



# 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)*



S H I B A O

PLACING

Sponsor

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

**Joint Lead Managers and Joint Bookrunners**

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

 **taifook**  
TAI FOOK SECURITIES COMPANY LIMITED

## IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



# Zhejiang Shibao Company Limited\*

浙江世寶股份有限公司

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

## LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING OF H SHARES

<b>Number of Placing Shares</b>	<b>: 86,714,000 H Shares</b>
<b>Placing Price</b>	<b>: Not more than HK\$1.60 per H Share and is expected to be not less than HK\$1.32 per H Share</b>
<b>Nominal value per H Share</b>	<b>: RMB1.00 per H Share</b>
<b>Stock code</b>	<b>: 8331</b>

### Sponsor

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

### Joint Lead Managers and Joint Bookrunners

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED

  
TAI FOOK SECURITIES COMPANY LIMITED

### Co-Lead Managers

**Watterson Asia Limited**

**Taiwan Securities (Hong Kong) Company Limited**

### Co-Managers

**CSC Securities (HK) Limited**

**Phillip Securities (Hong Kong) Limited**

**Sun Hung Kai International Limited**

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Placing Price is expected to be fixed pursuant to the Price Determination Agreement on or before the Price Determination Time, which is expected to be on or before 5:00 p.m. on Monday, 8 May, 2006 (Hong Kong time) or such other date as may be agreed among our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters), but in any event not later than 5:00 p.m. on Tuesday, 9 May, 2006 (Hong Kong time). The Placing Price will not be more than HK\$1.60 per H Share and is currently expected to be not less than HK\$1.32 per H Share.

If, for whatever reason, our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) are unable to enter into the Price Determination Agreement on or before the Price Determination Time or such other date and time as may be agreed among our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) but in any event not later than 5:00 p.m. on Tuesday, 9 May, 2006 (Hong Kong time), the Placing will not become unconditional and will lapse immediately. In such event, our Company will issue an announcement to be published on the GEM website.

Our Company is incorporated in the PRC as a joint stock company with limited liability, and its businesses are located in the PRC. Prospective investors should be aware of the differences in the legal, economic, and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in companies incorporated in the PRC. Prospective investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of our Company. Certain of such differences and risk factors are set out in the section headed "Risk factors" in, and "Appendix IV — Summary of principal legal and regulatory provisions and Articles of Association" to this prospectus.

Prospective investors should note that Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters), following due consultation with Anglo Chinese, is entitled to terminate the Underwriters' obligations under the Underwriting Agreement by notice in writing to our Company, upon occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the listing date (which is currently expected to be Tuesday, 16 May, 2006). Such events include, without limitation, those of a financial, political, industrial, economic, military, legal, regulatory, fiscal and, or other nature.

\* For identification purposes only

4 May, 2006

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## CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher 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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## EXPECTED TIMETABLE

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2006  
(Note 1)

Price Determination Time (Note 2) . . . . .	5:00 p.m. on Monday, 8 May
Announcement of the final Placing Price, the level of indication of interests in the Placing and the basis of allocation of the Placing Shares to be published on the GEM website at www.hkgem.com on or before . . . . .	Friday, 12 May
Deposit of H Share certificates on or before (Note 3) . . . . .	Friday, 12 May
Dealings in H Shares on GEM to commence on . . . . .	Tuesday, 16 May

*Notes:*

1. All times refer to Hong Kong local time.
2. If, for whatever reason, our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) are unable to enter into the Price Determination Agreement on or before the Price Determination Time (which is expected to be on or before 5:00 p.m. on Monday, 8 May, 2006 (Hong Kong time), and in any event not later than 5:00 p.m. on Tuesday, 9 May, 2006 (Hong Kong time)), the Placing will not become unconditional and will lapse immediately. In such event, our Company will issue an announcement to be published on the GEM website.
3. Placees of the H Shares will receive H Share certificates via CCASS. H Share certificates are expected to be issued in the name of HKSCC Nominees Limited and deposited directly into CCASS on or about Friday, 12 May, 2006 for credit to the respective CCASS participants' or investor participants' stock accounts designated by the Underwriters or the placees, as the case may be.
4. Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.
5. **Prospective investors should note that Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters), following due consultation with Anglo Chinese, is entitled to terminate the Underwriters' obligations under the Underwriting Agreement by notice in writing to our Company, upon occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the listing date (which is currently expected to be Tuesday, 16 May, 2006). Such events include, without limitation, those of a financial, political, industrial, economic, military, legal, regulatory, fiscal and, or other nature. Accordingly, any H Share certificate relating to the Placing issued by our Company or deposited into CCASS prior to 8:00 a.m. (Hong Kong time) on the listing date will not constitute evidence of title to the H Shares.**

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*Our Company has not authorised anyone to provide you with information that is different from that contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied upon by you as having been authorised by the Company, Anglo Chinese, Tai Fook, the Underwriters, any of their respective directors or employees or any other persons or parties involved in the Placing.*

*The contents on the website [www.shibaogroup.com](http://www.shibaogroup.com) do not form part of this prospectus.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed "Risks factors" in this prospectus. You should read that section carefully before you decide to invest in the H Shares.*

### **BUSINESS OVERVIEW**

Established in 1993, we design, manufacture and sell steering gears and related components for automobiles in China. Our products are manufactured in three production facilities located at Yiwu, Siping and Hangzhou with an aggregate annual steering gears production capacity of over 250,000 units. Most of our products are customised to meet particular specifications of different automobile models. Going forward, we expect to embark on a new growth phase with our new products, including our power rack-and-pinion steering gears introduced to the market during the second quarter of 2005, and electronic power steering gears which are currently at an advanced stage of development and prototype testing.

According to a notice issued by the Information Center of China Machinery Industry Federation (中國機械工業聯合會信息中心) in July 2003, we were ranked the 50th in terms of profitability among 10,000 mechanical system manufacturers in China. Zhejiang Shibao Steering, our predecessor, was accredited by China Enterprise Evaluation Association (中國企業評價協會) as one of the top 500 developing small to medium-sized enterprises in China in 2003. Siping Steering, our subsidiary, was awarded by TÜV Rheinland Group the TÜV certificate in 2002 for its quality system compliance with VDA6, Part 1, in respect of its steering knuckles production.

We have established a broad sales network and customer base in the PRC covering over 17 provinces and municipalities. We market all our products through our own direct sales force. Our customers include many reputable automobile and automotive parts and components manufacturers in China like the FAW Group, the Dongfeng Motor Group, Hubei TriRing, Dandong Huanghai Automobile, Kinglong Automobile, Nanjing Yuejin, Yunan Lifan and Chery Automobile.

We are in the process of establishing DHB-Shibao, a sino-foreign equity joint venture, with DHB-CA which is a subsidiary of DHB Industria e Comercio S.A., a company listed on the Sao Paulo Stock Exchange in Brazil. DHB-CA manufactures hydraulic pumps, hoses and manual and power rack-and-pinion steering gears. Its customer base includes General Motors, Volkswagen, Fiat, Ford and Renault of Argentina and Brazil, and Mercury Marine of the United States. It is intended that DHB-Shibao will be engaged in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps. Products to be manufactured by DHB-Shibao will bear the trademark of "DHB-Shibao" and may be sold within China and other Asian countries (excluding India and Iran). The joint venture agreement also provides that upon the establishment of DHB-Shibao, DHB-CA and DHB-Shibao will enter into a technology transfer agreement for a term of 20 years, under which DHB-CA will transfer production technologies covering, among other areas, product

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## SUMMARY

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design, manufacturing technology, means of testing, materials prescription, standard of quality and training of personnel to DHB-Shibao for its product development and production. DHB-CA warranted that such technologies shall be transferred on an “as is” basis and pledged that the technologies should be of the same type currently adopted by DHB-CA. Further, DHB-CA agreed that it shall provide DHB-Shibao with any improvements in the technologies transferred with no additional fees or charges. We expect that DHB-Shibao will assist our initial entry into the overseas automotive parts and components procurement market.

We recorded turnover of approximately RMB 140.3 million and RMB149.1 million for each of the two years ended 31 December, 2005 respectively.

### OUR COMPETITIVE STRENGTHS

We believe that our success and our potential for future growth can be attributed to the following strengths:

- strong technical capability;
- stringent quality control;
- experienced management team;
- established customer base; and
- low production cost.

### FUTURE PROSPECTS, BUSINESS OBJECTIVES AND STRATEGIES

We believe that our Group is poised to benefit from the growing PRC automobile industry. In particular, we believe that the trend of increased automobile sales will continue on the back of the anticipated continuous improvement of the purchasing power of consumers, increased expenditure on durable goods, and changing ownership patterns allied to the currently low penetration rate for automobiles in the PRC, particularly amongst private-ownership rather than civil-ownership. (Please refer to the section headed “Industry overview” in this prospectus for further details of the outlook of the automobile industry in the PRC). Aside from the PRC domestic market, it is also our goal to tap into the overseas automotive parts and components procurement market in the long term.

We have a loyal customer base comprising major local automobile and automotive parts and components manufacturers in China. Leveraging on our strong technical capability and our industry experience, we believe our Group is capable of adapting to and producing new products for differing demands from the automobile and automotive parts and components manufacturers. Over the years we have accumulated in-depth knowledge of product specifications of our customers, which in our Directors’ view, makes it less likely for our customers to switch to alternative suppliers. Building on these strengths, we expect to benefit economically as demand for automobiles grows in the future.

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## SUMMARY

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With the continuing preference for power over manual steering gears, it is expected that our sales of power steering gears and related components will continue to dominate our sales mix in the future. Riding on our initial success in the launch of power rack-and-pinion steering gears in 2005, we expect stronger sales of this new product in 2006. Our electronic power steering gears are at an advanced stage of development and prototype testing and we expect trial production and sales to take place the earliest towards the end of 2006, paving the way for an additional revenue stream in the near future. Subject to the progress of adopting relevant technical know-how from DHB-CA following the establishment of DHB-Shibao, our product range may also expand to include steering oil pumps in the long run.

It is our objective to become one of the leading brands in the automotive parts and components industry in the PRC. We also aim to become a major supplier of automotive steering gears in the PRC, and in the long run to enter the global procurement market and become a steering system components supplier of the world's leading automobile manufacturers. To achieve these objectives, our Directors intend to implement the following business strategies:

### **Expand production capacity of our major products**

We intend to further expand our production capacity as our newly constructed Hangzhou plant runs into full operation. In particular, we plan to increase our production capacity in respect of most of our existing products to cater for the anticipated increase in demand fueled by growth in the PRC economy. It is expected that our production capacity of manual and power recirculating ball steering gears will increase over 20%, and more than double in respect of our rotary valves by the end of 2008. Our production capacity of power rack-and-pinion steering gears and electronic power steering gears for the two months ended 28 February, 2006 was about 10,000 sets and 1,000 sets respectively. We expect to significantly increase our production capacity of these two new products in the next two years. We also plan to adjust our production capacity of the tailor made *Hong Qi* steering knuckles and *M6* steering knuckles in order to meet our customers' needs.

### **Strengthen product research and development**

We intend to adopt a parallel system encompassing both in-house research and development and collaborative arrangements with external partners to shorten the development cycle of our products. We intend to recruit more experienced research and development personnel and provide more training and learning opportunities to our research and development staff in order to strengthen our product research and development capability. Based on the joint venture agreement entered into between Hangzhou Shibao and DHB-CA on 16 February, 2006, DHB-CA will enter into a technology transfer agreement with DHB-Shibao upon its establishment under which DHB-CA will transfer production technologies to DHB-Shibao for its product development and production. We believe our product research and development capability will be further enhanced by such collaboration. In the meantime, we plan to increase our investment in product research and development to further strengthen our capability for a variety of automotive steering gear products.

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## SUMMARY

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### **Expand PRC and tap into overseas markets**

In the PRC domestic market, we intend to widen our market coverage by expanding our sales force and establishing strategic cooperation partnerships with certain automobile manufacturers. As our first step to gradually tap into the overseas market, we have recruited personnel experienced in foreign trade and are set to devote more resources to serving foreign invested automobile factories in the PRC.

We have also entered into a sino-foreign joint venture agreement with DHB-CA for the establishment of DHB-Shibao to engage in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps to be sold within China and other Asian countries (excluding India and Iran). We believe that DHB-Shibao will assist our initial entry into the overseas automotive parts and components procurement market. We will continue to explore opportunities to establish strategic relationships with other foreign automobile manufacturers through joint investments for the production of steering gears and other steering system components in the long run.

We intend to strengthen our “Shibao” brandname by means of promotional activities including launching advertisements and promotional campaigns and participation in automobile exhibitions.

### **REASONS FOR THE PLACING AND USE OF PROCEEDS**

We believe that the listing of H Shares on GEM will enhance the corporate profile and public awareness of our Group. In addition, the net proceeds from the Placing will strengthen our financial structure and fund our capital investments.

The net proceeds from the Placing based on the minimum Placing Price of HK\$1.32 per H Share, after deduction of related fees and expenses, are estimated to be approximately HK\$91.5 million. Our Directors intend to apply the net proceeds from the Placing as follows:

- approximately HK\$5.0 million to settle the remaining construction and ancillary expenditure of our Hangzhou plant;
- approximately HK\$54.0 million for the acquisition of machineries, equipment and, or expansion of assembly line(s) to expand our production capacity and, or capability;
- approximately HK\$9.0 million to acquire testing equipment and software to enhance our research and development and product testing capability; and
- approximately HK\$23.5 million to satisfy the cash portion of our share of capital contribution to DHB-Shibao.

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## SUMMARY

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It is expected that additional funding of approximately HK\$37.5 million will be required for the acquisition of machineries and equipment to expand our production capacity and, or capability as planned. In the event that the final Placing Price is fixed at the minimum of HK\$1.32 per H Share, we intend to fund such shortages, as well as our research and development activities, sales and marketing activities and expansion in human resources under our business plan by internal resources.

If the final Placing Price is fixed at the maximum of HK\$1.60 per H Share, we will receive additional net proceeds of approximately HK\$23.0 million. We intend to apply such additional net proceeds as to about HK\$17.5 million for the acquisition of machineries and equipment to expand our production capacity and, or capability in accordance with our business plan, and as to about HK\$5.5 million as general working capital.

To the extent that the net proceeds from the Placing are not immediately required for the above purposes or if our Group is unable to effect any part of our business plan in accordance with the implementation plan due to the occurrence of any events described in the section headed “Risk factors” in this prospectus, it is the present intention of our Directors to place such net proceeds on short term deposits with licensed financial institutions in Hong Kong and, or the PRC. In such event, our Company will comply with the relevant disclosure requirements under the GEM Listing Rules.

## SUMMARY

### TRADING RECORD

A summary of the audited consolidated financial statements of the Group for the track record period, which is extracted from the accountants' report in appendix I to this prospectus, is set out as follows:

#### Consolidated income statements

	<i>Notes</i>	<b>Year ended 31 December,</b>	
		<b>2004</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	1	140,323	149,148
Cost of sales		<u>(68,341)</u>	<u>(82,579)</u>
<b>Gross profit</b>		71,982	66,569
Other income		905	1,071
Selling and distribution costs		(5,444)	(6,282)
Administrative expenses		(16,277)	(15,437)
Other expenses		<u>(788)</u>	<u>(162)</u>
<b>Profit from operations</b>		50,378	45,759
Finance costs		(1,863)	(3,931)
Share of loss of an associate		<u>—</u>	<u>(228)</u>
<b>Profit from operations before income tax</b>		48,515	41,600
Income tax expense		<u>(12,989)</u>	<u>(3,575)</u>
<b>Net profit for the year</b>		<u><u>35,526</u></u>	<u><u>38,025</u></u>
<b>Attributable to</b>			
Equity holders of the parent		34,468	37,472
Minority interests		<u>1,058</u>	<u>553</u>
		<u><u>35,526</u></u>	<u><u>38,025</u></u>
<b>Dividends</b>			
Interim		29,000	—
Proposed final		<u>—</u>	<u>15,000</u>
		<u><u>29,000</u></u>	<u><u>15,000</u></u>
Earnings per Share — basic	2	<u><u>RMB0.20</u></u>	<u><u>RMB0.21</u></u>

*Notes:*

1. 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.
2. The calculation of basic earnings per Share is based on the profit attributable to Shareholders for each of the two years ended 31 December, 2005 and on the basis of 175,943,855 Shares, being the number of Shares in issue prior to the Placing.

## SUMMARY

### Consolidated balance sheets

	<b>31 December,</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	51,398	111,618
Construction in progress	42,538	32,777
Land use rights	27,956	27,471
Investment in an associate	7,200	6,972
Deferred tax assets	1,415	375
	<u>130,507</u>	<u>179,213</u>
<b>Current assets</b>		
Inventories	35,607	35,636
Trade and notes receivables	92,890	109,241
Prepayments, deposits and other receivables	11,815	17,023
Due from a director	12,882	7
Due from a holding company	24,423	—
Due from related companies	6,160	274
Cash and cash equivalents	23,635	37,361
	<u>207,412</u>	<u>199,542</u>
<b>Total assets</b>	<u>337,919</u>	<u>378,755</u>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	27,180	56,820
Trade and notes payables	32,281	40,070
Accrued liabilities and other payables	20,346	18,350
Tax payable	9,270	10,329
Dividend payable	29,000	—
Deferred income	—	911
Due to a related company	2,000	—
	<u>120,077</u>	<u>126,480</u>
<b>Net current assets</b>	<u>87,335</u>	<u>73,062</u>
<b>Total assets less current liabilities</b>	<u>217,842</u>	<u>252,275</u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	15,820	5,830
Deferred income	—	3,848
	<u>15,820</u>	<u>9,678</u>
<b>Net assets</b>	<u>202,022</u>	<u>242,597</u>
<b>Represented by:</b>		
Paid-up capital/share capital	175,944	175,944
Reserves	21,469	43,941
Proposed final dividend	—	15,000
	<u>197,413</u>	<u>234,885</u>
Minority interests	4,609	7,712
<b>Total equity</b>	<u>202,022</u>	<u>242,597</u>

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## SUMMARY

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### PLACING STATISTICS

	<b>Based on the minimum Placing Price of HK\$1.32 per H Share</b>	<b>Based on the maximum Placing Price of HK\$1.60 per H Share</b>
Market capitalisation of the H Shares ( <i>Note 1</i> )	HK\$114.5 million	HK\$138.7 million
Historical price/earnings multiple		
— weighted average ( <i>Note 2</i> )	6.45 times	7.81 times
Unaudited pro forma adjusted net tangible asset value per Share ( <i>Note 3</i> )	RMB1.26 (approximately HK\$1.21)	RMB1.35 (approximately HK\$1.30)

#### Notes:

1. The market capitalisation is based on there being 86,714,000 H Shares in issue following the Placing.
2. The historical price/earnings multiple on a weighted average basis is calculated based on the historical earnings per Share on a weighted average basis of RMB21.3 cents (approximately 20.5 HK cents) at the indicative Placing Prices of HK\$1.32 per H Share and HK\$1.60 per H Share.
3. The unaudited pro forma adjusted net tangible asset value per H Share has been arrived at after making the adjustments referred to in “Appendix II — Unaudited pro forma financial information” to this prospectus and on the basis of 86,714,000 H Shares in issue immediately following completion of the Placing and the indicative Placing Prices of HK\$1.32 per H Share and HK\$1.60 per H Share.

### RISK FACTORS

We believe that there are risks and uncertainties involved in our operations, many of which are beyond our control. These risks can be categorised into: (i) risks relating to our business; (ii) risks relating to the automotive parts and components industry in the PRC; (iii) risks relating to the PRC; and (iv) risks relating to the Placing. These risk factors are set out under the section headed “Risk factors” in this prospectus and are summarised as follows:

#### Risks relating to our business

- Reliance on major customers;
- Long overdue trade receivables;
- Decreasing profit margin during the track record period;

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## SUMMARY

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- High gross profit margin compared to other companies in the automotive parts and components industry;
- Our profit margins and our operating results may be adversely affected by increases in the price of raw materials or any shortage of raw material supplies;
- Our Group may not have sufficient funds to finance our business plan;
- Reliance on the PRC market;
- Risks relating to our new products;
- Risks relating to the establishment, and future business and performance of DHB-Shibao;
- Reliance on our senior management and experienced employees;
- Breakdown of machineries, equipment and, or production lines;
- Intellectual property rights;
- Product liability and insurance coverage;
- Withdrawal of preferential tax treatment;
- Past dividend distribution(s) should not be used as a reference or basis to determine the amount of dividend payable in the future; and
- Environmental issues.

### **Risks relating to the automotive parts and components industry in the PRC**

- Adverse changes in the PRC's economic conditions could reduce the demand for automobiles and automotive parts and components;
- Changes in the competitive landscape in the automotive parts and components industry in the PRC;
- Competition; and
- Cyclicity in the automobile industry.

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## SUMMARY

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### **Risks relating to the PRC**

- Risks relating to political and economic policies of the PRC Government;
- The legal system of the PRC;
- Different supervisory structure;
- Securities laws and regulations;
- Enforcing judgments and arbitration;
- Foreign exchange and currency conversion in the PRC;
- The PRC's accession into the WTO;
- Outbreak of the Severe Acute Respiratory Syndrome ("SARS") or other similar epidemics; and
- Outbreak of the H5N1 strain of bird flu ("Avian Flu") or any other similar epidemics.

### **Risks relating to the Placing**

- There has been no prior public market for the H Shares and the liquidity and market price of the H Shares may be volatile;
- Dilution of Shareholders' interests as a result of additional equity fund raising;
- No undue reliance on industry statistics; and
- Forward looking statements.

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## DEFINITIONS

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*In this prospectus, the following expressions have the following meanings, unless the context otherwise requires:*

“Anglo Chinese” or “Sponsor”	Anglo Chinese Corporate Finance, Limited, the sponsor to, and one of the Joint Lead Managers and joint bookrunners of the Placing, deemed to be licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO;
“Articles of Association”	the articles of association of our Company adopted on 26 April, 2006 and as amended from time to time, a summary of which is set out in appendix IV to this prospectus;
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules;
“Board” or “our Board”	the board of Directors;
“business day”	a day that is not a Saturday, Sunday or a public holiday in Hong Kong;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“Changchun FAW Light-Duty Truck”	Changchun FAW light-duty truck works (長春一汽輕型車廠), an operating entity under FAW Group Corporation which manufactures light-duty trucks;
“Changchun Jiefang Chassis”	Changchun Jiefang Automobile Chassis Co., Ltd. (長春解放汽車底盤有限公司), an operating entity under FAW Group Corporation which manufactures chassis parts for “ <i>Jiefang</i> ” series automobiles;
“Changchun Shili Automotive”	Changchun Shili Automotive Brake Parts Co., Ltd. (長春世立汽車制動零部件有限責任公司), a company established in the PRC with limited liability on 15 May, 2003 and owned as to 90% by Zhejiang Shibao Holding and 10% by Changchun Mengjia Automotive Parts Company Ltd. (長春孟家車轆零部件有限責任公司);
“Chery Automobile”	Chery Automobile Co., Ltd. (奇瑞汽車有限公司);
“Company” or “our Company”	Zhejiang Shibao Company Limited (浙江世寶股份有限公司), a joint stock limited company established on 12 July, 2004 in the PRC with limited liability, and, where the context refers to any time prior to 12 July, 2004, those entities or businesses which contributed to and became part of Zhejiang Shibao Company Limited;

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## DEFINITIONS

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“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time);
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the 8th National People’s Congress on 29 December, 1993, which became effective on 1 July, 1994, as amended, supplemented or otherwise modified from time to time;
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會);
“Dandong Huanghai Automobile”	Dandong Huanghai Automobile Co., Ltd. (丹東黃海汽車有限責任公司);
“DHB-CA”	DHB Componentes Automotivos S.A., a subsidiary of DHB Industria e Comercio S.A. which is a company listed on the Sao Paulo Stock Exchange of Brazil;
“DHB-Shibao”	DHB-SHIBAO Steering Co., Ltd. (得士比世寶(杭州)汽車轉向系統有限公司), a sino-foreign equity joint venture to be established by Hangzhou Shibao and DHB-CA pursuant to the joint venture agreement dated 16 February, 2006 which, upon establishment, shall be owned as to 75% by Hangzhou Shibao and 25% by DHB-CA;
“Director(s)” or “our Directors”	the director(s) of our Company;
“Domestic Shares”	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, fully paid or credited as fully paid in RMB by PRC nationals and, or PRC-incorporated entities;
“Dongfeng Motor”	Dongfeng Motor Company Limited. (東風汽車有限公司);
“Dongfeng Motor Group”	Dongfeng Hangzhou, Dongfeng Liuzhou, Dongfeng Shiyan, Dongfeng Yunan, any one or a combination of them;
“Dongfeng Hangzhou”	Dongfeng Hangzhou Motor Co., Ltd. (東風杭州汽車有限公司), an operating entity under Dongfeng Motor;
“Dongfeng Liuzhou”	Dongfeng Liuzhou Motor Co., Ltd. (東風柳州汽車有限公司), an operating entity under Dongfeng Motor;
“Dongfeng Shiyan”	Shiyan Branch Company of Dongfeng Motor Drive Shaft Co., Ltd. (東風汽車傳動軸有限公司十堰分公司), an operating entity under Dongfeng Motor;

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## DEFINITIONS

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“Dongfeng Yunan”	Dongfeng Yunan Motor Co., Ltd. (東風雲南汽車有限公司), an operating entity under Dongfeng Motor;
“Formal Notice”	the formal notice required to be published on the GEM website in connection with the Placing in accordance with Chapter 16 of the GEM Listing Rules;
“FAW Car”	FAW Car Co., Ltd. (一汽轎車股份有限公司), a joint stock company listed on the Shenzhen Stock Exchange and an operating entity under FAW Group Corporation which manufactures the <i>Hong Qi</i> series sedans and the <i>MAZDA M6</i> sedans;
“FAW Group”	Changchun FAW Light-Duty Truck, Changchun Jiefang Chassis, FAW Car, FAW Harbin, FAW Huali, FAW Jiefang, FAW Jiefang Qingdao, FAW Tianjin Spare Parts, Fawer Drive Shaft, Tianhe Fawer, Tianjin FAW Xiali, any one or a combination of them;
“FAW Group Corporation”	China FAW Group Corporation (中國第一汽車集團公司), China’s biggest vehicle manufacturer and a state-owned enterprise headquartered in Changchun, which has a series of automobile and automotive parts and components companies in the PRC including (without limitation) FAW Car, FAW Jiefang, FAW Volkswagen Automobile Co., Ltd., FAW Bus Co., Ltd. and Fawer Automobile Part Co., Ltd.;
“FAW Harbin”	Harbin Light-Duty Truck Factory of China FAW Group Corporation (中國一汽集團有限公司哈爾濱輕型車廠), an operating entity under FAW Group Corporation which manufactures “ <i>Jiefang</i> ” series light and soft-cover trucks;
“FAW Huali”	FAW Huali (Tianjin) Automobile Co., Ltd. (一汽華利(天津)汽車有限公司), an operating entity under FAW Group Corporation which manufactures mini specialty cars;
“FAW Jiefang”	FAW Jiefang Automobile Co., Ltd. (一汽解放汽車有限公司), an operating entity under FAW Group Corporation which manufactures “ <i>Jiefang</i> ” series mid-sized and heavy-duty trucks;
“FAW Jiefang Qingdao”	Qingdao Automobile Factory of FAW Jiefang Automobile Co., Ltd. (一汽解放青島汽車廠), an operating entity under FAW Group Corporation which manufactures “ <i>Jiefang</i> ” series diesel trucks;

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## DEFINITIONS

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“FAW Tianjin Spare Parts”	Tianjin FAW Automotive Spare Parts Co., Ltd. (天津市一汽備品汽車零部件有限公司), an operating entity under FAW Group Corporation which manufactures automotive spare parts;
“Fawer Drive Shaft”	Drive Shaft Branch Company of Fawer Automobile Part Co., Ltd. (富奧汽車零部件有限公司傳動軸分公司), formerly known as Steering Systems Branch Company of Fawer Automobile Part Co., Ltd. (富奧汽車零部件有限公司轉向機分公司), an operating entity under FAW Group Corporation which manufactures drive shafts and steering column shafts;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“GEM website”	the internet website <a href="http://www.hkgem.com">www.hkgem.com</a> operated by the Stock Exchange for the purpose of GEM;
“Group” or “our Group”	our Company and its subsidiaries, or where the context so requires in respect of the period before our Company became the holding company of its present subsidiaries, its predecessor and the then subsidiaries of our Company;
“H Share(s)”	overseas listed foreign invested share(s) in the share capital of our Company with a nominal value of RMB1.00 each, for which an application has been made for listing and permission to deal on GEM, and which are subscribed for and traded in HK dollars;
“Hangzhou plant”	the production facility at No.6, Avenue 17, Hangzhou Economic and Technological Development Zone, Jianggan District, Hangzhou City, Zhejiang Province, the PRC and initially established under Hangzhou Shibao, details of which are set out in appendix III to this prospectus;
“Hangzhou New Shibao”	Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. (杭州新世寶汽車轉向器系統有限公司), a company established in the PRC with limited liability on 14 December, 2004 and a wholly owned subsidiary of our Company;
“Hangzhou Shibao”	Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. (杭州世寶汽車方向機有限公司), a company established in the PRC with limited liability on 3 November, 1996 and owned as to 99% by our Company and 1% by Mrs. Zhang;

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## DEFINITIONS

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“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Hubei TriRing”	Special-Purpose Automobile Factory of Hubei TriRing Co., Ltd. (湖北三環股份有限公司專用車廠);
“independent third party (parties)”	a party or parties that is (are) independent of and not connected with any director, chief executive, initial management shareholder, supervisor, promoter or substantial shareholder of our Company or any of their respective associates;
“Initial Management Shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and in the context of our Company, refers to Zhejiang Shibao Holding and its shareholders (namely, Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong), Mr. Wu Wei Xu (吳偉旭), Mr. Wu Lang Yue (吳琅躍), Mr. Du Chun Mao (杜春茂) and Mr. Chen Wen Hong (陳文洪), details of which are set out in the section headed “Substantial Shareholders, Initial Management Shareholders and Promoters” in this prospectus;
“Jilin Shibao Automation”	Jilin Shibao Mechanical and Electrical Automation Co., Ltd. (吉林世寶機電自動化有限公司), a company established in the PRC with limited liability on 29 September, 2003 and owned as to 80% by Zhejiang Shibao Holding and 20% by Beijing Kaiqi Composite Automation Technology Co., Ltd. (北京凱奇集能自動化技術有限責任公司);
“Jilin Shibao”	Jilin Shibao Automotive Parts Co., Ltd. (吉林世寶汽車部件有限公司), a company established in the PRC with limited liability on 16 December, 2002 and owned as to 95% by Zhejiang Shibao Holding and 5% by Zhang Mei Jun;
“Joint Lead Managers”	Anglo Chinese and Tai Fook
“Kinglong Automobile”	Kinglong United Automobile Industry (Suzhou) Co., Ltd. (金龍聯合汽車工業(蘇州)有限公司);
“latest practicable date”	21 April, 2006 being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein;
“listing date”	the date on which dealings in the H Shares first commence on GEM;

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## DEFINITIONS

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“Macau”	the Macau Special Administrative Region of the PRC;
“Mandatory Provisions”	the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic System of the PRC on 27 August, 1994, as amended, supplemented or otherwise modified from time to time;
“Mr. Tang”	Mr. Tang Hao Han (湯浩瀚), husband of Zhang Mei Jun and son-in-law of Mr. Zhang, an executive Director, an Initial Management Shareholder and a minority shareholder of Zhejiang Shibao Holding, holding 20% of its registered capital;
“Mr. Zhang”	Mr. Zhang Shi Quan (張世權), an executive Director and chairman of our Company, an Initial Management Shareholder and the controlling shareholder of each of Zhejiang Shibao Holding and Zhoushan Shibao, holding 40% and 60% respectively of their registered capital;
“Mrs. Zhang”	Ms. Zhang Hai Qin (張海琴), wife of Mr. Zhang and a minority shareholder of Hangzhou Shibao, holding 1% of its registered capital;
“Nanjing Yuejin”	Nanjing Yuejin Motor Steering Co., Ltd. (南京躍進汽車轉向器有限公司);
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC;
“Placing”	the conditional placing of the H Shares at the Placing Price, on and subject to the terms and conditions as described in this prospectus;
“Placing Price”	the final price per H Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005%) at which the H Shares are being offered for subscription under the Placing, which shall be not more than HK\$1.60 per H Share and is expected to be not less than HK\$1.32 per H Share, and which is expected to be fixed pursuant to the Price Determination Agreement to be executed on or before the Price Determination Time;

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## DEFINITIONS

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“Placing Shares”	the 86,714,000 new H Shares being offered at the Placing Price pursuant to the Placing;
“PRC” or “China”	the People’s Republic of China, for the purposes of this prospectus, excluding Hong Kong, Macau and Taiwan;
“Price Determination Agreement”	the agreement which is expected to be entered into between the Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) under which the agreed final Placing Price will be recorded;
“Price Determination Time”	the date and time on which the Placing Price is determined, which is expected to be on or before 5:00 p.m. on Monday, 8 May, 2006 (Hong Kong time) and in any event not later than 5:00 p.m. on Tuesday, 9 May, 2006 (Hong Kong time);
“Promoters”	Zhejiang Shibao Holding, Mr. Wu Wei Xu (吳偉旭), Mr. Wu Lang Yue (吳琅躍), Mr. Du Chun Mao (杜春茂) and Mr. Chen Wen Hong (陳文洪);
“relevant securities”	has the meaning ascribed thereto in the GEM Listing Rules;
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC government authority responsible for matters relating to foreign exchange administration;
“Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), enacted by the Standing Committee of the National People’s Congress on 29 December, 1998 which came into force on 1 July, 1999, as amended, supplemented or otherwise modified from time to time;
“SFC”	Securities and Futures Commission of Hong Kong;
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time);
“Share(s)”	Domestic Share(s) and, or H Share(s), as the case may be;
“Shareholder(s)”	holder(s) of the Share(s);
“Siping Steering”	Siping Steering Gear Co., Ltd. (四平市方向機械有限公司), a company established in the PRC with limited liability on 28 October, 1999, which is owned as to 75% by our Company and 25% by Promised Land Ventures LLC, an independent third party;

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## DEFINITIONS

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“Siping plant”	the production facility at No. 75-15, Changfa Road, Tiedong District, Siping City, Jilin Province, the PRC and established under Siping Steering, details of which are set out in appendix III to this prospectus;
“Special Regulations”	the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) issued by the State Council on 4 August, 1994, as amended, supplemented, or otherwise modified from time to time;
“State” or “PRC government”	the central government of the PRC including all governmental subdivisions, provincial, municipal and other regional or local government entities and instrumentalities thereof;
“State Council”	the State Council of the PRC (中華人民共和國國務院);
“State Securities Commission”	the State Council Securities Commission of the PRC (中國國務院證券委員會);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited;
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and in the context of our Company, refers to Zhejiang Shibao Holding and Mr. Zhang;
“Supervisor(s)”	Mr. Ge Bao Shan (葛寶山), Ms. Liu Xiao Ping (劉曉平), Mr. Shen Song Sheng (沈松生), Mr. Wang Kui Quan (王奎泉) and Ms. Zheng Yan (鄭艷), being member(s) of the supervisory committee of our Company;
“Tai Fook”	Tai Fook Securities Company Limited, one of the Joint Lead Managers and joint bookrunners of the Placing, deemed to be licensed to conduct type 1 (dealing in securities) regulated activities under the SFO;
“Tianhe Fawer”	Tianhe Fawer Commercial Vehicle Steering Systems (Changchun) Co., Ltd. (天合富奧商用車轉向器(長春)有限公司), an operating entity under the FAW Group Corporation which manufactures power recirculating ball steering gears for commercial vehicles;
“Tianjin FAW Xiali”	Tianjin FAW Xiali Automobile Company Limited (天津一汽夏利汽車股份有限公司), an operating entity under FAW Group Corporation which manufactures “ <i>Xiali</i> ” series small passenger cars;

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## DEFINITIONS

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“track record period”	the two years ended 31 December, 2005;
“Underwriters”	the underwriters of the Placing whose names are set out in the paragraph headed “Underwriters” under the section headed “Underwriting” in this prospectus;
“Underwriting Agreement”	the conditional underwriting and placing agreement dated 3 May, 2006 relating to the Placing entered into among, inter alia, our Company, the executive Directors, Anglo Chinese, Tai Fook and the Underwriters, details of which are set out in the section headed “Underwriting” in this prospectus;
“U.S.” or “United States”	the United States of America;
“WTO”	World Trade Organisation;
“Wuhu Sterling”	Wuhu Sterling Steering System Co. Ltd. (蕪湖世特瑞轉向系統有限公司), a limited company established in the PRC on 18 November, 2004 and owned as to 36% by our Company, 34% by Wuhu Qirui Technology Co., Ltd. (蕪湖奇瑞科技有限公司), 15% by Ms. An Qing Hui (安慶會), and 15% by Ms. Sun Ya Hong (孫亞洪);
“Yiwu plant”	the production facilities located at No. 262, Jiangdong Road, Fotang Town, Yiwu City, Zhejiang Province, the PRC and established under our Company, details of which are set out in appendix III to this prospectus;
“Yunan Lifan”	Yunan Lifan Junma Auto Co., Ltd. (雲南力帆駿馬車輛有限公司);
“Zhang Bao Yi”	Mr. Zhang Bao Yi (張寶義), son of Mr. Zhang, an executive Director, an Initial Management Shareholder and a minority shareholder of Zhejiang Shibao Holding, holding 20% of its registered capital;
“Zhang Lan Jun”	Ms. Zhang Lan Jun (張蘭君), daughter of Mr. Zhang, an executive Director, an Initial Management Shareholder and a minority shareholder of each of Zhejiang Shibao Holding and Zhoushan Shibao, holding 15% and 10% respectively of their registered capital;
“Zhang Mei Jun”	Ms. Zhang Mei Jun (張美君), daughter of Mr. Zhang, a non-executive Director and a minority shareholder of Jilin Shibao, holding 5% of its registered capital;

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## DEFINITIONS

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“Zhang Shi Zhong”	Mr. Zhang Shi Zhong (張世忠), brother of Mr. Zhang, a non-executive Director, an Initial Management Shareholder and a minority shareholder of Zhejiang Shibao Holding, holding 5% of its registered capital;
“Zhejiang Shibao Steering”	Zhejiang Shibao Steering Gear Co., Ltd. (浙江世寶方向機有限公司), a company established in the PRC with limited liability on 2 June, 1993 and the predecessor of our Company owned as to 94% by Zhejiang Shibao Holding and 1.5% by each of Mr. Wu Wei Xu (吳偉旭), Mr. Wu Lang Yue (吳琅躍), Mr. Du Chun Mao (杜春茂) and Mr. Chen Wen Hong (陳文洪);
“Zhejiang Shibao Holding”	Zhejiang Shibao Holding Group Co., Ltd. (浙江世寶控股集團有限公司), a company established in the PRC with limited liability on 28 May, 2003 and owned as to 40% by Mr. Zhang, 20% by Zhang Bao Yi, 20% by Mr. Tang, 15% by Zhang Lan Jun and 5% by Zhang Shi Zhong;
“Zhoushan Shibao”	Zhoushan Shibao Chemical Co., Ltd. (舟山世寶化工有限公司), a company established in the PRC with limited liability on 13 September, 2000 and owned as to 60% by Mr. Zhang, 30% by Mr. Gu Qun (顧群), a non-executive Director, and 10% by Zhang Lan Jun;
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong;
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC;
“US\$” or “US dollar(s)”	United States dollar(s), the lawful currency of the United States;
“sq.m.”	square metre(s);
“%”	per cent.

*Unless otherwise specified in this prospectus, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK\$ using an exchange rate of HK\$1.00 = RMB1.04 and into US\$ using an exchange rate of US\$1.00 = RMB8.06. No representation is made that any amount in RMB could have been or could be converted at the above rates or at any other rates.*

*For ease of reference, the names of the PRC nationals, entities, departments, facilities, certificates, titles and the like have been included in this prospectus in both the Chinese and English languages. In the event of any inconsistency, the Chinese name prevails.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this prospectus in connection with our Group and its business. The terms and their meaning may not correspond to standard industry meaning or usage of these terms.*

“ball bearing”	an antifriction bearing that uses a series of steel balls held between the inner and outer bearing races;
“ball nut”	a gear with internal teeth or grooves that mesh with the teeth or grooves of a worm shaft by means of a series of ball bearings;
“CAGR”	compound annual growth rate;
“China Enterprise Evaluation Association”	中國企業評價協會, a registered organisation in the PRC operated under the Development Research Center of the State Council of the PRC (國務院發展研究中心) focusing on enterprises evaluation, research and development and consultancy;
“China Machinery Industry Federation”	中國機械工業聯合會, a national association approved by the State and operated under the State Commerce Department, with over 120 members comprising mainly professional and regional associations of the machinery industry;
“cylinder”	a hole in which a piston moves;
“electronic-hydraulic power steering gears”	similar to the power rack-and-pinion steering gears except that the power steering pump driven by the engine of the vehicle via belts is replaced by an electrically operated pump which is electronically controlled;
“electronic power steering gears”	a type of power steering that uses an electric motor to assist the driver in steering;
“gasket”	a flat piece of rubber, placed between two metal surfaces in a pipe or an engine to prevent gas, steam or oil from escaping;
“Hong Qi sedans”	sedans marketed under the brandname “ <i>Hong Qi</i> ” manufactured by FAW Car and which adopt the <i>Hong Qi</i> steering knuckles;
“ <i>Hong Qi</i> steering knuckles”	the front wheel steering knuckles applied in <i>Hong Qi</i> sedans;

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## GLOSSARY OF TECHNICAL TERMS

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“ISO9001:2000”	one of the standards in the ISO9000 family’s core series, which are a set of international quality management and assurance standards prescribed by the International Standards Organisation;
“M6 steering knuckles”	the front wheel steering knuckles applied in <i>MAZDA M6</i> sedans;
“MAZDA M6 sedans”	sedans marketed under the brandname “MAZDA M6” manufactured by FAW Car and which adopt the <i>M6</i> steering knuckles;
“piston”	a movable plug that fits in a cylinder to receive or transmit motion as a result of pressure changes in a fluid;
“pitman arm”	an arm connected to the steering gear pitman arm shaft that transforms the rotating motion of the shaft to lateral motion;
“pitman arm shaft”	a shaft to which the sector gear is attached and the output shaft of a steering gear;
“power rack-and-pinion steering gear”	a set of gears which contains a pinion gear and a rack with gear teeth, and uses hydraulic fluid and piston to assist the driver in steering;
“power recirculating ball steering gear”	a recirculating ball steering gear that uses hydraulic fluid and piston to assist the driver in steering;
“recirculating ball steering gear” or “manual recirculating ball steering gear”	a set of gears which contain a worm gear, a ball nut rack, recirculating ball bearings, sector gear, and sector shaft;
“rotary valve”	a device which directs the hydraulic fluid to the piston;
“sector gear”	an arc or section of gear teeth that is not a complete circle, such as the sector gear in the recirculating ball steering gear;
“sedan”	a car with four doors and a Boot (the enclosed space at the back of a car for storing things) which is separated from the part where the driver and passengers sit;
“steering arm”	the arm attached to the steering knuckle, and to which the tie rod end attaches, that turns the steering knuckle and wheel in and out for steering;

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## GLOSSARY OF TECHNICAL TERMS

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“steering knuckle”	the front suspension part that acts as a hinge to support a front wheel and permit it to be turned to steer the vehicle;
“steering linkage”	a system of links, rods, and levers used to transmit motion from the steering gear to the steering knuckles;
“steering shaft”	a steel rod that connects the steering wheel to the steering gear;
“steering wheel”	the wheel that the driver turns to control the direction that a vehicle goes on;
“tie rod”	an adjustable length rod that, as the steering wheel turns, transfers the steering force and direction from the rack or linkage to the steering arm;
“TÜV”	TÜV Rheinland Group, an international independent technical inspection organisation originating in Germany which provides, amongst other services, safety and quality standards assessment and certification;
“VDA6”	a technical standard prescribed by TÜV; and
“worm gear”	a shaft that has spiraled tooth in the shape of a very coarse thread.

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## RISK FACTORS

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*Prospective investors should carefully consider all the information set out in this prospectus and in particular should evaluate the following risks before deciding to invest in our Company. You should pay attention to the fact that we are a PRC company and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial conditions or results of operations could materially and adversely affected by any of these risks. The trading price of the H Shares could decrease due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see appendix IV headed “Summary of principal legal and regulatory provisions and Articles of Association” in this prospectus.*

### **RISKS RELATING TO OUR BUSINESS**

#### **Reliance on major customers**

For each of the two years ended 31 December, 2005, the largest customer of our Group accounted for approximately 16.3% and 30.0% respectively of our turnover. During the same period, the five largest customers of our Group together accounted for approximately 49.6% and 47.5% respectively of the Group’s turnover.

Certain companies within the FAW Group were among the five largest customers of our Group during the Track Record Period. For each of the two years ended 31 December, 2005, our aggregate sales to the FAW Group accounted for approximately 48.4% and 46.5% of our turnover, respectively.

If any of these customers ceases to do business with our Group or substantially reduces the volume of its business with us and we are unable to secure new customers with similar sales volume and profit margin, the Group’s business, results of operations and financial position may be materially and adversely affected.

#### **Long overdue trade receivables**

In general, we offer credit terms ranging from 90 to 180 days to our customers for settlement of trade receivables. As at 31 December, 2005, aggregate gross trade and notes receivables outstanding for over 180 days amounted to about RMB32.5 million, representing some 28.4% of our gross trade and notes receivables and comprising (i) approximately RMB11.1 million due from Fawer Drive Shaft, a member of the FAW Group which has entered into a settlement agreement with us; (ii) approximately RMB13.9 million due from sizeable automobile and, or automotive parts and components manufacturers in the PRC, including those within the FAW Group and the Dongfeng Motor Group and Dandong Huanghai Automobile, and out of which provision for bad and doubtful debts totalling about RMB1.2 million have been made; and (iii) approximately RMB7.5 million due from other customers, out of which provision for bad and doubtful debts totalling some RMB3.9 million have been made. Subsequent settlements by 28

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February, 2006 in respect of our receivables aged over 180 days amounted to about RMB5.6 million. If for whatever reasons the recoverability of any of our trade receivables is no longer considered probable, we may incur substantial bad debts which will have significant adverse effects on our cash flow and profitability.

### **Decreasing profit margin during the track record period**

Our gross profit margin decreased from approximately 51.3% in 2004 to 44.6% in 2005. As set out more specifically in the paragraph headed “Overview of the financial performance of our Group” in the section headed “Financial information” in this prospectus, a number of factors contributed to this decline. While our Group continued to expand our production capacity in respect of our existing and new products during the track record period, some of our existing products were facing decreasing profit margins due to, among other reasons, increasing pricing pressure. In the event that prices of our products continue to drop due to increasing competition and, or general decline in the automobile market, our gross profit margin may decline further in the future, adversely affecting our profitability.

### **High gross profit margin compared to other companies in the automotive parts and components industry**

Our average gross profit margin for the track record period of about 47.9% is significantly higher than the gross profit margins of some other listed companies in the automotive parts and components industry around the world. Apart from three comparable companies that are listed on the Stock Exchange, many of the remaining companies target markets other than China and, or are not listed in major stock markets such as Korea, China, France, India and Turkey. Due to different legal and, or regulatory requirements in these markets, these companies may not adopt the same accounting standards as our Group in reporting their financial results. Based on publicly available information, many of the companies identified manufacture other machinery or different automotive parts and components in addition to or other than steering gears. In the circumstances, the profit margins of these companies may not be directly comparable to those of our Group. That said, there is no assurance that our Group may maintain its high gross profit margin in the future.

### **Our profit margins and our operating results may be adversely affected by increases in the price of raw materials or any shortage of raw material supplies**

We depend on reliable supplies of raw materials including steel alloy, iron casts, steel pipe and bearings for our production process. We have not entered into any long term contracts with our raw material suppliers. Whilst we have not experienced any supply interruptions or shortages of raw materials during the track record period, there is no assurance that we will not suffer from any shortages of raw materials in the future. Any shortage of raw materials could have a material adverse effect on our production and would likely result in reduced sales revenue of our Group.

The prices of many of our raw materials are affected by changing market supply and demand conditions. Any increases in raw material costs that we are unable to pass on to our customers would negatively affect our profit margin.

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### **Our Group may not have sufficient funds to finance our business plan**

Our Directors expect that the net proceeds from the Placing of approximately HK\$91.5 million (based on the minimum Placing Price of HK\$1.32 per H Share) together with our internally generated funds will be sufficient to implement our current business plan. If, however, our Group is unable to generate sufficient revenue from its business or if our financial needs are larger than expected, we may need to raise funds from the debt and, or equity markets. If our Group fails to obtain adequate financing, we may have to make material modifications to the current business plans and, or the intended use of proceeds as described in the sections headed “Statement of business objectives” and “Reasons for the Placing and use of proceeds” in this prospectus. This may materially and adversely affect the business, results of operations and financial position of our Group.

### **Reliance on the PRC market**

Currently, all of our assets are located in the PRC. In addition, all of our products are sold in the PRC market. If there is any adverse change in the financial, economic, industrial, political, fiscal, social, legal or regulatory conditions in the PRC, our performance may be adversely affected.

### **Risks relating to our new products**

We commenced sales, on a trial basis, of power rack-and-pinion steering gears in 2005 which generated a small turnover during the year. Our electronic power steering gears are at an advanced stage of development and prototype testing and we expect trial production and sales to take place the earliest towards the end of 2006. We consider these two new products to be the main driver of our future growth. There is however no assurance that we will be able to generate a reasonable level of sales of these two products in the future given (i) the short history of launching the power rack-and-pinion steering gears on the market; and (ii) that electronic power steering gear is in general a new type of steering gear which, in the view of our Directors, is not widely used in all car types in the PRC at present. If any of these products are not well received by the market in the future, our business prospects and financial performance may be significantly hindered.

### **Risks relating to the establishment, and future business and performance of DHB-Shibao**

On 16 February, 2006, Hangzhou Shibao entered into a sino-foreign equity joint venture agreement with DHB-CA for the establishment of DHB-Shibao. According to the joint venture agreement, DHB-Shibao will upon its establishment be owned as to 75% by Hangzhou Shibao and 25% by DHB-CA. DHB-CA is also granted an option, exercisable within 30 months from the date of establishment of DHB-Shibao, to increase its equity interest in DHB-Shibao up to 40%. The joint venture agreement would take effect on the date of approval by the relevant PRC government authorities of the joint venture agreement and the associated articles of association of DHB-Shibao.

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It is agreed under the joint venture agreement that DHB-Shibao will be engaged in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps. It is also agreed that upon the establishment of DHB-Shibao, DHB-CA will enter into a technology transfer agreement with DHB-Shibao under which DHB-CA will transfer production technologies to DHB-Shibao for its product development and production. Products to be manufactured by DHB-Shibao will bear the trademark of “DHB-Shibao” and may be sold within China and other Asian countries (excluding India and Iran).

The establishment of DHB-Shibao was still in progress as at the latest practicable date. Due establishment of DHB-Shibao will be subject to, among other things, approval by the relevant PRC government authorities for the establishment of DHB-Shibao, the issue of a valid business licence of DHB-Shibao and injection by the two joint venture parties of their share of registered capital in accordance with the terms of the joint venture agreement. We have obtained the certificate of approval for the establishment of DHB-Shibao on 31 March, 2006, and are committed to use our best endeavours to facilitate the establishment of DHB-Shibao in accordance with our business plan. However, there is no assurance that DHB-Shibao will be duly established within the time frame expected by the two joint venture parties or at all. Further, despite the intentions of and the support to be provided by the two joint venture parties on the future business of DHB-Shibao as stipulated in the joint venture agreement, there is no assurance that DHB-Shibao will make a significant positive contribution to the business and, or financial performance of our Group in the foreseeable future.

### **Reliance on our senior management and experienced employees**

The performance of our Group depends, to a significant extent, on the continued services of our Directors and senior management, including Mr. Zhang, Zhang Bao Yi, Mr. Tang, Mr. Zhu Jie Rong, Zhang Lan Jun, Zhang Shi Zhong, Zhang Mei Jun, Mr. Gu Qun, Mr. Du Chun Mao (who is also one of the Promoters), Mr. Du Yu Xuan, Mr. Shen Rong Jin, Mr. Hsu Bao Wei, Mr. Zhou Long, Mr. Zao Guo Ping, Mr. Ise Mitsuo and Mr. Wu Tai Cheung, as well as our technical, professional and sales personnel. If we are unable to retain our senior management or our key personnel, or if we are unable to replace any of their loss of services in a timely manner, our results and operations will be adversely affected.

The ability of the Group to retain senior management as well as experienced employees will partly depend on having in place appropriate staff remuneration and incentive schemes. There is no assurance that our remuneration and incentive schemes in place will be sufficient to retain the services of our senior management and other experienced employees of the Group at all times.

### **Breakdown of machineries, equipment and, or production lines**

Should any of our key machineries, equipment and, or production lines break down due to mechanical malfunction or human error, our production may be interrupted until the problem is rectified. As a result of any delays, our credibility may be affected and we may lose some of

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our orders and, or customers, or incur losses due to repudiation of orders. Although we have in-house technicians performing regular repair and maintenance on our machineries, equipment and, or production lines, there is no assurance that there will not be any significant production interruption in the future.

### **Intellectual property rights**

We rely on the confidentiality undertakings provided by some of our research and development personnel as well as an independent third party engaged to assist in our design and development activities to protect our intellectual property on technical know-how. There is no assurance that the current protection measures we adopt would provide adequate protection against infringement of any intellectual property rights attributable to our Group. It may be possible for a third party to copy or otherwise obtain and use our intellectual property without authorisation, or to develop similar intellectual property independently. Moreover, even if we decide to proceed with applications for protection of any intellectual property which we may develop throughout our technical design and product development process in the future, there is no assurance that such applications will be accepted as eligible applications or that it will not be opposed by third parties.

### **Product liability and insurance coverage**

We currently do not maintain any product liability insurance or any insurance coverage against property, business interruption or casualty. As confirmed by our PRC legal advisers, there is no mandatory requirement under the PRC law for companies to maintain any product liability insurance or any insurance against property, business interruption or casualty in the PRC. According to our understanding, product liability insurance is currently not commonly available from insurance companies in the PRC. We had not been subject to any product liability claims up to the latest practicable date, nor have we experienced any significant business interruptions due to accidents or natural disasters. However, in the event that any product liability claims are successfully brought against us, or if major accidents, casualties and, or natural disasters occur which our Group fails to cope with in a timely manner thus causing prolonged suspension of our operations, or that significant costs must be incurred as a result of any of the above events, our business and financial positions may be adversely affected.

### **Withdrawal of preferential tax treatment**

According to the “Interim Provision for Setting Off Enterprise Income Tax against Technology Improvement of Domestic-produced Equipment” (技術改造國產設備投資抵免企業所得稅暫行辦法) promulgated by the Finance Bureau and the State Tax Bureau and the “Administration Measures for the Audit of Enterprise Income Tax Set-off against Technology Improvement of Domestic-produced Equipment” (技術改造國產設備投資抵免企業所得稅審核管理辦法) promulgated by the State Tax Bureau, subject to approval of the relevant tax authorities of the provincial level or above, any investment by an enterprise in the PRC complying with the state policy applicable to such industry, 40% of the investment in the PRC-made facilities can be applied to set off against the enterprise income tax for the year. In accordance with the “Audit Statement for setting off Enterprise Income Tax against Technology Improvement of Domestic-

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produced Equipment” (技術改造國產設備投資抵免企業所得稅審核表) prepared by Hangzhou Shibao, Hangzhou Shibao purchased PRC-made facilities totalling RMB10,760,220 for its production capacity expansion project in 2005. The amount was applied to set off the enterprise income tax for 2005, with the approval of the Hangzhou local tax bureau.

According to Rule 8 of “Foreign Investment Enterprise and Foreign Enterprise Income Tax” (外商投資企業和外國企業所得稅法), a manufacturing foreign invested enterprise which has an operation term of over ten years is entitled to a full exemption of enterprise income tax for the first two years commencing the first profit-making year, and a reduction by 50% of enterprise income tax for the following three years. In June, 2004, Siping Steering was changed to a sino-foreign co-operative joint venture. According to the “Letter Confirming Siping Steering Gear Co., Ltd. is a Manufacturing Sino-foreign Cooperative Enterprise” (關於確認四平市方向機械有限公司為生產性中外合作企業的函) dated 28 October, 2004 issued by the State Tax Bureau of the Siping Economic Development Zone, Siping Steering is a sino-foreign cooperative enterprise with a term of cooperation of ten years, and is entitled to a full exemption of enterprise income tax for the first two years commencing the first profit-making year, and a reduction by 50% of enterprise income tax for the following three years. Siping Steering is therefore entitled to a full exemption from enterprise income tax commencing from 17 June, 2004 and ending on 31 December, 2005, and is entitled to a reduction by 50% in the enterprise income tax for the following three years commencing from 1 January, 2006 and ending on 31 December, 2008. Siping Steering will be subject to normal enterprise income tax, which is currently fixed at 33%, commencing from 1 January, 2009.

As the tax holiday of Siping Steering will expire on 31 December, 2008, the Group will be subject to a higher income tax rate commencing from 1 January, 2009. In addition, there can be no assurance that the current PRC tax laws mentioned above and their application or interpretation will remain unchanged. In the event of any such changes, our tax liability may increase, and our profitability may be negatively affected.

### **Past dividend distribution(s) should not be used as a reference or basis to determine the amount of dividend payable in the future**

For the year ended 31 December, 2004, dividends totalling approximately RMB29.0 million were declared. Further, our Shareholders approved the proposed final dividend of RMB15.0 million for the year ended 31 December, 2005 at an extraordinary shareholders’ meeting held on 20 February, 2006.

While it is our present intention to distribute around 30% of our distributable profit in each financial year, the amount of dividends that may be declared in the future will be subject to the discretion of our Directors and will be dependent upon, among other factors, the availability of our distributable reserve, our earnings, financial condition, capital requirements and other factors as deemed relevant at such time by our Directors. Furthermore, in accordance with the Company Law, our Company may only distribute dividends after offsetting the accumulated losses brought down from previous years, if any, and after making relevant appropriation(s) to the statutory surplus reserve fund at the rate(s) stipulated in the Company Law. Our Company

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may further appropriate part of its profit after tax and the said appropriation(s) to a discretionary surplus reserve fund upon the approval of our Shareholders. The past dividend distributions referred to above should not be used as a reference or basis to determine the amount of dividend payout in the future.

### **Environmental issues**

We are required to comply with the environmental protection laws, rules and regulations promulgated by the national and local governments of the PRC. These laws and regulations include, without limitation, the PRC Environment Protection Law (《中華人民共和國環境保護法》), the PRC Water Pollution Prevention Law (《中華人民共和國水污染防治法》) and the PRC Air Pollution Prevention Law (《中華人民共和國大氣污染防治法》). Due to the nature of our production process, we have not incurred any capital or maintenance cost for the purpose of complying with the applicable environmental laws and regulations during the track record period. As at the latest practicable date, we have not had any material breach in any such relevant environmental protection laws, rules and regulations, nor have we been fined for any such breach. However, should there be any new or stricter change in national or local environmental protection standards, we may incur significant environmental protection costs which in turn will increase our production costs.

### **RISKS RELATING TO THE AUTOMOTIVE PARTS AND COMPONENTS INDUSTRY IN THE PRC**

#### **Adverse changes in the PRC's economic conditions could reduce the demand for automobiles and automotive parts and components**

The growth of both automobile and automotive parts and components markets are inextricably linked to the PRC's economic climate. In the event of an economic slow down in the PRC or that the growth of the economy in the PRC is at a lesser pace than anticipated, the demand for automobiles and automotive parts and components may decline or grow at a lesser pace than anticipated and therefore, our Group's operating results and profitability could be adversely affected.

#### **Changes in the competitive landscape in the automotive parts and components industry in the PRC**

The competitive landscape in the industry may change due to the emergence of new entrants to the industry or the increase in the competitiveness of existing competitors. As the automotive parts and components industry in the PRC continues to develop, the long term prospects of our Group will depend to a large extent on our ability to stay competitive through continuously developing and launching new and, or enhanced products at competitive prices. Future development of our Group's products may require the use of technologies and market knowledge which have not yet been acquired or developed by us. In addition, our competitors may introduce new or enhanced automotive component models which are better received by the market. Any failure or delay of our Group in introducing new or enhanced products at competitive prices may have a significant adverse impact on our business and prospects.

### **Competition**

To the best of the knowledge of our Directors, there exists a large number of manufacturers of automotive parts and components in the PRC. Our Directors expect that our Group will continue to focus on manufacturing automobile steering gears, steering knuckles, rotary valves and other related components. Increasing market competition over time (whether as a result of the opening of the PRC market due to China's accession to WTO or otherwise) could bring about more fundamental structural reforms to the automotive parts and components industry in the PRC. While we are facing increasing competition from domestic and overseas manufacturers and suppliers of automotive parts and components in the PRC market, there is no assurance that we will be able to fend off all such competition, whether through full implementation of our business plan or otherwise. It is possible that any such increased competition will have a material adverse effect on our business.

### **Cyclicality in the automobile industry**

Our business is directly related to automobile production volume and sales, which are highly cyclical and are dependent on macro economic conditions and other factors, including consumer spending level and government economic policy. Any significant reduction in automobile production or sales of our customers would have a material adverse effect on our business.

The recent macro economic policy in the PRC has led to a slow down in the increase in demand for automobiles. This may have an adverse effect on our financial results. It is possible that the current slow down in the demand for automobiles will worsen in the future, impacting negatively on our performance.

## **RISKS RELATING TO THE PRC**

### **Risks relating to political and economic policies of the PRC Government**

Since the late 1970s, the PRC government has been reforming the PRC economic system. The reform has resulted in significant economic growth and changes in society. Although our Directors believe that economic reform and macroeconomic policies and measures adopted by the PRC government will continue to have a positive effect on economic development in the PRC and that we will continue to benefit from such policies and measures, such policies and measures may from time to time be modified or revised. Any adverse changes in economic and social conditions in the PRC, in policies of the PRC government or in laws and regulations in the PRC, could have a material adverse effect on the overall economic growth of China and investment in the automobile and automotive parts and components industries in the PRC. Such changes could adversely affect our business, lead to reduction in demand for our products and adversely affect our competitive position.

### **The legal system of the PRC**

The legal system adopted in the PRC is a civil law system. Although court decisions are authoritative, they do not necessarily become precedents that must be followed. Since 1979, the PRC government has continuously tried to develop a comprehensive set of business laws, and has formulated many laws and regulations relating to economic matters such as company constitution and governance, securities, foreign investment, taxation and trade. However, since these laws and regulations have been effective for only a short time period, there is a lack of court cases and interpretation on these laws and regulations. Therefore, there is still uncertainty with regard to the interpretation and enforcement of certain aspects of these laws and regulations.

### **Different supervisory structure**

Since we conduct our business in the PRC, our operations are governed principally by the laws of the PRC. Our Company, as a joint stock limited company established in the PRC offering and listing its shares outside the PRC, is subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions require overseas (including Hong Kong) listed PRC companies to include certain provisions in their articles of association for the purpose of regulating the internal affairs of these companies. In general, the Company Law and the Special Regulations (especially the regulation concerning the protection of shareholders' rights and access to information) are not as comprehensive as those adopted by companies incorporated in Hong Kong, the United Kingdom, the United States and other developed countries or regions.

The nature of limited investor protection under the Company Law is compensated for, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the GEM Listing Rules so as to reduce the scope of differences between the Companies Ordinance and the Company Law. All PRC companies listed in Hong Kong must include the Mandatory Provisions and the additional requirements imposed by the GEM Listing Rules in their articles of association. Although the Articles of Association have included the Mandatory Provisions and such additional requirements imposed by the GEM Listing Rules, there can be no assurance that holders of H Shares can enjoy the same protection which they may enjoy as a shareholder in other jurisdictions.

### **Securities laws and regulations**

The regulatory framework for the securities industry in the PRC is still in its early development stage. The CSRC is responsible for the administration and supervision of the national securities markets, and the drafting of relevant regulations for the national securities market. The laws and regulations of the State Council and the relevant measures implemented by the CSRC (for instance, provisions relating to the acquisition of and information disclosure by listed PRC companies) are applicable to all listed companies without being confined to companies listed on any particular stock exchange. Consequently, these provisions can also be applicable to joint stock limited companies established in the PRC and with shares listed on overseas stock exchanges (such as our Company upon listing of the H Shares).

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The Securities Law came into effect on 1 July, 1999. It is the fundamental law regulating the securities market in the PRC and is applicable to the issue, sale and purchase of shares inside the PRC. The Company Law, the relevant regulations and rules recently promulgated, and the laws concerning Chinese companies issuing shares outside the PRC (including Hong Kong), to a certain extent, provide a legal framework for regulating the conduct of companies (such as our Company) and their directors and shareholders. Investors should be aware that the supervisory structure of the PRC securities industry is currently at the initial development stage. Any change to the structure is beyond the control of our Company and such change may have an adverse effect to our Company.

