



# 浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED\*

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

Stock Code: 8331

*Shibao steering the future*

2009 Third Quarterly Report

\* For identification purposes only



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

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors of Zhejiang Shibao Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Zhejiang Shibao Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## SUMMARY

- Revenue for the nine months ended 30 September 2009 amounted to approximately RMB262,627,000, an increase of approximately 28.7% compared with approximately RMB204,035,000 for the corresponding period in 2008.
- Profit for the nine months ended 30 September 2009 amounted to approximately RMB47,755,000, an increase of approximately 63.0% compared with approximately RMB29,289,000 for the corresponding period in 2008.
- Profit attributable to shareholders for the nine months ended 30 September 2009 amounted to approximately RMB47,176,000, an increase of approximately 63.7% compared with approximately RMB28,821,000 for the corresponding period in 2008.
- Earnings per share for the nine months ended 30 September 2009 was RMB0.1796, an increase of approximately 63.7% compared with RMB0.1097 for the corresponding period in 2008.
- The Board did not recommend the payment of an interim dividend for the nine months ended 30 September 2009.

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

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited for the three months ended 30 September		Unaudited for the nine months ended 30 September	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	3	110,129	60,611	262,627	204,035
Cost of sales		(65,354)	(40,833)	(166,819)	(132,933)
Gross profit		44,775	19,778	95,808	71,102
Other income and gains		697	741	2,692	2,099
Selling and distribution costs		(7,217)	(3,874)	(16,731)	(13,320)
Administrative expenses		(10,379)	(7,760)	(24,284)	(21,690)
Other expenses		(41)	(241)	(186)	(788)
Finance costs	5	(64)	(54)	(191)	(162)
Share of (losses)/profit of an associate		241	(163)	(308)	73

## CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

	Note	Unaudited for the three months ended 30 September		Unaudited for the nine months ended 30 September	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Profit before taxation	6	28,012	8,427	56,800	37,314
Tax	7	(4,548)	(2,651)	(9,045)	(8,025)
Profit for the period		<u>23,464</u>	<u>5,776</u>	<u>47,755</u>	<u>29,289</u>
Attributable to:					
Equity holders of the parent	8	23,256	5,629	47,176	28,821
Minority interests		208	147	579	468
		<u>23,464</u>	<u>5,776</u>	<u>47,755</u>	<u>29,289</u>
		RMB	RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the parent:					
Basic	9	<u>0.0885</u>	<u>0.0214</u>	<u>0.1796</u>	<u>0.1097</u>

## NOTES

### 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 were listed on GEM of the Exchange on 16 May 2006 (the "Listing").

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

### 2. Accounting policies

The consolidated quarterly results have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), which comprise of standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and in compliance with the disclosure requirements of the GEM Listing Rules.

The accounting policies and basis of preparation adopted in the preparation of the consolidated quarterly results are the same as those used in the annual financial statements for the year ended 31 December 2008, except for the adoption of new interpretations and amendments to IFRSs and the accounting policies adopted for new transactions, noted below.

The Group has adopted the following new interpretations and amendments to IFRSs which are relevant to its operations for the first time in these consolidated quarterly results.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combination
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of financial statements
IAS 23 (Revised)	Borrowing costs
IAS 32 and IAS 1 Amendments	Amendments to IAS32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
IAS 27 (Revised)	Consolidate and Separate Financial Statement
IAS 39 Amendment	Amendment to IAS39 Financial Instruments: Recognition and Measurement - Eligible Hedged Item
IFRIC – Int 17	Distribution of Non-cash Assets to Owners
IFRIC – Int 13	Customer Loyalty Programmes

IFRIC – Int 15	Agreements for the Construction of Real Estate
IFRIC – Int 16	Hedges of a Net Investment in a Foreign Operation
Amendments to IFRS(IFRIC) – Int 9 “Reassessment of Embedded Derivatives” and IAS 39 “Financial Instruments: Recognition and Measurement”	Embedded Derivatives
Amendments to IFRS 7 “Financial Instruments: Disclosures”	Improving Disclosures about Financial Instruments

Apart from the above, the Group has also adopted Improvements to IFRSs\* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording.

