



# 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



Interim Report

**2007**

## 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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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*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 of 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.*

## SUMMARY

- Revenue for the six months ended 30 June 2007 amounted to approximately RMB 100,811,000, an increase of approximately 31% over the corresponding period in 2006.
- Profit for the six months ended 30 June 2007 amounted to approximately RMB 17,646,000, an increase of approximately 13% compared with approximately RMB 15,622,000 for the corresponding period in 2006.
- Profit attributable to shareholders for the six months ended 30 June 2007 amounted to approximately RMB 17,319,000, an increase of approximately 13% compared with approximately RMB 15,339,000 for the corresponding period in 2006.
- Earning per share for the six months ended 30 June 2007 is RMB 0.07, a decrease of approximately 13% compared with RMB 0.08 for the corresponding period in 2006. The decline was due to the dilution in earnings per share as a result of additional shares issued for listing in May 2006.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2007.



## 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 2007, together with the comparative figures for the corresponding periods in 2006. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

### Condensed Consolidated Income Statements

	Note	Unaudited		Unaudited	
		For the three months		For the six months	
		ended 30 June		ended 30 June	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3	56,352	41,375	100,811	77,011
Cost of sales		(33,940)	(23,353)	(60,145)	(43,264)
Gross profit		22,412	18,022	40,666	33,747
Other income		1,077	674	1,852	1,101
Selling and distribution costs		(3,230)	(2,387)	(5,715)	(4,718)
Administrative expenses		(5,313)	(3,762)	(11,135)	(7,706)
Other expenses		(955)	(67)	(1,717)	(86)

## Condensed Consolidated Incomes Statements (continued)

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Profit from operations	5	13,991	12,480	23,951	22,338
Finance costs	6	(34)	(1,528)	(68)	(2,429)
Share of losses of an associate		(15)	(34)	(187)	(279)
Profit before taxation		13,942	10,918	23,696	19,630
Income tax expense	7	(3,436)	(1,828)	(6,050)	(4,008)
Profit for the period		<u>10,506</u>	<u>9,090</u>	<u>17,646</u>	<u>15,622</u>
Attributable to					
Equity holders of the parent	8	10,334	8,952	17,319	15,339
Minority interests		172	138	327	283
		<u>10,506</u>	<u>9,090</u>	<u>17,646</u>	<u>15,622</u>
Earnings per share (Basic, attributable to ordinary equity holders of the parent)	9	<u>RMB0.04</u>	<u>RMB0.04</u>	<u>RMB0.07</u>	<u>RMB0.08</u>



## Condensed Consolidated Balance Sheet

		30 June 2007 <i>(Unaudited)</i> RMB'000	31 December 2006 <i>(Audited)</i> RMB'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	10	148,293	146,447
Construction in progress	10	12,128	2,226
Land use rights	10	26,490	26,792
Intangible assets		104	95
Advance payments for property, plant and equipment		5,544	2,729
Investment in an associate	11	6,726	6,913
Deferred tax assets		2,220	2,295
		201,505	187,497
<b>Current assets</b>			
Inventories	12	45,381	43,270
Trade and note receivables	13	107,727	95,371
Prepayments, deposits and other receivables	14	3,404	4,325
Due from an associate	15	13,613	5,298
Cash and cash equivalents		76,170	103,102
		246,295	251,366
<b>Total assets</b>		447,800	438,863

Condensed Consolidated Balance Sheet *(continued)*

		30 June 2007 <i>(Unaudited)</i> RMB'000	31 December 2006 <i>(Audited)</i> RMB'000
	Note		
<b>Current liabilities</b>			
Trade and notes payables	16	39,062	38,225
Accrued liabilities and other payables	17	15,934	13,425
Tax payable		15,764	13,577
Deferred income		1,016	1,016
		<u>71,776</u>	<u>66,243</u>
<b>Net current assets</b>		<u>174,519</u>	<u>185,123</u>
<b>Total assets less current liabilities</b>		<u>376,024</u>	<u>372,620</u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	18	5,560	5,560
Deferred income		2,418	2,927
		<u>7,978</u>	<u>8,487</u>
<b>Net assets</b>		<u><u>368,046</u></u>	<u><u>364,133</u></u>



