



# 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

*Shibao steering the future*



Interim Report 2009

\* For identification purposes only

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors of Zhejiang Shibao Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Zhejiang Shibao Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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 2009 amounted to approximately RMB152,498,000, an increase of approximately 6.3% compared with approximately RMB143,424,000 for the corresponding period in 2008.
- Profit for the six months ended 30 June 2009 amounted to approximately RMB24,291,000, an increase of approximately 3.3% compared with approximately RMB23,513,000 for the corresponding period in 2008.
- Profit attributable to shareholders for the six months ended 30 June 2009 amounted to approximately RMB23,920,000, an increase of approximately 3.1% compared with approximately RMB23,192,000 for the corresponding period in 2008.
- Earnings per share for the six months ended 30 June 2009 was RMB0.0911, an increase of approximately 3.2% compared with RMB0.0883 for the corresponding period in 2008.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2009.

## 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 2009, together with the comparative figures for the corresponding periods in 2008. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's auditor and audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	3	86,573	81,674	152,498	143,424
Cost of sales		(57,921)	(53,946)	(101,465)	(92,100)
Gross profit		28,652	27,728	51,033	51,324
Other income and gains		768	252	1,995	1,358
Selling and distribution costs		(6,304)	(6,053)	(9,514)	(9,446)
Administrative expenses		(7,136)	(7,301)	(13,905)	(13,930)
Other expenses		(102)	(229)	(145)	(547)
Finance costs	5	(63)	(39)	(127)	(108)
Share of (losses)/profit of an associate		(143)	188	(549)	236

## CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

	Note	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Profit before taxation	6	15,672	14,546	28,788	28,887
Tax	7	(1,867)	(1,360)	(4,497)	(5,374)
Profit for the period		<u>13,805</u>	<u>13,186</u>	<u>24,291</u>	<u>23,513</u>
Attributable to:					
Equity holders of the parent	8	13,615	13,004	23,920	23,192
Minority interests		190	182	371	321
		<u>13,805</u>	<u>13,186</u>	<u>24,291</u>	<u>23,513</u>
		RMB	RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the parent					
Basic	9	<u>0.0518</u>	<u>0.0495</u>	<u>0.0911</u>	<u>0.0883</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2009 <i>(Unaudited)</i> RMB'000	31 December 2008 <i>(Audited)</i> RMB'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	10	213,389	215,488
Prepaid lease payments		25,553	25,582
Other intangible assets		299	322
Advance payments for property, plant and equipment		13,306	4,925
Investment in an associate	11	5,106	5,445
Deferred tax assets		1,231	1,284
		<hr/>	<hr/>
Total non-current assets		258,884	253,046
<b>Current assets</b>			
Inventories	12	70,629	62,798
Trade and note receivables	13	144,341	114,736
Prepayments, deposits and other receivables	14	9,572	14,103
Due from an associate	15	16,936	19,295
Cash and cash equivalents		40,806	50,052
		<hr/>	<hr/>
Total current assets		282,284	260,984

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		30 June 2009 <i>(Unaudited)</i> RMB'000	31 December 2008 <i>(Audited)</i> RMB'000
	<i>Note</i>		
<b>Current liabilities</b>			
Trade and notes payables	16	68,974	59,227
Other payables and accruals	17	24,446	16,986
Tax payable		12,882	12,666
Due to a related party		—	300
Deferred income		1,193	1,112
		<hr/>	<hr/>
Total current liabilities		107,495	90,291
		<hr/>	<hr/>
<b>Net current assets</b>		174,789	170,693
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		433,673	423,739
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Other interest-bearing borrowings	18	5,090	5,090
Deferred income		949	1,573
		<hr/>	<hr/>
Total non-current liabilities		6,039	6,663
		<hr/>	<hr/>
<b>Net assets</b>		427,634	417,076
		<hr/> <hr/>	<hr/> <hr/>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		30 June 2009 <i>(Unaudited)</i> RMB'000	31 December 2008 <i>(Audited)</i> RMB'000
	<i>Note</i>		
<b>Equity</b>			
<b>Equity attributable to equity holders of the parent:</b>			
Issued capital	19	262,658	262,658
Reserves	20	161,319	137,399
Proposed final dividends		—	13,133
		<hr/>	<hr/>
		423,977	413,190
Minority interests		3,657	3,886
		<hr/>	<hr/>
<b>Total equity</b>		<b>427,634</b>	<b>417,076</b>



