



## Zhejiang Shibao Company Limited\*

### 浙江世寶股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 8331)

## Interim Results Announcement

for the six months ended 30 June 2008

## Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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*This announcement, for which the directors (the "Directors") of Zhejiang Shibao Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement 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 2008 amounted to approximately RMB 143,424,000, an increase of approximately 42.3% compared with approximately RMB100,811,000 for the corresponding period in 2007.
- Profit for the six months ended 30 June 2008 amounted to approximately RMB 23,513,000, an increase of approximately 33.2% compared with approximately RMB17,646,000 for the corresponding period in 2007.
- Profit attributable to shareholders for the six months ended 30 June 2008 amounted to approximately RMB23,192,000, an increase of approximately 33.9% compared with approximately RMB17,319,000 for the corresponding period in 2007.
- Earnings per share for the six months ended 30 June 2008 was RMB0.0883, an increase of approximately 34.0% compared with RMB0.0659 for the corresponding period in 2007.
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008.

## 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 2008, together with the comparative figures for the corresponding periods in 2007. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

### Condensed Consolidated Income Statement

	<i>Note</i>	Unaudited		Unaudited	
		For the three months		For the six months	
		ended 30 June		ended 30 June	
		2008	2007	2008	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	81,674	56,352	143,424	100,811
Cost of sales		(53,946)	(33,940)	(92,100)	(60,145)
<b>Gross profit</b>		<b>27,728</b>	<b>22,412</b>	<b>51,324</b>	<b>40,666</b>
Other income and gains		252	1,077	1,358	1,852
Selling and distribution costs		(6,053)	(3,230)	(9,446)	(5,715)
Administrative expenses		(7,301)	(5,313)	(13,930)	(11,135)
Other expenses		(229)	(955)	(547)	(1,717)

## Condensed Consolidated Income Statement *(continued)*

		Unaudited		Unaudited	
		For the three months		For the six months	
		ended 30 June		ended 30 June	
		2008	2007	2008	2007
	Note	RMB'000	RMB'000	RMB'000	RMB'000
<b>Operating profit</b>		<b>14,397</b>	13,991	<b>28,759</b>	23,951
Finance costs	5	(39)	(34)	(108)	(68)
Share of profit/(losses) of an associate		188	(15)	236	(187)
		<u>14,397</u>	<u>13,991</u>	<u>28,759</u>	<u>23,951</u>
<b>Profit before taxation</b>	6	<b>14,546</b>	13,942	<b>28,887</b>	23,696
Tax	7	(1,360)	(3,436)	(5,374)	(6,050)
		<u>13,186</u>	<u>10,506</u>	<u>23,513</u>	<u>17,646</u>
<b>Profit for the period</b>		<b>13,186</b>	10,506	<b>23,513</b>	17,646
Attributable to:					
Equity holders of the parent	8	13,004	10,334	23,192	17,319
Minority interests		182	172	321	327
		<u>13,186</u>	<u>10,506</u>	<u>23,513</u>	<u>17,646</u>
		RMB	RMB	RMB	RMB
Earnings per share (Basic, attributable to equity holders of the parent)	9	<u>0.0495</u>	<u>0.0393</u>	<u>0.0883</u>	<u>0.0659</u>

## Condensed Consolidated Balance Sheet

		30 June 2008 <i>(Unaudited)</i> RMB'000	31 December 2007 <i>(Audited)</i> RMB'000
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment	10	197,425	180,686
Prepaid lease payments		25,885	26,187
Other intangible assets		366	342
Advance payments for property, plant and equipment		13,186	7,557
Investment in an associate	11	5,394	5,597
Deferred tax assets		2,221	1,739
Total non-current assets		<u>244,477</u>	<u>222,108</u>
<b>Current assets</b>			
Inventories	12	50,997	46,433
Trade and note receivables	13	133,928	113,447
Prepayments, deposits and other receivables	14	6,160	10,135
Due from an associate	15	25,352	17,510
Cash and cash equivalents		43,156	70,610
Total current assets		<u>259,593</u>	<u>258,135</u>