## Condensed Consolidated Balance Sheet (continued)

		30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Equity			
Equity attributable to equity holders of the parent:			
Issued capital	19	262,658	262,658
Reserves	20	101,866	84,547
Proposed final dividends		—	13,133
		<hr/>	<hr/>
		364,524	360,338
Minority interests		3,522	3,795
		<hr/>	<hr/>
Total equity		<u>368,046</u>	<u>364,133</u>



## Condensed Consolidated Cash Flow Statement

	Unaudited For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Net cash generated from operating activities	5,689	20,319
Net cash used in investing activities	(18,888)	(11,872)
Net cash (outflow)/inflow before financing activities	(13,199)	8,447
Net cash (outflow)/inflow from financing activities	(13,733)	95,631
Net (decrease)/increase in cash and cash equivalents	(26,932)	104,078
Bank balances and cash as at beginning of the period	103,102	37,361
Bank balances and cash as at ending of the period	76,170	141,439



## Condensed Consolidated Statement of Changes in Equity

	Unaudited For the six months ended 30 June	
	2007 RMB'000	2006 RMB'000
<b>Attributable to equity holders of the parent</b>		
<b>Issued capital</b>		
As at 1 January	262,658	175,944
Issue of ordinary shares	—	86,714
As at 30 June	<u>262,658</u>	<u>262,658</u>
<b>Share premium</b>		
As at 1 January	21,144	—
Issue of ordinary shares	—	47,767
Share issue expenses	—	(26,623)
As at 30 June	<u>21,144</u>	<u>21,144</u>
<b>Reserve arising from acquisition of minority interest</b>		
As at 1 January and 30 June	<u>5,736</u>	<u>5,736</u>
<b>Statutory surplus reserve</b>		
As at 1 January and 30 June	<u>47,604</u>	<u>15,526</u>

## Condensed Consolidated Statement of Changes in Equity

(continued)

	Unaudited For the six months ended 30 June	
	2007 RMB'000	2006 RMB'000
<b>Statutory public welfare fund</b>		
As at 1 January and 30 June	—	28,150
<b>Retained earnings/(accumulated losses)</b>		
As at 1 January	10,063	(5,471)
Profit for the year	17,319	15,339
As at 30 June	27,382	9,868
<b>Reserves</b>	101,866	80,424
<b>Minority interests</b>		
As at 1 January	3,795	7,712
Profit for the year	327	283
Acquisition of minority interests in a subsidiary	—	(4,000)
Dividends	(600)	(500)
As at 30 June	3,522	3,495
<b>Total equity</b>	<b>368,046</b>	<b>346,577</b>



## 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.

### 2. Accounting policies

The consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and in compliance with the disclosure requirements of the GEM Listing Rules.

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except for the adoption of new and revised standards and interpretations and the accounting policies adopted for new transactions, noted below. Adoption of the new and revised standards and interpretations did not have any effect on the financial position or performance of the Group.

The following new and revised IFRSs affect the Group and are adopted for the first time for the current period's interim financial statements.

*IAS 1 Amendment*

*Capital Disclosures*

The Group adopted IAS 1 Amendment as of 1 January 2007, which requires an entity to disclose qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

*IFRS 7*

*Financial Instruments: Disclosures*

The Group adopted IFRS 7 as of 1 January 2007, which requires disclosures that enable users of the financial statements to evaluate the significance of an entity's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

*IFRIC - Int 8*

*Scope of IFRS 2*

The Group adopted IFRIC – Int 8 as of 1 January 2007, which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

*IFRIC - Int 9*

*Reassessment of Embedded Derivatives*

The Group adopted IFRIC – Int 9 as of 1 January 2007, which requires that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

*IFRIC - Int 10*

*Interim Financial Reporting and Impairment*

The Group adopted IFRIC – Int 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

### *Impact of Issued But Not Yet Effective IFRSs*

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 8	Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
IFRIC – Int 11	Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)
IFRIC – Int 12	Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
IFRIC – Int 13	Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
IFRIC – Int 14	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008)
IAS 23 (revised)	Borrowing costs (effective for accounting periods beginning on or after 1 January 2009)

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will supersede IAS 14 Segment Reporting.