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Net cash inflow from operating activities	17,729	15,344
Net cash outflow from investing activities	(13,717)	(29,065)
Net cash inflow (outflow) before financing activities	4,012	(13,721)
Net cash outflow from financing activities	(13,258)	(13,733)
Net decrease in cash and cash equivalents	(9,246)	(27,454)
Cash and cash equivalents at beginning of the period	50,052	70,610
Cash and cash equivalents at end of the period	40,806	43,156

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Equity attributable to equity holders of the parent</b>		
<b>Issued capital</b>		
As at 1 January and 30 June	<u>262,658</u>	<u>262,658</u>
<b>Share premium</b>		
As at 1 January and 30 June	<u>21,144</u>	<u>21,144</u>
<b>Reserve arising from acquisition of minority interests</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>58,622</u>	<u>52,251</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Unaudited For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000
<b>Retained earnings</b>		
As at 1 January	51,897	30,524
Net profit for the period	23,920	23,192
	<hr/>	<hr/>
As at 30 June	75,817	53,716
	<hr/>	<hr/>
<b>Reserves</b>	161,319	132,847
	<hr/>	<hr/>
<b>Minority interests</b>		
As at 1 January	3,886	3,860
Net profit for the period	371	321
Dividends	(600)	(600)
	<hr/>	<hr/>
As at 30 June	3,657	3,581
	<hr/>	<hr/>
<b>Total equity</b>	427,634	399,086
	<hr/> <hr/>	<hr/> <hr/>

## 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 GEM of the 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 International Accounting Standards ("IASs") 34 "Interim Financial Reporting" 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 consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2008, except for the adoption of new interpretations and amendments to IFRSs and the accounting policies adopted for new transactions, noted below.

The Group has adopted the following new interpretations and amendments to IFRSs which are relevant to its operations for the first time for these consolidated interim financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled, Entity or Associate
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combination
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of financial statements
IAS 23 (Revised)	Borrowing costs
IAS 32 and IAS 1 Amendments	Amendments to IAS32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC - Int 13	Customer Loyalty Programmes
IFRIC - Int 15	Agreements for the Construction of Real Estate
IFRIC - Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of these new interpretations and amendments to IFRSs has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

The Group has not applied the following new interpretations and amendments to IFRSs, which have been issued but are not yet effective, in these consolidated interim financial statements.

IAS 27 (Revised)	Consolidate and Separate Financial Statement <sup>1</sup>
IAS 39 Amendment	Amendment to IAS39 Financial Instruments: Recognition and Measurement - Eligible Hedged Item <sup>1</sup>
IFRIC - Int 17	Distribution of Non-cash Assets to Owners <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

Apart from the above, the Group expects that these new interpretations and amendments to IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3. Revenue

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value added tax, after allowance for returns, trade discounts and various types of government surcharges where applicable.

### 4. Segment information

The Group's revenue and profit were mainly derived from the sale of automotive steering gear 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. Finance costs

Finance costs for the three months and six months ended 30 June 2009 were approximately RMB63,000 and RMB127,000 (corresponding period in 2008: approximately RMB39,000 and RMB108,000) respectively, which was mainly composed of interest expenses for bank loans and other borrowings.

## 6. Profit before tax

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Staff costs (including directors' and supervisors' remuneration):				
Salaries and other staff costs	7,300	6,196	14,238	11,363
Retirement costs				
– defined contribution fund	681	406	1,267	1,028
Total staff costs	7,981	6,602	15,505	12,391
Interest expenses	63	39	127	108
Bank charges and other finance costs	—	—	—	—
Total finance costs	63	39	127	108
Costs of inventories sold	48,135	42,716	80,347	62,835
Depreciation	4,283	3,673	8,537	7,202
Amortisation of prepaid land lease payments	151	151	302	302
Amortisation of other intangible assets	21	21	43	29
Amortisation of deferred income	(272)	(254)	(544)	(508)
Research and development costs	1,870	1,643	3,911	2,951
Foreign exchange differences, net	—	46	—	150
Auditor's remuneration	275	250	550	550
Bank interest income	(91)	(173)	(241)	(360)
Gain on disposal of property, plant and equipment	3	(18)	(64)	(18)
Provision/(write-back) for impairment of trade receivables	(391)	14	(391)	14

## 7. Tax

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 2009 (2008: Nil).

