



## 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)

(Stock Code: 8331)

## **ANNOUNCEMENT OF THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008**

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

\* For identification purposes

## SUMMARY

- Revenue for the nine months ended 30 September 2008 amounted to approximately RMB204,035,000, an increase of approximately 30.0% compared with approximately RMB156,986,000 for the corresponding period in 2007.
- Profit for the nine months ended 30 September 2008 amounted to approximately RMB29,289,000, an increase of approximately 15.8% compared with approximately RMB25,298,000 for the corresponding period in 2007.
- Profit attributable to shareholders for the nine months ended 30 September 2008 amounted to approximately RMB28,821,000, an increase of approximately 16.0% compared with approximately RMB24,841,000 for the corresponding period in 2007.
- Earnings per share for the nine months ended 30 September 2008 was RMB0.1097, an increase of approximately 16.0% compared with RMB0.0946 for the corresponding period in 2007.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2008.

## UNAUDITED QUARTERLY RESULTS

The board of directors (the “Board”) of Zhejiang Shibao Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2008, together with the comparative figures for the corresponding periods in 2007. The condensed consolidated quarterly financial statements have not been audited, but have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited		Unaudited	
		For the three months		For the nine months	
		ended 30 September		ended 30 September	
		2008	2007	2008	2007
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	60,611	56,175	204,035	156,986
Cost of sales		(40,833)	(33,997)	(132,933)	(94,142)
<b>Gross profit</b>		<b>19,778</b>	<b>22,178</b>	<b>71,102</b>	<b>62,844</b>
Other income and gains		741	450	2,099	2,302
Selling and distribution costs		(3,874)	(4,317)	(13,320)	(10,032)
Administrative expenses		(7,760)	(7,129)	(21,690)	(18,264)
Other expenses		(241)	(403)	(788)	(2,120)

## CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

		Unaudited		Unaudited	
		For the three months ended 30 September		For the nine months ended 30 September	
		2008	2007	2008	2007
Note		RMB'000	RMB'000	RMB'000	RMB'000
	<b>Operating profit</b>	<b>8,644</b>	10,779	<b>37,403</b>	34,730
	Finance costs	(54)	(34)	(162)	(102)
	Share of profit/(losses) of an associate	(163)	(173)	73	(360)
	<b>Profit before taxation</b>	<b>8,427</b>	10,572	<b>37,314</b>	34,268
	Tax	(2,651)	(2,920)	(8,025)	(8,970)
	<b>Profit for the period</b>	<b>5,776</b>	7,652	<b>29,289</b>	25,298
	Attributable to:				
	Equity holders of the parent	5,629	7,522	28,821	24,841
	Minority interests	147	130	468	457
		<b>5,776</b>	7,652	<b>29,289</b>	25,298
		<b>RMB</b>	RMB	<b>RMB</b>	RMB
	Earnings per share (Basic, attributable to equity holders of the parent)	9	0.0286	0.1097	0.0946

# NOTES TO THE QUARTERLY FINANCIAL STATEMENTS

## 1. General

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

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

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

## 2. Accounting policies

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

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated quarterly financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007, except for the adoption of new and revised standards and interpretations and the accounting policies adopted for new transactions, noted below. Adoption of the new and revised standards and interpretations did not have any effect on the financial position or performance of the Group.

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

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

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

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

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

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

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

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

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

### **3. Revenue**

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

### **4. Segment information**

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

### **5. Finance costs**

Finance costs for the three months and nine months ended 30 September 2008 were approximately RMB54,000 and RMB162,000 (Corresponding period in 2007: approximately RMB34,000 and RMB102,000) respectively, which mainly included interest expenses for other borrowings.

## 6. Profit before tax

	Unaudited		Unaudited	
	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Staff costs (including directors', supervisors' and senior executives' remuneration):				
Salaries and other staff costs	7,943	7,026	19,306	16,034
Retirement costs				
– defined contribution fund	906	231	1,934	1,004
	<u>8,849</u>	<u>7,257</u>	<u>21,240</u>	<u>17,038</u>
Total staff costs				
Interest expenses	54	34	162	102
	<u>54</u>	<u>34</u>	<u>162</u>	<u>102</u>
Total finance costs				
Costs of inventories sold	38,296	24,472	101,131	62,737
Depreciation	3,922	2,936	11,124	8,826
Amortisation of land use rights	151	67	453	369
Amortisation of intangible assets	22	3	51	16
Amortisation of deferred income	(254)	(253)	(762)	(762)
Research and development costs	2,544	1,020	5,495	2,862
Foreign exchange differences, net	—	274	150	1,734
Provision/(write-back) for impairment of trade receivables	—	—	14	(182)
(Gain)/Loss on disposal of property, plant and equipment	(77)	13	(59)	(126)
Auditors' remuneration	275	338	825	1,013
	<u>275</u>	<u>338</u>	<u>825</u>	<u>1,013</u>