### **Enforcing judgments and arbitration**

The PRC has not established any treaties or arrangements to confirm and enforce the judgments of the courts of Hong Kong and most other jurisdictions. Therefore, it may be difficult to secure recognition and enforcement in the PRC of judgments of the courts of Hong Kong and most other jurisdictions. It should be noted that according to the Articles of Association, if a holder of H Shares has a dispute with our Company, a Director, a Supervisor, a manager or an officer, or has a claim arising out of the Articles of Association, or has any rights or obligations conferred or imposed by the Company Law and regulations concerning the affairs of our Company, that person shall, unless otherwise provided in the Articles of Association, submit the dispute or claim to the Hong Kong International Arbitration Centre or the China International Economics and Trade Arbitration Commission for arbitration. The arbitral award shall be final and binding on both parties.

The PRC is a signatory to the United Nations Treaty (New York Convention) that recognises and enforces overseas arbitration awards made by arbitration agencies of the signatories of the Treaty of New York in the PRC. In addition, there is an arrangement for the mutual enforcement of arbitral awards between China and Hong Kong commencing on 1 February, 2000.

Further information on arbitration, including the “Arbitration Law of the PRC” that came into force on 1 September, 1995, is set out in the sub-paragraph headed “Arbitration and enforcement of arbitral awards” in appendix IV to this prospectus.

### **Foreign exchange and currency conversion in the PRC**

All of the income and expenses of our Group are denominated in Renminbi, and Renminbi currently is not a freely convertible currency. However, we may, in the future, need to pay dividends to overseas Shareholders in Hong Kong dollars. According to the Regulations on the Payment, Sale and Purchase of Foreign Currency Management (《結匯、付匯及售匯管理規定》), we may, after receiving the mandate from the resolution of our Board, distribute our Company's profit or dividend and convert the required foreign exchange at designated banks to pay dividends to our overseas Shareholders.

Starting from 21 July, 2005, the PRC has reformed the exchange rate regime by moving into a managed floating rate regime based on market supply and demand with reference to a basket of currencies. This has resulted in the Renminbi appreciating against the US dollar and the Hong

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Kong dollar. However, the value of Renminbi may also be changed due to the PRC government's policy and international economic and political development. If the Renminbi devalues due to market supply and demand as well as administrative or legislative intervention by the PRC government, the devaluation of the Renminbi may adversely affect the value of profits of our Group.

### **The PRC's accession into the WTO**

In December, 2001, the PRC became a member of the WTO which uniformly regulates trade and tariffs among its members.

As an increasing number of overseas suppliers seek to enter the PRC market, our Directors envisage that it would bring about more intense competition in the domestic market for manufacturing automotive components and related accessories. We have been focusing on developing the domestic market for our products and as such, we may encounter more competitive and challenging conditions in the future and may, therefore, be subject to a higher degree of business risk.

Also, more intense competition in the PRC market could lead to improvements in the production standards of domestic manufacturers of automotive components and related accessories and such manufacturers seeking new business opportunities in overseas markets. We may encounter increased competition in entering the overseas markets in the long run from other manufacturers in the PRC. Any such increased competition may have a material adverse effect on our business and future prospects.

### **Outbreak of the Severe Acute Respiratory Syndrome (“SARS”) or other similar epidemics**

Certain areas of China are susceptible to epidemics such as SARS. An outbreak of SARS or any outbreak of other epidemics in China may result in material disruptions of our operations, which in turn would adversely affect our financial condition and results of operations.

### **Outbreak of the H5N1 strain of bird flu (“Avian Flu”) or any other similar epidemics**

Recently, certain Asian countries, including China, have encountered incidents of Avian Flu. This disease, which is spread through poultry populations, is capable in certain circumstances of being transmitted to humans and could be fatal. If any of our employees are identified as a possible source of spreading Avian Flu or any other similar epidemic, we may be required to quarantine employees suspected of becoming infected, as well as others that have come into contact with those employees. We may also be required to disinfect our affected operating facilities, which could adversely affect our operations. Even if we are not directly affected by the epidemic, an outbreak of Avian Flu or other similar epidemic, whether inside or outside China, could slow down or disrupt economic activities generally, which could in turn adversely affect the operations of our company and the price of the H Shares.

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### **RISKS RELATING TO THE PLACING**

#### **There has been no prior public market for the H Shares and the liquidity and market price of the H Shares may be volatile**

Prior to the Placing, there has been no public market for the H Shares. The Placing Price for the H Shares is expected to be fixed pursuant to the Price Determination Agreement. The Placing Price may differ significantly from the market price of the H Shares following commencement of trading in the H Shares. We have applied for the listing of, and permission to deal in, the H Shares on GEM. However, a listing on GEM does not guarantee that an active trading market for the H Shares will develop, or if it does develop, will be sustained following the Placing, or that the market price of the H Shares will not decline following the Placing.

The price and trading volume of the H Shares may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and announcements of, among other things, new investments, new product developments or new acquisitions could cause the market price of our H Shares to fluctuate substantially.

#### **Dilution of Shareholders' interests as a result of additional equity fund raising**

We may need to raise additional funds in the future to finance the expansion of our existing business or development of new business. If additional funds are raised through the issuance of new equity or equity-linked securities by us other than on a pro rata basis to the existing Shareholders, the interests of the existing Shareholders may be diluted as a result of such equity fund raising.

#### **No undue reliance on industrial statistics**

Statistical information relating to the industry in this prospectus has been compiled from various publicly available official sources. Our Directors have taken reasonable care in extracting or reproducing such information in this prospectus. However, such information has not been verified independently by our Company, Anglo Chinese, Tai Fook, the Underwriters or any other parties involved in the Placing. Therefore, they make no representation as to the accuracy of such information, and will give no guarantee that such information is intrinsically consistent and that such information available in other publications or jurisdictions are exactly alike. There is no assurance that such information contained in this prospectus is prepared in the same standard or level of accuracy and comparable with the same kind of information available in other publications or jurisdictions. Prospective investors should not unduly rely upon the statistical information contained in this prospectus.

### **Forward looking statements**

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminologies such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “continue”, “believe” and other similar words. Our Directors have made forward-looking statements with respect to the following, among other things:

- our strategies to achieve our business objectives; and
- our future plans and prospects.

Such forward-looking statements are based on assumptions regarding our present and future business strategies and the environment in which our Group will operate in the future and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this section. The actual performance of our Group may be materially different from the future performance expressed or implied by such forward-looking statements.

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## WAIVER FROM COMPLIANCE WITH GEM LISTING RULES

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For the purpose of the listing of the H Shares on GEM, Anglo Chinese has applied, for and on behalf of our Company to the Stock Exchange, and the Stock Exchange has granted to our Company, a waiver from strict compliance with Rule 13.16(1) of the GEM Listing Rules. Details of the waiver are described below:

Under Rule 13.16(1) of the GEM Listing Rules, our Company shall procure every Initial Management Shareholder to place in escrow, with an escrow agent on such terms as are acceptable to the Stock Exchange, all relevant securities for a period (a) commencing on the date by reference to which disclosure of the shareholding of the Initial Management Shareholders is made in this prospectus and ending on the date which is 12 months from the listing date; or (b) where that Initial Management Shareholder's relevant securities represent no more than 1% of the issued share capital of our Company as at the listing date, commencing on the date by reference to which disclosure of the shareholding of the Initial Management Shareholder is made in this prospectus and ending on the date which is six months from the listing date.

The Directors consider that Rule 13.16(1) of the GEM Listing Rule is not applicable to the Domestic Shares directly held by each of Zhejiang Shibao Holding, Mr. Wu Wei Xu (吳偉旭), Mr. Wu Lang Yue (吳琅躍), Mr. Du Chun Mao (杜春茂) and Mr. Chen Wen Hong (陳文洪), all being Initial Management Shareholders, since such Domestic Shares are not represented by any form of physical scrip or title documents. It is therefore not possible to place physical scrip or title documents with an escrow agent required under Rule 13.16(1) of the GEM Listing Rules for custody purposes.

Each of Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong (all being the shareholders of Zhejiang Shibao Holding and Initial Management Shareholders) has undertaken to the Stock Exchange, our Company, Anglo Chinese and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) that in the event if any new law or regulation is enacted or promulgated in the PRC such that the Domestic Shares directly held by Zhejiang Shibao Holding will be represented by any form of physical scrip or title documents, to procure Zhejiang Shibao Holding to comply with Rule 13.16(1) of the GEM Listing Rules so far as applicable.

Each of Zhejiang Shibao Holding, Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong has also undertaken to the Stock Exchange, our Company, Anglo Chinese and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) that in the event that any new law or regulation is enacted or promulgated in the PRC such that the Domestic Shares directly held by each of them will be represented by any form of physical scrip or title documents, to comply with Rule 13.16(1) of the GEM Listing Rules so far as applicable.

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## WAIVER FROM COMPLIANCE WITH GEM LISTING RULES

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Each of the Directors (including the non-executive Directors and the independent non-executive Directors) has undertaken to the Stock Exchange, our Company, Anglo Chinese and the Joint Lead Managers (for themselves and on behalf of the other Underwriters):

- (1) not to approve and to procure the Company not to approve, the transfer of and the registration of any transfer of the Domestic Shares directly held by each of Zhejiang Shibao Holding, Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required under the GEM Listing Rules;
- (2) to procure our Company to file a copy of the above undertakings of each Initial Management Shareholder in respect of Rule 13.16(1) of the GEM Listing Rules with the Administration Bureau for Industry and Commerce in Zhejiang Province, the PRC (the “Zhejiang AIC”) for notification purposes; and
- (3) to procure our Company to request the Zhejiang AIC (i) to insert a note in the register of our Company’s record maintained by it stating that all the Domestic Shares directly held by each of Zhejiang Shibao Holding, Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong cannot be transferred during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required under the GEM Listing Rules; and (ii) not to register any transfer of those Domestic Shares within the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required under the GEM Listing Rules.

Our Company has also undertaken to the Stock Exchange, Anglo Chinese and the Joint Lead Managers (for themselves and on behalf of the other Underwriters):

- (1) not to approve the transfer of and the registration of any transfer of the Domestic Shares directly held by each of Zhejiang Shibao Holding, Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required under the GEM Listing Rules;
- (2) to file a copy of the above undertakings of each Initial Management Shareholder in respect of compliance with Rule 13.16(1) of the GEM Listing Rules with the Zhejiang AIC for notification purposes; and
- (3) to request the Zhejiang AIC (i) to insert a note in the register of our record maintained by it stating that all the Domestic Shares directly held by each of Zhejiang Shibao Holding, Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong cannot be transferred during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required under the GEM Listing Rules; and (ii) not to register any transfer of those Domestic Shares within the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required under the GEM Listing Rules.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, (i) the information contained in this prospectus is accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement in this prospectus misleading, and (iii) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised to give any information in connection with the Placing or to make any representations not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, Anglo Chinese, Tai Fook, the Underwriters, any of their respective directors or employees or any other persons or parties involved in the Placing.

### **CONSENT OF CSRC**

The CSRC has given its consent to the Placing and our application for listing the H Shares on GEM on 19 August, 2005. In granting such consent, the CSRC accepts no responsibility for our financial soundness nor the accuracy of any of the statements made or opinions expressed in this prospectus by virtue of the issuance of its consent.

### **FULLY UNDERWRITTEN**

This prospectus is published in connection with, and sets out the terms and conditions of, the Placing. The Placing is sponsored by Anglo Chinese and is fully underwritten by the Underwriters pursuant to the Underwriting Agreement. Details of the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

### **DETERMINATION OF THE PLACING PRICE**

The Placing Price is expected to be fixed pursuant to the Price Determination Agreement on or before the Price Determination Time, which is expected to be on or before 5:00 p.m. on Monday, 8 May, 2006 (Hong Kong time) or such other date and time as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters), but in any event not later than 5:00 p.m. on Tuesday, 9 May, 2006 (Hong Kong time). The Placing Price will be not more than HK\$1.60 per H Share and is currently expected to be not less than HK\$1.32 per H Share. If, for whatever reason, our Company and the Joint Lead

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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Managers (for themselves and on behalf of the other Underwriters) are unable to enter into the Price Determination Agreement on or before the Price Determination Time, the Placing will not become unconditional and will lapse immediately. In such event, our Company will issue an announcement to be published on the GEM website.

Announcement of the Placing Price, the level of indication of interest in the Placing and the basis of allocation of the Placing Shares are expected to be published on the GEM website on or before Friday, 12 May, 2006.

### RESTRICTIONS ON OFFER OF THE PLACING SHARES

Each person acquiring the Placing Shares will be required to confirm, or by his acquisition of the Placing Shares be deemed to confirm, that he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

The following information is provided for guidance only. Prospective investors should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective investors should also inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in countries of their respective citizenship, residence or domicile.

### SINGAPORE

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Placing Shares may not be circulated or distributed, nor may the Placing Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore, the public or any member of the public in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of the Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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Where the Placing Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Placing Shares under Section 275 of the SFA except:

- (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA;
- (2) where no consideration is given for the transfer; or
- (3) by operation of law.

### EUROPEAN ECONOMIC AREA

This prospectus is only directed at persons in member states of the European Economic Area who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (the “**Qualified Investors**”). In addition, in the United Kingdom, this prospectus is only directed at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, and (ii) to whom they may otherwise lawfully be communicated (all such persons together with Qualified Investors being referred to as “**relevant persons**”). This prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

### APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus.

Save as disclosed herein, no part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and at the date of this prospectus no such listing or permission to deal is being or is proposed to be sought.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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In compliance with Rules 25.08 and 25.09 of the GEM Listing Rules, our Company must ensure that (i) 100% of the H Shares are held by the public; (ii) the H Shares must normally constitute not less than 10% of the total existing issued share capital of our Company; and (iii) the aggregate amount of the H Shares and such other securities of our Company which are held by the public must constitute not less than 25% of the total issued share capital of our Company.

Under section 44B(1) of the Companies Ordinance, if the permission for the listing of, and dealing in, the H Shares on GEM has been refused before the expiration of three weeks from the date of the closing of the subscription under the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

### HONG KONG BRANCH REGISTER AND STAMP DUTY

All H Shares allotted and issued pursuant to the Placing will be registered on our branch register of members maintained in Hong Kong. Our principal register of members will be maintained at our registered office in the PRC.

Only securities registered on the register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

Dealings in H Shares registered on our Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

### REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF THE H SHARES

Our Company has instructed Computershare Hong Kong Investor Services Limited, its Hong Kong share registrar and transfer office, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the share registrar in respect of the H Shares bearing statements to the effect that the holder:

- (i) agrees with our Company and each Shareholder, and our Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- (ii) agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company and our Company acting for itself and for each Director, Supervisor, manager and officer agrees with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award, and such arbitration shall be final and conclusive;

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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- (iii) agrees with our Company and each Shareholder that the H Shares are freely transferable by the holders thereof; and
- (iv) authorises our Company to enter into a contract on his behalf with each Director and officer of our Company whereby such Director and officer undertakes to observe and comply with their obligations to Shareholders as stipulated in the Articles of Association.

### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the H Shares on GEM and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the listing date or any other date as HKSCC may choose. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek advice from their stockbroker or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors of the H Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding, disposing and dealing in the H Shares. None of our Company, our Directors, Anglo Chinese, Tai Fook, the Underwriters, any of their respective directors or employees or any other persons or parties involved in the Placing accepts any responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchasing, holding or disposing of, or dealing in the H Shares or the exercise of any rights attaching to them.

### **STRUCTURE OF THE PLACING**

Details of the structure of the Placing, including the conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

### **COMMENCEMENT OF DEALING IN THE H SHARES**

Dealings in the H Shares on the Stock Exchange are expected to commence at 9:30 a.m. on Tuesday, 16 May, 2006. The H Shares will be traded in board lots of 2,000 H Shares each. Our Company will not issue any temporary document of title.

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**DIRECTORS, SUPERVISORS AND OTHER PARTIES INVOLVED IN THE PLACING**

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**Directors**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Zhang Shi Quan (張世權)	262 Jiangdong Road Fotang Town Yiwu Zhejiang Province China	Chinese
Mr. Zhang Bao Yi (張寶義)	19 Huanghou District Xinxihu Garden 198 Zhijiang Road Hangzhou Zhejiang Province China	Chinese
Mr. Tang Hao Han (湯浩瀚)	75-15 Changfa Road Tiedong District Siping Jilin Province China	Chinese
Mr. Zhu Jie Rong (朱頡榕)	Room 1002 376 Nanhua Middle Road Haizhu District Guangzhou Guangdong Province China	Chinese
Ms. Zhang Lan Jun (張蘭君)	9-3-201 Zhongjiang Garden Hangzhou Zhejiang Province China	Chinese

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**DIRECTORS, SUPERVISORS AND OTHER PARTIES INVOLVED IN THE PLACING**

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<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Non-executive Directors</i>		
Mr. Zhang Shi Zhong (張世忠)	8 Daoyuan Road Fotang Town Yiwu Zhejiang Province China	Chinese
Ms. Zhang Mei Jun (張美君)	75-15 Changfa Road Tiedong District Siping Jilin Province China	Chinese
Mr. Gu Qun (顧群)	Unit 11-1102 Wanhe Villa Wanjia Garden Tiancheng Road Hangzhou Zhejiang Province China	Chinese
<i>Independent non-executive Directors</i>		
Mr. Bao Zhi Chao (包志超)	Unit 3/20, Block 599 China FAW Group Corporation Dormitory Jincheng Main Street Changchun Jilin Province China	Chinese
Mr. Chen Guo Feng (陳國峰)	Room 301, Unit 4, Block 2 Da Tie Guan New Village Hangzhou Zhejiang Province China	Chinese
Mr. Lui Wing Hong, Edward (呂榮匡)	Flat E, 7th Floor, Block 5 Grand Palisades 8 Shan Yin Road Tai Po New Territories Hong Kong	Chinese

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**DIRECTORS, SUPERVISORS AND OTHER PARTIES INVOLVED IN THE PLACING**

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**Supervisors**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Mr. Ge Bao Shan (葛寶山)	Room 201, East Door 1, Block 25 No. 142, Renmin Road Changchun Jilin Province China	Chinese
Ms. Liu Xiao Ping (劉曉平)	Room 2-3-402 Fenghuang Beiyuan Shangcheng District Hangzhou Zhejiang Province China	Chinese
Mr. Shen Song Sheng (沈松生)	#24-6-502 Huanghao Lane Hangzhou Zhejiang Province China	Chinese
Mr. Wang Kui Quan (王奎泉)	Room 602, Unit 1, Block 4 Jianan Apartment, Mini High Rise Xiwu District Hangzhou Zhejiang Province China	Chinese
Ms. Zheng Yan (鄭艷)	No. 2, 5th Floor, Unit 7, Block 7 Dongsheng Small District 11 Road Tiedong District Siping Jilin Province China	Chinese

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## DIRECTORS, SUPERVISORS AND OTHER PARTIES INVOLVED IN THE PLACING

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### **Sponsor**

Anglo Chinese Corporate Finance, Limited  
40th Floor  
Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### **Joint Lead Managers and joint bookrunners**

Anglo Chinese Corporate Finance, Limited  
40th Floor  
Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Tai Fook Securities Company Limited  
25th Floor  
New World Tower  
16-18 Queen's Road Central  
Hong Kong

### **Underwriters**

Anglo Chinese Corporate Finance, Limited  
40th Floor  
Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Tai Fook Securities Company Limited  
25th Floor  
New World Tower  
16-18 Queen's Road Central  
Hong Kong

Watterson Asia Limited  
5th Floor  
8 Queen's Road Central  
Hong Kong

Taiwan Securities (Hong Kong) Company Limited  
Room 1302-05, 13th Floor  
Tower II, Admiralty Centre  
18 Harcourt Road  
Hong Kong

CSC Securities (HK) Limited  
Units 3204-07, 32nd Floor  
Cosco Tower  
183 Queen's Road Central  
Hong Kong

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**DIRECTORS, SUPERVISORS AND OTHER PARTIES INVOLVED IN THE PLACING**

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Phillip Securities (Hong Kong) Limited  
11th – 12th Floor  
United Centre  
95 Queensway  
Hong Kong

Sun Hung Kai International Limited  
Level 12  
One Pacific Place  
88 Queensway  
Hong Kong

**Legal advisers to the Company  
as to Hong Kong law**

Charltons  
10th Floor  
Hutchison House  
10 Harcourt Road  
Hong Kong

**Legal advisers to the Company  
as to PRC law**

Grandall Legal Group (Shanghai)  
31st Floor  
Nan Zheng Building  
580 Nanjing Xilu  
Shanghai  
China

**Legal adviser to the Sponsor  
and the Underwriters as to  
Hong Kong law**

Lovells  
23rd Floor  
Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**Auditors and reporting  
accountants**

Ernst & Young  
*Certified Public Accountants*  
18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Property valuer**

Vigers Appraisal & Consulting Limited  
10th Floor  
The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	No.1, Shuanglin Road Fotang Town Yiwu Zhejiang Province China
<b>Head office and principal place of business in Hong Kong</b>	7th Floor CMA Building 64 Connaught Road Central Hong Kong
<b>Company website address</b>	<a href="http://www.shibaogroup.com">www.shibaogroup.com</a>
<b>Company secretary</b>	Mr. Wu Tai Cheung (胡大祥) ACCA, HKICPA
<b>Qualified accountant</b>	Mr. Wu Tai Cheung (胡大祥) ACCA, HKICPA
<b>Compliance officer</b>	Mr. Zhu Jie Rong (朱頡榕)
<b>Audit committee</b>	Mr. Lui Wing Hong, Edward (呂榮匡) ( <i>chairman</i> ) Mr. Chen Guo Feng (陳國峰) Ms. Zhang Mei Jun (張美君)
<b>Authorised representatives</b>	Mr. Zhu Jie Rong (朱頡榕) Room 1002 367 Nanhua Middle Road Haizhu District Guangzhou Guangdong Province China  Mr. Wu Tai Cheung (胡大祥) ACCA, HKICPA Flat B, 6th Floor, Block 9 Lily Mansions Whampoa Garden Hung Hom Kowloon Hong Kong

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## CORPORATE INFORMATION

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### **Principal bankers**

Agricultural Bank of China, Yiwu Branch  
— Fotang Subbranch  
85 Fotang Jianche Road  
Yiwu  
Zhejiang Province  
China

China Construction Bank, Hangzhou Branch  
— Qiutao Subbranch  
5 Qingchun East Road  
Jianggang District  
Hangzhou  
Zhejiang Province  
China

Industrial and Commercial Bank of China, Siping Branch  
— Zhongyang Dong Lu Subbranch  
1 Tiedong District  
Siping  
Jilin Province  
China

Industrial and Commercial Bank of China,  
Hangzhou Branch — Jingkai Subbranch  
No. 5, No. 6 Road  
Hangzhou Economic and Technological Development  
Zone  
Hangzhou  
Zhejiang Province  
China

### **Hong Kong H Share registrar and transfer office**

Computershare Hong Kong Investor Services Limited  
Shops 1712-6, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### INTRODUCTION

The automobile industry has been recognised by the PRC government as one of the important industries for national economic development. In this respect, the PRC government has adopted various measures to encourage the development of the automobile and related industries in recent years.

### **PRC measures relating to the domestic automobile and automotive parts and components markets**

The PRC State government approved the Automobile Financing Enterprises Regulatory Methods (《汽車金融公司管理辦法》) in October, 2003, formalising the establishment and operation of non-bank automobile financing enterprises in the PRC. Under the Automobile Financing Enterprises Regulatory Methods, non-bank automobile financing enterprises would be regulated under the China Banking Supervisory and Regulatory Committee (中國銀行業監督管理委員會). Duly established non-bank automobile financing enterprises would be allowed to engage in, among other things, (i) the provision of financing for automobile purchases; (ii) the provision of financing to automobile dealers and distributors for automobile and replacement parts purchases, show room establishment and equipment purchases; (iii) the provision of guarantees for automobile purchases; and (iv) the selling of automobile financing receivables.

The Automobile Industry Development Policy (《汽車產業發展政策》) published by The PRC National Development and Reform Commission (國家發展和改革委員會) in June, 2004 set out a number of government policy objectives towards the automobile and automotive parts and components market development, including (among other things): (i) nurturing the domestic automobile consumption market and encouraging private automobile spending; (ii) encouraging the development of environmentally friendly small capacity cars and direct domestic consumers towards low fuel consumption, low pollution and small capacity cars; (iii) directing social resources towards the development of automotive parts and components sector and provide preferential support to automotive parts and components manufacturers capable of serving multiple automobile manufacturers and entering into the international parts and components procurement market; (iv) prohibiting the introduction of additional surcharges on automobile purchase and registration by provincial and, or local governments; and (v) supporting the development of the auto financing market, which includes auto mortgages and allowing (subject to approval) non-financial enterprises and foreign investors to provide auto financing.

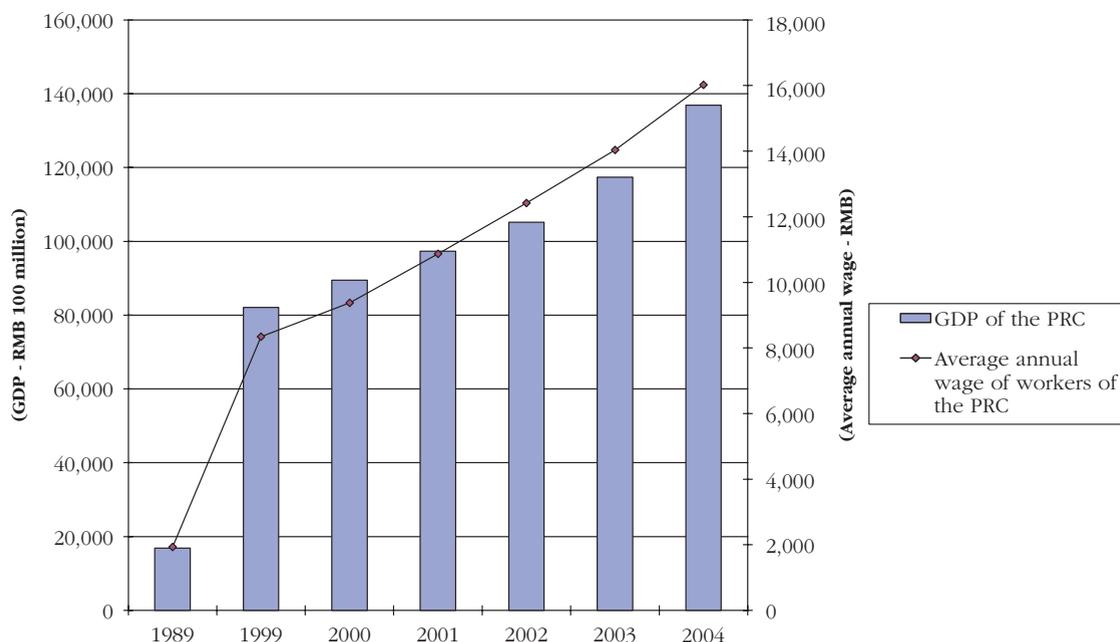
With a view to regulating and promoting the healthy development of the auto financing market, the PBOC and the China Banking Supervisory and Regulatory Committee jointly issued the Automobile Financing Regulatory Methods (《汽車貸款管理辦法》) in August, 2004 (which took effect from 1 October, 2004) which classified auto financing into those of personal, auto dealer and corporate, and set out specific criteria for auto financing under each category.

## INDUSTRY OVERVIEW

### Expansion of economy and increase in annual wages

The PRC economy has been able to maintain a robust growth rate in term of gross domestic product. For the period between 1999 and 2004, gross domestic product of the PRC increased from approximately RMB8,206.8 billion to approximately RMB13,687.6 billion, representing a CAGR of approximately 10.77% per annum.

The continuous expansion of the PRC economy has positively affected the average annual wage per worker in the PRC, which increased from approximately RMB8,346 per worker per annum in 1999 to approximately RMB16,024 per worker per annum in 2004, representing a CAGR of approximately 13.9%. The per capita annual wage is higher in certain major regions with advanced economic development such as Shanghai, Beijing and Zhejiang with citizens earning per capita annual wages of approximately RMB30,085, RMB29,674 and RMB23,506 respectively for 2004.



Source: *The China Statistics Year Book 2005*, issued by National Bureau of Statistics of China in September, 2005.

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## INDUSTRY OVERVIEW

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### THE AUTOMOBILE MANUFACTURING INDUSTRY IN THE PRC

The continuous economic growth and the general improvement in people's livelihood has influenced people's expenditure habits and in particular their spending on durable goods such as automobiles. The notable increase in the sales of automobiles and ownership seen in recent years has been in line with the upward trend in the annual wages earned by workers in the PRC. That said, it has been reported that the recent macro economic policy in the PRC has led to a slow down in the increase in demand for automobiles.

#### Manufacturing of automobiles

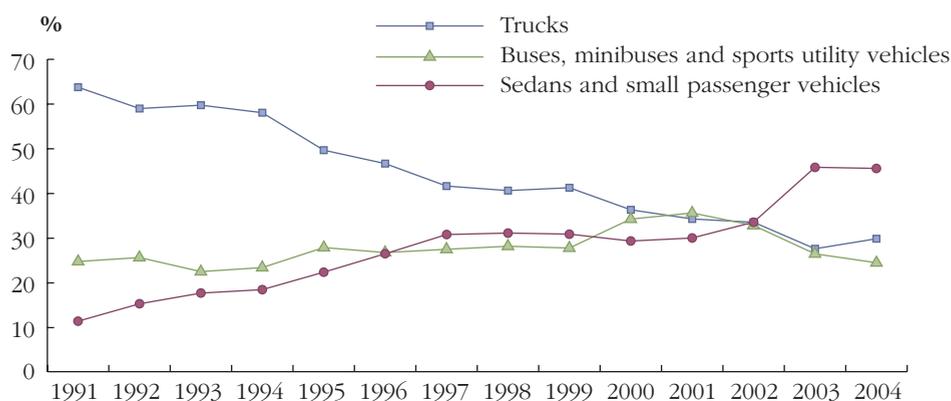
The increased demand for automobiles and government policies encouraging domestic production had resulted in a significant increase in automobile production over the years. In 2004, China had around 117 automobile manufacturers listed in the official automobile sale catalogue. Most of the large manufacturers produce many types of automobiles which can be broadly classified into three major categories, namely (i) trucks; (ii) buses, minibuses and sports utility vehicles; and (iii) sedans and small passenger vehicles. Finished automobiles are sold almost entirely in the PRC domestic market. The following table sets out the number of automobiles that have been manufactured in the PRC from 1991 and up to 2004:

	<b>Sedans and small passenger vehicles</b>	<b>Buses, minibuses and sports utility vehicles</b>	<b>Trucks</b>	<b>Domestic automobiles production (total)</b>
1991	81,055	175,742	452,023	708,820
1992	162,725	272,582	626,414	1,061,721
1993	229,697	292,213	774,868	1,296,778
1994	250,333	317,159	785,876	1,353,368
1995	325,461	405,454	721,822	1,452,737
1996	391,099	395,192	688,614	1,474,905
1997	487,695	435,615	659,318	1,582,628
1998	507,103	459,025	661,701	1,627,829
1999	566,105	509,179	756,312	1,831,596
2000	607,445	709,042	751,699	2,068,186
2001	703,525	834,927	803,076	2,341,528
2002	1,092,762	1,068,347	1,092,546	3,253,655
2003	2,037,865	1,177,469	1,228,157	4,443,491
2004	2,312,561	1,243,022	1,514,869	5,070,452

## INDUSTRY OVERVIEW

While overall automobile production grew over the years, the composition of overall automobile production in the PRC has shifted. Back in 1991, over 63% of the automobiles manufactured in the PRC were trucks, while buses, minibuses and sports utility vehicles represented about 25% and sedans and small passenger vehicles represented less than 12%. By 2004, the production of sedans and small passenger vehicles outgrew the other two categories in volume and represented over 45% of the total automobile production, while trucks production declined to less than 30% of the total automobile production, with buses, minibuses and sports utility vehicles remained at slightly less than 25%.

The following chart depicts the shift in the composition of PRC automobile manufacturing from 1991 to 2004:



Source: *China Automotive Industry Yearbook 2005*, issued by China Automotive Technology and Research Centre (中國汽車技術研究中心) and China Association of Automobile Manufacturers (中國汽車工業協會) in September, 2005.

*China Automotive Technology and Research Centre was an independent research institution established for the purpose of, among other things, compilation and publication of statistics relating to the automobile and automotive parts and components industries in the PRC. The research institution commands support from government departments such as the State Economic and Trade Commission of China (國家經濟貿易委員會), China Machinery Industry Federation (中國機械工業聯合會), various provincial governments and municipalities and industry participants such as manufacturers of automobiles and automotive parts and components based in the PRC.*

*China Association of Automobile Manufacturers is a national industry association representing the automobile industry of the PRC and is constituted by enterprises engaged in the manufacturing of automobiles and automotive parts and components based in the PRC.*

The number of automobiles manufactured in the PRC increased from 1,831,596 units for 1999 to 5,070,452 units for 2004, representing a CARG of approximately 22.6%.

## INDUSTRY OVERVIEW

In the global arena, the PRC has become an increasingly important manufacturer of automobiles. According to statistics published in the China Automotive Industry Yearbook 2005, the PRC was ranked the fourth largest nation in the world for automobile manufacturing. In 2004, the PRC manufactured approximately 5,070,452 units of automobiles, representing an annual growth rate of approximately 14.1% over the previous year. The following table sets out the top five countries in the world for automobile manufacturing in 2004:

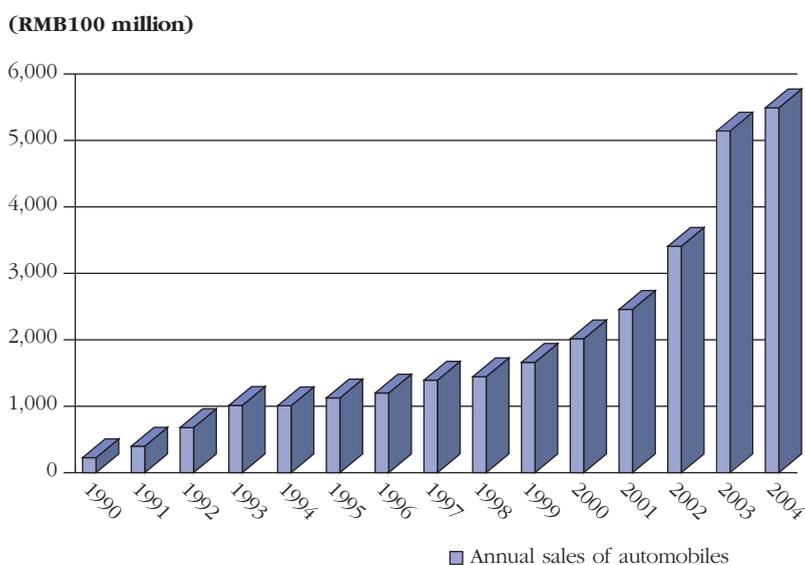
Ranks	Country	Units manufactured	Approximate annual growth rate
1	United States	11,989,387	-1%
2	Japan	10,511,518	2%
3	Germany	5,569,954	1%
4	China	5,070,527	14%
5	France	3,665,990	1%

Sources: *China Automotive Industry Yearbook 2005*

### Demand and sales of automobiles in the PRC

Sales volume of automobiles in the PRC has increased rapidly for the past few years. For the period between 1999 and 2004, sales of automobiles under civil ownership in the PRC increased from approximately RMB166,080 million to approximately RMB549,050 million, representing a CAGR of approximately 27.0%.

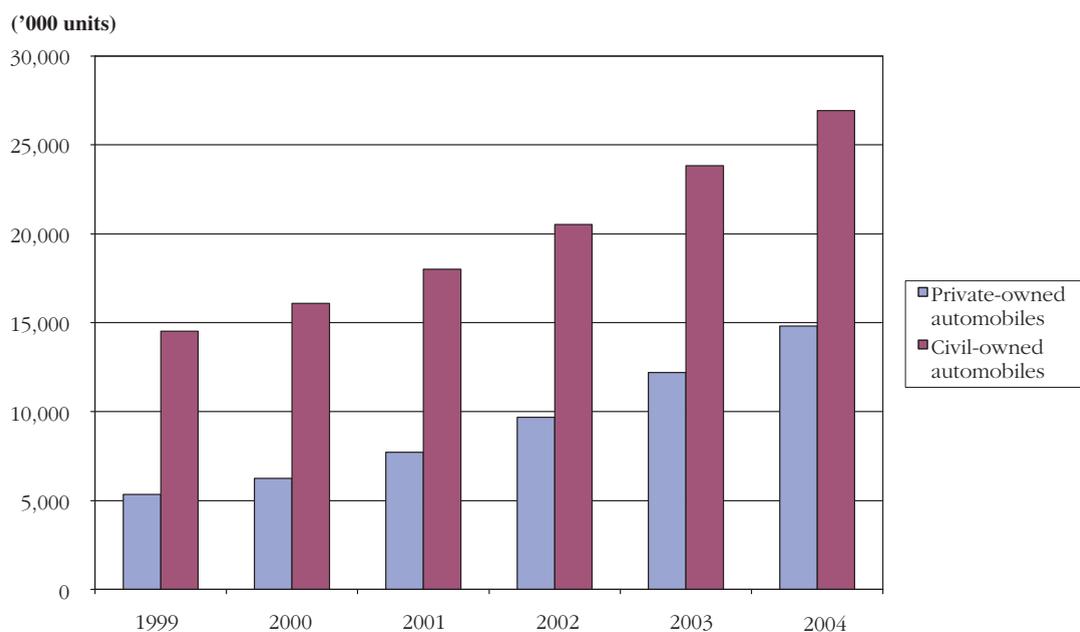
The following chart sets out the annual sales of automobiles in the PRC for the period between 1990 and 2004:



Source: *China Automotive Industry Yearbook 2005*

**Automobile ownerships in the PRC**

Although the major buyers of automobiles in the PRC are government entities, state-owned enterprises, collectively-owned enterprises, private enterprises and enterprises with foreign investment, the purchase of automobiles by private individuals also contributes a significant sales volume to the total annual sales of automobiles in the PRC. The trend of sales of automobiles to individuals in the PRC is upwards. For the period between 1999 and 2004, the total number of civil-owned automobiles in the PRC increased from approximately 14,529,400 units to approximately 26,937,100 units, representing a CAGR of approximately 13.1%. With respect to the total automobile ownership, the number of private-owned automobiles in the PRC increased from approximately 5,338,800 units for 1999 to approximately 14,816,600 units for 2004, representing a CAGR of approximately 22.7%.



Source: *The China Statistics Year Book 2005*

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## INDUSTRY OVERVIEW

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### THE AUTOMOTIVE PARTS AND COMPONENTS MANUFACTURING INDUSTRY IN THE PRC

The automotive parts and components manufacturing industry in the PRC is competitive. Our Directors believe that development of the automotive parts and components manufacturing industry is driven by a collection of factors such as business diversification into automobile design, consolidation for synergies and improved operational efficiency, geographical expansion for enlargement of market share, relocation of manufacturing facilities for manufacturing cost control; adoption of advanced manufacturing technologies for improvement in product quality and standards, and improvement in after-sales services to foster long term commercial relationships with customers. In general, it becomes increasingly important for participants in the automotive parts and components manufacturing industry in the PRC to equip themselves with the necessary manufacturing facilities and technology for the development of new automotive parts and components that comply with the latest international standards and specifications.

#### The current market of the automotive parts and components manufacturing industry

Generally, the automotive parts and components manufacturing industry in the PRC will develop and adopt advanced technologies, upgrade production capacity and improve technical standards and product quality so as to comply with international standards.

Since 1999, the gross industrial output value of automotive parts and components increased in tandem with the growth in the production and sales of automobiles in the PRC. As depicted in the table below, the value of the production of automotive parts and components increased from RMB60,870 million in 1999 to RMB201,380 million in 2004, representing a CAGR of approximately 27.0%.

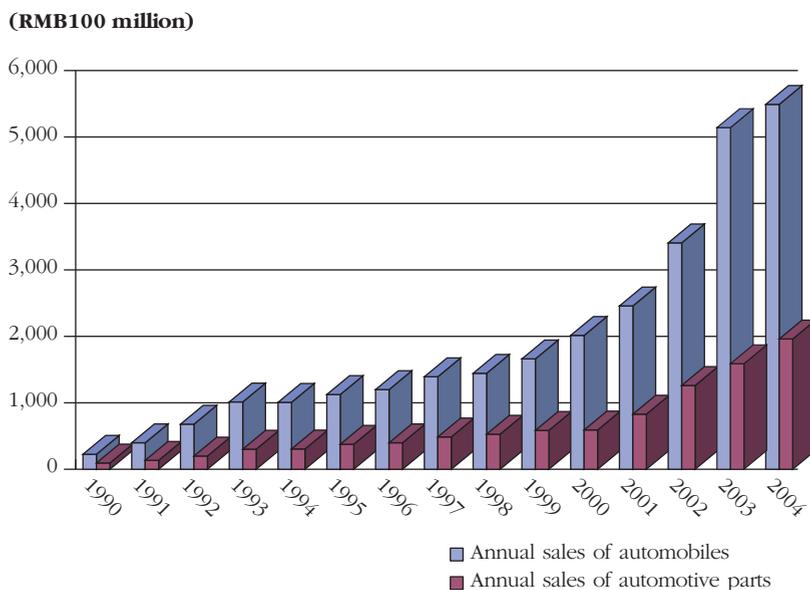
Year	1999	2000	2001	2002	2003	2004
Gross output value (RMB million)	60,870	61,570	85,910	131,640	162,400	201,380

Source: *China Automobile Industry Yearbook 2005*

The growth in the sales of automotive parts and components also relatively coincided with the increase in sales of automobiles in the PRC during the corresponding period. Annual sales of automotive parts and components increased from approximately RMB58,510 million for 1999 to approximately RMB196,060 million for 2004, representing a CAGR of approximately 27.4%.

## INDUSTRY OVERVIEW

The following chart sets out the annual sales of automotive parts and components in comparison to annual sales of automobiles in the PRC for the period between 1990 to 2004:



Source: *China Automotive Industry Yearbook 2005*

## OUTLOOK FOR THE AUTOMOBILES AND AUTOMOTIVE PARTS AND COMPONENTS MANUFACTURING INDUSTRIES

### Continuous investment by investors

The automobile and automotive parts and components manufacturing industries in the PRC continued to attract the attention of investors including international automobile and automotive parts and components manufacturers. The PRC presents itself as a manufacturing base and the advantages it offers, in terms of reasonable production costs and a favourable investment environment, have encouraged foreign investments in the PRC's automobile and automotive parts and components manufacturing industries.

Total investment in the form of capital expenditure in the PRC automotive parts and components manufacturing industry increased from approximately RMB4,810 million for 2001 to RMB14,540 million for 2004, representing a CAGR of approximately 44.6%.

For the period between 1999 and 2004, the expenditure on research and development in the automotive parts and components manufacturing industry increased from approximately RMB1,320 million to approximately RMB3,000 million, representing a CAGR of approximately 17.84%.

As at the end of 2004, there were around 1,670 automotive parts and components manufacturing enterprises based in the PRC.

**The “Tenth Five-Year Plan for the automobile industry”**

According to the details of development of the automobile industry under the “Outline of the Tenth Five-Year Plan for Automobile Industry” (「汽車工業十五規劃」) promulgated by the State Economic and Trade Commission of China (國家經濟貿易委員會) on 15 March, 2001, the PRC government would like to accelerate the development of the automobile and the ancillary automotive parts and components manufacturing industry. The PRC government would also provide support and direction to domestic manufacturers with the aim of improving the technology used in the manufacturing of automobiles and automotive parts and components and the quality of the finished products. The PRC government would set up automobile technology research centres for the enhancement of techniques and stimulation of innovative production technologies which can be applied by domestic manufacturers in the development and mass production of automobiles and automotive parts and components.

In the “Outline of the Tenth Five-Year Plan for Automobile Industry”, the PRC government projects that annual output of automobiles would reach approximately 3.2 million units by 2005. The demand for automobiles is expected to come from government ministries, including the public transportation and communication sectors, and from tourism, industrial, mining and other commercial enterprises. Further, the PRC government intends to encourage the application of advanced technologies to accelerate the development of automotive parts and components manufacturing industry which aims to strengthen the position of the country as a manufacturing centre of advanced automotive parts and components and automobiles for the overseas markets.

**Low automobile penetration ratio in the PRC**

Automobile penetration ratio in the PRC as at the end of December, 2004 was only approximately 2.18 units per 100 urban households.

	1999	2000	2001	2002	2003	2004
<b>No. of automobiles owned per 100 urban households</b>	0.34	0.50	0.60	0.88	1.36	2.18

Source: *China Statistical Year Book 2005*

The momentum for growth in sales of automotive parts and components is expected to remain in line with the increase in sales volume of automobiles.

### **WTO accession**

The Directors believe that the PRC's automobile market will still experience rapid growth in the next few years. The increased purchasing power of the population combined with relaxed lending restrictions will help to increase the number of privately owned automobiles. Moreover, PRC's accession to the WTO will further liberalise the automobile industry in 2006 and will in turn provide opportunities for further industry growth.

In order to encourage the purchase of automobiles, the PRC government is reforming taxes and levies on the purchase of automobiles to increase sales volumes, attract greater foreign investment, enhance scale of production and facilitate the development of the domestic automotive parts and components manufacturing industry. Several government departments have revealed that the PRC will further abolish restrictions on the automobile industry to allow automobile manufacturers to manufacture varieties of automobiles and automotive products, and to liberalise pricing restrictions on the automobile industry. Automobile manufacturers are being encouraged to merge, thereby promoting economies of scale to lower costs and enhance efficiency. The PRC is also considering abandoning or relieving certain taxes, such as the consumption tax imposed on automobile factories and the license tax imposed on automobile purchases.

Under the US-PRC Market Access Agreement entered into between the PRC and the US on 15 November, 1999, the then applicable automobile tariffs of 80% (for automobiles with engine capacities up to 3 litres) and 100% (for automobiles with engine capacities in excess of 3 litres) will be gradually reduced each year until they drop to 25% by 1 July, 2006. Tariffs on imported automotive parts and components in the PRC will also be cut to an average of 10% by 1 July, 2006.

### **PRC ENVIRONMENTAL RELATED LAWS AND REGULATIONS**

#### **The PRC Environmental Protection Law (《中華人民共和國環境保護法》)**

The PRC Environmental Protection Law provides the regulations relating to the protection and improvement of the living environment and ecological environment, protection and treatment of pollution and other public hazards.

Pursuant to such regulations, facilities for the protection and treatment of pollution resulting from works-in-progress must be designed, implemented and be put in operation simultaneously with the construction of the core facilities. Construction projects must be subject to acceptance inspection on its facilities for the protection and treatment of facilities before they can be put into production or use. Enterprises discharging pollutants must apply for registration in accordance with this law.

### **The PRC Water Pollution Prevention Law (《中華人民共和國水污染防治法》)**

The PRC Water Pollution Prevention Law requires that enterprises directly or indirectly discharging pollutants to water must apply for registration, at the environment protection authorities where they operate, as to the facilities discharging the pollutants and the treatment facilities they own, as well as the type, quantity and density of the pollutants discharged under normal operating conditions, and provide the relevant technical information on the protection and treatment of water pollution. Enterprises discharging contaminated substances into water systems are subject to discharge fees set by the PRC Government.

### **The PRC Air Pollution Prevention Law (《中華人民共和國大氣污染防治法》)**

The PRC Air Pollution Prevention Law requires that entities emitting air pollutants must first report to the local environmental protection authorities about their related pollutants control facilities and information relating to the types, amount and concentration of pollutants emitted, together with related pollution control technologies. Fee(s) will then be levied on the entities according to the types, amount and concentration of their emitted pollutants.

### **Fees and charges for discharge of polluting waste**

Pursuant to the relevant rules and regulations in the PRC, sewage discharge fees will be charged based on the type and quantity of the pollutants discharged, and the standard charge for every pollution loading (污染當量) is RMB0.7. Waste gas discharge fees are calculated based on the type and quantity of the pollutants discharged, and the standard charge for every pollution loading is RMB0.6. In respect of discharge of industrial solid waste with no special storage or disposal facilities and those with special storage or disposal facilities not attaining the standards of environment protection, one-off solid waste discharge fee of RMB5 to RMB30 per tonne will be charged on the solid waste. In respect of emission of environmental noise exceeding the PRC government's environmental protection standards and affecting normal living, working and studying, a super-standard noise emission fee will be charged based on the number of decibels exceeding the standards, the standard charge of which is RMB350 to RMB11,200 per month per decibel.

**BUSINESS OVERVIEW**

Established in 1993, we design, manufacture and sell steering gears and related components for automobiles in China. Our products are manufactured in three production facilities located at Yiwu, Siping and Hangzhou with an aggregate annual steering gears production capacity of over 250,000 units. Most of our products are customised to meet particular specifications of different automobile models. Going forward, we expect to embark on a new growth phase with our new products, including our power rack-and-pinion steering gears introduced to the market during the second quarter of 2005, and electronic power steering gears which are currently at an advanced stage of development and prototype testing.

According to a notice issued by the Information Center of China Machinery Industry Federation (中國機械工業聯合會信息中心) in July 2003, we were ranked the 50th in terms of profitability among 10,000 mechanical system manufacturers in China. Zhejiang Shibao Steering, our predecessor, was accredited by China Enterprise Evaluation Association (中國企業評價協會) as one of the top 500 developing small to medium-sized enterprises in China in 2003. Siping Steering, our subsidiary, was awarded by TÜV Rheinland Group the TÜV certificate in 2002 for its quality system compliance with VDA6, Part 1, in respect of its steering knuckles production.

We have established a broad sales network and customer base in the PRC covering over 17 provinces and municipalities. We market all our products through our own direct sales force. Our customers include many reputable automobile and automotive parts and components manufacturers in China like the FAW Group, the Dongfeng Motor Group, Hubei TriRing, Dandong Huanghai Automobile, Kinglong Automobile, Nanjin Yuejin, Yunan Lifan and Chery Automobile.

We are in the process of establishing DHB-Shibao, a sino-foreign equity joint venture, with DHB-CA which is a subsidiary of DHB Industria e Comercio S.A., a company listed on the Sao Paulo Stock Exchange in Brazil. DHB-CA manufactures hydraulic pumps, hoses and manual and power rack-and-pinion steering gears. Its customer base includes General Motors, Volkswagen, Fiat, Ford and Renault of Argentina and Brazil, and Mercury Marine of the United States. It is intended that DHB-Shibao will be engaged in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps. Products to be manufactured by DHB-Shibao will bear the trademark of “DHB-Shibao” and may be sold within China and other Asian countries (excluding India and Iran). The joint venture agreement also provides that upon the establishment of DHB-Shibao, DHB-CA and DHB-Shibao will enter into a technology transfer agreement for a term of 20 years, under which DHB-CA will transfer production technologies covering, among other areas, product design, manufacturing technology, means of testing, materials prescription, standard of quality and training of personnel to DHB-Shibao for its product development and production. DHB-CA warranted that such technologies shall be transferred on an “as is” basis and pledged that the technologies should be of the same type currently adopted by DHB-CA. Further, DHB-CA agreed that it shall provide DHB-Shibao with any improvements in the technologies transferred with no additional fees or charges. We expect that DHB-Shibao will assist our initial entry into the overseas automotive parts and components procurement market.

We recorded turnover of approximately RMB140.3 million and RMB149.1 million for each of the two years ended 31 December, 2005 respectively.

## **OUR COMPETITIVE STRENGTHS**

We believe that our success and our potential for future growth can be attributed to the following strengths:

### **Strong technical capability**

Zhejiang Shibao Steering, our predecessor, was accredited by the Zhejiang Province Science and Technology Office (浙江省科學技術廳) as a “Zhejiang Province High Technology Enterprise” (浙江省高新科技企業), and our subsidiary, Siping Steering was also accredited by the Siping City Science and Technology Bureau (四平市科學技術局) as a “Jilin Province High Technology Enterprise” (吉林省高新科技企業). Apart from having the capability to manufacture various types of conventional manual or power steering gears and related components, we are at an advanced stage of development and prototype testing of our electronic power steering gears, one of the latest types of power steering gears. Our strong technical capability places us in an advantageous position to compete with other automobile parts and components manufacturers, and in particular, new entrants to the market.

### **Stringent quality control**

We place a strong emphasis on the quality of our products. To this end, we impose stringent quality control on the selection and testing of raw materials and throughout our production process. Our predecessor, Zhejiang Shibao Steering and our subsidiary, Siping Steering have been accredited with ISO9001:2000 certification. In addition, Siping Steering was recognised as a “Model Enterprise in Quality Control” (質量管理模範企業) by the Jilin Province Quality and Technical Control Bureau (吉林省質量技術監管局), and was awarded by TÜV Rheinland Group the TÜV certificate for its quality system compliance with VDA6, Part 1, in respect of its steering knuckles production. Furthermore, our Group’s brandname “Shibao” has been accredited as “Ten Best Brands for China Consumers (Users) Quality and Service Satisfaction” (《中國消費者(用戶)質量服務滿意度十佳品牌》) jointly by the China Quality Association (中國質量學會), China Scientific Quality Service Association (中國優質服務科學學會) and Chinese Products Safety Evaluation and Supervision Centre (中國產品安全評價監測中心) in June 2005. We believe our high quality control standards have helped established our reputation as a manufacturer of quality automobile steering gears and related components.

### **Experienced management team**

Mr. Zhang, our chairman and an executive Director, has over 20 years of experience in the automobile industry in the PRC. Under the leadership of Mr. Zhang, our management team has accumulated extensive knowledge in automobile steering gears and most of them have over 10 years of relevant experience. This expertise enables us to grow domestically in the PRC.

**Established customer base**

Our Group has established a broad and loyal customer base including major automobile manufacturers in the PRC, some of which have been our customers for more than four years. Our products may be customised to meet our customers' product specifications which, in our Directors' view, makes it less likely for them to switch to other suppliers. As an example, we have been supplying tailor made steering knuckles for *Hong Qi* sedans (on an exclusive basis) since 2001 and for *M6* sedans since 2005.

**Low production cost**

As our production facilities are situated in China where costs of human resources and land are relatively lower than those in Hong Kong, we enjoy low production costs particularly in terms of labour cost and rent.

**CORPORATE DEVELOPMENT****Yiwu Qianjin Steering Gear Factory**

The history of our Group dates back to September 1990 when Mr. Zhang and Zhang Shi Zhong, together with Fotang Fabric Factory (佛堂區綢廠) and Fotang Zhang's Second Village (佛堂鎮張宅二村), established Yiwu Qianjin Steering Gear Factory (義烏市前進方向機廠) to engage in the manufacture of steering gears. Yiwu Qianjin Steering Gear Factory was a collectively owned enterprise registered with a capital of RMB1,219,000, of which RMB897,000 was contributed by Mr. Zhang, RMB206,000 by Zhang Shi Zhong, RMB76,000 by Fotang Fabric Factory and RMB40,000 by Fotang Zhang's Second Village.

**Zhejiang Shibao Steering**

On 2 June, 1993, Yiwu Qianjin Steering Gear Factory, Zhejiang Province Agricultural Machinery Industrial Company (浙江省農業機械工業總公司) as nominee on behalf of 40 of its employees, and Mr. Huang Ke Rong (黃克榮) for himself and on behalf of 20 other natural persons, established Zhejiang Shibao Steering to engage in the manufacture and sale of automobile steering gears and related components. Zhejiang Shibao Steering was established as a limited liability company with a registered capital of RMB5,030,000, of which RMB3,867,000 was contributed by Yiwu Qianjin Steering Gear Factory, RMB500,000 by Zhejiang Province Agricultural Machinery Industrial Company and RMB663,000 by Mr. Huang Ke Rong, representing approximately 76.88%, 9.94% and 13.18% respectively of its registered capital. Such capital contribution was fully met by Yiwu Qianjin Steering Gear Factory by way of transfer of certain machinery, equipment and factory premises, by Zhejiang Province Agricultural Machinery Industrial Company and by Mr. Huang Ke Rong by way of cash payments. At the time of its establishment, the board of directors of Zhejiang Shibao Steering comprised Mr. Zhang, Zhang Shi Zhong, Mr. Hsu Bao Rong (徐保榮), Mr. Huang Ke Rong and Mr. Yan Zhao Da (嚴兆大).

It was agreed under a contribution agreement dated 18 March, 1993 entered into among the three shareholders of Zhejiang Shibao Steering that Yiwu Qianjin Steering Gear Factory would subcontract and be fully responsible for the operations of Zhejiang Shibao Steering, while Zhejiang Province Agricultural Machinery Industrial Company and Mr. Huang Ke Rong would each receive a fixed rate of not less than 10% in annual profit distribution and waive their rights relating to their respective share of any remaining accumulated surplus of Zhejiang Shibao Steering.

Pursuant to the “Notice of the State Council in respect of the Restructuring of all PRC Limited Companies and Joint Stock Companies in accordance with the Company Law” [Guo Fa (1995) No.17] (《國務院關於原有有限責任公司和股份有限公司依照〈中華人民共和國公司法〉進行規範的通知》[國發(1995)17號]) that came into effect on 1 July, 1994, Zhejiang Shibao Steering underwent a restructuring and re-registered on 30 April, 1996. Under the restructuring, Zhejiang Shibao Steering transferred the balance of its capital common reserve fund, which amounted to RMB32,005,300 as at 25 March, 1996, into its registered capital. The said amount was determined based on the capital verification report issued by Yiwu Certified Public Accountants (義烏會計師事務所) on 15 April, 1996, which stated that the net asset value of Zhejiang Shibao Steering as at 25 March, 1996 was RMB35,817,000, comprising, among other things, capital common reserve fund of RMB32,005,300.

Upon completion of the aforesaid restructuring, Zhejiang Shibao Steering was re-established with a registered capital of RMB35,817,000. On the basis that Yiwu Qianjin Steering Gear Factory had subcontracted the operations of Zhejiang Shibao Steering and that neither Zhejiang Province Agricultural Machinery Industrial Company nor Mr. Huang Ke Rong was entitled to the accumulated surplus of Zhejiang Shibao Steering other than the agreed fixed rate of annual profit distribution, the registered capital of Zhejiang Shibao Steering was so re-registered as to RMB500,000 (approximately 1.40%) contributed by Zhejiang Province Agricultural Machinery Industrial Company and as to RMB663,000 (approximately 1.85%) contributed by Mr. Huang Ke Rong, each representing their respective original contribution made to Zhejiang Shibao Steering, and the balance of RMB34,654,000 (approximately 96.75%) contributed by Yiwu Qianjin Steering Gear Factory.

Pursuant to the resolution of the shareholders’ meeting of Yiwu Qianjin Steering Gear Factory dated 10 September, 1997, it was resolved that Yiwu Qianjin Steering Gear Factory be dissolved and its shareholding in Zhejiang Shibao Steering be transferred to its then beneficial owners. Based on the equity ownership of Yiwu Qianjin Steering Gear Factory immediately before its dissolution, its share of registered capital contribution in Zhejiang Shibao Steering of RMB34,654,000 was transferred to each of Mr. Zhang (RMB28,304,000), Zhang Shi Zhong (RMB6,234,000), Yiwu Fotang Collective Asset Management Company Limited (義烏市佛堂鎮集體資產經營有限公司) (RMB76,000) and Zhang Bao Yi (RMB40,000), at an aggregate consideration of RMB34,654,000. Fotang Fabric Factory, being one of the original equity owner of Yiwu Qianjin Steering Gear Factory, was dissolved and its beneficial interest in Zhejiang Shibao Steering was transferred to its original investor, Yiwu Fotang Collective Asset Management Company Limited. Zhang Bao Yi’s equity interest (of RMB40,000) in Zhejiang Shibao Steering was transferred from Fotang Zhang’s Second Village, one of the original equity owners of Yiwu Qianjin Steering Gear Factory.

Upon completion of the aforesaid transfers, the registered capital of Zhejiang Shibao Steering of RMB35,817,000 was owned as to approximately 79.02% (RMB28,304,000) by Mr. Zhang, 17.41% (RMB6,234,000) by Zhang Shi Zhong, 0.11% (RMB40,000) by Zhang Bao Yi, 0.21% (RMB76,000) by Yiwu Fotang Collective Asset Management Company Limited, 1.40% (RMB500,000) by Zhejiang Province Agricultural Machinery Industrial Company and 1.85% (RMB663,000) by Mr. Huang Ke Rong.

Mr. Zhang and his family members acquired the remaining shareholding interests in Zhejiang Shibao Steering from other non-family shareholders. On 5 March, 2001, the following share transfers took place: (i) Yiwu Fotang Collective Asset Management Company Limited sold all of its share of contribution (which amounted to RMB76,000) in Zhejiang Shibao Steering to Zhang Bao Yi for RMB76,000; (ii) Zhang Shi Zhong sold RMB5,571,000 out of his total share of contribution of RMB6,234,000 in Zhejiang Shibao Steering to Zhang Bao Yi for RMB5,571,000; and (iii) Mr. Huang Ke Rong and Zhejiang Province Agricultural Machinery Industrial Company sold all of their respective share of contribution in Zhejiang Shibao Steering (which amounted to RMB663,000 and RMB500,000 respectively) to Zhang Mei Jun and Zhang Lan Jun for RMB663,000 and RMB500,000, respectively. Upon completion of the said transfers, Zhejiang Shibao Steering was owned as to approximately 79.02% (RMB28,304,000) by Mr. Zhang, 15.88% (RMB5,687,000) by Zhang Bao Yi, 1.85% (RMB663,000) by Zhang Shi Zhong, 1.85% (RMB663,000) by Zhang Mei Jun and 1.40% (RMB500,000) by Zhang Lan Jun.

The transfer by Zhejiang Province Agricultural Machinery Industrial Company as nominee on behalf of 40 of its employees, and Mr. Huang Ke Rong for himself and on behalf of 20 other natural persons, of all their respective share of contribution in Zhejiang Shibao Steering was completed in March, 2001. Further, according to the document “Confirmation Statement on Matters regarding Zhejiang Shibao Company Limited - Zhe Zheng Ban Fa Han (2005) No.33” (浙政辦發函[2005]33號 《關於對浙江世寶股份有限公司有關事項確認函》) issued by the Office of the People’s Government of Zhejiang Province (浙江省人民政府辦公廳) and the document “Request for Issue of Official Documents regarding the Application to The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for Issuance and Listing of H Shares by Zhejiang Shibao Company Limited — Yi Zheng (2005) No.5” (義政[2005]5號 《關於請求出具浙江世寶股份有限公司申請發行H股並赴香港聯交所創業板上市相關事項正式文件的請示》) issued by the People’s Government of Yiwu City (義烏市人民政府), the above transfers had been confirmed by the relevant beneficial owners and the legal rights of the beneficial owners had been adequately protected. On this basis, our PRC legal advisers considered that there is no actual or potential shareholding dispute between our Group and any of the above-mentioned beneficial shareholders.

Our PRC legal advisers further opined that the series of asset allocations and equity transfers of Zhejiang Shibao Steering set out above were legal and valid and were not in breach of the relevant PRC laws and regulations.

**Hangzhou Shibao**

Hangzhou Shibao was established on 3 November, 1996. At the time of establishment, Hangzhou Shibao had a registered capital of RMB10,000,000, which was contributed as to RMB5,100,000 (representing 51%) by Zhejiang Shibao Steering, RMB2,000,000 (representing 20%) by Zhejiang Yuan Zheng Technology Industrial Company (浙江元正科技實業公司), RMB1,900,000 (representing 19%) by Zhejiang Agricultural University (浙江農業大學) (which was subsequently merged with other three universities to form Zhejiang University (浙江大學)) and RMB1,000,000 (representing 10%) by Zhejiang High School Technology Development Company (浙江省高校科技開發公司), all in the form of cash. Hangzhou Shibao is engaged in the manufacture and sale of power steering gears and related components.

On 8 March, 2003, a series of share transfer agreements were entered into between the then shareholders of Hangzhou Shibao and Mrs. Zhang, pursuant to which each of Zhejiang Yuan Zheng Technology Industrial Company, Zhejiang University and Zhejiang High School Technology Development Company disposed of all their respective equity interests in Hangzhou Shibao. In particular, Zhejiang Yuan Zheng Technology Industrial Company sold all its 20% equity interest in Hangzhou Shibao to each of Zhejiang Shibao Steering (19%) and Mrs. Zhang (1%), and each of Zhejiang University and Zhejiang High School Technology Development Company sold all their respective equity interest of 19% and 10% in Hangzhou Shibao to Zhejiang Shibao Steering. The considerations paid under the said share transfer agreements were settled by way of cash and were equivalent to the amount of capital contribution being transferred. Upon completion of the share transfers, Hangzhou Shibao was owned as to 99% by Zhejiang Shibao Steering and 1% by Mrs. Zhang. Since then, the board of directors of Hangzhou Shibao comprise of Mr. Zhang, Zhang Shi Zhong, Zhang Bao Yi, Zhang Mei Jun and Zhang Lan Jun.

On 18 March, 2003, the then shareholders of Hangzhou Shibao resolved to increase the registered capital of Hangzhou Shibao to RMB40,000,000, pursuant to which Zhejiang Shibao Steering contributed an additional RMB29,700,000 and Mrs. Zhang contributed an additional RMB300,000 to the registered capital of Hangzhou Shibao, in accordance with their respective proportional equity interest. Hangzhou Shibao obtained the approval for its increased registered capital from the Industry and Commerce Bureau of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區工商局) on 25 April, 2003, with its authorised scope of business being manufacturing of automobile steering gears and other automobile parts and components. The members of the board of directors of Hangzhou Shibao remained unchanged.

On 28 July, 2003, Hangzhou Shibao entered into a land use right transfer contract with the Building and Land Resources Bureau of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區國土資源與房產管理局) for the acquisition of the land use right to a piece of land in Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區) with a site area of 49,078 sq.m., and commenced construction of the Hangzhou plant in September, 2003. On 8 November, 2004, a land use right certificate was granted to Hangzhou Shibao. Construction of our

Hangzhou plant commenced in September, 2003 and was completed and in operation as at the latest practicable date. The related construction and ancillary expenditure is currently expected to amount to about RMB60 million (of which we have paid out about RMB55 million up to 31 December, 2005).