In accordance with the Corporate Tax Law of the PRC, the profits of the Company and following PRC subsidiaries are taxed at the following tax rates:

	Note	2009	2008
The Company	(a)	25%	25%
Hangzhou Shibao Steering Gear Co., Ltd. ("Hangzhou Shibao")	(b)	15%	15%
Siping Steering Gear Co., Ltd. ("Siping Steering")	(c)	15%	12.5%
Hangzhou New Shibao Steering Gear Co., Ltd. ("Hangzhou New Shibao")	(a)	25%	25%
Jilin Shibao Machinery Co., Ltd. ("Jilin Shibao")	(a)	25%	25%

(a) The Company, Hangzhou New Shibao and Jilin Shibao are subject to a corporate income tax rate of 25% in 2009.

(b) Hangzhou Shibao obtained approval certificate from the relevant tax authorities as a High-New Technology Enterprise. Consequently, Hangzhou Shibao is subject to a corporate income tax rate of 15% with effect for the year ended 31 December 2008.

(c) In 2009, Siping Steering was in the process of obtaining approval certificate from the relevant tax authorities as a High-New Technology Enterprise. For the six months ended 30 June 2009, Siping Steering was subject to corporate income tax at the rate of 15%.



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

For the three months and six months ended 30 June 2009, profit attributable to the equity holders of the parent were approximately RMB13,615,000 and RMB23,920,000 (corresponding period in 2008: approximately RMB13,004,000 and RMB23,192,000) respectively.

**9. Earnings per share attributable to ordinary equity holders of the parent**

The calculation of the basic earnings per share is based on the profit of the three months and six months ended 30 June 2009 attributable to ordinary equity holders of the parent of approximately RMB13,615,000 and RMB23,920,000 (corresponding period in 2008: approximately RMB13,004,000 and RMB23,192,000) respectively, and the weighted average total number of 262,657,855 shares and 262,657,855 shares (corresponding period in 2008: 262,657,855 shares and 262,657,855 shares) respectively.

Diluted earnings per share for the three months and six months ended 30 June 2009 and 2008 have not been calculated as no diluting event existed during those periods.

## 10. Property, plant and equipment

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>						
At 1 January 2009	101,616	140,576	4,245	13,850	27,418	287,705
Additions	114	2,397	50	—	4,036	6,597
Transfers	56	6,327	96	43	(6,522)	—
Disposals	—	(133)	—	(189)	—	(322)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2009	<u>101,786</u>	<u>149,167</u>	<u>4,391</u>	<u>13,704</u>	<u>24,932</u>	<u>293,980</u>
<b>Accumulated depreciation</b>						
At 1 January 2009	16,031	46,773	3,087	6,326	—	72,217
Charge for the period	1,350	6,000	236	951	—	8,537
Disposals	—	(64)	—	(99)	—	(163)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2009	<u>17,381</u>	<u>52,709</u>	<u>3,323</u>	<u>7,178</u>	<u>—</u>	<u>80,591</u>
<b>Net book value</b>						
At 30 June 2009	<u>84,405</u>	<u>96,458</u>	<u>1,068</u>	<u>6,526</u>	<u>24,932</u>	<u>213,389</u>
At 31 December 2008	<u>85,585</u>	<u>93,803</u>	<u>1,158</u>	<u>7,524</u>	<u>27,418</u>	<u>215,488</u>

