

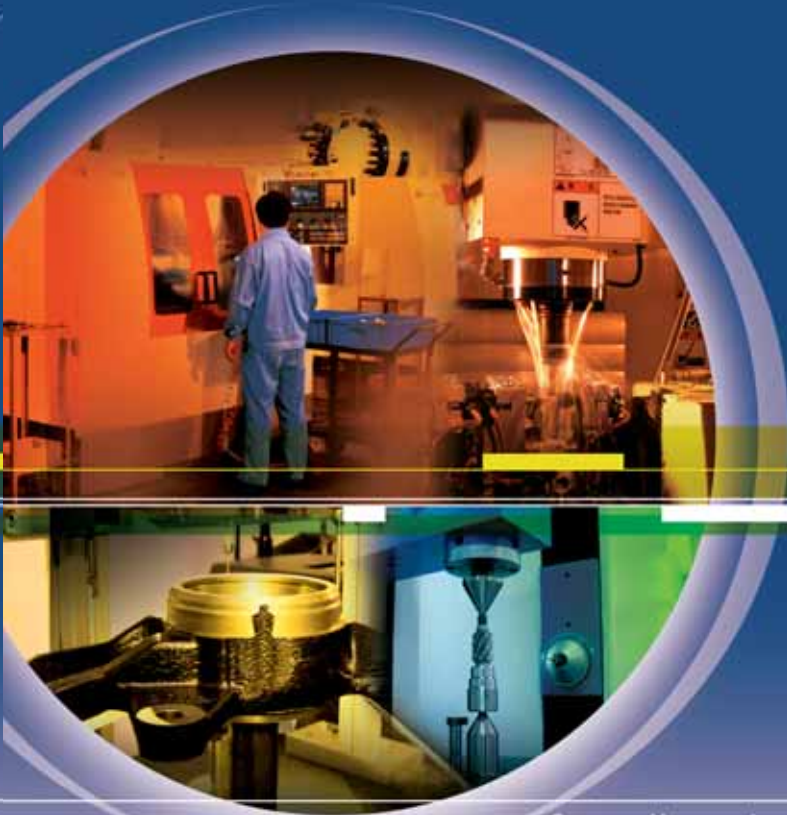


浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 8331



S H I B A O



Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zhang Shi Quan (張世權)
(Chairman)
Mr. Zhang Bao Yi (張寶義)
Mr. Tang Hao Han (湯浩瀚)
Mr. Zhu Jie Rong (朱頡榕)
Ms. Zhang Lan Jun (張蘭君)

NON-EXECUTIVE DIRECTORS

Mr. Zhang Shi Zhong (張世忠)
Ms. Zhang Mei Jun (張美君)
Mr. Gu Qun (顧群)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Bao Zhi Chao (包志超)
Mr. Chen Guo Feng (陳國峰)
Mr. Lui Wing Hong, Edward (呂榮匡)

SUPERVISORS

Mr. Ge Bao Shan (葛寶山)
Ms. Liu Xiao Ping (劉曉平)
Mr. Shen Song Sheng (沈松生)
Mr. Wang Kui Quan (王奎泉)
Ms. Zheng Yan (鄭艷)

AUDIT COMMITTEE

Mr. Lui Wing Hong, Edward (呂榮匡)
(Chairman)
Mr. Chen Guo Feng (陳國峰)
Ms. Zhang Mei Jun (張美君)

REMUNERATION COMMITTEE

Mr. Lui Wing Hong, Edward (呂榮匡)
(Chairman)
Mr. Chen Guo Feng (陳國峰)
Ms. Zhang Mei Jun (張美君)

COMPLIANCE OFFICER

Mr. Zhu Jie Rong (朱頡榕)

COMPLIANCE ADVISOR

Anglo Chinese Corporate Finance,
Limited

LEGAL ADVISERS

as to Hong Kong law
Charltons
as to PRC law
Grandall Legal Group (Shanghai)



AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL BANKERS

Agricultural Bank of China,
Yiwu Branch
Fotang Subbranch
China Construction Bank,
Hangzhou Branch
Qiutao Subbranch
Industrial and Commercial Bank of China,
Siping Branch
Zhongyang Dong Lu Subbranch
Industrial and Commercial Bank of China,
Hangzhou Branch
Jingkai Subbranch
Industrial and Commercial Bank of China,
Hong Kong

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712 - 6, 17th Floor
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SUMMARY

- Turnover for the six months ended 30 June 2006 amounted to approximately RMB 77 million, a decrease of approximately 2% over the corresponding period in 2005.
- Net profit attributable to shareholders for the six months ended 30 June 2006 amounted to approximately RMB 15 million comparing with a net profit of approximately RMB 19 million for the corresponding period in 2005.
- Earning per share for the six months ended 30 June 2006 is RMB 0.08 compared to RMB 0.11 for the corresponding period in 2005.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2006.



UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Zhejiang Shibao Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2006, together with the comparative figures for the corresponding periods in 2005. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statements

		Unaudited		Unaudited	
		For the three months ended 30 June		For the six months ended 30 June	
		2006	2005	2006	2005
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	41,375	40,383	77,011	78,746
Cost of sales		(23,353)	(22,025)	(43,264)	(42,639)
Gross profit		18,022	18,358	33,747	36,107
Other revenue		674	33	1,101	365
Selling and distribution costs		(2,387)	(1,917)	(4,718)	(3,550)
Administration expenses		(3,762)	(4,028)	(7,706)	(8,147)
Other operating expenses		(67)	(22)	(86)	(24)

Condensed Consolidated Incomes Statements *(continued)*

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Profit from operations	6	12,480	12,424	22,338	24,751
Finance costs	7	(1,528)	(1,284)	(2,429)	(1,867)
Share of results in an associate		(34)	—	(279)	—
Profit before taxation		10,918	11,140	19,630	22,884
Taxation	8	(1,828)	(1,417)	(4,008)	(3,380)
Net profit for the period		<u>9,090</u>	<u>9,723</u>	<u>15,622</u>	<u>19,504</u>
Net profit attributable to					
Shareholders	9	8,952	9,605	15,339	19,257
Minority interests		138	118	283	247
		<u>9,090</u>	<u>9,723</u>	<u>15,622</u>	<u>19,504</u>
2005 final dividend	10	<u>15,000</u>	—	<u>15,000</u>	—
Earnings per share (Basic)	11	<u>RMB0.04</u>	<u>RMB0.05</u>	<u>RMB0.08</u>	<u>RMB0.11</u>



Condensed Consolidated Balance Sheet

		As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	12	136,550	111,618
Construction in progress	12	11,714	32,777
Land use rights	12	27,333	27,471
Investment in an associate	13	6,693	6,972
Deferred tax assets		681	375
		182,971	179,213
Current assets			
Inventories	14	35,800	35,636
Trade and note receivables	15	106,748	109,241
Prepayments, deposits and other receivables	16	6,626	17,023
Due from a director	17	—	7
Due from a related company	18	2,731	274
Cash and cash equivalents		141,439	37,361
		293,344	199,542
Total assets		476,315	378,755

Condensed Consolidated Balance Sheet (continued)

		As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
	Note		
Current liabilities			
Interest-bearing loans and borrowings	21	49,000	56,820
Trade and notes payables	19	39,703	40,070
Accrued liabilities and other payables	20	18,208	18,350
Tax payable		12,732	10,329
Dividend payable		—	—
Deferred income		1,016	911
		<u>120,659</u>	<u>126,480</u>
Net current assets		<u>172,685</u>	<u>73,062</u>
Total assets less current liabilities		<u>355,656</u>	<u>252,275</u>
Non-current liabilities			
Interest-bearing loans and borrowings	21	5,830	5,830
Deferred income		3,249	3,848
		<u>9,079</u>	<u>9,678</u>
Net assets		<u><u>346,577</u></u>	<u><u>242,597</u></u>



Condensed Consolidated Balance Sheet *(continued)*

		As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
	<i>Note</i>		
Represented by:			
Paid-up capital/share capital	22	262,658	175,944
Reserves	23	80,424	43,941
Proposed final dividend		—	15,000
		<hr/>	<hr/>
		343,082	234,885
Minority interests		3,495	7,712
		<hr/>	<hr/>
Total equity		346,577	242,597
		<hr/> <hr/>	<hr/> <hr/>

Condensed Consolidated Cash Flow Statement

Unaudited
For the six months
ended 30 June

	2006 RMB'000	2005 RMB'000
Net cash generated from operating activities	20,319	48,199
Net cash used in investing activities	(11,872)	(29,304)
Net cash inflow before financing activities	8,447	18,895
Net cash inflow/(outflow) from financing activities	95,631	(60)
Net increase in cash and cash equivalents	104,078	18,835
Bank balances and cash as at beginning of the period	37,361	23,635
Bank balances and cash as at ending of the period	141,439	42,470



Condensed Consolidated Statement of Changes in Equity

	Unaudited For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Balance as at 1 January	242,597	202,022
Net profit during the period	15,622	19,504
Dividend paid to shareholders	(15,000)	—
Dividend paid to minority interest	(500)	(250)
Shares issue		
Capital contribution form minority interests	—	2,800
Acquisition of minority interest	(4,000)	—
Share capital	86,714	—
Share premium	47,767	—
Share issue expenses	(26,623)	—
Balance as at 30 June	<u>346,577</u>	<u>224,076</u>

Notes to the Interim Financial Statements

1. General

The Company is a joint stock limited company registered in the People's Republic of China ("PRC") on 12 July 2004 under the Company Law of the PRC. Its ultimate holding company is Zhejiang Shibao Holding Group Co., Ltd. ("Zhejiang Shibao Holding"), a limited liability company established in the PRC.

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

The Group is principally engaged in the manufacture and sale of automotive steering gear products.

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2. Basis of preparation and principal accounting policies

The interim financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules"), including compliance with the International Accounting Standard ("IAS") 34 Interim Financial Reporting.

The interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and under the historical cost convention. This basis of accounting differs from that used in the statutory and management accounts of the companies comprising of the Group, which were prepared in accordance with the accounting principles and financial regulations applicable to the PRC enterprises (the "PRC GAAP").



The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Accountants' Report of the Company ("the Accountants' Report") included in the Company's prospectus dated 4 May 2006 (the "Prospectus"). The interim financial statements should be read in conjunction with the Accountants' Report.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial statements contain consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of Accountants' Report. The interim financial statements and notes thereon do not include all of the information required for full set of financial statements.

The financial information relating to the financial year ended 31 December 2005 included in the interim financial statements as being previously reported information does not constitute the Company's statutory financial statements for that year but is derived from the Accountants' Report.

