SHANGHAI TURBO ENTERPRISES LTD.

上海动力发展有限公司

ANNUAL REPORT 2010

2010年年报

CONTENTS

1 Corporate Profile

2 Chairman's Statement

5 Operational and Financial Review

6 Board of Directors

8 Corporate Information

9 Corporate Governance Report and Financial Contents

CORPORATE PROFILE

Shanghai Turbo is a precision engineering group that specialises in the production of precision vane products, namely stationary vanes, moving vanes and nozzles. These vanes are the key components of steam turbine generators used for power generation in power plants, power stations and/or sub-stations. They are also essential components mounted onto steam turbine generators to maximize the efficiency of steam flow in the generation of electricity. These steam turbine power generators are used for power generation in power plants, power stations and/or sub-stations.

Based in Changzhou City, Jiangsu, China, the Group is equipped with the latest advanced precision engineering machinery from Korea, Japan, Switzerland and Germany in its plants. Shanghai Turbo prides itself as the only manufacturer in China capable of providing a complete set of vane products for steam turbine power generators each with a generating capacity of up to 600,000 kilowatts of electricity.

CHAIRMAN'S STATEMENT

For the year ended 31 December 2010 ("FY2010"), Shanghai Turbo upheld the spirit of gaining trust as our first management philosophy. We explored our markets both in China and abroad. Our products were well received by our customers, and this has helped to boost turnover by 8% to RMB169 million from RMB157 million in the previous year (FY2009).

Dear Shareholders,

PERFORMANCE IN 2010

For the year ended 31 December 2010 ("FY2010"), Shanghai Turbo upheld the spirit of gaining trust as our first management philosophy. We explored our markets both in China and abroad. Our products were well received by our customers, and this has helped to boost turnover by 8% to RMB169 million from RMB157 million in the previous year (FY2009). Correspondingly, gross profit for FY2010 increased by 82% to RMB62.16 million from RMB34.24 million in FY2009. To repay the shareholders' long term support and subject to shareholders' approval, the Board is proposing to pay dividends of RMB6.87 million.

Despite the sluggish global economic conditions in 2010, our management philosophy of upholding a strong brand or reputation has resulted in a fruitful year. Our key customers continue to have high regards for our products supporting us with repeat orders, contributing to our strong profit performance in FY2010. We continued to optimize our management systems, improve ability of cost control and gained more market share by our high quality and low cost products. We enhanced our products cost structures and improved yield rate through selective material usage and more efficient production, improving gross profit by 82% in 2010. With higher value added products, we are steadily stepping into high-end markets in the near future.

2010年业绩

截至2010年12月31日（“2010财政年”），上海动力秉承信誉第一的经营理念，在国内外业务的拓展上，公司产品都得到客户的一致好评，使营业总额在全球经济缓慢的情况也能从截至2009年12月31日（“2009财政年”）的1.57亿元（人民币，下同）增长至1.69亿元，增幅达到8%。同样，2010财政年的毛利润也从2009财政年的3,424万元增加到6,216万元，增幅为82%。为感谢股东们长期以来对公司的支持，如果股东们允许，董事会建议向股东分红687万元。

回顾2010财政年，整体的业务环境并不是很好，但由于上市以来，我公司一直坚持信誉第一的经营理念，在2010年度得以回报，几大合作单位给予我公司极高的评价，在订单方面也给予支持，使公司在2010年度得以有了更大的进步。应对2010年的全球经济缓慢，为了保持业务增长，公司不断优化内部管理体系，持续提升成本控制能力，以品质和成本的优势获取更多的市场份额。在努力开拓市场的同时，公司还努力优化产品的成本，公司不断优化产品的成本，从各方面着手，不断尝试新的用料方法，以达到最省料、最节省工时的效果。质量的持续改善直接推动了合格率的提高，使2010年毛利润增加了82%。随着公司产品所服务的领域逐步走向高端，所蕴含的附加值也将逐步得以体现。

MARKET PERSPECTIVES

According to the report of "China 12th Five-year's Planning", the strategic new industry which is represented by the energy saving industry will be increased to 8% of the gross domestic product (GDP).Beside that, the government will invest a total of nearly USD 1.5 trillion for seven strategic new industries such as energy saving industry etc in the future five years. The government is encouraging clean and effective, high-capacity coal-fired generation, power station, alternative forms of power supply, such as hydropower, wind power and others.

2011 will be the year when the field of energy generation is greatly impacted by the Japan nuclear crisis as major economies debate on alternative sources of energy. Whilst the domestic market is becoming stable, overseas markets are still depressed. In year 2011, with the economic recovery of China, macroeconomic controls and growing concerns to use "low-carbon economy" energy, the government will aggressively promote the use of low-emission and high efficiency power generation. We expect steam turbine above 300MW capacity and gas-steam hybrid units to be more widely adopted, and the company's effort in recent years in developing turbine blades for steam generators will bear fruit with the new trend, since demand for nuclear-power generators may be affected.

市场前景

根据中国最新的《十二五规划纲要》，以节能环保为代表的战略性新兴产业增加值将占国内生产总值比重达到8%左右。节能环保等七大战略性新兴产业，未来五年将可能获得高达1.5万亿美元的政府投资。政府明确未来要大力发展清洁高效、大容量燃煤机组、综合利用电站，并积极鼓励其他形式的电力供应，如水力发电、风力发电和其他方式的发电。

2011年国内趋于稳定；国外市场也在更积极的拓展，2011年将是能源发电领域遭受金融危机影响较大的一年。2011年中国经济的复苏，宏观政策的调控，以及对新能源"低碳经济"的关注，对市场起到的促进作用是肯定的。社会对新能源的关注，会促使能源发电领域往低排放、高效率的方向发展，30万千瓦以上汽轮机、燃气蒸汽联合循环机组以及核电机组将被得到更广泛的运用，而公司近年来致力于燃机及核电叶片的开发将在新的形势下受益。

OUTLOOK AND STRATEGY

Owing to the rapid development of power generation facilities in the past five years, China has become the second largest country in terms of power generation and consumption in the world. The emerging power generation market in China has offered us more opportunities to grow our business and we will continue to capitalize on this positive trend, though this will be impacted by the earthquake, tsunami and nuclear crisis in Japan and the instability in the Middle East, to deliver a satisfactory performance in FY2011.

展望与策略

在过去的五年里，由于发电设施的迅速增加，中国已在发电和用电方面成为世界第二大国。新兴的发电市场给我们的业务带来更多的机遇。尽管遭遇全球金融危机，在2010财政年，我们还是抓住了市场的机会并取得相对理想的业绩。

CHAIRMAN'S STATEMENT

With the globalization of the electrical energy market and the increasing environmental demands, technology of gas turbines and nuclear power will become more important in the future. The company is looking at development of new blades for gas generator, nuclear application, aircraft engine and propeller and hopes to reach a broader market and new high in the industry.

In recent years, the company has put in significant efforts in expanding overseas markets, as evident in our business performance. We have explored the market in South-East Asia with strong and effective sales strategy in 2010 and signed 1st order with India's BHEL in 2011/2. The company is in discussions with Japan's Mitsubishi Heavy Industries and Germany's MAN TURBO in 2011. To meet the stringent technical standards required by our customers, the company intends to upgrade the company's manufacturing technology through purchase of advanced machinery in 2011.

As the man at the helm, I endeavor to maintain even stricter standards of discipline in operational and financial expenditure, and exercise greater diligence to achieve our goals. We will continue to preserve liquidity and optimize our overall cost structure to maintain our financial flexibility so as to ensure our long term viability in the business.

随着能源电力市场的日益全球化及环保诉求的不断提高，燃气轮机及核能发电技术在今后显得更加重要。公司正致力于燃气轮机叶片、核电叶片、航空叶片及叶轮的开发和制造，有望在未来一段时间，登上行业科技的顶峰，并为公司带来广阔的市场前景。

公司近几年一直在努力拓展海外市场，这在营业业绩中也是显而易见的。2010年公司管理层凭借有效的营销战略，在东南亚市场的开发已初见成效，并在2011年2月与印度BHEL公司签署了首批订单。2011年公司有望进入的国外市场为日本三菱重工、德国MAN TURBO。为了满足市场对产品要求的不断提高，公司2011年拟投入先进设备，让公司的制造技术紧随科技浪潮的前沿，为公司进一步的发展打下坚实的基础。

作为公司的掌舵人，我承诺我们将在公司运营和财务支出方面实施更严格的管理，为实现我们的目标更加勤勉尽责。我们将继续保持资金的流动性，全面缩减成本开支，以在未来保持财务的灵活性。业务方面我们正不断寻找新的突破点，以我公司的实力来协助市场降低成本，长期达到共谋发展，共同盈利的目标。

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my gratitude to our customers, business partners, my fellow directors and colleagues for their commitment and support. The year ahead may again be met with challenges that we have never met before, but I remain cautiously confident that we will be able to handle them.

Liu Ming
Executive Chairman and CEO

致谢

我谨代表董事会，向我们的客户、业务伙伴、董事同仁和员工同事给与本集团的承诺和支持，表示衷心的感谢！虽然未来的一年同样充满挑战，但相信只要大家携手并肩，一定能安然度过难关！

刘明
执行主席兼首席行政官

INCOME STATEMENT

Compared to FY2009, group total revenue increased from RMB157.0 million to RMB169.2 million in FY2010, reflecting results of sustained marketing efforts.

Gross profit increased from RMB34.2 million to RMB62.2 million in FY2010. The increase in gross margin rates was mainly attributed to improvement in production efficiency resulting in lower direct materials consumed and year-end inventory provision adjustments.

Other operating income slide reduced from RMB1.4 million to RMB1.3 million in FY2010, mainly due to allowance for doubtful debts being written back in the previous year.

Administrative expenses remain unchanged at RMB17.0 million in FY2010.

Selling and distribution expenses decreased from RM6.9 million to RMB4.7 million in FY2010 due to downward revision of an agent sales commission during the year.

Compared to RMB184,000 in the previous year, there were no finance costs in FY2010 for bank borrowing during the year.

Income tax expense increased from RMB2.0 million to RMB15.4 million in FY2010 consistent with the higher profit before tax and the expiry of the tax holiday of the Group's PRC subsidiary during the year.

As a result, net profit after tax for the Group increased from RMB9.7 million to RMB27.2 million in FY2010, a 182% increase over the previous ysear.

Currency translation differences increased from RMB54,000 to RMB1.5 million in FY2010 due to foreign exchange reserve derived from consolidation.