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

### 3. Revenue

Revenue, which is also the Group's turnover, represents amounts received and receivable for goods sold to external customers net of sales taxes and returns during the period.

### 4. Segment information

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



## 5. Profit from operations

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Staff costs (including directors', supervisors' and senior executives' remuneration):				
Salaries and other staff costs	5,545	4,919	9,008	8,423
Retirement costs				
- defined contribution fund	326	325	773	684
<b>Total staff costs</b>	<b>5,871</b>	<b>5,244</b>	<b>9,781</b>	<b>9,107</b>
Interest expenses	34	909	68	1,751
Bank charges and other finance costs	—	619	—	678
<b>Total finance costs</b>	<b>34</b>	<b>1,528</b>	<b>68</b>	<b>2,429</b>
Costs of inventories sold	25,177	13,924	38,265	25,797
Depreciation	3,244	2,185	5,890	4,587
Amortisation of land use rights	186	106	302	215
Amortisation of intangible assets	8	—	13	—
Amortisation of deferred income	(255)	(231)	(509)	(494)
Research and development costs	764	544	1,842	968
Foreign exchange differences, net	730	—	1,460	—
Provision for bad and doubtful debts	—	115	—	115
Write-back of impairment of trade receivables	(182)	(1,355)	(182)	(1,355)
Loss/(gain) on disposal of property, plant and equipment	(139)	12	(139)	(41)
Auditors' remuneration	376	239	675	579



## 6. Finance costs

Finance costs for the three months and six months ended 30 June 2007 were approximately RMB34,000 and RMB68,000 (Corresponding period in 2006: approximately RMB1,528,000 and RMB2,429,000) respectively, which mainly included interest expenses for bank and other borrowings.

## 7. Income tax expense

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2007 (2006: Nil).

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 from 17 June 2004, Siping Steering was exempt from corporate income tax of the PRC for years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years. For the six months ended 30 June 2007, Siping Steering was subject to corporate income tax at the rate of 15%.

DHB-Shibao Steering Co., Ltd. ("DHB-Shibao"), another subsidiary of the Company, is registered as a Sino-foreign co-operative joint venture on 22 May 2006. Pursuant to a document numbered "Hang Guo Shui Kai Fa (2006) No. 249" dated 19 October 2006 issued by the Hangzhou State Tax Bureau, DHB-Shibao is exempt from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. DHB-Shibao was in a tax loss position for the six months ended 30 June 2007.

The Company and other subsidiaries were subject to PRC income tax at the rate of 33% during the period (2006: 33%).



**8. Profit attributable to equity holders of the parent**

For the three months and six months ended 30 June 2007, profit attributable to the equity holders of the parent were approximately RMB10,334,000 and RMB17,319,000 (Corresponding period in 2006: approximately RMB8,952,000 and RMB15,339,000) respectively.

**9. Earnings per share**

For the three months and six months ended 30 June 2007, basic earnings per share were calculated based on profits attributable to the Group's shareholders of approximately RMB10,334,000 and RMB17,319,000 (Corresponding period in 2006: approximately RMB8,952,000 and RMB15,339,000) respectively, and on the weighted average total number of 262,657,855 shares and 262,657,855 shares (Corresponding period in 2006: 219,300,855 shares and 201,958,055 shares) respectively.

Diluted earnings per share for the three months and six months ended 30 June 2007 and 2006 have not been calculated as no diluting instrument existed during those periods.

## 10. Property, plant and equipment, construction in progress, land use right

	Construction in progress RMB'000	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
<b>Cost</b>							
At 1 January 2007	2,226	29,931	88,215	94,317	8,230	3,548	226,467
Additions	12,045	—	426	5,459	2,982	375	21,287
Transfers of properties, plant and equipment	(2,143)	—	96	2,047	—	—	—
Disposals	—	—	—	(3,798)	(940)	(60)	(4,798)
At 30 June 2007	12,128	29,931	88,737	98,025	10,272	3,863	242,956
<b>Depreciation and amortisation</b>							
At 1 January 2007	—	3,139	11,045	30,086	4,416	2,316	51,002
Provided for the period	—	302	1,153	3,821	660	256	6,192
Disposals	—	—	—	(596)	(496)	(57)	(1,149)
At 30 June 2007	—	3,441	12,198	33,311	4,580	2,515	56,045
<b>Net book values</b>							
At 30 June 2007	12,128	26,490	76,539	64,714	5,692	1,348	186,911
At 31 December 2006	2,226	26,792	77,170	64,231	3,814	1,232	175,465