3. Impact of issued but not yet effective International Financial Reporting Standards (IFRSs)

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective in the interim financial statements. Unless otherwise stated, these IFRSs are effective for periods beginning on or after 1 January 2007:

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 will replace IAS 32 and has modified the disclosure requirements of IAS 32 relating to financial instruments. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statement in the period of initial application.



4. Turnover

Turnover represents amounts received and receivable for goods sold to external customers net of sales taxes and returns during the period.

5. Segment information

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

6. Profit from operations

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest expenses	909	1,268	1,751	1,838
Exchange loss	531	—	531	—
Bank charges and other finance costs	88	16	147	29
Total finance costs	<u>1,528</u>	<u>1,284</u>	<u>2,429</u>	<u>1,867</u>
Depreciation of property, plant and equipment	2,185	2,039	4,587	3,474
Amortisation of land use rights	106	121	215	243
Amortisation of deferred income	(231)	(231)	(494)	(334)
Research and development costs	544	115	968	252
Provision for bad and doubtful debts	115	849	115	849
Reversal of provision for bad and doubtful debts	(1,355)	—	(1,355)	—
Provision for inventory obsolescence	185	—	185	—
Reversal of provision against inventory obsolescence	—	(57)	—	(57)
Loss/(gain) on disposal of property, plant and equipment	12	(30)	(41)	(148)
Auditors' remuneration	239	30	579	60
Staff costs (including directors', supervisors' and senior executives' emoluments)				
Salaries and other staff costs	4,919	4,237	8,423	8,339
Retirement costs - defined contribution fund	<u>325</u>	<u>255</u>	<u>684</u>	<u>582</u>



7. Finance costs

Finance costs for the three months and six months ended 30 June 2006 were RMB1,528,000 and RMB2,429,000 (Corresponding period in 2005: RMB1,284,000 and RMB1,867,000) respectively, which mainly included interest expenses for bank and other borrowings and exchange loss.

8. Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period.

Siping Steering Gear Co., Ltd. ("Siping Steering"), a subsidiary of the Company, re-registered as a sino-foreign co-operative joint venture on 17 June 2004. Pursuant to a document numbered "Guo Shui Fa (2003) No. 60" dated 28 May 2003 issued by the State Tax Bureau and an approval document numbered "Si Ping Guo Shui Jing Kai No.001" issued by Siping Economic Development Zone State Tax Branch on 24 January 2004, effective 17 June 2004, Siping Steering was exempted from corporate income tax of the PRC for the years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years.

The Company and other subsidiaries were subject to income tax of the PRC at the rate of 33% during the period.

9. Net profit attributable to shareholders

For the three months and six months ended 30 June 2006, net profit attributable to the Company's shareholders were RMB8,952,000 and RMB15,339,000 (Corresponding period in 2005: RMB9,605,000 and RMB19,257,000) respectively.

10. Dividend

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
2005 final dividend	<u>15,000</u>	<u>—</u>	<u>15,000</u>	<u>—</u>

11. Earnings per share

For the three months and six months ended 30 June 2006, basic earnings per share were calculated based on net profits attributable to the Group's shareholders of RMB8,952,000 and RMB15,339,000 (Corresponding period in 2005: RMB9,605,000 and RMB19,257,000) respectively, and on the weighted average total number of 219,300,855 shares and 201,958,055 shares (Corresponding period in 2005: 175,943,855 shares and 175,943,855 shares) respectively.

Diluted earnings per share for the three months and six months ended 30 June 2005 and 2006 have not been calculated as no diluting instrument existed during those periods.



12. Property, plant and equipment

	Construction in progress RMB'000	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
Cost							
At 1 January 2006	32,777	29,931	76,305	61,752	7,617	4,063	212,445
Additions	6,810	77	—	1,372	45	304	8,608
Transfer	(27,873)	—	3,433	24,207	233	—	—
Disposals	—	—	—	(234)	—	(31)	(265)
At 30 June 2006	<u>11,714</u>	<u>30,008</u>	<u>79,738</u>	<u>87,097</u>	<u>7,895</u>	<u>4,336</u>	<u>220,788</u>
Depreciation and amortisation							
At 1 January 2006	—	2,460	8,886	23,535	3,111	2,587	40,579
Provided for the period	—	215	1,062	2,607	653	265	4,802
Eliminated on disposals	—	—	—	(164)	—	(26)	(190)
At 30 June 2006	<u>—</u>	<u>2,675</u>	<u>9,948</u>	<u>25,978</u>	<u>3,764</u>	<u>2,826</u>	<u>45,191</u>
Net book values							
At 30 June 2006	<u>11,714</u>	<u>27,333</u>	<u>69,790</u>	<u>61,119</u>	<u>4,131</u>	<u>1,510</u>	<u>175,597</u>
At 31 December 2005	<u>32,777</u>	<u>27,471</u>	<u>67,419</u>	<u>38,217</u>	<u>4,506</u>	<u>1,476</u>	<u>171,866</u>

13. Investment in an associate

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Share of net assets	<u>6,693</u>	<u>6,972</u>

Details of associate as at 30 June 2006 are as follows:

Name	Form of business structure	Place of establishment/ operation	Class of share held	Attributable equity interest directly held by the Company	Principal activities
Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling")	Incorporated	The PRC	Registered capital	36%	Sale and manufacture of steering systems