Overall, the total comprehensive income attributable to equity shareholders of the Company increased from RMB9.6 million to RMB25.7 million in FY2010.

BALANCE SHEET

As at 31 December 2010,

Trade receivables increased to RMB68.1 million (2009: RMB38.4 million) reflecting longer credit terms extended to selective customers due to competitive pressure. This also included bill receivables of RMB23.3 million (2009: RMB7.2 million) received from customers for the settlement of outstanding balances.

Other receivables, deposits and prepayments increased marginally to RMB1.6 million (2009:RMB1.5 million), mainly due to increase in advance to suppliers.

Inventories reduced to RMB13.4 million (2009: RMB14.9 million) reflecting better inventory management during the year.

Property, plant and equipment increased to RMB115.7 million (2009: RMB107.2 million). Additional new machineries costing RMB22.3 million were acquired in the year to fulfill the technology and quality requirement.

Trade payables were increased to RMB33.0 million (2009: RMB27.4 million). This also included bill payables of RMB15.5 million (2009: RMB12.2 million) issued to suppliers for the settlement of outstanding balances. As at year end, these bills have yet to mature. RMB12.1 million of cash was pledged with the bank for this facility.

Other payables and accruals were increased to RMB14.3 million (2009: RMB13.6 million) reflecting increased performance incentive.

CASH FLOW STATEMENT

Net cash generated from operating activities in FY2010 was down to RMB18.7 million, attributable to the increased trade receivables and higher tax paid offset partially by higher operating profit before income tax for the year.

Net cash used in investing activities in FY2010 was RMB23.2 million, due to an increase in purchase of property, plant and equipment.

Net cash used in financing activities in FY2010 of RMB19.4 million reflected an increase in pledged deposits and payment of dividend.

As a result of the above, there was a net decrease in cash and cash equivalents of RMB23.8 million in FY2010.

BOARD OF DIRECTORS

MR LIU MING 刘明先生

Executive Chairman and Chief Executive Officer

Mr Liu was appointed as Executive Chairman on 16 March 2010 and Chief Executive Officer on 13 November 2009. As the Executive Chairman and Chief Executive Officer, Mr Liu Ming works on the formulation and execution of overall business strategies and policies. He is also responsible for overseeing our production and operation, marketing, quality control, public relations and technology departments.

Mr Liu Ming joined the Group in 1997 as a quality supervisor and was subsequently promoted in 1999 to General Manager. Mr Liu Ming previously started his career in 1991 at Changzhou City Di Er Liang Ku, before joining Golden Apples Foodstuff Co., Ltd. as a supervisor, where he was responsible for the supervision of confectionery production from 1992 to 1997.

Mr Liu Ming graduated from Jiangsu Province Foodstuff Technical School, majoring in food technology in 1991. He also attained a certification in Corporate Management at Tsinghua University in 2005.

MR KOH SIAK KHEE 许锡麒先生

Deputy Chairman, Non-executive and Non-Independent Director

Mr Koh was appointed as Deputy Chairman on 16 March 2010. He is currently the managing partner of East Gate Capital Pte Ltd which manages China pre-IPO funds backed by Japanese government. Mr Koh had previously worked with Barclays Capital and JP Morgan, both based in Tokyo.

Between 1998 and 2001, Mr Koh was the managing director of Bear Stearns in Tokyo. Mr Koh was the head of Asia Pacific for structured products of Warburg Dillion Read, specialising in equity, forex trading and quantitative derivative, as well as regulatory arbitrage. From 1989 to 1992, he worked for Allen & Gledhill as a corporate lawyer in Singapore.

For his outstanding performance in various fields he was garnered accolades that include the Singapore Young Scientist of the Year, Prince of Wales' Pegasus Scholar, Cambridge University Overseas Scholar and two Turf Club Scholars.

He graduated from the University of Singapore with a Bachelor's Degree in Law. He also holds a Masters Degree in Law from Cambridge University, England.

MR ZHOU XU 周旭先生

Executive Director

Mr Zhou was appointed Executive Director on 16 March 2010. He is presently in charge of the marketing, logistics and operations of the factory. Mr Zhou worked for Changzhou 3D Co., Ltd since 2005 starting from a frontline salesman, and was gradually promoted to vice director, director of sales department, and Deputy General Manager in 2008. Mr Zhou graduated from Changhzou Jiaotong Technical College and has over 18 years' sales experience in the machinery-related industry.

MR JACK CHIA SENG HEE 杰克 谢先生

Independent Director

Mr Chia was appointed on the Board of Shanghai Turbo Enterprises Ltd. on 1 February 2008. Currently, he runs his own investment advisory firm Jack Capital Services Pte Ltd, which he set up in June 2005. Prior to that he was Senior Director, International Enterprise Singapore (the former Trade Development Board) and was based in Shanghai from June 2002. Mr Chia was also with Singapore Technologies, Government of Singapore Investment Corporation as well as Arthur Andersen in marketing, asset management and consulting capacities. He graduated from the National University of Singapore with a degree in Accountancy and from the International University of Japan with a Masters of Arts degree in International Relations. He is qualified as a Certified Public Accountant. He also completed the General Manager Program at Harvard Business School.

MR HUANG WOOI TEIK 黃伟德先生

Independent Director

Mr. Huang Wooi Teik was appointed on the Board of Shanghai Turbo Enterprise Ltd. on 11 March 2009. Mr Huang currently runs a business and investment advisory firm, specialising in the China market. Prior to this, Mr Huang was a Managing Director in Singapore listed Middle East Development Singapore Limited and had held senior management and financial roles in regional MNC and listed companies, including General Manager of Shanghai Carrier Transicold Equipment Co., Limited, CFO of Carrier Refrigeration-Asia Pacific Operations, CFO of listed Hi-P International Limited and Group CFO (China) of Hong Leong China Limited. He holds a Master of Business Administration with Honours from Oklahoma City University, in addition to his Bachelor of Accountancy from the University of Singapore and a Diploma of Marketing from the Chartered Institute of Marketing in United Kingdom. He is a Fellow of CPA Singapore and Australia and members of the Marketing Institute of Singapore and the Chartered Institute of Marketing in United Kingdom.

MS HAN MEI 韩梅小姐

Non-Executive and Non-Independent Director

Ms Han was appointed on the Board of Shanghai Turbo Enterprises Ltd. on 11 May 2009. She is currently working as investment manager in SBI Ven Capital Pte. Ltd, which invests in private companies and prepares them for public listing. Ms Han was previously Chief Representative in Shanghai for East Gate Capital Pte Ltd. from September 2005 to August 2009, during which she worked with the lawyers, auditors and stockbrokers in mainland China, Hong Kong, Japan and Singapore. In 2003, Ms Han worked for DTZ City Integrated Residential Services. Ms Han obtained her Bachelor and Masters of Arts degrees from Fudan University in China. Ms Han completed the first part of a PhD course at Keio University in Tokyo, under the Mombushou scholarship program by the Japanese government.

CORPORATE INFORMATION

BOARD OF DIRECTORS
Mr Liu Ming
(Executive Chairman, Chief Executive Officer & Executive Director)
(Appointed as Executive Chairman on 16 March 2010)

Mr Koh Siak Khee
(Deputy Chairman, Non-Executive & Non-Independent Director)
(Appointed as Deputy Chairman on 16 March 2010)

Mr Zhou Xu
(Executive Director)
(Appointed on 16 March 2010)

Mr Jack Chia Seng Hee
(Independent Director)

Mr Huang Wooi Teik
(Independent Director)

Ms Han Mei
(Non-Executive and Non-Independent Director)

AUDIT COMMITTEE
Mr Jack Chia Seng Hee
(Chairman)

Mr Huang Wooi Teik

Ms Han Mei

NOMINATING COMMITTEE
Mr Huang Wooi Teik
(Chairman)

Mr Jack Chia Seng Hee

Mr Liu Ming

REMUNERATION COMMITEE
Mr Huang Wooi Teik
(Chairman)

Mr Jack Chia Seng Hee

Ms Han Mei

SECRETARY
Ms Wong Yoen Har

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AUDIT PARTNER-IN-CHARGE
Mr Alfred Cheong Keng Chuan
Date of Appointment: 24 October 2008

CORPORATE GOVERNANCE REPORT AND FINANCIAL CONTENTS

10	Corporate Governance Report
21	Directors' Report
25	Statement by Directors
26	Independent Auditors' Report
28	Balance Sheets
30	Consolidated Statement of Comprehensive Income
31	Consolidated Statement of Changes in Equity
32	Consolidated Statement of Cash Flow
34	Notes to the Financial Statements
67	Shareholders' Information
68	Statistics of Shareholdings
69	Notice of Annual General Meeting

CORPORATE GOVERNANCE REPORT

Shanghai Turbo Enterprises Ltd. (the "Company") and the Management is committed to maintain high standards of measures, practices and transparency in the disclosure of material information in line with those set out in the Code of Corporate Governance 2005 (the "Code").

The Company has established various self-regulating and monitoring mechanisms to ensure that effective corporate governance is practiced as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and financial performance of the Group.

This report describes the Company's corporate governance processes and structures that were in place throughout the financial year, with specific reference made to the principles and guidelines of the Code which forms part of the Continuing Obligations of the Singapore Exchange Securities Trading Limited's Listing Manual.

The Board is pleased to confirm that for the financial year ended 31 December 2010, the Company has generally adhered to the principles and guidelines as set out in the Code, except for Guideline 3.1 (Chairman and Chief Executive Officer should be separate persons), the reason for which deviation is explained in this Report.

BOARD MATTERS

BOARD'S CONDUCT OF ITS AFFAIRS

Principle 1: Effective Board to lead and control the Company

The Board's primary role is to protect and enhance long-term shareholders' value. Apart from its fiduciary duties, the Board sets the overall strategy of the Group and supervises management. The Board also establishes policies on matters such as financial control, financial performance and risk management procedures, thereby taking responsibility for the overall corporate governance of the Group.

To assist in the execution of its responsibilities, the Board has established several Board Committees namely, Audit Committee ("AC"), Nominating Committee ("NC") and Remuneration Committee ("RC"). These board committees function within clearly defined terms of reference, which are reviewed on a regular basis. The terms of reference of the respective committees have incorporated the recent changes under the Code.

The Board meets at least four times a year. Ad-hoc meetings are convened when circumstances require.

The frequency of meetings and attendance of each director at every board and board committee meeting are disclosed in this Report.