11. Investment in an associate

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Share of the associate's net assets		
Current assets	10,059	4,921
Non-current assets	16,204	14,360
Current liabilities	<u>(21,003)</u>	<u>(13,472)</u>
Net assets	<u>5,260</u>	<u>5,809</u>
Share of the associate's revenue and profit/(loss)		
Revenue	8,962	11,681
Profit/(loss)	<u>(549)</u>	<u>(6)</u>
Unrealised gains resulting from sales to an associate	<u>154</u>	<u>146</u>
Carrying amount of the investment	<u><u>5,106</u></u>	<u><u>5,445</u></u>



## 11. Investment in an associate (continued)

Details of the associate as at 30 June 2009 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 Company	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 2009 (Unaudited) RMB'000	As at 31 December 2008 (Audited) RMB'000
At cost:		
Raw materials	23,957	23,695
Work in progress	11,852	10,089
Finished goods	34,809	27,603
Low value consumables	11	1,411
	<u>70,629</u>	<u>62,798</u>

## 13. Trade and note receivables

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

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	120,264	87,035
Between 91 days and 180 days	9,560	17,283
Between 181 days and 365 days	6,581	8,277
Over 365 days	7,936	2,141
	<u>144,341</u>	<u>114,736</u>

The Group does not hold any collateral or other credit enhancements over these balances.

14. Prepayments, deposits and other receivables

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Deposits	291	988
Prepayments	7,386	11,465
Other receivables	1,895	1,650
	<u>9,572</u>	<u>14,103</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 2009 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 due for repayment on demand.

## 16. Trade and notes payables

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

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	37,179	29,774
Between 91 days and 180 days	16,934	19,666
Between 181 days and 365 days	11,844	6,022
Over 365 days	3,017	3,765
	<u>68,974</u>	<u>59,227</u>

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

17. Other payables and accruals

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Advances from customers	4,717	2,353
Payroll payables	2,325	1,683
Welfare payables	912	1,623
Other payables	16,492	11,327
	<u>24,446</u>	<u>16,986</u>

Other payables are non-interest-bearing and have an average term of one month.



18. Other interest-bearing borrowings

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Other borrowings, unsecured	<u>5,090</u>	<u>5,090</u>
Repayable:		
Within one year	—	—
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	<u>5,090</u>	<u>5,090</u>
	<u>5,090</u>	<u>5,090</u>
Portion classified as current liabilities	<u>—</u>	<u>—</u>
Long term portion	<u>5,090</u>	<u>5,090</u>

Other borrowings bear interest at a 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 2009 and 30 June 2009	1 per share	<u>175,943,855</u>	<u>86,714,000</u>	<u>262,657,855</u>	<u>262,658</u>

The Domestic Shares are not currently listed on any stock exchange. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote each without restriction.

20. Reserves

**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.

**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 2008 and 2009, the Company and its subsidiary Wuhu Sterling had the following transactions:

Name of related party	Nature of transaction	Unaudited	
		For the six months ended 30 June	
		2009 RMB'000	2008 RMB'000
Wuhu Sterling	Sales of raw materials to Wuhu Sterling from the Company (note (a))	410	5,226
	Sales of finished goods to Wuhu Sterling from the Company (note (b))	7,954	12,673
	Purchase of finished goods from Wuhu Sterling to the Company (note(b))	—	123
		<u>          </u>	<u>          </u>

Notes:

- (a) The sales of raw materials were priced at cost.
- (b) Finished goods are sold and purchased on normal commercial terms.

The above transactions constitute connected transactions within the meaning of the GEM Listing Rules. However, such transactions are intra-group transactions exempted under Rule 20.31(1) of the GEM Listing Rules from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules.

22. Commitments

Capital commitments in respect of the acquisition of land, plant and machinery:

	As at 30 June 2009 <i>(Unaudited)</i> RMB'000	As at 31 December 2008 <i>(Audited)</i> RMB'000
Contracted, but not provided for	37,826	30,895
Authorised, but not contracted for	—	—
	<u>37,826</u>	<u>30,895</u>
	<u><u>37,826</u></u>	<u><u>30,895</u></u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Operating result

For the six months ended 30 June 2009, the Group recorded a revenue of approximately RMB152,498,000, representing an increase of approximately 6.3% over the corresponding period in 2008. Profit attributable to shareholders was approximately RMB23,920,000, representing an increase of approximately 3.1% over the corresponding period in 2008.

