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Zhejiang Shibao Holding	9,000	23-Aug-2011	26-Mar-2015	No
Zhejiang Shibao Holding	6,000	16-Apr-2012	25-Jun-2015	No
Zhejiang Shibao Holding	3,000	3-Sep-2012	3-Sep-2015	No
Zhang Shi Quan	9,000	23-Aug-2011	26-Mar-2015	No
Zhejiang Shibao Holding	9,900	17-Sep-2012	28-Nov-2015	No

As at 31 December 2012, 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 RMB259 million. The Group's bank borrowings drawn and outstanding under this guarantee were RMB126.5 million. Zhang Shi Quan provided a joint and several liability guarantee for the bank borrowings of the Group amounting to RMB16.5 million.

31 December 2011

	Guaranted amount ('0,000)	Commencement date of guarantee	Expiry date of guarantee	Guarantee fully fulfilled
Zhejiang Shibao Holding	2,000	29-Apr-2010	18-Apr-2014	No
Zhejiang Shibao Holding	3,000	4-May-2010	17-Apr-2014	No
Zhejiang Shibao Holding	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

As at 31 December 2012, no guarantee was provided to the related parties.

31 December 2011

	Guaranteed 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 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

	2012	**2011**
Key managerial personnel remuneration	2,509,950.50	2,394,592.14

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

	2012	**2011**
Accounts receivable		
Wuhu Sterling	26,566,905.16	25,391,425.25

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

(VII) Commitments

	31 December 2012	**31 December 2011**
Capital commitment		
Contracted, but not provided for	30,682,636.33	22,350,312.62

III. FINAL DIVIDEND

The Board recommended the payment of a final cash dividend of RMB0.08 per share (inclusive of applicable tax) for the year ended 31 December 2012 ("Final Dividend"), with a total amount of dividend approximately RMB22,212,628.40. The distribution proposal is subject to consideration and approval at the general meeting of the Company.

The Company will issue a separate announcement regarding the record date and date of closure of register of members for the payment of Final Dividend for the year 2012 to the holders of H Shares.

Under relevant regulations of China Securities Depository and Clearing Corporation and according to the market practice adopted for dividend distribution for A shares, the Company will publish a separate announcement in respect of the Final Dividend distribution for the year 2012 to the holders of A Shares of the Company after the Company's 2013 annual general meeting to determine the record date and ex-rights date for Final Dividend distribution to the holders of A Shares for the year 2012.

The Company did not pay any interim dividend 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 2012, as a result of economic downturn, the growth of automobile industry slowed down. In 2012, production and sales volume of China auto industry was 19,271,800 units and 19,306,400 units respectively, representing an increase of 4.6% and 4.3% as compared with 2011. Among these, production and sales of passenger cars were 15,523,700 units and 15,495,200 units respectively, representing an increase of approximately 7.20% and 7.10% as compared with 2011; production and sales of commercial vehicles were 3,748,100 units and 3,811,200 units respectively, representing a decrease of approximately 4.71% and 5.49% as compared with 2011. In 2012, sales of China-brand passenger cars was 6,485,000 units, representing an increase of 6.1%, which accounted for 41.9% of total sales of passenger cars, representing a decrease of approximately 0.40%. In 2012, the increase of China-brand passenger cars as a whole was mainly contributed by the fast increase of the export. If taken out the export, the sales volume of China-brand passenger cars in local market was only increased by 3.9%. Among commercial vehicles, production and sales volume of buses was 506,400 units and 507,400 units respectively, representing an increase of 4.9% and 4.0% as compared with 2011; production and sales volume of trucks was 3,057,200 units and 3,113,100 units respectively, representing a decrease of 4.7% and 5.3% as compared with 2011; production and sales volume of tractor trucks was 184,500 units and 190,600 units respectively, representing a decrease of 24.5% and 26.0% as compared with 2011. The downturn of trucks market was mainly due to a decrease in production and sales of medium to heavy-duty trucks.

In 2012, top ten automaker groups in China produced 16,862,800 units of automobiles, representing 87.30% of the production of automobile industry, an increase of 0.70% as compared to last year, and an increase in industry concentration.