14. Inventories

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
At cost:		
Raw materials	13,655	12,972
Work in progress	10,885	10,765
Finished goods	10,819	11,299
Low value consumables	925	899
	<hr/>	<hr/>
	36,284	35,935
Less: Provision for obsolete inventories	<i>(484)</i>	<i>(299)</i>
	<hr/>	<hr/>
	<u>35,800</u>	<u>35,636</u>

15. Trade and note receivables

The Group generally offers credit terms ranging from 90 to 180 days to customers. An aged analysis of trade and note receivables based on due date are stated as follows:

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	79,973	72,542
Between 91 days and 180 days	12,965	9,265
Between 181 days and 365 days	5,921	12,204
Over 365 days	11,704	20,285
	<hr/>	<hr/>
	110,563	114,296
Less: Provision for bad and doubtful debts	(3,815)	(5,055)
	<hr/>	<hr/>
	106,748	109,241
	<hr/> <hr/>	<hr/> <hr/>



16. Prepayments, deposits and other receivables

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
Deposits	229	261
Prepayments	5,357	3,158
Other receivables	1,040	13,604
	<u>6,626</u>	<u>17,023</u>

The above balances are unsecured, interestfree and have no fixed terms of repayment.

17. Due from a director

Name	Maximum amount outstanding		
	As at 30 June 2006 RMB'000	during the period RMB'000	As at 1 January 2006 RMB'000
Zhang Shi Quan	—	7	7

Name	Maximum amount outstanding		
	As at 30 June 2005 RMB'000	during the period RMB'000	As at 1 January 2005 RMB'000
Zhang Shi Quan	—	12,882	12,882

The amount due from a director was unsecured, interest-free, has no fixed terms of repayment.

18. Balances with a related company

Amount due from a related company as at 30 June 2006 was trade in nature, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.



19. Trade and notes payables

An aged analysis of the trade and notes payables based on the due date are as follows:

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	24,390	19,331
Between 91 days and 180 days	5,194	5,702
Between 181 days and 365 days	6,975	10,304
Over 365 days	3,144	4,733
	<u>39,703</u>	<u>40,070</u>

The above balances are unsecured, interest-free and have no fixed terms of repayment.

20. Accrued liabilities and other payables

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
Advances from customers	341	335
Payroll payables	840	819
Welfare payables	4,695	5,231
Other payables	12,332	11,965
	<u>18,208</u>	<u>18,350</u>

Other payables and accruals are unsecured, interest-free and have no fixed terms of repayment.



21. Bank and other borrowings

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
Bank loans, secured	—	12,820
Bank loans, unsecured	49,000	44,000
Other borrowings, unsecured	5,830	5,830
	<u>54,830</u>	<u>62,650</u>
Repayable:		
Within one year	49,000	56,820
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	5,830	5,830
	<u>54,830</u>	<u>62,650</u>
Portion classified as current liabilities	<u>(49,000)</u>	<u>(56,820)</u>
Long term portion	<u>5,830</u>	<u>5,830</u>

Bank loans bear interest at commercial rates ranging from 5.742% to 6.786% per annum.

22. Paid-up capital/share capital

	Nominal value of shares RMB	Number of Domestic Shares	Number of H shares	Total number of shares	Value RMB'000
At 1 January 2006 (note a)	1	175,943,855	—	175,943,855	175,944
Issue of H shares (note b)	1	—	86,714,000	86,714,000	86,714
At 30 June 2006	1	175,943,855	86,714,000	262,657,855	262,658

Notes:

- (a) Pursuant to an approval document numbered "Zhe Shang Shi [2004] No.37" issued by Zhejiang Provincial Government, the Company was re-registered as a joint stock company on 12 July 2004 by the issuance of 175,943,855 fully paid domestic shares (the "Domestic Shares") with a nominal value of RMB1 each to the then shareholders.
- (b) On 11 May 2006, 86,714,000 H Shares of RMB1 each were issued by the Company at HK\$1.5 per share for cash by way of placing.



23. Reserves

	Share premium reserve	Statutory surplus reserve	Statutory public welfare fund	Other reserve	Accumulated losses	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
As at 1 January 2005	—	10,983	23,379	5,736	(18,629)	21,469
Net profit for the period	—	—	—	—	37,472	37,472
Transfer to reserves	—	4,543	4,771	—	(9,314)	—
Proposed final dividend	—	—	—	—	(15,000)	(15,000)
	<u>—</u>	<u>15,526</u>	<u>28,150</u>	<u>5,736</u>	<u>(5,471)</u>	<u>43,941</u>
As at 31 December 2005	—	15,526	28,150	5,736	(5,471)	43,941
As at 1 January 2006	—	15,526	28,150	5,736	(5,471)	43,941
Net profit for the period	—	—	—	—	15,339	15,339
Premium from issue of H Shares	47,767	—	—	—	—	47,767
Share issue expenses	(26,623)	—	—	—	—	(26,623)
	<u>21,144</u>	<u>15,526</u>	<u>28,150</u>	<u>5,736</u>	<u>9,868</u>	<u>80,424</u>
As at 30 June 2006	21,144	15,526	28,150	5,736	9,868	80,424

Notes:

(a) Basis for appropriation to reserves

Appropriation to statutory surplus reserve and statutory public welfare fund have been calculated based on the net profits in the financial statement prepared under the PRC GAAP.