### **Siping Steering**

On 23 January, 1998, Zhejiang Shibao Steering entered into a merger agreement with Siping Longxing Hydraulic Machine Co., Ltd. (四平市龍興液壓機械有限公司) (“**Siping Longxing**”) to acquire all assets of Siping Longxing, which amounted to approximately RMB11,100,000. Siping Longxing was established on 7 October, 1997 and was owned by the employees of its bankrupted predecessor, Siping Hydraulic Steering Machine Factory (四平市液壓轉向機械廠), a state-owned enterprise. Under the agreement, Siping Longxing agreed to transfer all its assets to Siping Steering, including machineries and equipment of about RMB5,400,000 and land and buildings of about RMB5,700,000, but excluding staff quarters and related utilities payable. Siping Steering agreed to assume all major liabilities of Siping Longxing including salaries payable, outstanding utility payments and staff benefits, but excluding trade receivables of about RMB8,430,000 and trade payables of about RMB410,000. The consideration was fully settled.

On 28 October, 1999, Zhejiang Shibao Steering used the assets acquired from Siping Longxing as its share of contribution and established Siping Steering together with Zhang Mei Jun. At the time of establishment, the registered capital of Siping Steering was RMB11,000,000 which was owned as to 95% by Zhejiang Shibao Steering and as to 5% by Zhang Mei Jun, and its board of directors comprised Mr. Zhang, Zhang Bao Yi, Zhang Lan Jun, Zhang Mei Jun and Mr. Tang. Siping Steering commenced the manufacture and sale of power recirculating ball steering gears and related components in December, 1999 serving principally FAW Group Corporation and other customers in the northern part of China.

Our Directors believed that our competitiveness in the market as well as the corporate image of Siping Steering would be enhanced by the introduction of foreign corporate management experience. Accordingly, Promised Land Ventures LLC, a U.S. based venture capital company and an independent third party specialised in investing in China and Europe and currently wholly owned by Mr. Eric Aubry, a French national, was introduced as a shareholder of Siping Steering. Under the capital contribution transfer agreement dated 30 October, 2003 and entered into among Zhejiang Shibao Steering, Zhang Mei Jun and Promised Land Ventures LLC, Promised Land Ventures LLC agreed to acquire from Zhejiang Shibao Steering and Zhang Mei Jun their capital contributions made to Siping Steering (being 20% and 5% respectively of the registered capital of Siping Steering) for an aggregate consideration of RMB2,750,000. It was further agreed under the capital contribution transfer agreement that Zhang Mei Jun would waive all her rights pertaining to her 5% interest in Siping Steering to Zhejiang Shibao Steering before Siping Steering was converted into a sino-foreign joint venture. The difference of RMB5,840,000 between the share of assets and liabilities pertaining to the 5% interest waived in favour of Zhejiang Shibao Steering (of about RMB8,717,000) net of corresponding enterprise income tax expense of about RMB2,877,000, covering the period from the date of incorporation of Siping Steering up to 17 June, 2004 when Siping Steering obtained its business licence as a sino-foreign cooperative joint venture, was credited to our Group’s consolidated reserve accounts directly.

Pursuant to the sino-foreign cooperative joint venture agreement dated 6 November, 2003 and entered into between Zhejiang Shibao Steering and Promised Land Ventures LLC, Promised Land Ventures LLC would be entitled to a fixed profit of RMB500,000 annually for its investment in Siping Steering, or in the event the profit of Siping Steering (after payment of income tax and after deductions for reserve fund, bonus and welfare fund for workers and staff and the expansion fund in accordance with the Sino-foreign Co-operative Joint Venture Law of the PRC) is less than the share of profit distributable to the Promised Land Ventures LLC, then all of such profit shall be distributed to Promised Land Ventures LLC. Zhejiang Shibao Steering would be entitled to all the remaining profit of Siping Steering. As advised by our PRC legal advisers, the profit distribution arrangement between Zhejiang Shibao Steering and Promised Land Ventures LLC is in accordance with the Sino-Foreign Co-operative Joint Venture Law of the PRC.

### **Wuhu Sterling**

In order that our Group may capture business opportunities from Chery Automobile and other customers in the central region of China, Wuhu Sterling was established on 18 November, 2004 with its place of operations situated at Wuhu Economic and Technological Development Zone in Anhui Province (where Chery Automobile is located). The registered capital of Wuhu Sterling was RMB20,000,000, which was contributed in cash as to RMB7,200,000 (36%) by our Company, RMB6,800,000 (34%) by Wuhu Qirui Technology Co., Ltd. (蕪湖奇瑞科技有限公司), RMB3,000,000 (15%) by Ms. An Qing Hui (安慶會) and RMB3,000,000 (15%) by Ms. Sun Ya Hong (孫亞洪). The registered capital was fully paid up as at 9 November, 2005. Wuhu Qirui Technology Co., Ltd. is a limited liability company established in the PRC and is owned as to approximately 27.06% by Zhang Ping (張屏), 19.60% by Lu Fu Jun (魯付俊), 26.67% by Lu Jian Hui (陸建輝) and 26.67% by Zhou Bi Ren (周必仁), all independent third parties. The approved business scope of Wuhu Sterling covers the development, production and sale of automotive parts and related products and provision of after-sales services. Both Ms. An Qing Hui and Ms. Sun Ya Hong are PRC nationals and independent third parties.

Wuhu Sterling entered into a product development agreement with Chery Automobile in July, 2005 for the trial development of certain power rack-and-pinion steering gear components. Subsequently in September, 2005, Wuhu Sterling entered into a technology agreement with Chery Automobile for the joint development of different models of manual and power rack-and-pinion steering gears. Samples of manual and power rack-and-pinion steering gears were delivered to Chery Automobile in November, 2005. As an initial attempt to develop electronic power steering gears for Chery Automobile, Wuhu Sterling also entered into a technology collaboration agreement with the Automobile Engineering Research Institute of Chery Automobile (奇瑞汽車有限公司汽車工程研究院) in respect of the development of electronic power steering gears in September, 2005. As at the latest practicable date, Wuhu Sterling has not commenced full operation.

**Hangzhou New Shibao**

Hangzhou New Shibao was established on 14 December, 2004 with a registered capital of RMB40,000,000 to facilitate the acquisition of a piece of land adjacent to the Hangzhou plant with a site area of 31,267 sq.m. as a land reserve for our future development in the longer term. The land use right certificate was granted on 26 January, 2005. We have no present intention to develop any new production facilities on the land site.

At the time of establishment, Hangzhou New Shibao was owned as to 90% by our Company and 10% by Mrs. Zhang. Since establishment, the director and supervisor of Hangzhou New Shibao has been Mr. Zhang and Zhang Lan Jun respectively. Based on a confirmation from Mrs. Zhang dated 27 September, 2005, Mrs. Zhang waived all her rights pertaining to her 9% equity interest in the retained earnings of Hangzhou New Shibao effective from 1 July, 2005. The results of Hangzhou New Shibao attributable to Mrs. Zhang, the minority interest, was calculated at 1% effective from 1 July 2005.

The registered capital of Hangzhou New Shibao was paid up in two installments comprising RMB12,000,000 (as to RMB10,800,000 from our Company and RMB1,200,000 from Mrs. Zhang) made on 9 December, 2004, and RMB28,000,000 (as to RMB25,200,000 from Zhejiang Shibao Steering and RMB2,800,000 from Mrs. Zhang) on 26 April, 2005. According to the Company Law, the registered capital of a limited liability company established in the PRC should be contributed in full upon registration of the limited liability company with the relevant PRC government body. Accordingly, the paying up of the capital contributions by our Company and Mrs. Zhang to Hangzhou New Shibao in two installments was not in compliance with the Company Law. As advised by our PRC legal advisers, the Company Law and other related regulations do not state any penalty for such non-compliance. As the registered capital of Hangzhou New Shibao was fully contributed by 26 April, 2005 and Hangzhou New Shibao obtained its business registration in accordance with the applicable laws and regulations, the legal person status of Hangzhou New Shibao is in compliance with applicable PRC laws, and the above non-compliance will not affect the valid establishment of Hangzhou New Shibao, nor will it result in any obstruction, under PRC law, for the listing of the H Shares on GEM. Zhejiang Shibao Holding together with its shareholders, namely Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong, have also undertaken to bear, collectively and individually, all risks and losses incurred by our Company and, or Hangzhou New Shibao arising from the non-compliance of the Company Law in respect of the paying up of the registered capital of Hangzhou New Shibao in two instalments.

On 22 February, 2006, our Company entered into a capital contribution transfer agreement with Mrs. Zhang to acquire the 10% equity interest in Hangzhou New Shibao then held by Mrs. Zhang. The consideration for the transfer was RMB4,000,000 which is equivalent to the amount of capital contribution being transferred. The consideration was settled in full on 6 April, 2006 by way of cash, and Hangzhou New Shibao became a wholly owned subsidiary of our Company.

**DHB-Shibao**

On 16 February, 2006, Hangzhou Shibao entered into a sino-foreign equity joint venture agreement with DHB-CA for the establishment of DHB-Shibao. According to the joint venture agreement, DHB-Shibao will be established with a total investment of US\$20,000,000 and a registered capital of US\$12,136,836. The registered capital is to be contributed as to US\$9,102,627 (representing 75% of the registered capital of DHB-Shibao) by Hangzhou Shibao in the form of cash, equipment, machineries, buildings and land use right, and as to US\$3,034,209 (representing 25% of the registered capital of DHB-Shibao) by DHB-CA in the form of cash and technology transfer. Under the joint venture agreement, DHB-CA is also granted an option, exercisable within 30 months from the date of establishment of DHB-Shibao, to increase its equity interest in DHB-Shibao up to 40%. The joint venture agreement would take effect on the date of approval by the relevant PRC government authorities of the joint venture agreement and the associated articles of association of DHB-Shibao.

The joint venture agreement stipulated that Hangzhou Shibao shall complete all its share of capital contribution within three months from the registration of DHB-Shibao, while DHB-CA shall complete the cash portion of its share of capital contribution within three months from the registration of DHB-Shibao and the technology transfer by the end of 2009. In this respect, the joint venture agreement provides that upon the establishment of DHB-Shibao, DHB-CA will enter into a technology transfer agreement with DHB-Shibao under which DHB-CA will transfer production technologies to DHB-Shibao for its product development and production. We intend to utilise part of the net proceeds from the Placing to fund the cash portion of our share of contribution. Additionally, we plan to satisfy the remaining portion of our share of contribution by injecting a portion of the piece of land currently owned by Hangzhou Shibao (referred to as property numbered 2 in appendix III to this prospectus), together with the buildings constructed thereon and the relevant machineries and equipment owned by Hangzhou Shibao for the production of rack-and-pinion steering gears and electronic power steering gears.

The joint venture agreement provided that each of Hangzhou Shibao and DHB-CA will be entitled to the profits, dividends and other distributions of DHB-Shibao in the proportion of their respective share of capital contribution. The joint venture shall have an initial term of 20 years which may be extended to a maximum of 50 years. The joint venture agreement can be terminated by reason of, among other things, (i) the occurrence of certain force majeure events which result in substantial losses to DHB-Shibao; (ii) sustained losses of DHB-Shibao leading to its inability to continue its operations, and (iii) unresolved material breach(es) of the joint venture contract by either of the joint venture parties.

As advised by our PRC legal advisers, the joint venture agreement, the articles of association and the capital contribution report of DHB-Shibao should be submitted to the relevant PRC authorities for approval and registration. An application for the grant of business licence can be filed following completion of the approval and registration process. We have obtained the certificate of approval for the establishment of DHB-Shibao on 31 March, 2006. Based on the

current progress, it is expected that DHB-Shibao may obtain its business licence on or before June, 2006. Applications for the transfer of title of the relevant land use right and buildings from Hangzhou Shibao to DHB-Shibao will be filed to the relevant PRC authorities as soon as practicable after DHB-Shibao obtains its business licence.

It is agreed under the joint venture agreement that DHB-Shibao will be engaged in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps. Products to be manufactured by DHB-Shibao will bear the trademark of “DHB-Shibao” and may be sold within China and other Asian countries (excluding India and Iran). We intend to put our production of rack-and-pinion steering gears and power electronic steering gears principally under DHB-Shibao following its establishment, and Hangzhou Shibao will focus on the production of power recirculating ball steering gears.

DHB-CA is a subsidiary of DHB Industria e Comercio S.A., a company listed on the Sao Paulo Stock Exchange in Brazil. DHB-CA manufactures hydraulic pumps, hoses and manual and power rack-and-pinion steering gears. Its customer base includes General Motors, Volkswagen, Fiat, Ford and Renault of Argentina and Brazil, and Mercury Marine of the United States.

### **Reorganisation**

As part of the restructuring in preparation for the listing of the H Shares on GEM, on 5 March, 2004, a series of share transfers were effected pursuant to which Mr. Zhang, Zhang Shi Zhong, Zhang Mei Jun and Zhang Lan Jun sold their respective share of capital contributions of RMB28,304,000, RMB663,000, RMB663,000 and RMB500,000 in Zhejiang Shibao Steering to Zhejiang Shibao Holding. Zhang Bao Yi sold his share of contribution of RMB5,687,000 in Zhejiang Shibao Steering to each of Zhejiang Shibao Holding (in the amount of RMB3,537,980) and the other four Promoters, namely, Mr. Wu Wei Xu (吳偉旭), Mr. Wu Lang Yue (吳琅躍), Mr. Du Chun Mao (杜春茂) and Mr. Chen Wen Hong (陳文洪) (in four equal portions of RMB537,255 each totalling RMB2,149,020). The consideration paid under the said share transfers was equivalent to the amount of the capital contribution being transferred. Upon completion of the share transfers, Zhejiang Shibao Steering is owned as to 94.0% by Zhejiang Shibao Holding and 1.5% by each of Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong.

In preparation for the listing of the H Shares on GEM, Zhejiang Shibao Steering was converted into a joint stock limited company on 12 July, 2004 upon the approval by the Zhejiang Province Industry and Commerce Administrative Bureau (浙江省工商行政管理局). A total of 175,943,855 Domestic Shares at par value of RMB1.0 each were issued to the Promoters in proportion to their respective equity interests in Zhejiang Shibao Steering based on its net asset value as at 31 October, 2003, which amounted to approximately RMB175,943,855.

**BUSINESS DEVELOPMENT**

Established in June, 1993, our predecessor, Zhejiang Shibao Steering, was engaged in the manufacture and sale of manual and power recirculating ball steering gears applied in medium-sized to heavy-sized trucks, sedans and agricultural trucks in the PRC. At that time, we had one production plant at No. 1 Shuang Lin Road, Fotang Town, Yiwu City of Zhejiang Province. Prior to 2001, we served customers located mainly in southern China, including Zhejiang, Guangxi, Fujian, Hubei and Hunan provinces.

As part of our business expansion, we established Hangzhou Shibao in November, 1996. In 1998, Hangzhou Shibao was engaged in the assembly of products manufactured by Zhejiang Shibao Steering.

In 1998, we acquired additional production equipment for our Yiwu plant to expand its production capacity for manual and power recirculating ball steering gears. During the second half of 1998, Zhejiang Shibao Steering commenced mass production of rotary valves, a component of power recirculating ball steering gears.

In 1999 Siping Steering was established as we extended our sales network to serving customers in the northern part of China. Siping Steering commenced research and development of *Hong Qi* steering knuckles in 1999. In the same year, Siping Steering commenced the development and production of rotary valves used in power recirculating ball steering gears. Siping Steering commenced restructuring of its production facilities in September, 2001 for the manufacture of *Hong Qi* steering knuckles and power recirculating ball steering gears.

We commenced production of *Hong Qi* steering knuckles in 2001 and in 2002, we successfully expanded our customer base to include Dandong Huanghai Automobile, Kinglong Automobile and FAW Jiefang Qingdao. Apart from *Hong Qi* steering knuckles, we also supplied power recirculating ball steering gears, rotary valve and other steering gear components to the FAW Group.

In 2003, our subsidiary, Siping Steering was accredited as a “Jilin Province High Technology Enterprise” (“吉林省高新科技企業”).

In 2003, we expanded our sales network to cover 14 provinces and municipalities in China, with product range covering over 20 types of manual and power recirculating ball steering gears. Our customer base was also expanded to include Changchun FAW Light-Duty Truck and FAW Harbin. During the year, we commenced design and development of electronic power steering gears and rotary valves used in power rack-and-pinion steering gears.

As part of our Group’s production expansion plan, Hangzhou Shibao entered into a land use right transfer agreement with the Building and Land Resources Bureau of Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區國土資源與房產管理局) in July, 2003 for the

acquisition of the land use right to a piece of land in the Hangzhou Economic and Technological Development Zone with a site area of 49,078 sq.m.. Construction of the Hangzhou plant commenced in September, 2003 on this newly acquired land, and the land use right certificate was granted on 8 November, 2004.

### **ACTIVE BUSINESS PURSUITS**

The following is a statement of active business pursuits of our Group for each of the two years ended 31 December, 2005 and for the period from 1 January, 2006 up to the latest practicable date:

#### **For the year ended 31 December, 2004**

##### *Strategic development*

In order to that our Group may capture business opportunities from Chery Automobile and other customers in the central region of China, we partnered with Wuhu Qirui Technology Co., Ltd.(蕪湖奇瑞科技有限公司), Ms. An Qing Hui (安慶會) and Ms. Sun Ya Hong (孫亞洪), all independent third parties, on 18 December, 2004 to establish Wuhu Sterling and a new production facility at Wuhu Economic and Technological Development Zone in Anhui Province (where Chery Automobile is located).

Hangzhou New Shibao was established on 14 December, 2004. On 15 December, 2004, Hangzhou New Shibao entered into an agreement with the Building and Land Resources Bureau of the Hangzhou Economic and Technological Development Zone (杭州經濟技術開發區國土資源與房產管理局) for the acquisition of the land use right to a piece of land adjacent to the Hangzhou plant for a consideration of approximately RMB5.6 million. The land parcel has a site area of 31,267 sq.m., and the land use right certificate was granted on 26 January, 2005. Our Directors intend to reserve this piece of land for our future development in the longer term.

##### *Research and development*

During the year, our predecessor, Zhejiang Shibao Steering was accredited as a “Zhejiang Province High Technology Enterprise” (“浙江省高新科技企業”).

We continued our research and development of electronic power steering gears and production and sales, on a trial basis, of rotary valves used in power rack-and-pinion steering gears. We also commenced research and development of a new type of power recirculating ball steering gears for FAW Jiefang’s 2005 automobile series. We recruited six additional research and development staff in 2004.

## BUSINESS

### *Production*

Our average annual production capacity and overall utilisation in 2004 is shown below:

Product type	Average annual production capacity			Approximate overall utilisation
	Yiwu Plant	Siping Plant	Total	
	(sets/pieces)	(sets/pieces)	(sets/pieces)	
Manual recirculating ball steering gears	100,000	—	100,000	80%
Power recirculating ball steering gears	60,000	70,000	130,000	77%
Steering knuckles (being <i>Hong Qi</i> steering knuckles only)	—	60,000	60,000	53%
Rotary valves used in power recirculating ball steering gears	170,000	—	170,000	85%
used in power rack-and-pinion steering gears	—	15,000	15,000	87%

*Note:* The production capacity for rotary valves serves both for internal consumption for the production of power recirculating ball steering gears and power rack-and-pinion steering gears (as the case may be) as well as sales to third party customers as finished products.

### *Sales and marketing*

In 2004, we participated in a public tender for automobile ancillary components production contract. As part of our sales and marketing efforts, we introduced standardised sales process and focused on sales personnel training and exploring new markets for our products. In 2004, we procured five new customers including, among others, Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司), and expanded our sales network to cover 17 provinces and municipalities in China. We served 66 customers in 2004, and our five largest customers comprised mainly companies within the FAW Group. The following is a breakdown of gross revenue generated from some of our major customers during the year:

Customers	Gross revenue (RMB'000)
FAW Group	67,914
Dongfeng Motor Group	10,488
Hubei TriRing	9,724
Dangdong Huanghai Automobile	4,086
Kinglong Automobile	4,096
	96,308

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## BUSINESS

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### *Human resources*

As at 31 December, 2004, our Group had a total of 723 staff responsible for the following functions:

	Yiwu	Siping	Hangzhou	Total
Management	9	10	4	23
Finance and administration	11	15	5	31
Research and development	20	36	12	68
Production	201	308	30	539
Sales and marketing	7	11	2	20
Purchasing	4	6	1	11
Quality control	12	14	5	31
Total	<u>264</u>	<u>400</u>	<u>59</u>	<u>723</u>

### **For the year ended 31 December, 2005**

#### *Strategic development*

In February, 2005, Jilin Shibao reached an oral agreement with our subsidiary, Siping Steering, to transfer to the latter knowhow and production of the *M6* steering knuckles. Following the transfer, Siping Steering commenced production of the *M6* steering knuckles in March, 2005. The oral agreement was reduced into writing in May, 2005.

#### *Research and development*

Wuhu Sterling entered into a product development agreement with Chery Automobile in July, 2005 for the trial development of certain power rack-and-pinion steering gear components. Subsequently in September, 2005, Wuhu Sterling entered into a technology agreement with Chery Automobile for the joint development of different models of manual and power rack-and-pinion steering gears. Samples of manual and power rack-and-pinion steering gears were delivered to Chery Automobile in November, 2005.

We have developed certain components of electronic power steering gears during the year. On 7 July, 2005, we entered into a technology development agreement with Tongji University (同濟大學). Under the agreement, we would develop an electronic power steering column for a steering sensor provided by Tongji University, and the new electronic power steering gear would be installed in a prototype vehicle to be exhibited at the Shanghai International Industrial Expo (上海國際工業博覽會) to be held in November, 2005. Each party under the agreement would be responsible for their own research and development expenses, and the research results under the agreement would be jointly owned by both parties. The prototype vehicle was exhibited at the Shanghai International Industrial Expo held in November, 2005. As an initial attempt to develop electronic power steering gears for Chery Automobile, a technology collaboration agreement was entered into between Wuhu Sterling and the Automobile Engineering Research Institute of Chery

## BUSINESS

Automobile (奇瑞汽車有限公司汽車工程研究院) in respect of the development of electronic power steering gears in September, 2005. We commenced initial testings on our electronic power steering gear prototypes and installed a prototype of our electronic power steering gear in a locally made car for trial testing in 2005.

### *Production*

During the years, we completed construction of the Hangzhou plant. Certain machineries and equipment at our Yiwu plant and Siping plant were relocated to our Hangzhou plant. After the relocation, Yiwu plant focused on the production of manual recirculating ball steering gears while production of power rack-and-pinion steering gears and related components (including rotary valves) were consolidated at our Hangzhou plant. Furthermore, new machineries and equipment for the production of power recirculating ball steering gears and power rack-and-pinion gears were installed at our Hangzhou plant.

The table below shows details of our average production capacity and overall utilisation in 2005:

Product type	Average annual production capacity				Approximate overall utilisation
	Yiwu Plant <i>(sets/pieces)</i>	Siping Plant <i>(sets/pieces)</i>	Hangzhou Plant <i>(sets/pieces)</i>	Total <i>(sets/pieces)</i>	
Manual recirculating ball steering gears	100,000	—	—	100,000	60%
Power recirculating ball steering gears	—	70,000	80,000	150,000	67%
Rack-and-pinion steering gears	—	—	10,000	10,000	28%
Steering knuckles					
— <i>Hong Qi</i> steering knuckles	—	60,000	—	60,000	33%
— <i>M6</i> steering knuckles	—	90,000	—	90,000	98%
Rotary valves					
used in power recirculating ball steering gears	—	—	190,000	190,000	79%
used in power rack-and-pinion steering gears	—	—	30,000	30,000	80%

*Note:* The production capacity for rotary valves serves both for internal consumption for the production of power recirculating ball steering gears and power rack-and-pinion steering gears (as the case may be) as well as sales to third party customers as finished products.

### *Sales and marketing*

We commenced sales, on a trial basis, of our power rack-and-pinion steering gears in March, 2005. The number of sales and marketing staff increased to 38 by the end of 2005. During the year, we procured four new customers including FAW Huali, and served a total of 61 customers. FAW Group continued to purchase our products and remained to be one of our major customers.

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## BUSINESS

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During the year, gross revenue generated from some of our major customers were:

<b>Customers</b>	<b>Gross revenue</b> <i>(RMB'000)</i>
FAW Group	69,356
Dongfeng Motor Group	7,947
Nanjing Yuejin	7,070
Yunnan Lifan	6,264
Hubei TriRing	<u>6,522</u>
	<u>97,159</u>

We continued to participate in major automotive components exhibitions and advertised on major publications. We participated in the International Automotive Components and After Sales Services Exhibition held in Las Vegas in November, 2005.

### *Human resources*

As at 31 December, 2005, our Group employed a total of 793 staff with the following responsibilities:

	<b>Yiwu</b>	<b>Siping</b>	<b>Hangzhou</b>	<b>Total</b>
Management	5	12	14	31
Financial and administration	8	20	19	47
Research and development	10	36	22	68
Production	65	316	182	563
Sales and marketing	5	18	15	38
Purchasing	2	6	4	12
Quality control	<u>5</u>	<u>15</u>	<u>14</u>	<u>34</u>
Total	<u>100</u>	<u>423</u>	<u>270</u>	<u>793</u>

### **Period from 1 January, 2006 to the latest practicable date**

#### *Strategic development*

On 16 February, 2006, Hangzhou Shibao entered into a sino-foreign equity joint venture agreement with DHB-CA for the establishment of DHB-Shibao to engage in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps. The certificate of approval for the establishment of DHB-Shibao was granted on 31 March, 2006. (Please refer to the sub-paragraph headed “DHB-Shibao” under the paragraph headed “Corporate development” in this section for further details.)

## BUSINESS

### *Research and development*

During the period under review, we continued (under the technology agreement entered into with Chery Automobile in September, 2005) on the development and testing of rack-and-pinion steering gears and completed testing reports on two models of rack-and-pinion steering gears for Chery Automobile.

Samples of our electronic power steering gears proposed to be used in the “Xiali” series small passenger cars have duly passed testings, including the 50,000 kilometers road test, administered by the Product Development Centre of Tianjin FAW Xiali for reliability and functionality.

### *Production*

During the period under review, we continued to expand our production capacity through acquisition of machineries, equipment and an assembly line. The table below shows details of our average production capacity and overall utilisation for the two months ended 28 February, 2006:

Product type	Average production capacity for the two months ended 28 February, 2006				Approximate overall utilisation
	Yiwu Plant <i>(sets/pieces)</i>	Siping Plant <i>(sets/pieces)</i>	Hangzhou Plant <i>(sets/pieces)</i>	Total <i>(sets/pieces)</i>	
Manual recirculating ball steering gears	18,000	—	—	18,000	54%
Power recirculating ball steering gears	—	11,000	9,000	20,000	78%
Rack-and-pinion steering gears	—	—	10,000	10,000	5%
Electronic power steering gears	—	—	1,000	1,000	—%
Steering knuckles					
— <i>Hong Qi</i> steering knuckles	—	10,000	—	10,000	19%
— <i>M6</i> steering knuckles	—	20,000	—	20,000	100%
Rotary valves					
used in power recirculating ball steering gears	—	—	38,000	38,000	53%
used in power rack-and-pinion steering gears	—	—	5,000	5,000	80%

*Note:* The production capacity for rotary valves serves both for internal consumption for the production of power recirculating ball steering gears and power rack-and-pinion steering gears (as the case may be) as well as sales to third party customers as finished products.

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## BUSINESS

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### *Sales and marketing*

During the period from 1 January, 2006 up to the latest practicable date, we successfully procured two new customers including, among others, Yuejin Vehicle Company Limited (躍進汽車股份有限公司) and Fujian New Forta Auto Industry Company Limited (福建新福達汽車工業有限公司). Additionally, we continued to engage in advertising activities and participated in an automotive components trade exhibition.

During the two months ended 28 February, 2006, gross revenue generated from some of our major customers were:

<b>Customers</b>	<b>Gross revenue</b> <i>(RMB'000)</i>
FAW Group	9,096
Dongfeng Motor Group	822
Nanjing Yuejing	1,543
Yunnan Lifan	1,421
Hubei TriRing	976
	<u>13,858</u>

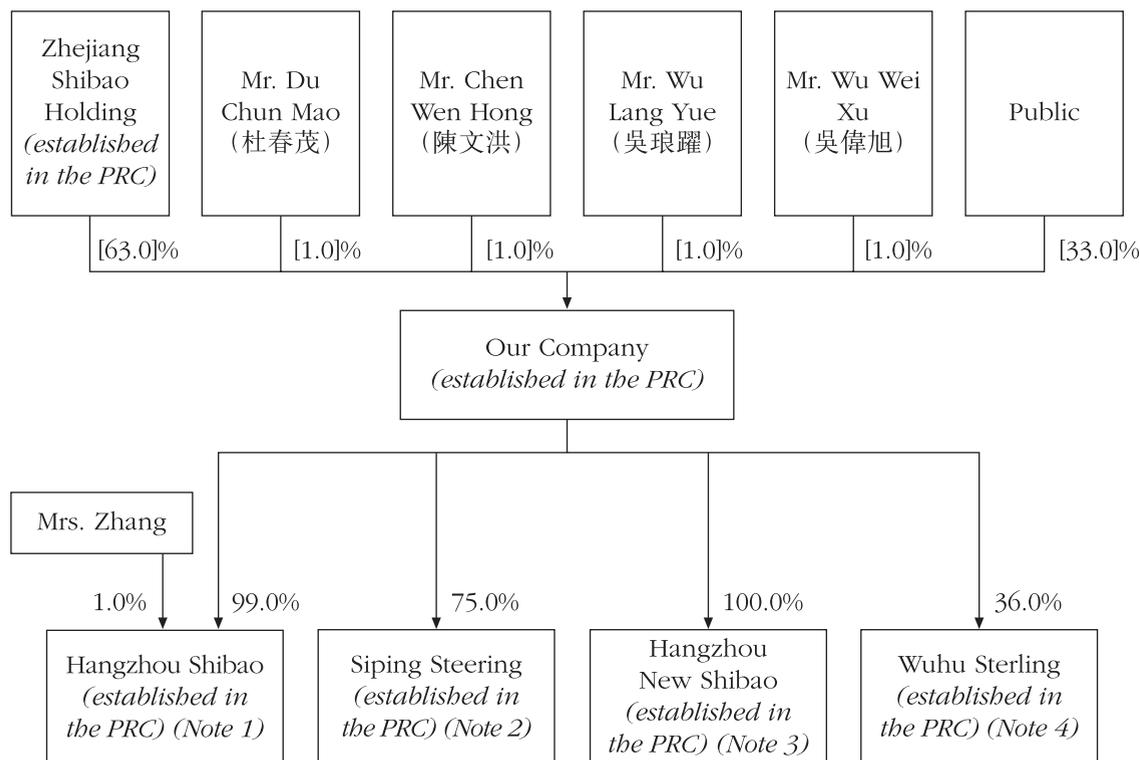
### *Human resources*

As at the latest practicable date, our Group employed a total of 854 staff with the following responsibilities:

	<b>Yiwu</b>	<b>Siping</b>	<b>Hangzhou</b>	<b>Total</b>
Management	5	12	12	29
Financial and administration	7	20	19	46
Research and development	8	36	22	66
Production	76	349	199	624
Sales and marketing	5	22	15	42
Purchasing	2	7	4	13
Quality control	5	15	14	34
Total	<u>108</u>	<u>461</u>	<u>285</u>	<u>854</u>

**GROUP STRUCTURE**

The diagram below shows our group structure immediately following completion of the Placing:



Notes:

1. Hangzhou Shibao is principally engaged in the manufacture and sale of power steering gears and related components. The minority shareholder of Hangzhou Shibao is Mrs. Zhang.

On 16 February, 2006, Hangzhou Shibao entered into a sino-foreign equity joint venture agreement with DHB-CA for the establishment of DHB-Shibao. According to the joint venture agreement, DHB-Shibao will upon establishment be owned as to 75% by Hangzhou Shibao and 25% by DHB-CA. DHB-CA is also granted an option, exercisable within 30 months from the date of establishment of DHB-Shibao, to increase its equity interest in DHB-Shibao up to 40%. The joint venture agreement would take effect on the date of approval by the relevant PRC government authorities of the joint venture agreement and the associated articles of association of DHB-Shibao. On 31 March, 2006, a certificate of approval was granted for the establishment of DHB-Shibao.

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## BUSINESS

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2. Siping Steering is principally engaged in the manufacture and sale of power recirculating ball steering gears, steering knuckles and related components. The minority shareholder of Siping Steering is Promised Land Ventures LLC, a U.S. based venture capital company and an independent third party specialised in investing in China and Europe and wholly owned by Mr. Eric Aubry, a French national.
  
3. The approved business scope of Hangzhou New Shibao covers the sale of steering and other automotive components. As at the latest practicable date, Hangzhou New Shibao had not commenced any business activities other than holding a piece of land situated in the Hangzhou Economic and Technological Development Zone. (Please refer to the paragraph headed “Corporate development — Hangzhou New Shibao” in this section of the prospectus for further details).
  
4. The approved business scope of Wuhu Sterling covers the development, production and sale of automotive parts and related products and provision of after-sales services. The remaining registered capital of Wuhu Sterling is owned as to 34% by Wuhu Qirui Technology Co., Ltd. (蕪湖奇瑞科技有限公司), 15% by Ms. An Qing Hui (安慶會) and 15% by Ms. Sun Ya Hong (孫亞洪), all independent third parties. Please refer to the paragraph headed “Corporate Development — Wuhu Sterling” in this section for further details.

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## BUSINESS

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### SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of our Company immediately following completion of the Placing:

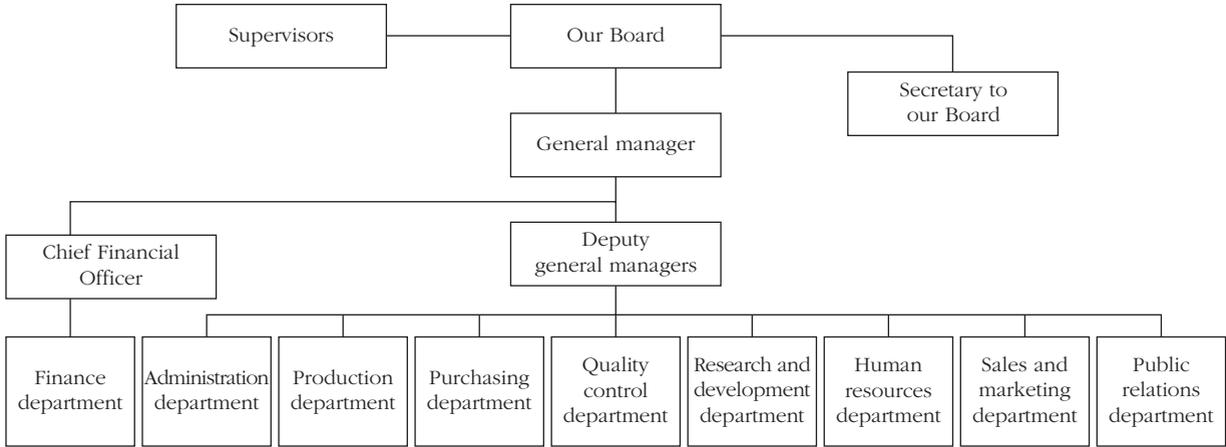
Shareholder	Number of Shares	Type of Shares	Approximate % of shareholding immediately after completion of the Placing (%)
Zhejign Shibao Holding ( <i>Note 1</i> )	165,387,223	Domestic	63.0
— Mr. Zhang ( <i>Note 2</i> )			
— Zhang Bao Yi ( <i>Note 2</i> )			
— Mr. Tang ( <i>Note 2</i> )			
— Zhang Lan Jun ( <i>Note 2</i> )			
— Zhang Shi Zhong ( <i>Note 2</i> )			
Du Chun Mao (杜春茂) ( <i>Note 3</i> )	2,639,158	Domestic	1.0
Chen Wen Hong (陳文洪) ( <i>Note 3</i> )	2,639,158	Domestic	1.0
Wu Lang Yue (吳琅躍) ( <i>Note 3</i> )	2,639,158	Domestic	1.0
Wu Wei Xu (吳偉旭) ( <i>Note 3</i> )	2,639,158	Domestic	1.0
Public Shareholders	86,714,000	H Shares	33.0

*Notes:*

1. Zhejiang Shibao Holding is an investment holding company established in the PRC on 28 May, 2003 and is owned as to 40% by Mr. Zhang, 20% by Zhang Bao Yi, 20% by Mr. Tang, 15% by Zhang Lan Jun and 5% by Zhang Shi Zhong. Zhejiang Shibao Holding is a Promoter. Zhejiang Shibao Holding, Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong are collectively the controlling shareholder of our Company within the meaning of the GEM Listing Rules. (Please refer to the sub-paragraph headed “Excluded businesses — Zhejiang Shibao Holding” in the paragraph headed “Competition” under the section headed “Business” in this prospectus for further details.)
2. Each of Mr. Zhang, Zhang Bao Yi, Mr. Tang and Zhang Lan Jun is an executive Director and an Initial Management Shareholder. Zhang Shi Zhong is a non-executive Director and an Initial Management Shareholder. (Please refer to the section headed “Directors, Supervisors, senior management and employees” in this prospectus for further details.)
3. Mr. Du Chun Mao is a member of our senior management. (Please refer to the section headed “Directors, Supervisors, senior management and employees” in this prospectus for further details of Mr. Du.) Mr. Chen Wen Hong has been an employee of our Group since 1996 and is currently the office manager of our Company. Mr. Wu Lang Yue is the production manager of Hangzhou Shibao. Mr. Wu Wei Xu is the mechanical equipment supervisor of Hangzhou Shibao. Each of Mr. Du Chun Mao, Mr. Chen Wen Hong, Mr. Wu Lang Yue and Mr. Wu Wei Xu is a Promoter and an Initial Management Shareholder.

## ORGANISATION STRUCTURE

The diagram below shows our organisation structure:



## PRODUCTS

Our existing products can be broadly classified into four main categories, namely (i) manual and power recirculating ball steering gears; (ii) power rack-and-pinion steering gears; (iii) rotary valves; and (iv) steering knuckles.

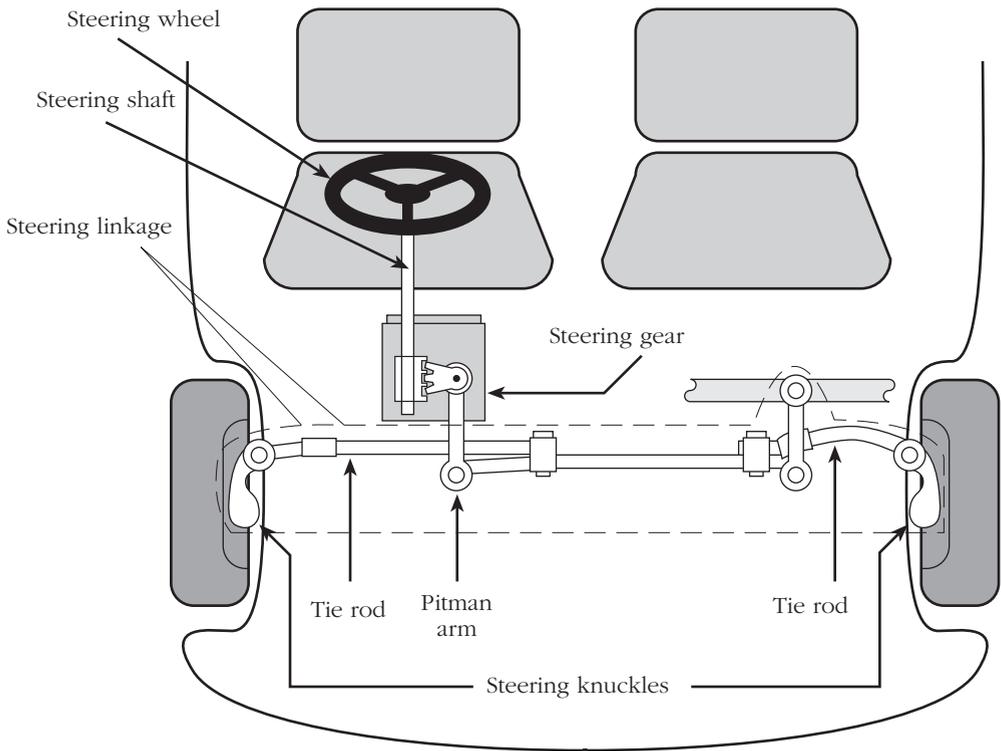
Our products are offered in over 80 models. During the track record period, about 54.4% of our gross sales were generated from the sale of power steering gears that, in the Directors' view, have become increasingly popular as they give more comfort in driving than traditional manual steering gears. Our products are applied to various-sized automobiles ranging from light-sized sedans to heavy weight trucks.

Going forward, we plan to focus on the development of rack-and-pinion steering gears and electronic power steering gears, one of the latest types of power steering that is becoming popular due to its compact size and efficient energy consumption compared to traditional power steering gears.

## Introduction to steering systems

The steering system enables the driver to control the direction of vehicle travel. The change of vehicle direction is done by a series of *linkages* from the *steering wheel* to the wheels. A *steering system* may either be manual or power. *Manual steering* is when the only force on the steering system is exerted by the driver. *Power steering* employs a hydraulic pump or electric motor to aid the driver's steering effort. The operation is essentially the same for both manual and power steering. When the driver rotates the *steering wheel*, the circular movement is carried to the steering gear (diagram 1).

Diagram 1: Simplified view of a front wheel drive car



The steering gear changes the rotary motion of the *steering wheel* into linear motion. The linear motion is transferred to the *steering linkage* or *tie rods* attached to the *steering knuckles*. The *steering knuckles* then pivot inward or outward to move the wheels left or right, altering the direction of the traveling vehicle.

There are two types of steering gears which are widely used in automobiles: the recirculating ball steering gear and the rack-and-pinion steering gear (see diagrams 2 and 3 below). Both steering gears have manual and power versions.

Diagram 2: Recirculating ball steering gear system

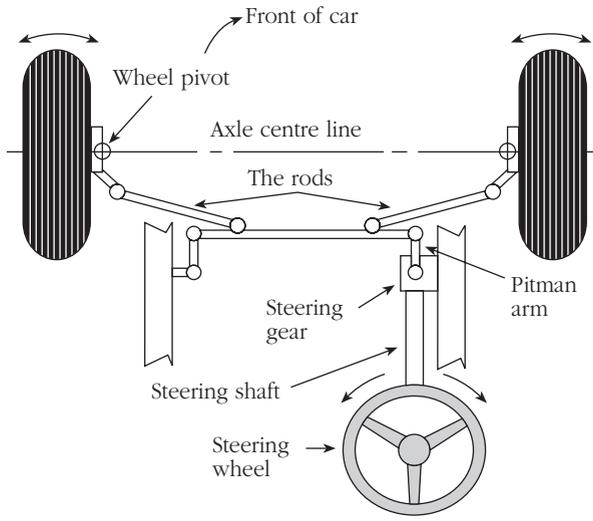
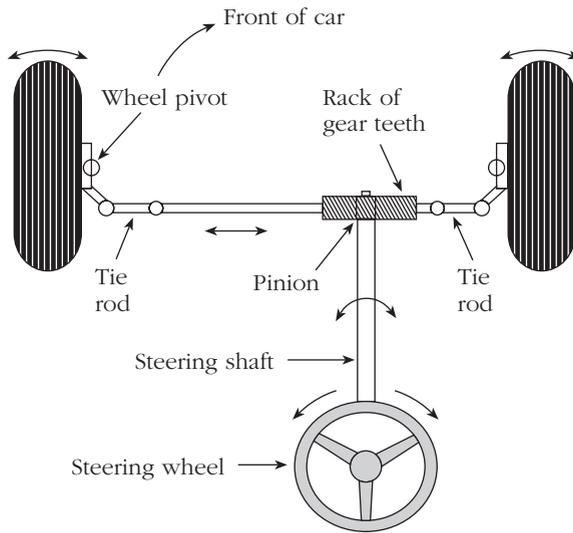


Diagram 3: Rack-and-pinion steering gear system



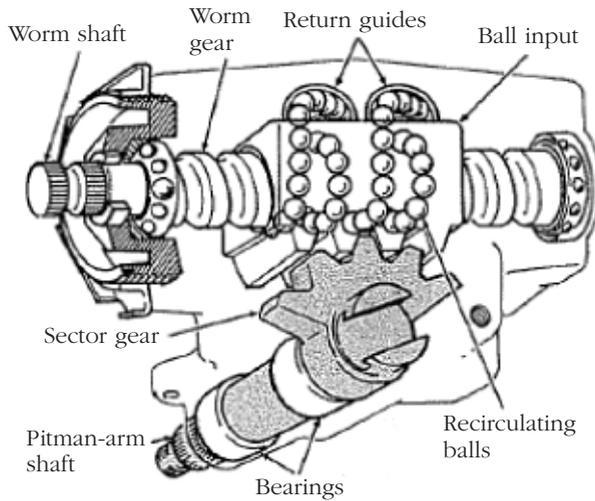
**Existing products of our Group**

**(i) Recirculating ball steering gear (manual and power)**

**(a) Manual recirculating ball steering gear**

The recirculating ball steering gear has a *sector gear* at the end of the *pitman arm shaft*. The teeth on the *sector gear* mesh with the teeth of a *ball nut*. The *ball nut* encapsulates the *worm gear* which connects to the end of the *steering shaft*. Ball bearings roll in grooves inside the ball nut and along the *worm gear*. Diagram 4 shows a manual recirculating ball steering gear.

*Diagram 4: See-through view of a manual recirculating ball steering gear*



As the steering shaft rotates, the *worm gear* forces the balls to roll in the grooves. As the balls roll, they force the ball nut to move up or down along the worm. The movement of the ball nut turns the *pitman arm shaft*, which ultimately swings the *pitman arm*, forcing the *steering linkage* to pivot the wheels for steering (as shown in diagram 1 before). The balls are the only contact between the ball nut and the worm gear. This reduces friction. The balls are called recirculating balls because they recirculate from one end of the *ball nut* to the other end during steering. As the balls reach the end of the groove, they enter the *return guides* where the balls travel back to the other end of the *ball nut*. We currently produce 12 models of manual recirculating ball steering gears, which are used in agricultural trucks and light trucks. Diagram 5 below is a picture of a manual recirculating ball steering gear produced by our Group.

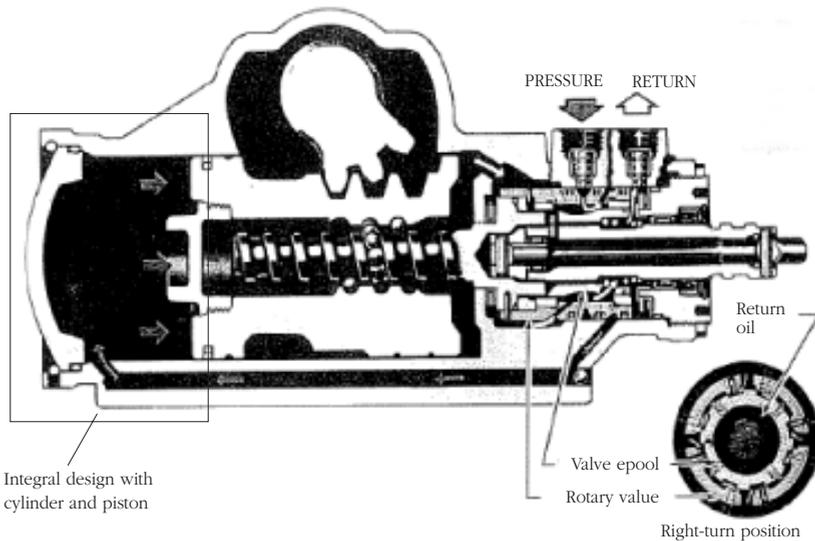
*Diagram 5: Manual recirculating ball steering gear produced by our Group*



*(b) Power recirculating ball steering gear*

A vehicle with power steering has an energy source that aids the driver in steering. Most vehicle power steering systems are hydraulic. It is basically a manual steering system with a power booster unit added. When the driver turns the steering wheel, a pump exerts high pressure to provide most of the steering effort. As illustrated in diagram 6 below, in a power recirculating ball steering gear, the booster unit is a *cylinder* and a *piston* built within the steering gear.

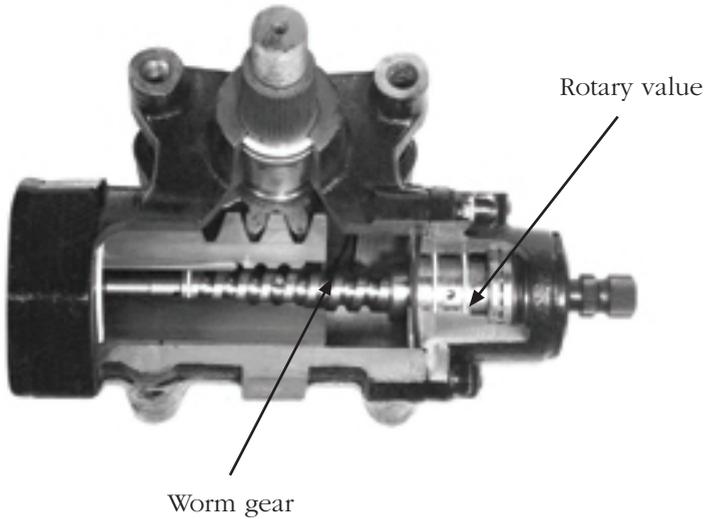
*Diagram 6: Power recirculating ball steering gear*



Generally, all hydraulic power steering systems work in the same way. The hydraulic pump, driven by a belt from the engine, pressurises the hydraulic fluid. When the *steering wheel* turns, it opens the rotary valve, allowing pressurised fluid to enter one or the other end of the *piston*, depending on the direction of the *steering wheel* turned. The pressurised fluid then exerts force on the *piston* to move, providing steering assistance.

We produce 72 models of power recirculating ball steering gears which are applied to light vans, heavy-sized trucks, and medium to large-sized sedans. Diagram 7 below shows a cutaway picture of a power recirculating ball steering gear produced by our Group.

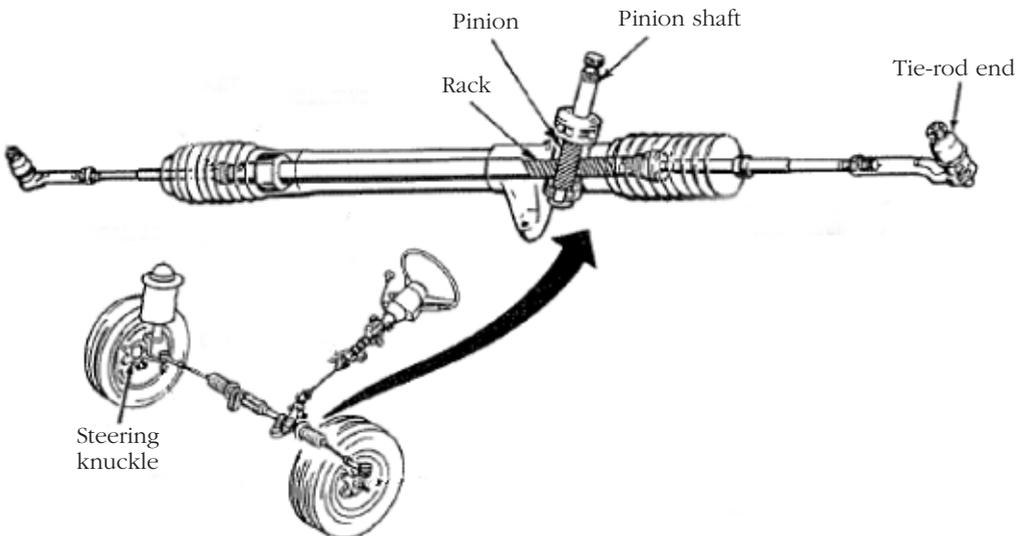
*Diagram 7: Power recirculating ball steering gear produced by our Group*



***(ii) Rack-and-pinion steering gear***

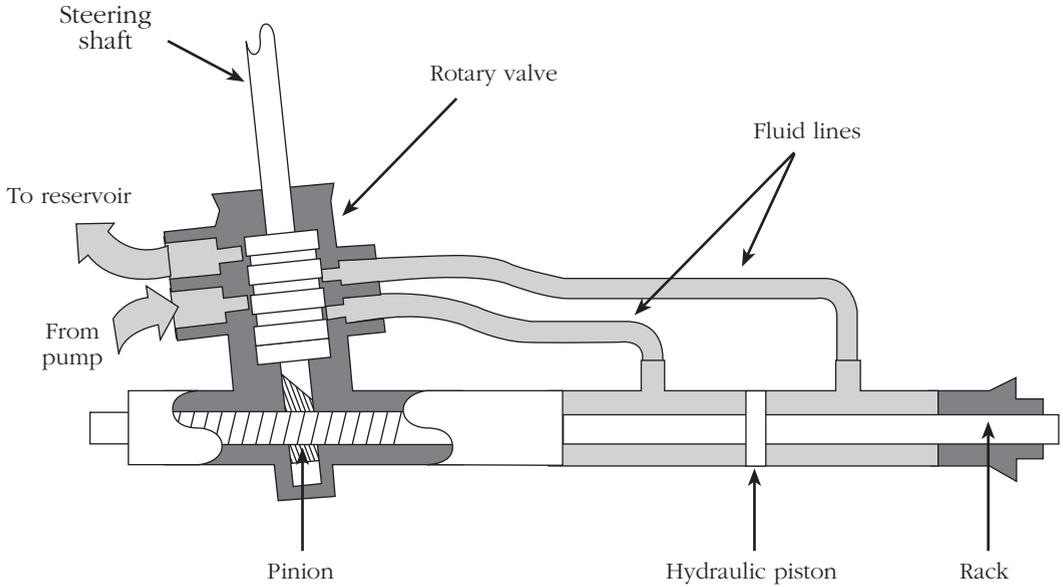
A rack-and-pinion steering gear, as shown in diagram 8 below, has a *pinion gear* on the end of the *steering shaft* that meshes with a flat rack of gear teeth. As the driver turns the steering wheel, the *pinion gear* shifts the *rack* to the left or right. This then moves the *tie rods* and steering knuckles, consequently the wheels.

*Diagram 8: Rack-and-pinion steering gear*



Similar to the power recirculating ball steering gear, the power rack-and-pinion steering gear (as shown in diagram 9 below) has a rotary valve to control the pressurised fluid. When the *steering wheel* turns, it opens the rotary valve which sends pressurised fluid to one or the other side of the *piston* to provide power assistance. Rack and pinion steering gears offer some advantages over recirculating ball steering gears. They provide fast, sensitive steering, and they do not require extensive linkage systems. Its physical design and layout make them especially suitable for use on front wheel drive cars. We commenced, on a trial basis, sales of our power rack-and-pinion steering gears in March, 2005.

*Diagram 9: Power rack-and-pinion steering gear*



***(iii) Rotary valve***

When the *steering wheel* is turned, the rotary valve (see diagrams 10 and 11 below) directs the hydraulic pressure to one or the other end of the *piston*. The *piston* then applies to the steering system a force that aids in turning the front wheels. We produce 16 models of rotary valves.

*Diagram 10: Rotary valve of a power recirculating ball steering gear*



*Diagram 11: Rotary valve of a power rack-and-pinion steering gear*



***(iv) Steering knuckle***

When the driver turns the *steering wheel*, the steering gear moves the *steering linkage* (see diagram 1 before). The *tie rods* then move the steering knuckle arms, which cause the steering knuckles to swing in and out for steering. This changes the direction of the vehicle.

Below are steering knuckles which we produce for *Hong Qi* sedans and *Mazda M6* sedans.

*Diagram 12: Hong Qi steering knuckle*



*Diagram 13: M6 steering knuckle*



## **New product under development**

*Diagram 14: Electronic power steering gear*



For many years power steering technologies were focused on hydraulic systems. However, demand is now shifting towards electronic power steering mainly due to logistical and fuel consumption benefits. The electronic power steering gear does not require a hydraulic pump, hoses, a hydraulic piston on the rack, or a sealed rack housing. It completely eliminates hydraulic fluid and the accompanying components of a hydraulic power steering gear.

At present, we are at an advanced stage of development and prototype testing of our electronic power steering gears. It is anticipated that we will commence trial production of electronic power steering gears the earliest towards the end of 2006.

## **OPERATION PROCESS**

### **Production planning**

Our production department prepares monthly production plans for components and products based on sales contracts entered into with major customers and our inventory level. We adjust our production process to tailor to our customers' product specifications.

Our customers may request our Group to commence development of their products based on their respective specifications and technical requirements (which may be tailored to specific models of the customers' automobiles), followed by production of prototypes. The prototypes would then be tested by the customers (or such testing bodies appointed by the relevant customers) on a variety of safety and performance standards. Mass production orders would be placed to our Group after the relevant products have passed all such safety and performance tests.

Our production cycle for a particular product generally takes one month. New products that adopt different technologies and, or involve significant variations in overall technical designs (such as our power rack-and-pinion steering gears and *M6* steering knuckles) may need to undergo planning, design and prototype testing before commencement of production.

We have not subcontracted any part of our production process to third party subcontractors.

### **Sourcing of raw materials**

We source our raw materials, including steel alloys, iron casts, steel pipes, gaskets and bearings, from a number of suppliers in the PRC, with some of whom our Group has maintained over five years of trading relationships. While we have not entered into long term contracts with our suppliers, our Directors believe that given our established relationships with the suppliers and the general level of supply of iron and steel in China, there is a minimal risk that our Group would be unable to source the principal raw materials required for our production.

We monitor regularly our inventory of raw materials taking into account existing orders from customers as well as forthcoming production plans. In particular, our purchasing department works closely with our production and sales and marketing departments to ensure that we have an adequate supply of raw materials required for production while not over-stocking. We maintain an inventory of raw materials which are most often used in production so as to enable us to fill large orders within a short lead time. Other less frequently used raw materials such as steel pipes and bearings are only purchased after the customer's order is placed and order quantities have been determined. Accordingly, the Directors believe that our Group faces a minimal risk of our stock becoming obsolete.

We consider that stringent control over the quality of raw materials used and reliability of suppliers are essential to maintaining an efficient production process. To this end, we have laid down detailed raw material selection procedures. As an example, our quality control staff conduct random inspections and quality testings before the raw materials are used. It is our policy that if any of the raw materials is found to be defective, they will be returned to the supplier. If the quality of raw materials from a particular supplier are consistently found to fall short of our specifications, we may replace such supplier.

## BUSINESS

For each of the two years ended 31 December, 2005, our purchases from our top five suppliers accounted for some 36.2% and 27.3% respectively of our total cost of sales. During this period, our largest supplier accounted for about 17.0% and 16.1% respectively of our total cost of sales.

None of our Directors, Supervisors, Shareholders or their respective associates holding more than 5% of the issued share capital of our Company has any interest in any of our five largest suppliers during the track record period.

### Production facilities

Our products are manufactured in three production facilities at Yiwu, Siping and Hangzhou with total floor area of about 52,920.62 sq.m.. The table below sets out details of our average production capacity classified by major product types and their respective overall utilisation during the track record period:

*For the year ended 31 December, 2004:*

Product types	Average production capacity <i>(sets/pieces)</i>	Approximate utilisation
Manual recirculating ball steering gears	100,000	80%
Power recirculating ball steering gears	130,000	77%
Steering knuckles (being <i>Hong Qi</i> steering knuckles only)	60,000	53%
Rotary valves ( <i>Note</i> )		
used in power recirculating ball steering gears	170,000	85%
used in power rack-and-pinion steering gears	15,000	87%

*For the year ended 31 December, 2005:*

Product types	Average production capacity <i>(sets/pieces)</i>	Approximate utilisation
Manual recirculating ball steering gears	100,000	60%
Power recirculating ball steering gears	150,000	67%
Rack-and-pinion steering gears	10,000	15%
Steering knuckles		
— <i>Hong Qi</i> steering knuckles	60,000	33%
— <i>M6</i> steering knuckles	90,000	98%
Rotary valves ( <i>Note</i> )		
used in power recirculating ball steering gears	190,000	79%
used in power rack-and-pinion steering gears	30,000	80%

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## BUSINESS

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By 31 December 2008:

It is estimated that our production expansion plan will be completed by the end of 2008, and our production capacity will be expanded further as detailed below:

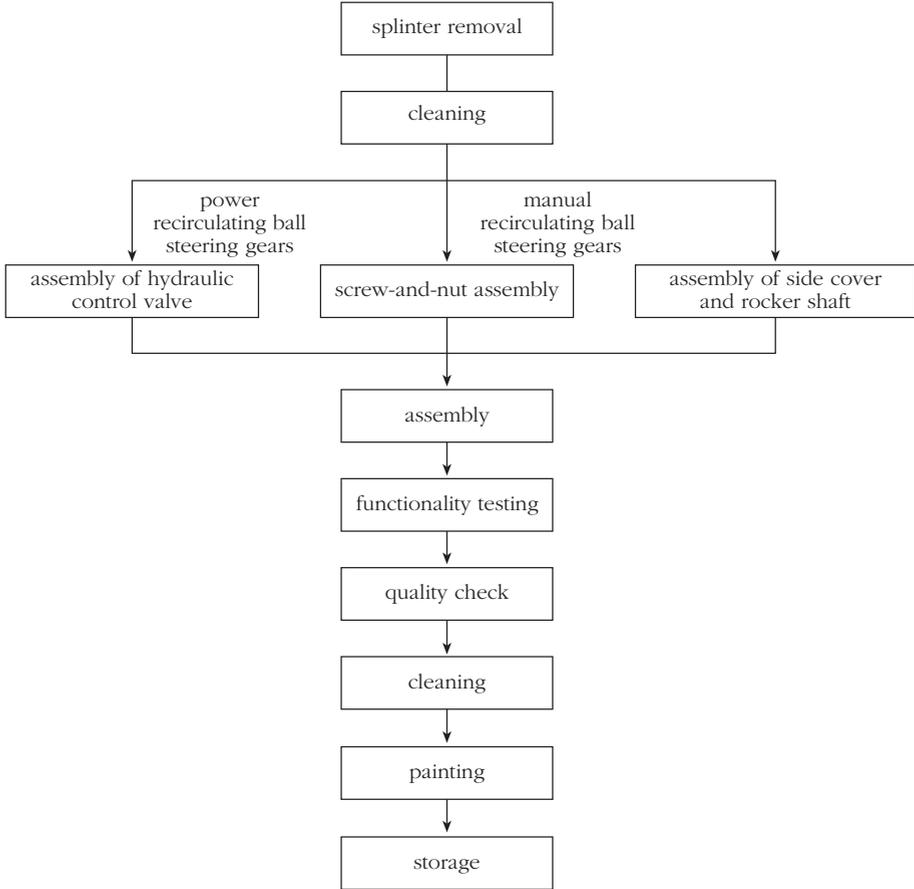
<b>Product types</b>	<b>Average production capacity</b> <i>(sets/pieces)</i>	<b>Approximate utilisation</b>
Manual recirculating ball steering gears	110,000	70%
Power recirculating ball steering gears	200,000	70%
Rack-and-pinion steering gears	200,000	80%
Electronic power steering gears	270,000	70%
Steering knuckles		
— <i>Hong Qi</i> steering knuckles	60,000	30%
— <i>M6</i> steering knuckles	150,000	90%
Rotary valves ( <i>Note</i> )		
used in power recirculating ball steering gears	300,000	80%
used in power rack-and-pinion steering gears	300,000	70%

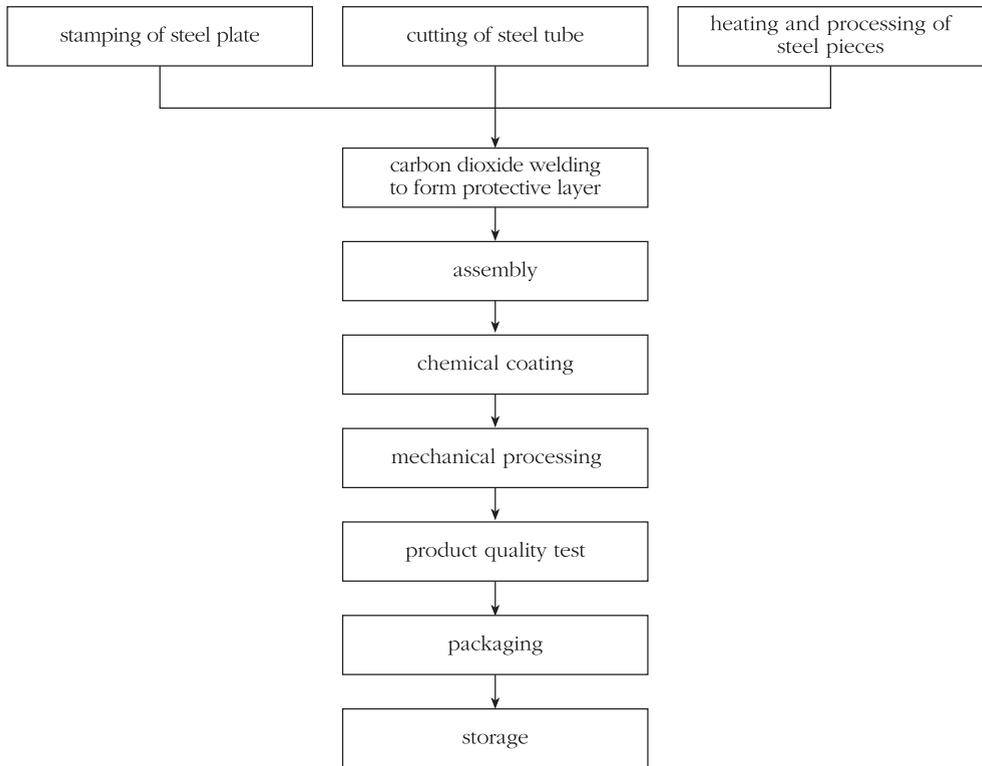
*Note:* The production capacity for rotary valves serves both for internal consumption for the production of power recirculating ball steering gears and power rack-and-pinion steering gears (as the case may be) as well as sales to third party customers as finished products.