Matters which are specifically reserved to the Board for decision are those involving a conflict of interest for a substantial shareholder or a director, material acquisitions, disposal of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders and matters which require Board approval as specified under the Company's interested person transaction policy.

The Company works closely with the professional corporate secretarial firm to provide its directors with regular updates on the latest governance and listing policies. All directors are also updated regularly concerning any changes in company policies.

Newly appointed directors will, if necessary, be given briefings by the Management on the business activities of the Group, governance policies, policies on disclosure of interests in securities, the rules relating to disclosure of any conflict of interest in a transaction involving the Company, prohibitions in dealing in the Company's securities and restrictions on disclosure of price sensitive information.

The attendance of the directors at Board meetings and Board Committee meetings during the financial year ended 31 December 2010 are as follows:-

	Board	Audit Committee	Nominating Committee	Remuneration Committee
Number of meetings	4	4	1	1
Name of Directors				
Executive Directors:				
Liu Ming	4	3*	1	1*
Zhou Xu[1]	2	2*	-	-
Non-Executive & Non-Independent Directors:				
Koh Siak Khee	3	1*	1*	1*
Han Mei	4	4	1*	1
Non-Executive & Independent Directors:				
Jack Chia Seng Hee	4	4	1	1
Huang Wooi Teik	4	4	1	1

* By invitation

Note:

1. Mr Zhou Xu was appointed as an Executive Director on 16 March 2010.

BOARD COMPOSITION AND GUIDANCE

Principle 2: Strong and independent element on the Board

Presently, the Board comprises two executive directors, two non-executive & non-independent directors and two non-executive & independent directors.

Executive Directors

Mr Liu Ming[1]	(Executive Chairman & Chief Executive Officer)
Mr Zhou Xu[2]	

Non-Executive & Non-Independent Directors

Mr Koh Siak Khee[3]	(Deputy Chairman)
Ms Han Mei	

Non-Executive & Independent Directors

Mr Jack Chia Seng Hee
Mr Huang Wooi Teik

Notes:

1. Mr Liu Ming was appointed as Executive Chairman with effect from 16 March 2010.
2. Mr Zhou Xu was appointed as Executive Director with effect from 16 March 2010.
3. Mr Koh Siak Khee was appointed as Deputy Chairman with effect from 16 March 2010.

There is presently a good balance between the executive and non-executive directors and a strong and independent element on the Board. The Board considers that the present board size and number of committees facilitate effective decision-making and are appropriate for the nature and scope of the Company's operations.

Individual directors' profiles can be found in the "Board of Directors" section of the Annual Report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Principle 3: Clear division of responsibilities at the top of the Company

Mr Liu Ming is currently the Executive Chairman and the CEO of the Company. The role of Chairman is not separate from that of the Group CEO as the Board considers that there is considerable accountability and transparency within the Group.

The role of the Chairman includes ensuring that Board meetings are held when necessary and sets the Board meeting agenda in consultation with the Company Secretary and ensuring that Board members are provided with complete, adequate and timely information.

Mr Liu Ming, who with the support and advice of the Board, plays an instrumental role in setting the strategic direction of the Group and ensuring that its organizational objectives are achieved.

Separate roles have not been established for the Executive Chairman and CEO as the Board is of the view that it is unlikely that the discharge of responsibilities in these roles by the same person will be compromised as all major financial decisions made were reviewed by the AC. His performance and appointment to the Board are reviewed periodically by the NC and his remuneration package is governed by the recommendations of the RC with the approval of the Board.

Both the NC and the RC comprise a majority of independent directors. As such, the Board believes that there are adequate safeguards in place against an uneven concentration of power and authority vested in any one individual.

Mr Koh Siak Khee was appointed as Deputy Chairman of the Company to lighten the workload of Mr Liu Ming in his role as Executive Chairman.

The Board unanimously supports Mr Liu Ming's role as both Chairman and CEO.

BOARD MEMBERSHIP

Principle 4: Formal and transparent process for appointment of new directors to the Board

The Board, through the delegation of its authority to the Nominating Committee ("NC"), has used its best efforts to ensure that directors appointed to the Board possess the relevant background, experience and knowledge in business, legal, finance and management skill critical to the Group's business to enable the Board to make sound and well considered decisions.

Presently, the NC comprises 3 directors, majority of whom including the Chairman, are independent directors. As at the date of this Report, the NC members are:-

Nominating Committee

Mr Huang Wooi Teik	(Chairman)
Mr Jack Chia Seng Hee	(Member)
Mr Liu Ming	(Member)

The primary function of the NC is to determine the criteria for identifying candidates and to review nominations for the appointment of directors to the Board, to consider how the Board's performance may be evaluated and to propose objective performance criteria for the Board's approval. Its duties and functions are outlined as follows:-

1. to make recommendations to the Board on all board appointments and re-nomination having regard to the director's contribution and performance (e.g. attendance, preparedness, participation, candour, and any other salient factors);

2. to ensure that all directors would be required to submit themselves for re-nomination and re-election at regular intervals and at least once in every three years;

3. to determine annually whether a director is independent, in accordance with the independence guidelines contained in the Code;

4. to review whether a director is able to and has adequately carried out his duties as a director of the Company in particular where the director concerned has multiple board representations; and

5. to consider how the Board's performance may be evaluated and to propose objective performance criteria.

The NC conducts an annual review of directors' independence and based on the Code's criteria for independence, the NC is of the view that Mr Jack Chia Seng Hee and Mr Huang Wooi Teik are deemed independent.

Article 86 (1) & (2) provides for re-election of directors by rotation at least once every three years. The retiring directors are eligible to offer themselves for re-election.

The NC had also recommended the nominations of Mr Liu Ming and Mr Huang Wooi Teik, who are retiring by rotation pursuant to Article 86(1)&(2), to be put forward for re-election at the forthcoming Annual General Meeting (AGM). Mr Liu Ming will, upon re-election as a director of the Company, remain as Executive Chairman and a member of the Nominating Committee and will be considered non-independent. Mr Huang Wooi Teik will, upon re-election as a director of the Company, remain as Chairman of the Nominating Committee and Remuneration Committee and a member of the Audit Committee and will be considered as independent.

In reviewing the nomination of the retiring directors, the NC considered the performance and contribution of each of the retiring directors, having regards not only to their attendances and participations at Board and Board Committee meetings but also the time and efforts devoted to the Group's business and affairs, especially the operational and technical contributions.

BOARD PERFORMANCE

Principle 5: Formal assessment of the effectiveness of the Board and contributions by each Director.

While the Code recommends that the NC be responsible for assessing the Board as a whole and also assessing the individual evaluation of each directors' contribution, NC felt that it is more appropriate and effective to assess the Board as a whole, bearing in mind that each member of the Board contributes in different way to the success of the Company.

The NC has conducted a Board performance evaluation to assess the effectiveness of the Board in FY2010 and is satisfied that sufficient time and attention has been given by the directors to the affairs of the Group.

The NC, in conducting the appraisal process to assess the performance and effectiveness of the Board as a whole, it focuses on a set of performance criteria which includes the evaluation of the size and composition of the Board, the Board's access to information, Board processes and accountability, Board performance in relation to discharging its principal responsibilities and the directors' standards of conduct.

The Board has taken the view that the financial indicators, as set out in the Code as a guide for the evaluation of the Board and its directors, may not be appropriate as these are more of a measurement of Management's performance and therefore less applicable to directors.

ACCESS TO INFORMATION

Principle 6: Board members to have complete, adequate and timely information

The Board has separate and independent access to senior management of the Company, the Company Secretary and the external auditors at all times. Directors also have unrestricted access to the Company's records and information, all Board and Board's committees' minutes, and shall receive management accounts so as to enable them to carry out their duties.

The Company Secretary attends all Board and Board Committee meetings. The Company Secretary administers, attends and prepares minutes of Board and Board Committee meetings, and assists the Chairman in ensuring that Board procedures are followed and reviewed in accordance with the Company's Articles of Association so that the Board functions effectively and the relevant rules and regulations applicable to the Company are complied with. The Company Secretary's role is to advise the Board on all governance matters, ensuring that legal and regulatory requirements as well as board policies and procedures are complied with.

Should directors whether as a group or individually require professional advice, the Company shall upon the direction of the Board, appoint a professional advisor selected by the Group or the individual, approved by the Chairman, to render the service. The costs of such service shall be borne by the Company.

PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

Principle 7: Formal and transparent procedure for fixing remuneration packages of Directors and key management executives

Presently, the Remuneration Committee ("RC") comprises, majority of whom including the Chairman, are non-executive and independent directors. As at the date of this Report, the RC members are:-

Remuneration Committee

Mr Huang Wooi Teik	(Chairman)
Mr Jack Chia Seng Hee	(Member)
Ms Han Mei	(Member)

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual directors and senior management. The RC's review will cover all aspects of remuneration including but not limited to directors' fees, salaries, allowances, bonus, share options and benefits in kind and specific remuneration package for each director. In structuring a compensation framework for executive directors and key executives, the RC seeks to link a proportion of executive compensation to the Group's performance. The RC's recommendation are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. No director is involved in deciding his own remuneration.

The RC will have access to expert advice inside and/or outside the Company with regard to remuneration matters.

LEVEL AND MIX OF REMUNERATION

Principle 8: The level of remuneration for Directors should be adequate, not excessive, and linked to performance

The remuneration policy of the Company is to provide compensation packages at market rates, which reward successful performance and attract, retain and motivate directors and senior management.

The executive directors do not receive directors' fees. The executive directors and key senior management remuneration packages are based on service contracts and their remunerations are determined by having regard to the performance of the individuals and market trends.

Non-executive and independent directors are paid yearly directors' fees of an agreed amount based on their contributions, taking into account factors such as effort, time spent, responsibilities of the directors and the need to pay competitive fees to attract, motivate and retain the directors. Directors' fees are recommended by the Board for approval at the Company's AGM.

DISCLOSURE ON REMUNERATION

Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and the procedure for setting the remuneration

An appropriate and attractive level of remuneration has been set to attract, retain and motivate directors and staff. The remuneration package is made up of both fixed and variable components. The variable component is determined based on the performance of the individual employee as well as the Group's performance. Annual increments and adjustments to remuneration are reviewed and approved taking into account the results of the annual review made by the executive directors and the various heads of department. All non-executive directors are paid directors' fees that are subject to shareholders' approval at the AGMs.