## **7. Tax**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the nine months ended 30 September 2008 (2007: Nil).

Siping Steering Gear co., Ltd. ("Siping Steering") re-registered as a Sino-foreign co-operative joint venture on 17 June 2004. Pursuant to a document numbered "Guo Shui Fa (2003) No. 60" dated 28 May 2003 issued by the State Tax Bureau and an approval document numbered "Si Ping Guo Shui Jing Kai No.001" issued by Siping Economic Development Zone State Tax Branch on 24 January 2004, effective from 17 June 2004, Siping Steering was exempt from corporate income tax of the PRC for years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years. For the nine months ended 30 September 2008, Siping Steering was subject to corporate income tax at the rate of 15%.

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

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

For the three months and nine months ended 30 September 2008, profit attributable to the equity holders of the parent were approximately RMB5,629,000 and RMB28,821,000 (Corresponding period in 2007: approximately RMB7,522,000 and RMB24,841,000) respectively.

## 9. Earnings per share

For the three months and nine months ended 30 September 2008, basic earnings per share were calculated based on profits attributable to the Company's shareholders of approximately RMB5,629,000 and RMB28,821,000 (Corresponding period in 2007: approximately RMB7,522,000 and RMB24,841,000) respectively, and on the weighted average total number of 262,657,855 shares and 262,657,855 shares (Corresponding period in 2007: 262,657,855 shares and 262,657,855 shares) respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2008 and 2007 have not been calculated as no diluting instrument existed during those periods.

## 10. Reserves

	Unaudited				
	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Reserve arising from acquisition of minority interests <i>RMB'000</i>	Accumulate profits <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2007	21,144	47,604	5,736	10,063	84,547
Net profit for the period	—	—	—	24,841	24,841
As at 30 September 2007	<u>21,144</u>	<u>47,604</u>	<u>5,736</u>	<u>34,904</u>	<u>109,388</u>
As at 1 January 2008	21,144	52,251	5,736	30,524	109,655
Net profit for the period	—	—	—	28,821	28,821
As at 30 September 2008	<u>21,144</u>	<u>52,251</u>	<u>5,736</u>	<u>59,345</u>	<u>138,476</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Operating result

For the nine months ended 30 September 2008, the Group recorded a revenue of approximately RMB204,035,000, representing an increase of approximately 30.0% over the corresponding period in 2007. Profit attributable to shareholders was approximately RMB28,821,000, representing an increase of approximately 16.0% over the corresponding period in 2007.

During the period under review, a substantial increase was recorded in the revenue of the Group. Such an increase was mainly due to an overall growth in the sales of the Company contributed by the successive commencement of mass supply of rack-and-pinion steering gear products and the steady growth in the sales of recirculating ball steering gears. The Group's overall gross profit also increased by approximately 13.1% over the corresponding period in 2007.

During the period under review, the Group's gross profit margin was approximately 34.8% (corresponding period in 2007: approximately 40.0%). The decrease in gross profit margin was mainly due to the increase in the prices of raw materials and costs of manpower resources. At the same time, the maturing at existing product markets and the price cutting factor also led to a slight decline in the gross profit margin of certain products.

During the period under review, selling and distribution costs increased by approximately RMB3,288,000 or approximately 32.8% over the corresponding period in 2007. During the period under review, the increase in selling and distribution costs was mainly due to the increase in the sales volume, leading to an increase in transportation costs and other selling expenses.

During the period under review, the Group's administrative expenses increased by approximately RMB3,426,000 or approximately 18.8% over the corresponding period in 2007. During the period under review, the increase in administrative expenses was mainly due to the increase in research and development expenses.

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

During the period under review, finance costs increased by approximately RMB60,000 or approximately 58.8% over the corresponding period in 2007. Finance costs mainly included interest expenses of other borrowings.

In view of the above, for the nine months ended 30 September 2008, the Group has a profit after tax of approximately RMB29,289,000, representing an increase of approximately 15.8% compared with approximately RMB25,298,000 for the corresponding period last year.

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

### **Marketing and new products**

For the nine months ended 30 September 2008, major customers of the Group include FAW, Dongfeng, JAC, Chery, Lifan, etc. Meanwhile, the new rack-and-pinion steering gear products developed for Geely have been completed with the road testing recently.

## **Research and development**

During the period under review, certain types of electronic power steering system (EPS) products developed by the Group are ready for mass production. Among these, one type of electronic power steering system (EPS) product developed for a leading local automaker has completed testing procedure. During the period under review, the electronic power steering system (EPS) products developed independently by the Group has been issued patent rights and certificate by the State Intellectual Property Office.