11. Investment in an associate

	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
<b>Group</b>		
Share of the associate's balance sheet		
Current assets	6,765	3,932
Non-current assets	9,419	7,301
Current liabilities	(9,458)	(4,320)
Net assets	<u>6,726</u>	<u>6,913</u>
Share of the associate's revenue and loss		
Revenue	3,633	3,773
Loss	187	59
Carrying amount of the investment	<u><u>6,726</u></u>	<u><u>6,913</u></u>

Details of associate as at 30 June 2007 are as follows:

Company Name	Legal status	Place and date of incorporation and operation	Registered/ Paid-up Capital RMB'000	Percentage of equity directly attributable to the Group	Principal activities
Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling")	Limited liability company	The PRC 18 November 2004	20,000/ 20,000	36%	Sale and manufacture of steering systems

## 12. Inventories

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
At cost:		
Raw materials	19,433	16,875
Work in progress	9,717	11,278
Finished goods	14,516	14,091
Low value consumables	1,715	1,026
	<u>45,381</u>	<u>43,270</u>

## 13. Trade and note receivables

An aged analysis of trade and note receivables based on due date as at the balance sheet date are stated as follows:

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	82,613	65,587
Between 91 days and 180 days	12,248	15,631
Between 181 days and 365 days	7,165	9,573
Over 365 days	5,701	4,580
	<u>107,727</u>	<u>95,371</u>



#### 14. Prepayments, deposits and other receivables

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Deposits	—	244
Prepayments	1,915	2,722
Other receivables	1,489	1,359
	<u>3,404</u>	<u>4,325</u>

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

#### 15. Due from an associate

Amounts due from an associate as at 30 June 2007 are trade in nature, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

All balances with an associate are unsecured, interest-free and have no fixed terms of repayment.

## 16. Trade and notes payables

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

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	27,187	23,663
Between 91 days and 180 days	8,903	6,228
Between 181 days and 365 days	1,017	3,188
Over 365 days	1,955	5,146
	<u>39,062</u>	<u>38,225</u>

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



## 17. Accrued liabilities and other payables

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Advances from customers	920	571
Payroll payables	1,282	1,194
Welfare payables	2,802	3,498
Other payables	10,930	8,162
	<hr/>	<hr/>
	15,934	13,425
	<hr/> <hr/>	<hr/> <hr/>

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



## 18. Interest-bearing loans and borrowings

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Other borrowings, unsecured	5,560	5,560
Repayable:		
Within one year	—	—
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	5,560	5,560
	5,560	5,560
Portion classified as current liabilities	—	—
Long term portion	5,560	5,560

Bank loans bear interest at commercial rate of 5% per annum.



## 19. Issued capital

	Nominal value of shares RMB	Number of Domestic Shares	Number of H shares	Total number of shares	Value RMB'000
At 1 January 2007	1	<u>175,943,855</u>	<u>86,714,000</u>	<u>262,657,855</u>	<u>262,658</u>
At 30 June 2007	1	<u>175,943,855</u>	<u>86,714,000</u>	<u>262,657,855</u>	<u>262,658</u>

Note:

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.

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.

## 20. Reserves

### (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 and the respective articles of association of the Company and its subsidiaries, the Company and its subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with their statutory financial statements prepared under the PRC GAAP, 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 their statutory financial statements prepared under the PRC GAAP, 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. As permitted by the revised Company Law of the PRC, the Company and its subsidiaries have transferred PWF balance to SSR during the period under review.

(d) **Distributable reserve**

In accordance with the Articles of Association of the Company, profit available for distribution to shareholders should be based on the lower of the amount determined under the financial statements prepared under PRC GAAP and the amount determined under the financial statements prepared under IFRS after deduction of the current year's appropriation to the SSR.