(b) **Statutory surplus reserve**

In accordance with the Company Law of the PRC, the Company and its subsidiaries are required to allocate 10% of their profit after tax to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company and its subsidiaries, respectively. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) **Statutory public welfare fund**

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to transfer 5% to 10% of their profits after tax, as determined in accordance with the PRC GAAP applicable to the Company and its subsidiaries, to the statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of liquidation of the Company and its subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company and its subsidiaries.

When the PWF is utilised, an amount equal to the lower of the Cost of the Assets and the balance of the PWF is transferred from the PWF to the General Surplus Reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

According to the revised Company Law of the PRC effective from 1 January 2006, the Company and its subsidiaries are not required to transfer their profit after tax to PWF.



(d) **Distributable reserve**

The amount which the Company and its subsidiaries can legally distribute by the way of dividend is determined by reference to its profits as reflected in its PRC statutory financial statements prepared in accordance with the PRC GAAP. These profits differ from those that are reflected in the interim financial statements, which are prepared in accordance with IFRS.

Upon listing of the Company's H Shares on the GEM, the Company is required to distribute dividends based on the lower of the Group's profits determined under the PRC GAAP and those under IFRS.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfers to the SSR and PWF as set out above.

24. Related party transactions

During the six months ended 30 June 2005 and 2006, the Company and subsidiaries had the following transactions with related parties.

Name of related party	Nature of transaction	Unaudited For the six months ended 30 June	
		2006 RMB'000	2005 RMB'000
<i>Discontinued transactions</i>			
Jilin Shibao Automotive Parts Co., Ltd. ("Jilin Shibao") (note a)	Purchase of finished goods (note b)	—	6,806
	Sales of raw materials (note b)	—	6,836
	Service fees (note c)	—	65
	Rental income (note d)	—	60
	Transfer of property, plant and equipment (note e)	—	4,818
		<hr/>	<hr/>
<i>Continuing transactions</i>			
Wuhu Sterling (note f)	Sales of finished goods (note b)	2,731	274
		<hr/>	<hr/>



Notes:

- (a) Jilin Shibao is a fellow subsidiary of the Company.
- (b) These transactions were carried out based on normal commercial terms and at market prices.
- (c) Pursuant to a service agreement entered into between Siping Steering and Jilin Shibao on 1 July 2004, Jilin Shibao was required to pay service fees to Siping Steering for water, power, heat supplies and the necessary repair and maintenance services for three years, from 1 July 2004 to 30 June 2007. The fees are determined based on cost incurred plus 5% management fee. The agreement was terminated on 1 July 2005.
- (d) Pursuant to a workshop lease agreement entered into between Siping Steering and Jilin Shibao on 1 July 2004, Siping Steering leased its workshop with total floor area of approximately 2,400 s.q.m to Jilin Shibao for three years from 1 July 2004 to 30 June 2007. The rental is determined with reference to the underlying depreciation charges of the workshop. The agreement was terminated on 1 July 2005.
- (e) Pursuant to an acquisition agreement entered into between Jilin Shibao and Siping Steering on 22 May 2005, Jilin Shibao transferred its property, plant and equipment used for production of M6 steering knuckles for FAW Car Co., Ltd. (hereinafter referred as the "M6 Project") to Siping Steering. The purchase consideration amounting to RMB4,818,000 was determined with reference to the net book value of M6 Project's property, plant and equipment as at 28 February 2005.
- (f) Wuhu Sterling, a limited company established in the PRC on 18 November, 2004 and owned as to 36% by the Company, 34% by Wuhu Qirui Technology Co., Ltd., 15% by Ms. An Qing Hui, and 15% by Ms. Sun Ya Hong.

25. Commitments

Capital commitments in respect of the acquisition of property, plant and equipment:

	As at 30 June 2006 <i>(Unaudited)</i> RMB'000	As at 31 December 2005 <i>(Audited)</i> RMB'000
Contracted, but not provided for	1,308	5,889
Authorised but not contracted for	<u>2,083</u>	<u>4,872</u>



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating result

For the six months ended 30 June 2006, the Group recorded a revenue of approximately RMB77,011,000, representing a decrease of approximately 2% as compared with the corresponding period in 2005. Profit attributable to shareholders amounted to approximately RMB15,339,000, which was approximately 20% lower than that in the corresponding period in 2005.

The decrease in the Group's revenue during the first half year of 2006 was mainly attributed to the decrease in sales of power recirculating ball steering gears. In the first half year of 2006, the Group's clients experienced significant decrease in sales for its mid-sized and heavy duty trucks, the main application for the power recirculating ball steering gears. Nevertheless the Group still maintained its share in the supply of power recirculating ball steering gears to the clients.

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The gross profit margin of the Group during the period under review was 44% (Corresponding period in 2005: 46%), similar to the gross profit margin for the whole year of 2005. The gross profit margin of the Group was adversely affected by the decrease in sales prices of power recirculating ball steering gears. However, during the six months ended 30 June 2006 the gross profit margin of M6 steering knuckles improved substantially due to the replacement of imported major raw materials by local supply with lower cost.

There is no change in the business and geographical segments during the period under review.

The profit of the Group for the six months ended 30 June 2006 as compared to that in the corresponding period in 2005 was also adversely affected by the increase in depreciation attributable to the completion of the new Hangzhou plant together with production equipment during the period under review.