## Condensed Consolidated Balance Sheet *(continued)*

		30 June 2008 <i>(Unaudited)</i> RMB'000	31 December 2007 <i>(Audited)</i> RMB'000
	<i>Note</i>		
<b>Current liabilities</b>			
Trade and notes payables	16	58,198	47,289
Other payables and accruals	17	23,132	19,621
Tax payable		15,497	15,540
Deferred income		1,016	1,016
		<hr/>	<hr/>
Total current liabilities		97,843	83,466
		<hr/>	<hr/>
<b>Net current assets</b>		161,750	174,669
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		406,227	396,777
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Other interest-bearing borrowings	18	5,290	5,560
Deferred income		1,851	1,911
		<hr/>	<hr/>
Total non-current liabilities		7,141	7,471
		<hr/>	<hr/>
<b>Net assets</b>		399,086	389,306
		<hr/> <hr/>	<hr/> <hr/>

## Condensed Consolidated Balance Sheet *(continued)*

		30 June 2008 <i>(Unaudited)</i> RMB'000	31 December 2007 <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	132,847	109,655
Proposed final dividends		—	13,133
		<hr/>	<hr/>
		395,505	385,446
Minority interests		3,581	3,860
		<hr/>	<hr/>
<b>Total equity</b>		<b>399,086</b>	<b>389,306</b>
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## Condensed Consolidated Cash Flow Statement

	Unaudited	
	For the six months	
	ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net cash generated from operating activities	15,344	5,689
Net cash used in investing activities	(29,065)	(18,888)
	<u>          </u>	<u>          </u>
Net cash outflow before financing activities	(13,721)	(13,199)
Net cash outflow from financing activities	(13,733)	(13,733)
	<u>          </u>	<u>          </u>
Net decrease in cash and cash equivalents	(27,454)	(26,932)
Cash and cash equivalents at beginning of the period	70,610	103,102
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of the period	<u>43,156</u>	<u>76,170</u>



## Condensed Consolidated Statement of Changes in Equity

	Unaudited	
	For the six months	
	ended 30 June	
	2008	2007
	RMB'000	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>52,251</u>	<u>47,604</u>

## Condensed Consolidated Statement of Changes in Equity

(continued)

	Unaudited For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
<b>Retained earnings</b>		
As at 1 January	30,524	10,063
Net profit for the period	23,192	17,319
	<hr/>	<hr/>
As at 30 June	53,716	27,382
	<hr/>	<hr/>
<b>Reserves</b>	132,847	101,866
	<hr/>	<hr/>
<b>Minority interests</b>		
As at 1 January	3,860	3,795
Net profit for the period	321	327
Dividends	(600)	(600)
	<hr/>	<hr/>
As at 30 June	3,581	3,522
	<hr/>	<hr/>
<b>Total equity</b>	<u>399,086</u>	<u>368,046</u>

# Notes to the Interim Financial Statements

## 1. General

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

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

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

## 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 condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007, 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.

IFRIC-Int 11	IFRS 2- Group and Treasury Share Transaction
IFRIC-Int 12	Service Concession Arrangements
IFRIC-Int 13	IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

### *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 the financial statements.

IAS 27 (revised)	Consolidated and Separate Financial Statements <sup>1</sup>
IFRS 3 (revised)	Business Combinations <sup>1</sup>
IAS 32 & IAS 1 Amendment	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>
IAS 1 (revised)	Presentation of Financial Statements <sup>2</sup>
IAS 23 (revised)	Borrowing Costs <sup>2</sup>
IFRS 2 Amendment	Share-based Payment: Vesting Conditions and Cancellations <sup>2</sup>
IFRS 1 & IFRS 27 Amendments	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup>
IFRS 8	Operating Segments <sup>2</sup>
IFRIC-Int 15	Agreements for the Construction of Real Estate <sup>2</sup>
IFRIC-Int 13	Customer Loyalty Programmes <sup>3</sup>
IFRIC-Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

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

<sup>2</sup> Effective for accounting periods beginning on or after 1 January 2009

<sup>3</sup> Effective for accounting periods beginning on or after 1 July 2008

<sup>4</sup> Effective for accounting periods beginning on or after 1 October 2008

### **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 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 2008 were approximately RMB39,000 and RMB108,000 (Corresponding period in 2007: approximately RMB34,000 and RMB68,000) respectively, which mainly included interest expenses for other borrowings.