The RC had recommended to the Board the payment of directors' fees of RMB1,320,000 for the financial year ending 31 December 2011 for non-executive directors and non-executive independent directors, which will be tabled at the forthcoming AGM for shareholders' approval.

a) No. of Directors in remuneration bands

	2010	2009
Below S$250,000	5	8
S$250,000 to S$499,999	1	-
S$500,000 and above	-	-
	6	8

b) A breakdown, showing the level and mix of each individual director's remuneration and fees for Shanghai Turbo in FY2010 is as follow:-

Remuneration Bands & Name	Salary* %	Bonus %	Benefits %	Other Remuneration %	Directors' Fees*	Total %
S$250,000 – S$499,999						
Executive Director						
Liu Ming	14		1	85		
Below S$250,000						
Executive Director						
Zhou Xu	92			8		
Non-Executive Directors						
Koh Siak Khee					100	100
Han Mei					100	100
Independent Directors						
Jack Chia Seng Hee					100	100
Huang Wooi Teik					100	100

c) **No. of top 5 key executives in remuneration bands**

	2010	2009
Below S$250,000	1	1

d) **A breakdown, showing the level and mix of each key executive's remuneration for FY2010, is as follow:-**

Remuneration Bands & Name	Salary %	Bonus %	Total %
Below S$250,000			
Tan Kok See	100		100

The Board is of the opinion that details of remuneration for individual directors and key executives are confidential, and disclosure of such information would not be in the interest of the Company.

Immediate Family members of directors

There are no immediate family members of directors in employment with the Group and whose remuneration exceeds S$100,000 during FY2010.

ACCOUNTABILITY

Principle 10: Board should present a balanced and understandable assessment of the Company's performance, position and prospects

The Board is accountable to shareholders for the management of the Group. The Board updates shareholders on the operations and financial position of the Group through, quarterly, half yearly and full year results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations. The Managements is accountable to the Board by providing the Board with the necessary financial information for the discharge of its duties.

AUDIT COMMITTEE

Principle 11: Establishment of Audit Committee with written terms of reference

Presently, the Audit Committee ("AC") comprises entirely of all non-executive directors, and the majority of whom, including the Chairman, are independent. As at the date of this Report, the AC members are:-

Audit Committee

Mr Jack Chia Seng Hee (Chairman)
Mr Huang Wooi Teik (Member)
Ms Han Mei (Member)

The AC assists the Board to maintain a high standard of Corporate Governance, particularly by providing an independent review of the effectiveness of the financial reporting, management of financial and control risks, and monitoring of the internal control systems.

The members of AC, collectively, have expertise or experience in financial management and are qualified to discharge the AC's responsibilities.

The functions of the AC are as follows:

1. assists our Board in discharging its statutory responsibilities on financial and accounting matters;
2. reviews the financial and operating results and accounting policies of the Group;
3. reviews significant financial reporting issues and judgements relating to financial statements for each financial year, interim and annual results announcement before submission to the Board for approval;
4. reviews the adequacy of the Company's internal control (financial and operational) and risk management policies and systems established by the management;
5. reviews the audit plans and reports of the external auditors and consider the effectiveness of the actions taken by management on the auditors' recommendations;
6. appraises and reports to our Board on the audits undertaken by the external auditors, the adequacy of the disclosure of information, and the appropriateness and quality of the system of management and internal controls;
7. reviews the independence of external auditors annually and consider the appointment or re-appointment of external auditors and matters relating to the resignation or removal of the auditors and approves the remuneration and terms of engagement of the external auditors;
8. reviews interested person transactions, as defined in the Listing Manual of the SGX-ST; and
9. reviews the remuneration of employees who are related to our directors or substantial shareholders.

The AC has explicit authority to investigate any matter within its terms of reference. The AC has full access to and co-operation of the management and external auditors, Crowe Horwath First Trust LLP, Singapore. It also has the discretion to invite any director and key executive to attend its meetings. The AC meets with the external auditors without the presence of the management at least once a year. The AC has adequate resources to enable it to discharge its responsibilities properly.

The AC has reviewed the non-audit services performed by Crowe Horwath First Trust LLP, Singapore and noted that there was no non-audit service performed in FY2010.

The AC has recommended to the board of directors that Crowe Horwath First Trust LLP, Singapore be nominated for reappointment as auditors at the forthcoming AGM of the Company.

Pursuant to Listing Rule 716, the Board and the AC are satisfied that the appointment of different auditors for the subsidiaries would not compromise the standard and effectiveness of the audit of the Company. The details of the auditors are outlined in Note 9 to the financial statements.

The Company has put in place a whistle-blowing framework, endorsed by the AC where employees of the Company may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the independent investigations of such matters and for appropriate follow up actions. The details of the whistle-blowing policies and arrangements have been made available to all employees.

INTERNAL CONTROLS

Principle 12: The Board to ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets

AC reviews the adequacy of financial, operational and compliance controls and risk management policies.

The AC is fully aware of the need to put in place a system of internal controls within the Group to safeguard the shareholders' interests and the Group's assets, and to manage risks. The system is intended to provide reasonable but not absolute assurance against material misstatements or loss, and to safeguard assets and ensure maintenance of proper accounting records, reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risks.

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as taking appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board. The financial risk management objectives and policies are outlined in the financial statements.

Risk management alone does not guarantee that business undertakings will not fail. However, by identifying and managing risks that may arise, the Group can make more informed decisions and benefit from a better balance between risk and reward. This will help protect and also create shareholders' value.

Based on the information provided to the AC, nothing has come to the AC's attention to cause the AC to believe that the system of internal controls and risk management is inadequate.

INTERNAL AUDIT

Principle 13: Setting up independent internal audit function

The Company had appointed Shanghai LSC Certified Public Accountants Co., Ltd to undertake the function of internal audit ("IA"). Reports of their work covering various cycles or aspects of the accounting functions and internal control systems and procedures had been received and corrective actions taken in the course of the year. They are continuing to look at other cycles or aspects and their reports are expected to be received in due course.

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Regular, effective and fair communication with shareholders Principle 15: Shareholders' participation at AGM

The Company recognises the importance of providing the Board with a continual flow of relevant information on an accurate and timely basis so that it can discharge its duties effectively. The Company also believes in timely, fair and adequate disclosure of relevant information to shareholders and investors so that they will be apprised of developments that may have a material impact on the Company's securities. The Company does not practice selective disclosure. All information of the Company is published through the SGXNet. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure.

All shareholders of the Company receive the annual report and notice of the AGM. At the AGM, shareholders are given the opportunity to voice their views and ask directors or management questions regarding the Company's affairs. The Chairmen of the Audit, Remuneration and Nominating Committees will normally be present at AGM to answer any questions relating to the work of these Committees. The external auditors are also present at the AGM to answer questions from shareholders.

DEALING IN SECURITIES

The Company has adopted its own internal compliance code pursuant to the best practices on dealings in securities and these are applicable to all its officers in relation to their dealings in the Company's securities. Its officers are advised not to deal in the Company's shares during the period commencing one month before the announcement of the Company's results, or if they are in possession of unpublished price-sensitive information of the Company. In addition, directors and officers are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period.

The Group has complied with Listing Rule 1207 (18) of the Listing Manual.

MATERIAL CONTRACTS

There are no material contracts of the Company or its subsidiaries involving the interests of the executive directors, each director or Controlling Shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

INTERESTED PERSON TRANSACTIONS

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are at arm's length basis. All interested person transactions are subject to review by the AC to ensure compliance with the established procedures.

The directors present their report to the members together with the audited financial statements of Shanghai Turbo Enterprises Ltd. (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2010 and the balance sheet of the Company as at 31 December 2010.

Directors

The directors of the Company in office at the date of this report are as follows:

Liu Ming
Koh Siak Khee
Jack Chia Seng Hee
Huang Wooi Teik
Han Mei
Zhou Xu

Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Except for the bonus warrants as disclosed below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

None of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Shareholdings registered in name of director		Shareholdings in which directors are deemed to have interests	
	At 1 January 2010	At 31 December 2010	At 1 January 2010	At 31 December 2010
The Company				
(Ordinary shares at US$0.025 each)				
Liu Ming	41,200,000	41,200,000	-	-
Kok Siak Khee	-	-	62,643,400	62,643,400

The directors' interests in the share capital of the Company as at 21 January 2011 were the same as those as at 31 December 2010.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest, except for salaries, bonuses and other benefits as disclosed in the financial statements. Certain directors received remuneration from related corporations in their capacity as directors and/or executives of those related corporations.

Share options

(a) Option to take up unissued shares

During the financial year, there were no options granted by the Company or its subsidiaries to take up unissued shares in the Company or its subsidiaries.

(b) Option exercised

During the financial year, there were no shares issued by virtue of the exercise of options to take up unissued ordinary shares of the Company or its subsidiaries.

(c) Unissued shares under bonus warrants

In November 2006, the Company granted bonus warrants on the basis of 1 bonus warrant for every 2 existing ordinary shares of US$0.025 each held in the share capital of the Company to all the eligible shareholders under the Bonus Warrant Scheme (the “Scheme”). A total number of 137,335,130 bonus warrants were issued free to the shareholders and listed on the Singapore Exchange Securities Trading Limited on 24 November 2006.

The Scheme allows all warrant holders to subscribe for a new share of the Company at an exercise price of S$0.32 during the exercise period. The exercise period is 3 years commencing from the listing date of the warrants. During the financial year, all unexercised warrants lapsed due to the expiry of the warrants on 20 November 2009.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

Audit committee

The members of the Audit Committee at the end of the financial year are as follows:

Jack Chia Seng Hee
Huang Wooi Teik
Han Mei

The Audit Committee carried out its functions in accordance with the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors;
- the periodic results announcements prior to their submission to the Board for approval;
- the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2010 prior to their submission to the Board of Directors, as well as the independent auditors' report on those financial statements; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company. The Audit Committee has conducted an annual review of non-audit services to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the independent auditors before confirming their re-nomination.

Further details regarding the Audit Committee are disclosed in the Report on Corporate Governance.

Independent auditors

The independent auditors, Horwath First Trust LLP, who are now practicing under the name of Crowe Horwath First Trust LLP with effect from 18 November 2010, have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

LIU MING
Director

ZHOU XU
Director

25 March 2011

STATEMENT BY DIRECTORS

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 28 to 66 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the results, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

LIU MING
Director

ZHOU XU
Director

25 March 2011

INDEPENDENT AUDITORS' REPORT

To the Members of Shanghai Turbo Enterprises Ltd.