TREND OF THE CHINA AUTOMOTIVE INDUSTRY

It is becoming a global trend that the automotive companies are separating from the automakers and being independently. Almost all of the global well-known automotive companies have set up joint-venture companies or wholly-owned companies in the PRC. Meanwhile, a large number of high-tech, profitable and large scaled China automotive companies are growing up. As the “global sourcing” and “localization” strategies being more and more preferable by the global automobile industry and the multinational automakers, the needs for China automotive components is increasing largely. China automotive industry is facing new opportunities and challenges.

BUSINESS REVIEW

OPERATING RESULTS

For the year ended 31 December 2012, the Group recorded a revenue of RMB548,384,676.25, representing a decrease of approximately 12.39% as compared with 2011. Net profit attributable to the equity holders of the Parent was RMB72,127,189.72, representing a decrease of 36.10% as compared with 2011.

The decrease of the Group's revenue was mainly due to a decrease in the sales of steering knuckles and hydraulic power re-circulating ball steering gears.

During the year under review, the Group's entire gross profit decreased by 24.07% as compared with 2011. The gross profit margin of the Group was 30.74% (2011: 35.47%). The decrease in the gross profit margin was mainly due to a decrease in the sales of hydraulic power re-circulating ball steering gear for medium to heavy-duty trucks and the export business of hydraulic power rack-and-pinion steering gear to Iran, resulted in a decrease of the Group's gross profit margin.

During the year under review, the Group's selling expenses decreased by RMB2,718,249.96 as compared with 2011. The ratio of selling expenses to revenue increased as compared with 2011. Decrease in selling expenses was mainly due to a decrease in sales resulted in a decrease in salesperson's commission, transportation expenses and the provision of warranty expenses.

During the year under review, the Group's general and administrative expenses increased by RMB7,435,175.45 as compared with 2011. The ratio of general and administrative expenses to revenue also increased as compared with 2011. Increase in general and administrative expenses was mainly due to an increase in the production capacity of the Group's subsidiaries of Hangzhou New Shibao and Jilin Shibao resulted in an increase of administrative staff costs.

During the year under review, the Group's financial expenses increased by RMB2,874,489.09 as compared with 2011. Increase in financial expenses was mainly due to an increase in bank borrowings during the year under review, used for production expansion of the Group.

In view of the above, for the year ended 31 December 2012, the Group has a net profit of RMB68,894,979.75, representing a decrease of 37.73% as compared with RMB110,647,997.28 in 2011.

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

MARKETING AND NEW PRODUCTS

The Group secured eleven new development projects during the year under review and held sixteen development projects in total as at the end of the year under review. During the year under review, the Group has twelve development projects started volume production, among which the Group's electric power steering (EPS) system started volume production for Tianjin FAW XIALI Automobile Co., Ltd. ("TJFAW").

PRODUCTION FACILITIES

During the year under review, the second production line for precious casting has been ready for production and the third production line for precious casting has arrived for installation and testing in Jilin Shibao.

During the year under review, Hangzhou Shibao has added relevant machining facilities to solve the bottleneck of the production capacity of several machining processes.

RESEARCH AND DEVELOPMENT

During the year under review, the Group's research and development expenses was RMB16,292,793.29. The ratio of research and development expenses to the Group's audited net assets and revenue was 2.22% and 2.97% respectively. During the year under review, the Group has two applications been issued certificate of patent by the State Intellectual Property Office, among which one application was patent of invention. As at the date of this report, the Group holds twenty-seven patents and two software copy-rights.

The Group's research and development expenses was used in the research and development of automotive steering related new technologies and the implementation of development project of automotive steering assembly products. Leading research and development capacity is one of the core competencies of the Group, and helps the Group to acquire new businesses and positions the Group to a leading edge of the industry. The skid pad built by the Group in Hangzhou was not only a part of the Group's project of building a state-level automotive steering R&D center, but also was the first skid pad in automotive steering industry in PRC.

During the year under review, the Group has been awarded the "Supplier of the Year" by FAW Group, the "Special Contribution Award" by FAW-CAR, the "Supplier of the Year" by DFM Liuzhou Automobile Company and the "Award of Excellent Quality" and "Supplier of the Year" by JAC.

FINANCIAL REVIEW

REVENUE

For the year ended 31 December 2012, the Group recorded a revenue of RMB548,384,676.25, representing a decrease of 12.39% as compared with 2011. The decrease was mainly due to a decrease in the sales of steering knuckle and hydraulic power re-circulating ball steering gear.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the year under review, the Group's gross profit was decreased by 24.07% as compared with 2011. The gross profit margin of the Group during the year under review was 30.74% (2011: 35.47%). The decrease in the gross profit margin was mainly due to a decrease in the sales of hydraulic power re-circulating ball steering gear for medium to heavy-duty trucks and the export business of hydraulic power rack-and-pinion steering gear to Iran, resulted in a decrease of the Group's gross profit margin.