## 6. Profit Before Tax

	Unaudited		Unaudited	
	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Staff costs (including directors', supervisors' and senior executives' remuneration):				
Salaries and other staff costs	6,196	5,545	11,363	9,008
Retirement costs				
- defined contribution fund	406	326	1,028	773
	<u>6,602</u>	<u>5,871</u>	<u>12,391</u>	<u>9,781</u>
Total staff costs				
Interest expenses	39	34	108	68
	<u>39</u>	<u>34</u>	<u>108</u>	<u>68</u>
Total finance costs				
Costs of inventories sold	42,716	25,177	62,835	38,265
Depreciation	3,673	3,244	7,202	5,890
Amortisation of land use rights	151	186	302	302
Amortisation of intangible assets	21	8	29	13
Amortisation of deferred income	(254)	(255)	(508)	(509)
Research and development costs	1,643	764	2,951	1,842
Foreign exchange differences, net	46	730	150	1,460
Provision/(write-back) for impairment				
of trade receivables	14	(182)	14	(182)
Gain on disposal of				
property, plant and equipment	(18)	(139)	(18)	(139)
Auditors' remuneration	250	376	550	675
	<u>250</u>	<u>376</u>	<u>550</u>	<u>675</u>

## **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 2008 (2007: Nil).

Siping Steering Gear co., Ltd. ("Siping Steering") 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 2008, Siping Steering was subject to corporate income tax at the rate of 15%.

Save as disclosed above, from 1 January 2008, the Company and its subsidiaries shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the PRC (the "new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable shall be adjusted to 25% from 2008 (2007: 33%).

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

For the three months and six months ended 30 June 2008, profit attributable to the equity holders of the parent were approximately RMB13,004,000 and RMB23,192,000 (Corresponding period in 2007: approximately RMB10,334,000 and RMB17,319,000) respectively.

## 9. Earnings per share

For the three months and six months ended 30 June 2008, basic earnings per share were calculated based on profits attributable to the Company's shareholders of approximately RMB13,004,000 and RMB23,192,000 (Corresponding period in 2007: approximately RMB10,334,000 and RMB17,319,000) respectively, and on the weighted average total number of 262,657,855 shares and 262,657,855 shares (Corresponding period in 2007: 262,657,855 shares and 262,657,855 shares) respectively.

Diluted earnings per share for the three months and six months ended 30 June 2008 and 2007 have not been calculated as no diluting instrument 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 2008	91,127	115,559	4,079	10,519	17,738	239,022
Additions	24	8,362	171	879	14,570	24,006
Transfers	8,479	6,482	—	—	(14,961)	—
Disposals	—	(589)	(15)	(242)	—	(846)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2008	<u>99,630</u>	<u>129,814</u>	<u>4,235</u>	<u>11,156</u>	<u>17,347</u>	<u>262,182</u>
<b>Accumulated depreciation</b>						
At 1 January 2008	13,412	36,944	2,694	5,286	—	58,336
Change for the year	1,288	4,976	232	706	—	7,202
Disposals	—	(537)	(14)	(230)	—	(781)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2008	<u>14,700</u>	<u>41,383</u>	<u>2,912</u>	<u>5,762</u>	<u>—</u>	<u>64,757</u>
<b>Net book values</b>						
At 30 June 2008	<u>84,930</u>	<u>88,431</u>	<u>1,323</u>	<u>5,394</u>	<u>17,347</u>	<u>197,425</u>
At 31 December 2007	<u>77,715</u>	<u>78,615</u>	<u>1,385</u>	<u>5,233</u>	<u>17,738</u>	<u>180,686</u>



## 11. Investment in an associate

	As at 30 June 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
<b>Group</b>		
Share of the associate's net assets		
Current assets	6,501	5,078
Non-current assets	13,006	11,504
Current liabilities	<u>(13,456)</u>	<u>(10,767)</u>
Net assets	<u>6,051</u>	<u>5,815</u>
Share of the associate's revenue and profit/(loss)		
Revenue	7,004	6,791
Profit/(loss)	<u>236</u>	<u>(1,098)</u>
Unrealised gains resulting from sales to an associate	<u>657</u>	<u>218</u>
Carrying amount of the investment	<u><u>5,394</u></u>	<u><u>5,597</u></u>

## 11. Investment in an associate *(continued)*

Details of the associate as at 30 June 2008 are as follows:

Company Name	Legal status	Place and date of incorporation and operation	Registered/ Paid-up Capital <i>RMB'000</i>	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 2008 <i>(Unaudited)</i> <i>RMB'000</i>	As at 31 December 2007 <i>(Audited)</i> <i>RMB'000</i>
At cost:		
Raw materials	23,644	18,917
Work in progress	8,312	8,250
Finished goods	17,313	17,503
Low value consumables	1,728	1,763
	50,997	46,433
	50,997	46,433

### 13. Trade and note receivables

An aged 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 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	118,244	92,472
Between 91 days and 180 days	10,891	9,657
Between 181 days and 365 days	4,566	8,117
Over 365 days	227	3,201
	<u>133,928</u>	<u>113,447</u>

An amount of RMB3,000,000 of notes receivables has been pledged to a bank to secure bank facilities granted of RMB3,000,000.

### 14. Prepayments, deposits and other receivables

	As at 30 June 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
Deposits	462	257
Prepayments	3,267	3,420
Other receivables	2,431	6,458
	<u>6,160</u>	<u>10,135</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 2008 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 aged 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 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
Outstanding balances with ages:		
Within 90 days	42,528	30,195
Between 91 days and 180 days	3,767	6,419
Between 181 days and 365 days	8,586	6,086
Over 365 days	3,317	4,589
	<hr/>	<hr/>
	<b>58,198</b>	<b>47,289</b>
	<hr/> <hr/>	<hr/> <hr/>

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

## 17. Other payables and accruals

	As at 30 June 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
Advances from customers	3,195	1,112
Payroll payables	1,866	1,244
Welfare payables	1,906	2,444
Other payables	16,165	14,821
	<u>23,132</u>	<u>19,621</u>

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

## 18. Other interest-bearing borrowings

	As at 30 June 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
Other borrowings, unsecured	<u>5,290</u>	<u>5,560</u>
Repayable:		
Within one year	—	—
In the second year	—	—
In the third to fifth years, inclusive	—	—
Over five years	<u>5,290</u>	<u>5,560</u>
	5,290	5,560
Portion classified as current liabilities	<u>—</u>	<u>—</u>
Long term portion	<u><u>5,290</u></u>	<u><u>5,560</u></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 2008 and 30 June 2008	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 rank pari passu in all respects with each other.

## 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 2007 and 2008, 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	
		2008 RMB'000	2007 RMB'000
Wuhu Sterling	Sales of raw materials to an associate <i>(note (a))</i>	5,226	2,765
	Sales of finished goods to an associate <i>(note (b))</i>	12,673	9,841
	Purchase of finished goods from an associate <i>(note (b))</i>	123	—

Notes:

(a) Raw materials are sold and purchased at cost.

(b) Finished goods are sold and purchased on normal commercial terms.



## 22. Commitments

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

	As at 30 June 2008 <i>(Unaudited)</i> RMB'000	As at 31 December 2007 <i>(Audited)</i> RMB'000
Contracted, but not provided for	16,224	1,445
Authorised, but not contracted for	2,053	6,728
	<hr/>	<hr/>
	<b>18,277</b>	<b>8,173</b>
	<hr/> <hr/>	<hr/> <hr/>

## 23. Pledge of assets

An amount of RMB3,000,000 of notes receivables has been pledged to a bank to secure bank facilities granted of RMB3,000,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### *Operating result*

For the six months ended 30 June 2008, the Group recorded a revenue of approximately RMB143,424,000, representing an increase of approximately 42.3% over the corresponding period in 2007. Profit attributable to shareholders was approximately RMB 23,192,000, representing an increase of approximately 33.9% over the corresponding period in 2007.

During the period under review, a substantial increase was recorded in the revenue of the Group. Such an increase was mainly due to an overall growth in the sales of the Company contributed by the successive commencement of mass supply of rack-and-pinion steering gear products and the steady growth in the sales of power recirculating ball steering gears. The Group's overall gross profit also increased by approximately 26.2% over the corresponding period in 2007.

During the period under review, the Group's gross profit margin was approximately 35.8% (corresponding period in 2007: approximately 40.3%). The decrease in gross profit margin was mainly due to the increase in the prices of raw materials. At the same time, the maturing at existing product markets and the price cutting factor also led to a slight decline in the gross profit margin of certain products.