**PRODUCTION PROCESS**

The charts below show our key production process for recirculating ball steering gears and steering knuckles.

**Recirculating ball steering gears**



**Steering knuckles (*Hong Qi*)****QUALITY CONTROL**

We implement standardised monitoring and testing procedures throughout our production process. Apart from inspection of raw materials, we perform additional product functionality testings on finished products using appropriate testing equipment supervised by our experienced staff.

The high quality standard of our products can be demonstrated by the accreditation received in the past years. Siping Steering and Zhejiang Shibao Steering were accredited ISO9001:2000 Certificate in 2002. Siping Steering has also been awarded by TÜV Rhienland Group the TÜV certificate in 2002 for its quality system compliance with VDA6, Part 1, in respect of its steering knuckles production.

During the track record period, our Group had not been the subject of any material claim from customers in relation to the quality of our products.

**PRODUCT TECHNOLOGY AND DEVELOPMENT**

We have had a long history of successfully developing steering gears and related components. Our strong technological capability can be demonstrated by the fact that we have been the exclusive supplier of *Hong Qi* steering knuckles since 2001. Over the years, we have acquired valuable technical expertise and knowhow in the design and manufacture of steering gears and auto assembly.

We have established a new research and development centre at our Hangzhou plant which have been put into operation since October, 2005. This new research and development centre is equipped with, among other things, various equipment for durability, noise and functionality testing and, or measurement. As at the latest practicable date, we have 22 engineers and technicians working at this research and development centre.

Our total expenditure for research and development activities amounted to approximately RMB543,000 and RMB1,550,000 for each of the two years ended 31 December, 2005 respectively.

**SALES AND MARKETING**

We put significant emphasis on customer satisfaction and constantly strive to better understand and serve the needs of our customers. We established a branch company under Zhejiang Shibao Steering in July, 1997 as a sales platform to facilitate sales and marketing of our products. Our sales persons maintain regular dialogue with our key customers in order to keep abreast of their needs. Our sales and marketing teams cover a total of 17 provinces and municipalities in the northern and southern regions of China including Jilin, Liaoning, Tianjin, Beijing, Heilongjiang, Shandong, Shanxi, Zhejiang, Jiangsu, Shanghai, Guangdong, Guangxi, Sichuan, Fujian, Yunnan, Hunan and Hubei. We market all our products through our own direct sales force, participate in automobile and automotive parts and components exhibitions, and advertise in a variety of trade related publications.

**Customers**

We have a loyal customer base and have established business relationships with some of our major customers for over four years. These customers include companies within the FAW Group and the Dongfeng Motor Group, which are large car manufacturers in China.

During the two years ended 31 December, 2005, the five largest customers of our Group accounted for approximately 49.6% and 47.5% respectively of our total sales. During the same period, the largest customer of our Group accounted for approximately 16.3% and 30.0% respectively of our total sales.

During the two years ended 31 December, 2005, none of our Directors, Supervisors, Shareholders or their respective associates owned more than 5% of the issued share capital of our Company, or held any interest in any of the five largest customers of our Group.

**Pricing**

We do not have a fixed price list for our products. Rather, we price our products taking into consideration the prevailing market price of similar products, raw materials costs, size of orders, our relationships with the relevant customers and our marketing strategies towards these customers. Our sales managers are responsible for negotiating pricing and other terms with the customers.

**Credit policy**

It is our policy to evaluate the credit and payment history of our customers and our trading relationship with them. In general, we grant credit periods of 90-180 days to customers which have established relationships with our Group. During the track record period, all sales conducted by our Group were denominated in Renminbi and were settled by bank bills, bank remittances and, or cash.

Our senior management reviews the recoverability of our accounts receivables on a regular basis with reference to the ageing of outstanding receivables. In the event that the collection of trade receivables is in doubt, our senior management will estimate the likelihood of recovering such outstanding receivables after expiry of the applicable credit terms on a case-by-case basis, and based on such estimates specific provision(s) for bad and doubtful debts will be made accordingly.

**INTELLECTUAL PROPERTY RIGHTS**

We rely on confidentiality undertakings provided by some of our research and development personnel as well as an external third party engaged to assist in our research and development activities to protect our intellectual property on technical know-how. We have registered the trademark of our products in China. (Please refer to the sub-paragraph headed “Intellectual property rights” in the paragraph headed “Business and further information” in appendix V to this prospectus for further details.) We do not intend to apply for registration of the intellectual property in respect of our technical know-how relating to the manufacture of our products due to cost considerations that are expected to outweigh the benefits that may arise from the protection. In addition, since our intellectual properties relate principally to mechanical know-how, disclosure of such know-how during the registration process may have a significant negative impact on our business. Our Directors believe that registration of the trademark of our products provides protection to our intellectual property.

**INSURANCE**

Our Group has taken out automobile insurance policies for our vehicles in accordance with the laws of the PRC.

We currently do not maintain any product liability insurance or any insurance coverage against property, business interruption and casualty. As confirmed by our PRC legal advisers,

there is no mandatory requirement under the PRC law for companies to maintain any product liability insurance or any insurance against property, business interruption or casualty in the PRC. Moreover, according to the Directors' understanding, product liability insurance is currently not commonly available from insurance companies in the PRC.

We had not been subject to any product liability claims up to the latest practicable date, nor have we experienced any significant business interruptions due to accidents or natural disasters.

## **COMPETITION**

We compete with over 2,000 local automotive parts and components manufacturers in the PRC, as well as foreign-owned car components and parts manufacturers. Although the total number of our competitors decreased in recent years, we face significant competition within each of our major product types, including competitors with sizeable scale of production, operation and sales channels and established brandname products. The intense competition may lead to pricing pressure and result in a profit margin squeeze.

We compete for new businesses when new car models are being developed or existing car models undergo a design enhancement. This is because car manufacturers would need to plan at the initial stage of the design process the specific type of steering gears or related components that would be used in the newly design car model. As for existing customers, our Directors believe that our Group enjoys a competitive advantage because of our knowledge of their technical requirements accumulated over the years.

Notwithstanding the anticipated intense competition in the automobile industry in China, we believe the China market presents, in the long run, a good business opportunity as the automobile industry has become the fourth largest pillar industry of the national economy.

## **Excluded businesses**

### *Zhejiang Shibao Holding*

Zhejiang Shibao Holding was established in 28 May, 2003 with a registered capital of RMB50,000,000, which was contributed as to RMB20,000,000 by Mr. Zhang, RMB10,000,000 by each of Zhang Bo Yi and Mr. Tang, RMB7,500,000 by Zhang Lan Jun and the remaining RMB2,500,000 by Zhang Shi Zhong, representing 40%, 20%, 20%, 15% and 5% of its registered capital respectively. Zhang Shi Zhong is the chairman of Zhejiang Shibao Holding, while Mr. Zhang is a director of Zhejiang Shibao Holding. Mr. Zhu Jie Rong, an executive Director, is the supervisor of Zhejiang Shibao Holding. Other directors of Zhejiang Shibao Holding include Mr. Bao Cheng Hua (鮑成華), Mr. Ma Fu Sheng (馬福生) and Mr. Yang Di Shan (楊迪山), who are independent third parties. The approved business scope of Zhejiang Shibao Holding is investment holding. Zhejiang Shibao Holding has not been engaged in any operating activity since its establishment other than its investments in our Company, Jilin Shibao, Changchun Shili Automotive and Jilin Shibao Automation. The auditors of Zhejiang Shibao Holding are Zhejiang New Millenium CPA Limited (浙江新世紀會計師事務所), and its principal banker is the Agricultural Bank of China, Yiwu Sub-branch (中國農業銀行義烏市支行). The shareholders of Zhejiang Shibao

Holding confirmed that they have no present plan for Zhejiang Shibao Holding to engage in any operating activity other than holding of its current investments. Furthermore, Zhejiang Shibao Holding confirmed that its controlling shareholder has no present plan to inject any of Jilin Shibao, Changchun Shili Automotive and Jilin Shibao Automation and, or their respective businesses into our Group.

### *Jilin Shibao*

Jilin Shibao was established on 16 December, 2002 with a registered capital of RMB20,000,000 which was owned as to RMB10,000,000 (50%) by Siping Steering, RMB5,000,000 (25%) by Zhang Mei Jun and RMB5,000,000 (25%) by Mr. Tang. Its registered capital was fully paid up as of 13 December, 2002 as to RMB10,000,000 in the form of machinery and equipment from Siping Steering, and a total of RMB10,000,000 in cash from Zhang Mei Jun and Mr. Tang in equal proportion. The approved business scope of Jilin Shibao covers the development and manufacturing of steering knuckles, wholesale and retail sale of electronic equipment, machinery and material.

According to a share transfer agreement dated 19 December, 2002, Mr. Tang and Zhang Mei Jun transferred 25% and 20% shareholdings in Jilin Shibao respectively to Siping Steering. After completion of the share transfer, Jilin Shibao was owned as to 95% by Siping Steering and as to 5% by Ms. Zhang Mei Jun. Jilin Shibao was initially engaged in the manufacture and sale of *Hong Qi* steering knuckles, and its production activities were carried out at the facilities of Siping Steering.

In or around 2002, Zhejiang Shibao Steering proposed to cooperate with FAW Group Corporation or its subsidiary FAW Car, pursuant to which Zhejiang Shibao Steering or its subsidiaries would produce the *M6* steering knuckles for FAW Car (the “**M6 Project**”). According to a trial production agreement dated 28 December, 2002 entered into between Siping Steering and FAW Group Corporation, the parties agreed that Siping Steering would engage in the trial production and manufacturing of *M6* steering knuckles subject to the terms and conditions thereof.

As the *MAZDA M6* sedan market was in the early stage of development and there were considerable uncertainties as to whether and when the *M6* Project would proceed to the stage of mass production and sales, we decided to exclude the *M6* Project from our Group until the *M6* steering knuckles developed under the *M6* Project is approved by FAW Car and a long term supply relationship is established with FAW Car. On 11 April, 2003, FAW Group Corporation and Siping Steering approved Jilin Shibao to conduct research, development and trial production relating to the *M6* Project. Jilin Shibao then entered into an agreement with Siping Steering on 23 August, 2003 to transfer all its production of *Hong Qi* steering knuckles, together with all its related production equipment to Siping Steering, and Jilin Shibao ceased to engage in any production activities. The consideration of the transfer was RMB11,000,000 which was determined with reference to the original capital contribution made by Siping Steering in Jilin Shibao in the form of machinery and equipment.

Following the transfer by Jilin Shibao of its production of *Hong Qi* steering knuckles and related production equipment to Siping Steering, Siping Steering disposed of all its 95% equity interest in Jilin Shibao to Zhejiang Shibao Holding on 26 October, 2003. The consideration for the disposal was about RMB37,200,000, which was equivalent to the then net asset value attributable to the 95% equity interest of Jilin Shibao. After completion of the transfer, Jilin Shibao ceased to be a member of our group and was owned as to 95% by Zhejiang Shibao Holding and 5% by Zhang Mei Jun. Since then, Jilin Shibao had been focusing on the research and development of the M6 Project.

Pursuant to a letter of undertaking dated 17 January, 2005, Zhejiang Shibao Holding undertook that once the M6 steering knuckles developed under the M6 Project were approved by FAW Car and a long term supply relationship is established with FAW Car, from the time the M6 Project realised profits, the M6 Project would be transferred to our Group. FAW car approved the mass production for the M6 Project on 18 February, 2005, and Jilin Shibao and Siping Steering reached an oral agreement in the same month to transfer the M6 Project and its relevant assets to Siping Steering on the basis that FAW Car had approved mass production of the M6 steering knuckles. The aggregate consideration of the transfer was RMB4,817,948.73, which was equivalent to the net book value of the assets transferred together with the M6 Project (including various drilling machine beds, computer-controlled service centers and machines and other miscellaneous equipment) as at 28 February, 2005. Siping Steering commenced mass production of the M6 steering knuckles in March 2005 following the transfer. On 22 May, 2005, the aforesaid oral agreement for the transfer of the M6 Project was reduced into writing by Jilin Shibao and Siping Steering. After the transfer of the M6 Project to Siping Steering, Jilin Shibao has not been engaged in, and has no present plan for, any new project or business.

Jilin Shibao is an associate of Zhejiang Shibao Holding and accordingly it is a connected person of our Company for the purpose of the GEM Listing Rules. Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Mei Jun and Zhang Lan Jun, all Initial Management Shareholders, are also directors of Jilin Shibao. On the basis that Jilin Shibao has not been engaged in, and has no present plan for, any new project or business after the transfer of M6 Project to Siping Steering, our Directors consider that there is no competing business between Jilin Shibao and our Group.

#### *Changchun Shili Automotive*

On 15 April, 2003, Zhejiang Shibao Steering and Changchun Mengjia Automotive Parts Company Ltd. (長春市孟家車轎零部件有限責任公司) (“**Changchun Mengjia**”) established Changchun Shili Automotive to engage in the development, manufacturing and sale of non-asbestos brake pads and related parts. To the best knowledge of our Company, Changchun Mengjia is a limited liability company established in the PRC whose approved business scope includes brake shoes for trucks of FAW Jiefang, chassis parts of trucks and parts storage and conveyance equipments. To the best knowledge of our Company, after having made all reasonable enquiries, Changchun Mengjia and its ultimate beneficial owner(s) are independent third parties.

Changchun Shili Automotive was established with a registered capital of RMB 7,000,000, of which RMB6,300,000 was contributed by Zhejiang Shibao Steering (representing 90% of the registered capital) and RMB700,000 by Changchun Mengjia (representing 10% of the registered capital), both in the form of cash. The approved business scope of Changchun Shili Automotive includes research, development and production of non-asbestos brake pads for all kinds of automobiles and the production and sale of parts relating to automobile brake systems.

Since its establishment, Changchun Shili Automotive has been engaging in the research, development and trial production of non-asbestos brake pads which are different from the steering gears and related components manufactured by our Group. On this basis, our Directors consider that there is no competing business between Changchun Shili Automotive and our Group. Changchun Shili Automotive carries out its trial production activities in the premises of Changchun Mengjia, and its customers include Chuangchun FAW Sihuan Automobile Co., Ltd. (長春一汽四環汽車股份有限公司).

To ensure that our Group pursues a focused line of business upon listing, it was decided that Changchun Shili Automotive be excluded from our Group in the reorganisation process. On such basis, Zhejiang Shibao Steering and Zhejiang Shibao Holding entered into a capital contribution transfer agreement on 10 October, 2003, pursuant to which Zhejiang Shibao Steering agreed to transfer its 90% shareholdings in Changchun Shili Automotive to Zhejiang Shibao Holding for a consideration of RMB 6,300,000. The consideration was determined based on the original capital contribution made by Zhejiang Shibao Steering to Changchun Shili Automotive. After completion of the transfer, Changchun Shili Automotive was owned as to 90% by Zhejiang Shibao Holding and as to 10% by Changchun Mengjia.

Changchun Shili Automotive is an associate of Zhejiang Shibao Holding and accordingly it is a connected person of our Company for the purpose of the GEM Listing Rules. Mr. Zhang, an Initial Management Shareholder, is also a director of Changchun Shili Automotive. As Changchun Shili Automotive is, and will continue to be, engaged in the research, development and production of products relating to automobile brake systems, our Directors consider that there is no competing business between Changchun Shili Automotive and our Group.

### *Jilin Shibao Automation*

On 29 September, 2003, Zhejiang Shibao Steering and Beijing Kaiqi Composite Automation Technology Co., Ltd. (北京凱奇集能自動化技術有限責任公司) (“**Beijing Kaiqi**”) established Jilin Shibao Automation with a registered capital of RMB2,000,000, contributed as to RMB1,600,000 by Zhejiang Shibao Steering in the form of cash (representing 80% of the registered capital) and RMB400,000 by Beijing Kaiqi in the form of intangible assets (representing 20% of the registered capital). To the best knowledge of our Company, Beijing Kaiqi is a limited liability company established in the PRC whose approved business scope is technology development, consulting and service, and retail of developed products, automated equipment, measuring equipment and machinery electrical equipment (projects that require specific approval are excluded). To the best knowledge of our Company, after having made all reasonable enquiries, Beijing Kaiqi and its ultimate beneficial owner(s) are independent third parties.

The approved business scope of Jilin Shibao Automation includes electronics, electric appliances, electric drives, development of computer technology and automated equipment, manufacture of mechanical and electrical controls and, or servers. Our Directors confirmed that since its establishment, Jilin Shibao Automation has been engaging in the research, development, production and sale of electrical server motors and related products, which are different from the steering gears and related components manufactured by our Group. Jilin Shibao Automation carries out its trial production activities in the premises of Beijing Kaiqi and its major customers include large sized moulding machine manufacturers and machinery factories.

To ensure that our Group pursues a focused line of business upon listing, it was decided that Jilin Shibao Automation be excluded from our Group in the reorganisation process. On such basis, Zhejiang Shibao Steering and Zhejiang Shibao Holding entered into a capital contribution transfer agreement on 26 October, 2003, pursuant to which Zhejiang Shibao Steering agreed to transfer its 80% shareholdings in Jilin Shibao Automation to Zhejiang Shibao Holding for a consideration of RMB1,600,000. The consideration was determined based on the original capital contribution made by Zhejiang Shibao Steering to Jilin Shibao Automation. After completion of the transfer, Jilin Shibao Automation was owned as to 80% by Zhejiang Shibao Holding and as to 20% by Beijing Kaiqi.

Jilin Shibao Automation is an associate of Zhejiang Shibao Holding and accordingly it is a connected person of our Company for the purpose of the GEM Listing Rules. Mr. Zhang and Mr. Tang, both Initial Management Shareholders, are also directors of Jilin Shibao Automation. As the principal business and products of Jilin Shibao Automation are vastly different from those of our Group, our Directors consider that there is no competing business between Jilin Shibao Automation and our Group.

#### *Zhoushan Shibao*

Zhoushan Shibao was established in the PRC with limited liability on 13 September, 2000 with a registered capital of RMB2,000,000, contributed as to RMB1,200,000 by Mr. Zhang (representing 60% of the registered capital), RMB200,000 by Zhang Lan Jun (representing 10% of the registered capital) and RMB600,000 by Mr. Gu Qun, a non-executive Director (representing 30% of the registered capital).

The approved business scope of Zhoushan Shibao is fine chemical products and manufacture and sale of industrial chemical additives. Major products of Zhoushan Shibao include biphenyl (聯苯) and terphenyl (三聯苯), and its production base is located at Puxi Development Zone, Putuo District, Zhoushan City, the PRC. Customers of Zhoushan Shibao mainly include chemical manufacturers.

Zhoushan Shibao is an associate of Mr. Zhang and accordingly it is a connected person of our Company for the purpose of the GEM Listing Rules. Mr. Zhang and Zhang Lan Jun, both Initial Management Shareholders, are also directors of Zhoushan Shibao. As the principal business and products of Zhoushan Shibao are completely different from those of our Group, our Directors consider that there is no competing business between Zhoushan Shibao and our Group.

*Hangzhou Jinkeda Beer Package Co., Ltd.*

On 26 September, 2003, Hangzhou Shibao and Ms. Yang Han Kun (楊翰坤) established Hangzhou Jinkeda Beer Package Co., Ltd. (杭州金可達啤酒包裝有限公司) (“**Hangzhou Jinkeda**”). The approved business scope of Hangzhou Jinkeda covers wholesale and retail sale of beer bottles and glasses, provision of consultation services relating to beer manufacturing technology and all other lawful projects which do not require additional approval(s).

At time of establishment, Hangzhou Jinkeda had a registered capital of RMB5,000,000 which was owned as to 90% by Hangzhou Shibao and as to 10% by Ms. Yang Han Kun. Hangzhou Shibao made its share of contribution to Hangzhou Jinkeda with the land use right of a piece of land on Hongwuyue Village, Peng Bu Town, Jianggan District, Hangzhou City (“**Hongwuyue Land**”) with an area of 16,313 square meters, valued at RMB6,296,818 as at 21 August, 2003 by Hangzhou Xincheng Estate Valuation Consultation Co., Ltd. (杭州信誠地產評估諮詢有限公司). To the best knowledge of our Company, after having made all reasonable enquiries, Ms. Yang Han Kun is an independent third party.

To ensure that our Group pursues a focused line of business, Hangzhou Shibao and Hangzhou Longma Nonferrous Metal Co., Ltd. (杭州龍馬有色金屬有限公司) (“**Hangzhou Longma**”) entered into a capital contribution transfer agreement on 8 December, 2003 pursuant to which Hangzhou Shibao agreed to transfer its 90% shareholdings in Hangzhou Jinkeda to Hangzhou Longma. The consideration for the transfer was RMB6,300,000, which was determined with reference to the value of the land use right of Hongwuyue Land (injected by Hangzhou Shibao as its share of contribution for the 90% interest in the registered capital of Hangzhou Jinkeda). To the best knowledge of our Company, Hangzhou Longma is a limited liability company established in the PRC whose approved business scope includes wholesale, retail, scarce metals, nonferrous metals and ferrous metals. To the best knowledge of our Company, after having made all reasonable enquiries, Hangzhou Longma and its ultimate beneficial owner(s) are independent third parties. After completion of the transfer, Hangzhou Shibao no longer held any equity interest in Hangzhou Jinkeda.

**Non-competition undertakings**

Zhejiang Shibao Holding has undertaken that (i) it will not engage in any activity which may conflict with the interests of our Group; and (ii) it will not engage in, and will not allow its subsidiaries, branch companies, jointly owned companies or affiliated companies and any other enterprises controlled by it (including Jilin Shibao, Changchun Shili Automotive and Jilin Shibao Automation) to engage in any business or activity which might directly or indirectly compete with the business of our Group.

Mr. Zhang has undertaken that he and enterprises controlled by him (including Zhoushan Shibao) will not engage in any business that might compete with the business of our Group.

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## **BUSINESS**

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In addition to the aforesaid undertakings, each of Mr. Zhang, Zhang Bao Yi, Mr. Tang and Zhang Lan Jun (all being executive Directors), Zhang Shi Zhong and Zhang Mei Jun (both being non-executive Directors), and Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong (all being Promoters), has undertaken that during his/her term of service with our Group, he/she will not participate in any business which may be competing with the business conducted by our Group, or to engage in any activity which may conflict with the interests of our Group.

None of our Directors and Initial Management Shareholders has any interest in any business which has or may have competition with the business of our Group.

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## STATEMENT OF BUSINESS OBJECTIVES

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### FUTURE PROSPECTS, BUSINESS OBJECTIVES AND STRATEGIES

We believe that our Group is poised to benefit from the growing PRC automobile industry. In particular, we believe that the trend of increased automobile sales will continue on the back of the anticipated continuous improvement of the purchasing power of consumers, increased expenditure on durable goods, and changing ownership patterns allied to the currently low penetration rate for automobiles in the PRC, particularly amongst private-ownership rather than civil-ownership. (Please refer to the section headed “Industry overview” in this prospectus for further details of the outlook of the automobile industry in the PRC). Aside from the PRC domestic market, it is also our goal to tap into the overseas automotive parts and components procurement market in the long term.

We have a loyal customer base comprising major local automobile and automotive parts and components manufacturers in China. Leveraging on our strong technical capability and our industry experience, we believe our Group is capable of adapting to and producing new products for differing demands from the automobile and automotive parts and components manufacturers. Over the years we have accumulated in-depth knowledge of product specifications of our customers, which in our Directors’ view, makes it less likely for our customers to switch to alternative suppliers. Building on these strengths, we expect to benefit economically as demand for automobiles grows in the future.

With the continuing preference for power over manual steering gears, it is expected that our sales of power steering gears and related components will continue to dominate our sales mix in the future. Riding on our initial success in the launch of power rack-and-pinion steering gears in 2005, we expect stronger sales of this new product in 2006. Our electronic power steering gears are at an advanced stage of development and prototype testing and we expect trial production and sales to take place the earliest towards the end of 2006, paving the way for an additional revenue stream in the near future. Subject to the progress of adopting relevant technical know-how from DHB-CA following the establishment of DHB-Shibao, our product range may also expand to include steering oil pumps in the long run.

It is our objective to become one of the leading brands in the automotive parts and components industry in the PRC. We also aim to become a major supplier of automotive steering gears in the PRC, and in the long run to enter the global procurement market and become a steering system components supplier of the world’s leading automobile manufacturers. To achieve these objectives, our Directors intend to implement the following business strategies:

#### **Expand production capacity of our major products**

We intend to further expand our production capacity as our newly constructed Hangzhou plant runs into full operation. In particular, we plan to increase our production capacity in respect of most of our existing products to cater for the anticipated increase in demand fueled by growth in the PRC economy. It is expected that our production capacity of manual and power recirculating ball steering gears will increase over 20%, and more than double in respect of our rotary valves by the end of 2008. Our production capacity of power rack-and-pinion steering gears and electronic power steering gears for the two months ended 28 February, 2006 was about

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## STATEMENT OF BUSINESS OBJECTIVES

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10,000 sets and 1,000 sets respectively. We expect to significantly increase our production capacity of these two new products in the next two years. We also plan to adjust our production capacity of the tailor made *Hong Qi* steering knuckles and *M6* steering knuckles in order to meet our customers' needs.

### **Strengthen product research and development**

We intend to adopt a parallel system encompassing both in-house research and development and collaborative arrangements with external partners to shorten the development cycle of our products. We intend to recruit more experienced research and development personnel and provide more training and learning opportunities to our research and development staff in order to strengthen our product research and development capability. Based on the joint venture agreement entered into between Hangzhou Shibao and DHB-CA on 16 February, 2006, DHB-CA will enter into a technology transfer agreement with DHB-Shibao upon its establishment under which DHB-CA will transfer production technologies to DHB-Shibao for its product development and production. We believe our product research and development capability will be further enhanced by such collaboration. In the meantime, we plan to increase our investment in product research and development to further strengthen our capability for a variety of automotive steering gear products.

### **Expand PRC and tap into overseas markets**

In the PRC domestic market, we intend to widen our market coverage by expanding our sales force and establishing strategic cooperation partnerships with certain automobile manufacturers. As our first step to gradually tap into the overseas market, we have recruited personnel experienced in foreign trade and are set to devote more resources to serving foreign invested automobile factories in the PRC.

We have also entered into a sino-foreign joint venture agreement with DHB-CA for the establishment of DHB-Shibao to engage in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps to be sold within China and other Asian countries (excluding India and Iran). We believe that DHB-Shibao will assist our initial entry into the overseas automotive parts and components procurement market. We will continue to explore opportunities to establish strategic relationships with other foreign automobile manufacturers through joint investments for the production of steering gears and other steering system components in the long run.

We intend to strengthen our "Shibao" brandname by means of promotional activities including launching advertisements and promotional campaigns and participation in automobile exhibitions.

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## STATEMENT OF BUSINESS OBJECTIVES

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### BASES AND ASSUMPTIONS

Our business objectives set out above were formulated by our Directors on the following bases and assumptions:

- there will be no material change in the existing laws, policies, administrative measures, directives or regulations in the PRC or Hong Kong which are relevant to the business and operations of our Group, or in the existing political, legal, fiscal, foreign trade, economic or market conditions in the PRC and Hong Kong and other countries in which our Group operates;
- there will be no material change in the bases or rates of taxation applicable to our Group;
- there will be no material change in interest rates or foreign currency exchange rates from those currently prevailing;
- there will be no material change in the business relationship of our Group with its major customers and suppliers;
- suitable personnel can be recruited and retained by our Group;
- there will be no material change in the funding requirements of our Group for each of the development strategies from the amounts as estimated by the management of our Group, as more specifically set out in the paragraph headed “Implementation of business plan” in this section;
- external financing will be readily available to our Group; and
- there will be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of our Group or cause substantial loss, damages or disruption to our properties or facilities.

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## STATEMENT OF BUSINESS OBJECTIVES

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### IMPLEMENTATION OF BUSINESS PLAN

The business plan which our Group plans to implement during the period from the latest practicable date to 31 December, 2008 is set out as follows:

#### **From the latest practicable date to 30 June, 2006:**

<i>Expansion of production capacity</i>	<i>Research and development</i>	<i>Sales and marketing</i>	<i>Human resources</i>
Acquire additional machineries and equipment to expand our power recirculating ball steering gears production capacity and to improve quality of our heat treatment process	Acquire additional computer equipment and design software to improve our research and development capability	Expand our sales network and coverage	Recruit about 7 to 9 technicians and quality control personnel to support our business development
Acquire additional machineries and equipment and, or expand assembly line(s) to expand our rack-and-pinion steering gears production and, or assembly capacity	Continue in the design, development and testing on new product models and, where appropriate, apply for relevant quality certifications	Continue to develop our complementary after sales services	Recruit about 4 to 6 sales and marketing personnel to support our increased sales and marketing activities
Acquire machineries and equipment in preparation of our electronic power steering gears production		Introduce and promote our new products to our existing customers with an aim to procuring them to switch from using imported parts to our products	Establish a team of 3 to 5 to focus on new product research, development and testing

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## STATEMENT OF BUSINESS OBJECTIVES

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From 1 July, 2006 to 31 December, 2006:

***Expansion of production capacity***

Acquire machineries and equipment to expand our rack-and-pinion steering gears production capacity

Acquire additional machineries and equipment in preparation for trial production of our electronic power steering gears

Acquire additional machineries and equipment and, or expand our production premises to expand our *M6* steering knuckles production capacity

Acquire additional machineries and equipment to expand the recirculating ball steering gears production capacity

***Research and development***

Acquire testing equipment for Hangzhou Shibao's new research development centre

Send selected technical staff to DHB-CA for technical training

***Sales and marketing***

Devote resources to promote and market our rack-and-pinion steering gears

Continue to conduct other general marketing and promotional activities for our other existing products

Provide in-house training for our sales and marketing personnel

Continue to provide after-sales services to our customers

***Human resources***

Recruit about 5 technicians and around 2 to 3 sales and marketing personnel to support our business development

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## STATEMENT OF BUSINESS OBJECTIVES

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**From 1 January, 2007 to 30 June, 2007:**

<i><b>Expansion of production capacity</b></i>	<i><b>Research and development</b></i>	<i><b>Sales and marketing</b></i>	<i><b>Human resources</b></i>
Acquire machineries and equipment to expand into the production of electronic-hydraulic power steering gears	Commence standardisation of our product and production flow of electronic-hydraulic power steering gears	Enhance our existing sales network	Recruit about 7 to 8 additional technicians to support our overall business expansion
Acquire additional equipment and tools for our production of manual recirculating ball steering gears	Commence initial development of electronic-hydraulic power steering gears model series	Commence initial computerisation for management and control of our marketing and promotional activities	Provide in-house technical training to our production workers and collaborate with third party institutions to provide training to our technicians  Provide training on general management skills to our management and supervisory staff

**From 1 July, 2007 to 31 December, 2007:**

<i><b>Expansion of production capacity</b></i>	<i><b>Research and development</b></i>	<i><b>Sales and marketing</b></i>	<i><b>Human resources</b></i>
Acquire additional machineries and equipment to increase our production capacity on rotary valves and other components used in power recirculating ball steering gears		Devote resources for the initial development of overseas markets, including establishment of overseas sales offices	Recruit about 3 to 4 technicians to support our overall business expansion
Acquire additional machineries and equipment for the production of electronic-hydraulic power steering gears			Recruit about 2 sales and marketing personnel to support our overseas market development

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## STATEMENT OF BUSINESS OBJECTIVES

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**From 1 January, 2008 to 30 June, 2008:**

***Expansion of production capacity***

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

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

***Research and development***

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

***Sales and marketing***

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

***Human resources***

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

**From 1 July, 2008 to 31 December, 2008:**

***Expansion of production capacity***

Acquire machineries, production and testing equipment in preparation for other steering system components production

***Research and development***

Commence initial development of steering system components for new car models

***Sales and marketing***

Commence marketing activities towards steering systems parts and components retailers

***Human resources***

Recruit around 30 technicians and general workers to support our overall business expansion

## STATEMENT OF BUSINESS OBJECTIVES

### DETAILED APPLICATION OF NET PROCEEDS TO THE BUSINESS PLAN

We intend to utilise the net proceeds from the Placing and our internal resources to fund our business plan. The following table details the application of net proceeds (based on the minimum Placing Price of HK\$1.32 per H Share) to satisfy part of the funding requirements of our business plan:

	From the latest practicable date to 30 June, 2006 <i>HK\$ million</i>	From 1 July, 2006 to 31 December, 2006 <i>HK\$ million</i>	From 1 January, 2007 to 30 June, 2007 <i>HK\$ million</i>	From 1 July, 2007 to 31 December, 2007 <i>HK\$ million</i>	From 1 January, 2008 to 30 June, 2008 <i>HK\$ million</i>	From 1 July, 2008 to 31 December, 2008 <i>HK\$ million</i>	Total <i>HK\$ million</i>
<b>Business plan:</b>							
Acquisition of machinery, equipment and, or expansion of assembly line(s) to expand our production capacity and, or capability	11.0	23.0	13.0	—	5.0	2.0	<b>54.0</b>
Acquisition of testing equipment and software to enhance our research and development and product testing capability	1.0	6.0	—	—	—	2.0	<b>9.0</b>
<b>Others:</b>							
Settlement of remaining construction and ancillary expenditure of our Hangzhou plant	5.0	—	—	—	—	—	<b>5.0</b>
Capital injection to DHB-Shibao	23.5	—	—	—	—	—	<b>23.5</b>
<b>Total</b>	<b>40.5</b>	<b>29.0</b>	<b>13.0</b>	<b>—</b>	<b>5.0</b>	<b>4.0</b>	<b>91.5</b>

It is expected that additional funding of approximately HK\$37.5 million will be required for the acquisition of machineries and equipment to expand our production capacity and improve our product testing capability as planned. In the event that the final Placing Price is fixed at the minimum of HK\$1.32 per H Share, we intend to fund such shortages, as well as our research and development activities, sales and marketing activities and expansion in human resources under our business plan by internal resources.

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## REASONS FOR THE PLACING AND USE OF PROCEEDS

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We believe that the listing of H Shares on GEM will enhance the corporate profile and public awareness of our Group. In addition, the net proceeds from the Placing will strengthen our financial structure and fund our capital investments.

The net proceeds from the Placing based on the minimum Placing Price of HK\$1.32 per H Share, after deduction of related fees and expenses, are estimated to be approximately HK\$91.5 million. Our Directors intend to apply the net proceeds from the Placing as follows:

- approximately HK\$5.0 million to settle the remaining construction and ancillary expenditure of our Hangzhou plant;
- approximately HK\$54.0 million for the acquisition of machineries, equipment and, or expansion of assembly line(s) to expand our production capacity and, or capability;
- approximately HK\$9.0 million to acquire testing equipment and software to enhance our research and development and product testing capability; and
- approximately HK\$23.5 million to satisfy the cash portion of our share of capital contribution to DHB-Shibao.

It is expected that additional funding of approximately HK\$37.5 million will be required for the acquisition of machineries and equipment to expand our production capacity and, or capability as planned. In the event that the final Placing Price is fixed at the minimum of HK\$1.32 per H Share, we intend to fund such shortages, as well as our research and development activities, sales and marketing activities and expansion in human resources under our business plan by internal resources.

If the final Placing Price is fixed at the maximum of HK\$1.60 per H Share, we will receive additional net proceeds of approximately HK\$23.0 million. We intend to apply such additional net proceeds as to about HK\$17.5 million for the acquisition of machineries and equipment to expand our production capacity and, or capability in accordance with our business plan, and as to about HK\$5.5 million as general working capital.

To the extent that the net proceeds from the Placing are not immediately required for the above purposes or if our Group is unable to effect any part of our business plan in accordance with the implementation plan due to the occurrence of any events described in the section headed “Risk factors” in this prospectus, it is the present intention of our Directors to place such net proceeds on short term deposits with licensed financial institutions in Hong Kong and, or the PRC. In such event, our Company will comply with the relevant disclosure requirements under the GEM Listing Rules.

### DIRECTORS

#### Executive Directors

Mr. Zhang Shi Quan (張世權), aged 55, is the founder of our Group and the chairman and general manager of our Company. He is responsible for our Group's overall strategic planning, business development, and new product sales and marketing strategies. He has over 20 years of extensive experience in automotive steering gears, and is a senior economist.

Mr. Zhang Bao Yi (張寶義), aged 33, is deputy general manager of our Company. He graduated from Zhejiang Industrial University Zhexi Branch School (浙江工業大學浙西分校) in 1995. He worked in Zhejiang Shibao Steering in 1996 and was appointed as general manager of Zhejiang Shibao Steering in February 2000. He was granted the title of "Labour Model" (勞動模範) of Yiwu City in 2004. He is the son of Mr. Zhang.

Mr. Tang Hao Han (湯浩瀚) aged 37, is deputy general manager of our Company. He is a representative of the Jilin People's Congress (吉林省人民代表大會), an executive member of the Siping City Industry and Commerce Union (四平市工商業聯合會), member of the Standing Committee of Jilin Province Siping City People's Political Consultative Conference (中國人民政治協商會議吉林省四平市委員會) and "Leader of the National Outstanding Youth in Industrial Development" (全國傑出青年興業領頭人). Mr. Tang was awarded the "Outstanding Entrepreneur of Jilin Province Privately-Owned Enterprises" (吉林省優秀民營企業家). Mr. Tang graduated from the Renmin University of China (中國人民大學). He was a tutor at Nanjing College For Population Programme Management (南京人口管理幹部學院) in 1990. He was appointed as assistant to general manager and office manager of Zhejiang Shibao Steering in 1995, and deputy general manager of Zhejiang Shibao Steering in 1997. Since 1998, he has been the deputy general manager of Siping Steering. Mr. Tang obtained his master's degree in business administration (工商管理) from Jilin University (吉林大學) in 2004. He is currently studying for a doctorate degree in technical economics and management (技術經濟及管理) at Jilin University. He is the husband of Zhang Mei Jun (and the son-in-law of Mr. Zhang).

Mr. Zhu Jie Rong (朱頡榕), aged 57, has been deputy general manager of our Company responsible for investors and public relations since joining our Group in February 2002. From 1966 to 1990, he worked in a number of leading automobile parts and components manufacturers in Shanghai, Hubei and Zhejiang, and has over 20 years of experience in the automobile parts and components industry. He is also the compliance officer and authorised representative of our Company.

Ms. Zhang Lan Jun (張蘭君), aged 30, is responsible for supervising the finance and accounting functions of our Company. She graduated from Zhejiang University of Finance & Economics (浙江財經學院) in 1996 and is currently studying for a master's degree in business administration (工商管理) in Guizhou University (貴州大學). She joined our Group's accounting department in 1997 and has over 7 years of experience in finance and accounting. Ms. Zhang has also been a director of Hangzhou Shibao since November 1996 and finance manager of Hangzhou Shibao since 2001. She is a daughter of Mr. Zhang.

### Non-executive Directors

Mr. Zhang Shi Zhong (張世忠), aged 44, is deputy general manager of our Group responsible for overseeing our steering gears production. He was deputy general manager of Yiwu Qianjin Steering Gear Factory until 1993 when its operations were taken over by Zhejiang Shibao Steering. Since then, he has been deputy general manager of Zhejiang Shibao Steering. He has over 15 years experience in the automotive steering gears. He is the brother of Mr. Zhang.

Ms. Zhang Mei Jun (張美君), aged 35, graduated from the People's Liberation Army Transportation Engineering Institute (中國人民解放軍運輸工程學院) with a major in automobile design and manufacture (汽車設計與製造) in 1992. She was responsible for overseeing the finance and accounting functions of Zhejiang Shibao Steering from 1993 to 1998 and has been in charge of the finance and accounting functions of Siping Steering since 1999. She is a daughter of Mr. Zhang and the wife of Mr. Tang.

Mr. Gu Qun (顧群), aged 36, graduated from Zhejiang University (浙江大學) in 1991 with a bachelor's degree in chemical engineering (化學工程). He has been a managing director of Zhoushan Shibao since September 2000.

### Independent non-executive Directors

Mr. Bao Zhi Chao (包志超), aged 69, worked in FAW Group Corporation as senior research engineer in 1994 and chief engineer in 1998. Mr. Bao retired from FAW Group Corporation in 1998. He was appointed as an independent non-executive Director in September 2004 and our senior consultant in November 2004.

Mr. Chen Guo Feng (陳國峰), aged 59, worked in the Hangzhou Turbine Factory (杭州汽輪機廠), Hangzhou Mechanical Industry Bureau (杭州市機械工業局) and Hangzhou Mechanical Electronic Holding (Group) Company Limited (杭州機械電子控股(集團)有限公司) as finance accountant, accounts supervisor, deputy chief accountant, financial director and department head. Mr. Chen is an independent director of Ningbo MOS Group Corporation Limited (寧波摩士集團股份有限公司). He was appointed as an independent non-executive Director in December 2004.

Mr. Lui Wing Hong, Edward (呂榮匡), aged 43, obtained a diploma in financial management from the University of New England in Australia in 1990. He is a member of the Australian Society of Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He was appointed as an independent non-executive Director in December 2004.

### SUPERVISORS

Mr. Ge Bao Shan (葛寶山), aged 43, is a professor of the management school (管理學院) and a tutor for doctorate students at Jilin University (吉林大學). He is also standing deputy director of the Entrepreneurship Research Center of Jilin University (吉林大學創業研究中心). Mr. Ge was appointed as a Supervisor in January, 2005.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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Ms. Liu Xiao Ping (劉曉平), aged 34, graduated from Zhejiang Radio & TV University (浙江廣播電視大學) with a diploma in foreign trade English (外貿英語) in 1991, and obtained a master's degree in business administration from Murdoch University in Australia in 2003. Ms. Liu is currently office director of Zhejiang Shibao Holding. Ms. Liu was appointed as a Supervisor in January, 2005.

Mr. Shen Song Sheng (沈松生), aged 69, worked in Hangzhou Hong Qi Spare Parts Factory (杭州紅旗汽車零部件廠) in 1980. He joined our Group in 1993. He was appointed as a Supervisor in June, 2004.

Mr. Wang Kui Quan (王奎泉), aged 41, obtained his undergraduate degree from the Jiangxi Finance and Economics Institute (江西財經學院) (currently known as Jiangxi Finance and Economics Vocational College (江西財經職業學院)) and a master's degrees in economics (經濟學) from Dongbei University of Finance and Economics (東北財經大學) in 1986 and 1989 respectively. From 1997 to 2000, he was deputy head of Zhejiang School of Finance (浙江財政學校), and from October, 2002, he was deputy director of the post-graduate department of Zhejiang Finance and Economics Institute (浙江財經學院研究生部). Mr. Wang was appointed as a Supervisor in January, 2005.

Ms. Zheng Yan (鄭豔), aged 35, joined Siping Steering in 1999. She was assistant production supervisor and project manager in 2001. She was transferred to Jilin Shibao in 2003. Ms. Zheng was appointed as a Supervisor in January, 2005.

### SENIOR MANAGEMENT

Mr. Du Chun Mao (杜春茂), aged 50, is deputy general manager of Siping Steering since 2001 responsible for its assembly workshop and mechanical workshop.

Mr. Du Yu Xuan (杜玉宣), aged 61, has been deputy general manager of Siping Steering since joining our Group in June, 2002. He worked in Siping City Reinforced Steel Machinery Factory (四平市鋼筋拉伸機廠) in 1989. He also worked as factory head of FAW Group Siping City Designated Automobile Factory (中國第一汽車集團四平專用汽車廠) in 1997.

Mr. Shen Rong Jin (沈榮金), aged 57, is deputy chief engineer of our Group. He joined Zhejiang Shibao Steering in 1993 and became deputy general manager in 1996. He was appointed chief engineer of Zhejiang Shibao Steering in 1997 prior to taking up the position as deputy chief engineer of our Group.

Mr. Hsu Bao Wei (徐保衛), aged 55, has been deputy general manager of Hangzhou Shibao since joining our Group in April, 2002. He worked for a sizeable automobile parts manufacturing factory in Hubei in 1992 as supervisor of its power steering gear department in charge of its steering gears branch factory. He worked for an automotive steering gears company in Shanghai from 1997 to 2001 as manager of its manufacturing department.

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## **DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Mr. Zhou Long (周瓏), aged 49, has been deputy general manager of Hangzhou Shibao overseeing its product development department since joining our Group in April, 2003. He graduated from Nanjing University of Mechanical Industry Workers (南京市機械工業局職工大學) in 1983 majoring in heat processing skills and equipment. He was an engineer of an automobile spare parts factory from 1989 to 1995, and was appointed as the factory manager in 1997.

Mr. Zhao Guo Ping (趙國平), aged 49, has been deputy general manager of Hangzhou Shibao in charge of its construction engineering since joining our Group in October, 2002. He worked for Lanzhou Petrochemical Electrical Machinery Factory (蘭州石油化工機器廠) in 1988 as director of its operational finance division and company deputy manager before being appointed as manager in 1991.

Mr. Ise Mitsuo (伊勢光男), aged 65, has been deputy general manager of Hangzhou Shibao responsible for the development and production of power rack-and-pinion steering gears since joining our Group in January, 2003. He was appointed as department head of a leading manufacturer of automotive parts in Japan in 1996. From 1997 to 2001, he was relocated to China where he was the deputy general manager of a Sino-Japanese joint venture engaged in the manufacture of rack-and-pinion steering gears.

Mr. Wu Tai Cheung (胡大祥), aged 48, is the qualified accountant, company secretary and authorised representative of our Company. Mr. Wu holds a bachelor's degree in accountancy from Bolton Institute of Higher Education (currently known as The University of Bolton) and a master's degree in business administration from the University of Newcastle, Australia. Mr. Wu is a member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. Mr. Wu was financial controller and company secretary of Zhongda International Holdings Limited, a listed company in Hong Kong. He is also an independent non-executive director of BEP International Holdings Limited, a listed company in Hong Kong. Mr. Wu joined our Group in April 2005 and is currently responsible for the overall financial management of our Group.

### **DIRECTORS' AND SUPERVISORS' REMUNERATION**

The aggregate remuneration (including basic salaries and other benefits and pension contributions) paid to our Directors and Supervisors for the two years ended 31 December, 2005 was approximately RMB480,000 and RMB750,000, respectively. The aggregate remuneration (including basic salaries and other benefits and pension contribution) payable to our Directors and Supervisors for the year ending 31 December, 2006 is expected to be approximately RMB1,240,000.

### **QUALIFIED ACCOUNTANT AND COMPANY SECRETARY**

Mr. Wu Tai Cheung is the qualified accountant, company secretary and authorised representative of our Company. Please refer to the above sub-paragraph headed "Senior management" for Mr. Wu's working experience and credentials.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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### STAFF

As at the latest practicable date, our Group employed a total of 854 full-time employees. A breakdown by functions and geographic locations is tabulated below:

	Yiwu	Siping	Hangzhou	Total
Management	5	12	12	29
Finance and administration	7	20	19	46
Research and development	8	36	22	66
Production	76	349	199	624
Sales and marketing	5	22	15	42
Purchasing	2	7	4	13
Quality control	5	15	14	34
Total	<u>108</u>	<u>461</u>	<u>285</u>	<u>854</u>

### Relationship with employees

Our Directors believe that our Group maintains good working relationships with its employees and has not experienced any significant difficulties in recruiting and retaining employees. Our Group has not experienced any significant disruption in its operations due to labour disputes.

### Retirement benefits scheme

Our Company and its subsidiaries make contributions to municipal government retirement scheme for their respective qualified employees in the PRC. According to applicable PRC laws, both employers and employees are required to make contributions to the scheme at the specified rates pursuant to the rules of the scheme. The only obligation of our Company and its subsidiaries with respect to the scheme is to make the required contributions. The contributions payable under the scheme were properly accrued as at each of the two years ended 31 December, 2005.

The contributions to be made by employees under the scheme are charged to the income statement at the respective rates equivalent to the contributions paid or payable by our Company and its subsidiaries under the rules of the scheme.

The aggregate contributions to the pension scheme in respect of Directors or former directors of our Company for each of the two years ended 31 December, 2005 amounted to approximately RMB10,000 and RMB18,000, respectively.

**AUDIT COMMITTEE**

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

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

**REMUNERATION COMMITTEE**

The Company has established a remuneration committee with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The remuneration committee consists of three members, comprising Mr. Lui Wing Hong, Edward, Mr. Chen Guo Feng and Zhang Mei Jun. The Chairman of the remuneration committee is Mr. Lui Wing Hong, Edward. The principal duties of the remuneration committee include (i) making recommendations to the Board of Directors on the remuneration policies and structure for the Directors and senior management of the Company; (ii) setting up a formal and transparent procedure for determination of such remuneration policies; and (iii) evaluating performances and formulating the remuneration policies based on such evaluations.

**COMPLIANCE ADVISER**

Our Company has appointed Anglo Chinese as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules commencing from the listing date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our Company's financial results for the second full (and not part) financial year commencing after the listing date. Pursuant to 6A.19 of the GEM Listing Rules, Anglo Chinese will advise our Company in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the net proceeds from the Placing in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information contained in this prospectus; and
- (4) where the Stock Exchange makes an inquiry into our Company regarding unusual movements in the price or trading volume of the H Shares.

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## SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND PROMOTERS

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### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing, the following persons will be regarded as substantial shareholders (as defined in the GEM Listing Rules as any person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of our Company):

Shareholder	Number of Domestic Shares	Approximate percentage of shareholding immediately after completion of the Placing (%)
Zhejiang Shibao Holding ( <i>Note 1</i> )	165,387,223	63.0
Mr. Zhang ( <i>Note 2</i> )	165,387,223	63.0

*Notes:*

1. Zhejiang Shibao Holding is an investment holding company established in the PRC on 28 May, 2003 and is owned as to 40% by Mr. Zhang, 20% by Zhang Bao Yi, 20% by Mr. Tang, 15% by Zhang Lan Jun and 5% by Zhang Shi Zhong. (Please refer to the sub-paragraph headed “Excluded business-Zhejiang Shibao Holding” in the paragraph headed “Competition” under the section headed “Business” in this prospectus for further details of Zhejiang Shibao Holding.)
2. Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, which in turns directly 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. These Shares represent the same interest and therefore duplicate between Zhejiang Shibao Holding and Mr. Zhang.

### SIGNIFICANT SHAREHOLDERS

So far as our Directors are aware, immediately after completion of the Placing, apart from the Substantial Shareholders referred to above and the Initial Management Shareholders referred to below, no other person will be interested in 5% or more of the registered share capital of our Company.

## SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND PROMOTERS

### INITIAL MANAGEMENT SHAREHOLDERS AND PROMOTERS

So far as our Directors are aware, the following persons are regarded as persons (or a group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of our Company and who is, or are able, as a practical matter, to direct or influence the management of our Company immediately prior to the date of this prospectus, or any person(s) who is, or are immediately prior to the listing date a member of our senior management or a Director or Promoter:

Shareholder	Date of first becoming a Shareholder	Number of Domestic Shares held immediately after completion of the Placing	Approximate %	Approximate total investment cost (RMB)	Approximate average cost of investment per Domestic Share (RMB)	Moratorium period under GEM Listing Rules (commencing from the listing date)	Moratorium period under the Company Law (commencing from the listing date)
Zhejiang Shibao Holding (Note 1)	5 March, 2004 (Note 4)	165,387,223	63.0	33,667,980	0.2036	12 months	1 year
— Mr. Zhang (Note 2)	10 September, 1997 (Note 5)			13,467,192 (Note 6)			
— Zhang Bao Yi (Note 2)	10 September, 1997 (Note 5)			6,733,596 (Note 6)			
— Mr. Tang (Note 2)	5 March, 2004 (Note 4)			6,733,596 (Note 6)			
— Zhang Lan Jun (Note 2)	5 March, 2001			5,050,197 (Note 6)			
— Zhang Shi Zhong (Note 2)	10 September, 1997 (Note 4)			1,683,399 (Note 6)			
Du Chun Mao (杜春茂) (Note 3)	5 March, 2004 (Note 4)	2,639,158	1.0	537,225	0.2036	12 months	1 year
Chen Wen Hong (陳文洪) (Note 3)	5 March, 2004 (Note 4)	2,639,158	1.0	537,225	0.2036	12 months	1 year
Wu Lang Yue (吳琅躍) (Note 3)	5 March, 2004 (Note 4)	2,639,158	1.0	537,225	0.2036	12 months	1 year
Wu Wei Xu (吳偉旭) (Note 3)	5 March, 2004 (Note 4)	2,639,158	1.0	537,225	0.2036	12 months	1 year

#### Notes:

- Zhejiang Shibao Holding is an investment holding company established in the PRC on 28 May, 2003 and is owned as to 40% by Mr. Zhang, 20% by Zhang Bao Yi, 20% by Mr. Tang, 15% by Zhang Lan Jun and 5% by Zhang Shi Zhong. Zhejiang Shibao Holding is a Promoter. (Please refer to the sub-paragraph headed “Excluded businesses — Zhejiang Shibao Holding” in the paragraph headed “Competition” under the section headed “Business” in this prospectus for further details.)
- Each of Mr. Zhang, Zhang Bao Yi, Mr. Tang and Zhang Lan Jun is an executive Director and an Initial Management Shareholder. Zhang Shi Zhong is a non-executive Director and an Initial Management Shareholder. (Please refer to the section headed “Directors, Supervisors, senior management and employees” in this prospectus for further details.)
- Mr. Du Chun Mao is a member of our senior management. (Please refer to the section headed “Directors, Supervisors, senior management and employees” in this prospectus for further details of Mr. Du.) Mr. Chen Wen

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## **SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND PROMOTERS**

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Hong is the office manager of Zhejiang Shibao Steering. Mr. Wu Lang Yue is a production manager of Hangzhou Shibao. Mr. Wu Wei Xu is the mechanical equipment supervisor of Hangzhou Shibao. Each of Mr. Du Chun Mao, Mr. Chen Wen Hong, Mr. Wu Lang Yue and Mr. Wu Wei Xu is a Promoter and an Initial Management Shareholder.

4. Each of Zhejiang Shibao Holding, Mr. Du Chun Mao, Mr. Chen Wen Hong, Mr. Wu Lang Yue and Mr. Wu Wei Xu first became a shareholder of Zhejiang Shibao Steering, the predecessor of our Company, pursuant to a series of share transfers that took place on 5 March, 2004. Each of them was a Promoter when Zhejiang Shibao Steering was converted into a joint stock limited company on 12 July, 2004, pursuant to which 165,387,223 Domestic Shares were issued to Zhejiang Shibao Holding and 2,639,158 Domestic Shares were issued to each of Mr. Du Chun Mao, Mr. Chen Wen Hong, Mr. Wu Lang Yue and, Mr. Wu Wei Xu respectively. (Please refer to the sub-paragraph headed “Reorganisation” in the paragraph headed “Corporate development” under the section headed “Business” in this prospectus for further details.)
5. Each of Mr. Zhang, Zhang Bao Yi and Zhang Shi Zhong first became a shareholder of Zhejiang Shibao Steering when the shareholders of Yiwu Qianjin Steering Gear Factory (義烏市前進方向機廠) resolved to dissolve Yiwu Qianjin Steering Gear Factory and to transfer Yiwu Qianjin Steering Gear Factory’s shareholding in Zhejiang Shibao Steering to its then beneficial owners pursuant to the resolution of its shareholders’ meeting dated 10 September, 1997. Yiwu Qianjin Steering Gear Factory was one of the shareholders of Zhejiang Shibao Steering when it was established on 2 June, 1993 and Mr. Zhang and Zhang Shi Zhong were two of the original equity owners of Yiwu Qianjin Steering Gear Factory. Zhang Bao Yi’s equity interest in Zhejiang Shibao Steering was transferred from Fotang Zhang’s Second Village (佛堂鎮張宅二村), one of the original equity owners of Yiwu Qianjin Steering Gear Factory. (Please refer to the sub-paragraph headed “Zhejiang Shibao Steering” in the paragraph headed “Corporate development” under the section headed “Business” in this prospectus for further details.)
6. The total investment cost by each of Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong is calculated based on the total investment cost of RMB33,667,980 contributed by Zhejiang Shibao Holding in our Company and in proportion to their respective shareholdings in Zhejiang Shibao Holding.

### **Undertakings by Initial Management Shareholders**

Under Rule 13.16(2) of the GEM Listing Rules, our Company shall procure that every Initial Management Shareholder undertake to our Company and the Stock Exchange that, for a period commencing on the date by reference to which disclosure of the shareholdings of the Initial Management Shareholders is made in this prospectus and ending on the date which is 12 months from the listing date; he/she/it will not, save as provided in Rule 13.18 of the GEM Listing Rules (a) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interest in his/her/its relevant securities; or (b) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest.

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## **SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND PROMOTERS**

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Under Rule 13.19 of the GEM Listing Rules, our Company shall procure that every Initial Management Shareholder undertake to our Company and the Stock Exchange to comply with the following requirements:

- (1) in the event that the Initial Management Shareholder pledges or charges any direct or indirect interest in the relevant securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the applicable moratorium period specified in Rule 13.16 of the GEM Listing Rules as stated above, he/she/it must inform our Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (2) having pledged or charged any interest in the relevant securities under sub-paragraph (1) above, he/she/it must inform our Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

Each of Zhejiang Shibao Holding and its shareholders (namely Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong), Mr. Wu Wei Xu, Mr. Wu Lang Yue, Mr. Du Chun Mao and Mr. Chen Wen Hong, each being an Initial Management Shareholder holding directly or indirectly more than 1% interest in the registered capital of our Company as at the latest practicable date, has undertaken to our Company, the Stock Exchange, Anglo Chinese and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) that:

- (1) for a period commencing on the date by reference to which disclosure of his/her/its shareholdings is made in this prospectus and ending on the date which is 12 months from the listing date, he/she/it will not, save as provided in Rule 13.18 of the GEM Listing Rules, (a) dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interest in the Domestic Shares held by him/her/it; or (b) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest.
- (2) in the event that he/she/it pledge(s) or charge(s) any direct or indirect interest in the Domestic Shares held by him/her/it under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it will inform our Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (3) having pledged or charged any interest in the Domestic Shares held by him/her/it under paragraph (2) above, inform our Company immediately in the event that he/she/it become aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

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## SHARE CAPITAL

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The share capital of our Company immediately following completion of the Placing will be as follows:

<b>Authorised, issued and to be issued, fully paid or credited as fully paid upon completion of the Placing:</b>	<b>Nominal value (RMB)</b>	<b>Approximate percentage of issued share capital (%)</b>
175,943,855 Domestic Shares in issue	175,943,855	67.0
<u>86,714,000</u> H Shares to be offered under the Placing	<u>86,714,000</u>	<u>33.0</u>
<u>262,657,855</u> Shares	<u>262,657,855</u>	<u>100.00</u>

Notes:

### Assumptions

Domestic Shares and H Shares are all ordinary shares in the share capital of our Company. All existing Domestic Shares are held by the Promoters and are not admitted for listing on any stock exchange and there is no trading or dealing in such securities on any other authorised trading facility. H Shares may only be subscribed for by, and traded between, legal or natural persons of Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC or any country other than the PRC. Furthermore, H Shares must be subscribed for, and traded in Hong Kong dollars. Our Company does not propose to carry out a public or private issue or to place securities simultaneously with the Placing in the foreseeable future. Our Company has not approved any share issue plan other than the Placing.

### Minimum Public Float

Under the GEM Listing Rules, where there are existing issued securities of a PRC issuer other than H Shares, then: (i) 100% of the H Shares must be held by the public; (ii) the H Shares held by the public must normally constitute not less than 10% of our Company's total existing issued share capital; and (iii) the aggregate amount of the H Shares and such other securities which are held by the public must constitute not less than 25% of our Company's total issued share capital. The registered share capital of our Company to be held by the public is approximately 33%.

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## SHARE CAPITAL

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### **Ranking**

Except in the aspects described above and in relation to notices and financial reports to be sent to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in appendix IV to this prospectus, Domestic Shares and H Shares will rank *pari passu* with each other in all respects and, in particular, will rank in full for all dividends or distributions declared, paid, made after the date of this prospectus except that dividends on Domestic Shares shall be paid in Renminbi while dividends on H Shares shall be paid in Hong Kong dollars. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

All Domestic Shares are currently held by the Promoters. There are 175,943,855 outstanding Domestic Shares not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in the PRC. However, upon the expiry of one year from the listing date, the Domestic Shares held by the Promoters may be disposed of by agreement.

### INDEBTEDNESS

#### Borrowings

At the close of business on 31 March, 2006, being the latest practicable date for inclusion of information in this section prior to the publication of this prospectus, our Group had secured and unsecured bank loans of approximately RMB8.5 million and RMB49.0 million respectively, all of which were repayable within one year. The secured bank loans were secured by our Group's buildings with net book value of RMB11.5 million as at 31 March, 2006. As at 31 March, 2006, the Group also had unsecured government loans of approximately RMB5.8 million from Siping Municipal Ministry of Finance, of which RMB3.0 million were repayable in 2016, and RMB2.8 million were repayable in 2020.

#### Contingent liabilities and commitments

At the close of business on 31 March, 2006, our Group had no material contingent liability.

At the close of business on 31 March, 2006, commitments of our Group in respect of acquisition of property, plant and equipment and investment in a sino-foreign joint-venture enterprise amounted to RMB35.6 million, of which about RMB30.5 million were contracted but not provided for, and the remaining about RMB5.1 million were authorised but not contracted. The Directors plan to finance the above commitments as to approximately RMB35.2 million from the net proceeds of the Placing, and the balance to be financed by internally generated funds and, or bank borrowings.

#### Disclaimer

Save as disclosed above, our Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31 March, 2006.

#### No material change

Our Directors confirm that there has been no material change in the indebtedness, commitments and contingent liabilities of our Group since 31 March, 2006.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Net current assets

As at 31 March, 2006, based on the unaudited consolidated management accounts of our Group, our Group had net current assets of approximately RMB65.5 million. Current assets mainly comprised trade and notes receivables of about RMB108.7 million, prepayments, deposits and other receivables of about RMB12.7 million, inventories of about RMB32.7 million and cash

and cash equivalents of about RMB37.4 million. Current liabilities comprised mainly current portion of bank loans and other borrowings of about RMB57.5 million, trade and notes payables of about RMB36.7 million, accrued liabilities and other payables of about RMB19.7 million and tax payable of about RMB12.1 million.

### **Banking facilities**

As at 31 March, 2006, our Group had total banking facilities of approximately RMB78.5 million, of which approximately RMB21.0 million was unutilised.

### **Hedging**

As much of the revenue and expenses transactions of our Group are denominated in Renminbi, we have not implemented any hedging or other alternatives.

## **DIVIDENDS AND WORKING CAPITAL**

### **Dividends**

For the year ended 31 December, 2004, dividends totalling approximately RMB29.0 million were declared. Our Shareholders approved the proposed final dividend of RMB15.0 million for the year ended 31 December, 2005 at an extraordinary shareholders' meeting held on 20 February, 2006.

While it is our present intention to distribute around 30% of our distributable profit in each financial year, the amount of dividends that may be declared in the future will be subject to the discretion of our Directors and will be dependent upon, among other factors, the availability of our distributable reserve, our earnings, financial condition, capital requirements and other factors as deemed relevant at such time by our Directors. Furthermore, in accordance with the Company Law, our Company may only distribute dividends after offsetting the accumulated losses brought down from previous years, if any, and after making relevant appropriation(s) to the statutory surplus reserve fund at the rate(s) stipulated in the Company Law. Our Company may further appropriate part of its profit after tax and the said appropriation(s) to a discretionary surplus reserve fund upon approval by our Shareholders. The past dividend distributions referred to above should not be used as a reference or basis to determine the amount of dividend payout in the future.

The Articles of Association requires that cash dividends of H Shares will be declared in Renminbi and paid in Hong Kong dollars to the holders of H Shares. Conversion of Renminbi into Hong Kong dollars will be subject to the relevant PRC foreign exchange regulations and will be calculated at an exchange rate which will be the average of the PBOC Exchange Rate one calendar week preceding the date of declaration of dividends.

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## FINANCIAL INFORMATION

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If our Company does not have sufficient foreign exchange reserves to pay its Hong Kong dollar dividends, we intend to exchange our Renminbi funds into the required Hong Kong dollars at authorised banks or through other approved means. There is no assurance that we will be able to obtain Hong Kong dollar funds as needed.

### Working capital

After taking into account our Group's internally generated funds, the banking facilities available to our Group and the estimated net proceeds from the Placing, our Directors are of the opinion that our Group has sufficient working capital for its present requirements.