## 21. Related party transactions

During the six months ended 30 June 2006 and 2007, the Company and its subsidiaries had the following transactions with related parties.

Name of related party	Nature of transaction	Unaudited For the six months ended 30 June	
		2007 RMB'000	2006 RMB'000
Wuhu Sterling	Sales of finished goods to an associate <i>(note a)</i>	9,841	2,731
	Sales of raw materials to an associate <i>(note b)</i>	2,765	—

Notes:

- (a) These transactions were carried out based on normal commercial terms.
- (b) These transactions were carried out at cost.

## 22. Commitments

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

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Contracted, but not provided for	6,305	1,941
Authorised but not contracted for	22,197	45,449
	<u>28,502</u>	<u>47,390</u>

Based on irrevocable operation lease, total future minimum rentals payable in the years to come are as follows:

	As at 30 June 2007 <i>(Unaudited)</i> RMB'000	As at 31 December 2006 <i>(Audited)</i> RMB'000
Within one year	30	—
From the second year to the fifth year (inclusive)	18	—
After five years	—	—
	<u>48</u>	<u>—</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### *Operating result*

For the six months ended 30 June 2007, the Group recorded a revenue of approximately RMB100,811,000, representing an increase of approximately 31% over the corresponding period in 2006. Profit attributable to shareholders was approximately RMB 17,319,000, representing an increase of approximately 13% over the corresponding period in 2006.

During the period under review, there has been significant growth in the Group's revenue, mainly due to the revenue generated from the Company's development of new customers in 2006. Sales of power recirculating ball steering gear products grew considerably, at the same time, rack-and-pinion steering gear commenced mass production, and sales also grew, thereby causing the overall sales of the Company to grow significantly, and consolidated market share. The Group's overall gross profit also increased by approximately 21% over the corresponding period in 2006.

During the period under review, the Group's gross profit margin was approximately 40% (corresponding period in 2006: approximately 44%). The decrease in gross profit margin was mainly due to the decline in the selling price of power recirculating ball steering gear products. At the same time, the maturing M6 sedan market and the price cutting factor also led to a slight decline in the gross profit margin of M6 steering knuckles.

During the period under review, selling and distribution costs increased by approximately RMB997,000, or approximately 21%, over the corresponding period in 2006. The main reason has been an increase in the sales amount in the first half of 2007, leading to an increase in transportation costs and other selling expenses. During the period, the Group promoted the "Shibao" brandname through appointment of distributors in over twenty major provinces in the PRC and by leveraging on advertisements, in order to explore new automobile ancillary markets and spare parts reparation and retail markets.

During the period under review, administrative expenses increased by approximately 44% over the corresponding period in 2006, which was mainly due to the significant increase in the expenses paid to the intermediaries after listing when compared with the corresponding period in 2006, while such expenses were less in the corresponding period of last year. In 2007, the operations of DHB-Shibao and the increment in the salaries of the management have led to a significant increase in labor costs over the corresponding period in 2006. As increased investments continued in research and development, R&D expenses increased by approximately RMB874,000, or approximately 90%, over the corresponding period in 2006.

During the period under review, finance costs decreased by approximately RMB 2,361,000 as compared with the corresponding period in 2006, which was mainly due to the Company's repayment of a large part of the bank loans in 2006.



During the period under review, exchange losses recorded amounted to approximately RMB1,460,000. Exchange losses were due to the appreciation of Renminbi over HK dollars, thereby resulted in net exchange losses in the proceeds of HK dollars from the placing of H Shares.

In view of the above, for the six months ended 30 June 2007, the Group has a profit after tax of approximately RMB17,646,000, representing an increase of approximately 13% over approximately RMB15,622,000 last year.

During the period under review, there were no changes in the business and geographical segments.

#### *Marketing and new products*

In the first half of 2007, the Group continued to expand sales network, and successfully developed new customers such as Xiamen King Long Xinfuda Chassis Co., Ltd., Xiamen King Long United Automotive Industry Co., Ltd., Liuzhou Special Car Factory, DongFeng Automobile Co., Ltd. and all of them had been provided with bulk supplies. The Group had also developed new power recirculating ball steering gears of models SB10081E-1, SB11790C, SB9070D, SB11086AX, and had launched in small batches to the market. In respect of rack-and-pinion steering gear, new products of models S21 and Q21 had also been developed, and samples are currently being delivered to users for certification.