Crowe Horwath™

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Certified Public Accountants
Member Crowe Horwath International

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Report on the Financial Statements

We have audited the accompanying financial statements of Shanghai Turbo Enterprises Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 28 to 66, which comprise the balance sheets of the Group and of the Company as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Crowe Horwath First Trust LLP
Public Accountants and
Certified Public Accountants

Singapore
25 March 2011

BALANCE SHEETS

As at 31 December 2010
(Amounts in Chinese Renminbi ("RMB"))

	Note	Group		Company	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	3	55,409	55,409	55,409	55,409
Share premium	4	81,527	81,527	81,527	81,527
		136,936	136,936	136,936	136,936
Other reserves					
Statutory reserve	5	10,944	7,808	-	-
Translation reserve	6	(1,528)	14	-	-
		9,416	7,822	-	-
Retained earnings	7	56,208	45,871	(2,071)	(1,639)
TOTAL EQUITY		202,560	190,629	134,865	135,297
ASSETS					
Non-current assets					
Property, plant and equipment	8	115,662	107,239	-	-
Subsidiaries	9	-	-	156,236	156,236
Land use right	10	10,198	8,986	-	-
Current assets					
Inventories	11	13,400	14,906	-	-
Trade receivables	12	68,079	38,451	-	-
Other receivables, deposits and prepayments	13	1,645	1,492	-	-
Land use right	10	227	195	-	-
Cash and bank balances	24	42,147	60,318	15	18
		125,498	115,362	15	18
TOTAL ASSETS		251,358	231,587	156,251	156,254

The accompanying notes are an integral part of the financial statements.

BALANCE SHEETS

As at 31 December 2010 (Continued)
(Amounts in Chinese Renminbi ("RMB"))

	Note	Group		Company	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES					
Current liabilities					
Trade payables	14	32,963	27,393	-	-
Other payables and accruals	15	14,293	13,555	1,381	1,275
Due to subsidiaries (non-trade)	16	-	-	20,005	19,682
Income tax payable		1,542	10	-	-
		48,798	40,958	21,386	20,957
TOTAL LIABILITIES		48,798	40,958	21,386	20,957
NET ASSETS		202,560	190,629	134,865	135,297

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the fianancial year ended 31 December 2010
(Amounts in Chinese Renminbi ("RMB"))

	Note	2010 RMB'000	2009 RMB'000
Revenue	17	169,231	156,955
Cost of sales		(107,068)	(122,711)
Gross profit		62,163	34,244
Other operating income	18	1,329	1,368
Selling and distribution expenses		(4,721)	(6,875)
Administrative expenses		(15,837)	(16,918)
Finance costs – interest expense		-	(184)
Profit before tax	20	42,934	11,635
Income tax expense	21	(15,727)	(1,982)
Profit for the year		27,207	9,653
Other comprehensive income:			
Share premium arising from exercising of bonus warrants		-	3
Currency translation differences arising from consolidation		(1,542)	(54)
Other comprehensive income, net of tax		(1,542)	(51)
Total comprehensive income for the year		25,665	9,602
Earnings per share (cents)			
Basic and diluted	22	9.90	3.51

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the fianancial year ended 31 December 2010
(Amounts in Chinese Renminbi ("RMB"))

	Share capital	Share premium	Statutory reserve	Translation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 3)	(Note 4)	(Note 5)	(Note 6)	(Note 7)	
Balance as at 1 January 2009	55,409	81,524	6,467	68	37,559	181,027
Total comprehensive income for the year	-	3	-	(54)	9,653	9,602
Transfer to statutory reserve	-	-	1,341	-	(1,341)	-
Balance as at 31 December 2009	55,409	81,527	7,808	14	45,871	190,629
Balance as at 1 January 2010	55,409	81,527	7,808	14	45,871	190,629
Total comprehensive income for the year	-	-	-	(1,542)	27,207	25,665
Transfer to statutory reserve	-	-	3,136	-	(3,136)	-
Dividends (Note 23)	-	-	-	-	(13,734)	(13,734)
Balance as at 31 December 2010	55,409	81,527	10,944	(1,528)	56,208	202,560

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

For the fianancial year ended 31 December 2010
(Amounts in Chinese Renminbi ("RMB"))

	Note	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Profit before tax		42,934	11,635
Adjustments:			
Amortisation of land use rights		321	195
Amortisation of deferred expenditure		338	1,609
Depreciation of property, plant and equipment		13,324	12,713
Interest expense		-	184
Interest income		(134)	(127)
Gain on disposal of property, plant and equipment		(154)	(219)
Operating profit before working capital changes		56,629	25,990
Inventories		1,506	44,900
Trade and other receivables		(30,119)	(21,807)
Trade and other payables (Note A)		4,743	4,630
Cash generated from operations		32,759	53,713
Interest paid		-	(184)
Interest income received		134	127
Income taxes paid		(14,195)	(2,039)
Net cash from operating activities		18,698	51,617
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		736	898
Purchase of property, plant and equipment (Note B)	8	(22,329)	(9,137)
Net cash used in investing activities		(21,593)	(8,239)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

For the fianancial year ended 31 December 2010 (Continued)
(Amounts in Chinese Renminbi ("RMB"))

	Note	2010 RMB'000	2009 RMB'000
Cash flows from financing activities			
Pledged cash deposits		(5,615)	(551)
Proceeds from exercise of bonus warrants		-	3
Repayments of term loans		-	(10,000)
Dividends paid		(13,734)	-
Net cash used in financing activities		(19,349)	(10,548)
Net (decrease) increase in cash and cash equivalents		(22,244)	32,830
Effects of changes in currency translation		(1,542)	(54)
Cash and cash equivalents at beginning of year		53,808	21,032
Cash and cash equivalents at end of year	24	30,022	53,808

Note A:

The Group acquired land use rights amounting to approximately RMB 1,565,000 of which no cash payments were made during the financial year. The entire balance is recorded in other payables and accrual and will be paid during the financial year ended 31 December 2011.

Note B:

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of approximately RMB 22,329,000 (2009: RMB 13,086,000) of which RMB Nil (2009: RMB 3,949,000) was capitalised from short term deposits. Cash payments of RMB 22,329,000 (2009: RMB 9,137,000) were made to purchase these property, plant and equipment.

The accompanying notes are an integral part of the financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

Shanghai Turbo Enterprises Ltd. (the "Company") is a limited company domiciled and incorporated in the Cayman Islands and listed on the Main Board of the Singapore Exchange Securities Trading Limited. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is No.1-2, Yinghua Road, Zhonglou Economic Development Zone, Changzhou City, Jiangsu Province, the People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are shown in Note 9.

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 25 March 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the International Financial Reporting Standards ("IFRS"). The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) as indicated.

The preparation of the financial statements in conformity with IFRS requires management to exercise its judgement, in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgment or complexity, are disclosed in this Note.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards

On 1 January 2010, the Group adopted the new or amended IFRS and Interpretations of IFRS (“INT IFRS”) that are mandatory for application from that date. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and INT IFRS. The adoption of these new or amended IFRS and INT IFRS did not result in substantial changes to the Group’s and Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

(a) *IFRS 3 (revised) Business Combinations* (effective for annual periods beginning on or after 1 July 2009)

The revised IFRS 3 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised IFRS 3 include:

- Transaction costs would no longer be capitalized as part of the cost of acquisition but will be expensed immediately;

- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;

- The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets, and this impacts the amount of goodwill; and

- When a business is acquired in stages, the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss, and this impacts the amount of goodwill recognised.

According to its transitional provisions, the revised IFRS 3 has been applied prospectively, and does not impact on the Group’s financial statements in respect of assets and liabilities that arose from business combinations whose acquisition dates are before 1 January 2010. The changes will affect future business combinations.

(b) *IAS 27 (revised) Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009)

Changes in significant accounting policies resulting from the adoption of the revised IAS 27 include:

- A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary’s equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

According to its transitional provisions, the revised IAS 27 has been applied prospectively, and does not impact the Group’s financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards (Continued)

(a) *Amendment to IAS 7 Cash Flow Statements* (effective for annual periods beginning on or after 1 January 2010)

Under the amendment, only expenditures that result in a recognised asset in the balance sheet can be classified as investing activities in the statement of cash flows. Previously, such expenditure could be classified as investing activities in the statement of cash flows.

This change has been applied retrospectively. It had no material effect on the amounts presented in the statement of cash flows for the current or prior year.

(b) *Amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* (effective for annual periods beginning on or after 1 January 2010)

The Amendments to IFRS 5 requires that when a subsidiary is held for sale, all its assets or liabilities shall be classified as held for sale under IFRS 5, even when the Group will retain a non-controlling interest in the subsidiary after the sale.

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*	1 February 2010
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
Revised IAS 24 *Related Party Disclosures*	1 January 2011
Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	1 January 2011

Except for the revised IAS 24, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised IAS 24 is described below.

Revised IAS 24 *Related Party Disclosures*

The revised IAS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised IAS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

2. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Group accounting

Subsidiaries

(i) Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(iii) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency translation

Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is the functional currency of the Company.

Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Translation of the Group's financial statements

The assets and liabilities of foreign operations are translated into Chinese Renminbi at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of transactions. The exchange differences arising on the translation are reconciled in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The Group has elected to recycle the accumulated exchange differences in the separate component of other comprehensive income that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment and the accounting policy for borrowing costs is set out in this Note. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss.

All items of property, plant and equipment are depreciated using the straight-line method to write-off the cost of the assets less estimated residual value over their estimated useful lives. The estimated useful lives and residual values have been taken as follows:

	Useful lives (Years)	Estimated residual value as a percentage of cost (%)
Leasehold buildings	10 to 20	10
Plant and machinery	5 to 10	10
Office equipment	5	10
Motor vehicles	5 to 10	10

Fully depreciated assets are retained in the financial statements until they are no longer in use. The residual value, estimated useful life and depreciation method are reviewed and adjusted as appropriate, at each balance sheet date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the consolidated statement of comprehensive income within “Other income (expense)”.

Land use right

Land use right is initially measured at cost. Following initial recognition, land use right is measured at cost less accumulated amortisation and accumulated impairment losses. The land use right is amortised on a straight-line basis over the lease term of 50 years.

Subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company’s balance sheet. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset’s recoverable amount.