For the six months ended 30 June 2006, the selling expense increased approximately 33% comparing with the corresponding period in 2005. During the period, the Group explored into retail market by appointing agents in several major provinces of the PRC and to promote the brand of "Shibao" by advertising.

Foreign exchange loss of approximately RMB531,000 was recorded in the period under review. The exchange loss was attributed to the appreciation of the RMB against Hong Kong Dollars on the net proceeds from the placing of H Shares. The net proceeds of approximately RMB15,038,000 have been utilized as shown under the heading of "Statement on the use of proceeds" and the balance in Hong Kong dollars will be exchanged into RMB according to the relevant regulations of the PRC.

Marketing and new product

In the first half year of 2006, the Group continued the expansion of the sales network and successfully appointed several agents to explore the retail market in Hubei, Shandong and Shanxi provinces in the PRC. The Group attended the national auto parts trade fair in Harbin and continued to promote "Shibao" brand by advertising campaign. The Group procured four new clients during the period under review.

The Group also explored other products and services in relation to components for automobiles. Siping Steering was nominated by FAW-Volkswagen Automotive Co., Ltd as qualified supplier for the bracket of vent-pipe and enforced gas spring board.



Production facilities

The Group is expanding its production facilities. Apart from the new plant completed in Hangzhou, a new plant with floor area of approximately 9,650 square meters is being constructed in Siping to expand the production capability for the steering knuckles of the Group. It is expected that the new plant will commence production by the end of 2006.

Research and development

In addition to the disclosure in the Prospectus, the Group's electronic power steering gear ("EPS") product passed the accreditation of Science and Technology Department of Zhejiang province (浙江省科學技術廳) and is under the appraisal of the specialist panel of EPS organized by National Development and Reform Commission. In addition, the EPS of the Group successfully passed the field test requirements of Chery Automobile Co., Ltd and FAW Xiali (Tianjin) Automobile Co, Ltd in the first half year of 2006.

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The Group completed the installation and testing of EPS key production equipment imported from Swiss and Italy. Trial production of EPS is expected to be commenced in late 2006.

Human resources

As at 30 June 2006, the Group employed a total of 855 employees.

For the six months ended 30 June 2006, total amount of staff salaries and welfare amounted to approximately RMB9,107,000 (Corresponding period in 2005 RMB8,921,000). The Group offers competitive remuneration packages to employees in accordance with the market practice and provides retirement benefits according to relevant regulations of the PRC.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2006, the Group had cash and cash equivalents of approximately RMB141.4 million in comparison with approximately RMB37.4 million at 31 December 2005.

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On 11 May 2006, 86,714,000 H Shares of RMB 1 each were placed by the Company at HK\$1.5 each to raise HK\$130 million in cash (equivalent to RMB135 million).

Net current assets as at 30 June 2006 was approximately RMB172.7 million (31 December 2005: RMB73 million). The total loans and borrowings were reduced by RMB7.8 million to RMB54.8 million as at 30 June 2006, of which RMB49 million (31 December 2005: RMB56.8 million) is repayable within one year.

Non-current liabilities as at 30 June 2006 was approximately RMB9.1 million (31 December 2005: RMB9.7 million).

Gearing ratio

Gearing ratio of the Group, being the ratio of total borrowings to total assets reduced to 11.5% as at 30 June 2006 from 16.5% as at 31 December 2005. Decrease in the gearing ratio was mainly attributable to the placing of H Shares in cash and the repayment of loans during the period under review.



Liquidity ratios

As a result of placing of H Shares, current ratio of the Group improved from 1.58 as at 31 December 2005 to 2.43 as at 30 June 2006. Quick ratio of the Group also improved from 1.3 as at 31 December 2005 to 2.13 as at 30 June 2006.

MATERIAL ACQUISITIONS OR DISPOSALS

A non-wholly-owned subsidiary, DHB-SHIBAO Steering Co., Ltd ("DHB-Shibao") was established in the PRC on 22 May 2006 with registered capital of US\$12,136,836. DHB-Shibao is a sino-foreign equity joint venture owned as to 75% by the Group and 25% by DHB Componentes Automotivos S.A. ("DHB-CA"). The Group will contribute US\$9,102,627 representing 75% of the registered capital of DHB-Shibao, in the form of cash, equipment, machineries, buildings and land use right and 25% of the registered capital in the sum of US\$3,034,209 will be contributed by DHB-CA in the form of cash and technology transfer. The Group's cash contribution will be paid by the Group in August 2006 from the net proceeds of the placing of H Shares.

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DHB-Shibao will mainly engage in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears and steering oil pumps. Products to be manufactured by DHB-Shibao will bear the trademark of "DHB-Shibao" and may be sold within the PRC and other Asian countries (excluding India and Iran). DHB-Shibao will commence the production of steering oil pump in the early 2007.

As shown in the Prospectus, the Company acquired 10% equity interest in Hangzhou New Shibao Automobile Steering Gear System Co., Ltd ("Hangzhou New Shibao") held by Mrs. Zhang and Hangzhou New Shibao became a wholly-owned subsidiary of the Company.

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2006, both the sales and purchases of the Group were principal denominated in Renminbi. The Group did not subject to significant exposure in foreign currency risk apart from the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The proceeds will be converted into Renminbi as soon as practicable. No hedge arrangement has been entered into by the Group.

PLEDGE OF ASSETS

As at 30 June 2006, the Group did not have any charges on its assets (31 December 2005: RMB13,316,000).