### *Production facilities*

Production equipment for rack-and-pinion steering gear had basically been installed, and production capacity had also been basically formed as planned. It is expected that production equipment of electronic power steering gear ("EPS") will also gradually increase along with the progress in the development of such product.

### *Research and development*

The EPS system self-developed by Hangzhou Shibao as an ancillary package with medium class sedans had participated in the tendering activities of Zhejiang Provincial Science and Technology Bureau in respect of development project of electronic power steering gear, and won the tender.

The first lump sum subsidy of RMB 420,000 was received from the Zhejiang Provincial Science and Technology Bureau in December 2006. On 6 August 2007, the interim inspection made by the expert group formed by the Zhejiang Provincial Science and Technology Bureau on the EPS industrialization project was passed smoothly.

After Siping Steering Gear Co., Ltd. has become a successful exclusive agent of FAW Car Co., Ltd. for Mazda M6 sedan steering knuckles, Hangzhou Shibao was confirmed by FAW Car Co., Ltd. this year to be a supplier of the power steering gear rod set for the Mazda Series C301 project. It is expected that production for the project will start by the end of this year.

Hangzhou Shibao had accepted the appointment by the technology centre of FAW Group for the development of EPS for mixed power cars under the State 863 plan and had already received the payment of RMB 100,000 as development fees from the technology centre.



### *Human resources*

As at 30 June 2007, the Group employed a total of 940 employees. The Group provided substantial remuneration benefits to employees, and provided retirement benefits in accordance with the related laws of the PRC.

## FINANCIAL REVIEW

### LIQUIDITY AND FINANCIAL RESOURCES

#### *Current Ratio*

As at 30 June 2007, the Group had cash and cash equivalents of approximately RMB76,170,000 in comparison with approximately RMB103,102,000 as at 31 December 2006. Reduction in cash was mainly due to the distribution of final dividend in 2006 and increase in investment in equipment and property.

Net current assets as at 30 June 2007 was approximately RMB174,519,000 (31 December 2006: approximately RMB185,123,000).

Non-current liabilities as at 30 June 2007 was approximately RMB7,978,000 (31 December 2006: approximately RMB 8,487,000).

Current ratio of the Group as at 30 June 2007 was approximately 3.4 (31 December 2006: approximately 3.8). Quick ratio of the Group was approximately 2.8 (31 December 2006: approximately 3.1).

### CAPITAL STRUCTURE

As at 30 June 2007, gearing ratio of the Group, being the ratio of total borrowings to total assets, was approximately 1% (31 December 2006: approximately 1%).

loans and total borrowings as at 30 June 2007 was approximately RMB5,560,000 (31 December 2006: approximately RMB5,560,000), among which amount repayable to be repaid within a year was nil (31 December 2006:nil) . Bank loans bear interest at commercial rate of approximately 6.5% per annum (31 December 2006: 5%).

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

## MATERIAL ACQUISITIONS AND DISPOSALS

For the six months ended 30 June 2007, the Company has not incurred any material acquisition and disposal.

## FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2007, both the sales and purchases of the Group were mainly denominated in Renminbi. The Group was 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 2007, the Group did not have any charges on its assets.

## CAPITAL COMMITMENTS

As at 30 June 2007, the Group had no other material capital commitments.



## CONTINGENT LIABILITIES

As at 30 June 2007, the Group had no material contingent liabilities.

## DHB-SHIBAO

Upon considering the changes in the taxation policies in the PRC recently, DHB Componentes Automotives S.A. ("DHB-CA") considered that the profitability of the cooperation agreement entered into on 22 May 2006 between DHB-CA and the Group in respect of the project for the production of power recirculating ball steering gear oil pumps was unable to attain the target as expected. Moreover, contributions payable to the joint venture, DHB-Shibao, have not been injected by DHB-CA. Therefore, upon friendly negotiations, both parties in principle agreed to the proposal of DHB-CA to terminate the cooperation, which will be implemented after completing the application procedures made to the relevant authorities in the PRC. After the cooperation agreement is terminated, the production and sales of hydraulic oil pumps will be conducted by way of trade.