During the period under review, the Group's revenue continued to grow, but the overall gross profit decreased by approximately 0.6% over the corresponding period in 2008. During the period under review, the Group's purchasing cost of raw material decreased, however a reduction in the sales price of some products had an adverse impact on overall gross profit.

During the period under review, the Group's gross profit margin was approximately 33.5% (corresponding period in 2008: approximately 35.8%). The decrease in gross profit margin was mainly due to a reduction in the sales price of the products.

During the period under review, selling and distribution costs increased by approximately RMB68,000 over the corresponding period in 2008, however the ratio of selling and distribution costs to revenue decreased as compared to the corresponding period in 2008. The main reason for the increase in selling and distribution costs was that there was an increase in transportation costs and other sales expenses due to an increase in sales volume.

During the period under review, the Group's administrative expenses decreased by approximately RMB25,000 over the corresponding period in 2008.

In view of the above, for the six months ended 30 June 2009, the Group has a profit after tax of approximately RMB24,291,000, representing an increase of approximately 3.3% compared with approximately RMB23,513,000 for the corresponding period last year.

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

### **Marketing and new products**

During the period under review, the rack-and-pinion power steering gear product developed by the Group for FAW Car Mazda M6 localisation project has started batch production.

During the period under review, the Group conducted training for after-market sales distributors and has paid regular visit to them.

### **Research and development**

During the period under review, the Group strengthened its human resources and capital investment in the research and development of the electric power steering system (EPS) controlling devices. The Group also planned to increase the production capacity of the key components of EPS.

## Human resources

As at 30 June 2009, the Group employed a total of 1,031 employees. For the six months ended 30 June 2009, total staff salaries and welfare costs amounted to approximately RMB15,505,000 (corresponding period in 2008: RMB12,391,000). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

## FINANCIAL REVIEW

### LIQUIDITY AND FINANCIAL RESOURCES

#### Liquidity ratios

As at 30 June 2009, the Group had cash and cash equivalents of approximately RMB40,806,000 in comparison with approximately RMB50,052,000 as at 31 December 2008. The current ratio of the Group was approximately 2.6 (31 December 2008: approximately 2.9) and the quick ratio was approximately 2.0 (31 December 2008: approximately 2.2).

Net current assets as at 30 June 2009 were approximately RMB174,789,000 (31 December 2008: approximately RMB170,693,000).

Non-current liabilities as at 30 June 2009 were approximately RMB6,039,000 (31 December 2008: approximately RMB6,663,000).

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

## Capital structure

As at 30 June 2009, the Group's gearing ratio was approximately 12.0% (31 December 2008: approximately 7.0%). The calculation of gearing ratio is net debt divided by total capital plus net debt. Net debt includes interest-bearing other borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to equity holders of the parent.

Total loans and borrowings as at 30 June 2009 were approximately RMB5,090,000 (31 December 2008: approximately RMB5,090,000), of which the amount repayable within one year was nil (31 December 2008: nil), and the amount repayable after one year was approximately RMB5,090,000 (31 December 2008: approximately RMB5,090,000). The loans carried commercial interests of 5% per annum (2008: 5%).

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

## PLEDGE OF ASSETS

As at 30 June 2009, the Group did not have any pledges on its assets (31 December 2008: Nil).

## MATERIAL ACQUISITIONS AND DISPOSALS

As at 30 June 2009, the Group did not have any material acquisition and disposal concerning subsidiaries and associated companies.



## FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2009, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk with the exception of the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The majority of the proceeds have been converted into Renminbi. No hedge arrangement has been entered into by the Group.

## CAPITAL COMMITMENTS

As at 30 June 2009, except the capital commitments as set out in Note 22 of the financial statements, the Group had no other material capital commitments.

## CONTINGENT LIABILITIES

As at 30 June 2009, the Group had no material contingent liabilities.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2009 (2008: Nil).

## OUTLOOK

During the first half of 2009, sales volume of China automotive market is leading the world. It is expected that the sales volume of China automotive market will continue to grow in the second half of 2009. The Group has new rack-and-pinion steering gear products started batch production this June. It is expected that the rack-and-pinion steering gear business will continue to grow and will be the major source of sustainable growth for the Group's business.