## **Human resources**

As at 30 September 2008, the Group employed a total of 1,037 employees. For the nine months ended 30 September 2008, total staff salaries and welfare costs amounted to approximately RMB21,240,000 (corresponding period in 2007: RMB17,038,000). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

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

## ACQUISITION OF LAND USE RIGHTS

On 11 July 2008, Zhejiang Shibao Company Limited (Transferee) entered into a legally binding agreement with Siping Tiedong Economic Development Zone (Transferor), in respect of the acquisition of an industrial land of approximately 110,000 square meters located at Siping Tiedong Economic Development Zone at a consideration of RMB27,720,000. The consideration will be settled in cash and is expected to be settled by end of Year 2009. However, the Transferor shall, within one month from the receipt of full payment of the Transferee's land requisition fee, return approximately RMB13,000,000 to the Transferee as infrastructure fund for the development zone in accordance with the provincial regulations. The acquisition will be funded by internal resources of the Group.

The land use rights has a term of 50 years from the delivery date of the land. The Transferor shall, within three months from the receipt of the Transferee's land requisition fee, hand over the State-owned Land Use Rights Certificate to the Transferee. The Transferor is a provincial level industrial development zone approved by the Jilin Province Government.

The Company intends to use the land for precision casting and machining, with an aim to strengthen the cost and quality control advantage of the Company's purchases, while at the same time to scale up operation and increase both turnover and profits.

The Company has been mainly engaged in investment holdings, the design, manufacture and sales of various of automotive manual and power steering gears. The acquisition has been made for improving the Group's competition ability.

## **FOREIGN CURRENCY EXPOSURE**

During the nine months ended 30 September 2008, both the sales and purchases of the Group were mainly denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk apart from the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The balance of net proceeds has basically been converted into Renminbi. No hedge arrangement has been entered into by the Group.

## **OUTLOOK**

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

## **INTERIM DIVIDEND**

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

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

As at 30 September 2008, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

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

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



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

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

*Note:* Anhui Shibao, a subsidiary of Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 100% by Zhejiang Shibao Holding. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding and therefore is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Zhejiang Shibao Holding, Mr. Zhang is taken or deemed to be interested in the 100% interest directly held by Zhejiang Shibao Holding in Anhui Shibao.

Save as disclosed above, as at 30 September 2008, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Division 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Stock Exchange.

## **ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES**

At no time during the period under review was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and no Directors, Supervisors and Chief Executives of the Company nor any of their spouse or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.

## **SHARE OPTION SCHEMES**

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

## SUBSTANTIAL SHAREHOLDERS

As of 30 September 2008, so far as is known to the Directors, Supervisors and Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding (Note 1)	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang (Note 1)	Interest in a controlled corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang (Note 1)	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Fang Zhen Chun	Beneficial owner	33,424,000 H Shares	38.55%	12.73%

*Notes:*

- (1) As at 30 September 2008, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures". Mrs Zhang, as the spouse of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Save as disclosed above, as at 30 September 2008, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under section 336 of the SFO.

## **COMPETING INTERESTS**

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



## **INTEREST OF COMPLIANCE ADVISER**

As at 30 September 2008, as updated and notified by Evolution Watterson Securities Limited (the "Compliance Adviser"), the compliance adviser of the Company during the period under review, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6A.31 of the GEM Listing Rules) had any interest in the Company's securities, including share options and the other rights to subscribe the Company's securities.

Pursuant to the compliance adviser agreement dated 5 July 2007 entered into between the Company and the Compliance Adviser, the Compliance Adviser received and will receive advisory fees in acting as the compliance adviser of the Company from 1 August 2007, until the earlier of the date on which the Company complies with Rule 6A.19 of the GEM Listing Rules in respect of the financial results for the financial year ending 31 December 2008 or the date on which the appointment of the Compliance Adviser is terminated pursuant to the terms thereof.

## **AUDIT COMMITTEE**

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

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

The Company's financial statements for the nine months ended 30 September 2008 have been reviewed by the audit committee.

## **BOARD PRACTICES AND PROCEDURES**

During the period from the date of Listing to 30 September 2008, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the period from the date of listing to 30 September 2008, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. After making specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Stock Exchange has promulgated the Code on Corporate Governance Practice as set out in Appendix 15 to the GEM Listing Rules (the "CCGP"), which is effective for the accounting period commencing on or after 1 January 2005. The Company had complied with the CCGP during the period from the date of listing to 30 September 2008 except the following deviations:

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

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

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

## PRE-EMPTIVE RIGHTS

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

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

Hangzhou, Zhejiang, the PRC  
7 November 2008

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

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