### DISCLOSURE UNDER RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

Our Directors have confirmed that as at the latest practicable date, there was no circumstance which would give rise to any disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group which has been prepared for the purpose of illustrating the effect of the Placing as if it had taken place on 31 December, 2005 and is based on the audited net tangible assets of our Group as at 31 December, 2005 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus and is adjusted as follows:

	<b>Audited net tangible assets of our Group as at 31 December, 2005 attributable to Shareholders</b>	<b>Estimated net proceeds from the Placing</b>	<b>Unaudited pro forma adjusted net tangible assets</b>	<b>Unaudited pro forma adjusted net tangible asset value per Share</b>
Based on maximum				
Placing Price of HK\$1.60				
RMB'000	234,885	119,080	353,965	RMB1.35
HK\$'000	225,851	114,500	340,351	HK\$1.30
Based on minimum				
Placing Price of HK\$1.32				
RMB'000	234,885	95,160	330,045	RMB1.26
HK\$'000	225,851	91,500	317,351	HK\$1.21

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## FINANCIAL INFORMATION

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*Notes:*

1. This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of our Group following the Placing.
2. Our Group's property interests as at 28 February, 2006 have been valued by Vigers Appraisal & Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in appendix III to this prospectus. The above adjustment does not take into account the deficit arising from the revaluation of our Group's property interests amounting to RMB1,087,222. The revaluation deficit has not been incorporated in our Group's financial statements for the year ended 31 December, 2005. If the revaluation deficit was recorded in our Group's financial statements, the depreciation expense of our Group for the year ended 31 December, 2005 would be decreased by approximately RMB1,663.
3. The adjustment to the unaudited pro forma statement of net tangible assets reflects the estimated proceeds from the Placing, net of related expenses, to be received by our Company. The estimated net proceeds from the Placing assume a maximum Placing Price of HK\$1.60 per H Share and a minimum Placing Price of HK\$1.32 per H Share.
4. The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 262,657,855 Shares are in issue.

### **FOREIGN EXCHANGE EXPOSURE**

Most of the income and expenditure of our Group are denominated in Renminbi. Our Group has not experienced any material difficulties or effects on our operations or liquidity as a result of the fluctuations in currency exchange rates during the track record period. Our Directors believe that the foreign exchange risks of our Group is not material.

### **PROPERTY INTERESTS**

Particulars of our Group's property interests are set out in appendix III to this prospectus.

### **DISTRIBUTABLE RESERVE**

Subsequent to the proposed final dividend as set out under the sub-paragraph headed "Dividends" in the paragraph headed "Dividends and working capital" in this section, our Company's distributable reserve as at 31 December, 2005, which represented our Company's reserve as determined in accordance with the accounting principles and financial regulations applicable to PRC enterprises (the "PRC GAAP") after deduction of the transfers to the statutory surplus reserve and statutory public welfare fund, amounted to approximately RMB20,789,000 (2004: RMB10,298,000). Taking into account the proposed final dividend as mentioned above, our Company had no reserve available for distribution to our Shareholders based on the financial statements prepared in accordance with the International financial Reporting Standards.

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## FINANCIAL INFORMATION

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### CASH FLOW

During the track record period, we financed our operations mainly with cash generated from our business operations and, as and when necessary, from short term bank borrowings. As at 31 December, 2005, cash and cash equivalents of our Group amounted to approximately RMB37.4 million. The following table summarises our cash flow during the track record period:

	<b>31 December,</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflows from operating activities	30,418	72,848
Net cash (outflows) used in investing activities	(52,929)	(52,322)
Net cash inflows/(outflows) from/(used in) financing activities	<u>16,200</u>	<u>(6,800)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b><u>(6,311)</u></b>	<b><u>13,726</u></b>
<b>Cash and cash equivalents at end of year</b>	<b><u>23,635</u></b>	<b><u>37,361</u></b>

### Cash flows from operating activities

Our cash flows from operating activities related primarily to sale of automotive steering gears and related components.

Despite a reduction of some RMB6.9 million in profit from operations before income tax, our net cash inflows from operating activities increased by about RMB42.4 million from RMB30.4 million in 2004 to RMB72.8 million in 2005 for a number of major reasons. As at the year ended 31 December, 2004, we had about RMB12.9 million due from Mr. Zhang who advised that the advances were for his personal use. We also had about RMB6.0 million and RMB0.2 million due from Wuhu Sterling and Jilin Shibao respectively for their working capital purposes, and about RMB24.4 million due from Zhejiang Shibao Holding as at 31 December, 2004 which comprised of: (i) advances to Zhejiang Shibao Holding of approximately RMB6.9 million used as its general working capital; (ii) a receivable of approximately RMB9.6 million being the balance consideration for disposal of 95% equity interest in Jilin Shibao; (iii) consideration receivable of approximately RMB6.3 million for disposal of 90% equity interest in Changchun Shili Automotive; and (iv) consideration receivable of approximately RMB1.6 million for disposal of 80% equity interest in Jilin Shibao Automation. These advances were settled in full as at 31 December, 2005, resulting in an increase of about RMB43.5 million in our cash inflows from operating activities. We have been advised by our PRC legal advisers that the advances made to our Directors, Zhejiang Shibao Holding, Wuhu Sterling and Jilin Shibao Automation as mentioned above were not in compliance with Rules 123 and 214 of the Company Law. As all these advances were

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## FINANCIAL INFORMATION

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settled, we have been advised that no legal dispute would arise as a result of these advances and our Company will not be subject to any administrative penalties or other legal liabilities. We have been further advised that the making of such advances will not, under the PRC law, result in any material obstruction to the listing of our Company on GEM.

As at 31 December, 2005, we had an outstanding amount due from Mr. Zhang of about RMB7,000 which were principally prepaid staff expenses and was subsequently settled on 24 March, 2006. We also had an amount due from Wuhu Sterling, our related company of some RMB274,000 which were trade receivables arising from sale of finished goods. Our Directors envisage that sales to Wuhu Sterling will continue following the listing of our Company, and the corresponding trade receivables (to be disclosed as “due from associated company” for reporting purposes) will be repayable on credit terms similar to those offered to our major customers. We have been advised by our PRC legal advisers that outstanding trade receivables from Wuhu Sterling do not contravene with Rules 123 and 214 of the Company Law.

We also recorded overall decrease of some RMB21.6 million on our trade and notes receivables and prepayments, deposits and other receivables, and an increase of some RMB7.8 million on our trade and notes payables as at 31 December, 2005. A significant reduction in the increase in inventory level from about RMB8.3 million in 2004 to some RMB0.3 million in 2005 also contributed to an increase in net cash flows from operating activities during 2005.

### **Cash flows from investing activities**

Net cash outflows used in investing activities remained stable in the range of RMB52 million to RMB53 million for the track record period.

For the year ended 31 December, 2004, our net cash outflows used in investing activities comprised mainly purchases and disposals of property, plant, equipment and land use rights and construction of production facilities (about RMB54.4 million), investment and disposal of interests in subsidiaries and associates (about RMB1.3 million) and interest received (about RMB0.2 million).

We reported comparable net cash outflows of about RMB52.4 million for purchases of property, plant, equipment and land use rights and construction of production facilities in 2005 (including the government grants received in respect of acquisition of property, plant and equipment). While we did not have any cash outflows relating to investment or disposal of interests in subsidiaries and associates, we received approximately RMB0.1 million interest in 2005.

### **Cash flows from financing activities**

Our cash flows from financing activities changes as a result of fresh capital contributions received, movements in bank borrowings and dividends paid.

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## FINANCIAL INFORMATION

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Our cash flows from financing activities reduced from a net inflow of about RMB16.2 million in 2004 to a net outflow of about RMB6.8 million in 2005 principally due to the payments of dividends totalling some RMB29.3 million. Net increase in bank borrowings increased marginally from about RMB15.0 million in 2004 to RMB19.7 million in 2005. We received RMB1.2 million capital contribution from Mrs. Zhang as her first payment for her share of capital contribution in Hangzhou New Shibao in 2004, and an additional RMB2.8 million capital contribution from Mrs. Zhang as her balance payment for her share of capital contribution in Hangzhou New Shibao in 2005.

### **CRITICAL ACCOUNTING POLICIES**

We have identified below the accounting policies that are most critical in preparing our consolidated financial statements.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised:

- (a) revenue from the sale of goods, when the significant risks and rewards of ownership of the goods have passed to the buyer;
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

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## FINANCIAL INFORMATION

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Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the assets, after taking into account its estimated residual value, as follows:

Buildings	10 - 45 years
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected to arise from the continued use of the item. Any gain or loss arising on the derecognition of the item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

### **Trade and other receivables**

Trade receivables are recognised and carried at original invoice amounts less allowances for any uncollectible amounts.

Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Prepayments, deposits and other receivables are recognised and carried at cost less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at cost.

### **Research and development costs**

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

### **FACTORS THAT MAY AFFECT OUR BUSINESS OPERATIONS AND FINANCIAL PERFORMANCES**

Our performance is affected by various factors that may or may not fall within our control. The key factors are set out below:

#### **Automobile industry and economic development in the PRC**

Our products are principally sold to automobile and automotive parts and components manufacturers in the PRC. Changes in the demand for locally made automobiles in the PRC is therefore expected to affect our sales. Such demand hinges to a significant extent on the overall state and pace of growth of the economy in the PRC as well as fiscal and other economic policies of the PRC government in general.

#### **Ability to keep abreast of the latest technological skills**

Competition in the automobile industry in the PRC is intense as reflected in the frequent introduction of new types of automobiles and the number of automotive parts and components manufacturers in the PRC. New types of automobiles often require corresponding changes to the design of steering gears. Our ability to adopt new technologies in our design and manufacturing of steering gears affect our competitiveness in securing new businesses.

#### **Having adequate production capacity**

We have sufficient production capacity to cope with increase in businesses either from existing or new customers. As at December, 2005, utilisation rate of our production facilities in respect of each of our major product types, namely manual recirculating ball steering gears, power recirculating ball steering gears, power rack-and-pinion steering gears, *Hong Qi* steering knuckles, *M6* steering knuckles and rotary valves applied on power recirculating ball and power rack-and-pinion steering gears ranged from about 28% to 98%. We are in the process of expanding our production capacity for our existing products as well as electronic power steering gears, our product under development.

## FINANCIAL INFORMATION

### TRADING RECORD

A summary of the audited consolidated financial statements of our Group during the track record period, which is extracted from the accountants' report in appendix I to this prospectus, is set out as follows:

#### Consolidated income statements

	<i>Notes</i>	<b>Year ended 31 December,</b>	
		<b>2004</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	1	140,323	149,148
Cost of sales		<u>(68,341)</u>	<u>(82,579)</u>
<b>Gross profit</b>		71,982	66,569
Other income		905	1,071
Selling and distribution costs		(5,444)	(6,282)
Administrative expenses		(16,277)	(15,437)
Other expenses		<u>(788)</u>	<u>(162)</u>
<b>Profit from operations</b>		50,378	45,759
Finance costs		(1,863)	(3,931)
Share of loss of an associate		<u>—</u>	<u>(228)</u>
<b>Profit from operations before income tax</b>		48,515	41,600
Income tax expense		<u>(12,989)</u>	<u>(3,575)</u>
<b>Net profit for the year</b>		<u>35,526</u>	<u>38,025</u>
<b>Attributable to</b>			
Equity holders of the parent		34,468	37,472
Minority interests		<u>1,058</u>	<u>553</u>
		<u>35,526</u>	<u>38,025</u>
<b>Dividends</b>			
Interim		29,000	—
Proposed final		<u>—</u>	<u>15,000</u>
		<u>29,000</u>	<u>15,000</u>
Earnings per Share — basic	2	<u>RMB0.20</u>	<u>RMB0.21</u>

*Notes:*

1. 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.
2. The calculation of basic earnings per Share is based on the profit attributable to Shareholders for each of the two years ended 31 December, 2005 and on the basis of 175,943,855 Shares, being the number of Shares in issue prior to the Placing.

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### Consolidated balance sheets

	<b>31 December,</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	51,398	111,618
Construction in progress	42,538	32,777
Land use rights	27,956	27,471
Investment in an associate	7,200	6,972
Deferred tax assets	1,415	375
	<u>130,507</u>	<u>179,213</u>
<b>Current assets</b>		
Inventories	35,607	35,636
Trade and notes receivables	92,890	109,241
Prepayments, deposits and other receivables	11,815	17,023
Due from a director	12,882	7
Due from a holding company	24,423	—
Due from related companies	6,160	274
Cash and cash equivalents	23,635	37,361
	<u>207,412</u>	<u>199,542</u>
<b>Total assets</b>	<u>337,919</u>	<u>378,755</u>
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	27,180	56,820
Trade and notes payables	32,281	40,070
Accrued liabilities and other payables	20,346	18,350
Tax payable	9,270	10,329
Dividend payable	29,000	—
Deferred income	—	911
Due to a related company	2,000	—
	<u>120,077</u>	<u>126,480</u>
<b>Net current assets</b>	<u>87,335</u>	<u>73,062</u>
<b>Total assets less current liabilities</b>	<u>217,842</u>	<u>252,275</u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	15,820	5,830
Deferred income	—	3,848
	<u>15,820</u>	<u>9,678</u>
<b>Net assets</b>	<u>202,022</u>	<u>242,597</u>
<b>Represented by:</b>		
Paid-up capital/share capital	175,944	175,944
Reserves	21,469	43,941
Proposed final dividend	—	15,000
	<u>197,413</u>	<u>234,885</u>
Minority interests	4,609	7,712
<b>Total equity</b>	<u>202,022</u>	<u>242,597</u>

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## FINANCIAL INFORMATION

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### OVERVIEW OF THE FINANCIAL PERFORMANCE OF OUR GROUP

#### Turnover

2005 saw about 6% improvement in turnover to some RMB149.1 million when compared to the previous year. The following table sets out the breakdown of our turnover by major product types during the two years ended 31 December, 2005:

**Year ended 31 December,**

	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Manual recirculating ball steering gears	15,784	10,895
Power recirculating ball steering gears	77,011	78,949
Power rack-and-pinion steering gears	—	2,500
Steering knuckles	22,694	44,965
Rotary valves and others	25,843	12,468
Less Government surcharge	<u>(1,009)</u>	<u>(629)</u>
Total	<u>140,323</u>	<u>149,148</u>

Steering gear sales continued to be the main driver of our sales in 2005. Sales from the three types of steering gears, namely manual and power recirculating ball steering gears and power rack-and-pinion steering gears, totalled to some RMB92.3 million during 2005 and accounting for about 61.9% of our total sales for that year. Similar to the previous year, sales of power recirculating ball steering gears contributed the bulk of our steering gear sales in 2005 as a result of the general market trend to preferring power over manual steering gears. As the increase in sales of power recirculating ball steering gears and power rack-and-pinion steering gears, a relatively new product introduced to the market in March, 2005 had been offset by the reduction in the sales of manual steering gears during 2005, our overall sales in steering gears remained relatively stable during the track record period.

Apart from steering gears, steering knuckles are our number two products in terms of sales contribution. In 2005, sales from these products totalled to some RMB45.0 million, representing an almost two fold increase from the previous financial year. During the period under review, sales of *M6* steering knuckles improved significantly while demand for *Hong Qi*, a relatively older type of steering knuckle manufactured exclusively for FAW Car, fell rapidly which we believe is due to declining market demand for *Hong Qi* sedans in the PRC.

We produced two types of rotary valves during the track record period for use internally in the production of power recalculating ball and power rack-and-pinion steering gears as well as sales to third party customers as steering gear components. While production volume of both types of rotary valves and other components increased in 2005, the continuous increase in internal consumption coupled with a significant decline in the average selling price of rotary valves and other components used in power recirculating ball steering gears resulted in a decline in overall sales of rotary valves and other components by some 51.8% in 2005.

## FINANCIAL INFORMATION

### Cost of sales and gross profit margin

Our cost of sales comprised costs of raw materials used in manufacture of our products, direct labour and manufacturing overheads. During the track record period, raw material costs represented on average about 72.9% of our total costs of sales, while direct labour and manufacturing overheads represented about 9.9% and 17.2% of the total costs of sales. The following table sets out the breakdown of our cost of sales and gross profit margin by product types during the two years ended 31 December, 2005:

	Year ended 31 December,			
	2004		2005	
	Cost of sales	Gross profit margin	Cost of sales	Gross profit margin
	<i>RMB'000</i>		<i>RMB'000</i>	
Manual recirculating ball steering gears	12,624	20.0%	9,369	14.0%
Power recirculating ball steering gears	37,994	50.7%	40,824	48.3%
Power rack-and-pinion steering gears	—	—%	1,433	42.7%
Steering knuckles	5,371	76.3%	23,354	48.1%
Rotary valves and others	12,352	52.2%	7,599	39.1%
Total	<u>68,341</u>	<u>51.3%</u>	<u>82,579</u>	<u>44.6%</u>

We continued to experience pricing pressure on our manual and power recirculating ball steering gears. While gross profit margin for our power recirculating ball steering gears declined slightly, gross profit margin of our manual recirculating ball steering gears fell by some 6% in 2005 partly due to reduced production volume. We only commenced sales, on a trial basis, of our power rack-and-pinion steering gears in 2005 and reported gross profit margin of about 42.7%. In the longer run, we believe that the gross profit margin of our power rack-and-pinion steering gears will be affected by a number of factors, including increased utilisation of production facilities, increased technical experience of our production workers, downward pricing pressure and our pricing strategy.

The gross profit margin of steering knuckles saw a significant decline in 2005 due to a lower gross profit margin of *M6* steering knuckles, the sales of which surpassed that of *Hong Qi* steering knuckles in 2005 but which carried a relatively higher profit margin historically.

Gross profit margin of our rotary valves and other miscellaneous components also exhibited a decline in 2005. With increased production of rotary valves used in power rack-and-pinion steering gears during 2005, its gross profit margin had slightly improved. However, the average price for our rotary valves used in power recirculating ball steering gears and other miscellaneous components dropped significantly in 2005 due to increasing pricing pressure and resulted in the overall decline of gross profit margin of this product category.

## FINANCIAL INFORMATION

When compared to other various-sized publicly traded automotive parts and component manufacturers listed on the Stock Exchange or other markets, it is noted that our gross profit margins are relatively higher. Apart from three comparable companies that are listed on the Stock Exchange, many of the remaining companies target markets other than China and, or are not listed in major stock markets such as Korea, China, France, India and Turkey. Due to different legal and, or regulatory requirements in these markets, these companies may not adopt the same accounting standards as our Group in reporting their financial results. Based on publicly available information, many of the companies identified manufacture other machinery or different automotive parts and components in addition to or other than steering gears. In the circumstance, the profit margins of these companies may not be directly comparable to those of our Group.

### Other revenue

Other revenue mainly comprised sales of raw materials, interest income and government grants, which together accounted for some 82.5% and 73.8% respectively of the total other revenue for each of the two years ended 31 December, 2005. The following is a breakdown of our other revenue during the track record period:

#### Year ended 31 December,

	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of raw materials	366	510
Interest income	195	120
Government grants	186	160
Gain on sale of property, plant and equipment	—	76
Others	158	205
Total	<u>905</u>	<u>1,071</u>

### Operating expenses

Our operating expenses comprised mainly administrative expenses and selling and distribution expenses. The following table sets out our operating expenses during each of the two years ended 31 December, 2005:

#### Year ended 31 December,

	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Administrative expenses	16,277	15,437
Selling and distribution expenses	5,444	6,282
Other operating expenses	788	162
Total	<u>22,509</u>	<u>21,881</u>

## FINANCIAL INFORMATION

Total operating expenses for each of the two years ended 31 December, 2005 remained stable and represented about 16.0% and 14.7%, respectively, of our Group's total turnover.

A breakdown of our administrative expenses for each of the two years ended 31 December, 2005 is illustrated below:

	<b>Year ended 31 December,</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	3,675	4,404
Office expenses	2,540	2,275
Depreciation and amortisation expenses	2,084	3,079
Provision for bad and doubtful debts	3,920	—
Bad debt written off	429	—
Travelling expenses	594	1,898
Entertainment expenses	771	724
Research and development costs	543	1,550
Renovation and decoration expenses	300	—
Taxation expenses	438	435
Others	983	1,072
Total	<u>16,277</u>	<u>15,437</u>

Total administrative expenses reduced slightly from 2004 to 2005 and represented about 11.6% and 10.4% respectively of our Group's total turnover. The slight increase in staff costs in 2005 was mainly attributable to the increase in management and administrative headcounts in Hangzhou Shibao. Depreciation and amortisation expenses increased by about 47.7% in 2005 due to additional office furniture and equipment purchased for Hangzhou Shibao. Travelling expenses increased substantially by more than two folds mainly due to increased overseas travelling for, among other things, initial exploration of potential overseas markets. Research and development costs almost tripled due to additional research and development activities for our power rack-and-pinion steering gears and electronic power steering gears. We did not make any provision for bad and doubtful debts in 2005. The significant amount of provision of bad and doubtful debts in 2004 resulted principally from the full provision (which amounted to about RMB3,479,000) made against all outstanding receivables from Shenyang Zhongshun Automobile Co., Ltd. (沈陽中順汽車有限公司) with which we have ceased trading since 2005.

## FINANCIAL INFORMATION

A breakdown of our selling and distribution expenses for each of the two years ended 31 December, 2005 is illustrated below:

	Year ended 31 December,	
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	271	246
Sales commission	610	1,513
Repair and maintenance	938	1,588
Freight charges	1,654	1,631
Travelling expenses	1,709	672
Others	262	632
Total	<u>5,444</u>	<u>6,282</u>

Total selling and distribution expenses increased in tandem with our turnover growth and represented approximately 3.9% and 4.2% respectively of our Group's total turnover for each of the two years ended 31 December, 2005. Sales commission in 2005 increased substantially by about RMB903,000 as additional sales and marketing personnel were recruited, a majority of whom were remunerated on a commission basis and were not given travelling allowance. This also resulted in savings in travelling expenses of about RMB1,037,000 in 2005. Repair and maintenance expenses rose by some 69.3% in 2005 mainly due to increase in after sales service expenses and fuel expenses, while other miscellaneous selling and distribution expenses rose by some RMB370,000 due to increased marketing and promotional activities.

### Finance costs

The following table sets out the breakdown of our finance costs for each of the two years ended 31 December, 2005:

	Year ended 31 December,	
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	1,759	3,856
Charges on discounted notes	56	5
Other bank charges and finance costs	48	70
Total	<u>1,863</u>	<u>3,931</u>

## FINANCIAL INFORMATION

Interest expenses increased from about RMB1.9 million in 2004 to RMB3.9 million in 2005 on the basis of a net increase of bank loans and other borrowings by some RMB19.7 million in 2005. The additional financing were applied principally for construction of our Hangzhou Plant. The additional bank loans and other borrowings also resulted in an increase in our gearing ratio from some 12.7% in 2004 to 16.5% in 2005, and a reduction in our interest coverage from about 27.7 times in 2004 to 11.8 times in 2005.

### Taxation

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

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” (國稅發(2003)60號) dated 28 May, 2003 issued by the State Tax Bureau (國家稅務總局) and an approval document numbered “Si Ping Guo Shui Jing Kai No.001” (四平國稅經開001號) issued by Siping Economic Development Zone State Tax Branch (四平經濟開發區國家稅局分局) on 24 January, 2004, effective 17 June, 2004, Siping Steering is exempted from corporate income tax of the PRC for the years ended 31 December, 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years.

Except for Siping Steering, our Company and our other subsidiaries were subject to income tax at the rate of 33% during the track record period.

Major components of our income tax expenses for the track record period are as follows:

#### Year ended 31 December,

	2004	2005
	RMB'000	RMB'000
Provision for income tax		
— current	12,284	1,889
— under provision in prior years	—	646
— deferred	705	1,040
Income tax expenses	<u>12,989</u>	<u>3,575</u>

Income tax expenses decreased substantially in 2005 as non-taxable profit from subsidiaries (including Siping Steering which enjoyed full exemption for its income tax for the full year in 2005) increased substantially to RMB30.0 million. We also enjoyed tax credits in respect of purchases of property, plant and equipment from domestic vendors of about RMB2.2 million in 2005.

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## FINANCIAL INFORMATION

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### Net profit

During the track record period, our Group reported net profit attributable to Shareholders of approximately RMB34.5 million and RMB37.5 million, representing net profit margin of about 24.6% and 25.1% respectively. Notwithstanding a decline in gross profit margin in 2005, the net profit margin improved mainly as a result of tax benefits enjoyed during 2005 and, to a lesser extent, reduced administrative expenses.

Our return on equity decreased slightly from about 17.5% in 2004 to 16.0% in 2005. Our return on assets remained relatively stable at about 10.5% in 2004 and 10.0% in 2005.

### Trade and notes receivables

As at 31 December, 2004 and 2005, we had outstanding trade and notes receivables of approximately RMB92.9 million and RMB109.2 million respectively, representing about 44.8% and 54.7% of our total current assets as at those dates. The ageing analysis of our trade and notes receivables during the track record period and subsequent settlements up to 28 February, 2006 for our outstanding balance as at 31 December, 2005 are set out as follows:

	31 December,		Subsequent settlement by	Unsettled
	2004	2005	28 February, 2006	balance
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	48,704	72,542	28,034	44,508
Between 91 days to 180 days	16,819	9,265	4,626	4,639
Between 181 days to 365 days	14,941	12,204	3,088	9,116
Over 1 year	<u>17,481</u>	<u>20,285</u>	<u>2,468</u>	<u>17,817</u>
Total	<u>97,945</u>	<u>114,296</u>	<u>38,216</u>	<u>76,080</u>
Less: provision for bad and doubtful debts	<u>(5,055)</u>	<u>(5,055)</u>		
Net balance	<u>92,890</u>	<u>109,241</u>		

In general, we offer credit terms ranging from 90 to 180 days depending on the credit and payment history of the particular customer, our trading relationship with it and its financial standing. Our notes receivables generally bear discount period of 180 days. Our debtors turnover for each of the two years ended 31 December, 2005 was about 242 days and 267 days.

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## FINANCIAL INFORMATION

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Our senior management reviews the recoverability of our trade receivables on a regular basis with reference to the ageing of outstanding receivables. In the event that the collection of trade receivables is in doubt, our senior management will estimate the likelihood of recovering such outstanding receivables after expiry of the applicable credit terms on a case-by-case basis, and based on such estimates specific provision(s) for bad and doubtful debts will be made accordingly.

In 2004, we made provision for bad and doubtful debts totalling about RMB3.9 million and directly wrote off about RMB0.4 million from our trade and notes receivables. Included in the provision for bad and doubtful debts made in 2004 was a one-off provision of some RMB3.5 million made against all outstanding receivables from Shenyang Zhongshun Automobile Co., Ltd. (沈陽中順汽車有限公司) which we ceased trading since 2005. We did not make any additional provision for bad and doubtful debts in 2005.

Aggregate gross trade and notes receivables outstanding for over 180 days amounted to about RMB32.5 million and represented some 28.4% of our total gross trade and notes receivables as at 31 December, 2005.

Of the gross trade and notes receivables outstanding for over one year as at 31 December, 2005, approximately RMB11.1 million were due from Fawer Drive Shaft, a member of the FAW Group. To the best knowledge of our Directors, Fawer Drive Shaft had transferred its steering system business line to its joint-venture subsidiary and focused on its other lines of business, and had ceased placing orders for our steering gear products since 2005. On 16 January, 2005, we entered into a settlement agreement with Fawer Drive Shaft under which Fawer Drive Shaft agreed to settle all receivables due from it (being approximately RMB26.3 million as at 31 December, 2004) by monthly installments commencing from January, 2005 until they are settled in full. As at 28 February, 2006, we have received a total of RMB15.7 million from Fawer Drive Shaft. Based on the terms of the settlement agreement, our Directors anticipate that all outstanding receivables due from Fawer Drive Shaft will be settled on or before the end of 2006.

Apart from the outstanding receivables from Fawer Drive Shaft described above, our gross trade receivables outstanding for over one year as at 31 December, 2005 amounted to about RMB9.2 million, out of which we have made approximately RMB5.1 million provision for bad and doubtful debts. All of the remaining receivables aged over one year after provision (which amounted to about RMB4.1 million) were due from sizeable automobile and, or automotive parts and components manufacturers in the PRC, including those within the FAW Group and the Dongfeng Motor Group, and out of which about RMB2.2 million were subsequently settled as at 28 February, 2006.

Outstanding trade and notes receivables aged between 181 days and one year amounted to about RMB12.2 million and represented about 10.7% of our total gross trade and notes receivables as at 31 December, 2005. Over 70% (or about RMB8.6 million) of the receivables

under this category were due from sizeable automobile and, or automotive parts and components manufacturers in the PRC, including those within the FAW Group and the Dongfeng Motor Group and Dandong Huanghai Automobile, and out of which about RMB2.6 million were subsequently settled as at 28 February, 2006.

### **Prepayments, deposits and other receivables**

Our prepayments, deposits and other receivables amounted to approximately RMB11.8 million and RMB17.0 million as at each of the two years ended 31 December, 2005 respectively. The increase was principally due to increased prepaid listing expenses.

### **Inventories**

Our inventories comprised raw materials, work in progress, finished goods and low value consumables. During the track record period, raw materials, work in progress, finished goods and low value consumables represented on average about 30.2%, 31.8%, 36.0% and 2.0%, respectively of our inventories after provision.

As our production and sales increased in 2005 while the level of ending inventory remained about the same as at 31 December, 2004 and 2005, it resulted in a lower inventory turnover (in terms of overall cost of sales) of about 158 days compared to 190 days in 2004.

In making our provision for slow moving and obsolete inventories, our Directors estimate the net realisable value on our inventories primarily based on the latest invoice prices and current market conditions. In the event the estimated net realisable value is lower than the carrying cost, the value of the relevant inventories would be written down accordingly. Our management would also carry out inventory review on a product-by-product basis at the end of the financial year and make 100% provision for inventories which are considered no longer relevant for production, or in respect of finished goods, for sale.

In general, our raw materials are common durable materials such as steel alloys, iron casts, steel pipes, gaskets and bearings. During our production process, some of these raw materials would be further processed into components and, together with other readily usable raw material parts, would be assembled into our finished products. Due to the nature of these raw materials, they are generally usable unless damaged during the production process. Provisions are made in respect of damaged semi-processed materials, and finished goods inventories which are damaged or no longer for sale in accordance with our inventory provision policy. During the track record period, a majority of our inventories were aged under one year, and we have not encountered any significant problems with subsequent usage or sales, as appropriate. On this basis, our Directors consider that our inventory provision is appropriate and that no further provision is necessary. Our reporting accountants concur with our Directors' view in this respect.

## FINANCIAL INFORMATION

We reversed approximately RMB195,000 against the provision for inventory obsolescence in 2005. As at each of the two years ended 31 December, 2005, provisions for slow-moving and obsolete inventories amounted to about RMB494,000 and RMB299,000 were being set aside, representing about 1.4% and 0.8% of the inventories before provision as at each of the respective year ends.

### Trade and notes payables

We source all our raw materials in China and settle our raw material purchases in Renminbi. Our terms of payment for raw material supplies may take the form of monthly settlement or cash on delivery. Some of our suppliers also provide us with credit terms where we are required to settle the amount exceeding a pre-agreed credit limit. In cases where no specific credit terms are stipulated in the purchase contracts, we normally settle our trade payables by installments with full settlement within one year from the date of the relevant purchase invoice. The following table sets out the ageing analysis of our trade and notes payables during the track record period and our subsequent settlements for outstanding balance as at 31 December, 2005:

	<b>31 December,</b>		<b>Subsequent settlement by</b>	<b>Unsettled</b>
	<b>2004</b>	<b>2005</b>	<b>28 February,</b>	<b>balance</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<b>2006</b>	<i>RMB'000</i>
			<i>RMB'000</i>	
Within 90 days	15,955	19,331	10,155	9,176
Between 91 days to 180 days	6,922	5,702	2,163	3,539
Between 181 days to 365 days	6,535	10,304	3,560	6,744
Over 1 year	2,869	4,733	731	4,002
Total	<u>32,281</u>	<u>40,070</u>	<u>16,609</u>	<u>23,461</u>

During each of the two years ended 31 December, 2005, our creditors turnover (in terms of overall cost of sales) remained relatively stable at approximately 172 days and 177 days respectively.

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## FINANCIAL INFORMATION

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### Accrued liabilities and other payables

The following table sets out the breakdown of our accrued liabilities and other payables during the track record period:

	Year ended 31 December,	
	2004	2005
	RMB'000	RMB'000
Advances from suppliers	2,519	2,900
Advances from customers	322	335
Accrued salaries and wages	3,042	2,792
Welfare payable	8,878	8,921
Accrued interest expenses	640	527
Taxation payable	3,228	(185)
Other payables and accruals	<u>1,717</u>	<u>3,060</u>
Total	<u>20,346</u>	<u>18,350</u>

Advances from suppliers relates principally to acquisition of production equipment. Around 70% of the accrued salaries and wages during the track record period were provided specifically for “laid off workers of state owned enterprises” employed by Siping Steering. (Please refer to the risk factor headed “Withdrawal of preferential tax treatment” in the section headed “Risk factors” in this prospectus for further details.) Welfare payable relates mainly to labour union fund, social security insurance, retirement pension fund, employees education fund and other accrued welfare expenses. The significant increase in other payables and accruals was mainly a result of accrued audit fees for the year ended 31 December, 2005.

### Liquidity ratios

Current ratio reduced from about 1.7 in 2004 to 1.6 in 2005, while quick ratio reduced from about 1.4 in 2004 to 1.3 in 2005. The slight deterioration of our liquidity position was mainly a result of increased short term bank borrowings which were applied for, among other things, construction of our Hangzhou plant and acquisition of machineries and equipment.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December, 2005 (being the date to which the latest audited consolidated financial statements of our Company were made up and set out in the accountants' report in appendix I to this prospectus).

### EXEMPTION OF INCLUSION OF CERTAIN INFORMATION UNDER THE COMPANIES ORDINANCE

Under section 342(1)(b) of the Companies Ordinance and paragraph 27 of third schedule to the Companies Ordinance (the “Third Schedule”), our Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of our Company during the three preceding years. Under paragraph 31 of the Third Schedule, our Company is required to include in this prospectus a report by the auditors and reporting accountants of our Company with respect to the financial results in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 5(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) (the “**Notice**”), where it is proposed to offer any shares of a company incorporated outside Hong Kong by a prospectus issued generally and the shares have been approved by the recognised exchange company that operates GEM for listing on GEM, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraphs 27 and 31 of the Third Schedule if it complies with the requirements of those paragraphs as modified by section 5(3) of the Notes.

In compliance with section 5(3) of the Notice which modifies the requirements in paragraphs 27 and 31 of the Third Schedule and in reliance of the exemption of section 5(2) of the Notice, our Company has included in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of our Group during the two preceding years, and a report by the auditors and reporting accountants of our Company with respect to the financial results of our Group for each of the two financial years immediately preceding the issue of this prospectus.

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## UNDERWRITING

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### UNDERWRITERS

Anglo Chinese Corporate Finance, Limited  
Tai Fook Securities Company Limited  
Watterson Asia Limited  
Taiwan Securities (Hong Kong) Company Limited  
CSC Securities (HK) Limited  
Phillip Securities (Hong Kong) Limited  
Sun Hung Kai International Limited

### UNDERWRITING ARRANGEMENT AND EXPENSES

Pursuant to the Underwriting Agreement, our Company is offering 86,714,000 Placing Shares for subscription pursuant to the Placing on and subject to the terms and conditions of this prospectus and the Underwriting Agreement.

Subject to, among other conditions, the GEM Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued as mentioned herein and the Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms on or before 8:00 a.m. (Hong Kong time) on the listing date which is currently expected to be Tuesday, 16 May, 2006, the Underwriters have severally, but not jointly and severally, agreed to procure places to subscribe or failing which by themselves to subscribe, for the Placing Shares at the Placing Price.

### Grounds for termination

Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters), following due consultation with Anglo Chinese, may in its sole discretion terminate the arrangements set out in the Underwriting Agreement by notice in writing given to us at any time prior to 8:00 a.m. (Hong Kong time) on the listing date, if:

- (1) there shall develop, occur or come into force:
  - (a) any change or development involving a prospective change in, or any event or series of events resulting in any change in local, national or international financial, legal, political, economic, military, industry, fiscal, regulatory, market (including stock market) or currency matters (including but not limited to a material revaluation of the Hong Kong currency or the Renminbi against any foreign currencies) or conditions in Asia (including Hong Kong and the PRC), Europe or the United States (collectively, the “Relevant Jurisdictions”); or
  - (b) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any of the Relevant Jurisdictions; or

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## UNDERWRITING

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- (c) any event or series of events of force majeure in or affecting any of the Relevant Jurisdictions including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (d) the imposition of economic sanction or withdrawal of trading privileges, in whatever form by the United States or by the European Union (or any member thereof) on Hong Kong or the PRC; or
- (e) any suspension or material limitation in trading in shares or securities generally on the Stock Exchange, or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the Stock Exchange or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement or clearance services or procedures in the Relevant Jurisdictions; or
- (f) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or other competent authority) or the other Relevant Jurisdictions; or
- (g) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdictions; or
- (h) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Company, any member of our Group or Wuhu Sterling, including any litigation or claim of material importance of any third party being threatened or instigated against our Company, any member of our Group or Wuhu Sterling; or
- (i) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or
- (j) any outbreak or escalation of hostilities (whether or not war is or has been declared) involving any of the Relevant Jurisdictions or any escalation thereof, or the declaration by any of the Relevant Jurisdictions of a national emergency or war,

and in each case in the sole opinion of Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters), following due consultation with Anglo Chinese:

- (i) is or will be, or is likely to be, adverse, in any material respect, to the business, financial or other conditions or prospects of our Group and Wuhu Sterling taken as whole; or

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## UNDERWRITING

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- (ii) has or will have or is likely to have an adverse and material effect on the Placing or the full subscription of the Placing Shares; or
  - (iii) makes it impracticable, inadvisable or inexpedient to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this prospectus; or
- (2) there comes to the notice of Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters) any matter or event showing any of the representations, warranties and undertakings contained in the Underwriting Agreement to be untrue, misleading or inaccurate in any material respect; or
  - (3) there comes to the notice of Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters) that there has been a breach of any other provisions of the Underwriting Agreement which, in any such case, is considered by Tai Fook (on behalf of the Joint Lead Managers and the other Underwriters), following due consultation with Anglo Chinese, to be material in the overall context of the Placing; or
  - (4) any statement contained in this prospectus and the Formal Notice has become or been discovered to be untrue, incorrect or misleading in any material respect; or
  - (5) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission herefrom; or
  - (6) there shall occur any event, or series of events, beyond the reasonable control of Tai Fook (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, outbreak of diseases or epidemics including, but not limited to, severe acute respiratory syndrome, avian bird flu and such related or mutated forms or interruption or delay in transportation) which in the opinion of Tai Fook (following due consultation with Anglo Chinese) has or would have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and, or payments pursuant to the Placing or pursuant to the underwriting thereof; or
  - (7) there shall have occurred any event, act or omission which gives rise or is likely to give rise to any material liability of our Company pursuant to the representations, warranties and indemnities contained in the Underwriting Agreement; or
  - (8) there shall have been any material adverse change in the business or the financial or trading position or results of operations of any member of our Group and, or Wuhu Sterling since the date of this prospectus; or

- (9) a valid demand by any creditor for repayment or payment of any indebtedness of our Company, any member of our Group or Wuhu Sterling or in respect of which our Company, any member of our Group or Wuhu Sterling is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group and Wuhu Sterling taken as a whole; or
- (10) a petition is presented for the winding-up or liquidation of our Company, any member of our Group or Wuhu Sterling or our Company, any member of our Group or Wuhu Sterling makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company, any member of our Group or Wuhu Sterling or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company, any member of our Group or Wuhu Sterling or anything analogous thereto occurs in respect of our Company, any member of our Group or Wuhu Sterling.

### **Commission and expenses**

The Underwriters will receive a commission of 3.5% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commission, and Anglo Chinese will in addition receive a financial advisory and sponsorship fees and expenses in relation to the Placing. Such fees, expenses and commission, together with the Stock Exchange listing fees, the brokerage, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Placing which are currently estimated to be approximately HK\$23 million in aggregate (based on the minimum Placing Price of HK\$1.32 per H Share) are to be borne by our Company.

### **Underwriters' interests in the Company**

Other than pursuant to the Underwriting Agreement, none of the Underwriters has any shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group. However, each of the Underwriters and their respective associates may subscribe for H Shares under the Placing, or purchase H Shares in the market for its own account.

### **Sponsor's interest in our Company**

Save as provided for under the Underwriting Agreement or otherwise disclosed in this prospectus, neither Anglo Chinese nor any of its associates is interested in any shareholding in any member of our Group, nor has any right (whether legally enforceable or not) or option to subscribe for or nominate persons to subscribe for any H Shares.

Anglo Chinese and our Company have entered into a compliance adviser agreement on 3 May, 2006 pursuant to which Anglo Chinese has been appointed as compliance adviser to our Company for a period commencing on the listing date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our Company's financial results for the second full (and not part thereof) financial year commencing after the listing date, subject to the terms and conditions agreed between the parties thereto.

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## UNDERWRITING

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None of the directors or employees of Anglo Chinese who is involved in providing advice to our Company has or may, as a result of the Placing, have any interests in any class of the securities or our Company (including options or rights to subscribe for such securities).

Neither Anglo Chinese nor its associates receive any material benefit as a result of the successful outcome of the Placing including (without limitation) the repayment of material outstanding indebtedness, except for the following:

- (i) by way of underwriting and placing commission to be paid to Anglo Chinese for acting as one of the Joint Lead Managers and Underwriters pursuant to the Underwriting Agreement;
- (ii) the documentation and financial advisory fee to be paid to Anglo Chinese as the Sponsor of the Placing; and
- (iii) the fees to be paid to Anglo Chinese as the compliance adviser to our Company pursuant to Rule 6A.19 of the GEM Listing Rules.

None of the directors or employees of Anglo Chinese has a directorship in our Company.

### **Undertakings**

Each of our Initial Management Shareholders has given certain non-disposal undertakings, details of which are set out under the section headed “Substantial Shareholders, Initial Management Shareholders and Promoters” in this prospectus.

In addition, pursuant to the Underwriting Agreement, our Company has undertaken to the Sponsor, the Joint Lead Managers, the Underwriters and each of them that without the prior written consent of the Sponsor and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) and unless in compliance with the requirements of the GEM Listing Rules and the applicable PRC laws, we will not and we will procure that none of our subsidiaries will allot or issue or agree to allot or issue any H Shares or other securities or grant or agree to grant any options, warrants or other rights to subscribe for H Shares or other securities or repurchase any securities of the Company or of any of the subsidiaries (except the call option granted to DHB-CA in respect of DHB-Shibao as disclosed in this prospectus), at any time during the period from the date of the Underwriting Agreement up to the date which is six months after the listing date (both dates inclusive).

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### DETERMINATION OF THE PLACING PRICE

The Placing Price is expected to be fixed pursuant to the Price Determination Agreement on or before the Price Determination Time, which is expected to be on or before 5:00 p.m. on Monday, 8 May, 2006 (Hong Kong time) or such other date and time as may be agreed between our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters), but in any event not later than 5:00 p.m. on Tuesday, 9 May, 2006 (Hong Kong time). If, for whatever reason, our Company and the Joint Lead Managers (for themselves and on behalf of the other Underwriters) are unable to enter into the Price Determination Agreement on or before the Price Determination Time, the Placing will not become unconditional and will lapse immediately. In such event, our Company will issue an announcement to be published on the GEM website.

The Placing Price will be not more than HK\$1.60 per H Share and is currently expected to be not less than HK\$1.32 per H Share. The final Placing price will fall within the indicative Placing Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than Wednesday, 10 May, 2006.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Lead Managers (for themselves and on behalf of the other Underwriters) consider it appropriate, and with the consent of our Company, reduce the indicative Placing Price range below that stated in this prospectus at any time on or before 5:00 p.m. on Tuesday, 9 May, 2006. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than Wednesday, 10 May, 2006, cause to be published in the GEM website an announcement of such change. Such announcement will also include confirmation or revision, as appropriate, of our working capital statement, the Placing statistics, as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any announcement being published in the GEM website of a reduction in the indicative Placing Price range stated in this prospectus in the manner set out herein, the final Placing Price, if agreed upon us, will under no circumstances be set outside the Placing Price range as stated in this prospectus.

Announcement of the Placing Price, the level of indication of interest in the Placing and the basis of allocation of the Placing Shares are expected to be published on the GEM website on or before Friday, 12 May, 2006.

### PRICE PAYABLE ON SUBSCRIPTION

Investors have to pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.005% SFC transaction levy. If the final Placing Price is determined at the upper limit of the indicative Placing Price range of HK\$1.60 per H Share, the total amount payable by the investors will be HK\$3,232.32 per board lot of 2,000 H Shares. If the final Placing Price is determined at the lower limit of the indicative Placing Price range of HK\$1.32 per H Share, the total amount payable by the investors will be HK\$2,666.66 per board lot of 2,000 H Shares.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### CONDITIONS OF THE PLACING

The Placing is subject to the following conditions:

- (a) the GEM Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued as mentioned herein, and such listing and permission not subsequently having been revoked prior to on or before 8:00 a.m. on the listing date;
- (b) the Price Determination Agreement having been duly executed by the Company and the Joint Lead Managers on or before the Price Determination Time and such agreement not subsequently being terminated; and
- (c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Lead Managers (for themselves and on behalf of the other Underwriters)) and the Underwriting Agreement not being terminated in accordance with its terms;

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If the conditions referred to above are not fulfilled on or before the date and time specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus, the Placing will lapse and notice of the lapse of the Placing will be published by our Company on the GEM website on the next business day following such lapse.

### THE PLACING

Pursuant to the Placing, our Company is offering 86,714,000 Placing Shares at the Placing Price for subscription by way of the Placing. The Placing will be fully underwritten by the Underwriters pursuant to the terms and conditions of the Underwriting Agreement.

Pursuant to the Placing, it is expected that the Underwriters or selling agents nominated by the Underwriters on behalf of our Company will conditionally place the Placing Shares with institutional, professional, corporate and other private investors. Professional, institutional, corporate and other private investors generally include brokers, dealers, high net worth individuals and companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and, or hold or sell his/her/its Placing Shares, after the listing of the H Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on

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## STRUCTURE AND CONDITIONS OF THE PLACING

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a basis which would lead to the establishment of a solid shareholder base for the benefit of our Company and its shareholders as a whole. In addition, our Directors will use their best endeavours to observe the minimum public float requirement under the GEM Listing Rules when making allocations of the Placing Shares to investors.

### **Commencement of dealing in the H Shares**

Dealings in H Shares on GEM are expected to commence at 9:30 a.m. on Tuesday, 16 May, 2006. The H Shares will be traded in board lots of 2,000 H Shares each.

*The following is the text of the accountants' report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.*



18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

4 May 2006

The Directors  
Zhejiang Shibao Company Limited  
Anglo Chinese Corporate Finance, Limited  
Tai Fook Securities Company Limited

Dear Sirs,

We set out below our report on the financial information regarding Zhejiang Shibao Company Limited (浙江世寶股份有限公司, formerly known as 浙江世寶方向機有限公司, the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the years ended 31 December 2004 and 2005 (the “Relevant Periods”) for inclusion in the prospectus of the Group dated 4 May 2006 (the “Prospectus”).

The Company was established as a domestic limited company in the People’s Republic of China (the “PRC”) on 2 June 1993. On 12 July 2004, the Company re-registered as a joint stock company with limited liability by the issuance of 175,943,855 fully paid Domestic Shares with a nominal value of RMB1 each to the then shareholders.

The Group is principally engaged in the manufacture and sale of automotive steering gear products. The registered office and principal place of business of the Company is located at Fotang Town, Yiwu, Zhejiang Province, the PRC.

The consolidated financial statements of the Group for the years ended 31 December 2004 and 2005, which were prepared in accordance with the accounting principles and financial regulations applicable to PRC enterprises (the “PRC GAAP”), were audited by Origen Certified Public Accountants Ltd. and Shanghai Huazheng Certified Public Accountants Co., Ltd., respectively. The financial statements of Siping Steering Gear Co., Ltd., a subsidiary of the Group for the years ended 31 December 2004 and 2005, which were prepared in accordance with the PRC GAAP, were audited by Jilin Tianchengxin Certified Public Accountants Ltd. No audited financial statements have been issued for the other subsidiaries of the Company since their respective date of incorporation.

The financial information set out in this report, including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Periods and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2004 and 2005 and the statements of changes in equity of the Company for the Relevant Periods, together with the notes hereto (collectively referred to as the “Financial Information”) has been prepared based on the audited financial statements and, where appropriate, management accounts of the Company and its subsidiaries, after making such adjustments as appropriate to comply with the International Financial Reporting Standards (“IFRS”).

The Financial Information and financial statements which give a true and fair view are the responsibility of the directors of the Company who approve their preparation and issuance. The directors of the respective companies of the Group are responsible for the preparation of the respective financial statements and, where appropriate, management accounts which give a true and fair view. In preparing the Financial Information, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgements and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion solely on the Financial Information and to report our opinion to you as a body and for no other purpose.

For the purpose of this report, we have undertaken an independent audit of the financial statements of the Group for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have carried out such additional procedures as necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

In our opinion, the Financial Information set out below, for the purpose of this report, gives a true and fair view of the consolidated results and consolidated cash flows of the Group for the Relevant Periods, the consolidated balance sheets of the Group as at 31 December 2004 and 2005 and of the balance sheets of the Company as at 31 December 2004 and 2005.

## I. FINANCIAL STATEMENTS

## Consolidated income statements

## Year ended 31 December

		2004	2005
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	4	140,323	149,148
Cost of sales		<u>(68,341)</u>	<u>(82,579)</u>
<b>Gross profit</b>		71,982	66,569
Other income	4	905	1,071
Selling and distribution costs		(5,444)	(6,282)
Administrative expenses		(16,277)	(15,437)
Other expenses		<u>(788)</u>	<u>(162)</u>
<b>Profit from operations</b>		50,378	45,759
Finance costs	5	(1,863)	(3,931)
Share of loss of an associate	15	<u>—</u>	<u>(228)</u>
<b>Profit from operations before income tax</b>	5	48,515	41,600
Income tax expense	7	<u>(12,989)</u>	<u>(3,575)</u>
<b>Net profit for the year</b>		<u>35,526</u>	<u>38,025</u>
<b>Attributable to</b>			
Equity holders of the parent		34,468	37,472
Minority interests		<u>1,058</u>	<u>553</u>
		<u>35,526</u>	<u>38,025</u>
<b>Dividends</b>	8		
Interim		29,000	—
Proposed Final		<u>—</u>	<u>15,000</u>
		<u>29,000</u>	<u>15,000</u>
Earnings per share — basic	9	<u>RMB0.20</u>	<u>RMB0.21</u>

**Consolidated balance sheets**

		<b>31 December</b>	
		<b>2004</b>	<b>2005</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	11	51,398	111,618
Construction in progress	12	42,538	32,777
Land use rights	13	27,956	27,471
Investment in an associate	15	7,200	6,972
Deferred tax assets	16	1,415	375
		<u>130,507</u>	<u>179,213</u>
<b>Current assets</b>			
Inventories	18	35,607	35,636
Trade and notes receivables	19	92,890	109,241
Prepayments, deposits and other receivables	20	11,815	17,023
Due from a director	21	12,882	7
Due from a holding company	22	24,423	—
Due from related companies	22	6,160	274
Cash and cash equivalents		23,635	37,361
		<u>207,412</u>	<u>199,542</u>
<b>Total assets</b>		<u>337,919</u>	<u>378,755</u>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	23	27,180	56,820
Trade and notes payables	24	32,281	40,070
Accrued liabilities and other payables	25	20,346	18,350
Tax payable		9,270	10,329
Dividend payable		29,000	—
Deferred income	17	—	911
Due to a related company	22	2,000	—
		<u>120,077</u>	<u>126,480</u>
<b>Net current assets</b>		<u>87,335</u>	<u>73,062</u>
<b>Total assets less current liabilities</b>		<u>217,842</u>	<u>252,275</u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	23	15,820	5,830
Deferred income	17	—	3,848
		<u>15,820</u>	<u>9,678</u>
<b>Net assets</b>		<u>202,022</u>	<u>242,597</u>
<b>Represented by:</b>			
Paid-up capital/share capital	26	175,944	175,944
Reserves	27	21,469	43,941
Proposed final dividend	8	—	15,000
		<u>197,413</u>	<u>234,885</u>
Minority interests		4,609	7,712
<b>Total equity</b>		<u>202,022</u>	<u>242,597</u>

**Balance sheets**

		<b>31 December</b>	
		<b>2004</b>	<b>2005</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	11	16,763	9,954
Construction in progress	12	883	—
Land use rights	13	6,822	6,650
Investments in subsidiaries	14	58,650	83,850
Investment in an associate	15	7,200	7,200
Deferred tax assets	16	1,415	375
		<u>91,733</u>	<u>108,029</u>
<b>Current assets</b>			
Inventories	18	16,627	1,535
Trade and notes receivables	19	31,698	9,964
Prepayments, deposits and other receivables	20	6,952	13,225
Due from a holding company	22	9,802	—
Due from subsidiaries	22	—	85,023
Due from related companies	22	6,000	—
Cash and cash equivalents		5,430	1,750
		<u>76,509</u>	<u>111,497</u>
<b>Total assets</b>		<u>168,242</u>	<u>219,526</u>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	23	20,000	44,000
Trade and notes payables	24	11,902	9,463
Accrued liabilities and other payables	25	13,435	9,344
Tax payable		121	872
Dividend payable		29,000	—
Due to a director	21	3,271	—
Due to subsidiaries	22	75,125	2,000
Due to a related company	22	2,000	—
		<u>154,854</u>	<u>65,679</u>
<b>Net current (liabilities)/assets</b>		<u>(78,345)</u>	<u>45,818</u>
<b>Net assets</b>		<u>13,388</u>	<u>153,847</u>
<b>Represented by:</b>			
Paid-up capital/share capital	26	175,944	175,944
Deficits	27	(162,556)	(37,097)
Proposed final dividend	8	—	15,000
<b>Total equity</b>		<u>13,388</u>	<u>153,847</u>

## Consolidated statements of changes in equity

	Notes	Year ended 31 December	
		2004 RMB'000	2005 RMB'000
<b>Attributable to equity holders of the parent</b>			
<b>Paid-up capital</b>			
At beginning of year	26	35,817	—
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(35,817)	—
At end of year		—	—
<b>Issued and fully paid share capital, ordinary shares of RMB1 each</b>			
At beginning of year	26	—	175,944
Transferred from paid-up capital upon the reorganisation of the Company as a joint stock limited company		35,817	—
Transferred from reserves upon the reorganisation of the Company as a joint stock limited company		140,127	—
At end of year		175,944	175,944
<b>Reserve arising from acquisition of minority interest</b>			
At beginning of year		(104)	5,736
- Minority's waiver of right of equity interest in a subsidiary	29(i)	8,717	—
- Taxation		(2,877)	—
At end of year		5,736	5,736
<b>Statutory surplus reserve</b>			
At beginning of year	27	20,944	10,983
Transferred from retained earnings		4,052	4,543
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(14,013)	—
At end of year		10,983	15,526

	<i>Notes</i>	<b>Year ended</b>	
		<b>31 December</b>	
		<b>2004</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Statutory public welfare fund</b>	27		
At beginning of year		30,271	23,379
Transferred from retained earnings		7,121	4,771
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		<u>(14,013)</u>	<u>—</u>
At end of year		<u>23,379</u>	<u>28,150</u>
<b>Retained earnings/(accumulated losses)</b>	27		
At beginning of year		99,177	(18,629)
Net profit for the year		34,468	37,472
Transferred to statutory surplus reserve		(4,052)	(4,543)
Transferred to statutory public welfare fund		(7,121)	(4,771)
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(112,101)	—
Dividend	8	(29,000)	—
Proposed final dividend	8	<u>—</u>	<u>(15,000)</u>
At end of year		<u>(18,629)</u>	<u>(5,471)</u>
<b>Reserves</b>		<u>21,469</u>	<u>43,941</u>
<b>Proposed final dividend</b>	8		
At beginning of year		—	—
Proposed final dividend		<u>—</u>	<u>15,000</u>
At end of year		<u>—</u>	<u>15,000</u>
<b>Total</b>		<u>197,413</u>	<u>234,885</u>
<b>Minority interests</b>			
At beginning of year		8,868	4,609
Net profit for the year		1,058	553
Capital contribution		1,200	2,800
Waiver of right of equity interest in a subsidiary	29(i)	(8,717)	—
Purchase of part of the capital contribution in a subsidiary		2,200	—
Dividend		<u>—</u>	<u>(250)</u>
At end of year		<u>4,609</u>	<u>7,712</u>
<b>Total equity</b>		<u>202,022</u>	<u>242,597</u>

## Statements of changes in equity

	Notes	Year ended 31 December	
		2004 RMB'000	2005 RMB'000
<b>Paid-up capital</b>	26		
At beginning of year		35,817	—
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(35,817)	—
At end of year		—	—
<b>Issued and fully paid share capital ordinary shares of RMB1 each</b>	26		
At beginning of year		—	175,944
Transferred from paid-up capital upon the reorganisation of the Company as a joint stock limited company		35,817	—
Transferred from reserves upon the reorganisation of the Company as a joint stock limited company		140,127	—
At end of year		175,944	175,944
<b>Reserve arising from acquisition of minority interest</b>			
At beginning of year		(104)	5,736
- Minority's waiver of right of equity interest in a subsidiary	29(i)	8,717	—
- Taxation		(2,877)	—
At end of year		5,736	5,736
<b>Statutory surplus reserve</b>	27		
At beginning of year		14,873	4,912
Transferred from accumulated losses		4,052	3,608
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(14,013)	—
At end of year		4,912	8,520

	<i>Notes</i>	<b>Year ended</b>	
		<b>31 December</b>	
		<b>2004</b>	<b>2005</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Statutory public welfare fund</b>	27		
At beginning of year		14,873	4,912
Transferred from accumulated losses		4,052	3,608
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(14,013)	—
At end of year		<u>4,912</u>	<u>8,520</u>
<b>Accumulated losses</b>	27		
At beginning of year		(29,250)	(178,116)
Net profit for the year		339	140,459
Transferred to statutory surplus reserve		(4,052)	(3,608)
Transferred to statutory public welfare fund		(4,052)	(3,608)
Transferred to share capital upon the reorganisation of the Company as a joint stock limited company		(112,101)	—
Dividend		(29,000)	—
Proposed final dividend	8	<u>—</u>	<u>(15,000)</u>
At end of year		<u>(178,116)</u>	<u>(59,873)</u>
<b>Deficits</b>		<u>(162,556)</u>	<u>(37,097)</u>
<b>Proposed final dividend</b>	8		
At beginning of year		—	—
Proposed final dividend		<u>—</u>	<u>15,000</u>
At end of year		<u>—</u>	<u>15,000</u>
<b>Total equity</b>		<u><u>13,388</u></u>	<u><u>153,847</u></u>

**Consolidated cash flow statements**

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>		
Profit from operations before income tax	48,515	41,600
Adjustments for:		
Share of losses of an associate	—	228
Depreciation	5,942	7,727
Amortisation of land use rights	303	487
Amortisation of deferred income	—	(911)
Provision for bad and doubtful debts	3,920	—
Interest expenses	1,815	3,861
Interest income	(195)	(120)
Gains from sale of part of the capital contribution in a subsidiary to a foreign co-operative joint venture partner	(18)	—
Loss/(gain) on disposal of property, plant and equipment	64	(76)
<b>Operating profit before working capital changes</b>	<u>60,346</u>	<u>52,796</u>
Increase in inventories	(8,257)	(29)
Increase in trade and notes receivables	(6,249)	(16,351)
Increase in prepayments, deposits and other receivables	(2,301)	(5,208)
Decrease in an amount due from a director	2,444	12,875
(Increase)/decrease in an amount due from related companies	(6,160)	5,886
(Increase)/decrease in an amount due from a holding company	(4,412)	24,423
(Decrease)/increase in trade and notes payables	(1,104)	7,789
Increase/(decrease) in accrued liabilities and other payables	985	(1,996)
Decrease in an amount due to a related company	—	(2,000)
<b>Cash generated from operating activities</b>	<u>35,292</u>	<u>78,185</u>
Cash generated from operating activities	35,292	78,185
Interest paid	(1,815)	(3,861)
Income tax paid	(3,059)	(1,476)
<b>Net cash flows from operating activities</b>	<u>30,418</u>	<u>72,848</u>

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from investing activities</b>		
Purchases of property, plant, and equipment and construction in progress	(46,137)	(60,587)
Purchase of land use rights	(15,069)	(2)
Government grants in respect of acquisition of property, plant, and equipment	—	5,670
Investment in an associate	(7,200)	—
Proceeds from sale of property, plant and equipment	6,764	2,477
Proceeds from disposal of an available for sale investment	6,300	—
Proceeds from disposal of part of the capital contribution in a subsidiary to a foreign co-operative joint venture partner	2,218	—
Interest received	195	120
<b>Net cash flows used in investing activities</b>	<u>(52,929)</u>	<u>(52,322)</u>
<b>Cash flows from financing activities</b>		
New interest-bearing loans and borrowings	25,000	98,830
Repayment of interest-bearing loans and borrowings	(10,000)	(79,180)
Dividend paid to equity holders of the parent	—	(29,000)
Dividend paid to minority interests	—	(250)
Capital contribution by minority shareholders	1,200	2,800
<b>Net cash flows generated from/(used in) financing activities</b>	<u>16,200</u>	<u>(6,800)</u>
Net (decrease)/increase in cash and cash equivalents	(6,311)	13,726
Cash and cash equivalents at beginning of year	<u>29,946</u>	<u>23,635</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>23,635</u></u>	<u><u>37,361</u></u>

## II. NOTES TO FINANCIAL STATEMENTS

## 1. Basis of presentation

The Financial Information is based on the audited financial statements and, where appropriate, management accounts of the companies comprising the Group. All material intra-group transactions and balances are eliminated on consolidation.

The Financial Information has been prepared in accordance with IFRS, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and under the historical cost convention. This basis of accounting differs from that used in the statutory and management accounts of the companies comprising the Group, which were prepared in accordance with the PRC GAAP.

Particulars of the Company's subsidiaries as at 31 December 2005 are set out below:

Company name	Place and date of incorporation	Registered/ paid-up capital RMB'000	Percentage of equity directly attributable to the Company	Principal activities
Siping Steering Gear Co., Ltd. ("Siping Steering") (note 1)	The PRC 28 October 1999	11,000	75%	Manufacture of steering gear and other automotive parts
Hangzhou Shibao Auto Steering Gear Sales Co., Ltd ("Hangzhou Shibao") (note 2)	The PRC 3 November 1996	40,000	99%	Manufacture of steering gear and other automotive parts
Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao") (note 3)	The PRC 14 December 2004	40,000	90%	Sale of steering gear and other automotive parts

## Notes:

- 1 Siping Steering, a subsidiary of the Company, was established as a domestic limited company on 28 October 1999. The Company held a 95% equity interest in Siping Steering at the time of its establishment. According to a capital contribution transfer agreement dated 30 October 2003 entered into between the Company, Ms. Zhang Mei Jun and Promised Land Ventures LLC (the "Foreign Partner"), the Foreign Partner acquired 20% and 5% of the paid-up capital contribution in Siping Steering at par value from the Company and the original minority shareholder (the "Minority Shareholder"), respectively. Pursuant to the Sino-foreign co-operative joint venture agreement dated 6 November 2003 entered into by the Company and the Foreign Partner, the Foreign Partner is entitled to a fixed annual dividend of RMB500,000, or if the profit of Siping Steering is less than RMB500,000, then all of such profit shall be distributed to the Foreign Partner. The Company is entitled to all remaining undistributable profits of Siping Steering. The results of Siping Steering attributable to minority interests are calculated at 5% for the period from its date of establishment to 17 June 2004 and at RMB500,000 thereafter. On 17 June 2004, Siping Steering obtained its business licence as a sino-foreign co-operative joint venture.

- 2 The Company held a 51% equity interest in Hangzhou Shibao at the time of its establishment. On 8 March 2003, the Company acquired an additional 48% equity interest in Hangzhou Shibao from minority shareholders for an aggregate consideration of RMB4,800,000, thereby increasing its equity interest in Hangzhou Shibao to 99%. In this regard, the difference of RMB104,000 between the cost of acquisition of additional interest in the subsidiary and the minority shareholders' share of the assets and liabilities of the subsidiary reflected in the consolidated balance sheet at the date of acquisition is credited to the Group's consolidated reserves account directly.
- 3 Hangzhou New Shibao was established on 14 December 2004 and registered in Hangzhou Economic Development Zone with a registered capital of RMB40,000,000, which is owned as to 90% by the Company and 10% by Ms. Zhang Hai Qin. Based on a confirmation from Ms. Zhang Hai Qin dated 27 September 2005, Ms. Zhang Hai Qin agreed to waive all her rights to any undistributed retained profits and dividends ancillary to her 9% equity interest in Hangzhou New Shibao commencing from 1 July 2005. The results of Hangzhou New Shibao attributable to the minority interests, Ms. Zhang Hai Qin, are calculated at 10% and the waiver of equity interests from Ms. Zhang Hai Qin to the Company is credited to consolidated reserve accounts directly. Hangzhou New Shibao has not commenced operation since its establishment. As at 22 February 2006, the Company acquired the remaining 10% equity interest in Hangzhou New Shibao from Ms. Zhang Hai Qin, thereby increasing its equity interest in Hangzhou New Shibao to 100% as set out in note 32(b).

## 2. Principal accounting policies

### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets of the Company's subsidiaries not held by the Group and are presented in the consolidated balance sheet within equity, separately from shareholders' equity.