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

As at 30 June 2009, 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 which in turn holds 165,387,223 Domestic Shares 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, 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:* Zhejiang Shibao Holding, the ultimate holding company of the Company, owns 80% of Jilin Shibao Automation. As Mr. Zhang holds 40% of 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	Contribution in the registered capital	Approximate percentage in the registered capital of Changchun Shili Automotive
Mr. Zhang	Interest in a controlled corporation	RMB6,300,000	90%

*Note:* Zhejiang Shibao Holding, the ultimate holding company of the Company, owns 90% of Changchun Shili Automotive. As Mr. Zhang holds 40% of 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.

- (6) Long positions in the registered capital of a fellow subsidiary of the Company, Anhui Shibao Casting Industry Co., Ltd. ("Anhui Shibao"), an associated corporation of the Company:

Name of Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Anhui Shibao
Mr. Zhang	Interest in a controlled corporation	RMB10,000,000	100%

Note: Zhejiang Shibao Holding, the ultimate holding company of the Company, owns 100% of Anhui Shibao. As Mr. Zhang holds 40% of 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 100% interest directly held by Zhejiang Shibao Holding in Anhui Shibao.

Save as disclosed above, as at 30 June 2009, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company who 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 spouses or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.

## SHARE OPTION SCHEMES

As at 30 June 2009, the Company has not implemented any share option scheme.



## SUBSTANTIAL SHAREHOLDERS

As of 30 June 2009, 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 the 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%
Mr. Fang Zhen Chun	Beneficial owner	36,076,000 H Shares	41.60%	13.73%

Notes:

- (1) As at 30 June 2009, 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 of the Company and its associated corporations". 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.

Save as disclosed above, as at 30 June 2009, 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

During the period under review, 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 had an interest in a business which competed or might compete with the business of the Group, or had any other conflicts of interest with the Group.

## INTEREST OF COMPLIANCE ADVISER

Pursuant to the compliance adviser agreement dated 5 July 2007 (the "Agreement") between the Company's compliance adviser, Evolution Watterson Securities Limited ("Evolution") and the Company, the Agreement expired on 31 March 2009 in accordance with the requirements under Rule 6A.19 of the GEM Listing Rules. Both the Company and Evolution have agreed not to renew the Agreement. Therefore, interest of compliance adviser was not an issue.

## AUDIT COMMITTEE

The Company established an audit committee on 26 April 2006 with written terms of reference in compliance with the Code on Corporate Governance Practices 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 2009 have been reviewed by the audit committee.

## BOARD PRACTICES AND PROCEDURES

During the period under review, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions 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 has made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the period under review.

## CODE ON CORPORATE GOVERNANCE PRACTICES

For the period under review, the Group had been in compliance with the majority of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, with the exception of Rule A.2.1 of the Code on Corporate Governance Practices stating that the roles of the chairman and the chief executive shall be separated, and shall not be undertaken by the same individual.

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

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

Since the commencement of Listing of the H Shares of the Company on GEM on 16 May 2006, 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 rights 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.

## PUBLIC FLOAT

As at the date of this report, the Company is not in compliance with Rule 11.23(7) of the GEM Listing Rules which required at least 25% of the total issued share capital of the Company be held by the public. This shortfall in the prescribed minimum percentage of public float arose purely from an increase in shareholding of the Company by Mr. Fang, which is a connected person merely because he is a substantial shareholder of the Company. Mr. Fang, an independent individual investor, is not the controlling or single largest shareholder of the Company nor does he has any representation on the board of the Company. Furthermore, he has not been involved in the management of the Company and has no business relationship with the Company at any time.

The Company will continue to pay close attention to the level of public float of the shares of the Company and would strive to restore the public float of the Company to at least 25% of the total issued share capital of the Company as soon as practicable. Further announcement will be made when the public float meets the required level.

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

Hangzhou, Zhejiang, the PRC  
7 August 2009

*As at the date of this report, the Board 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. Zhao Chun Zhi, Mr. Chen Guo Feng and Mr. Lui Wing Hong, Edward as the independent non-executive Directors.*