NON-OPERATING INCOME

During the year under review, the Group's non-operating income was RMB20,899,618.87, increased by RMB15,493,568.85 as compared with 2011. The Group's non-operating income mainly related to a disposal of a property by Siping Steering resulted in gains from disposal of non-current assets of RMB9,233,699.03 and the receipt of government grants of RMB9,950,660.37.

SELLING EXPENSES

During the year under review, the Group's selling expenses decreased by RMB2,718,249.96 as compared with 2011. The ratio of selling expenses to revenue increased as compared with 2011. Decrease in selling expenses was mainly due to a decrease in sales resulted in a decrease in salesperson's commission, transportation expenses and the provision of warranty expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

During the year under review, the Group's general and administrative expenses increased by RMB7,435,175.45 as compared with 2011. The ratio of general and administrative expenses to revenue also increased as compared with 2011. Increase in general and administrative expenses was mainly due to an increase in the production capacity of the Group's subsidiaries of Hangzhou New Shibao and Jilin Shibao resulted in an increase of administrative staff costs.

FINANCIAL EXPENSES

During the year under review, the Group's financial expenses increased by RMB2,874,489.09 as compared with 2011. Increase in financial expenses was mainly due to an increase in bank borrowings during the year under review, used for production expansion of the Group.

RESEARCH AND DEVELOPMENT EXPENSES

During the reporting period, the Group's research and development expenses were RMB16,292,793.29. The ratio of research and development expenses to the Group's audited net assets and revenue was 2.22% and 2.97% respectively. The Group's research and development expenses was used in the research and development of automotive steering related new technologies and the implementation of development project of automotive steering assembly products. Leading research and development capacity is one of the core competencies of the Group, and helps the Group to acquire new businesses and positions the Group to a leading edge of the industry.

NET PROFIT AND NET PROFIT MARGIN

For the year ended 31 December 2012, the Group's net profit was RMB68,894,979.75, representing a decrease of 37.73% as compared with last year, net profit margin was 12.56% (2011: 17.68%).

LIQUIDITY AND FINANCIAL RESOURCES

LIQUIDITY RATIOS

As at 31 December 2012, the Group had cash on hand and at bank of RMB78,543,676.91 (2011: RMB43,234,111.34), including restricted cash on hand and at bank of RMB1,770,509.77 (2011: RMB2,522,130.610). 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 2012, the current ratio of the Group was 1.59 (2011: 1.58), the quick ratio was 1.24 (2011: 1.21).

Net current assets as at 31 December 2012 was RMB236,381,060.33 (2011: RMB192,811,168.15).

As at 31 December 2012, non-current liabilities was RMB45,120,376.56 (2011: RMB57,920,986.95), decreased by RMB12,800,610.39 when compared with last year mainly as a result of a decrease in long-term bank borrowings.

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 2012 was 37.93% (2011: 37.03%). 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 2012, the amount of total loans and borrowings was RMB220,920,400.00 (2011: RMB157,100,232.00), in which RMB208,500,000.00 (2011: RMB144,079,832.00) were bank loans. Total loans and borrowings increased by RMB63,820,168.00 when compared with last year, the increased loans and borrowings were mainly used to expand the production capacity of the Group. Among which, loans and borrowings of short-term and due within one year amounted to RMB205,290,400.00 (2011: RMB127,079,832.00), representing a share of 92.93% (2011: 80.89%) in total loans and borrowings. Loans and borrowings at fixed interest rates were RMB53,620,400.00.

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

PLEDGE OF ASSETS

As at 31 December 2012, the restricted cash on hand and at bank of the Group was RMB1,770,509.77 (2011: RMB2,522,130.61) which refers to the deposits for issuance of bank bills and letters of credit.

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

MATERIAL ACQUISITIONS AND DISPOSALS

For the year of 2012, the Group did not have any material acquisition and disposal concerning subsidiaries and associated companies.

FOREIGN CURRENCY EXPOSURE

For the year ended 31 December 2012, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk. No hedge arrangement has been entered into by the Group.