An asset’s recoverable amount is calculated as the higher of the asset’s value in use and the asset’s or cash-generating unit’s fair value less costs to sell and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent on those from other assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

Impairment losses of continuing operations are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Financial assets

Initial recognition and measurement
Financial assets are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement
The Group classifies its investments in financial assets in the category of loans and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those maturing more than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are presented as trade and other receivables and cash and bank balances on the balance sheet.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Derecognition
Financial assets are derecognised when the contractual rights to the cash flows from the financial assets have expired or have been transferred. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date basis where the purchase or sale of financial assets are under a contract whose terms require delivery of the assets within the timeframe established by the market concerned.

Impairment of financial assets

The Group assess as at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

(ii) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials comprise purchase cost accounted for on a weighted average basis. Work-in-progress and finished goods comprise cost of direct materials, direct labour and an attributable proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits with financial institutions, and short term, highly liquid investments readily convertible to known amounts of cash and subjected to an insignificant risk of changes in value.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

Subsequent measurement

Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Derecognition
A financial liability is derecognised when the obligation under the liability is extinguished, discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Operating leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss on a straight-line basis over the lease term.

Provisions

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, the provision is discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Government grants

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as “Other income”. Alternatively, they are deducted in reporting the related expenses.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from subcontracting services is recognised over the period in which the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the Group's right to receive payment is established.

Rental income arising from operating leases on investment properties is recognised on a straight-line basis over the lease terms.

Employees' benefits

(i) Retirement benefits

The Group participates in the national schemes as defined by the laws of the countries in which it has operations. The subsidiary, incorporated and operating in the PRC, is required to provide certain retirement plan contribution to their employees under existing PRC regulations. Contributions are provided at rates stipulated by the PRC regulations and are managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the balance sheet date.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantially enacted by the balance sheet date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets or liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

Related parties

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

(a) the party, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
(b) the party is an associate; a jointly-controlled entity;
(c) the party is a member of the key management personnel of the Group or its parent;
(d) the party is a close member of the family of any individual referred to in (a) and (c);
(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to (c) or (d); or
(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

Critical accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of plant and machinery

The depreciable cost of plant and machinery used for the manufacture of precision turbo blades are depreciated on a straight-line basis over the estimated useful lives. Management estimates the useful lives of these plant and machinery to be within 5 – 10 years and the residual values to be 10% of the cost of these assets. These are common life expectancies and residual values applied in the industry. The carrying amount of the Group's plant and machinery at 31 December 2010 was approximately RMB 90,731,000 (2009: RMB 80,493,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore future depreciation charges could be revised.

(b) Impairment of trade receivables

Impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to original term of debts. An assessment is made at each balance sheet date of whether there is any indication of impairment or whether there is any indication that an impairment loss previously recognised in prior years may no longer exist or may have decreased. Where the actual results differ from the amounts that were initially assessed, such differences will result in a material adjustment to the carrying amounts of trade receivables within the next financial year. The carrying values of trade receivables as at 31 December 2010 were approximately RMB 68,079,000 (2009: RMB 38,451,000).

(c) Impairment of inventory

Management exercises their judgments in making allowance for inventories. An allowance for inventories is made if inventories are obsolete or where cost is lower than the estimated net realisable value. The carrying amounts as at the balance sheet date are disclosed in Note 11 to the financial statements.

(d) Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on fair values. These calculations require the use of judgment and estimates. The carrying amounts as at the balance sheet date are disclosed in Note 8 to the financial statements.

3. SHARE CAPITAL

(a) Ordinary shares

	Group and Company			
	2010	2009	2010	2009
	No. of ordinary shares at US$0.025 each		US$'000	US$'000
Issued and fully paid:				
At the beginning of the year	274,684,760	274,682,760	6,867	6,867
Exercise of bonus warrants	-	2,000	-	^
At the end of the year	274,684,760	274,684,760	6,867	6,867
Equivalent to (RMB'000)			55,409	55,409

^ Amount less than US$1,000

(b) Bonus warrants

	Group and Company	
	2010	2009
	No. of bonus warrants	
At the beginning of the year	-	137,322,630
Exercised during the year	-	(2,000)
Expired during the year	-	(137,320,630)
At the end of the year	-	-

In November 2006, the Company granted bonus warrants on the basis of 1 bonus warrant for every 2 existing ordinary shares of US$0.025 each held in the share capital of the Company to all the eligible shareholders under the Bonus Warrant Scheme (the "Scheme"). A total number of 137,335,130 bonus warrants were issued free to shareholders and listed on the Singapore Exchange Securities Trading Limited on 24 November 2006.

The Scheme allows all warrant holders to subscribe for a new share of the Company at an exercise price of S$0.32 during the exercise period. The exercise period is 3 years commencing from the listing date of the warrants. During the preceding financial year, all unexercised warrants lapsed due to the expiry of the warrants on 20 November 2009.

4. SHARE PREMIUM

	Group and Company	
	2010	2009
	RMB'000	RMB'000
At the beginning of the year	81,527	81,524
Arising from the exercise of bonus warrants	-	3
At the end of the year	81,527	81,527

Under The Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

5. STATUTORY RESERVE

	Percentage of contribution from profit after tax	Group	
		2010	2009
		RMB'000	RMB'000
Statutory reserve fund	10%	10,944	7,808

In accordance with the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" and the subsidiary's Articles of Association, the subsidiary, being a wholly foreign-owned enterprise must make appropriation to a statutory reserve fund ("SRF"). At least 10 percent of the statutory after-tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF, however no appropriation is required in the loss-making year. If the cumulative total of the SRF reaches 50% of the subsidiary's registered capital, the subsidiary will not be required to make any further appropriation.

The reserve fund may be used to offset accumulated losses or increase the registered capital of the Company, subject to approval from the relevant PRC authorities and is not available for dividend distribution to the shareholders. The PRC enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

6. TRANSLATION RESERVE

	Group	
	2010	2009
	RMB'000	RMB'000
At the beginning of the year	14	68
Net currency translation difference of financial statements of a foreign subsidiary	(1,542)	(54)
At the end of the year	(1,528)	14

7. RETAINED EARNINGS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year	45,871	37,559	(1,639)	2,007
Profit (loss) for the year	27,207	9,653	13,302	(3,646)
Transfer to statutory reserve	(3,136)	(1,341)	-	-
Dividend paid	(13,734)	-	(13,734)	-
At the end of the year	56,208	45,871	(2,071)	(1,639)

8. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings	Plant and machinery	Office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
As at 1.1.2009	31,828	114,959	2,512	2,798	152,097
Additions	-	12,282	-	804	13,086
Disposals	-	(825)	-	(632)	(1,457)
As at 31.12.2009	31,828	126,416	2,512	2,970	163,726
As at 1.1.2010	31,828	126,416	2,512	2,970	163,726
Additions	-	22,127	57	145	22,329
Disposals	-	(1,216)	-	(746)	(1,962)
As at 31.12.2010	31,828	147,327	2,569	2,369	184,093
Accumulated depreciation					
As at 1.1.2009	5,383	35,757	1,845	1,567	44,552
Charge for the year	1,421	10,669	213	410	12,713
Disposals	-	(503)	-	(275)	(778)
As at 31.12.2009	6,804	45,923	2,058	1,702	56,487
As at 1.1.2010	6,804	45,923	2,058	1,702	56,487
Charge for the year	1,420	11,471	142	291	13,324
Disposals	-	(798)	-	(582)	(1,380)
As at 31.12.2010	8,224	56,596	2,200	1,411	68,431
Net carrying value					
As at 1.1.2009	26,445	79,202	667	1,231	107,545
As at 31.12.2009	25,024	80,493	454	1,268	107,239
As at 31.12.2010	23,604	90,731	369	958	115,662

9. SUBSIDIARIES

	Company 2010 RMB'000	Company 2009 RMB'000
Unquoted equity shares, at cost	156,236	156,236

The details of subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Effective equity held by the Group 2010 %	Effective equity held by the Group 2009 %	Cost of investment 2010 RMB'000	Cost of investment 2009 RMB'000
Held by the Company						
Best Success (Hong Kong) Limited [(1)]	Investment holding	Hong Kong	100	100	156,236	156,236
Held by Best Success						
Changzhou 3D Technological Complete Set Equipment Co., Limited [(2)]	Manufacture of vane products	PRC	100	100		

(1) Audited by S. W. Chan & Co, Hong Kong and reviewed by Crowe Horwath First Trust LLP for consolidation purposes.

(2) Audited by 常州新华瑞会计师事务所, a firm of certified public accountants in the PRC for local statutory reporting and by Crowe Horwath First Trust LLP for consolidation purposes.

10. LAND USE RIGHT

	Group 2010 RMB'000	Group 2009 RMB'000
Cost		
At beginning of the year	9,766	9,766
Additions	1,565	-
At end of the year	11,331	9,766
Accumulated amortisation		
At beginning of the year	585	390
Charge for the year	321	195
At end of the year	906	585
Net carrying value		
At beginning of the year	9,181	9,376
At end of the year	10,425	9,181

10. LAND USE RIGHT (Continued)

	Group	
	2010	2009
	RMB'000	RMB'000
Presentation in balance sheet:		
- Not later than one year, current portion	227	195
- Later than one year but not later than five years	906	780
- Later than five years	9,292	8,206
Non-current portion	10,198	8,986

The Group has land use rights over a plot of state-owned land People's Republic of China (PRC) where the Group's PRC manufacturing and storage facilities reside. The land use rights are not transferable and have a remaining tenure of 46 years (2009: 47 years).

11. INVENTORIES

	Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	5,239	8,504
Work-in-progress	5,683	4,760
Finished goods	15,609	16,139
	26,531	29,403
Allowance for inventory obsolescence	(13,131)	(14,497)
	13,400	14,906

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB 62,401,000 (2009: RMB 87,067,000).

The movement in allowance for inventory obsolescence is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	14,497	13,126
Allowance written back	(1,366)	-
Allowance made during the year	-	1,371
Balance at end of the year	13,131	14,497

12. TRADE RECEIVABLES

	Group	
	2010	2009
	RMB'000	RMB'000
Trade receivables	48,436	34,905
Allowance for impairment of trade receivables (Note 28 (c))	(3,630)	(3,630)
	44,806	31,275
Bills receivable	23,273	7,176
	68,079	38,451

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
Advances to suppliers	1,559	950
Advances to sub-contractors	22	87
Deferred expenditure	-	338
Prepayments	34	22
Other receivables	15	55
Others	15	40
	1,645	1,492

14. TRADE PAYABLES

	Group	
	2010	2009
	RMB'000	RMB'000
Trade payables	17,463	15,193
Bills payable (1)	15,500	12,200
	32,963	27,393

(1) Cash deposits of RMB 12,125,000 (2009: RMB 6,100,000) are pledged in connection with bills payable facilities granted by a bank (Note 24).

15. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued operating expenses	9,832	7,920	1,381	1,275
Deposits received from customers	-	1,624	-	-
Other payables	3,565	2,000	-	-
Value added tax payable	609	1,792	-	-
Others	287	219	-	-
	14,293	13,555	1,381	1,275

16. DUE TO SUBSIDIARIES (NON-TRADE)

These non-trade balances are unsecured, interest-free and repayable on demand.

17. REVENUE

	Group	
	2010	2009
	RMB'000	RMB'000
Sale of goods	136,360	125,950
Subcontracting services	32,871	31,005
	169,231	156,955

18. OTHER OPERATING INCOME

	Group	
	2010	2009
	RMB'000	RMB'000
Rental income	-	12
Gain on sale of scrap materials	792	285
Gain on disposal of property, plant and equipment	154	219
Interest income	134	127
Government grants	24	200
Write-back of allowance for doubtful trade debts (Note 28(c))	-	523
Others	225	2
	1,329	1,368

19. PERSONNEL EXPENSES

	Group	
	2010	2009
	RMB'000	RMB'000
Wages, salaries and bonuses	23,355	18,055
Staff benefits	442	562
Pension contributions	1,845	1,711
	25,642	20,328

20. PROFIT BEFORE TAX

This is determined after charging (crediting) the following:

	Group	
	2010	2009
	RMB'000	RMB'000
Allowance for inventory obsolescence	-	1,371
Allowance for inventory obsolescence written back	(1,366)	-
Amortisation of land use rights	321	195
Amortisation of deferred expenditure	338	1,609
Cost of inventories recognised as expense	62,401	87,067
Depreciation of property, plant and equipment	13,324	12,713
Directors' remuneration		
- directors of the Company	1,320	1,492
- directors of subsidiaries	2,040	600
Gain on disposal of property, plant and equipment	(154)	(219)
Foreign exchange gain, net	(1,481)	(64)
Personnel expenses (Note 19)*	25,642	20,328
Write-back of allowance for doubtful trade debts (Note 28 (c))	-	(523)

* This includes the amount shown as directors' remuneration.

21. INCOME TAX EXPENSE

Major components of income tax expense for the year ended 31 December were:

	Group	
	2010	2009
	RMB'000	RMB'000
Current tax		
- current year	13,386	1,931
- under provision in prior year	1,964	51
Withholding tax on dividend income	377	-
	15,727	1,982

21. INCOME TAX EXPENSE (Continued)

The reconciliation of the tax expense and the product of accounting profit multiplied by the applicable rate is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before tax	42,934	11,635
Tax at the PRC rate of 25% (2009: 25%)	10,733	2,909
Tax effects of:		
Tax exemptions granted to a subsidiary	-	(1,925)
Expenses that are not deductible in determining taxable profit	1,978	645
Differences in tax rates	675	302
Under provision of tax in prior years	1,964	51
Withholding tax on dividend income	377	-
Tax expense	15,727	1,982

<u>The Company:</u>

The Company does not have taxable profits since its incorporation on 14 July 2005.

<u>Subsidiaries:</u>

Best Success (Hong Kong) Limited, subject to Hong Kong tax rate of 16.5% (2009: 16.5%), does not have assessable profit since its incorporation on 23 April 2005.

On 13 July 2005, the subsidiary, Changzhou Technological Complete Set Equipment Co., Ltd ("Changzhou 3D") was converted to a wholly foreign-owned enterprise ("WFOE"). From this date, in accordance with the "Income Tax Law of the PRC applicable to Enterprises with Foreign Investment and Foreign Enterprises", the income tax on foreign investment enterprises engaged in production established in coastal economic open zones shall be levied at the reduced rate of 24%. On 26 March 2007, the PRC promulgated the PRC Enterprise Income Tax Law (the "New Tax Law"), which became effective from 1 January 2008. The New Tax Law changed the tax rate from 33% to 25%.

Changzhou 3D is further entitled to an exemption from Enterprise Income Tax ("EIT") for the first two profitable years of operation and thereafter a 50% reduction in EIT for the following three financial years. It is also exempted from the local income tax of 3% during the 5-year tax concession period. Thereafter, Changzhou 3D will have to pay EIT at the then prevailing statutory tax rate. For the financial year ended 31 December 2010, Changzhou 3D is subject to EIT at the applicable tax rate of 25%.

No deferred tax has been provided, as the Group does not have any significant temporary differences which give rise to a deferred tax asset or liability at the balance sheet date.

The aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiary for which deferred tax liabilities have not been recognised is approximately RMB 59,811,000 (2009: RMB 53,133,000). No liability has been recognised in respect of temporary differences associated with undistributed earnings of the PRC subsidiary because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. EARNINGS PER SHARE

The calculations of earnings per share are based on the profit and numbers of shares shown below.

	2010 RMB'000	2009 RMB'000
Profit attributable to shareholders	27,207	9,653

	Number of ordinary shares	
	2010	2009
Weighted average number of ordinary shares	274,684,760	274,682,990

There is no dilution effect in earnings per share in respect of the bonus warrants which are anti-dilutive.

23. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Interim exempt (one-tier) paid in respect of financial year of 5 cents per ordinary share (2009: Nil)	13,734	-

At the forthcoming Annual General Meeting, a final dividend of 2.5 cents per ordinary share (one-tier, tax exempt) amounting to RMB6,867,000 will be recommended. These financial statements do not reflect this proposed dividend which will be accounted for in shareholders' equity as an appropriation in retained earnings in the financial year ending 31 December 2011.

24. CASH AND CASH EQUIVALENTS

	Group	
	2010 RMB'000	2009 RMB'000
Cash on hand	53	10
Cash in bank	29,969	53,798
Cash and cash equivalents as stated in the statement of cash flows	30,022	53,808
Pledged cash deposits placed with banks	12,125	6,510
Cash and bank balances as stated in balance sheet	42,147	60,318

Cash deposits of RMB 12,125,000 (2009: RMB 6,100,000) are pledged in connection with bills payable facilities (Note 14). The remaining balance of RMB Nil (2009: RMB 410,000) is pledged to a bank for the import of raw materials.

24. CASH AND CASH EQUIVALENTS (Continued)

As at 31 December 2010, the Group has cash and bank balances deposited with banks in the People's Republic of China denominated in Chinese Renminbi ("RMB") and United States dollars amounting to approximately RMB 40,989,000 and RMB 316,000 (2009: RMB 48,367,000 and RMB 8,408,000 respectively). The RMB is not freely convertible into foreign currencies. Under the People's Republic of China's Foreign Exchange Control Regulations and Administration of settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

25. RELATED PARTY TRANSACTIONS

Some of the arrangements with related parties (as defined in Note 2) and the effects of these bases determined between the parties are reflected elsewhere in this report. The balances due from related parties are unsecured, interest-free and repayable on demand. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Group	
	2010	2009
	RMB'000	RMB'000
Key management personnel compensation	3,701	2,241

The remuneration of directors and key management is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

26. CAPITAL COMMITMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
Capital expenditure contracted but not provided for in the financial statements:		
- commitments in respect of land use rights	-	2,781
- commitments in respect of acquisition of plant and equipment	6,588	-
- commitments in respect of acquisition of raw materials	3,011	-
	9,599	2,781

27. SEGMENT INFORMATION

No separate analysis of operating segment is presented as the management does not allocate resources and assess performance by operating segments. The Group's major business comprises of the manufacture and sale of high precision vane products and the Group's revenue, expenses, results, assets, liabilities and capital expenditure are principally attributable to a single geographical region, which is the PRC.

28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are foreign exchange risk, interest rate risk, liquidity risk and credit risk. The Group does not have a formal risk management policies and guidelines. However, the Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below. It is the Group's policy not to trade in derivative contracts.

(a) Market risk

(i) Foreign exchange risk

As the Group's transactions are primarily denominated in RMB, it is subject to minimal foreign exchange exposure. The Group has cash and bank balances denominated in Singapore dollars, United States dollars and Hong Kong dollars. Accordingly, the Group's balance sheets can be affected by movements in these exchange rates.

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. The Group has not entered into any derivative instruments for hedging or trading purposes.

Group 2010	Singapore Dollars	United States Dollars	Chinese Renminbi	Hong Kong Dollars	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets						
Cash and bank balances	15	316	40,990	826	-	42,147
Trade receivables	-	-	68,079	-	-	68,079
Other receivables	-	-	30	-	-	30
	15	316	109,099	826	-	110,256
Financial liabilities						
Trade payables	-	-	32,963	-	-	32,963
Other financial liabilities	1,002	-	13,039	5	247	14,293
	1,002	-	46,002	5	247	47,256
Net financial (liabilities) assets	(987)	316	63,097	821	(247)	63,000
Less: Net financial liabilities (assets) denominated in the respective entities functional currencies	-	-	(63,097)	(826)	-	(63,923)
Foreign currency exposure	(987)	316	-	(5)	(247)	(923)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Group 2009	Singapore Dollars	United States Dollars	Chinese Renminbi	Hong Kong Dollars	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets						
Cash and bank balances	18	8,408	48,367	3,525	-	60,318
Trade receivables	-	-	38,451	-	-	38,451
Other receivables	-	-	95	-	-	95
	18	8,408	86,913	3,525	-	98,864
Financial liabilities						
Trade payables	-	-	27,393	-	-	27,393
Other financial liabilities	945	-	10,658	81	247	11,931
	945	-	38,051	81	247	39,324
Net financial (liabilities) assets	(927)	8,408	48,862	3,444	(247)	59,540
Less: Net financial liabilities (assets) denominated in the respective entities functional currencies	-	-	(48,862)	(3,476)	-	(52,338)
Foreign currency exposure	(927)	8,408	-	(32)	(247)	7,202

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Company 2010	Singapore Dollars	Hong Kong Dollars	Chinese Renminbi	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Cash and bank balances	15	-	-	-	15
Financial liabilities					
Other financial liabilities	1,002	16,839	3,298	247	21,386
Net financial liabilities	(987)	(16,839)	(3,298)	(247)	(21,371)
Less: Net financial liabilities denominated in the entity's functional currency	-	-	3,298	-	3,298
Foreign currency exposure	(987)	(16,839)	-	(247)	(18,073)