### *Impact of Issued But Not Yet Effective International Financial Reporting Standards (IFRSs)*

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these IFRSs are effective for annual periods beginning on or after 1 January 2006:

IAS 1 Amendment	Capital Disclosures
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 Amendment	Net Investment in a Foreign Operation
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intra-group Transaction
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IFRSs 1 & 6 Amendments	First-time Adoption of International Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources

IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments; Disclosures
IFRIC-Int 4	Determining whether an Arrangement contains a lease
IFRIC-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives

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

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

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

#### *Subsidiaries*

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities. A subsidiary is consolidated from the date the Company obtains control until such time as control ceases.

In the Company's balance sheets, an interest in a subsidiary is stated at cost less any impairment losses.

#### *Investments in an associate*

The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of the changes in equity.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### *Investments*

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investments.

After initial recognition, investments which are classified as held for trading and available for sale are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Investments are classified as held-to maturity when those are no derivatives with fixed or determinable payments and fixed maturity that the Group has positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sale the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### *Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Negative goodwill*

Negative goodwill arising on the acquisition of a subsidiary and an associate represents the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition. Negative goodwill arising on acquisition is recognised in the income statement immediately.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement.

*Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised:

*Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

*Interest income*

Revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

*Dividend income*

Revenue is recognised when the shareholders' right to receive payment has been established.

*Government grants*

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

*Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the assets, after taking into account its estimated residual value, as follows:

Buildings	10 - 45 years
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected to arise from the continued use of the item. Any gain or loss arising on the derecognition of the item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

#### *Construction in progress*

Construction in progress represents property, plant and machinery during the course of acquisition and/or under construction and is stated at cost less any impairment losses. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing.

Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

#### *Land use rights*

Land use rights are stated at costs less accumulated amortisation and any impairment losses. Land use rights are amortised on the straight-line basis over the unexpired period of the rights of 50 years.

#### *Impairment of assets*

An assessment is made at each balance sheet date as to whether there is any indication of impairment of an asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at reviewed amount, in which case the reversal is treated as revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### *Operating leases*

Leases where the lessor retains substantially all the risks and ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on the straight-line basis over the lease terms.

#### *Research and development costs*

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

#### *Inventories*

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

#### *Trade and other receivables*

Trade receivables, which generally have terms of 90 to 180 days, are recognised and carried at original invoice amounts less allowances for any uncollectible amounts.

Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Prepayments, deposits and other receivables are recognised and carried at cost less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at cost.

*Trade and other payables*

Liabilities for trade and other payables, which are normally settled on terms of 30 to 90 days, are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Group.

Amounts due to related parties are recognised and carried at cost.

*Provisions*

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

*Interest-bearing loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when liabilities are derecognised, as well as through the amortisation process.

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Other borrowing costs are recognised as an expense when incurred.

*Dividend*

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

*Foreign currency transactions*

The Group's functional and presentation currency is Renminbi ("RMB").

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the appropriate exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

*Retirement benefits*

Obligatory retirement benefits in the form of contributions under a defined contribution retirement schedule administered by local government agencies are charged to the income statement as incurred.

*Income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is utilised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

*Cash and cash equivalents*

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**3. Segment information**

The Group's revenue and profit for the Relevant Periods were mainly derived from the sale of automotive steering products in the PRC. The products of the Group are subject to similar risks and returns. The Group mainly conducts its business activities in 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 Periods.

## 4. Revenue

Revenue 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.

	Year ended 31 December	
	2004	2005
	RMB'000	RMB'000
Sales of goods	141,332	149,777
Less: Government surcharges	(1,009)	(629)
Revenue	<u>140,323</u>	<u>149,148</u>
Interest income	195	120
Sales of raw materials	366	510
Government grants	186	160
Gain on sale of property, plant and equipment	—	76
Others	<u>158</u>	<u>205</u>
Other income	<u>905</u>	<u>1,071</u>
Total revenue	<u><u>141,228</u></u>	<u><u>150,219</u></u>

## 5. Profit from operations before income tax

The Group's profit from operations before income tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2004	2005
	RMB'000	RMB'000
Interest expense	1,815	3,861
Bank charges and other finance costs	<u>48</u>	<u>70</u>
Total finance costs	<u>1,863</u>	<u>3,931</u>
Depreciation	5,942	7,727
Amortisation of land use rights	303	487
Amortisation of deferred income	—	(911)
Research and development costs	543	1,550
Provision for bad and doubtful debts	3,920	—
Gains from disposal of part of the capital contribution in a subsidiary to a foreign co-operative joint venture partner	(18)	—
Loss/(gain) on disposal of property, plant and equipment	64	(76)
Auditors' remuneration	120	120
Staff costs (including directors', supervisors' and senior executives' remuneration as set out in <i>note 6</i> ):		
Salaries and other staff costs	13,770	15,435
Retirement costs		
- defined contribution fund	<u>874</u>	<u>1,166</u>

## 6. Directors', supervisors' and senior executives' remuneration

Details of the remuneration of directors and supervisors during the Relevant Periods are as follows:

	Year ended 31 December	
	2004	2005
	RMB'000	RMB'000
Fees	—	—
Other emoluments		
Salaries, allowances, bonuses and other benefits	470	732
Pension scheme contributions	10	18
	<u>480</u>	<u>750</u>

An analysis of directors' and supervisors' remuneration by each individual is as follows:

Name	Year ended 31 December	
	2004	2005
	RMB'000	RMB'000
Directors:		
Zhang Shi Quan	123	123
Zhu Jie Rong	100	100
Zhang Bao Yi	82	103
Zhang Shi Zhong	62	82
Zhang Lan Jun	50	84
Tang Hao Han	16	103
Bao Zhi Chao	9	36
Zhang Mei Jun	8	23
Chen Guo Feng	6	24
Gu Qun	—	—
Lui Wing Hong	—	—
	<u>456</u>	<u>678</u>
Supervisors:		
Ge Bao Shan	—	24
Wang Kui Quan	—	24
Shen Song Sheng	24	24
Zheng Yan	—	—
Liu Xiao Ping	—	—
	<u>24</u>	<u>72</u>
	<u>480</u>	<u>750</u>

The five highest paid employees of the Group during the Relevant Periods included three directors. Information relating to their remuneration has been disclosed above. The details of the remuneration of the remaining two highest paid, non-director and non-supervisor employees for the Relevant Periods are as follows:

	<b>Year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and benefits in kind	311	358
Pension scheme contributions	<u>12</u>	<u>5</u>
	<u><u>323</u></u>	<u><u>363</u></u>

The remuneration of the two highest paid, non-director, non-supervisor employees for the Relevant Periods fell within the range of nil to HK\$500,000.

During the Relevant Periods, no remuneration were paid by the Group to the directors, supervisors or the other highest paid, non-director, non-supervisor employees as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office. No director or supervisor has waived or agreed to waive any emoluments during the Relevant Periods.

#### 7. **Income tax**

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

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 17 June 2004, Siping Steering is exempted from corporate income tax of the PRC for the years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years.

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

The major components of income tax expenses for the Relevant Periods are as follows:

	<b>Year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for income tax in respect of profit for the year		
- Current	12,284	1,889
- Under provision in prior years	—	646
- Deferred ( <i>note 16</i> )	<u>705</u>	<u>1,040</u>
Income tax expenses	<u><u>12,989</u></u>	<u><u>3,575</u></u>

A numerical reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rate is as follows:

	<b>Year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Accounting profit	48,515	41,600
Non-taxable profit of subsidiaries	(11,486)	(30,039)
Non-deductible share of loss of an associate	—	228
Profit of the Group subject to income tax	<u>37,029</u>	<u>11,789</u>
Tax at an applicable tax rate of 33%	12,220	3,890
Adjustment in respect of under provision in prior years	—	646
Tax credits in respect of purchases of property, plant and equipment from domestic vendors	—	(2,185)
Tax effect of income items which are not assessable for income tax purpose	(62)	—
Tax effect of expense items which are not deductible for income tax purposes	<u>831</u>	<u>1,224</u>
Income tax expenses	<u><u>12,989</u></u>	<u><u>3,575</u></u>

#### 8. Dividends

	<b>Year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group and Company</b>		
Interim	29,000	—
Proposed final	<u>—</u>	<u>15,000</u>
At end of year	<u><u>29,000</u></u>	<u><u>15,000</u></u>

Pursuant to an extraordinary shareholders' meeting on 20 February 2006, the Company's shareholders approved the proposed final dividend for the year ended 31 December 2005.

The dividend rates and number of shares ranking for dividends are not presented, as such information is not meaningful for the purpose of this report.

For dividend purposes, the amount which the Company and its subsidiaries can legally distribute by the way of dividend during the Relevant Periods is determined by reference to the profits as reflected in their PRC statutory financial statements which were prepared in accordance with PRC GAAP. These profits differ from those reflected in this report, which are prepared in accordance with IFRS.

Upon listing of the Company's H Shares on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited, the Company is required to distribute dividends based on the lower of the Company's profits as determined under the PRC GAAP and the IFRS.

**9. Earnings per share**

The calculation of basic earnings per share amounts attributable to ordinary equity holders of the parent for the Relevant Periods have been computed by dividing net profit attributable to ordinary equity holders of the parent during the Relevant Periods by 175,943,855 Domestic Shares in issue on the assumption that 175,943,855 Domestic Shares had been in issue throughout the Relevant Periods.

Diluted earnings per share amounts for the Relevant Periods have not been calculated as there were no dilutive potential ordinary shares in existence during the Relevant Periods.

**10. Retirement benefits**

As stipulated by the PRC state regulations, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount earned within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the local social security bureau at rates ranging from 22.7% to 25% of the average basic salaries earned within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligations for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

## 11. Property, plant and equipment

*Group*

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>					
As at 1 January 2004	29,939	36,601	3,667	5,574	75,781
Additions	90	9,834	443	1,907	12,274
Transferred from construction in progress ( <i>note 12</i> )	1,641	900	—	—	2,541
Disposals	<u>(606)</u>	<u>(6,033)</u>	<u>(543)</u>	<u>(342)</u>	<u>(7,524)</u>
As at 31 December 2004 and 1 January 2005	31,064	41,302	3,567	7,139	83,072
Additions	48	10,576	619	2,561	13,804
Transferred from construction in progress ( <i>note 12</i> )	45,193	11,351	—	—	56,544
Disposals	<u>—</u>	<u>(1,477)</u>	<u>(123)</u>	<u>(2,083)</u>	<u>(3,683)</u>
As at 31 December 2005	<u>76,305</u>	<u>61,752</u>	<u>4,063</u>	<u>7,617</u>	<u>149,737</u>
<b>Accumulated depreciation:</b>					
As at 1 January 2004	6,014	16,950	2,042	1,422	26,428
Charge for the year	1,134	3,215	501	1,092	5,942
Disposals	<u>(92)</u>	<u>(251)</u>	<u>(292)</u>	<u>(61)</u>	<u>(696)</u>
As at 31 December 2004 and 1 January 2005	7,056	19,914	2,251	2,453	31,674
Charge for the year	1,830	4,264	422	1,211	7,727
Disposals	<u>—</u>	<u>(643)</u>	<u>(86)</u>	<u>(553)</u>	<u>(1,282)</u>
As at 31 December 2005	<u>8,886</u>	<u>23,535</u>	<u>2,587</u>	<u>3,111</u>	<u>38,119</u>
<b>Net book value:</b>					
As at 31 December 2004	<u>24,008</u>	<u>21,388</u>	<u>1,316</u>	<u>4,686</u>	<u>51,398</u>
As at 31 December 2005	<u>67,419</u>	<u>38,217</u>	<u>1,476</u>	<u>4,506</u>	<u>111,618</u>

*Company*

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>					
As at 1 January 2004	11,721	16,405	1,416	4,126	33,668
Additions	—	2,078	73	153	2,304
Disposals	(318)	(250)	—	(30)	(598)
Transferred to a subsidiary	—	(2,181)	(280)	—	(2,461)
As at 31 December 2004 and 1 January 2005	11,403	16,052	1,209	4,249	32,913
Additions	35	534	10	61	640
Transferred from construction in progress ( <i>note 12</i> )	—	998	—	—	998
Disposals	—	(1,137)	—	(323)	(1,460)
Transferred to a subsidiary	—	(10,960)	—	—	(10,960)
As at 31 December 2005	11,438	5,487	1,219	3,987	22,131
<b>Accumulated depreciation:</b>					
As at 1 January 2004	4,109	7,941	773	1,043	13,866
Charge for the year	524	1,676	166	760	3,126
Disposals	(17)	(137)	—	(12)	(166)
Transferred to a subsidiary	—	(612)	(64)	—	(676)
As at 31 December 2004 and 1 January 2005	4,616	8,868	875	1,791	16,150
Charge for the year	515	1,022	90	681	2,308
Disposals	—	(480)	—	(104)	(584)
Transferred to a subsidiary	—	(5,697)	—	—	(5,697)
As at 31 December 2005	5,131	3,713	965	2,368	12,177
<b>Net book value:</b>					
As at 31 December 2004	6,787	7,184	334	2,458	16,763
As at 31 December 2005	6,307	1,774	254	1,619	9,954

*Notes:*

- (i) All of the Group's buildings are located in the PRC.
- (ii) As at 31 December 2005, the Group's buildings and machinery with an aggregate net book value of approximately RMB13,316,000 (2004: RMB16,819,000) are pledged to banks to secure bank loans amounting to RMB12,820,000 (2004: RMB9,280,000) as set out in note 23.
- (iii) As at the issuance date of this report, the Group has yet to obtain the building ownership certificates for its buildings with a net book value of RMB44,478,000. These buildings cannot be sold, transferred or pledged as security until the titles are obtained.

## 12. Construction in progress

	Year ended 31 December	
	2004	2005
	RMB'000	RMB'000
<b>Group</b>		
At beginning of year	11,216	42,538
Additions	33,863	46,783
Transferred to property, plant and equipment ( <i>note 11</i> )	<u>(2,541)</u>	<u>(56,544)</u>
At end of year	<u>42,538</u>	<u>32,777</u>
<b>Company</b>		
At beginning of year	—	883
Additions	883	115
Transferred to property, plant and equipment ( <i>note 11</i> )	<u>—</u>	<u>(998)</u>
At end of year	<u>883</u>	<u>—</u>

## 13. Land use rights

	Group	Company
	RMB'000	RMB'000
<b>Cost:</b>		
As at 1 January 2004	14,860	8,331
Additions	<u>15,069</u>	<u>—</u>
As at 31 December 2004 and 1 January 2005	29,929	8,331
Additions	<u>2</u>	<u>—</u>
31 December 2005	<u>29,931</u>	<u>8,331</u>
<b>Accumulated amortisation:</b>		
As at 1 January 2004	1,670	1,336
Charge for the year	<u>303</u>	<u>173</u>
As at 31 December 2004 and 1 January 2005	1,973	1,509
Charge for the year	<u>487</u>	<u>172</u>
As at 31 December 2005	<u>2,460</u>	<u>1,681</u>
<b>Net book value:</b>		
As at 31 December 2004	<u>27,956</u>	<u>6,822</u>
As at 31 December 2005	<u>27,471</u>	<u>6,650</u>

As at 31 December 2004, the Group's land use rights with an aggregate net book value of approximately RMB3,118,000 are pledged to banks to secure bank loans amounting to RMB10,720,000 as set out in note 23.

## 14. Investment in subsidiaries

	31 December	
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Company</b>		
Unlisted investments, at cost	<u>58,650</u>	<u>83,850</u>

## 15. Investments in an associate

	31 December	
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Share of the associate's balance sheet		
Current assets	5,583	3,153
Non-current assets	1,617	3,844
Current liabilities	<u>—</u>	<u>(25)</u>
Net assets	<u>7,200</u>	<u>6,972</u>
Share of associate's revenue and loss		
Revenue	—	—
Loss	<u>—</u>	<u>228</u>
Carrying amount of the investment	<u>7,200</u>	<u>6,972</u>
<b>Company</b>		
Unlisted investment, at cost	<u>7,200</u>	<u>7,200</u>

Particulars of the associate, which is a limited company established in the PRC on 18 November 2004, as at 31 December 2005, are as follows:

Company name	Percentage of equity attributable to the Group	Principle activities
Wuhu Sterling Steering System Co., Ltd. ("Wuhu Sterling")	36%	Sale and manufacture of steering systems

## 16. Deferred tax assets

	Write-off of know-how <i>RMB'000</i>	Provision for doubtful debts and obsolete inventories <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Group and Company</b>			
As at 1 January 2004	1,595	525	2,120
(Charged)/credited to income statements ( <i>note 7</i> )	<u>(709)</u>	<u>4</u>	<u>(705)</u>
As at 31 December 2004 and 1 January 2005	886	529	1,415
(Charged)/credited to income statements ( <i>note 7</i> )	<u>(886)</u>	<u>(154)</u>	<u>(1,040)</u>
As at 31 December 2005	<u>—</u>	<u>375</u>	<u>375</u>

The Group and the Company recognised deferred tax assets for the temporary differences not deductible for tax purpose, but are expected to give rise to future deductible amounts.

## 17. Deferred income

	<b>Year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
At beginning of year	—	—
Government grants recognised as deferred income	—	5,670
Amortisation	<u>—</u>	<u>(911)</u>
At end of year	<u>—</u>	<u>4,759</u>
Current	—	911
Non-current	<u>—</u>	<u>3,848</u>
	<u>—</u>	<u>4,759</u>

In 2005, the Group received a government grant for purchase of certain property, plant and equipment in an amount of RMB5,670,000. The government grant received is accounted for as deferred income, and is released to the income statement over the expected useful lives of the underlying property, plant and equipment.

## 18. Inventories

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Raw materials	9,077	12,972
Work in progress	11,919	10,765
Finished goods	14,375	11,299
Low value consumables	<u>730</u>	<u>899</u>
	36,101	35,935
Less: Provision for obsolete inventories	<u>(494)</u>	<u>(299)</u>
	<u><u>35,607</u></u>	<u><u>35,636</u></u>
<b>Company</b>		
Raw materials	5,022	1,028
Work in progress	5,033	760
Finished goods	7,066	36
Low value consumables	<u>—</u>	<u>10</u>
	17,121	1,834
Less: Provision for obsolete inventories	<u>(494)</u>	<u>(299)</u>
	<u><u>16,627</u></u>	<u><u>1,535</u></u>

## 19. Trade and notes receivables

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

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Outstanding balances with ages:		
Within 90 days	48,704	72,542
Between 91 days and 180 days	16,819	9,265
Between 181 days and 365 days	14,941	12,204
Over 365 days	<u>17,481</u>	<u>20,285</u>
	97,945	114,296
Less: Provision for bad and doubtful debts	<u>(5,055)</u>	<u>(5,055)</u>
	<u><u>92,890</u></u>	<u><u>109,241</u></u>

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

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Company</b>		
Outstanding balances with ages:		
Within 90 days	25,012	3,098
Between 91 days and 180 days	2,980	391
Between 181 days and 365 days	2,455	6,214
Over 365 days	2,388	1,398
	<u>32,835</u>	<u>11,101</u>
Less: Provision for bad and doubtful debts	(1,137)	(1,137)
	<u>31,698</u>	<u>9,964</u>

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

20. **Prepayments, deposits and other receivables**

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Deposits	599	261
Prepayments	5,109	3,158
Other receivables	6,107	13,604
	<u>11,815</u>	<u>17,023</u>
<b>Company</b>		
Deposits	99	120
Prepayments	1,545	445
Other receivables	5,308	12,660
	<u>6,952</u>	<u>13,225</u>

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

21. **Due from/to a director**

Details of the amount due from a director of the Group for the Relevant Periods are set out below:

**Group**

<b>Name</b>	<b>As at 31 December 2004</b> <i>RMB'000</i>	<b>Maximum amount outstanding during the year</b> <i>RMB'000</i>	<b>As at 1 January 2004</b> <i>RMB'000</i>
Zhang Shi Quan	<u>12,882</u>	<u>15,835</u>	<u>15,326</u>

<b>Name</b>	<b>As at 31 December 2005</b> <i>RMB'000</i>	<b>Maximum amount outstanding during the year</b> <i>RMB'000</i>	<b>As at 1 January 2005</b> <i>RMB'000</i>
Zhang Shi Quan	<u>7</u>	<u>12,882</u>	<u>12,882</u>

The amount due from/to a director was unsecured, interest-free and has no fixed terms of repayment and was fully settled subsequent to 31 December 2005.

22. **Balances with subsidiaries, a holding company and related companies**

Amount due from related companies as at 31 December 2005 are trade in nature, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

All remaining balances with subsidiaries, a holding company and related companies are unsecured, interest-free and have no fixed terms of repayment.

## 23. Interest-bearing loans and borrowings

	31 December	
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Bank loans, secured	20,000	12,820
Bank loans, unsecured	20,000	44,000
Other borrowings, unsecured	3,000	5,830
	<u>43,000</u>	<u>62,650</u>
Repayable:		
Within one year	27,180	56,820
In the second year	12,820	—
In the third to fifth years, inclusive	—	—
Over five years	3,000	5,830
	<u>43,000</u>	<u>62,650</u>
Portion classified as current liabilities	<u>(27,180)</u>	<u>(56,820)</u>
Long term portion	<u>15,820</u>	<u>5,830</u>
<b>Company</b>		
Bank loans, unsecured	<u>20,000</u>	<u>44,000</u>
Repayable:		
Within one year	<u>20,000</u>	<u>44,000</u>
	20,000	44,000
Portion classified as current liabilities	<u>(20,000)</u>	<u>(44,000)</u>
Long term portion	<u>—</u>	<u>—</u>

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

As at 31 December 2005, included in other unsecured borrowings are loans granted by Siping Municipal Ministry of Finance amounting to RMB5,830,000 (2004: RMB3,000,000). Borrowings in an amount of RMB3,000,000 bear interest at a commercial rate of 5% (2004: 5%) per annum and are repayable in 2016. Borrowings in an amount of RMB2,830,000 bear interest at a commercial rate of 5% and are repayable in 2020.

As at 31 December 2005, bank loans of the Group of RMB12,820,000 (2004: RMB9,280,000) were secured by the Group's buildings and machinery with a net book value RMB13,316,000 (2004: RMB16,819,000) as set out in note 11.

As at 31 December 2004, bank loans of the Group of RMB10,720,000 were secured by the Group's land use rights with a net book value of RMB3,118,000 as set out in note 13.

## 24. Trade and notes payables

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

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Outstanding balances with ages:		
Within 90 days	15,955	19,331
Between 91 days and 180 days	6,922	5,702
Between 181 days and 365 days	6,535	10,304
Over 365 days	<u>2,869</u>	<u>4,733</u>
	<u><u>32,281</u></u>	<u><u>40,070</u></u>
<b>Company</b>		
Outstanding balances with ages:		
Within 90 days	6,308	2,265
Between 91 days and 180 days	1,675	947
Between 181 days and 365 days	1,351	2,313
Over 365 days	<u>2,568</u>	<u>3,938</u>
	<u><u>11,902</u></u>	<u><u>9,463</u></u>

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

## 25. Accrued liabilities and other payables

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Advances from customers	322	335
Payroll payables	936	819
Welfare payables	5,495	5,231
Other payables	<u>13,593</u>	<u>11,965</u>
	<u><u>20,346</u></u>	<u><u>18,350</u></u>
<b>Company</b>		
Advances from customers	322	106
Payroll payables	936	278
Welfare payables	3,290	3,523
Other payables	<u>8,887</u>	<u>5,437</u>
	<u><u>13,435</u></u>	<u><u>9,344</u></u>

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

**26. Paid-up capital/share capital**

Pursuant to an approval document numbered “Zhe Shang Shi [2004] No.37” issued by Zhejiang Provincial Government, the Company was re-registered as a joint stock company on 12 July 2004 by the issuance of 175,943,855 fully paid Domestic Shares with a nominal value of RMB1 each to the then shareholders.

**27. Reserves***Statutory surplus reserve*

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

*Statutory public welfare fund*

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

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

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

*Distributable reserve*

As set out in note 8, for dividend purpose, the amount which the Group can legally distribute by the way of dividend is determined by reference to its profits as reflected in its PRC statutory financial statements prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report, which are prepared in accordance with IFRS.

Upon listing of the Company’s H Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company is required to distribute dividends based on the lower of the Group’s profits determined under PRC GAAP and those under IFRS.

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

Subsequent to the proposed final dividend as set out in note 8, the Company's maximum distributable reserve as at 31 December 2005, which represented the Company's reserve as determined in accordance with PRC GAAP after deduction of the transfers to the SSR and PWF as set out above, amounting to approximately RMB20,789,000 (2004: RMB10,298,000). Taking into account the proposed final dividend as set out in note 8, the Company had no reserve available for distribution to the shareholders of the Company based on the financial statements prepared in accordance with IFRS.

## 28. Financial instruments

### *Financial risk management objectives and policies*

The main financial risks faced by the Group are interest rate risk and credit risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk.

### *Credit risk*

Credit risk arising from the inability of a counterparty to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group. The Group minimises its exposure to credit risk by only dealing with counterparties with acceptable credit ratings.

### *Fair values*

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### *Credit risk exposures*

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparties fail to perform their obligations as at 31 December 2004 and 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheets.

### *Significant concentrations of credit risk*

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has significant concentration of credit risk with a few manufacturers of automobiles in the PRC.

## 29. Related party transactions

During the Relevant Periods, the Company and its subsidiaries had the following transactions with related parties.

**Group***Discontinued transactions*

Name of related party	Nature of transactions	Year ended 31 December	
		2004 RMB'000	2005 RMB'000
Jilin Shibao Automotive Parts Co., Ltd. ("Jilin Shibao") (note a)	Purchase of finished goods (note c)	—	6,806
	Sales of raw materials (note c)	—	6,836
	Service fees (note d)	74	65
	Rental income (note e)	60	60
	Transfer of property, plant and equipment (note f)	—	4,818
	Advances from the related company (note g)	2,000	2,000
Zhejiang Shibao Holding Group Co., Ltd. "Zhejiang Shibao Holding" (note b)	Disposal of a subsidiary (note b)	6,300	—
	Advances from the related company (note g)	24,423	24,423
Wuhu Sterling	Advances to the related company (note g)	6,000	6,000
Zhang Mei Jun	Waiver of right of equity interest in a subsidiary (note i)	8,717	—
Zhang Shi Quan	Advances to the director (note j)	15,835	12,882
<i>Continuing transactions</i>			
Zhang Hai Qin	Waiver of right of equity interest in a subsidiary (note k)	—	—
Wuhu Sterling	Sales of finished goods (note c)	—	274

Name of related party	Nature of transactions	Year ended 31 December	
		2004 RMB'000	2005 RMB'000
<b>Company</b>			
<i>Discontinued transactions</i>			
Hangzhou Shibao	Processing fees (note m) Transfer of property, plant and equipment (note n)	6,080 <u>1,785</u>	4,803 <u>5,263</u>
Zhejiang Shibao Holding (Note b)	Disposal of a subsidiary (note b)	<u>6,300</u>	<u>—</u>
Zhang Mei Jun	Waiver of right of equity interest in a subsidiary (note i)	<u>8,717</u>	<u>—</u>
Zhang Shi Quan	Advances from the director (note j)	<u>3,271</u>	<u>3,271</u>
<i>Continuing transactions</i>			
Zhang Hai Qin	Waiver of right of equity interest in a subsidiary (note k)	<u>—</u>	<u>—</u>
Hangzhou Shibao	Sales of raw materials (note l) Advances to the related company (note g) Sales of finished goods (note o)	— — <u>—</u>	10,664 74,828 <u>11,317</u>
Siping Steering	Advances to the related company (note g) Purchase of finished goods (note c) Advances from the related company (note g) Sales of finished goods (note c)	— 11,213 73,125 <u>8,562</u>	10,195 3,479 — <u>2,087</u>
Hangzhou New Shibao	Advances from the related company (note g)	<u>2,000</u>	<u>2,000</u>
Wuhu Sterling	Sales of finished goods (note c)	<u>—</u>	<u>274</u>

*Notes:*

- (a) Jilin Shibao is a fellow subsidiary of the Company.
- (b) Zhejiang Shibao Holding is a holding company of the Company.
- (c) These transactions were carried out based on normal commercial terms and at market prices.
- (d) Pursuant to a service agreement entered into between Siping Steering and Jilin Shibao on 1 July 2004, Jilin Shibao was required to pay service fees to Siping Steering for water, power, heat supplies and the necessary repair and maintenance services for three years, from 1 July 2004 to 30 June 2007. The fees are determined based on cost incurred plus 5% management fee. The agreement was terminated on 1 July 2005.
- (e) Pursuant to a workshop lease agreement entered into between Siping Steering and Jilin Shibao on 1 July 2004, Siping Steering leased its workshop with total floor area of approximately 2,400 s.q.m to Jilin Shibao for three years from 1 July 2004 to 30 June 2007. The rental is determined with reference to the underlying depreciation charges of the workshop. The agreement was terminated on 1 July 2005.
- (f) Pursuant to an acquisition agreement entered into between Jilin Shibao and Siping Steering on 22 May 2005, Jilin Shibao transferred its property, plant and equipment used for production of M6 steering knuckles for FAW Car Co., Ltd. (hereinafter referred as the "M6 Project") to Siping Steering. The purchase consideration amounting to RMB4,818,000 was determined with reference to the net book value of M6 Project's property, plant and equipment as at 28 February 2005.
- (g) The advances from/to related parties are unsecured, interest-free and have no fixed terms of repayment as set out in note 22.

Had interest been charged on the outstanding amounts due from the related parties during the Relevant Periods, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% per annum (2004: 5.76% per annum) for the year ended 31 December 2005, the Group and the Company would have received interest income, net of tax, of approximately RMB357,000 (2004: RMB857,000) and RMB1,786,000 (2004: RMB286,000) for the year ended 31 December 2005, respectively.

Had interest been charged on the outstanding amounts due to the related parties during the Relevant Periods, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% per annum (2004: 5.76% per annum) for the year ended 31 December 2005, the Group and the Company would have borne interest expense, net of tax, of approximately RMB75,000 (2004: RMB77,000) and RMB1,442,000 (2004: RMB2,708,000) for the year ended 31 December 2005, respectively.

- (h) On 10 October 2003, the Company entered into an agreement with Zhejiang Shibao Holding, in respect of the disposal of the Company's entire 90% equity interest in Changchun Shili Automotive Parts Co., Ltd. to Zhejiang Shibao Holding for a cash consideration of RMB6,300,000, which is the Company's original investment cost. This transaction completed in April 2004.
- (i) Ms. Zhang Mei Jun is a non-executive director of the Company.

In 2004, Ms. Zhang Mei Jun waived of her rights ancillary to her 5% interest in Siping Steering to the Company immediately before Siping Steering was re-registered as a sino-foreign cooperative joint venture on 17 June 2004. The Company's additional 5% right in Siping Steering resulting from Ms. Zhang Mei Jun's waiver of right, of RMB5,840,000 being the difference between the share of assets and liabilities of RMB8,717,000 net of the corresponding income tax expenses of RMB2,877,000, is credited to the Group's consolidated reserve accounts directly.

The directors consider that Ms. Zhang Mei Jun's waiver of right was not carried out on an arm's length and not in the ordinary course of business of the Company.

- (j) Mr. Zhang Shi Quan is an executive director of the Company.

The advances from/to the director are unsecured, interest-free and have no fixed terms of repayment as set out in note 21.

Had interest been charged on the outstanding amounts due from the director during the Relevant Periods, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% per annum (2004: 5.76% per annum) for the year ended 31 December 2005, the Group would have received interest income, net of tax, of approximately nil (2004: RMB544,000) for the year ended 31 December 2005.

Had interest been charged on the outstanding amounts due to the director during the Relevant Periods, based on the official lending rate in the PRC quoted by the People's Bank of China of approximately 5.58% per annum (2004: 5.76% per annum) for the year ended 31 December 2005, the Company would have borne interest expense, net of tax, of approximately nil (2004: RMB79,000) for the year ended 31 December 2005.

- (k) Ms. Zhang Hai Qin is the spouse of Mr. Zhang Shi Quan, an executive director of the Company.

Pursuant to a confirmation from Ms. Zhang Hai Qin dated 27 September 2005, Ms. Zhang Hai Qin waived all her rights pertaining to her 9% equity interest in the retained earnings of Hangzhou New Shibao effective 1 July 2005. Hence, effective 1 July 2005, the share of reserve, net of tax, on the 9% reserve of the company was transferred to the Company.

Hangzhou New Shibao remains inactive since its date of establishment and has yet to commence operation. Hence, no profit or loss was attributable to the Company.

The directors consider that Ms. Zhang Hai Qin's waiver of right was not carried out on an arm's length and not in the ordinary course of business of the Company.

- (l) The raw materials were sold to the related party at cost.
- (m) The processing fees were charged at cost plus 50% margin.
- (n) The property, plant and equipment were sold at their net book values.
- (o) The finished goods were sold at cost plus 10% margin.

The directors of the Company are of the opinion that, except for Ms. Zhang Mei Jun's and Ms. Zhang Hai Qin's waiver of right, the above transactions with related parties were carried out in the ordinary course of business.

### 30. Commitments

#### *Capital commitments*

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group</b>		
Capital commitments in respect of the acquisition of property, plant and equipment:		
Contracted, but not provided for	9,734	5,889
Authorised, but not contracted	—	4,872
	<u>9,734</u>	<u>10,761</u>
<b>Company</b>		
Capital commitment in respect of an investment in a subsidiary:		
Contracted, but not provided for	<u>25,200</u>	<u>—</u>

31. **Contingent liabilities**

As at 31 December 2004 and 2005, the Group and the Company had the following contingent liabilities:

	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Group and Company</b>		
Notes discounted with recourse	<u>3,770</u>	<u>—</u>

32. **Post balance sheet events**

The following significant events took place subsequent to 31 December 2005:

- (a) On 16 February 2006, Hangzhou Shibao entered into a sino-foreign equity joint venture agreement with DHB Componentes Automotivos S.A. ("DHB-CA") for the establishment of DHB-Shibao Steering Co., Ltd. ("DHB-Shibao") with a registered capital of US\$12,137,000. According to the joint venture agreement, Hangzhou Shibao and DHB-CA will contribute US\$9,103,000 and US\$3,034,000 as capital contribution, for 75% and 25% equity interests in DHB-Shibao, respectively. DHB-CA was also granted an option, exercisable within 30 months from the date of establishment of DHB-Shibao, to increase its equity interest in DHB-Shibao up to 40%. The joint venture agreement is effective upon the approval by the relevant PRC government authorities.

According to the joint venture agreement, DHB-Shibao will engage in the manufacture and sale of rack-and-pinion steering gears, electronic power steering gears, electronic-hydraulic power steering gears and steering oil pumps.

The establishment of DHB-Shibao was approved by the relevant government authorities on 31 March 2006.

- (b) On 22 February 2006, pursuant to a capital contribution transfer agreement entered into between the Company and Ms. Zhang Hai Qin, the minority shareholder of Hangzhou New Shibao, the Company acquired an additional 10% equity interest in Hangzhou New Shibao from Ms. Zhang Hai Qin at a purchase consideration of RMB4,000,000, thereby increasing its equity interest in Hangzhou New Shibao to 100%.

33. **Subsequent financial statements**

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to 31 December 2005.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
*Hong Kong*

*For illustrative purposes, the unaudited pro forma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out here to provide investors with further information to assess the financial performance of our Group after taking into account the adjusted net tangible assets of our Group to illustrate the financial position of the Group as if the listing of H Shares had taken place on 31 December, 2005 to illustrate the performance of our Group after completion of the Placing.*

*The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing the said information, prospective investors who read the unaudited pro forma information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial position of our Group as at 31 December, 2005 or at any future date and the financial performance of our Group for any future periods.*

#### **(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group which has been prepared for the purpose of illustrating the effect of the Placing as if it had taken place on 31 December, 2005 and is based on the audited net tangible assets of our Group as at 31 December, 2005 as shown in the accountants' report, the text of which is set out in appendix I to this prospectus and is adjusted as follows:

	<b>Audited net tangible assets of our Group as at 31 December, 2005 attributable to Shareholders</b>	<b>Estimated net proceeds from the Placing</b>	<b>Unaudited pro forma adjusted net tangible assets</b>	<b>Unaudited pro forma adjusted net tangible asset value per Share</b>
Based on maximum				
Placing Price of HK\$1.60				
RMB'000	234,885	119,080	353,965	RMB1.35
HK\$'000	225,851	114,500	340,351	HK\$1.30
Based on minimum				
Placing Price of HK\$1.32				
RMB'000	234,885	95,160	330,045	RMB1.26
HK\$'000	225,851	91,500	317,351	HK\$1.21

*Notes:*

1. This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of our Group following the Placing.
2. Our Group's property interests as at 28 February, 2006 have been valued by Vigers Appraisal & Consulting Limited, an independent property valuer, and the relevant property valuation report is set out in appendix III to this prospectus. The above adjustment does not take into account the deficit arising from the revaluation of our Group's property interests amounting to RMB1,087,222. The revaluation deficit has not been incorporated in our Group's financial statements for the year ended 31 December, 2005. If the revaluation deficit was recorded in our Group's financial statements, the depreciation expense of our Group for the year ended 31 December, 2005 would be decreased by approximately RMB1,663.
3. The adjustment to the unaudited pro forma statement of net tangible assets reflects the estimated proceeds from the Placing, net of related expenses, to be received by our Company. The estimated net proceeds from the Placing assume a maximum Placing Price of HK\$1.60 per H Share and a minimum Placing Price of HK\$1.32 per H Share.
4. The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that 262,657,855 Shares are in issue.

**(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report from Ernst & Young, the reporting accountants of our Company, in respect of the unaudited pro forma adjusted net tangible assets.*



18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

4 May 2006

The Directors  
Zhejiang Shibao Company Limited  
Anglo Chinese Corporate Finance, Limited  
Tai Fook Securities Company Limited

Dear Sirs,

We report on the statements of unaudited pro forma adjusted net tangible assets (the “Unaudited Pro Forma Financial information”) set out in section (A) of Appendix II to the Prospectus dated 4 May 2006 in connection with the placing of H shares of Zhejiang Shibao Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared, for illustrative purposes only, to provide information about how the placing of the Company’s H shares might have affected the relevant financial information presented.

**RESPONSIBILITIES**

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) and with reference to AG 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with Hong Kong Standards on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information

in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

Our work does not constitute an audit or review in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information has been prepared in accordance with the basis set out on in section (A) of Appendix II to the Prospectus of the Company for illustrative purpose only and because of its nature, it is not indicative of the financial position of the Group at 31 December 2005 or any future date.

**OPINION**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31 of Chapter 7 of the GEM Listing Rules.

Yours faithfully  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

*The following is the text of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in the prospectus dated 4 May, 2006 issued by the Company, received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation as at 28 February, 2006.*

**Vigers Appraisal & Consulting Limited**  
**International Asset Appraisal Consultants**

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



4 May, 2006

The Directors  
Zhejiang Shibao Company Limited  
No. 1 Shuanglin Road  
Fotang Town  
Yiwu City  
Zhejiang Province  
The PRC

Dear Sirs,

In accordance with your instructions for us to value the property interests of Zhejiang Shibao Company Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) in the People’s Republic of China (“the PRC”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests for the purpose of incorporation in the prospectus as at 28 February, 2006.

Our valuation is our opinion of the market value which we would define as intended to mean - “the estimated amount for which a Property should exchange on the date of Valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing property nos. 1, 2, 7 and 8, which are owned and occupied by the Group in the PRC, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portions, reference has been made to the standard land prices in Zhejiang Province and Jilin Province and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant

forms of obsolescence and optimisation. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales. The approach is subject to adequate potential profitability of the business.

In valuing property no. 3, we have made reference to the standard land price in Zhejiang Province and the sales comparables in the locality.

In valuing property nos. 4, 5 and 6, we have adopted the direct comparison approach making reference to recent transactions for similar premises in the proximity. Adjustments have been made for the differences in transaction date, age, size, floor level, etc.

In our course of valuation of property which is under development, all consents, approvals and licences from relevant PRC government authorities for development of the property is assumed to be granted without any onerous conditions or undue delay.

Our valuation has been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests.

We have been provided with extracts from title documents relating to such property interest. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas are approximations.

In undertaking our valuation of the properties, we have relied on the legal opinion provided by the Group's PRC legal adviser ("the PRC Legal Opinion").

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property interests are free from defect.

We have relied to a considerable extent on information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of those property interests in which the Group has a valid interest.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have complied with the requirements set out in the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors and Chapter 8 of the Listing Rules of Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi. The exchange rate used in valuing the property interests in the PRC on 28 February, 2006 was HK\$1=RMB1.04. There has been no significant fluctuation in exchange rate between that date and the date of this letter.

We enclose herewith a summary of our valuation and the valuation certificates.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal and Consulting Limited**  
**Raymond Ho Kai Kwong,**  
*Registered Professional Surveyor*  
MRICS, MHKIS, MSc(e-com)  
*Executive Director*

*Note:* Raymond K. K. Ho, Chartered Surveyor, MRICS, MHKIS, MSc (e-com) has nineteen years' experience in undertaking valuation of properties in Hong Kong and Macau and has over twelve years' experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATION

Property	Market value as at 28 February, 2006	Interest attributable to the Group	Market value attributable to the Group as at 28 February, 2006
<b>Property owned and occupied by the Group in the PRC</b>			
1. An industrial complex located in No. 262 Jiangdong Road, Fotang Town, Yiwu City, Zhejiang Province, the PRC	RMB9,560,000 (equivalent to HK\$9,192,300)	100%	RMB9,560,000 (equivalent to HK\$9,192,300)
2. An industrial complex located in No. 6, Avenue 17, Hangzhou Economic and Technological Development Zone, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB9,800,000 (equivalent to HK\$9,423,100)	99%	RMB9,702,000 (equivalent to HK\$9,328,800)
3. A parcel of land located in Bai Yang Jie Dao No. 19 (Nan) Da Jie No. 229, Hangzhou Economic and Technological Development Zone, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB6,250,000 (equivalent to HK\$6,009,600)	100%	RMB6,250,000 (equivalent to HK\$6,009,600)
4. An apartment located in Room 702, Unit 3, Block 11, Nanxiaobu, No. 112, Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB380,000 (equivalent to HK\$365,400)	99%	RMB376,200 (equivalent to HK\$361,700)

Property	Market value as at 28 February, 2006	Interest attributable to the Group	Market value attributable to the Group as at 28 February, 2006
5. An apartment located in Room 303, Unit 1, Block 11, Nanxiaobu, No. 112, Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB390,000 (equivalent to HK\$375,000)	99%	RMB386,100 (equivalent to HK\$371,300)
6. An apartment located in Room 302, Unit 3, Block 2, Jinqiu Garden, No. 105, Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	RMB460,000 (equivalent to HK\$442,300)	99%	RMB455,400 (equivalent to HK\$437,900)
7. An industrial complex located in No. 75-15, Changfa Road, Tiedong District, Siping City, Jilin Province, the PRC	RMB20,400,000 (equivalent to HK\$19,615,400)	75%	RMB15,300,000 (equivalent to HK\$14,711,500)
8. An industrial complex located in Beiermalu, Simalu Street, Tiedong District, Siping City, Jilin Province, the PRC	RMB3,460,000 (equivalent to HK\$3,326,900)	75%	RMB2,595,000 (equivalent to HK\$2,495,200)
<b>Total:</b>	<b>RMB50,700,000</b> <b>(equivalent to</b> <b><u>HK\$48,750,000</u>)</b>		<b>RMB44,624,700</b> <b>(equivalent to</b> <b><u>HK\$42,908,300</u>)</b>

## VALUATION CERTIFICATE

## Property owned and occupied by the Group in the PRC

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
1. An industrial complex located in No. 262 Jiangdong Road, Fotang Town, Yiwu City, Zhejiang Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 10,367.5 sq.m. and 4 buildings and structures erected thereon.</p> <p>The buildings and structures were completed in 2001. The 4 buildings and structures are having a total gross floor area of approximately 6,455.67 sq.m.</p> <p>The main buildings and structures include workshops, office and other ancillary facilities.</p> <p>The parcel of land was granted with land use rights with an expiry date of 22 June, 2044 for industrial use.</p>	The property is currently occupied by the Group for production and ancillary purpose.	<p>RMB9,560,000 (equivalent to HK\$9,192,300)</p> <p><b>Interest attributable to the Group</b></p> <p>100%</p> <p><b>Market value attributable to the Group as at 28 February, 2006</b></p> <p>RMB9,560,000 (equivalent to HK\$9,192,300)</p>

## Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 23 June, 1994 entered into between Land Resources Bureau of Yiwu City, Zhejiang Province (Party C) and Zhejiang Shibao Steering Gear Co., Ltd. (Party D), the land use rights of the land parcel with a site area of approximately 10,729.11 sq.m. is granted to Party D for industrial purpose at a total consideration of RMB1,072,911.
- Pursuant to a State-owned Land Use Rights Certificate dated 1 June, 1999 (No. Yi Wu Guo Yong (1999) Zi Di 2-600), the land use rights of the property having a site area of approximately 10,367.5 sq.m. and an expiry date of 22 June, 2044 for industrial use has been granted to Zhejiang Shibao Steering Gear Co., Ltd. (浙江省世寶方向機有限公司).
- Pursuant to a document signed by Corporation List Leading Group of Zhejiang Province dated 30 April, 2004 (No.: Zhe Shang Shi (2004)37), Zhejiang Shibao Steering Gear Co., Ltd. (浙江省世寶方向機有限公司) was approved for setting up Zhejiang Shibao Company Limited (浙江世寶股份有限公司).
- Pursuant to a Building Ownership Certificate (No. Yi Wu Fang Quan Zheng Fo Tang Zi Di 00133205), the property having a total gross floor area of approximately 6,455.67 sq.m. is held by Zhejiang Shibao Company Limited.
- The PRC legal opinion states that:
  - Zhejiang Shibao Company Limited has legally obtained the land use rights and building ownership of the property.
  - Zhejiang Shibao Company Limited is entitled to transfer, let, mortgage or set up third party interest on the property.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
2. An industrial complex located in No. 6, Avenue 17, Hangzhou Economic and Technological Development Zone, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 49,078 sq.m. and 7 buildings and structures erected thereon.</p> <p>The 7 buildings and structures have a total gross floor area of approximately 29,607 sq.m. and were completed in December 2005.</p> <p>However, the building ownership certificates are under application.</p> <p>The main buildings and structures include workshops, office, staff quarters, canteens, warehouses, guard rooms and other ancillary facilities.</p> <p>The parcel of land was granted with land use rights with an expiry date of 21 March 2053 for industrial use.</p>	The property is currently occupied by the Group for production.	<p>RMB9,800,000 (equivalent to HK\$9,423,100)</p> <p><b>Interest attributable to the Group</b></p> <p>99%</p> <p><b>Market value attributable to the Group as at 28 February, 2006</b></p> <p>RMB9,702,000 (equivalent to HK\$9,328,800)</p>

## Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 28 July, 2003 entered into between Building and Land Resources Bureau of Hangzhou Economic and Technological Development Zone (Party A) and Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. (Party B), the land use rights of the land parcel with a site area of approximately 49,078.00 sq.m. is granted to Party B for industrial purpose at a total consideration of RMB8,834,040.
- Pursuant to a State-owned Land Use Rights Certificate dated 8 November, 2004 (No. Hang Jing Chu Guo Yong (2004) Di 0055), the land use rights of the property having a site area of approximately 49,078 sq.m. and an expiry date of 21 March, 2053 for industrial use has been granted to Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. (杭州世寶汽車方向機有限公司).
- Pursuant to three Construction and Engineering Planning Certificates issued by Building Planning Bureau of Hangzhou Economic and Technological Development Zone dated 31 July, 2003, 4 December, 2003 and 9 August, 2004 respectively, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. was permitted to develop a development with a total gross floor area of 29,607 sq.m.
- Pursuant to a Building Construction Permission (No.: 330125200408110101) issued by Building Planning Bureau of Hangzhou Economic and Technological Development Zone dated 24 August, 2004, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. was permitted to commence developing of the Guard, Research and Development Building (gross floor area is approximately 4,906 sq.m.).
- Pursuant to a Building Construction Permission (No.: 330125200312040101) issued by Building Planning Bureau of Hangzhou Economic and Technological Development Zone dated 8 December, 2003, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. was permitted to commence developing of the Warehouse, Heat-treatment workshop, Canteen and Staff quarters building (gross floor area is approximately 14,595 sq.m.).

6. Pursuant to a Building Construction Permission (No.: 330125200307290101) issued by Building Planning Bureau of Hangzhou Economic and Technological Development Zone dated 12 September, 2003, Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. was permitted to commence developing of the Machining and Fitting workshop (gross floor area is approximately 10,106 sq.m.).
7. For the construction in progress, the incurred construction cost and estimated total cost of completing the development as at 28 February, 2006 were RMB45,000,000 and RMB5,000,000 respectively. The completion value of the buildings construction in progress is RMB50,000,000.
8. Pursuant to three Construction and Engineering Completion Planning Certificates dated 21 March, 2006, the constructions of the buildings were certified as completed and satisfied with the city planning standard.
9. Pursuant to a joint venture agreement entered into between Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. and DHB Componentes Automotivos S.A. for the establishment of DHB-SHIBAO Steering Co., Ltd., part of the property (including portion of the land and certain blocks of buildings) will be contributed as part of the registered capital by Hangzhou Shibao Auto Steering Gear Sales Co., Ltd.
10. The PRC legal opinion states that:
  - (i) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. has legally obtained the land use rights of the property.
  - (ii) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. is entitled to transfer, let, mortgage or set up third party interest on the land use rights of the property.
  - (iii) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. is under application of the building ownership certificates of the buildings and there is no legal impediment in obtaining the certificates and would not affect the use of the buildings.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
3. A parcel of land located in Bai Yang Jie Dao No.19 (Nan) Da Jie No.229, Hangzhou Economic and Technological Development Zone, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises a parcel of land with a site area of approximately 31,267 sq.m.  The parcel of land was granted with land use rights with an expiry date of 5 January, 2055 for industrial use.	The property is currently vacant.	RMB6,250,000 (equivalent to HK\$6,009,600)  <b>Interest attributable to the Group</b>  100%  <b>Market value attributable to the Group as at 28 February, 2006</b>  RMB6,250,000 (equivalent to HK\$6,009,600)

*Notes:*

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 15 December, 2004 entered into between Building and Land Resources Bureau of Hangzhou Economic and Technological Development Zone (Party A) and Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. (杭州新世寶汽車轉向器系統有限公司) (Party B), the land use rights of the land parcel with a site area of approximately 31,267 sq.m. is granted to Party B for industrial purpose at a total consideration of RMB5,628,060.
2. Pursuant to a State-owned Land Use Rights Certificate dated 26 January, 2005 (No. Hang Jing Chu Guo Yong (2005) Di 007), the land use rights of the property having a site area of approximately 31,267 sq.m. and an expiry date of 5 January, 2055 for industrial use has been granted to Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. (杭州新世寶汽車轉向器系統有限公司).
3. The PRC legal opinion states that:
  - (i) Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. (杭州新世寶汽車轉向器系統有限公司) has legally obtained the land use rights of the property.
  - (ii) Hangzhou New Shibao Automobile Steering Gear System Co., Ltd. (杭州新世寶汽車轉向器系統有限公司) is entitled to transfer, let, mortgage or set up third party interest on the property.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
4. An apartment located in Room 702, Unit 3, Block 11, Nanxiaobu, No. 112, Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises a unit of a 7-storey residential building and the subject unit has a gross floor area of approximately 57.49 sq.m.  The building was completed in or about 1998.	The property is currently occupied by the Group for residential purpose.	RMB380,000 (equivalent to HK\$365,400)  <b>Interest attributable to the Group</b>  99%  <b>Market value attributable to the Group as at 28 February, 2006</b>  RMB376,200 (equivalent to HK\$361,700)

*Notes:*

1. Pursuant to a Building Ownership Certificate dated 28 December, 1998 (No.: Hang Fang Quan Zheng Jiang Yi Zi Di 0017951), the building ownership of the property with a gross floor area of 57.49 sq.m. is vested in Hangzhou Shibao Auto Steering Gear Sales Co., Ltd.(杭州世寶汽車方向機有限公司).
2. The PRC legal opinion states that:
  - (i) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. has legally obtained the building ownership of the property.
  - (ii) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. is entitled to transfer, let, mortgage or set up third party interest on the property.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
5. An apartment located in Room 303, Unit 1, Block 11, Nanxiaobu, No. 112, Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises a unit of a 7-storey residential building and the subject unit has a gross floor area of approximately 57.49 sq.m.  The building was completed in or about 1998.	The property is currently occupied by the Group for residential purpose.	RMB390,000 (equivalent to HK\$375,000)  <b>Interest attributable to the Group</b>  99%  <b>Market value attributable to the Group as at 28 February, 2006</b>  RMB386,100 (equivalent to HK\$371,300)

*Notes:*

1. Pursuant to a Building Ownership Certificate dated 28 December, 1998 (No.: Hang Fang Quan Zheng Jiang Yi Zi Di 0017950), the building ownership of the property with a gross floor area of 57.49 sq.m. is vested in Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. (杭州世寶汽車方向機有限公司).
2. The PRC legal opinion states that:
  - (i) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. has legally obtained the building ownership of the property.
  - (ii) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. is entitled to transfer, let, mortgage or set up third party interest on the property.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
6. An apartment located in Room 302, Unit 3, Block 2, Jinqiu Garden, No. 105, Fengqi Road East, Jianggan District, Hangzhou City, Zhejiang Province, the PRC	The property comprises a unit of a 7-storey residential building and the subject unit has a gross floor area of approximately 59.74 sq.m.  The building was completed in or about 1998.	The property is currently occupied by the Group for staff-residential purpose.	<p>RMB460,000 (equivalent to HK\$442,300)</p> <p><b>Interest attributable to the Group</b></p> <p>99%</p> <p><b>Market value attributable to the Group as at 28 February, 2006</b></p> <p>RMB455,400 (equivalent to HK\$437,900)</p>

*Notes:*

1. Pursuant to a Building Ownership Certificate dated 28 December, 1998 (No.: Hang Fang Quan Zheng Jiang Yi Zi Di 0017949), the building ownership of the property with a gross floor area of 59.74 sq.m. is vested in Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. (杭州世寶汽車方向機有限公司).
2. The PRC legal opinion states that:
  - (i) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. has legally obtained the building ownership of the property.
  - (ii) Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. is entitled to transfer, let, mortgage or set up third party interest on the property.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
7. An industrial complex located in No. 75-15, Changfa Road, Tiedong District, Siping City, Jilin Province, the PRC	<p>The property comprises two parcels of land with a total site area of approximately 50,071.35 sq.m. and 13 buildings and structures erected thereon.</p> <p>The buildings and structures were completed in 1998-2002. The 13 buildings and structures with Building Ownership Certificates have a total gross floor area of approximately 16,857.95 sq.m.</p> <p>The main buildings and structures include workshops, office and other ancillary facilities.</p>	The property is currently occupied by the Group for production and ancillary purpose.	<p>RMB20,400,000 (equivalent to HK\$19,615,400)</p> <p><b>Interest attributable to the Group</b></p> <p>75%</p> <p><b>Market value attributable to the Group as at 28 February, 2006</b></p>
	The two parcels of land were granted with land use rights with expiry dates of May, 2048 and 26 September, 2052 respectively and both for industrial uses.		<p>RMB15,300,000 (equivalent to HK\$14,711,500)</p>

## Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated July, 2002 entered into between Land Resources Bureau of Siping City (Party E) and Siping Steering Gear Co., Ltd. (Party F), the land use rights of the land parcel with a site area of approximately 36,967 sq.m. is granted to Party F for industrial purpose at a total consideration of RMB4,236,418.20.
2. Pursuant to a State-owned Land Use Rights Certificate dated 20 May, 1998 (No.: Si Guo Yong (98 Ji) Zi Di 12-(4)-21), the land use rights of the property having a site area of approximately 13,104.35 sq.m. and an expiry date of May 2048 for industrial use has been granted to Siping Steering Gear Co., Ltd.(四平市方向機械有限公司).
3. Pursuant to a State-owned Land Use Rights Certificate dated 14 July, 2003 (No.: Si Guo Yong (2003) Zi Di 13-00009), the land use rights of the property having a site area of approximately 36,967.00 sq.m. and an expiry date of 26 September, 2052 for industrial use has been granted to Siping Steering Gear Co., Ltd.(四平市方向機械有限公司).

4. Pursuant to Building Ownership Certificates No.: Si Ping Shi Fang Quan Zheng Si Zi Di 076969-77, 014170-72, 014174, Building Nos. 1-9 and 16-19 of the property is held by Siping Steering Gear Co., Ltd. (四平市方向機械有限公司) and breakdown is as follow:

<b>Building Nos.</b>	<b>Name (known as)</b>	<b>Certificate No.</b>	<b>Gross Floor Area (sq.m.)</b>
1	Office Building	076969	2,304.30
2	Transformer Room	076970	251.15
3	Installation Factory	076971	2,534.07
4	Car Port, Guard Room, Canteen	076972	867.64
5	Composite Warehouse	076973	391.23
6	Union Factory	076974	3,045.78
7	Boiler Room	076975	136.00
8	Mechanical Factory	076976	4,870.00
9	Boiler Room and Warehouse	076977	883.37
16	Products Warehouse	014170	735.00
17	Four Factory	014171	726.92
18	Water Room	014172	56.00
19	Air Compressor Station	014174	56.49
Total:			<u>16,857.95</u>

5. The Building Ownership Certificates (No. 076970, 076972, 076973, 076974, 076976) are subject to mortgages in favour of Industrial and Commercial Bank of China, Siping City Zhongyang East Road Branch.
6. The PRC legal opinion states that:
- (i) Siping Steering Gear Co., Ltd. (四平市方向機械有限公司) has legally obtained the land use rights and building ownership of the property.
  - (ii) Siping Steering Gear Co., Ltd. (四平市方向機械有限公司) is entitled to transfer, let, mortgage or set up third party interest on the property.

Property	Description and Tenure	Particulars of occupancy	Market value as at 28 February, 2006
8. An industrial complex located in Beiermalu, Simalu Street, Tiedong District, Siping City, Jilin Province, the PRC	<p>The property comprises a parcel of land with a site area of approximately 4,461.83 sq.m. and 6 buildings and structures erected thereon.</p> <p>The buildings and structures were completed in or about 1980s. The 6 buildings and structures with Building Ownership Certificates have a total gross floor area of approximately 4,465.67 sq.m.</p> <p>The main buildings and structures include workshops, office and other ancillary facilities.</p> <p>The parcel of land was granted with land use rights with an expiry date of May, 2048 for industrial use.</p>	The property is currently left unused.	<p>RMB3,460,000 (equivalent to HK\$3,326,900)</p> <p><b>Interest attributable to the Group</b></p> <p>75%</p> <p><b>Market value attributable to the Group as at 28 February, 2006</b></p> <p>RMB2,595,000 (equivalent to HK\$2,495,200)</p>

*Notes:*

- Pursuant to a State-owned Land Use Rights Certificate dated 20 May, 1998 (No.: Si Guo Yong (98 Ji) Zi Di 09-0032), the land use rights of the property having a site area of approximately 4,461.83 sq.m. and an expiry date of May, 2048 for industrial use has been granted to Siping Steering Gear Co., Ltd. (四平市方向機械有限公司).
- Pursuant to Building Ownership Certificates Nos.. Si Ping Shi Fang Quan Zheng Si Zi Di 014161-66, Building Nos. 10-15 of the property is held by Siping Steering Gear Co., Ltd. (四平市方向機械有限公司) and breakdown is as follow:

Building Nos.	Name (known as)	Certificate No.	Gross Floor Area (sq.m.)
10	Old Four Factory and Installation	014161	1,217.86
11	Boiler Room	014162	354.59
12	Old Three Factory Supplementary	014163	149.00
13	Office Building	014164	1,266.05
14	Transformer Room	014165	62.55
15	Office Building and Factory	014166	<u>1,415.62</u>
Total:			<u><u>4,465.67</u></u>

- The PRC legal opinion states that:
  - Siping Steering Gear Co., Ltd. (四平市方向機械有限公司) has legally obtained the land use rights and building ownership of the property.
  - Siping Steering Gear Co., Ltd. (四平市方向機械有限公司) is entitled to transfer, let, mortgage or set up third party interest on the property.

*This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC and Hong Kong company law, the PRC law applicable to joint stock companies with limited liability, certain requirements of the GEM Listing Rules and the additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers. It also contains a summary of the Articles of Association.*

## **1. SUMMARY OF THE PRC LAWS**

### **1. The PRC Legal System**

The PRC legal system is based on the PRC Constitution (hereinafter referred to as the “Constitution”) and is made up of written laws, regulations, directives and local laws, regulations, laws of the Special Administrative Region and international treaties entered into by China. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The Constitution explicitly provides that “the State shall protect the legal rights and interests of non state-owned economies such as individual economies and private economies. The State shall encourage, support and instruct the development of non state-owned economies and legally regulate and supervise non state-owned economies.” It is also provided that “legal property legally owned by citizens themselves shall not be violated. The State shall protect the private property and inheritance rights of its citizens pursuant to the laws.”

The National People’s Congress of the PRC (the “NPC”) and the Standing Committee of the NPC are empowered by the Constitution to exercise the legislative power of the State. The NPC has the power to amend the Constitution and enact and amend basic laws governing the State organs, civil and criminal matters. The NPC is empowered to interpret, enacted and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not conflict with the Constitution and the national laws enacted by the NPC. In the event that any such conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations cannot be in conflict with the Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions in the first instance for practical purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at national level.

The power to interpret laws is vested by the Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10 June, 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they have promulgated. At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws.

## 2. The PRC Judicial System

Under the Constitution and the Law of Organization of the People's Courts of the PRC (中華人民共和國法院組織法), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division), in accordance with needs. The judicial work of people's courts at lower levels is subject to the supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's courts adopt a two-tier final appeal system. A party may appeal against the judgment or order of a local court to the people's court at the next higher level. Judgments or orders of the first instance of the Supreme People's Court are final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds

an error in a final and binding judgment which has taken effect, or the presiding judge or a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) adopted on 9 April, 1991 prescribes the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action. A foreign national or foreign enterprise is given the same litigation rights and obligations as a citizen or enterprise of the PRC in respect of a civil action. Should a court of a foreign country limit the litigation rights of PRC citizens and enterprises, the PRC courts shall apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with or perform a judgment or order made by a people's court or a ruling made by an arbitration organisation in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, or order or ruling. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties or both parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's court in accordance with the principle of reciprocity or if the PRC has entered into an international treaty with the relevant foreign country or which is acceded to by the PRC which provides for such recognition and enforcement unless the people's court considers that the recognition or enforcement will violate the basic legal principles of the PRC or its sovereignty or security, or for reasons of social and public interest.

### 3. **Arbitration and enforcement of arbitral awards**

《中華人民共和國民事仲裁法》(The Arbitration Law of the People's Republic of China) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August, 1994 and came into effect on 1 September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations,

formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court except when the arbitration agreement is not valid.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed on GEM and, in the case of the GEM Listing Rules, also in a contract between the company and each director, supervisor or officer, to the effect that whenever any dispute or claim arises from the contract, the articles of association, or any rights or obligations provided by the Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) the company and its directors or officers; (ii) a holder of overseas listed foreign shares and a director or officers of the company; (iii) a holder of overseas listed foreign shares and the directors or officer of the company; or (iv) a holder of overseas listed foreign shares and a holder of domestic shares unless otherwise specified in the articles of association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organisation in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on 10 May, 1998, CIETAC's jurisdiction covers disputes relating to Hong Kong. CIETAC is located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on 10 June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing

Committee of the NPC simultaneously with the accession of the PRC to the New York Convention that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under the PRC laws to arise from contractual and non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on 1 July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A “Memorandum of Understanding on the Arrangement for Reciprocal Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region” was signed on 21 June, 1999 (the “MOU”). The new arrangement is made in accordance with the spirit of the New York Convention. To meet current needs, the MOU allows awards made by more than 100 arbitral authorities in the PRC with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in the PRC. This new arrangement has been approved by the Hong Kong Legislative Council and the Supreme People’s Court of the PRC and has been in effect since 1 February, 2000.

#### 4. **Civil Law**

##### 1. *General Principles of the Civil Law*

The PRC is a country implementing a mainland legal system. There is yet a civil law standard. The civil law system is mainly based on the General Principles of the Civil Law in the PRC (《中華人民共和國民法通則》) (hereinafter referred to the “General Principles of the Civil Law”) and various specific laws, including specific regulations relating to contracts, guarantees, copy rights, trademarks, patents, marriage and inheritance.

The General Principles of the Civil Law promulgated and enforced in 1986 generally includes the basic system of the civil law. It has set out the principles relating to equality, willingness, fairness, equality in value and consideration, integrity and prohibition on abuse of rights. The civil law of the People’s Republic of China adjusts the property relationship and individual relationship between equal subjects (between individuals, between legal persons and between individuals and legal persons). Principals equal in a civil action. The legal civil rights of individuals and legal persons are protected by the law which shall not be violated by any organisation and individual.

##### 2. *Contract Law*

The Contract Law of the People’s Republic of China (hereinafter referred to the “Contract Law”) was approved on March 1999 and enforced on 1 November, 1999. Contracts under the Contract Law refer to agreements relating to establishment, change or termination to relationship between civil rights and obligations of individuals, legal persons and other organisations with equal status.

In accordance with the Contract Law, parties to a contract have equal status under the law. They have the legal right to enter into a contract and have to comply with equality and integrity principles. Contracts entered into pursuant to the law are protected by the law and are binding to the principals.