During the period under review, selling and distribution costs expenses increased by approximately RMB3,731,000 or approximately 65.3% over the corresponding period in 2007. The main reason has been an increase in the sales volume in the first half of 2008, leading to an increase in transportation costs and other selling expenses.

During the period under review, the Group's administrative expenses increased by approximately RMB2,795,000 or approximately 25.1% over the corresponding period in 2007, while the ratio of administrative expenses to revenue decreased as compared to the corresponding period in 2007. During the period under review, the increase in administrative expenses was mainly due to the increases in research and development expenses and labor costs.

During the period under review, exchange losses recorded amounted to approximately RMB150,000. Exchange losses were due to the appreciation of Renminbi over HK dollars, thereby resulted in exchange losses in the net proceeds from the placing of H Shares.

During the period under review, finance costs increased by approximately RMB 40,000 or approximately 58.8% over the corresponding period in 2007. Finance costs mainly includes interest expenses of other borrowings.

In view of the above, for the six months ended 30 June 2008, the Group has a profit after tax of approximately RMB23,513,000, representing an increase of approximately 33.2% compared with approximately RMB17,646,000 for the corresponding period last year.

During the period under review, there was no material change in the business and regional segments.

#### *Marketing and new products*

For the six months ended 30 June 2008, the products of the Group have been applied in various vehicle types of major domestic automobile manufacturers, including FAW, Dongfeng, JAC, Chery, Lifan, etc. Meanwhile, the electronic power steering system (EPS) products developed by the Group have passed all road tests in Chery and moved on to the stage of supply by batch.

### *Production facilities*

During the period under review, to enhance the capacity for processing core components, the Group purchased world leading equipments for steering valve production and testing. During the period under review, a new rack-and-pinion steering gear assembly line completed installation and debugging in the Hangzhou plant.

### *Research and development*

For the six months ended 30 June 2008, the patent application for the electronic power steering system (EPS) products developed independently by the Group has been duly accepted by the State Intellectual Property Office.

### *Human resources*

As at 30 June 2008, the Group employed a total of 1,020 employees. For the six months ended 30 June 2008, total staff salaries and welfare costs amounted to approximately RMB12,391,000 (corresponding period in 2007: RMB9,781,000). 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**

#### *Current Ratio*

As at 30 June 2008, the Group had cash and cash equivalents of approximately RMB43,156,000 in comparison with approximately RMB70,610,000 as at 31 December 2007. Reduction in cash was mainly due to the distribution of final dividend in 2007 and increase in investment in equipment and property.

Net current assets as at 30 June 2008 was approximately RMB161,750,000 (31 December 2007: approximately RMB174,669,000).

Non-current liabilities as at 30 June 2008 was approximately RMB7,141,000 (31 December 2007: approximately RMB7,471,000).

Current ratio of the Group as at 30 June 2008 was approximately 2.7 (31 December 2007: approximately 3.1). Quick ratio of the Group was approximately 2.1 (31 December 2007: approximately 2.5).

## **CAPITAL STRUCTURE**

As at 30 June 2008, gearing ratio of the Group was approximately 9.9% (31 December 2007: approximately 0.5%). The calculation of gearing ratio is to divide net debt by the total capital plus net debt. Net debt includes other interest-bearing borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents, and excludes discontinued operations. Capital represents equity attributable to equity holders of the parent.

Total loans and borrowings as at 30 June 2008 was approximately RMB5,290,000 (31 December 2007: approximately RMB5,560,000), among which amount repayable to be repaid within a year was nil (31 December 2007: nil). Loans bear interest at commercial rate of 5% per annum (31 December 2007: 5%).

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

## **PLEDGE OF ASSETS**

As at 30 June 2008, other than charges on assets as set out in note 23 to the financial statement, the Group did not have any charges on its assets.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

As at 30 June 2008, the Group has no material acquisition and disposal of subsidiaries and associated companies.

## **FOREIGN CURRENCY EXPOSURE**

During the six months ended 30 June 2008, 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 balance of net proceeds has basically been converted into Renminbi. No hedge arrangement has been entered into by the Group.

## **CAPITAL COMMITMENTS**

As at 30 June 2008, except the capital commitments as set out in Note 22 to the financial statements, the Group had no other material capital commitments.

## **CONTINGENT LIABILITIES**

As at 30 June 2008, the Group had no material contingent liabilities.