OUTLOOK

The strategy of the Company is to commit itself to the research and development and manufacturing of automotive steering technologies and products, and provide high-tech and high-quality steering products to automakers. The Company is also committed itself to the research and development of light-weight and energy-saving technologies for automotive steerings, and to be a leading brand of electric power steering (EPS) system in the PRC. The Company is also developing the global market through acquisition, merging and export trading.

In 2013, the Company has planned to further expand hydraulic power steering gear businesses by increasing the volume of existing projects and acquiring new projects, and to increase profit by increasing the production and sales volume of electric power steering (EPS) system. The Company will also further increase the automotive components precious casting and machining capacity, this will not only meet the needs for the Group's internal use, but will also make external businesses.

V. OTHER MATTERS

ACQUISITION OF AND INCREASE IN EQUITY IN WUHU STERLING

On 30 January 2013, the Company entered into the Equity Transfer Contract with Wuhu Chery Technology Co., Ltd. ("Chery Technology"), the existing shareholder of Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling"), pursuant to which Chery Technology transferred 6% of equity interests held by it in Wuhu Sterling to the Company at a consideration of RMB3,000,000 ("Acquisition"). At the same time, the Company increased its capital contribution to Wuhu Sterling and entered into the Capital Contribution Agreement with other shareholders of Wuhu Sterling. The Company increased its investment by RMB7,000,000, of which RMB2,800,000 was contributed as registered capital and RMB4,200,000 was contributed as capital surplus ("Capital Contribution", and collectively referred to as the "Transactions" together with the aforesaid Acquisition). The Company paid RMB10,000,000 in aggregate as the consideration for the Transactions. The Acquisition is subject to the approval being obtained from the competent state assets administration authorities of Chery Technology, and being handled in accordance with the procedures stipulated in the relevant laws and regulations regarding to the transfer of state-owned assets. Upon the completion of the Transactions, equity interests held by the Company will be increased from 46% to 57.89% and Wuhu Sterling will be included into the consolidated accounts of the Company. Through the Transactions, the Company will obtain controlling interests in Wuhu Sterling. As such, Wuhu Sterling will be included into the overall development plan of the Company. At the same time, leading technology and techniques in the field of steering gear that the Company possesses will help Wuhu Sterling to obtain the exclusive supply qualification of the vehicle assembly base of Chery Auto in the north western PRC, as well as to create opportunities on business development of steering gear for mid-high end vehicles of joint venture projects entered into by Chery Auto with Jaguar Land Rover and Israeli corporations etc.. As such, the production capacity and market share of the Company will further expand. As the applicable percentage ratios in respect of the Acquisition and the Capital Contribution are more than 5% but less than 25%, the Transactions constitute discloseable transactions of the Company. Details of the Transactions are set out in the Company's announcement dated 30 January 2013.

ACQUISITION OF EQUITY IN CHANGCHUN SHILI AUTOMOTIVE

On 17 May 2012, the Company and Zhejiang Shibao Holding entered into the Acquisition Agreement, which constitutes a connected transaction of the Company. Details of the Acquisition Agreement are set out in the "Equity transactions with related parties" of this announcement and the Company's announcement dated 17 May 2012. The Acquisition Agreement is referred to the acquisition of 90% equity interests in Changchun Shili Automotive.

VI. CORPORATE GOVERNANCE

In 2012, the Company had been in compliance with the majority of the code provisions set out in the Code on Corporate Governance Practices (effective till 31 March 2012) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, effective from 1 April 2012) contained in Appendix 14 to the Listing Rules with the exception of (i) code provision A.2.1 which states that the roles of the chairman and the chief executive shall be separated and shall not be undertaken by the same individual; (ii) code provision A.1.8 which states that an issuer should arrange appropriate insurance cover in respect of legal action against its directors; and (iii) code provision A.6.7 which states that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Zhang Shi Quan has been the Chairman and General Manager of the Company during the year 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.

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

Certain non-executive directors and independent non-executive directors of the Company were unable to attend the Company's annual general meeting held on 25 May 2012 due to their other business engagements.

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 of Hong Kong Stock Exchange on 16 May 2006 and the transfer listing from GEM to the Main Board of Hong Kong Stock Exchange on 9 March 2011, and the listing of the A Shares of the Company on Shenzhen Stock Exchange on 2 November 2012, 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 and General Manager

Hangzhou, Zhejiang, the PRC
22 March 2013

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.