## OUTLOOK

In the first half of the year, the Group's recirculating ball steering gear products had been growing in line with the growth of commercial car market in the PRC. In the first half year of 2007, production equipment for the rack-and-pinion steering gear had been basically installed, and production capacity had been basically formed as planned. Development of EPS had been expedited, prototypes had been provided to users, and it is intended that small scale trial production will be arranged in the second half year. Exclusive supply of M6 steering gear as package of the FAW sedans has still been maintained, and it is expected that it will be growing along with any growth in the sales of MAZDA M6 sedans. The MAZDA Series C301 project of power steering gear rod set is planned for bulk production by the end of this year. A number of newly researched and developed products are being launched in the market gradually. The Directors believe that according to the development trend of the automobile market in the PRC, prospects of the Group is optimistic.

## USE OF PROCEEDS

For the six months ended 30 June 2007

	As set out in the Prospectus HK\$'000	As set out in the Prospectus RMB'000*	Actual situation RMB'000
Business plan:			
Acquisition of machinery, equipment and/or expansion of assembly line(s) to expand the production capacity and/or capability	13,000	13,520	23,993

Notes:

For the six months ended 30 June 2007, actual amount of cash paid was approximately RMB23,993,000.

Of this, approximately RMB17,384,000 was used to pay for the remaining balance of equipment purchases in 2006 and for conversion into 2007 investment funds under the adjustment plan for some 2006 projects.

The balance of approximately RMB6,609,000 was applied in 2007 projects. Adjustments were made to the investment plans based on the demands of customers and development plan of car types, thereby causing some of investments on equipment to occur in the second half of 2007. By measuring and comparing equipment investment plans, price certainty and optimized portfolio, the quantity of state manufactured equipment in replacement of imported equipment thus increased and capital expenditure was reduced. Besides, investment in state manufactured equipment could benefit from the national tax policy and bring more gains to shareholders. In purchasing equipment, the Company usually prepaid a certain sum in order to reduce the risk in purchases and the balance would be paid after the trial operation of the equipment was proved to be normal.

\* Amounts in Hong Kong dollars have been converted into Renminbi at the rate of HK\$1.00=RMB1.04.

## 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 machineries and equipment to expand into the production of electronic-hydraulic power steering gears

Acquired some of the machineries

Acquire additional equipment and tools for our production of manual recirculating ball steering gears

Acquired some of the equipment and tools

### Research and development

Commence standardisation of the Group's products and production flow of electronic-hydraulic power steering gears

Started the standardisation works of the production flow of electronic power steering gears which are ancillary for the economic type of sedans (preparation before bulk production)

Commence initial development of electronic-hydraulic power steering gears model series

Electronic-hydraulic power steering gears model series which are ancillary for medium to high class sedans is in the stage of development

**Statements of business objectives as set out in the Prospectus**

**Actual business progress**

**Sales and marketing**

Enhance existing sales network of the Group

Expanded the Group's sales network countrywide

Commence initial computerisation for management and control of marketing and promotional activities of the Group

Realised computerised management of the sales department

**Human resources**

Recruit about 7 or 8 additional technicians to support the overall business expansion of the Group

Recruited one technical expert and six technicians

Provide in-house technical training to production workers of the Group and collaborate with third party institutions to provide training to technicians

Appointed university professors to conduct technical training to the staff

Provide training on general management skills to management and supervisory staff of the Group

Performed management skill trainings on a number of occasions

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, the interests and short positions of each Director, Supervisor 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:

(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 in 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 Group Co., Ltd ("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 Director	Capacity	Contribution in the registered capital	Approximate percentage in 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, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao"), an associated corporation of the Company:

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

Notes:

- (1) Hangzhou 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 spouse of Mr. Zhang. Mr. Zhang is taken or deemed to be interested in the 1% interest directly held by his spouse in Hangzhou 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 Mechanical and Electrical Automation Co., Ltd. ("Jilin Shibao Automation"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in 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.

- (5) Long positions in the registered capital of a fellow subsidiary of the Company, Changchun Shili Automotive Brake Parts Co., Ltd. ("Changchun Shili Automotive"), an associated corporation of the Company:

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

*Note:* Changchun Shili Automotive, 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 Automotive.