Company 2009	Singapore Dollars	Hong Kong Dollars	Chinese Renminbi	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Cash and bank balances	18	-	-	-	18
Financial liabilities					
Other financial liabilities	945	16,543	3,222	247	20,957
Net financial liabilities	(927)	(16,543)	(3,222)	(247)	(20,939)
Less: Net financial liabilities denominated in the entity's functional currency	-	-	3,222	-	3,222
Foreign currency exposure	(927)	(16,543)	-	(247)	(17,717)

28. **FINANCIAL INSTRUMENTS (Continued)**

Financial risk management objectives and policies (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 10% increase and decrease in the Chinese Renminbi against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

If the Chinese Renminbi strengthens by 10% against the relevant foreign currency, profit or loss will increase (decrease) by:

Group 2010	Singapore Dollars	Hong Kong Dollars	United States Dollars	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	99	1	(32)	25	93
Company					
Profit or loss	99	1,684	-	25	1,808

Group 2009	Singapore Dollars	Hong Kong Dollars	United States Dollars	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	93	3	(841)	25	(720)
Company					
Profit or loss	93	1,654	-	25	1,772

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity (Continued)

If the Chinese Renminbi weakens by 10% against the relevant foreign currency, profit or loss will increase (decrease) by:

Group 2010	Singapore Dollars	Hong Kong Dollars	United States Dollars	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	(99)	(1)	32	(25)	(93)
Company					
Profit or loss	(99)	(1,684)	-	(25)	(1,808)

Group 2009	Singapore Dollars	Hong Kong Dollars	United States Dollars	Japanese Yen	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	(93)	(3)	841	(25)	720
Company					
Profit or loss	(93)	(1,654)	-	(25)	(1,772)

(ii) Interest rate risk

The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure. The Group constantly monitors its interest rate risk and does not utilise forward contracts or other arrangements for trading or speculative purposes. As at 31 December 2010, there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding.

Interest risk sensitivity

The Group's income statement and equity are not affected by changes in interest rates as the interest-bearing financial instruments carry fixed interest until maturity. Hence, the Group's exposure to interest rate risk is minimal.

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(b) Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations.

The following tables detail the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

Group	On demand or within 1 year
2010	RMB'000
Trade payables	32,963
Other payables	14,293
	47,256
2009	
Trade payables	27,393
Other payables	11,931
	39,324

Company	On demand or within 1 year
2010	RMB'000
Other payables	1,381
Due to subsidiaries	20,005
	21,386
2009	
Other payables	1,275
Due to subsidiaries	19,682
	20,957

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties. Credit exposure to an individual counterparty is restricted by credit limits that are approved by the management based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Board of Directors.

As at 31 December 2010, the Group has five customers which comprise 93% (2009: 94%) of the Group's outstanding trade receivables, which are located in the People's Republic of China.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

The average credit period on sales of goods ranges from 30 to 90 days (2009: 30 to 90 days). No interest is imposed on overdue trade receivables.

The carrying amounts of cash and bank balances, trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

Cash and cash equivalents are placed with reputable local financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. The amounts presented in the balance sheet are net of allowances for impairment of trade receivables, estimated by management based on prior experience and the current economic environment.

The age analysis of trade receivables is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Not past due and not impaired	34,167	29,857
Past due but not impaired		
- Past due 0 to 3 months	-	176
- Past due over 3 months	10,639	1,242
	10,639	1,418
Impaired trade receivables	3,630	3,630
Less: Allowance for impairment loss	(3,630)	(3,630)
Net trade receivables (Note 12)	44,806	31,275

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(c) Credit risk (Continued)

The movement in allowance for impairment loss is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	3,630	4,153
Allowance written back during the year	-	(523)
Balance at end of the year	3,630	3,630

The Group has provided majority of its trade receivables over one year because historical experience is such that receivables that are past due beyond one year are generally not recoverable. Trade receivables less than one year are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Fair value of financial instruments by classes that are carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of cash and bank balances, trade and other receivables, trade and other payables (including amounts due to subsidiaries) are reasonable approximation of fair values due to their short-term nature.

Capital risk management policies and objectives

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes cash and cash equivalents in Note 24 and equity attributable to equity holders of the parent, comprising share capital, share premium, reserves and retained earnings as disclosed in Notes 3 to 7.

The Board of Directors reviews the capital structure on an annual basis. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital. The Group will then balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

SHAREHOLDERS' INFORMATION AS AT 18 MARCH 2011

Class of equity securities	Number of equity securities	Voting Rights
Ordinary	274,684,760	One vote per share

There is no treasury share held in the issued capital of the Company.

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholding	Number of Shareholders	%	Number of Shares	%
1 - 999	17	1.39	6,896	0.00
1,000 - 10,000	419	34.29	2,883,968	1.05
10,001 - 1,000,000	769	62.93	47,184,256	17.18
1,000,001 and above	17	1.39	224,609,640	81.77
TOTAL	**1,222**	**100.00**	**274,684,760**	**100.00**

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders as at 18 March 2011)

	Direct Interest	%	Deemed Interest	%
Mr Liu San San[1]	41,200,000	14.99	0	0
Mr Liu Ming[2]	41,200,000	14.99	0	0
Koh Siak Khee[3]	0	0	62,643,400	22.81
Allport Limited[3]	62,643,400	22.81	0	0
East Gate Capital[3]	0	0	62,643,400	22.81
East Gate Capital Partners Pte. Ltd.[3]	0	0	62,643,400	22.81
TIA Systems Yugen Gaisha Japan[4]	33,000,000	12.01	0	0
Seiichi Higashino[4]	0	0	33,000,000	12.01

Notes:-

1. A total of 41,200,000 shares were held by Mr Liu San San through his nominee. Mr Liu San San demised on 10 January 2010.

2. Mr Liu Ming holds a total of 41,200,000 shares held through his nominee.

3. Allport Limited holds a total of 62,643,400 shares in their own name and is a wholly-owned subsidiary of East Gate Capital. East Gate Partners Pte. Ltd. is the investment manager of East Gate Capital, and is wholly-owned by Mr Koh Siak Khee.

4. TIA Systems Yugen Gaisha Japan is wholly-owned by Mr Seiichi Higashino.

STATISTICS OF SHAREHOLDINGS

As at 18 March 2011

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	RAFFLES NOMINEES (PTE) LTD	83,800,000	30.51
2.	ALLPORT LIMITED	62,643,400	22.81
3.	TIA SYSTEMS YUGEN GAISHA JAPAN	33,000,000	12.01
4.	NOMURA SINGAPORE LIMITED	12,000,000	4.37
5.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	5,955,600	2.17
6.	CIMB SECURITIES (SINGAPORE) PTE LTD	5,535,300	2.02
7.	OCBC SECURITIES PRIVATE LTD	4,867,040	1.77
8.	DB NOMINEES (SINGAPORE) PTE LTD	3,000,000	1.09
9.	HONG LEONG FINANCE NOMINEES PTE LTD	2,373,000	0.86
10.	TAN WOON TIANG	2,054,000	0.75
11.	WANG YU LONG DENIS	2,004,000	0.73
12.	LIM SIAN KOK	1,517,000	0.55
13.	YEO CHUNG SUN	1,333,000	0.49
14.	TAN TIEN SENG	1,243,000	0.45
15.	XIA ZHIFU	1,200,000	0.44
16.	KHOO SU CHIN	1,082,300	0.39
17.	TAN YEW MENG	1,002,000	0.36
18.	CITIBANK NOMINEES SINGAPORE PTE LTD	977,000	0.36
19.	KIM ENG SECURITIES PTE. LTD.	931,000	0.34
20.	ONG KANG CHIM	700,000	0.25
	TOTAL	**227,217,640**	**82.72**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 35.2% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shanghai Turbo Enterprises Ltd. ("the Company") will be held at Samsung Hub Level 8, 3 Church Street, Changi Room, Singapore 049483 on Friday, 29 April 2011 at 9.30 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 31 December 2010 together with the Auditors' Report thereon.
(Resolution 1)

2. To declare a first and final dividend of RMB 0.025 per ordinary share (tax not applicable) for the year ended 31 December 2010 (2009: RMB 0.05 per ordinary share).
(Resolution 2)

3. To re-elect the following Directors of the Company retiring pursuant to Article 86 of the Articles of Association of the Company:

   Mr Liu Ming **(Resolution 3)**
   Mr Huang Wooi Teik **(Resolution 4)**

   Mr Liu Ming will, upon re-election as a Director of the Company, remain as a member of the Nominating Committee and will be considered non-independent.

   Mr Huang Wooi Teik will, upon re-election as a Director of the Company, remain as Chairman of the Nominating Committee and Remuneration Committee and a member of the Audit Committee and will be considered independent.

4. To approve the payment of Directors' Fees of RMB 1,320,000 for the financial year ending 31 December 2011 (2010: RMB 1,320,000).
(Resolution 5)

5. To re-appoint Messrs Crowe Horwath First Trust LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration.
(Resolution 6)

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. **Authority to issue shares**

   That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be empowered to:

(a) (i) issue shares in the Company ("shares") whether by way of rights, or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares shall be based on the total number of issued shares in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(c) any subsequent consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Articles of Association of the Company; and

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (i)]

(Resolution 7)

8. **Authority to issue shares under the Shanghai Turbo Enterprises Ltd. Scrip Dividend Scheme**

That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors of the Company be authorised and empowered to issue such number of shares in the Company as may be required to be issued pursuant to the Shanghai Turbo Enterprises Ltd. Scrip Dividend Scheme from time to time in accordance to the "Terms and Conditions of the Scrip Dividend Scheme" set out in pages 11 to 16 of the Circular to

Shareholders dated 29 March 2006 and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. [See Explanatory Note (ii)]

(Resolution 8)

By Order of the Board

Wong Yoen Har
Secretary
Singapore, 14 April 2011

Explanatory Notes:

(i) The Ordinary Resolution 7 in item 7 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares will be calculated based on the total number of issued shares in the capital of the Company at the time this Ordinary Resolution is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed and any subsequent consolidation or subdivision of shares.

(ii) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or when varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company from time to time pursuant to the Shanghai Turbo Enterprises Ltd. Scrip Dividend Scheme.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the “Meeting”) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If a Shareholder being a Depositor whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore) wishes to attend and vote at the Annual General Meeting (the “Meeting”), he must be shown to have Shares entered against his name in the Depository Register, as certified by the CDP, at least forty-eight (48) hours before the time to the Meeting. If he wishes to appoint a proxy to attend the Meeting, he must complete and deposit the CDP Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623 at least forty-eight (48) hours before the time of the Meeting.

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