In addition, the Contract Law sets out detailed requirements of conditions and forms of contracts, effectiveness, performance, change and transfer of contracts, rights and obligations and breach of contracts. There are also specific requirements of the major aspects such as the forms and effectiveness of various forms of contracts, including purchase and sale contracts, gift contracts, borrowing contract, lease contracts, finance lease contract, subcontract contracts, construction contracts, transportation contracts, technology contracts, custody contracts, storage contracts, commission contracts, brokerage contracts and intermediary contracts, under the clauses.

### 3. *Guarantee Law*

In order to stimulate the liquidity of funds and circulation of commodities and ensure the materialisation of protection of creditors' rights, the Standing Committee of the NPC promulgated the Guarantee Law of the People's Republic of China (hereinafter referred to the "Guarantee Law") on 30 June, 1995 which was enforced on 1 October, 1995. In accordance with the Guarantee Law, it is provided that in economic activities such as borrowing, purchase and sale, transportation of good and processing and subcontract, a creditor shall ensure the materialisation of creditors' rights by way of guarantee. Guarantees may be established pursuant to the law. The Guarantee law requires that guarantee shall be in the form of security, pledge, charge, lien and deposits.

In accordance with the Guarantee Law, guarantee activities shall be based on principles of equality, willingness, fairness and integrity. A guarantee contract is an auxiliary contract to the master contract. Should the master contract is ineffective, so is the guarantee contract unless it is otherwise provided under the guarantee contract. The Guarantee Law sets out specific requirements of the principal conditions, forms and materialisation of rights in respect of security, pledge, charge, lien and deposits.

In accordance with Section 78 of the Guarantee Law, a pledgor and a pledgee shall enter into a written contract in respect of the pledge of shares which may be transferred under the law and shall register the pledge to the securities registration organisation. A pledge contract comes into effect from the date of registration. The share shall not be transferred if they are pledged unless it is otherwise agreed between the pledgor and pledgee. The proceeds from the transfer of shares received by the pledgor shall be used to settle the creditors' rights under guarantee to creditors and given to the third parties under the agreement with the creditors.

#### 4. Taxation

##### 1. *Taxes Applicable to Joint Stock Limited Companies*

###### 1) Income Tax

According to the Provisional Regulations of Income Tax for Domestic Companies (中華人民共和國企業所得稅暫行條例) effective from January 1999 and stipulated by the State Council, all Chinese companies, including State-owned companies, collective-owned enterprises, private enterprises, associated enterprises, joint stock companies and other companies (excluding joint ventures and foreign companies) are required to pay income tax at a rate of 33 per cent. on taxable income derived from their production of goods and business activities, except those enterprises of specific types which are entitled to taxation treatment and reduction pursuant to the existing laws, administrative regulations and the promulgation of the State Council.

###### 2) Value Added Tax (“VAT”)

Both the “Provisional Regulations of VAT of the PRC” (中華人民共和國增值稅暫行條例) effective from 1 January, 1994 and the “Implementation Rules of Provisional Regulations of VAT” (中華人民共和國增值稅暫行條例實施細則) stipulate that all sales or import of goods in the PRC, services of processing, maintenance and fixing, are required to pay VAT.

##### 2. *Taxation relating to shareholders*

###### 1) Tax on Dividends

On 21 July, 1993, the State Administration of Taxation of the PRC issued the “Notice Relating to Taxes Applicable to Foreign Investment Enterprises, Foreign Enterprises and Foreign Nationals on Dividends and Gains obtained from the Holding and Transferring of Shares” (hereinafter referred to the “1993 Tax Notice”) (關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收) to confirm that dividends received from Renminbi-denominated shares issued in the PRC (B shares), overseas listed shares (such as H shares) are exempted from enterprise tax and individual income tax.

On 13 May, 1994, the Ministry of Finance and the State Administration of Taxation of the PRC issued the “Notice Relating to Certain Policies of Individual Income Tax” pursuant to which dividends received by foreign nationals from foreign-invested enterprises are exempted from income tax.

On 30 August, 1999, the Standing Committee of the NPC issued the “Decision Relating to the Amendment to “Individual Income Tax of the PRC””. In accordance to the decision, dividends received by foreign nationals who are not Chinese nationals are subject to a taxation of 20%. On 26 July, 1994, the State Administration of Taxation of the PRC issued the “Notice on Tax Relating to Foreign Nationals on Dividends and Gains obtained from the Holding of Shares of Companies within and outside the PRC” (關於外籍個人持有中國境內上市公司股票所取得的股息有關稅收問題的通知) (hereinafter referred to the “1994 Tax Notice”). Accordingly, the State Administration of Taxation of the PRC reiterates that dividends received by foreign nationals who hold B shares or overseas listed shares (including H shares) from the B shares or overseas listed shares of PRC enterprises are exempted from individual income tax.

Accordingly, under current PRC laws and regulations, dividends received by any overseas enterprises or foreign nationals from H shares are exempted from enterprise income tax and individual income tax. If the above notices are withdrawn, unless it is pursuant to an applicable double taxation avoidance treaty, the dividends and distributions are subject to an income tax of 20%.

## 2) Tax on the Transfer of Shares

In accordance with the 1993 Tax Notice, foreign enterprises and foreign nationals are subject to an income tax rate of 20% in respect of the revenue of transfer of the shares of foreign-invested enterprises in excess of the investment.

The “Implementing Rules of Individual Income Tax Law of the PRC” (中華人民共和國個人所得稅法實施條例) issued on 28 January, 1994 stipulated the implementing rules that transfer of shares is subject to individual income tax. These implementing rules were promulgated by the Ministry of Finance and approved by the State Council. However, the implementing rules do not have any detailed rule.

On 20 June, 1994, the Ministry of Finance and State Administration of Taxation issued the “Notice on the Temporary Waiver of Individual Income Tax on Gains from Share Transfers” (關於股票轉讓所得暫不徵收個人所得稅的通知), exempting individuals from the payment of income tax on gains from the transfer of shares for the years 1994 and 1995. On 9 February, 1996, the Ministry of Finance and State Administration of Taxation again issued the “Notice on the Temporary Waiver of Individual Income Tax on Gains from Share Transfers for 1996” (關於股票轉讓一九九六年暫不徵收個人所得稅的通知), exempting individuals from the payment of tax on gains from the transfer of shares for the year of 1996. On 30 March, 1998, the Ministry of Finance and State Administration of

Taxation of the PRC jointly issued the “Notice on the Continued Temporary Waiver of Individual Income Tax on Gains from Share Transfers” (關於股票轉讓所得繼續暫免徵收個人所得稅的通知), exempting individuals from the payment of tax on gains from the transfer of shares since 1997.

### 3) Tax Treaties

In the event that income tax has been paid as above, foreign enterprises without an establishment or office in the PRC and non-PRC individual investors residing in countries which have entered into double taxation avoidance treaties with the PRC may be entitled to a reduction of withholding tax imposed on the payment of dividends to such investors. The PRC is currently a party to double taxation treaties avoidance with a number of countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

### 4) Stamp Duty

By virtue of the “Provisional Stamp Duty Regulations of the PRC” (中華人民共和國印花稅暫行條例) taking effect on 1 January, 1992, PRC stamp duty is imposed on the transfer of PRC listed domestic shares. However, H shares which are transferred outside the PRC are exempted from the payment of PRC stamp duty.

### 5) Estate Duty

There is no any estate duty under the existing laws of the PRC.

## 5. Foreign Exchange Control

Major reforms have been introduced to the foreign control system of the PRC since 1993.

On 28 December, 1993, the People’s Bank of China (hereinafter referred to the “PBOC”), with the authorisation of the State Council, issued the “Notice of PBOC on Further Reform of the Foreign Exchange Control System” (中國人民銀行關於進一步改革外匯管理體制的公告). Other major regulations and implementing rules include the “Foreign Exchange Administration Rules of the PRC” (中華人民共和國外匯管理條例) which was promulgated by the State Council on 29 January, 1996 and came into effect on 1 April, 1996 and the “Regulations on the Foreign Exchange Settlement, Sale and Payment” (結匯、售匯及付匯管理規定) which were promulgated by the PBOC on 20 June, 1996 and came into effect on 1 July, 1996. The above regulations and implementing rules contain detailed provisions regulating the settlement, sale and payment of foreign exchange by domestic enterprises, individuals, economic organisations and social organisations in the PRC.

Under the existing laws and regulations, the PRC is currently implementing a unified floating exchange rate system largely based on supply and demand. The PBOC publishes, on each business day, the Renminbi exchange rate against other major foreign currencies. Such exchange rate is to be set by reference to the exchange rates of Renminbi against major foreign currencies in the inter-bank foreign exchange market on the previous day.

In general, all entities in the PRC are required to remit their foreign exchange earnings to the PRC. Recurring foreign exchange earnings of PRC enterprises are generally required to be sold to designated banks unless specifically approved otherwise. Foreign-invested enterprises are permitted to retain certain amount of the recurring foreign exchange earning up to the maximum amount approved by the SAEC and the sums retained shall be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange has been relaxed. Enterprises which require foreign exchange for their recurring obligations such as international trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents.

In addition, where an enterprise requires to pay dividends that are payable in foreign currencies under applicable regulations, it shall, after taxation, pay the dividends from its exchange bank accounts upon the presentation of the resolution of the board of directors relating to the profit distribution. Where the amount of funds in foreign exchange is insufficient, the enterprise may purchase necessary foreign exchange from the designated foreign exchange banks.

Meanwhile, the approval of the SAEC is still required before an enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or to make any investment outside the PRC or to enter into any other capital account transaction which involves the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate. China Exchange Transaction Centre was formally established and commenced operation on 1 January, 1994. China Exchange Transaction Centre has established a computerised network with the branch centres in several major cities which forms an inter-bank market. This market allows various designated banks to carry out exchange transactions and exchange debts between settlement banks. The original plan was to establish China Exchange Transaction Centre while closing the Exchange Swap Centres. However, the Exchange Swap Centres are still acting as an intermediate institute. Upon the approval of the exchange authorities, foreign-invested enterprises which require to carry out exchange transactions shall do so through the Exchange Swap Centres rather than the designated banks. On 25 October, 1998, the PBOC and the SAEC jointly issued a notice providing that all Exchange Swap Centres shall be closed.

On 5 August, 2002, the SAEC and the CSRC jointly issued the “Notice relating to the Issues of Further Perfection of Exchange Management of Overseas Listed Companies” (關於進一步完善境外上市外匯管理有關問題的通知) which came into effect on 1 September, 2002. In accordance with the notice:

- 1) The domestic shareholding parties of overseas listed foreign-invested companies and Chinese overseas holding companies shall register to the exchange authorities for the exchange of overseas listed shares within 30 days after the approval from the CSRC for the issue and listing of shares overseas.
- 2) Overseas listed foreign-invested companies shall transfer all the proceeds, after deduction of the relevant expenses, to the PRC within 30 days after the receipt of the proceeds. The proceeds shall not be kept overseas without the approval of exchange authorities. Proceeds transferred to the PRC shall be managed the same as direct investment of overseas enterprises. Upon the approval of exchange authorities, the proceeds may be retained in a special account or settled.
- 3) Foreign exchange from reduction of holding of shares of listed companies or sale of assets (or interests) through listed companies received by the domestic shareholding parties of overseas listed foreign-invested companies and Chinese overseas holding companies shall be transferred to the PRC after deduction of the relevant expenses, within 30 days after the receipt of the foreign exchange. The foreign exchange shall not be kept overseas without the approval of exchange authorities. After transferral, the foreign exchange may be settled upon the approval of exchange authorities.
- 4) As to the foreign exchange described under 3) and 4) above, in the event that an overseas account shall be open for temporary deposit before transferral to the PRC, the company may apply to exchange authorities for opening a special exchange account overseas up to a period of three months.
- 5) In the event that an overseas listed enterprise has to redeem its overseas shares, it shall amend the exchange registration upon the approval of the CSRC and the approval for the settlement of exchange overseas.

## 6. Company Law

On 29 December 1993, the Standing Committee of the Eighth NPC adopted the Company Law which came into effect on 1 July 1994 and was amended for the first time on 25 December 1999, the second time on 28 August 2004 and the third time on 27 October 2005. The newly amended Company Law of the People’s Republic of China (hereinafter referred to as the “new Company Law”) has been promulgated and became effective from 1 January 2006.

Set out below is a brief summary of the differences between the Company Law and the new Company Law and the major provisions of the Special Regulations and the Mandatory Provisions. On 4 July 1994, the Special Regulations were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated according to the provisions of Sections 85 and 155 of the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission of the State Council and the State Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a “company” are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

Copies of the Chinese text of the Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection.

#### 1. *General*

A “joint stock limited company” (hereinafter referred to as “company”) is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company’s assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock companies. However, apart from investment companies and holding companies specified by the State Council, the amount of a company’s aggregate investment in other companies may not exceed 50% of its net assets and the company’s liabilities to such invested companies are limited to the amount invested.

Amendments have been made to the requirement relating to external investment by the above companies under the new Company Law, which provides that a company can invest in other enterprises without restriction on the accumulated investment amounts. However, unless otherwise required by law, a company cannot be the contributor who has the obligations associated with the debt of the invested enterprise.

## 2. *Incorporation*

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five (5) promoters, but at least half of the promoters must have residence in the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC government can be restructured in accordance with the relevant regulation to become joint stock limited companies which may issue shares to overseas investors. These companies if incorporated by public subscription may have less than five (5) promoters and can issue new shares once incorporated. The new Company Law has amended the number of promoters to over two (2) but less than two hundred (200), half of which must have residence in the PRC.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public. In respect of public subscription, the new Company Law has amended the provision to provide that the promoters are required to subscribe for not less than 35% of the total number of shares of a company, and the remaining shares can be offered to the public or specific persons.

Compared to the Company Law which requires that the registered capital of a company be the amount of its total paid-up capital as registered with the relevant administration bureau for industry and commerce, the new Company Law has amended such provision to provide that for companies incorporated by way of promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the relevant administration bureau for industry and commerce; for companies established by way of public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administration bureau for industry and commerce.

The registered capital of a company is a minimum of RMB10 million. The new Company Law has amended the provision to provide that the minimum registered capital of a joint stock limited company is RMB5 million.

The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million. Such provision was cancelled under the new Company Law. However, the amendments to the Securities Law of the PRC passed at the 18th meeting of the Standing Committee of the 10th NPC held on 22 October 2005 (hereinafter referred to as the “New Securities Law”) provided that the total share capital of a company applying for listing must not be less than RMB30 million. The New Securities Law became effective on 1 January 2006.

The incorporation of a company must be approved by the department authorised by the State Council or by the provincial level people's government. The new Company Law has cancelled such approval system.

The promoters shall convene an inaugural meeting within thirty (30) days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an public announcement of the date of the inaugural meeting fifteen (15) days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within thirty (30) days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval for registration has been given by the relevant administration bureau for industry and commerce and a business licence has been issued. Companies established by way of public subscription shall file a report on the offer of shares with the securities administration department of the State Council for record; the new Company Law has no such requirement.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on 22 April 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

### 3. *Share capital*

The promoters of a company may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company. The new Company Law has made amendments

in this respect, which provides that a company's promoter can make capital contributions in cash, or in kind that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value provided that the amount of capital contribution in cash by all shareholders must not be less than 30% of a company's registered capital.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoters, state-authorised investment organisation and PRC legal persons shall be in the form of registered share and may not be registered under a different name or in the name of an agent. The new Company Law has amended the provision to provide that a company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and are listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific measures shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than par value, but may not be less than par value.

#### 4. *Increase in capital*

Under the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting and meet the following conditions:

- (i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue, but under the Special Regulations, if a company increases its capital for the issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than twelve (12) months;
- (ii) the company has been profitable for the last three (3) consecutive years and is able to make dividend payments to its shareholders;
- (iii) there has been no false reporting in the company's financial and accounting documents during the last three (3) years; and
- (iv) the company's expected profit rate is comparable to the bank deposit rate for the same term.

Save for the abovementioned condition of obtaining approval at the general meetings, the new Company Law has removed all other conditions. However, for the public offering of new shares, the new Securities Law provides that the company in consideration shall: (i) have a sound organisational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Once the shareholders in general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorised department of the State Council or to the provincial level people's government for approval (new Company Law has removed such requirement). Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the relevant state bureau for the administration for industry and commerce and issue a public notice accordingly.

5. *Reduction of share capital*

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three (3) times within thirty (30) days after the resolution approving the reduction has been passed (the requirement as to the number of issuance of public notices was removed in the new Company Law);
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the reduction in registered capital.

6. *Repurchase of shares*

A company may not purchase its own shares other than for the purpose of reducing its capital by canceling its shares or merging with another company holding its shares or such other purposes permitted by law and administrative regulations. The following two circumstances, under which a share repurchase by a Company is permitted, have been included in the new Company Law:

- (i) granting shares as a reward to the staff of the company;
- (ii) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.

The new Company Law also stipulates that the shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year. The Mandatory Provisions provide that upon obtaining approvals in

accordance with the articles of association of the company and from the relevant supervisory authorities, a company may repurchase its issued shares for the foregoing purposes by way of a general offer to its shareholders or purchase on a stock exchange or an off-market contract.

#### 7. *Transfer of shares*

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. However, under the new Company Law, it is amended that a shareholder may transfer his/her shares on the stock exchange established in accordance with laws or by other means as stipulated by the State Council. Transfer of unregistered shares must be effected through the transferee of the relevant shares.

Shares held by promoters may not be transferred within three (3) years after the establishment of the company. Shares held by directors, supervisors and the manager of a company may not be transferred during their term of office with the company. The new Company Law has made amendments thereto, which provides that shares held by a promoter of a company may not be transferred within one (1) year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares may not be transferred within one year from the date of listing of its shares on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the Company held by each of them within one year after the listing date. There is no restriction under the Company Law as to the percentage shareholding of a single shareholder in a company.

Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

No change of members as referred to in the above will be registered within thirty (30) days before the holding of general meetings (twenty (20) days as stipulated in the new Company Law) or five (5) days prior to the record date of the Company's decision of distribution of a dividend.

There is no restriction under the Company Law as to the percentage shareholding of a single shareholder in a company.

#### 8. *Shareholders*

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulations or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped (shareholders may prosecute an action in the People's Court under the new Company Law);
- (v) to receive dividends in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

#### 9. *Shareholder's general meetings*

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors and decide on matters relating to the remuneration of directors and supervisors (this provision is

amended to elect and remove the directors and supervisors who are not appointed from representatives of the staff, and decide on matters relating to the remuneration of the directors and supervisors under the new Company Law);

- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee or the supervisors;
- (v) to consider and approve the company's proposed annual financial budget and final accounts;
- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to amend the articles of association of the company; and
- (xi) other powers specified in the articles of association of the Company.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two (2) months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company which are not made up reach one-third of the company's total share capital (this provision is amended so that the losses of the company which are not made up reach one-third of the company's total paid up share capital under the new Company Law);
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors; or

(v) when the supervisory committee proposes convening it.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders thirty (30) days (twenty (20) days under the new Company Law, and fifteen (15) days for extraordinary general meetings) before the meeting under the Company Law and forty-five (45) days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance twenty (20) days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% (there is no requirement under the new Company Law for submission at the general meeting, and the new Company Law has changed the percentage to 3%) or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold. The new Company Law provides that no voting right is attached to the shares held by the Company.

Resolutions proposed at the shareholders' general meeting must be adopted by more than half of the votes cast by shareholders present in person (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division or reduction in registered capital, change in the form of the company or amendments to the articles of association which must be adopted by shareholders with more than two-thirds of the voting rights held by shareholders present (including those represented by proxies) at the meeting. According to the Mandatory Provisions, the increase or reduction of share capital, the issue of bonds or debentures, and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved by more than two-thirds of the voting rights held by the shareholders present in person or by proxy in the general meeting. Amendments to the articles of association of a company must be approved by more than two-thirds of the shareholders present in general meeting.

Shareholders may commission a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney the scope of exercising the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been

received twenty (20) days before the proposed date, or if that 50% level is not achieved, the company shall within five (5) days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

#### 10. *Directors*

A company shall have a board of directors, which shall consist of five (5) to nineteen (19) members and there can be staff representatives of the Company. Under the Company Law, each term of office of a director shall not exceed three (3) years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors at least ten (10) days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;

- (ix) to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration; and
- (x) to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

- (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) persons who are State civil servants (this provision has been deleted under the new Company Law).

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in this appendix).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, amongst others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to check on the implementation of the resolutions of the board of directors; and
- (iii) to sign the company's share certificates and bonds (this provision has been deleted under the new Company Law).

The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in this appendix) contains further elaborations of such duties.

#### 11. *Supervisors*

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and worker. Directors, managers and financial officers may not act concurrently as supervisors. Amendments have been made to this provision under the new Company Law so that

the supervisory committee is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives; shall not be less than one-third. Directors and senior management shall not act as supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;
- (iii) when the acts of a director or manager are harmful to the company's interests, to require correction of those acts;
- (iv) to propose the convening of extraordinary shareholders' general meeting; and
- (v) other powers specified in the company's articles of association.

Requirements in relation to the power of the supervisory committee under the new Company Law are as follows:

- (i) to examine the company's financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution;
- (iii) to require any director or senior management whose act is harmful to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings as required by the new Company Law, to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' meetings;
- (vi) to commence any action against any directors or senior management in accordance with the requirements of the new Company Law; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

## 12. *Managers and officers*

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this appendix).

### 13. *Duties of directors, supervisors, managers and officers*

A director, supervisor, manager and an officer of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant laws and regulations or by the shareholders.

A director, supervisor, manager and an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and an officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

### 14. *Finance and accounting*

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least twenty (20) days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve fund (except where the fund has reached 50% of the company's registered capital) and 5% to 10% of its after-tax profit for the company's statutory public welfare fund. The new Company Law does not contain a provision relating to the statutory public welfare fund.

When the company's statutory surplus reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory surplus reserve fund or the statutory public welfare fund.

The company's statutory public welfare fund is used for the collective welfare of the company's staff and workers.

After the company has made good its losses and make allocations to its statutory surplus reserve fund and statutory public welfare fund, the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders. The new Company Law has added a new provision, which states that distribution in such proportion is not required under the articles of association.

The common reserve of a company comprises the statutory surplus reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is make up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses (a restriction of "other than the capital common reserve" has been added under the new Company Law);
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital on the company.

#### 15. *Appointment and retirement of auditors*

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

16. *Distribution of profits*

The Articles provide that the Company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve funds and statutory public welfare funds have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

17. *Amendments to articles of association*

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorised by the State Council and CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

18. *Dissolution and liquidation*

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
  - (ii) the shareholders in general meeting have resolved to dissolve the company;
- or

(iii) the company is dissolved by reason of its merger or demerger.

Meanwhile, the following provisions have been added to the new Company Law:

- (iv) the company is subject to the revocation of business license, a closure order or dismissal in accordance with laws;
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company.

Under the new Company Law, where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within fifteen (15) days from the date of dissolution. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment.

The liquidation committee shall notify the company's creditors within ten (10) days after its establishment, and issue at least three (3) public notices in the newspapers within sixty (60) days (the requirement as to the number of issuance of public notices was cancelled in the new Company Law). A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within ninety (90) days (which requirement was amended to forty-five (45) days under the new Company Law) of the first public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;

(vi) to handle the surplus assets of the company after its debts have been paid off; and

(vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period. (Under the new Company Law, this provision is amended so that the company shall not engage in operating activities unrelated to the liquidation).

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

#### 19. *Overseas listing*

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

#### 20. *Loss of share certificates*

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in

registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this appendix).

21. *Suspension and termination of listing*

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report (a restriction on "the possibility of misleading investors" has been added to the new Securities Law);
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three (3) consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s) (this is a new provision under the new Securities Law).

Under the New Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

The new Company Law provides that the securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt. In such event, the New Securities Law would regard this as "other circumstances as required by the listing rules of the relevant stock exchanges".

## 22. *Merger and demerger*

The merger or demerger of a company is to be decided by the shareholders in general meeting subject to the approval of departments authorised by the State Council or the approval of the provincial government. Such requirement for approval was removed in the new Company Law.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merger of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within ten (10) days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least three (3) times (the requirement as to the number of issuances of public notices was removed in the new Company Law), within thirty (30) days of the resolution to merge. Those creditors who had not received written notice may within ninety (90) days (amended to forty-five (45) days in the new Company Law) of the first published notice, or within thirty (30) days after receiving written notice, request the company to satisfy any unpaid debt or provide equivalent guarantees in cases of guarantees. Companies unable to repay such debts or provide alternative guarantees will not be allowed to merge (there is no such restriction under the new Company Law). Newly merged entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company demergers into two (2) companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within ten (10) days of such resolution being passed and advertise the same at least three (3) times (the requirement as to the number of issuances of public notices was cancelled in the new Company Law) in newspapers within thirty (30) days. A creditor may within thirty (30) days after receiving written notice or, a creditor who has not received such notice may within ninety (90) days (amended to forty-five (45) days in the new Company Law) from the first public advertisement, demand that the company repay any outstanding debts or to provide an appropriate guarantee.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

## 7. Securities law and regulations

Currently, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In early 1993, the State Council established the Securities Commission and the CSRC.

On 22 April 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of its issue of Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange.

On 12 June 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information (《公開發行股票公司信息披露實施細則(試行)》). Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include, without limitation, changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating asset or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company.

These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 2 September 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities (《禁止證券欺詐行為暫行辦法》). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4 July 1994, the State Council promulgated the Special Regulations. These provisions deal with primarily the issue, subscription, trading and declaration of dividends and other distributions of foreign capital stock listed abroad and disclosure of information, articles of association of joint stock limited companies having foreign capital stock listed abroad.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions on, domestic listed Foreign Shares and disclosures of information by joint stock limited companies having domestic listed Foreign Shares.

On 29 December 1998, the Standing Committee of the NPC promulgated the Securities Law of the PRC. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. On 22 October 2005, the proposal for the amendments to the Securities Law (the 3rd submission proof) was passed following a deliberation at the 18th meeting of the Standing Committee of the 10th NPC. The new Securities Law became effective on 1 January 2006. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On 29 March 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas (《關於進一步促進境外上市公司規範運作深化改革的意見》) which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be subject to the Opinion upon listing of the H shares on

the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On 14 July 1999, the CSRC promulgated the Notice on Issues regarding the Application for Overseas Listing by Enterprises (《關於企業申請境外上市有關問題的通知》) which sets out the requirements to be satisfied by Chinese enterprises seeking overseas mainboard listings, and matters including the approval procedure and the submission of documents.

On 21 September, 1999, the CSRC promulgated the Guideline to Permitting and Monitoring Enterprises Listing on GEM in Hong Kong (hereinafter referred to the “Guideline”) (境內企業申請到香港創業板上市審批與監管指引) which contained procedures for granting permission for PRC enterprises to list on GEM. A state-owned enterprise, collectively-owned enterprise and other enterprises with other ownership forms may, through its sponsor, voluntarily submit an application to the CSRC for permission to be listed on GEM upon establishing a joint stock company pursuant to laws. The prerequisite conditions of the above application are that the applicant must be a joint stock company being approved by the provincial people’s government or the State Economic and Trade Commission established and operating pursuant to laws; and the company and its major promoters shall comply with the relevant regulations and policies and has not committed any material breach of laws and regulations within the latest two years. Unless written opposition from the Ministry of Foreign Trade and Economic Cooperation (presently the Ministry of Commerce), the SAEC and the Ministry of Finance (if State-owned Shares are involved) is received, the CSRC will decide whether or not to grant the permission within 10 days of receiving the designated document. Upon obtaining the approval, the company may apply to the Hong Kong Stock Exchange for listing on GEM.

## 2. HONG KONG LEGAL AND REGULATORY PROVISIONS

### (A) **Hong Kong company law and its comparison with the PRC law applicable to a stock limited company incorporated under the Company Law**

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection as summarized below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

#### *Derivative action by minority shareholders*

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the

directors are in breach of their duties and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court in the PRC to challenge any decision made in a resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is similar to a derivative action under the Companies Ordinance. However, each of the Directors and Supervisors (as required by the GEM Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors or Supervisors.

#### *Remedies of the Company*

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company (the "Offending Person"), resulting in damage to the Company, that director, supervisor or manager should be responsible to the Company for such damage. The Company shall, in addition to any rights and remedies provided by laws and administrative regulations, have a right to require the Offending Person to compensate for the losses sustained by the Company as a consequence of his dereliction of duty; rescind any contract or transaction concluded by the Company with such Offending Person; recover any funds received by the Offending Person and require the Offending Person to return the interest earned on the funds that should have belonged to the Company. In addition, in compliance with the GEM Listing Rules, remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

#### *Directors, officers and supervisors*

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorized benefits. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions of assets, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Company Law also contains requirements relating to the declaration of material interests in contracts with Company as is required under Hong Kong company law, or restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being

considered. However, the Mandatory Provisions contain certain restrictions on major dispositions of assets and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this appendix.

Under Hong Kong company law, there is no mandatory requirement for the establishment of a supervisory committee in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance by its directors and managers with laws and regulations, and the articles of association of the company.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### *Minority protection*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may present a petition to the court either to wind up the company or to apply for an appropriate order regulating the affairs of the company. In addition, on the application by a specified number of members, the Financial Secretary of Hong Kong may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company, as required by the Mandatory Provisions and the GEM Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to relieve a director or supervisor of his or her duty to act honestly in the best interests of the Company or to approve the expropriation by a director or supervisor of the Company's assets or the individual rights of other shareholders. However, there is no specific provision in the Company Law to guard against oppression by majority shareholders of minority shareholders.

#### *Receiving agent*

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the GEM Listing Rules.

*Financial assistance for the acquisition of shares*

The Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

*Variation of class rights*

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in this appendix.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of shares of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question; or (ii) by agreement of all the members of the Company; or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes. Normally if the Company intends to change the rights of shareholders in different class, a special resolution has to be passed by the shareholders in general meeting and by a separate class meeting convened by the affected shareholder in the different classes. However, this procedure may be waived where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20 per cent. of each of the existing issued domestic shares and overseas listed foreign shares of the Company as at the date of the shareholders' special resolution; (ii) where the plan for the issue of domestic invested shares and listed foreign invested shares upon the Company's establishment is implemented within 15 months of the date of approval by the CSRC. The Mandatory Provisions also contain detailed provisions relating to circumstances, which are deemed to constitute variations of class rights.

*Corporate reorganizations*

Corporate reorganizations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganization involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. However, in the latter case, the liquidator of the first company may, with the sanction of a special resolution, receive compensation from the transfer as distribution to the members of the transferor company. For PRC companies, such liquidation is administratively considered and sanctioned under the Company Law.

*Share capital*

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. The Company Law, on the other hand, does not recognize the concept of authorized share capital, and the registered capital of a joint stock limited company is the total share capital subscribed by all promoters if the company is established by promotion and is the total paid-up capital registered with the registration authority if the company is established by public subscription.

Hence, the directors of a Hong Kong company may, with the prior approval of the shareholder in general meeting, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting. After the completion of an approved new issue, the company has to register the increase in share capital with the relevant regulatory authority for industry and commerce.

The minimum registered capital of a company applying for the listing of its shares on a stock exchange is RMB30 million under the Company Law. Hong Kong law does not prescribe any such minimum capital requirements for a Hong Kong company.

Under the Company Law, the monetary capital contribution made by all shareholders shall not be less than 30 per cent of the registered capital of a joint stock limited company. There is no such restriction under Hong Kong law for a Hong Kong company.

*Restriction on shareholding and transfer of shares*

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to above. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares held by a promoter of a company may not be transferred within one (1) year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares may not be transferred within one year from the date of listing of its shares on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the Company held by each of them within one year after the listing date. There is no restriction under the Company Law as to the percentage shareholding of a single shareholder in a company. There is no such restriction under Hong Kong law.

#### *Notice of shareholders' meetings*

Under the Company Law, shareholders of a joint stock limited company must be given 20 days' notice of an annual general meeting and 15 days' notice of an extraordinary general meeting or, in the case of bearer shares, such notice should be published 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering an ordinary resolution is 14 days and where convened for the purpose of considering a special resolution is 21 days. The notice period for an annual general meeting is also 21 days.

#### *Quorum*

Under Hong Kong law, the quorum for general meeting is provided by the articles of association of the company which may not in any event be fewer than two members. Notwithstanding any provision to the contrary in the articles of a company, if the company has only one member, one member present in person or by proxy shall be a quorum of a meeting of the company.

The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions as well as the Articles of Association provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50 per cent. of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50 per cent. level is not achieved, that the company shall within 5 days notify shareholders in a public announcement once again of the matters to be examined at the meeting as well as the date and place of the postponed meeting. Upon notification by public announcement, the Company may hold the shareholders' general meeting.

#### *Voting*

Under Hong Kong law, an ordinary resolution is passed by a single majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-quarters of votes cast by members present in person or by proxy at a general meeting.

Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in case of proposed amendment to the articles of association, merger, division or dissolution of a company, where two-thirds majority is required.

#### *Dividends*

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The Company shall not exercise its powers to forfeit any unclaimed dividends in respect of H shares until after the expiry of the applicable limitation period.

#### *Disclosure of financial information*

A joint stock limited company is required under the Company Law to make available at the Company for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial position and relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company launching a public offering of shares under the Company Law must publish its financial statement. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet and its annexures, auditors' report and directors' report, which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the GEM Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards (as required under PRC law), the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards, and its financial statement shall contain a statement of the material difference (if any) between such financial statements and financial statements prepared in accordance with PRC accounting standards. The Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges stock exchanges, such differences should also be disclosed simultaneously.

*Information on directors and shareholders*

The Company Law gives shareholders the right to inspect a company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

*Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors, managers and other senior officers can be resolved through the courts. It is a requirement of the Mandatory Provisions and GEM Listing Rules that the Articles of Association provide that disputes between a holder of H Shares and the Company and its Directors, managers or other senior administrative officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions (such as disputes over who is a shareholder), be submitted to arbitration at either the Hong Kong International Arbitration Centre ("HKIAC") or the China International Economic and Trade Arbitration Commission, at the claimant's choice. Such arbitration is final and conclusive.

*Mandatory deductions*

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

*Fiduciary duties*

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisions, officers, and managers owe a fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company without the approval of the general meeting.

*Closure of register of shareholders*

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (may be extended to 60 days in certain circumstances) in a year, whereas the

Company's Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 20 days before the date of a shareholders' meeting or within 5 days before the record date set for the purpose of distribution of dividends unless otherwise provided by law.

(B) **GEM Listing Rules**

The GEM Listing Rules contain certain provisions specifically relating to the primary listing on the GEM of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of such major provisions, which apply to the Company.

*Sponsor*

The Company is required to retain, for at least the remainder of the financial year during which the listing occurs and two financial years thereafter, the services of the sponsor for its listing, or other financial adviser or professional firm which is acceptable to the Stock Exchange, to provide the Company with professional advice on continuing compliance with the GEM Listing Rules. The sponsor must comply with the GEM Listing Rules so far as they are applicable to sponsors. These include the requirement that no sponsor may act for or continue to act for the Company in circumstances where any actual or potential conflict of interest impedes its ability to provide competent advice to the Company in a professional and impartial manner.

Where the Company consults the sponsor for guidance or advice in relation to the GEM Listing Rules, the sponsor has a responsibility to ensure that the Company is properly guided and advised, and must discharge that responsibility with due care and skill. The sponsor must not reveal any privileged information about or relating to the Company to anyone not authorised until the information has been the subject of a listing document, circular or formal announcement, particularly where such information may affect market activity in or the price of the Company's securities.

The sponsor shall ensure that a principal supervisor and an assistant supervisor remain actively involved in the provision of on-going advice and guidance sought by the Company. The sponsor shall act as the principal channel of communication with the Stock Exchange on behalf of the Company and must, so far as practicable, deal with all matters arising in relation to the Company which are raised by the Stock Exchange. The sponsor shall take all reasonable steps to brief all new Directors and Supervisors appointed by the Company as to the nature of their responsibilities under the GEM Listing Rules and other applicable laws and provisions relating to securities and the general nature of their obligations both in relation to the Company's shareholders and creditors.

The sponsor must also regularly review the Company's operating performance and financial condition against the Company's statement of business objectives and

against any profit forecast, estimate or projection included in the Company's prospectus or otherwise made public by, or on behalf of, the Company in order to assist the Company in determining whether any announcement is necessary under the GEM Listing Rules. The sponsor shall, prior to publication, review with the Company all announcements, listing documents and circulars required to be issued under the GEM Listing Rules and the annual reports and accounts, half-year report and quarterly reports of the Company with a view to ensuring that the Directors understand the importance of disclosing all material information to shareholders and the market.

During the minimum period of the sponsor's appointment, it may only terminate its role as sponsor to the Company in exceptional circumstances, where it is no longer able to satisfactorily perform the role, and only after first notifying the Stock Exchange of the intended termination and the reasons therefor. If the appointment is terminated for whatever reason prior to the expiry of the minimum period, the Company and the sponsor must immediately notify the Stock Exchange. In such instances, an announcement must be published as soon as practicable stating the reasons for termination, and a replacement must be appointed within 3 months of the date on which the former sponsor ceased to act.

If the Stock Exchange considers that the sponsor has breached or failed to discharge any of its obligations under the GEM Listing Rules, it may impose sanctions on the sponsor including the issue of a private reprimand or a public statement which involves criticism or public censure, the removal of the sponsor from the list of sponsors maintained by the Stock Exchange or barring the sponsor from representing a specified party in relation to a stipulated matter or matters coming before the GEM Listing Division or the GEM Listing Committee for a stated period.

#### *Accountants' reports*

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts and historical financial results and the statement of assets and liabilities included in the accountants' report have been audited to a standard comparable to that required in Hong Kong, which means that it must conform with either Hong Kong or international financial accounting standards.

#### *Process agent*

The Company must appoint and maintain the appointment of a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the GEM, and must notify the Stock Exchange of his appointment and any termination of his appointment and details of his contact particulars.

*Public shareholding*

The minimum prescribed percentage of any class of listed securities of the Company, which shall be held by the public at any time, shall be determined as follows:

- (a) If at any time there are existing issued securities of the Company other than H Shares which are listed on the Stock Exchange, the GEM Listing Rules require that:
  - (i) all H Shares must be held by the public except as otherwise permitted by the Stock Exchange in its discretion;
  - (ii) the H Shares held by the public must normally constitute not less than 10% of the Company's total existing issued share capital; and
  - (iii) the aggregate amount of H Shares and such other securities held by the public must constitute not less than the minimum prescribed percentage of the Company's total issued share capital; or
- (b) If at any time there are no existing issued securities of the Company other than H Shares, the H Shares held by the public must constitute not less than the minimum prescribed percentage for a company whose market capitalization at the time of listing does not exceed HK\$4,000 million (as in the case of the Company), such minimum prescribed percentage being 25%. If such market capitalization is over HK\$4,000 million, the minimum prescribed percentage is the higher of (i) the percentage that would result in the market value of the securities to be in public hands being equal to HK\$1,000 million (determined as at the time of listing); and (ii) 20 per cent.

*Corporate governance*

The Directors are collectively and individually responsible for ensuring that the Company fully complies with the GEM Listing Rules. Every Director must satisfy the Stock Exchange that he has the character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as a director of the Company. The Directors are expected to be fully aware and observe the GEM Listing Rules, which also set out the minimum standards of good practice concerning their general management responsibilities. The Directors must respond in a prompt and efficient manner to all enquiries directed at them by the Stock Exchange.

If the securities of the Company are or are to be listed on one or more stock exchanges, the sponsor of the Company must make a written submission to the Stock Exchange stating whether in the sponsor's opinion the Directors appreciate the differences as well as the similarities between H Shares and the shares listed on such

other stock exchange and between the rights and obligations of holders of such shares and basis for such opinion. The sponsor must also explain how the Directors propose to co-ordinate and comply in a timely manner with their obligations under the requirements of Stock Exchange and other stock exchange.

The Company must ensure that its board of directors consists of at least 3 independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related Financial Management experience. If an independent non-executive resigns or is removed from office, both the Company and the individual concerned must immediately notify the Stock Exchange, in each case stating the reasons therefor.

Both the Directors and the Supervisors must undertake to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Code on Takeovers, Mergers and Repurchase of Shares of Hong Kong and that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment.

The Company must also appoint a company secretary who has the requisite knowledge and experience to discharge the functions of the secretary to the Company. At all times, the Company must retain a qualified accountant to assist the Company with its financial reporting procedures and internal controls. One of the executive directors of the Company must also act as the Company's compliance officer, whose role includes advising on and assisting the board of Directors in implementing procedures to comply with the GEM Listing Rules and other relevant laws and regulations. In addition, the Company must have 2 authorised representatives who must be 2 individuals from amongst the Company's executive directors and company secretary.

An audit committee must also be set up by the Company comprising of a minimum of 3 members, the majority of which must be independent non-executive directors of the Company. There must be clear written terms of reference for the audit committee, which clearly define its authority and duties. Members of the audit committee have full and unlimited access to all books and accounts of the Company and any personnel of the Company they wish to consult. Responsibilities of the audit committee include reviewing and supervising the Company's financial reporting and internal control procedures.

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the GEM, of the Mandatory Provisions and provision relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this appendix.

*Restrictions on purchase*

The Company may repurchase its own Shares on the GEM or on another stock exchange in accordance with the GEM Listing Rules and the Share Repurchase Code. Shareholders' approvals must first be obtained prior to carrying out a share repurchase, by way of the special resolutions of shareholders in general meetings and of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchase of its securities on the GEM or when reporting such repurchases, the Company should provide an explanatory statement to its shareholders on the proposed or actual repurchase of any or all of its equity securities, whether or not listed or traded on the GEM. The explanatory statement should contain all the information reasonably necessary to enable the shareholders to make an informed decision on approving the resolution. There should also be a statement of the consequences of which the Directors are aware, if any, of any purchase which will arise under either or both of the Takeovers Code and any similar applicable law. Any specific approval or general mandate given to the Directors to repurchase H Shares must not exceed 10 per cent. of the total amount of existing issued H Shares of the Company.

*Redeemable shares*

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

*Register of holders of H Shares*

Provision must be made for a register of holders of H Shares to be maintained in Hong Kong and for transfers to be registered locally. Unless the Stock Exchange otherwise agrees, only securities registered on the Hong Kong register may be traded on the GEM.

*Preemptive rights*

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meeting) at separate class meeting conducted in accordance with the Articles of Association prior to:

- (a) authorizing, allotting, issuing or granting;
  - (i) Shares;
  - (ii) securities convertible into Shares; or

- (iii) options, warrants or similar rights to subscribe for any Shares or such convertible securities; or
- (b) any major subsidiary (if any) of the Company making any such authorization, allotment, issue or grant so as materially to dilute the percentage of equity interest of the Company and its shareholders in such subsidiary.

No such approval shall be required in the case of authorizing, allotting or issuing shares if, but only to the extent that:

- (a) the existing shareholders of the Company have by special resolution in general meeting given approval, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorize, allot or issue either separately or concurrently once in every 12 months (commencing on the date on which the shareholders pass such resolution), not more than 20 per cent. of each of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolutions; or
- (b) such shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC or such competent state council securities regulatory authority.

Notwithstanding the above, the Company shall obtain the approval by special resolution of the shareholders in general meeting prior to allotting any voting Shares if such allotment would effectively alter the control of the Company.

#### *Changes to Articles of Association*

The Company shall not at any time permit or cause any amendment to be made to the Articles of Association which would cause it to cease to comply with the GEM Listing Rules and in particular, the Mandatory Provisions.

#### *Documents for inspection*

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charge, the following:

- (a) a complete duplicate of the register of shareholders;
- (b) a report showing the state of the issued share capital of the Company, if any;

- (c) the Company's latest audited financial statements and the Director's, auditors' and Supervision' reports thereon, if any;
- (d) special resolutions of the Company;
- (e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- (f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce Bureau or other relevant PRC authority; and
- (g) for shareholders only, copies of the minutes of meeting of shareholders.

*Appointment of receiving agents*

The Company must appoint one or more receiving agents in Hong Kong and pay to such agents dividends declares and other monies owing by the Company in respect of H Shares listed on the GEM to be held, pending payment, in trust for holders of the H Shares.

*Statements to be made on acquisition of shares*

The Company must ensure that all its listing documents and share certificates include the statement stipulated below and must instruct and cause its share registrar not to register the subscription, purchase or transfer of any its H Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

- (a) The acquirer of Shares agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association.
- (b) The acquirer of Shares agrees with the Company, each shareholder, Director, supervisor, manager and officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder to refer all differences and claims arising the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the

Articles of Association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration shall be final and conclusive.

- (c) The acquirer of shares agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holder thereof.
- (d) The acquirer authorizes the Company to enter into a contract on his behalf with each director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

*Compliance with the Company Law, the Special Regulations and the Articles of Association.*

The Company must observe and comply with the Company Law, the Special Regulation and the Articles of Association.

*Contract between the Company and every Director and officer*

The Company must enter into a contract in writing with every Director and officer containing at least the following provisions:

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers, Mergers and Share Repurchase in Hong Kong and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) an arbitration clause which provides that whenever any disputes or claims arise from the contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors or officers and officers and (2) holders of H Shares and Directors or officers of the Company, such disputes or claims shall be resolved through arbitration at either CIETAC in accordance with its arbitration rules or HKIAC in accordance with its securities arbitration rules, at the election of the party seeking arbitration.

Where a dispute or claim described above is referred to arbitration, the entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, managers or other officers of the Company or the Company, shall submit to arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC. The party seeking arbitration may elect to have the dispute or claim arbitrated either by CIETAC or HKIAC and once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto.

The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

*Contract between the Company and every Supervisor*

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) the arbitration clause in terms set out in sub-paragraph(c) in the preceding paragraph on “Contract between the Company and every Director and officer” above subject to necessary modifications.

*Subsequent listing*

The Company must apply for the listing of any further securities, which are of the same class as securities already listed prior to their issue, and must not issue such

securities unless it has applied for their listing. The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

*English translation*

All notices or other documents required under Chapter 17 of the GEM listing rules to be sent by the Company, to the Stock Exchange or to holders of H shares are required to be in the English language, or accompanied by a certified English translation.

*General*

If any change in PRC law or market practice materially alters the validity or accuracy of any of the bases upon which the above requirements have been prepared, then the Stock Exchange may impose additional requirements or make the listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Stock Exchange considers appropriate. Whether or not any such change in the PRC law or market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the shares of the Company.

**(C) Other Legal and regulatory Provisions**

Upon listing of the Company on the GEM, the SFO, the Codes on Takeovers, Mergers and Share Repurchase in Hong Kong and other ordinances and regulations applicable to companies listed on the GEM shall apply to the Company.

**(D) Rules on securities arbitration**

The Articles of Association stipulates that if any claim for compensation involving the Company's business arises from any rights or obligations between any holder of H Shares and the Company under the Articles of Association, the Company Law or other relevant laws and administrative regulations, such litigation or claim shall be referred to the HKIAC or the CIETAC for arbitration in accordance with their respective proceedings.

The securities arbitration rules of the HKIAC stipulate that its arbitration panel may conduct hearing in Shenzhen on cases involving companies which are listed on the Stock Exchange but registered in the PRC (other than Hong Kong, Macau and Taiwan), so that PRC persons and witnesses may attend the hearing. If either party applies to have the hearing conducted in Shenzhen, and the arbitration panel has ascertained that such application is made on good faith and grounds, that arbitration panel may direct to conduct the hearing in Shenzhen, provided that the directive shall only be issued after permissions have been given for all parties involved (including witnesses and arbitrators) to enter Shenzhen. If entry to Shenzhen is denied to any person (other than PRC persons) or witness or arbitrator,

the arbitration panel may direct that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the arbitration rules of the HKIAC, PRC persons means any person residing in the territory of the PRC other than Hong Kong, Macau and Taiwan.

(E) **Taxation**

(i) *Dividends*

If the Company does not need to pay income tax, the Company shall pay profits tax for the dividends it pays to persons who carry on business activities in Hong Kong, provided that such dividends constitute part of the profits derived by such persons from their Hong Kong business.

(ii) *Profits tax*

There is no capital gains tax in Hong Kong. Any person who carries on any trade profession or business in Hong Kong shall pay profits tax for any income he derives in Hong Kong from the relevant trade, profession or business. Any securities dealer who engages in trading or business in Hong Kong shall pay profits tax for any operating and trading income obtained from securities trading. At present, companies pay profits tax at the rate of 17.5% of their taxable profits and individuals pay income tax on a progressive scale at a maximum rate of 16%.

(iii) *Stamp duty*

Both purchasers and sellers of shares are required to pay stamp duty for sale and purchase of shares. The duty payable is calculated on the basis of the consideration of the shares sold or (if higher) of a fair value of the shares being sold. The stamp duty currently in force for every HK\$1,000 (or a part thereof) of the consideration or (if higher) the fair value of the shares is HK\$2.

The stamp duty on any transaction executed on the Stock Exchange is generally shared between the seller and purchase equally. Any instrument of transfer required to be registered on a register or branch register maintained in Hong Kong is subject to a stamp duty at the rate of HK\$5.

(iv) *Estate duty*

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006. In addition, estate duty in respect of deaths occurring on or after July 15, 2005 but before February 11, 2006 has been reduced to nominal duty of HK\$100 in respect of estates whose assessed value exceeds HK\$7.5 million. No estate duty is payable where the assessed value of the dutiable estate does not exceed HK\$7.5 million.

### 3. SUMMARY OF THE ARTICLES OF ASSOCIATION

#### 1. Directors and Senior Management

##### (1) *Power to allot and issue shares*

There are no provisions in the Articles of Association empowering the Directors to allot and issue shares.

Any issue of new shares to increase the share capital of the Company shall obtain approval by at least two-thirds of the board of directors (the “Board”) to such effect for approval by shareholders in general meeting.

##### (2) *Power to dispose of the assets of the Company or any subsidiary*

The Board shall be responsible to the shareholders’ general meeting.

The Board shall not, without prior approval of shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the expected value of the fixed assets to be disposed of and the consideration of any fixed assets of the Company have been disposed of in the four months immediately preceding the proposed disposition exceeds 33 per cent. of the value of the fixed assets as shown in the latest balance sheet placed before the shareholders in general meeting.

The validity of a disposition by the Company shall not be affected by the breach of the above paragraph.

For the purpose of Articles of Association, a disposition includes an act involving transfer of interests in assets other than the provision of fixed asset by way of security.

##### (3) *Remuneration and payments for loss of office*

The Company shall, with prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

1. emoluments as a Director, Supervisor or senior management of the Company;
2. emoluments as a director, supervisor or senior management of any subsidiary of the Company;
3. emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;

4. payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

No proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the matters mentioned above except pursuant to a contract which has been entered into in the foregoing manner.

The contract concerning the emoluments between the Company and its Directors or Supervisors should provide that in the event of a takeover of the Company, the Company's Directors and Supervisors shall, subject to the prior approval of shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purpose of this paragraph, a "takeover of the Company" includes any of the following:

- (1) an acquisition offer made by any person to all shareholders;
- (2) an acquisition offer made by any person with a view to becoming a controlling shareholder within the meaning set out in the Articles of Association of the Company.

If the relevant Director or Supervisor does not comply with the foregoing paragraph, any sum so received by him shall belong to those persons who have sold their shares as a result of acceptance of such offer. The expenses incurred in distributing that sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not paid out of that sum.

(4) *Loans to Directors, Supervisors and other senior management*

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with, the making of a loan to a Director, Supervisor, general manager, deputy general manager or other senior management of the Company or of the Company's parent company or any of their respective associates.

The foregoing prohibition shall not apply to the following circumstances:

1. the provision by the Company of a loan or a guarantee in connection with the making of a loan to its subsidiary;
2. the provision by the Company of a loan or a guarantee in connection with the making of a loan or other funds to any of its Directors, Supervisors, general managers, deputy general managers, and other senior management to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties, in accordance with the service contract approved by the shareholders in general meeting;

3. if the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan or provide a guarantee in connection with the making of a loan to any of the relevant Directors, Supervisors, general managers, deputy general managers and other senior management or their respective associates, provided the provision of such money lending and loan guarantees are on normal commercial terms.

Any person who receives funds from a loan which has been made by the Company acting in breach of the foregoing provisions shall, irrespective of the terms of the loan, forthwith repay such funds.

A guarantee for the repayment of a loan which has been provided by the Company acting in breach of the foregoing provisions shall not be enforceable against the Company, save in respect of the following circumstances:

- (1) the loan guarantee was provided in connection with a loan which was made to an associate of any of the Directors, Supervisors, general managers, deputy general managers and other senior management of the Company or of the Company's parent company and the lender of such funds did not know of the relevant circumstances; and
- (2) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The guarantees as described in the provisions above include an undertaking or property provided to secure the performance of obligations by the obligor.

(5) *Financial assistance to purchase shares in the Company*

No financial assistance shall be provided at any time and in any manner by the Company and its subsidiaries to any person acquiring or intending to acquire the shares of the Company. The person(s) acquiring the shares of the Company aforesaid shall include the person(s) who undertake(s), directly or indirectly, obligations for the purpose of purchase of shares of the Company.

No financial assistance shall be provided at any time and in any manner by the Company and its subsidiaries to reduce or release the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

1. the financial assistance is given in good faith in the interests of the Company and the principal purpose for giving that assistance is not for the acquisition of shares in the Company, or the assistance is but an incidental part of a larger proposal of the Company;

2. a distribution of the Company's assets by way of dividend in accordance with laws;
3. the allotment of shares as dividends;
4. a reduction of registered capital, a repurchase of shares of the Company and adjustment of the shareholding structure of the Company effected in accordance with the Articles of Association of the Company; and
5. the lending of money by the Company in the ordinary course of its business where the lending of money is within the scope of its business, provided that the Company's net assets are not thereby reduced or, to the extent that the assets are thereby reduced, that financial assistance is provided out of the distributable profits of the Company;
6. contributions made by the Company to the employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

For the purposes of the foregoing provisions,

1. Financial assistance includes (without limitation):
  - (1) gift;
  - (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the Obligor), compensation (other than compensation in respect of the Company's own default) or release or waiver of the rights;
  - (3) provision of a loan or any other contract under which the obligations of the Company are to be fulfilled before the obligations of any party to the contract, or a change in the parties of the loan or contract and the assignment of rights under such loan or contract;
  - (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

2. Assumption of obligations includes the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and respective of whether such obligation is to be borne solely by the Obligor or jointly with other persons) or by any other means which results in a change in his financial position.

(6) *Disclosure of interests in contracts to which the Company or any of its subsidiaries is a party*

Where a Director, Supervisor, general manager, deputy general manager or other senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement entered into or proposed to be entered into by the Company, other than the contract of service, he shall declare the nature and extent of his interest to the Board at the earliest opportunity between the Company and its Directors, Supervisors, general managers, deputy general managers and the other senior management, whether or not under normal circumstances, the aforesaid matters are subject to the approval of the Board. Unless the interested Director, Supervisor, general manager, deputy general manager or other senior management of the Company has disclosed his interest to the Board in accordance with this provision and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested person is not counted in the quorum and has refrained from voting of the issue, that contract, transaction or arrangement is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the Director, Supervisor, general manager, deputy general manager or other senior management concerned. A Director, Supervisor, general manager, deputy general manager or other senior management of the Company is deemed to be interested in a contract, transaction or arrangement in which the relevant Directors, Supervisors, general managers, deputy general managers and other senior management are also deemed to be interested.

A director shall not vote on any board resolution approving any contract or deal or arrangement or any other proposal in which he or she has a material interest nor shall he be counted in the quorum present at the meeting.

Where a Director, Supervisor, general manager, deputy general manager or other senior management gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts or transactions or any other forms of arrangement which may subsequently be made by the Company, that notice shall be deemed for the purposes of the foregoing to be a sufficient declaration of his interest, so far as attributable to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company, provided that such general notice shall have been received before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(7) *Remuneration*

The emoluments of a Director shall be approved by shareholders in general meeting as referred to under the previous paragraph headed “(3) Remuneration and payments for loss of office”.

(8) *Retirement, appointment and removal*

The term of office of the Chairman and other Directors shall be three years, renewable upon re-election.

That the minimum length of the period, during which notice to the Company of the intention to propose a person for election as a director and during which notice to the issuer by such person of his willingness to be elected may be given, will be at least seven (7) days prior to the date of the shareholders’ meeting.

A Director is not required to hold any shares in the Company.

The Directors shall be elected and removed by the shareholders in general meeting. Subject to compliance with the relevant laws and regulations, the shareholders shall have power by ordinary resolution passed at a general meeting to remove any director (including a managing or other executive director) before the expiration of his term of office (but without prejudice to any claim for damages under any contract). The term of office of any person who is appointed by the Board to fill in a vacancy in the Board or additionally appointed shall last until the next annual general meeting of the Company. The person may be re-elected.

A person may not serve as a Director, Supervisor, general manager, deputy general manager or other senior management of the Company if such person:

1. has no civil capacity or has limited civil capacity;
2. was punished for the offence of corruption, bribery, expropriation or misappropriation of property or for disrupting the social and economic order, and less than five years has elapsed since the punishment was completed, or who was deprived of political rights as punishment for an offence and less than five years has elapsed since the deprivation was completed;
3. was a director, factory chief or manager of a company or enterprise which entered into insolvent liquidation due to mismanagement, and was personally liable for that insolvent liquidation, and less than three years has elapsed since the date of completion of the liquidation proceedings;

4. was a legal representative of a company or an enterprise which has had its business license revoked for violating the laws, and was personally liable for that revocation, and less than three years has elapsed from the date of revocation;
5. has comparatively large individual debts that have fallen due but have not been settled;
6. has been placed on file for investigation by judicial organs for criminal offence, and such investigation has not been concluded;
7. is prohibited from acting as leader of an enterprise by virtue of any laws and administrative regulations;
8. is not a natural person; or
9. has been convicted by any relevant regulatory authorities of violation of securities-related laws and regulations, where such violation involved acts of a fraudulent or dishonest nature, and less than five years has elapsed since the date of conviction.

The validity of a representation of a Director, general manager, deputy general manager or other senior management to bona fide third party is not affected by any contravention of their appointment, election or eligibility against the relevant regulations.

The Company shall have a Board of Directors, the Board shall consist of eleven members which includes five executive Directors, three non-executive Directors, three independent non-executive Directors. Members of the Board shall have a chairman, two deputy chairmen.

(9) *Borrowing powers*

Subject to compliance with applicable laws and regulations of the PRC and of the listing location of overseas listed foreign shares and the Company's Articles of Association, the Company has the power to raise and borrow money which power includes the issue of debentures, the mortgaging of part or whole of the assets.

(10) *Notice and Minutes of Board Meetings*

Board meetings shall be held at least four times (not counting holding of meetings by way of circulation) every year. Board meetings shall be convened by way of a notice sent by the chairman and served to all Directors not less than 14 days (excluding the date of the meeting) before the date of the meeting. In the event of an emergency, an extraordinary meeting of the Board may be held upon requisition by more than two of

the Directors or by the general manager and vice general manager. The Board shall keep minutes of Board resolutions and the attending Directors and the person taking the minutes shall sign the board minutes. A Director who attends the meeting has the right to make an illustrative note in the minutes in respect of his speech at the meeting.

(11) *Duties*

In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's Directors, Supervisors, general managers, deputy general managers and other senior management owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

1. not to cause the Company to exceed the scope of business stipulated in its business licence;
2. to act honestly and in the best interests of the Company;
3. not to expropriate the Company's property in any way, including (without limitation) usurpation of opportunities which benefit the Company;
4. not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, save and except according to a restructuring of the Company which has been submitted to the shareholders for approval in accordance with the Articles of Association.

Each of the Company's Directors, Supervisors, general managers, deputy general managers and other senior management owes a duty, in the exercise of his powers and in the discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's Directors, Supervisors, general managers, deputy general managers and other senior management shall perform his duties in accordance with the fiduciary principle; and shall not put himself in a position where his interest and his duty may conflict. This principle includes (without limitation) discharging the following obligations:

1. to act honestly in the best interests of the Company;
2. to act within the scope of his powers and not to exceed such powers;
3. to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;

4. to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
5. unless otherwise provided for in the Articles of Association or except with the informed approval of the shareholders given in a general meeting, not to enter into any contract, transaction or arrangement with the Company;
6. not to use the Company's property in any form for his own benefit, without the informed consent of the shareholders given in a general meeting;
7. not to exploit his position to accept bribes or other illegal income or expropriate the Company's property in any way, including (without limitation) opportunities which benefit the Company;
8. not to accept commissions in connection with the Company's transactions, unless with the informed consent of the shareholders given in a general meeting;
9. to comply with the Articles of Association, to perform his official duties faithfully, to protect the Company's interests and not to exploit his position and power in the Company to advance his own interests;
10. not to compete with the Company in any way, unless with the informed consent of the shareholders given in a general meeting;
11. not to misappropriate the Company's funds or to lend such funds to any other person, not to use the Company's assets to set up deposit accounts in his own name or in the any other name or to use such assets to guarantee the debts of a shareholder of the Company or any other personal liabilities;
12. not to release any confidential information relating to the Company which he has obtained during his term in office, without the informed consent of the shareholders in a general meeting; nor shall he use such information otherwise than for the Company's benefit, save that disclosure of such information to the court or other governmental authorities is permitted if:
  - (1) it is required by law;
  - (2) public interests so warrants;
  - (3) the interests of the relevant Director, Supervisor, general managers or other senior management so requires.

Each Director, Supervisor, general manager, deputy general manager and other senior management of the Company shall not direct the following persons or entities ("associates") to act in a manner which he is prohibited from doing:

1. the spouse or minor child of the Director, Supervisor, general manager, deputy general manager or other senior management;

2. the trustee of the Director, Supervisor, general manager, deputy general manager or other senior management or of any person described in sub-paragraph 1. above;
3. the partner of that Director, Supervisor, general manager, deputy general manager or other senior management or any person referred to in sub-paragraphs 1. and 2. above;
4. a company in which that Director, Supervisor, general manager, deputy general manager or other senior management, whether alone or jointly with the persons referred to in sub-paragraphs 1., 2. and 3. above and other Directors, Supervisors, general managers, deputy general managers and other senior management, has de facto controlling interest;
5. the Directors, Supervisors, general managers, deputy general managers and other senior management of a company which is being controlled in the manner set out in sub-paragraph 4. above.

The fiduciary duties of the Directors, Supervisors, general managers, deputy general managers and other senior management of the Company do not necessarily cease with the termination of their tenure. The duty of confidentiality in respect of trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the circumstances and the terms under which the relationship with the Company was terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, general manager, deputy general manager or other senior management of the Company breaches the duties which he owes to the Company, the Company has a right to take the following actions:

1. to demand such Director, Supervisor, general manager, deputy general manager or other senior management to compensate it for losses sustained by the Company as a result of such breach;
2. to revoke any contract or transaction which has been entered into between the Company and such Director, Supervisor, general manager, deputy general manager or other senior management or between the Company and a third party (where such third party knows or should have known that such Director, Supervisor, general manager, deputy general manager or other senior management representing the Company has breached his duties owed to the Company);
3. to demand such Director, Supervisor, general manager, deputy general manager or other senior management to account for interests made as a result of the breach of his duties;

4. to recover any monies which should have been received by the Company and which were received by such Director, Supervisor, general manager, deputy general manager or other senior management instead, including (without limitation) commissions;
5. to demand repayment of interest earned or which may have been earned by such Director, Supervisor, general manager, deputy general manager or other senior management on monies that should have been paid to the Company.

Subject to the Articles of Association of the Company, a Director, Supervisor, general manager, deputy general manager and other senior management of the Company may be relieved of liability for specific breaches of his duty by the informed consent of the shareholders given at a general meeting, except for the circumstances as provided for under Articles of Association 55 in the Articles of Association.

## 2. **Alterations to constitutional documents**

The Company may amend the Articles in accordance with the requirements of the laws, regulations and the Articles of Association of the Company.

The Company may amend its Articles of Association in accordance with the following procedures:

1. the Board shall prepare a proposal relating to the amendments of the Articles of Association pursuant to the Articles of Association;
2. the Board shall propose the amendments to the shareholders at a general meeting for voting;
3. the amendments are approved by the shareholders by way of a special resolution.

Authorisation to the Board by the general meeting can be made by way of ordinary resolutions under following circumstances: (1) If it is to increase the registered capital of the Company, the Board is entitled to amend the contents in respect of the Company's registered capital according to the actual situation; or (2) If there are changes necessitated in the verbal or provisional sequences in the Articles of Association passed in the general meeting when submitted for approval at the Foreign Economy and Trade Department and the Securities Administration Department of the State Council, the Board is entitled to effect corresponding amendments in accordance with the requirements of the Foreign Economy and Trade Department and the Securities Administration Department of the State Council.

In the event that the amendments are related to the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (the “Mandatory provision”) (到境外上市公司章程必備條款), the amendments are subject to the approval of the companies approval departments authorised by the State Council and the CSRC. In the event that the amendments are related to registration of companies, changes in registration shall be done in accordance with the laws.