\* *Improvements to IFRSs contains amendments to IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.*

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

**3. Revenue**

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

**4. Segment information**

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

**5. Finance costs**

Finance costs for the three months and nine months ended 30 September 2009 were approximately RMB64,000 and RMB191,000 (corresponding period in 2008: approximately RMB54,000 and RMB162,000) respectively, which was mainly composed of interest expenses for bank loans and other borrowings.

6. Profit before tax

	Unaudited for the three months ended 30 September		Unaudited for the nine months ended 30 September	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Staff costs (including directors' and supervisors' remuneration):				
Salaries and other staff costs	8,246	7,943	22,484	19,306
Retirement costs				
– defined contribution fund	1,016	906	2,283	1,934
Total staff costs	9,262	8,849	24,767	21,240
Interest expenses	64	54	191	162
Total finance costs	64	54	191	162
Costs of inventories sold	46,124	38,296	126,471	101,131
Depreciation	4,768	3,922	13,305	11,124
Amortisation of prepaid land lease payments	151	151	453	453
Amortisation of other intangible assets	23	22	66	51
Amortisation of deferred income	(283)	(254)	(827)	(762)
Research and development costs	2,252	2,544	6,163	5,495
Foreign exchange differences, net	—	—	—	150
Auditors' remuneration	340	275	890	825
Bank interest income	(35)	(111)	(276)	(471)
Gain on disposal of property, plant and equipment	43	(77)	(21)	(59)
Provision/(write-back) for impairment of trade receivables	—	—	(391)	14

## 7. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the nine months ended 30 September 2009 (2008: Nil).

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

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

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

(b) Hangzhou Shibao obtained an approval certificate from the relevant tax authorities as a New High Technology Enterprise. Consequently, Hangzhou Shibao is subject to a corporate income tax rate of 15% with effect from the year commencing 1 January 2008.

- (c) In 2009, Siping Steering obtained an approval certificate from the relevant tax authorities as a New High Technology Enterprise. Consequently, Siping Steering is subject to a corporate income tax rate of 15% with effect from the year commencing 1 January 2009.

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

For the three months and nine months ended 30 September 2009, profit attributable to the equity holders of the parent were approximately RMB23,256,000 and RMB47,176,000 (corresponding period in 2008: approximately RMB5,629,000 and RMB28,821,000) respectively.

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

The calculation of the basic earnings per share is based on the profit for the three months and nine months ended 30 September 2009 attributable to ordinary equity holders of the parent of approximately RMB23,256,000 and RMB47,176,000 (corresponding period in 2008: approximately RMB5,629,000 and RMB28,821,000) respectively, and the weighted average total number of 262,657,855 shares and 262,657,855 shares (corresponding period in 2008: 262,657,855 shares and 262,657,855 shares) respectively.

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

## 10. Reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Unaudited Reserve arising from acquisition of minority interest RMB'000	Accumulated profits RMB'000	Total RMB'000
As at 1 January 2008	21,144	52,251	5,736	30,524	109,655
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>
As at 1 January 2009	21,144	58,622	5,736	51,897	137,399
Profit for the period	—	—	—	47,176	47,176
As at 30 September 2009	<u>21,144</u>	<u>58,622</u>	<u>5,736</u>	<u>99,073</u>	<u>184,575</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### *Operating result*

For the nine months ended 30 September 2009, the Group recorded a revenue of approximately RMB262,267,000, representing an increase of approximately 28.7% over the corresponding period in 2008. Profit attributable to shareholders was approximately RMB47,176,000, representing an increase of approximately 63.7% over the corresponding period in 2008.

During the period under review, the Group's revenue increased substantially, and the overall gross profit increased by approximately 34.7% over the corresponding period in 2008. The increase in the Group's revenue was mainly due to an increase in the sales of steering knuckle and steering gear products used in passenger cars.

During the period under review, the Group's gross profit margin was approximately 36.5% (corresponding period in 2008: approximately 34.8%). The increase in the gross profit margin was mainly due to a reduction in the raw material purchasing costs and manufacturing costs.