Save as disclosed above, as at 30 June 2007, 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 and 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 FOR PURCHASE OF SHARES OR DEBENTURES

At no time during the period under review 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, Supervisors and Chief Executives of the Company 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.

## SHARE OPTION SCHEMES

During the six months ended 30 June 2007, the Company has not implemented any share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As of 30 June 2007, so far as is known to the Directors, Supervisors and Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive 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 Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding (Note 1)	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang (Note 1)	Interest in a controlled corporation	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%



Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	5,476,000 H Shares	6.32%	2.08%
Galaxy China Opportunities Fund	Beneficial owner	5,626,000 H Shares	6.49%	2.14%
United Overseas Bank Limited (Note 2)	Interest in a controlled corporation	8,478,000 H Shares	9.78%	3.23%
UOB Asset Management Limited (Note 2)	Investment manager	8,478,000 H Shares	9.78%	3.23%
The Hamon Investment Group Pte Limited (Note 3)	Interest in a controlled corporation	5,720,000 H Shares	6.60%	2.18%
Hamon Asset Management Limited (Note 3)	Investment manager	5,720,000 H Shares	6.60%	2.18%

Notes:

- (1) As at 30 June 2007, 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 "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures". Mrs Zhang, as the spouse 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) 8,478,000 H shares are held by UOB Asset Management Limited, which is owned as to 100% by United Overseas Bank Limited. Therefore, United Overseas Bank Limited is deemed to be interested in all these H shares held by UOB Asset Management Limited.
- (3) The 5,720,000 H shares are held by Hamon Asset Management Limited. The Hamon Investment Group Pte Limited holds 100% interest in Hamon Asset Management Limited and is therefore deemed to be interested in all of these H shares held by Hamon Asset Management Limited.

Save as disclosed above, as at 30 June 2007, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives 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.



## 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.

## INTEREST OF COMPLIANCE ADVISER

As at 30 June 2007, as updated and notified by Anglo Chinese Corporate Finance, Limited (the "Compliance Adviser"), the compliance adviser of the Company during the period under review, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6A.31 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 6A.19 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.



Pursuant to the announcement dated 30 July 2007, Evolution Watterson Securities Limited was appointed as the compliance adviser to the Company in replacement of Anglo Chinese Corporate Finance, Limited with effect from 1 August 2007. The term of service of Evolution Watterson Securities Limited shall last until the date on which the Company complies with Rule 6A.19 of the GEM Listing Rules in respect of its financial results for the year ending 31 December 2008.

## MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2007, purchases attributable to the Group's five largest suppliers and the turnover attributable to the five largest customers represented approximately 37% and 38% of the Group's total cost of sales and total turnover respectively. In addition, the largest supplier and the largest customer represented approximately 26% and 15% of the Group's total purchases 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.

## 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.

The Company's financial statements for the six months ended 30 June 2007 have been reviewed by the audit committee.

## BOARD PRACTICES AND PROCEDURES

During the period from the date of Listing to 30 June 2007, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period from the date of listing to 30 June 2007, 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. After making specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has promulgated the Code on Corporate Governance Practice as set out in Appendix 15 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 2007 except the following deviations:

Under provision A.2.1 of the CCGP, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhang Shi Quan held the positions of Chairman and General Manager of the Company during the period. Mr. Zhang Shi Quan is the founder of the Company 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 respond to the changes of the market and the implementation of strategic plans. The Board will review the effectiveness of such management arrangement from time to time.

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

Since the commencement of listing of 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.



## 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.

## SUFFICIENT PUBLIC FLOAT

The Company has maintained sufficient public float during the period from the date of listing to 30 June 2007.

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

Hangzhou, Zhejiang, the PRC  
10 August 2007

*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 and Ms. Zhang Lan Jun as the executive Directors, Mr. Zhang Shi Zhong, Ms. Zhang Mei Jun and Mr. Gu Qun as the non-executive Directors, and Mr. Bao Zhi Chao, Mr. Chen Guo feng and Mr. Lui Wing Hong, Edward as the independent non-executive Directors.*