### 3. Variation of rights of existing shares or different classes of shares

Any proposal to vary or abrogate the rights conferred on any class of shareholders must be approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles of Association. The following circumstances shall be deemed to be a variation or abrogation of the rights of a class of shareholders:

1. to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to the shares of that class;
2. to exchange all or part of the shares of that class for shares of another class or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
3. to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of that class;
4. to reduce or remove preferential rights to receive dividends or to the distribution of assets in the event that the Company is liquidated attached to shares of that class;
5. to add, remove or reduce conversion privileges, options, voting rights, transfer or preemptive rights, or rights to acquire securities of the Company attached to shares of that class;
6. to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of that class;
7. to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of that class;
8. to restrict the transfer or ownership of the shares of that class or to increase the restrictions;
9. to issue rights to subscribe for, or to convert the existing shares into, shares in the Company of that class or another class;
10. to increase the rights or privileges of shares of another class;

11. to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders;
12. to vary or abrogate the provisions in Chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning 2. to 8. and 11. to 12. above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings. For the purposes of the class rights provisions of the Articles of Association, the meaning of interested shareholder(s) is:

1. in the case of a repurchase of Share by offers to all shareholders on same proportion or public dealing on a stock exchange pursuant to the Articles of Association, a controlling shareholder within the meaning of the Articles of Association;
2. in the case of a repurchase of Shares by an off-market agreement pursuant to the Articles of Association, a holder of the Shares to which the proposed agreement relates; and
3. in the case of a restructuring proposal of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class of shareholders under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of others shareholders of that class.

Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class present at the relevant meeting pursuant to Articles of Association who are entitled to vote thereat.

Written notice of a class meeting shall be given 45 days (excluding the date of the notice and the date of the meeting) before the date of the class meeting. Such notice shall give to all shareholders who are registered as holders of that class in the register of shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days (excluding the date of the notice and the date of the meeting) before the date of the class meeting.

If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; if not, the Company shall within five days give the shareholders further notice of the matters to be considered, the date and the place for the class meeting by way of public announcement. The Company may then hold the class meeting after such public announcement has been made.

Notice of class meetings are only required to be served on shareholders entitled to vote at the class meeting.

Class meetings shall be conducted, as far as is possible, in the same manner as shareholders' general meetings. The provisions of the Articles of Association relating to the manner of conducting any shareholders' general meeting shall apply to any class meeting of shareholders.

Other than shareholders of other classes of shares, shareholders of domestic and overseas listed shares are deemed to be different classes of shareholders.

The special procedures for approval by a class of shareholders shall not apply in the following circumstances: 1. where the Company issues, upon approval by a special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20 per cent. of each of its existing issued domestic-invested shares and overseas-listed foreign-invested shares; or 2. where the Company's plan to issue domestic-invested shares and overseas-listed foreign-invested shares at the time of its incorporation is completed within fifteen months from the date of approval by the CSRC or by the then relevant authority.

#### **4. Ordinary and Special Resolutions**

Resolutions of shareholders' general meetings shall be classified into ordinary resolutions and special resolutions.

An ordinary resolution proposed at a general meeting must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting. A special resolution proposed at a general meeting must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.

#### **5. Voting Rights (Generally, on a poll and right to demand a poll)**

The shareholders have the right to attend or appoint a proxy to attend shareholders' general meetings and to exercise such voting rights as are attached to the number of voting shares which he represents. Each share shall have one vote.

That, where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded before or after a vote is carried out by a show of hands:

- (1) by the chairman of the meeting;
- (2) by at least two shareholders present in person or by proxy entitled to vote thereat;
- (3) by one or more shareholders present in person or by proxy and individually or collectively representing 10 per cent. (including 10 per cent.) or more of all shares carrying the right to vote at the meeting.

If, at any general meeting, the Chairman of the meeting and/or the directors individually or collectively hold proxies in respect of shares holding 5% or more of the total voting rights, and if, at a particular meeting, and if on a show of hands a meeting votes in the opposite manner to that instructed in those proxies, the Chairman and/or the directors and the Chairman holding proxies as aforesaid collectively shall demand a poll; provided that if it is apparent from the total proxies held that a vote taken on a poll will not reverse the vote taken on a show of hands then the directors and/or the Chairman shall not be required to demand a poll.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence. There is no need to provide evidence on the number or proportion of votes in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.

A poll demanded on the election of the chairman, or on a question of termination of meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which the poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded. On a poll, a shareholder (including a proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to one extra vote.

## **6. Requirements for General Meetings**

The shareholders' general meeting is the organ of authority of the Company.

The Company shall not, without the prior approval of shareholders in general meeting, enter into any contract with any person other than a Director, Supervisor, general manager, deputy general manager or other senior management whereby the management of the whole or any substantial part of the business of the Company is to be handed over to such person.

General meetings shall be divided into annual general meetings and extraordinary general meetings. The general meetings shall be convened by the Board. Annual general meetings are held once every year within six months after the last financial year end.

The Board shall convene an extraordinary general meeting within two months upon the occurrence of the following events:

- (1) when the number of Directors falls below the number required by the PRC Company Law or two-thirds of the number required by the Articles of Association;
- (2) when the losses of the Company which have not been made up amount to one-third of the total share capital of the Company;
- (3) upon written requisition of shareholders holding 10 per cent. (including 10 per cent.) or more of the issued shares carrying voting rights (excluding the voting rights for proxies) for the convening of an extraordinary general meeting;
- (4) when the Board deems necessary or the supervisory committee proposes to convene the same;
- (5) other circumstances provided under the Articles of Association.

The number of shares as referred in (3) above is calculated based on the shares being held by the relevant shareholders at the time when they give a written requisition.

## 7. **Accounts and Audit**

The Company shall formulate its own financial and accounting system and internal audit system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the Ministry of Finance under the State Council.

The Company shall prepare financial statements at the end of each fiscal year (from 1 April of the preceding year until 31 March of the subsequent year). Such statements shall be audited and examined under the requirements of laws.

The Board of the Company shall place before the shareholders at every annual general meeting such financial statements prepared by the Company under relevant laws, administrative regulations or standardised documents promulgated by competent local and central governmental authorities, subject to verification.

The financial reports of the Company shall be deposited at the Company for inspection by its shareholders no later than 20 days before the annual general meeting. Each shareholder of the Company shall be entitled to access the financial statements referred to in this section.

The Company shall send by prepaid mail 21 days before the annual general and internal audit system meeting the printed copies of the financial summary reports together with the directors' report to each holder of H shares. The service address shall be the address in the register of shareholders.

When the Company distributes the financial extract report to the holders of H shares, the Company shall comply with Company Law and GEM Listing Rules and obtain all required effective consents (if necessary). If the Company distributes the financial extract report and board report by the way not prohibited by Companies Laws to every holder of H shares, and such extract and report comply with the format and contents of applicable regulations, such distribution to such holder of H shares will be deemed as complying with the aforesaid regulations, except that if any holder of H shares in writing requires the Company to not only distribute the extract of financial report, but also a complete copy of annual financial report and board report. "Extract of financial report" has the same meaning as defined in GEM Listing Rules and Companies Ordinance (Cap.32 of the Laws of Hong Kong).

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or the accounting standards of the overseas place of listing. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in a the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements above shall be adopted.

Any interim and quarterly results or financial information announced or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or the accounting standards of the overseas place of listing.

#### **8. Notice of meetings and business to be conducted thereat**

Where the Company convenes a shareholders' general meeting, it shall, not less than 45 days before the meeting, issue a written notice to all shareholders whose names appear in the members' register setting out matters to be considered and the date and venue of the meeting. Shareholders intending to attend the shareholders' general meeting shall give the Company a written reply stating his intention to attend the meeting 20 days prior to the date of the meeting.

Where the Company convenes an annual general meeting, shareholders holding not less than 5 per cent. (including 5 per cent.) of the total number of voting shares of the Company shall be entitled to submit new motions in writing to the Company. The Company shall include in the agenda of the meeting all items in the motion that fall within the scope of the shareholders' general meeting.

The Company shall, based on the written replies received by the Company 20 days prior to the date of a shareholders' general meeting, calculate the number of voting shares represented by shareholders who have indicated their intention to attend the meeting. Where the number of voting shares represented by such shareholders reaches half of the Company's total number of voting shares, the Company may convene the shareholders' general meeting. Otherwise, the Company shall, within 5 days, inform the shareholders again of the motions to be considered, the date and venue of the meeting by way of a public announcement. After making the announcement, the shareholders' general meeting may be convened.

An extraordinary shareholders' meeting shall not decide on matters which are not specified in the notice.

Where the Company convenes a general meeting, it shall, not less than 45 days before the meeting, issue a written notice to all shareholders whose name appear in the members' register setting out matters to be considered and the date and venue of the meeting. A notice of general meeting of shareholders shall:

- (1) be in writing;
- (2) specify the venue, date and time of the meeting;
- (3) state the matters to be discussed at the meeting and motions proposed by the Board;
- (4) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them, including but not limited to where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed contract, if any, and the cause and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent of the material interests of any Director, Supervisor, general manager, deputy general manager or other senior management in the matters to be discussed and the effect of the matters to be discussed on such Director, Supervisor, manager or other senior management in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;
- (6) contain the full text of any special resolution to be proposed at the meeting;
- (7) contain a clear statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote at such meeting on his behalf and that a proxy need not be a shareholder;

(8) specify the time and place for lodging the proxy form for the relevant meeting.

Notice of shareholders' general meeting shall be served on each shareholder (whether or not such shareholder is entitled to vote at the meeting), by personal delivery or prepaid airmail to the addressee as shown in the register of shareholders. For the holders of Domestic-Invested Shares, notice of the meetings may also be issued by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities regulatory authority of the State Courial within the interval between 45 days excluding the meeting date and 50 days excluding the meeting date before the date of the meeting; after the publication of such announcement, the holders of Domestic-Invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

The following matters shall be passed by way of ordinary resolution of the shareholders' general meeting:

- (1) reports of the board of Directors and the board of Supervisors;
- (2) profit distribution proposals and proposals for making up losses formulated by the Board;
- (3) appointment and removal of members of the board of Directors and the board of Supervisors and their remuneration and methods of payment;
- (4) the Company's financial budgets, audited reports, balance sheet, profit and loss account and other financial statements; and
- (5) subject to the laws, regulations and provisions of the Articles of Association, any other matters to be adopted by a special resolution.

The following matters are to be passed by way of special resolution of the shareholders' general meeting:

- (1) increase or reduction of the Company's share capital and the issuance of shares of any class, warrants and other similar securities;
- (2) issuance of Company debentures;
- (3) demerger, merger, dissolution and liquidation of the Company;

- (4) amendment of the Articles of Association;
- (5) any other matters considered by the shareholders in general meeting, passed by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

## 9. **Transfer of Shares**

Unless otherwise required by the laws and regulations, shares of the Company are freely transferable without any lien.

All the fully paid up H Shares can be freely transferred in accordance with the Articles of Association without the restriction of any lien. However, the Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

- (1) payment of a fee (for each instrument of transfer) of HK\$2.5 or any higher fee as may be required by the Board from time to time, but not higher than that as agreed from time to time by the Hong Kong Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents in connection of or may affect the title to the shares;
- (2) the instrument of transfer only involves overseas-listed foreign-invested shares listed in Hong Kong;
- (3) the stamp duty payable on the instrument of transfer has been paid;
- (4) relevant share certificates and evidence that the transferor has the right to transfer such shares as reasonably required by the Board shall be provided;
- (5) if the shares are to be transferred to joint holders, the number of joint holders shall not exceed 4;
- (6) the Company has no lien over the relevant shares;
- (7) adoption of the standardised registration as required by the Hong Kong Stock Exchange has no contradiction with the Articles of Association.

Changes in the shareholders' register due to the transfer of shares should not be made within 30 days of the shareholders' general meeting or less than 5 days before the record date for the Company's distribution of dividends.

#### 10. **Power of the Company to purchase its own Shares and reduce its Share Capital**

Subject to the provisions of the Articles of Association, the Company may reduce its registered capital.

The Company may, in accordance with the procedures set out in the Articles of Association and subject to the approval by the relevant authority of the State, repurchase its own issued shares under the following circumstances:

- (1) cancellation of shares for the purpose of reducing its capital;
- (2) merging with another company that holds shares in the Company; or
- (3) other circumstances permitted by laws and administrative regulations.

Subject to the approval by the relevant authority of the State for the repurchase of shares, the Company may repurchase shares in one of the following ways:

- (1) by making an offer for the repurchase of shares to all its shareholders on same proportion;
- (2) by repurchasing shares through public dealing on a stock exchange; or
- (3) by repurchasing shares outside of the stock exchange by means of an off-market agreement.

The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in the Articles of Association) before it can repurchase shares outside of the stock exchange by means of an off-market agreement. The Company may, by obtaining the prior approval of the shareholders in general meeting (in the same manner), release, vary or waive its rights under a contract which has been so entered into.

The contract for the repurchase of shares as referred to in the paragraph above include, but not limited to, agreement to undertake the obligation to repurchase the shares and the agreement of obtaining the rights for the repurchase of shares.

The Company is not entitled to transfer the contract for the repurchase of shares or any right as provided in the contract.

Shares which have been legally repurchased by the Company shall be cancelled within the time limit prescribed by law and administrative regulation, and the Company shall apply to the original companies registration authority for registration of the change of its registered capital. The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares:

- (1) where the Company repurchases shares at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a new issue of shares made for the repurchase of shares;
- (2) where the Company repurchases shares of the Company at a premium to its par value, payment equivalent to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for the repurchase of shares. Payment of the portion in excess of the par value shall be effected as follows:
  - (1) if the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
  - (2) if the shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a new issue of shares made for the repurchase of shares, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate of premiums on the issue of the shares repurchased nor shall it exceed the premium account or the book value of the Company's capital reserve fund (including the premiums on the new issue) at the time of the repurchase;
- (3) the Company shall make the following payments out of the Company's distributable profits:
  - (1) payment for the acquisition of the right to repurchase its own shares;
  - (2) payment for variation of any contract for the repurchase of its shares; and
  - (3) payment for the release of its obligation(s) under any contract for the repurchase of shares;
- (4) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits for payment of the par value of shares which have been repurchased shall be transferred to the Company's premium account or capital reserve fund account.

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice at least three times in a newspaper within 30 days thereof. Creditors shall have the

right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 90 days from the date the notice was first published in the newspaper, to require the Company to settle the debt or to provide corresponding security in respect of the debt. The registered capital shall not be less than the minimum statutory requirement after the reduction of registered capital.

#### **11. Power for any Subsidiary of the Company to own Shares in the Company**

There are no provisions in the Articles of Association preventing ownership of shares in the Company by any subsidiary of the Company.

#### **12. Methods of Dividends Distribution**

The Company may distribute dividends in the following form:

- (1) cash; or
- (2) shares.

There is no interest on dividends, unless the Company does not distribute the dividend on the proposed distribution date. The shareholders may enjoy interest on the share consideration he pays before the payment date but the shareholders cannot enjoy interest for prepaid payments before the assessment date.

Where power is taken to forfeit unclaimed dividends, that power shall not be exercised until the applicable period expires.

That where power is taken to cease sending dividend warrants by post, if such warrants have been left uncashed, it will not be exercised until such warrants have been so left uncashed on two (2) consecutive occasions. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

That where power is taken to sell the shares of a member who is untraceable it will not be exercised unless:

- (1) during a period of twelve (12) years at least three (3) dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and
- (2) on expiry of the twelve (12) years the issuer gives notice of its intention to sell the shares by way of an advertisement published in the newspapers and notifies the Stock Exchange of such intention.

Dividends or other payments declared by the Company to be payable to holders of Domestic Shares shall be calculated and declared in Renminbi, and paid in Renminbi within three (3) months after the date of the dividend declaration. Those payable to holders of foreign shares (unlisted overseas) and holders of H Shares shall be calculated and declared in Renminbi, and paid in foreign currencies within three (3) months after the date of the dividend declaration.

Where power is taken to forfeit unclaimed dividends by the Company, that power shall not be exercised until after the expiration of the applicable limitation period.

The Company shall appoint receiving agents for holders of the overseas-listed foreign-invested shares. Such receiving agents shall receive dividends which have been declared by the Company and other amounts payable in respect of the overseas-listed foreign-invested shares. The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the place of listing and the relevant requirements of the stock exchange. The receiving agents appointed by the Company for holders of overseas-listed foreign-invested shares listed in Hong Kong shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

### 13. Proxies

Any shareholder who is entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (whether a shareholder or not) as his proxies to attend and vote as directed by the shareholder, and a proxy so appointed shall:

- (1) have the same rights as the shareholder to speak at the meeting;
- (2) have the right to demand or join in demanding a poll;
- (3) have the right to vote by hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is legal person, either under seal or under the hand of a director or attorney duly authorised. The instrument appointing a proxy shall state the number of shares that the proxy represents. If several proxies are appointed, the instrument appointing the proxies shall state the number of shares that the proxies represent.

The instrument appointing a proxy shall be deposited at the residence of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the meeting or the time appointed for the taking of the poll. If such instrument is signed by a person under a power of attorney of the appointor, that power of attorney or other authority shall be notarially certified. The notarially certified copy of such power of attorney or other authority shall be deposited at the residence of the Company or at such other place specified in the notice convening the meeting.

If the appointer is a legal person, its legal representative or such person as is authorised by resolution of its board of directors or other governing body may attend at any meeting of shareholders of the Company as a representative of the appointer.

Where the shareholder is a recognised clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), it may authorise more than one person to represent it and vote on its behalf at any shareholders' general meeting or any class meeting of shareholders provided that, if more than one person is so authorised, the authorisation must specify the number and class of shares in respect of which such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house (or its "nominee"), as if it were an individual shareholder of the Company.

Any form issued to a shareholder by the Board for use by the shareholder for appointing a proxy shall be such as to enable the shareholder, to instruct the proxy to vote in favour of or against each resolution dealing with the business to be transacted at the meeting. Such a form shall contain a statement to the effect that, in the absence of such instructions by the shareholder, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the relevant shares, provided that no notice in writing of such matters have been received by the Company before the commencement of the meeting.

#### **14. Calls on Shares and Forfeiture of Shares**

There are no provisions in the Articles of Association relating to the making of calls on Shares or for the forfeiture of Shares.

#### **15. Inspection of register of Shareholders and Shareholders' other rights to information**

The Company shall establish a register of shareholders which shall contain the following particulars:

- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
- (2) the class and the quantity of shares held by each shareholder;
- (3) the amount paid-up on or payable on the shares held by each shareholder;
- (4) the share certificate number(s) of the shares held by each shareholder;
- (5) the date on which each person registers as a shareholder; and

(6) the date on which any shareholder ceases to be a shareholder.

The Company shall keep a complete register of shareholders which comprise the following parts:

- (1) the register of shareholders which is maintained at the Company's residence (other than those share registers which are described in sub-paragraphs (2) and (3) below);
- (2) the register of shareholders in respect of the holders of overseas-listed foreign-invested Shares of the Company which is maintained in the same place as the overseas stock exchange on which the shares are listed;
- (3) the register of shareholders which are maintained in such other place as the Board may consider necessary for the purposes of listing of the Company's shares.

Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

The Company may, in accordance with the mutual understanding and agreements made between the securities regulatory authority of the State Council and overseas securities regulatory organizations, maintain the register of shareholders of overseas-listed foreign-invested Shares overseas and appoint overseas agent(s) to manage such share register. The original share register for holders of H Shares shall be maintained in Hong Kong.

A duplicate of the register of shareholders for holders of overseas-listed foreign-invested Shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders of overseas-listed foreign-invested shares at all times. If there is any inconsistency between the original and the duplicate register of shareholders for holders of overseas-listed foreign-invested Shares, the original register of shareholders shall prevail.

Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholding in the Company.

The holders of ordinary shares of the Company shall enjoy the following rights under the Articles of Association:

1. the right to a copy of the Articles of Association at cost;
2. the right to inspect and copy for reasonable charges:
  - (1) all parts of the register of shareholders;

- (2) personal particulars of each of the Company's Directors, Supervisors, general managers, deputy general managers and other senior management including:
  - (a) present and former name and alias;
  - (b) principal address (residential);
  - (c) nationality;
  - (d) primary and all other part-time occupations and duties;
  - (e) identification documents and their numbers;
- (3) the state of the Company's share capital;
- (4) reports showing the aggregate par value and number and the maximum and minimum price of each class of Shares repurchased by the Company since the end of the last accounting year, and the aggregate amount paid by the Company for that purpose;
- (5) minutes of Shareholder's general meetings.

#### 16. **Quorum for General Meetings and Class Meetings**

A shareholder intending to attend a shareholders' general meeting shall deposit at the Company a written reply confirming his attendance 20 (excluding the date of the notice and the date of the meeting) days prior to the holding of the meeting. The Company shall, according to the written replies received 20 (excluding the date of the notice and the date of the meeting) days prior to the holding of a shareholders' general meeting, calculate the number of shares carrying the right to vote represented by the shareholders intending to attend the meeting. If the number of shares carrying the right to vote represented by the shareholders intending to attend the meeting is more than half of the total number of shares of the Company carrying the right to vote, then the Company may convene the shareholders' general meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place by way of public announcement. After such public announcement, the Company may convene the shareholders' general meeting.

If the number of shares carrying the right to vote represented by the shareholders intending to attend the meeting is more than half of the total number of that class of shares, then the Company may convene the class meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place by way of public announcement. After such public announcement, the Company may convene the class meeting.

**17. Rights of Minority Shareholders in relation to fraud or oppression**

In addition to obligations imposed by laws, administrative regulations or required by the listing rules of the stock exchanges on which the Shares of the Company are listed, a Controlling Shareholder shall not exercise his voting rights in a manner prejudicial to the interests of all or some of the shareholders of the Company in respect of the following matters:

- (1) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriations by a Director or Supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including without limitation, opportunities beneficial to the Company;
- (3) to approve the expropriations by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including without limitation, rights to distributions and voting rights except pursuant to a restructuring of the Company which has been submitted for approval in a general meeting in accordance with the Articles of Association.

**18. Procedures on liquidation**

The Company shall be dissolved and liquidated in accordance with the laws upon the occurrence of any of the following events:

- (1) expiration of business licence;
- (2) a resolution for dissolution is passed at a general meeting;
- (3) dissolution is necessary due to a merger or division of the Company;
- (4) the Company is legally declared bankruptcy due to its failure to repay debts as they become due;
- (5) the Company is ordered to close down by law because of its violation of laws and administrative regulations.

A liquidation committee shall be set up within 15 days of the Company being dissolved pursuant to sub-paragraphs (1) and (2) of the preceding paragraph, and the composition of the liquidation group of the Company shall be determined by an ordinary resolution in general meeting.

Where the Company is dissolved under sub-paragraph (4) of the preceding paragraph, the People's Court shall in accordance with the provisions of relevant laws organise the shareholders, relevant authorities and relevant professional personnel to establish a liquidation committee to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (5) of the preceding paragraph the relevant governing authorities shall organise the shareholders, relevant organisations and professional personnel to establish a liquidation committee to carry out the liquidation.

Where the Board proposes to liquidate the Company due to reasons other than where the Company's declaration of its own insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution in general meeting for the liquidation of the Company, all functions and powers of the Board of the Company shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation; and to present a final report to the shareholders' general meeting on completion of the liquidation.

The liquidating group shall notify the creditor within ten (10) days after its establishment and within sixty (60) days, publish announcement at least three (3) times on newspaper. The liquidating group shall take a record for creditors' rights.

## 19. **Other Provisions Material to the Company or its Shareholders**

### (1) *General Provision*

The Company is a joint stock limited company which has perpetual existence.

From the date on which the Articles of Association come into effect, the Articles of Association shall constitute a legally binding public document regulating the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.

The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution to the investee company. Upon approval of the companies approving department authorised by the State Council, the Company may, according to its operating and management needs, operate as a holding company as defined in Clause 2 of Section 12 of the Company Law.

### (2) *Shares and Capital Increment*

The Company shall have ordinary shares at anytime; and the Company may, according to its need and upon approval from relevant authorities authorised by the State Council, may have other classes of shares.

The shares issued by the Company to domestic investors and purchased in RMB are domestic shares. The shares issued by the Company to overseas investors and purchased in foreign currency are foreign shares. The foreign shares listed overseas are overseas listed foreign shares.

Upon approval from Corporation List Leading Group of Zhejiang Province, the number of ordinary shares of the Company issued to the Promoters upon its establishment is 175,943,855 shares (of a par value of RMB 1 each), representing 100% of the then total number of ordinary shares of the Company.

According to the approval of the CSRC, upon establishment, the Company can issue 86,715,185 H Shares, representing approximately 33% of the total number of the ordinary shares of the Company.

After the Placing, the share structure of the Company is as follows: 262,657,855 ordinary shares, among which the Promoter holds 175,943,855 shares, and H Shares shareholders hold 86,714,000 shares.

The Company may, based on its operating and development needs, increase its capital by way of a resolution passed at a shareholders' general meeting.

The Company may increase its capital in the following ways:

- 1 by offering new shares for subscription to unspecified investors;
- 2 by placing new shares to its exiting shareholders;
- 3 by issuing bonus shares to its existing shareholders; or
- 4 by any other means which is permitted by laws and administrative regulations and approved by the securities regulatory authority of the State Council.

Upon the approval in accordance with the Articles of Association, the Company may issue additional shares in accordance with the procedures as required by the relevant laws, administrative regulations of the State and of the listing location of H shares.

### (3) *Rights and Obligations of Shareholders*

The shareholder shall enjoy rights and take responsibilities according to the class and portion of the shares he holds. The shareholders holding same class of shares shall enjoy the same rights and take the same responsibilities.

When more than two persons are registered as joint shareholders of any share of the company, they shall be deemed as joint holders of the relevant shares but subject to following conditions:

- (1) the Company shall not register more than four (4) persons as joint shareholders of the Company;
- (2) where there are joint shareholders, if one of the joint shareholders passes away, the other remaining persons who are joint shareholders shall be deemed to be the person(s) who holds the relevant share(s), but the board of directors has the right to require his death certificate for the purpose of revising the shareholders' name list. For the joint shareholders of any shares, only the joint shareholder ranked first on the shareholders' name list has the right to receive relevant share certificates, notifications from the Company, to attend the shareholders' meeting and to vote. Any notification delivered to such person shall be deemed as delivered to all joint shareholders of relevant shares.

The ordinary shareholders of the Company shall enjoy the following rights:

1. the right to receive dividends and other distributions in proportion to the number of shares held by him;
2. the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
3. the right to supervise business management of the Company and to raise suggestions or inquiries;
4. the right to transfer the shares held by him in accordance with the requirements of the laws, regulations and the Articles of Association;
5. to obtain relevant information according to the regulation of Articles of Association, including:
  - (1) to receive a copy of the Articles of Association at cost;
  - (2) to inspect and copy for reasonable charges:
    - 1) shareholders' register of each class of shares;
    - 2) the following personal information of the directors, supervisors, general managers, vice general managers and other senior management staff:
      - (a) present and former name and alias;

- (b) principal address (residential);
  - (c) nationality;
  - (d) primary and all other part-time occupations and duties;
  - (e) identification documents and their numbers;
- (3) the state of the Company's share capital;
- (4) reports showing the aggregate par value and number and the maximum and minimum price of each class of Shares repurchased by the Company since the end of the last accounting year, and the aggregate amount paid by the Company for the purpose;
- (5) minutes of Shareholders' general meetings;
6. in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company according to the number of shares held by him;
7. other rights conferred by the laws, administrative regulations and the Articles of Association.

No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

The ordinary shareholders of the Company shall assume the following obligations:

- 1 to comply with the Articles of Association;
- 2 to pay subscription monies according to the number of shares subscribed and the method of subscription;
- 3 other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make further contribution to the share capital other than as agreed by the subscriber of the relevant shares at the time of subscription.

*(4) Secretary of the Board*

The Company shall have one secretary of the Board. The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities are to ensure that:

1. the Company maintains a complete organisational documents and records;
2. the Company prepares and submits all reports and documents required by the relevant authorities;
3. the register of shareholders of the Company is properly maintained and that the persons entitled to receive the Company's records and documents are furnished therewith without delay;
4. other responsibilities provided under the laws, administrative regulations and the Articles of Association are implemented.

*(5) Supervisory Committee*

The Company shall have a supervisory committee. The supervisory committee shall be composed of five members. One of the members of the supervisory committee shall be the chairman. Each Supervisor shall serve for a term of three years, which term is renewable upon re-election. The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more (inclusive) of the members of the supervisory committee. The chairman of the supervisory committee shall be eligible for renewal. Members of the supervisory committee shall comprise 2 external supervisors (supervisors not taking office internally in the Company), 1 representative of the Company's staff and 2 independent supervisors. The external supervisors and the independent supervisors shall be elected and removed by shareholder's general meeting while the representative of staff shall be elected and removed by the staff of the Company democratically.

The supervisory committee shall be accountable and shall exercise the following functions and powers in accordance with law:

1. to monitor the Company's financial situations;
2. to supervise the Directors, general managers, deputy general managers and other senior managements of the Company of any violation to the laws, administrative regulations or the Articles of Association in respect of their activities in performing their duties;
3. to demand any Director, general manager, deputy general manager or any other senior management of the Company who acts in a manner which is detrimental to the Company's interest to rectify;

4. to verify the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the shareholders' general meetings and to authorise, in the Company's name, publicly registered accountants and certified auditors to assist in the re-examination of such information should any doubt arise in respect thereof;
5. to propose to convene a shareholders' extraordinary general meeting;
6. to represent the Company in negotiations with or in bringing actions against a Director;
7. other functions and powers specified in the Articles of Association.

Supervisors shall be present at the meetings of the Board.

Decisions of the supervisory committee shall be made by the affirmative vote of two-thirds or more (inclusive) of the Supervisors.

(6) *General manager of the Company*

The Company shall have one general manager, who shall be appointed and dismissed by the Board.

The general manager of the company shall be accountable to the Board and shall exercise the following powers:

1. to be in charge of the Company's production, operation and management and to head the implementation of the resolutions of the Board;
2. to head the implementation of the Company's annual business plan and investment plan;
3. to formulate plans for the establishment of the Company's internal management structure;
4. to formulate the Company's basic management system;
5. to formulate the basic rules and regulations of the Company;
6. to propose the appointment or dismissal of the Company's deputy manager and financial officer;
7. to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;

8. to formulate the promotion , salaries adjustment, appointment, employment, non appointment, removal, wages, welfare, awards and punishment of the Company's staff and determine the appointment and dismissal of the staff;
9. to propose to convene an extraordinary meeting of the Board;
10. to exercise other powers conferred by the Articles of Association and the Board.

The general manager, in performing its functions and powers, shall act honestly and diligently in accordance with laws, administrative regulations and the Articles of Association.

(7) *Board*

The Board is accountable to the shareholders' general meeting and exercises the following functions and powers:

1. to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders' general meeting;
2. to implement the resolutions passed in general meetings;
3. to determine the Company's business plans and investment proposals;
4. to formulate the Company's annual preliminary and final financial budgets;
5. to formulate the Company's profit distribution proposal and loss recovery proposal;
6. to formulate proposals for the increase or reduction of the Company's registered capital and for the issuance of the Company's debentures and the listing;
7. to draw up plans for the material external investment plans of the Company or material acquisition or disposal plans as well as merger, division or dissolution plans of the Company and repurchase of the Company's shares;
8. to decide on the plans for the establishment of the Company's internal management structure;
9. to appoint or remove the Company's manager and, based on the recommendations of the manager, decide on the appointment or removal of the deputy manager, financial officer or secretary of the Board and their respective remuneration;

10. to formulate the Company's basic management system;
11. to formulate proposals for any amendment of the Articles of Association;
12. other functions and powers regulated by the Articles of Association or authorised by shareholders' meeting.

Except the matters specified in sub-paragraphs 6, 7 and 11 which shall be passed by the affirmative vote of more than two-thirds of the Directors, the Board's resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the Directors.

Meetings of the Board shall be convened at least four times every year (not counting the practice of obtaining board consent through the circulation of written resolutions) and convened by the chairman of the Board. Notice of the meeting shall be served to all Directors fourteen days (excluding the date of the meeting) prior to the date of the meeting.

Under urgent situations, an extraordinary meeting of the Board may be held upon requisition by more than two (2) of the Directors or by the general manager or the deputy general manager of the Company.

Meetings of the Board shall be held only if more than half of the Directors are present.

Each Director shall have one vote. A resolution of the Board must be passed by more than half of all the Directors. Where there is an equality of votes cast both for and against a resolution, the chairman of the Board shall have one extra vote.

(8) *Appointment, change and removal of an accountant firm*

1. Appointment of an accountants firm

The Company shall appoint an independent accountants firm which is qualified under the relevant regulations of the State to audit the Company's annual financial reports and review the Company's other financial reports. The first accountants firm of the Company may be appointed by the inaugural meeting before the first annual general meeting of the Company. The accountant firm so appointed shall hold office until the conclusion of the first annual general meeting. If the inaugural meeting fails to exercise the aforementioned powers, the powers shall be exercised by the Board.

The term of office of an accountants firm shall commence from the conclusion of the annual general meeting of shareholders of the Company at which the appointment is made and end at the conclusion of the next annual general meeting of shareholders.

If there is a vacancy in the position of the accountants firm of the Company, the Board may appoint an accountants firm to fill such vacancy before the convening of the shareholders' general meeting. Any other accountants firm which has been appointed by the Company may continue to act during the period during which a vacancy arises.

The shareholders in general meeting may by ordinary resolution remove an accountants firm before the expiration of its term of office, irrespective of any terms in the contract between the Company and accountants firm. However, the accountants firm's right to claim against the Company for damages which arise from its removal shall not be affected thereby.

The remuneration of the accountants firm or the manner in which such accountants firm is to be remunerated shall be determined by the shareholders in general meeting. The remuneration of an accountants firm appointed by the Board to fill in the vacancy shall be determined by the Board.

## 2. Change and removal of an accountants firm

The Company's accountants firm shall be appointed, removed or cease to be appointed by a decision at the shareholders' general meeting. Such motion shall be filed with the China Securities Regulatory Commission.

Where a resolution is proposed to be passed at a general meeting of shareholders to appoint as accountant firm a person other than an incumbent accountant firm, to fill a casual vacancy in the office of accountant firm, to reappoint as accountants firm a retiring accountants firm which was appointed by the Board to fill a casual vacancy, or to remove an accountants firm before the expiration of his term of office, the following provisions shall apply:

- (1) A copy of the proposal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant financial year before notice of the shareholders' general meeting is given to the shareholders.

Leaving of the post includes removal, resignation and retirement.

- (2) If the accountants firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late) take the following measures:
  - a. in any notice of the resolution given to shareholders, state the fact of the representations having been made by the leaving accountants firm; and

- b. attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.
- (3) If the accountants firm's representations are not sent by the Company in accordance with the preceding sub-paragraph (2), the accountants firm may require that the representations be read out at the shareholders' general meeting and may lodge further complaints.
- (4) An accountants firm which is leaving its post shall be entitled to attend:
- a. the shareholders' general meeting at which its term of office would otherwise have expired;
  - b. any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal;
  - c. any shareholders' general meeting convened on its resignation.

The leaving accountants firm is entitled to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accountants firm of the Company.

### 3. Resignation of an accountants firm

The accountants firm which resigns shall state at the shareholders' general meeting that there is no inappropriate matter of the Company.

The accountants firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain one of the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within 14 days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding sub-paragraph 2 of the preceding paragraph, a copy of such statement shall be placed at the Company for

shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every shareholder who has the right to receive the financial statement at the addressee registered in the register of shareholders.

Where the accountants firm's notice of resignation contains a statement which shall be brought to the notice of the shareholders, the accountants firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

#### 4. Reference to accountants firm

References to accountants firm in the Articles of Association shall have the same meaning as "auditor".

### (9) *Dispute resolution*

(1) In accordance with the following rules of dispute resolution:

Whenever any disputes or claims arise between: holders of the overseas-listed foreign-invested shares and the Company; holders of the overseas-listed foreign-invested shares and the Company's Directors, Supervisors, general managers, deputy general managers or other senior management; or holders of the overseas-listed foreign-invested shares and holders of Domestic-invested Shares, in respect of any rights or obligations arising from the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is a company, shareholder, Director, Supervisor, the manager, or other senior management of the Company, comply with the arbitration.

Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

(2) A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or

the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

If any disputes or claims of rights are settled by way of arbitration in accordance with item (1), the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations.

The award of an arbitral body shall be final and conclusive and binding on all parties.

(10) *Share Certificates*

The share certificates shall be executed by the Chairman of Board. Other relevant executive staff shall also execute if the stock exchange of the location where the Shares are listed so requires. The Shares will be effective upon sealing or printing of the seal. The share certificates shall be affixed with the seal under the authority of the Board of Directors. The signature of the Chairman of Directors or other relevant executive staff may be printed.

(11) *Merger and Split*

A merger of the Company may take place by way of takeover or consolidation.

Upon a merger of the Company, all parties shall enter into a merger agreement and produce a balance sheet and asset list. The Company shall notify its creditors within 10 days after the split resolution, and within 30 days, publish an announcement at least 3 times in newspapers.

After merger, the creditors' rights and debts of all parties shall be taken by the existing or newly set up company after merger.

Upon split of the Company, its assets shall be separated accordingly.

Upon split of the Company, all split parties shall enter into a split agreement and produce a balance sheet and asset list. The Company shall notify its creditors within 10 days after the split resolution, and within 30 days, publish an announcement at least 3 times in newspapers.

*(12) Notification*

Unless otherwise provided in the Articles of Association, the notice, material or written statement sent from the Company to the shareholders of H shares shall be delivered or posted to the registered address (including the address outside Hong Kong) of every shareholder of H shares.

The newspapers mentioned in the Articles of Association shall be determined or required by relevant laws and administrative regulations. If an announcement is required to be made to shareholders of overseas listed foreign shares by the Articles of Association, such announcement shall meanwhile be published in such newspapers or on websites as designated according to the definition of “published announcements” under the GEM Listing Rules of the Hong Kong Stock Exchange.

The notification from the Company to the shareholders of the Promoter including domestic shareholders and foreign shareholders but not shareholders of H shares, shall be published in one or more than one newspapers appointed by national security supervision authorities. Upon publication, all shareholder of the promoter including domestic shareholders and foreign shareholders but not shareholders of H shares will be deemed as having received relevant notification.

The “announcement” mentioned in the Articles of Association, unless the context requires otherwise, shall, in respect of an announcement to shareholders of the Promoter (including the shareholders of domestic shares and foreign shares but not including shareholders of H shares) or other announcement which are required under relevant regulations and the Articles of Association to be published within China, mean the announcement in China’s newspapers; and the relevant newspapers shall be appointed or recommended by domestic laws and regulations or relevant securities authorities; and, in respect of announcement to shareholder of H share or other announcement which are required under relevant regulations and the Articles of Association to be published in the location of an overseas listing stock exchange, mean the announcement published in newspapers of the location of the overseas listing stock exchange; and the relevant newspaper shall be appointed or recommended by domestic laws and regulations or relevant securities authorities.

## A. FURTHER INFORMATION ABOUT THE COMPANY

## 1. Incorporation

- (1) The Company was converted from a limited liability company into a joint stock limited company in the PRC under the Company Law on 12 July, 2004. The legal address of the Company is at No. 1, Shuanglin Road, Fotang Town, Yiwu, Zhejiang Province, China. The Company has established a place of business in Hong Kong at 7th Floor, CMA Building, 64 Connaught Road Central, Hong Kong and was registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance on 22 December, 2005. Mr. Wu Tai Cheung (胡大祥), the company secretary, qualified accountant and authorised representative of our Company, has been appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was established in the PRC, it is subject to the relevant laws and regulations of the PRC. A summary of the PRC laws and a summary of the Articles of Association are set out in appendix IV to this prospectus.

- (2) At the time of its conversion into a joint stock limited company, the Company's registered share capital was RMB175,943,855.00, divided into 175,943,855 Domestic Shares of a nominal value of RMB1.00 each, of which 165,387,223 Domestic Shares were held by an enterprise legal person, and 10,556,632 Domestic Shares were held by natural persons, accounting for approximately 94% and 6% of the Company's registered share capital respectively. The shareholding structure was as follows:

<b>Name of Promoters</b>	<b>No. of Domestic Shares held by each Promoter</b>	<b>Approximate % of shareholding of each Promoter in the registered capital of the Company</b>
Zhejiang Shibao Holding	165,387,223	94%
Mr. Wu Wei Xu (吳偉旭)	2,639,158	1.5%
Mr. Wu Lang Yue (吳琅躍)	2,639,158	1.5%
Mr. Du Chun Mao (杜春茂)	2,639,158	1.5%
Mr. Chen Wen Hong (陳文洪)	2,639,158	1.5%

- (3) The conversion of the Company into a joint stock limited company by way of promotion involved, among other matters, the following procedures and approvals:

- (a) the promoters' agreement in relation to the conversion of the Company from a limited liability company into a joint stock limited company was entered into by the Promoters on 5 March, 2004;

- (b) a shareholders' meeting of our Company was held on 23 March, 2004 approving, inter alia, the conversion of the Company from a limited liability company into a joint stock limited company by way of promotion by all of the then Shareholders as promoters;
- (c) a capital verification report was issued by Ernst & Young on 24 March, 2004 confirming that as at 23 March, 2004 the then Shareholders had paid their capital contribution in full;
- (d) an approval was granted by Corporation List Leading Group of Zhejiang Province (浙江省人民政府企業上市工作領導小組) (Zhe Shang Shi [2004] No. 37 (浙上市[2004] 37號)) on 30 April, 2004 for the establishment of the Company as a joint stock limited company;
- (e) the inaugural meeting of our Company was convened on 12 June, 2004 at which, inter alia, the following resolutions were passed:
  - (i) the adoption of the initial articles of association (which are to be subsequently superseded by the Articles of Association upon listing of the H Shares); and
  - (ii) the appointment of, inter alia, the first board of Directors and the first board of Supervisors;
- (f) on 12 July, 2004, a business license for enterprise legal person was issued by the State Administration for Industry and Commerce of the Zhejiang Province (Registration No. 3300001010738); and
- (g) the Company has taken the following steps and obtained the following approval documents with respect to the listing of H Shares on GEM:
  - (i) the application to the CSRC dated 12 August, 2004 by the Company for the approval of, inter alia, the issue of the H Shares and their listing on GEM;
  - (ii) resolutions were passed at extraordinary general meetings of the Company held on 10 August, 2004, 10 November, 2004 and 26 April, 2006 approving the issue and listing of H Shares on GEM; and
  - (iii) on 19 August, 2005, the CSRC issued an approval (Zheng Jian Guo He Zi [2005] No. 22 (証監國合字[2005]22號)) confirming that the issue of not more than 86,715,185 H Shares and its listing on the GEM were approved.

## 2. Changes in share capital of the Company

Upon the conversion of the Company into a joint stock limited company, its registered capital was RMB175,943,855.00, divided into 175,943,855 Domestic Shares with a nominal value of RMB1.00 each, all of which were issued to the Promoters.

Immediately following the completion of the Placing, the registered capital of the Company will be increased from RMB175,943,855.00 to RMB262,657,855.00, made up of 175,943,855 Domestic Shares in issue and 86,714,000 H Shares, representing approximately 67% and 33% of the total issued share capital of the Company respectively.

Save as disclosed herein, there has been no change in the share capital of the Company within the 2 years immediately preceding the date of this prospectus.

## 3. Resolutions passed at the shareholders' meetings of the Company

- (a) At extraordinary general meetings of the Company held on 10 August, 2004, and 10 November, 2004, inter alia, the following resolutions, were passed pursuant to which:
  - (i) the application for the issue of H Shares and their listing on GEM be approved;
  - (ii) the Board be authorised to deal with all matters in relation with the application for the issue and listing of H Shares.
- (b) At an extraordinary general meeting of the Company held on 26 April, 2006, inter alia, the following resolutions were passed:
  - (i) the Placing be conditionally approved;
  - (ii) the registered capital of the Company be increased to RMB262,657,855;
  - (iii) the Articles of Association be approved and adopted upon listing of H Shares on GEM; and
  - (iv) the proposed use of proceeds of the Placing be approved.

**B. SUBSIDIARIES**

Particulars of the subsidiaries of the Company as at the latest practicable date are set out below:

(1) *Siping Steering*

Corporate nature :	sino-foreign cooperative joint venture
Date of incorporation :	28 October, 1999
Registered capital :	RMB11,000,000
Term of operation :	28 October, 1999 to 16 June, 2014
Shareholders :	The Company (75%) Promised Land Ventures LLC (25%)
Approved business scope :	Manufacture of power steering gears, steering knuckles for sedans and automotive parts and components
Board of directors :	Mr. Zhang Mr. Tang Mr. Stephane Renaud
Profit sharing :	Promised Land Ventures LLC is entitled to a fixed profit of approximately RMB500,000 annually, or if the profit of the Siping Steering (after payment of income tax and after deductions for reserve fund, the bonus and welfare fund for workers and staff and the expansion fund in accordance with the Sino-foreign Co-operative Joint Venture Law of the PRC) is less than the share of profit distributable to Promised Land Ventures LLC, then all of such profit shall be distributed to Promised Land Ventures LLC. The Company is entitled to all remaining profit of Siping Steering.

(2) *Hangzhou Shibao*

Corporate nature :	limited liability company
Date of incorporation :	3 November, 1996
Registered capital :	RMB40,000,000
Term of operation :	from 3 November, 1996 to 2 November, 2016
Shareholders :	The Company (99%) Mrs. Zhang (1%)
Approved business scope :	Manufacture of steering gears and automotive parts and components, import and export of goods
Board of directors :	Mr. Zhang Zhang Mei Jun Zhang Bao Yi Zhang Lan Jun Zhang Shi Zhong
Profit sharing :	The Company and Mrs. Zhang will share the profits in the same proportion as their respective contribution (99% and 1% respectively) to Hangzhou Shibao.

(3) *Hangzhou New Shibao*

Corporate nature :	limited liability company
Date of incorporation :	14 December, 2004
Registered capital :	RMB40,000,000
Term of operation :	14 December, 2004 to 13 December, 2054
Shareholders :	The Company (100%)
Principal activities :	Sales of steering gears components and other components for automobiles
Board of directors :	Mr. Zhang

Save as disclosed in this appendix, there has been no change in the registered capital of the Group within the two years immediately preceding the date of this prospectus.

**C. BUSINESS AND FURTHER INFORMATION****1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) A contract (in Chinese) dated 16 October, 2004 entered into among the Company, Wuhu Qirui Technology Co., Ltd. (蕪湖奇瑞科技有限公司), An Qing Hui (安慶會) and Sun Ya Hong (孫亞洪) in relation to the establishment of Wuhu Sterling which shall be owned as to 36% (equivalent to a share of capital contribution of RMB7,200,000), 34%, 15%, and 15% by the above parties respectively.
- (b) An acquisition agreement (in Chinese) dated 22 May, 2005 entered into between Siping Steering and Jilin Shibao reducing into writing the oral agreement reached by the parties in February 2005 in relation to the transfer of the M6 Project and its relevant assets by Jilin Shibao to Siping Steering for an aggregate consideration equivalent to the net book value of the assets transferred as at 28 February, 2005 in the amount of RMB4,817,948.73.
- (c) A technology development agreement (in Chinese) dated 7 July, 2005 entered into between Tongji University (同濟大學) and Hangzhou Shibao in relation to the development of an electronic power steering column for a steering sensor provided by Tongji University (同濟大學).
- (d) An undertaking (in Chinese) dated 18 July, 2005 executed by Mrs. Zhang whereby Mrs. Zhang agreed to waive all the rights to undistributed profit and dividend pertaining to 10% equity interest held by her in Hangzhou New Shibao in favour of the Company.
- (e) A declaration (in Chinese) dated 27 September, 2005 signed by Mrs. Zhang revoking her undertaking letter mentioned in (d) above and agreed by the Company on 28 September, 2005.
- (f) DHB-Shibao joint venture contract (in Chinese) dated 16 February, 2006, entered into between the Company and DHB-CA in relation to the establishment of DHB-Shibao which shall be owned as to 75% by the Company and 25% by DHB-CA.

- (g) A technology evaluation agreement (in Chinese) dated 16 February, 2006 entered into between the Company and DHB-CA in conjunction with the DHB-Shibao joint venture contract mentioned in paragraph (f) above, pursuant to which both parties agreed on the value of the technology to be transferred by DHB-CA to DHB-Shibao (being US\$2,427,367) as the contribution to be made by DHB-CA for 20% of the registered capital of DHB-Shibao.
- (h) DHB-Shibao joint venture contract (in Chinese) dated 16 February, 2006, entered into between Hangzhou Shibao and DHB-CA (and acknowledged by the Company) in relation to the establishment of DHB-Shibao which shall be owned as to 75% by Hangzhou Shibao and 25% by DHB-CA.
- (i) A technology evaluation agreement (in Chinese) dated 16 February, 2006 entered into between Hangzhou Shibao and DHB-CA (and acknowledged by the Company) in conjunction with the DHB-Shibao joint venture contract mentioned in paragraph (h) above, pursuant to which both parties agreed on the value of the technology to be transferred by DHB-CA to DHB-Shibao (being US\$2,427,367) as the contribution to be made by DHB-CA for 20% of the registered capital of DHB-Shibao.
- (j) An acknowledgement dated 20 March, 2006 executed by the Company and DHB-CA confirming that the DHB-Shibao joint venture contract and the technology evaluation agreement as mentioned in paragraphs (f) and (g) above (to which the Company is a party) were cancelled and substituted with the DHB-Shibao joint venture contract and the technology evaluation agreement as mentioned in paragraphs (h) and (i) above (to which Hangzhou Shibao is a party).
- (k) A share transfer agreement (in Chinese) dated 22 February, 2006 entered into between the Company and Mrs. Zhang pursuant to which Mrs. Zhang agreed to transfer a 10% equity interest in Hangzhou New Shibao to the Company.
- (l) A deed of indemnity dated 3 May, 2006 (in Chinese) executed by Zhejiang Shibao Holding, Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong (the “Indemnifiers”) in favour of the Company pursuant to which the Indemnifiers agreed to provide certain indemnities as referred to in the paragraph headed “Tax Indemnity and Estate Duty” in the paragraph headed “Other Information” in this appendix.
- (m) the Underwriting Agreement.

## 2. Intellectual property rights

As at the latest practicable date, the Company is the registered owner of the following registered trademark:

	<b>Trademark</b>	<b>Class</b>	<b>Description of Goods</b>	<b>Registration No.</b>	<b>Expiry Date</b>
1.		12	轉向器(方向機) (Steering Gear)	708041	27 September, 2014

Save as disclosed in this prospectus, the Company has not obtained or applied for any trademarks, patents, or other intellectual or industrial property rights which are material in relation to the Group's business.

## D. DISCLOSURE OF INTERESTS

### 1. Particulars of service contracts

- (a) Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) has entered into a service contract with the Company separately for an initial term of 3 years commencing from the listing date and thereafter to be renewed subject to the consent of both parties and the provisions of the Articles of Association until terminated by either party by no less than 1 month notice's in writing or in accordance with the terms of the service contract.
- (b) Each of the Supervisors has entered into a service contract with the Company separately for a term of 3 years commencing from the listing date and thereafter to be renewed subject to the consent of both parties and the provisions of the Articles of Association until terminated by either party by no less than 1 month's notice in writing or in accordance with the terms of the service contract.

- (c) The initial annual salary of each of the Directors as approved of the extraordinary general meeting of the Company held on 26 April, 2006 is as follows:

**Executive Directors**

<b>Name</b>	<b>Annual salary</b>
Mr. Zhang Shi Quan (張世權)	RMB240,000
Mr. Zhang Bao Yi (張寶義)	RMB180,000
Mr. Tang Hao Han (湯浩瀚)	RMB180,000
Mr. Zhu Jie Rong (朱頡榕)	RMB120,000
Ms. Zhang Lan Jun (張蘭君)	RMB120,000

**Non-executive Directors**

<b>Name</b>	<b>Annual salary</b>
Mr. Zhang Shi Zhong (張世忠)	RMB120,000
Ms. Zhang Mei Jun (張美君)	RMB96,000
Mr. Gu Qun (顧群)	RMB96,000

**Independent non-executive Directors**

<b>Name</b>	<b>Annual salary</b>
Mr. Bao Zhi Chao (包志超)	RMB36,000
Mr. Chen Guo Feng (陳國峰)	RMB24,000
Mr. Lui Wing Hong, Edward (呂榮匡)	HK\$120,000

- (d) The initial annual salary of each of the Supervisors as approved of the extraordinary general meeting of the Company held on 26 April, 2006 is as follows:

### Supervisors

Name	Annual salary
Mr. Shen Song Sheng (沈松生)	RMB36,000
Ms. Zheng Yan (鄭豔)	RMB24,000
Mr. Ge Bao Shan (葛寶山)	RMB24,000
Mr. Wang Kui Quan (王奎泉)	RMB24,000
Ms. Liu Xiao Ping (劉曉平)	RMB72,000

The amount of remuneration of each of the Directors is determined by reference to the relevant Director's responsibilities, experience, workload and the time devoted by him/her to the Group.

The amount of remuneration of each of the Directors and Supervisors is subject to Shareholders' approval in a general meeting of the Company.

Each of the executive and non-executive Directors is entitled to:

- (a) such discretionary bonus as determined by the Board in its absolute discretion and the interested Director shall abstain from voting;
- (b) participation in share option schemes (if any) of the Company in accordance with the relevant regulations of the Company.

Each of the Directors and Supervisors is entitled to all reasonable expenses appropriately incurred for the performance of his/her duties under his/her respective service contract or the execution of matters in relation to the operation of the Company. The Company may require the Directors and/or Supervisors to produce relevant receipts or evidence.

## 2. Directors' and Supervisors' remuneration

The aggregate remuneration (including basic salaries and other benefits and pension contribution) paid to the Directors and Supervisors for the two years ended 31 December, 2005 were approximately RMB480,000 and RMB750,000, respectively. The aggregate remuneration (including basic salaries and other benefits and pension contributions) payable to the Directors and Supervisors for the year ending 31 December, 2006 which is expected to be approximately RMB1,240,000.

### 3. Interests and short positions of Directors, Supervisors and chief executive of the Company in the share capital of the Company and its associated corporations (within the meaning of Part XV of the SFO) immediately after the Placing

Immediately following completion of the Placing, the interests and short positions of the Directors or Supervisors or chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors or Supervisors or chief executive of the Company, to be notified to the Company and the Stock Exchange once the H Shares are listed will be as follows:

#### *Aggregate long positions in the shares of the Company or of its associated corporations*

Name of company	Name of Director or chief executive of Company	Capacity	Nature of interest and number of shares/ amount of capital contribution (RMB)				Total number of shares/ Total amount of capital contribution	Percentage holding of shares/ interest in the registered capital of the relevant associated corporation	Approximate percentage of the total issued share capital of the Company immediately after completion of the Placing
			Personal Interests	Family Interests	Corporate Interests	Other Interests			
Company	Mr. Zhang	Interest in controlled corporation (Note 1)	—	—	165,387,223 Domestic Shares	—	165,387,223 Domestic Shares	94%	63.0%
Zhejiang Shibao Holding (Note 2)	Mr. Zhang	Beneficial owner	RMB20,000,000	—	—	—	RMB20,000,000	40%	—
Zhejiang Shibao Holding (Note 2)	Mr. Zhang Bao Yi (張寶義)	Beneficial owner	RMB10,000,000	—	—	—	RMB10,000,000	20%	—
Zhejiang Shibao Holding (Note 2)	Mr. Tang	Beneficial owner	RMB10,000,000	—	—	—	RMB10,000,000	20%	—
Zhejiang Shibao Holding (Note 2)	Ms. Zhang Lan Jun (張蘭君)	Beneficial owner	RMB7,500,000	—	—	—	RMB7,500,000	15%	—

Name of company	Name of Director or chief executive of Company	Capacity	Nature of interest and number of shares/ amount of capital contribution (RMB)				Total number of shares/ Total amount of capital contribution	Percentage holding of shares/ interest in the registered capital of the relevant corporation	Approximate percentage of the total issued share capital of the Company immediately after completion of the Placing
			Personal Interests	Family Interests	Corporate Interests	Other Interests			
Zhejiang Shibao Holding (Note 2)	Mr. Zhang Shi Zhong (張世忠)	Beneficial owner	RMB2,500,000	—	—	—	RMB2,500,000	5%	—
Hangzhou Shibao (Note 3)	Mr. Zhang	Interest of spouse (Note 3)	—	RMB400,000	—	—	RMB400,000	1%	—

## Notes:

- 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.
- Zhejiang Shibao Holding is the holding company of the Company which holds 165,387,223 Domestic Shares (representing 94% of Domestic Shares in issue and approximately 63.0% of the total issued share capital of the Company immediately following completion of the Placing) and therefore is an associated corporation of the Company.
- Hangzhou Shibao is a subsidiary of the Company which is owned as to 99% by the Company and as to 1% by Mrs. Zhang, the wife of Mr. Zhang. Mr. Zhang is taken or deemed to be interested in the 1% interest directly held by his wife in Hangzhou Shibao.

**4. Substantial Shareholders and persons who have an interest or short position in the Shares or underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or interested in 10% or more of the share capital of any member of the Group**

So far as the Directors are aware, immediately following completion of the Placing, the following persons (other than a Director, Supervisor or chief executive of the Company) will have an interest or a short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

*Aggregate long positions in the shares of the Company*

Name	Capacity	Nature and number of Domestic Shares				Total number of Domestic Shares	Percentage holding of Domestic Shares	Approximate percentage of the total issued share capital of the Company immediately after completion of the Placing
		Personal Interests	Family Interests	Corporate Interests	Other Interests			
Zhejiang Shibao Holding	Beneficial owner	—	—	165,387,223	—	165,387,223	94%	63.0%
Mr. Zhang	Interest in controlled corporation (Note 1)	—	—	165,387,223	—	165,387,223	94%	63.0%
Mrs. Zhang	Interest of spouse (Note 2)	—	165,387,223	—	—	165,387,223	94%	63.0%

*Notes:*

- 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, and his wife Mrs. Zhang, are taken or deemed to be interested in all of the 165,387,223 Domestic Shares held by Zhejiang Shibao Holding. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.
- Mrs. Zhang, as the wife of Mr. Zhang, is taken or deemed to be interested in all of the 165,387,223 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.

So far as the Directors are aware, immediately following completion of the Placing, the following person (other than a Director, Supervisor or chief executive of our Company) is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

<b>Name of shareholder</b>	<b>Name of the member of the Group</b>	<b>Percentage of interests in the registered capital of the relevant member of the Group</b>
Promised Land Ventures LLC	Siping Steering	25%

#### 5. **Agency fees or commissions received**

The Underwriters will receive a commission of 3.5% of the aggregate Placing Price of all the Placing Shares out of which they will pay any sub-underwriting commission, and Anglo Chinese will in addition receive a financial advisory and documentation fee in relation to the Placing.

#### 6. **Disclaimer**

Save as disclosed in this prospectus:

- (a) the Directors are not aware of any Director, Supervisor or chief executive of the Company who, as at the latest practicable date, has any interests or short positions in any Shares, underlying shares and 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 Division 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which will be required pursuant to Section of 352 of the SFO to be entered in the register referred to in that section, 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 once the H Shares are listed;
- (b) the Directors are not aware of any person (other than a Director, Supervisor or chief executive of the Company) who will, immediately following the completion of the Placing, have an interest or a short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital;

- (c) none of the Directors or the Supervisors has entered or proposed to enter into any service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (d) none of the Directors or the Supervisors or parties referred to in the paragraph headed “Consents of experts” in this appendix is interested in the promotion of, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (e) none of the Directors or the Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (f) none of the Directors, Supervisors or any of the parties listed in the paragraph headed “Consents of experts” in this appendix has any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (g) none of the Directors or Supervisors or their respective associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in the any of five largest suppliers any five largest customers of the Group for each of the two years ended 31 December, 2003 and 31 December, 2004; and
- (h) none of the Directors or Supervisors is a director or employee of a company which has an interest in the share capital of the Company which, once the H Shares are listed on GEM, would fall to be disclosed to the Company under the provisions of the SFO.

## **E. OTHER INFORMATION**

### **1. Tax Indemnity and Estate Duty**

Under the deed of indemnity dated 3 May, 2006 and executed by Zhejiang Shibao Holding, Mr. Zhang, Zhang Bao Yi, Mr. Tang, Zhang Lan Jun and Zhang Shi Zhong (the “Indemnifiers”) in favour of the Company, the Indemnifiers have undertaken to and covenanted with the Company that they will jointly and severally indemnify and keep the Company indemnified against any and all tax liabilities falling on any member of the Group and 36% of all tax liabilities falling on Wuhu Sterling arising before the date on which the Placing becomes unconditional (the “Effective Date”). The Indemnifiers will also indemnify and keep the Company indemnified against any estate duty which is or becomes payable by any member of the Group and 36% of any estate duty which is or becomes payable by Wuhu Sterling in certain circumstances.

The above indemnity shall not apply:

- (a) to the extent that provision or reserve has been made for such indemnities amounts in the audited accounts as have been prepared for the Company as at 31 December, 2005;
- (b) relating to any incomes, profits or gains earned, accrued or received or any event after the date on which the Placing becomes unconditional;
- (c) which would not have arisen but for any act or omission by the Company voluntarily effected without the prior written consent or agreement of the indemnifiers, otherwise in the ordinary course of business after the date on which the Placing becomes unconditional;
- (d) to the extent that such taxation claim arises or is incurred as a result of imposition of taxation in consequence of any retrospective change in the law coming into force after the date on which the Placing becomes unconditional or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Placing becomes unconditional with retrospective effect; and
- (e) relating to Hong Kong profits tax falling on the Company in respect of its accounting periods commencing on or after the date on which the Placing becomes unconditional unless liability for such Hong Kong profits tax would not have arisen but for some act or omission of, or transaction entered into by the indemnifiers or the Company (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise in the course of ordinary course of normal day to day operations on or before the date on which the Placing becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company under the PRC laws.

## 2. **Litigation**

As at the latest practicable date, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

## 3. **Sponsor**

- (a) Anglo Chinese has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the H Shares. All necessary arrangements have been made for the H Shares to be accepted as eligible securities by CCASS.

- (b) In accordance with the requirements of the GEM Listing Rules, Anglo Chinese has been appointed as compliance adviser of the Company for a period commencing on the listing date and ending on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full (and not part thereof) financial year commencing after the listing date or otherwise terminated in accordance with the terms of the compliance adviser agreement, and will receive a professional fee.
- (c) Anglo Chinese will receive a commission pursuant to the Underwriting Agreement.

#### 4. **No material adverse change**

The Directors confirm that there has been no material adverse change in the financial or operating position of the Company since 31 December, 2005.

#### 5. **Preliminary expenses**

No preliminary expenses are payable by the Company.

#### 6. **Promoters**

The Promoters in connection with the establishment of the Company were Zhejiang Shibao Holding, Mr. Wu Wei Xu (吳偉旭), Mr. Wu Lang Yue (吳琅躍), Mr. Du Chun Mao (杜春茂) and Mr. Chen Wen Hong (陳文洪). Save as disclosed in this prospectus, no amount, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to the Promoters in connection with the Placing or any related transactions described in this prospectus nor is any such amount, securities or other benefit proposed to be paid, allotted or given.

#### 7. **Qualification of Experts**

The qualifications of the experts who have given opinions in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
1. Ernst & Young	Certified Public Accountants
2. Grandall Legal Group (Shanghai)	PRC lawyers
3. Vigers Appraisal & Consulting Limited	Chartered Surveyors and independent valuers

## 8. Consents of experts

Each of Grandall Legal Group (Shanghai), Ernst & Young and Vigers Appraisal & Consulting Limited has given and has not withdrawn up to this date their respective consents to the issue of this prospectus and the inclusion of their respective reports, valuation certificates, letters and or opinion and summaries of opinion (as the case may be) and/or the references to their names included herein in the form and context in which they are included.

## 9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

## 10. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) no amount or benefit has been paid or given within the two years preceding the date of this prospectus to any Promoter nor is any such amount or benefit intended to be paid or given;
- (ii) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (iii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iv) the Company has not issued or agreed to issue any founder shares, management shares or deferred shares;
- (v) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of the Group; and
- (vi) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscribing, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any H Shares.

- (b) Save as disclosed in this prospectus, none of the equity and debt securities of the Company is listed or dealt in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (c) As at the latest practicable date, the Company has no outstanding convertible debt securities.
- (d) Following completion of the Placing, the Company intends to apply for the status of a sino-foreign investment joint stock limited company and expects to be subject to the PRC Sino-Foreign Joint Venture Law upon acquiring such status.

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration included the written consents referred to in the paragraph headed “Consents of experts” in appendix V to this prospectus, the statement of adjustments to the accountants’ report as set out in appendix I to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in appendix V to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at 7th Floor, CMA Building, 64 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountants’ report of the Company prepared by Ernst & Young, the text of which is set out in appendix I to this prospectus;
- (c) the comfort letter from Ernst & Young relating to the unaudited proforma financial information, the text of which is set out in appendix II to this prospectus;
- (d) the statement of adjustments to the accountants’ report as set out in appendix I to this prospectus;
- (e) the letter, summary of valuation and valuation certificates relating to the property interests of the Group prepared by Vigers Appraisal & Consulting Limited, the text of which are set out in appendix III to this prospectus;
- (f) the PRC legal opinion dated 4 May, 2006 issued by Grandall Legal Group (Shanghai), the legal advisers to the Company on PRC laws;
- (g) the audited financial statements of the Group for each of the two years ended 31 December, 2005 prepared in accordance with PRC GAAP;
- (h) the material contracts referred to in the paragraph headed “Summary of material contracts” in appendix V to this prospectus;
- (i) the written consents referred to in the paragraph headed “Consents of experts” in appendix V to this prospectus;

- (j) the Company Law, the Special Regulations and the Mandatory Provisions together with their unofficial English translations;
- (k) the service agreements of each of the Directors and Supervisors as referred to in appendix V to this prospectus; and
- (l) all statutes and regulations which are referred to in the paragraph headed “Summary of the PRC laws” in appendix IV to this prospectus.