## **OUTLOOK**

Sales results for the first half of 2008 maintained substantial increase compared to that of the corresponding period in 2007, mainly due to the commencement of mass supply of rack-and-pinion steering gear products of the Group, which led to substantial increase in sales, and recirculating ball steering gear business maintained stable growth at the same time. It is expected that the growth in rack-and-pinion steering gear business in the year will provide great contributions to the overall sales results of the Group.

## USE OF PROCEEDS

For the six months ended 30 June 2008

	As set out in the Prospectus <i>HK\$'000</i>	As set out in the Prospectus <i>RMB'000*</i>	Actual situation <i>RMB'000</i>
Business plan:			
Acquisition of machinery, equipment and/or expansion of assembly line(s) to expand the production capacity and/or capability (note(a))	5,000	4,396	6,697
Acquisition of testing equipments and software to enhance our research and development and product testing capability(note (b))			1,890
	<u>5,000</u>	<u>4,396</u>	<u>8,587</u>

Notes:

(a) For the six months ended 30 June 2008, actual amount of cash paid was approximately RMB8,587,000.

Of this, approximately RMB6,697,000 was used to acquire equipments ordered, representing an excess of RMB2,301,000 over budget due to the increase in prices and change in exchange rates.

(b) In order to accelerate to enhance the research and development and product testing capability of the Company, certain equipments for research and development and product testing which were planned to be acquired in the second half of 2008 were acquired in advance.

\* Amounts in Hong Kong dollars have been converted into Renminbi at the rate of HK\$1.00=RMB0.87917.

# COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the Prospectus

Actual business progress

## Expansion of production capacity

Acquire additional machineries and equipments for the production of hydraulic rotary valves

Acquired world leading equipments for the production and testing of hydraulic rotary valves

Acquire additional machineries and equipment for rack-and-pinion steering gears production

Acquired several machining equipments

## Research and development

Commence technical analyses, structural design, development and testing on new models of hydraulic rotary valves

Completed development and testing of various kinds of hydraulic rotary valves that can meet the different demands of domestic market



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

**Actual business progress**

**Sales and marketing**

Participate in international automotive parts and components exhibitions with the aim of promoting our products to the overseas markets

Participated in the Beijing Automotive Exhibition 2008

**Human resources**

Recruit about 20 technicians and general workers to support our overall business expansion

Recruited 20 technicians and 5 numerical control machine operators

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

## 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 2008, 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. 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	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:* 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.

- (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:* Anhui Shibao, a subsidiary of Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 100% 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 100% interest directly held by Zhejiang Shibao Holding in Anhui Shibao.

Save as disclosed above, as at 30 June 2008, 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**

As at 30 June 2008, the Company has not implemented any share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As of 30 June 2008, 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%
Mr. Fang Zheng Chun	Beneficial Owner	31,324,000 H Shares	36.12%	11.93%



Notes:

- (1) As at 30 June 2008, 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.

Save as disclosed above, as at 30 June 2008, 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 2008, as updated and notified by Evolution Watterson Securities 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 5 July 2007 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 1 August 2007, 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.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the six months ended 30 June 2008, purchases attributable to the Group's five largest suppliers and the turnover attributable to the five largest customers represented approximately 31.9% and 48.8% of the Group's total purchases and total turnover respectively. In addition, the largest supplier and the largest customer represented approximately 23.7% and 14.8% 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 on Corporate Governance 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 2008 have been reviewed by the audit committee.

## **BOARD PRACTICES AND PROCEDURES**

During the period from the date of Listing to 30 June 2008, 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 2008, 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 2008 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 2008.

## SUBSEQUENT EVENT

Pursuant to the announcement of the Company dated 11 July 2008, the Company entered into an agreement with Siping Tiedong Economic Development Zone in respect of the acquisition of an industrial land of approximately 110,000 square meters located at Siping Tiedong Economic Development Zone at a consideration of RMB27,720,000. The Company intends to use the land for precision casting and machining.

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

Hangzhou, Zhejiang, the PRC  
8 August 2008

*As at the date of this announcement, 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. Bao Zhi Chao, Mr. Chen Guo Feng and Mr. Lui Wing Hong, Edward as the independent non-executive Directors.*

*This announcement will remain on the "Latest Company Announcement" page of the GEM website at <http://www.hkgem.com> for at least 7 days from its date of publication.*

\* *For identification purposes only*