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CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 30 June 2006 and 31 December 2005.

CAPITAL COMMITMENTS

Apart from capital commitments set out in note 25 to the interim financial statements, the Group has no other material capital commitments as at 30 June 2006 and 31 December 2005.

OUTLOOK

Due to the pressure caused by price reductions in product procurements by the major ancillary customers, the Directors expect that the selling price of the existing products may be reduced further, thereby causing the Group's gross profit margin to drop.



DHB-Shibao, a sino-foreign equity joint venture, will commence the production of steering gear oil pump in the early 2007. The production will be beneficial to the Group by extending the existing product lines to integrated steering gear system products. The oil pump products will contribute to the growth of the Group's turnover and profits.

The Directors expect that the power rack-and-pinion steering gear and EPS will be the major component for the light vehicle and sedan in the PRC. The market trend of automobile steering gears in the overseas markets has indicated that the market coverage of EPS is growing rapidly. The Group's Hangzhou plant will significantly enhance and upgrade the production capacity of power rack-and-pinion steering gear and EPS. The power rack-and-pinion steering gear and EPS of the Group will bring good prospects to shareholders.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the Prospectus

Actual business progress

Expansion of production capacity

Acquire additional machineries and equipment to expand power recirculating ball steering gears production capacity and to improve quality of heat treatment process

Purchased certain machinery and equipment

Acquire additional machineries and equipment and, or expand assembly line(s) to expand rack-and-pinion steering gears production and, or assembly capacity

Purchased certain machinery and equipment

Acquire machineries and equipment in preparation of electronic power steering gears production

Purchased certain machinery and equipment



Statements of business objectives as set out in the Prospectus

Actual business progress

Research and development

Acquire additional computer equipment and design software to improve research and development capability

Purchased certain equipment and software to improve the research and development capability

Continue in the design, development and testing on new product models and, where appropriate, apply for relevant quality certifications

Design, development and testing on new product models, and the application for quality certifications are in progress

Sales and marketing

Expand sales network and coverage

The number of customers has increased

Continue to develop complementary after sales services

Continue to enhance the quality of complementary after-sale service

Introduce and promote new products to the existing customers with an aim to procuring them to switch from using imported parts to the Group's products

Still in progress

Statements of business objectives as set out in the Prospectus

Actual business progress

Human resources

Recruit about 7 to 9 technicians and quality control personnel to support the business development

Recruited 3 technicians and quality control personnel

Recruit about 4 to 6 sales and marketing personnel to support the increased sales and marketing activities

The number of staff has been increased by 3

Establish a team of 3 to 5 to focus on new product research, development and testing

Established a special team comprising 3 members to focus on new products research, development and testing



STATEMENT ON THE USE OF PROCEEDS

For the six months ended 30 June 2006

	As set out in the Prospectus <i>HKD'000</i>	Actual situation <i>RMB'000</i>
Business plan:		
Acquisition of machinery, equipment and/or expansion of assembly line(s) to expand the production capacity and/or capability	11,000	10,104
Acquisition of testing equipment and software to enhance the research and development and product testing capability	1,000	912
Others:		
Settlement of remaining construction and ancillary expenditure of Hangzhou plant	5,000	4,022
Capital injection to DHB-Shibao (<i>note a</i>)	23,500	—
Total	<u>40,500</u>	<u>15,038</u>

Note:

- (a) The Group and the joint venture party will complete the capital injection to DHB-Shibao together in August 2006.

INTERIM DIVIDEND

The Board does not recommend any interim dividend for the six months ended 30 June 2006 (2005: Nil).

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As of 30 June 2006, the interests and short positions of each Director, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

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

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



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

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

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

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

Name of Director	Capacity	Amount of registered capital contributed	Approximate percentage of the registered capital of Hongzhou Shibao
Mr. Zhang	Family interest (Note 1)	RMB400,000	1%
	Interest in a controlled corporation (Note 2)	RMB39,600,000	99%

Notes:

- (1) Hongzhou Shibao is a subsidiary of the Company which is owned as to 99% by the Company and as to 1% by Mrs. Zhang Hai Qin ("Mrs. Zhang"), the wife of Mr. Zhang. Mr. Zhang is taken or deemed to be interested in the 1% interest directly held by his wife in Hongzhou Shibao.
- (2) Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, the ultimate holding company of the Company holding approximately 62.97% of the total issued share capital of the Company. As Mr. Zhang is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding and the Company, Mr. Zhang is taken or deemed to be interested in the 99% interest directly held by the Company in Hangzhou Shibao.



- (4) Long positions in the registered capital of a fellow subsidiary of the Company, Jilin Shibao Automotive Parts Co., Ltd. ("Jilin Shibao"), an associated corporation of the Company:

Name of Director	Capacity	Amount of registered capital contributed	Approximate percentage of the registered capital of Jilin Shibao
Mr. Zhang	Interest in a controlled corporation	RMB19,000,000	95%
Ms. Zhang Mei Jun	Beneficial Owner	RMB1,000,000	5%

Note: Jilin Shibao, a subsidiary of the Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 95% by Zhejiang Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 95% interest directly held by Zhejiang Shibao Holding in Jilin Shibao.