During the period under review, selling and distribution costs increased by approximately RMB3,411,000 over the corresponding period in 2008. However, the ratio of selling and distribution costs to revenue remained the same as compared to the corresponding period in 2008. Increase in selling and distribution costs was mainly due to an increase in transportation costs and other sales expenses resulting from an increase in sales volume.

During the period under review, the Group's administrative expenses increased by approximately RMB2,594,000 over the corresponding period in 2008. However, the ratio of administrative expenses to revenue dropped slightly as compared to the corresponding period in 2008. The increase in administrative expenses was mainly due to an increase in staff costs and research and development expenses.

In view of the above, for the nine months ended 30 September 2009, the Group has a profit after tax of approximately RMB47,755,000, representing an increase of approximately 63.0% compared with approximately RMB29,289,000 for the corresponding period last year.

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

On 11 July, 2008, the Company entered into the Agreement with Siping Tiedong Economic Development Zone for the acquisition of the Land Use Rights. After that, the Company established Jilin Shibao Machinery Manufacturing Co., Ltd. by investing RMB30,000,000 as the registration capital, and holding 100% of the shares. The core business of Jilin Shibao Machinery Manufacturing Co., Ltd. is precision casting and machining.

#### *Marketing and new products*

During the period under review, FAW BESTURN (一汽奔腾) hybrid electric sedan was served as the special purpose vehicle for The World Economic Forum Summer Davos 2009. The car used an electric power steering (EPS) system supplied by the Group.

### *Research and development*

On the 60th National Day celebrations, the State Leaders inspected the defence forces aboard a Red Flag limousine. This Red Flag limousine used a heavy load rack-and-pinion power steering gear supplied by the Group. The leading military jeep of the defence forces used a re-circulating ball type power steering gear supplied by the Group.

Both of the above steering gears are developed and manufactured in house by the Group and are the first of their type in China.

### *Human resources*

As at 30 September 2009, the Group employed a total of 1,126 employees. For the nine months ended 30 September 2009, total staff salaries and welfare costs amounted to approximately RMB24,767,000 (corresponding period in 2008: approximately RMB21,240,000). 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 2009, the Group did not have any material acquisitions and disposals concerning subsidiaries and associated companies.

## FOREIGN CURRENCY EXPOSURE

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

## INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the nine months ended 30 September 2009 (2008: Nil).

## OUTLOOK

Production and sales volume of cars in the first three quarters of 2009 exceeded the total annual production and sales volume of 2008. Both passenger and commercial car sales volume increased rapidly. The sales of passenger cars of local Chinese brand and the sales of passenger cars with an engine size of under 1.6 liters were particularly outstanding. At the same time, the Company's operating results and profit recorded rapid growth. This is due to the Company's continuous investment in production capacity, new products and market development in previous years which now show their preliminary result. It is expected that the Company's business would record a rapid growth this year.

## 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 2009, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or which are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Exchange were as follows:

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 30 September 2009, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company who had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the 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 Exchange.

## ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

## SHARE OPTION SCHEMES

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

## SUBSTANTIAL SHAREHOLDERS

As of 30 September 2009, so far as is known to the Directors, Supervisors and Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in the same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding (Note)	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang (Note)	Interest in a controlled corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang (Note)	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Fang Zhen Chun	Beneficial owner	30,680,000 H Shares	35.38%	11.68%

Note: As at 30 September 2009, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its associated corporations". Mrs Zhang, as the spouse of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Save as disclosed above, as at 30 September 2009, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under section 336 of the SFO.

## COMPETING INTERESTS

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

## INTEREST OF COMPLIANCE ADVISER

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

## AUDIT COMMITTEE

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

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

The Company's quarterly report for the nine months ended 30 September 2009 have been reviewed by the audit committee.

## BOARD PRACTICES AND PROCEDURES

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

## SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the period under review.

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

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

## **PRE-EMPTIVE RIGHTS**

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

## PUBLIC FLOAT

As at the date of this report, the Company is in compliance with Rule 11.23(7) of the GEM Listing Rules which required at least 25% of the total issued share capital of the Company be held by the public.

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

Hangzhou, Zhejiang, the PRC  
4 November 2009

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