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

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

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



- (6) Long positions in the registered capital of a fellow subsidiary of the Company, Changchun Shili Automative Brake Parts Co., Ltd. (“Changchun Shili Automative”), an associated corporation of the Company:

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

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

Save as disclosed above, as at 30 June 2006, the Directors are not aware of any Director, supervisor and chief executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Division 7 & 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, supervisors or chief executive of the Company to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements 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, and no directors nor any of their spouse or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.



SUBSTANTIAL SHAREHOLDERS

As of 30 June 2006, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors, chief executives and supervisors of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name of Shareholders	Capacity	Number and class of shares	Approximate percentage of shareholding in the same class of shares	Approximate percentage of the Company's total issued share capital
Zhejiang Shibao Holding (note 1)	Beneficial Owner	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang (note 1)	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Invesco Hong Kong Limited	Investment Manager	5,828,000 H Shares	6.72%	2.22%
Manulife Asset Management (Hong Kong) Ltd	Investment Manager	6,110,000 H Shares	7.05%	2.33%

Name of Shareholders	Capacity	Number and class of shares	Approximate percentage of shareholding in the same class of shares	Approximate percentage of the Company's issued share capital
Atlantis Investment Management (Hong Kong) Ltd	Investment Manager	6,000,000 H Shares	6.92%	2.28%
Acru Asset Management International Limited <i>(note 2)</i>	Investment Manager	7,800,000 H Shares	9.00%	2.97%
Acru Asset Management Limited <i>(note 2)</i>	Investment Manager	7,800,000 H Shares	9.00%	2.97%
Acru China+Absolute Return Fund Limited <i>(note 2)</i>	Person having a security interest in shares	7,800,000 H Shares	9.00%	2.97%
Chan Lee Wang <i>(note 2)</i>	Investment Manager	7,800,000 H Shares	9.00%	2.97%
Lau Hing Sang <i>(note 2)</i>	Investment Manager	7,800,000 H Shares	9.00%	2.97%



Notes:

- (1) As at 30 June 2006, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Directors' Interests and Long Positions in Shares". Mrs Zhang, as the wife of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.
- (2) Acru China+Absolute Return Fund Limited or its directors follow direction of Acru Asset Management International Limited. Chan Lee Wang and Lau Hing Sang are the controllers of both Acru Asset Management International Limited and Acru Asset Management Limited. Accordingly, these H Shares represent the same interest and therefore duplicate amongst Acru China+Absolute Return Fund Limited, Acru Asset Management International Limited, Acru Asset Management Limited, Chan Lee Wang and Lau Hing Sang.

Save as disclosed above, as at 30 June 2006, Directors are not aware of any other person (other than the Directors, chief executives and supervisors of the Company as disclosed above) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2006, purchases attributable to the Group's five largest suppliers and the turnover attributable to the five largest customers represented approximately 42% and 53% of the Group's total cost of sales and total turnover respectively.

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

INTEREST OF COMPLIANCE ADVISER

As at the date of 30 June 2006, as updated and notified by Anglo Chinese Corporate Finance, Limited (the "Compliance Adviser"), the compliance adviser of the Company, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the Company's securities, including share options and the other rights to subscribe the Company's securities.

Pursuant to the compliance adviser agreement dated 3 May 2006 entered into between the Company and the Compliance Adviser, the Compliance Adviser received and will receive advisory fees in acting as the compliance adviser of the Company from the date when the shares of the Company are listed on the GEM, until the earlier of the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the financial year ending 31 December 2008 or the date on which the appointment of the Compliance Adviser is terminated pursuant to the terms thereof.



PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has promulgated the Code on Corporate Governance Practice as set out in Appendix 1.5 to the GEM Listing Rules (the "CCGP"), which is effective for the accounting period commencing on or after 1 January 2005. The Company had complied with the CCGP during the period from the date of Listing to 30 June 2006 except the following deviations:

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Under provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang held the positions of chairman and general manager of the Company during the period under review. Mr. Zhang is the founder of the Group and is responsible for the overall strategic planning, business development and new product marketing strategies. In view of the nature of business of the Company, the Board considers that the present management structure and arrangement is effective to response to the changes of the market and the implementation of strategic plans. The Board will review the effectiveness of this management arrangement from time to time.

The Board is in the progress of assessing the effect of the implementation of the CCGP and will include a report on corporate governance practices in the annual report.

AUDIT COMMITTEE

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

The audit committee has three members, namely Mr. Chen Guo Feng, Mr. Lui Wing Hong, Edward and Ms. Zhang Mei Jun. Mr Chen Guo Feng and Mr. Lui Wing Hong, Edward are independent non-executive Directors and Ms. Zhang Mei Jun is a non-executive Director. The chairman of the audit committee is Mr. Lui Wing Hong, Edward.

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The Company's financial statements for the six months ended 30 June 2006 have been reviewed by the audit committee.

PRE-EMPTIVE RIGHTS

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



COMPETING INTERESTS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period from the Listing to 30 June 2006, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

BOARD PRACTICES AND PROCEDURES

During the period from the date of Listing to 30 June 2006, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

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

Hangzhou, Zhejiang, the PRC
11 August 2006

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As at the date of this report, the board of directors of the Company comprises Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Mr. Zhu Jie Rong, Ms. Zhang Lan Jun as the executive Directors, Mr. Zhang Shi Zhong, Ms. Zhang Mei Jun, Mr. Gu Qun as the non-executive Directors, and Mr. Bao Zhi Chao, Mr. Chen Guo feng, Mr. Lui Wing Hong, Edward as the independent non-executive Directors.