

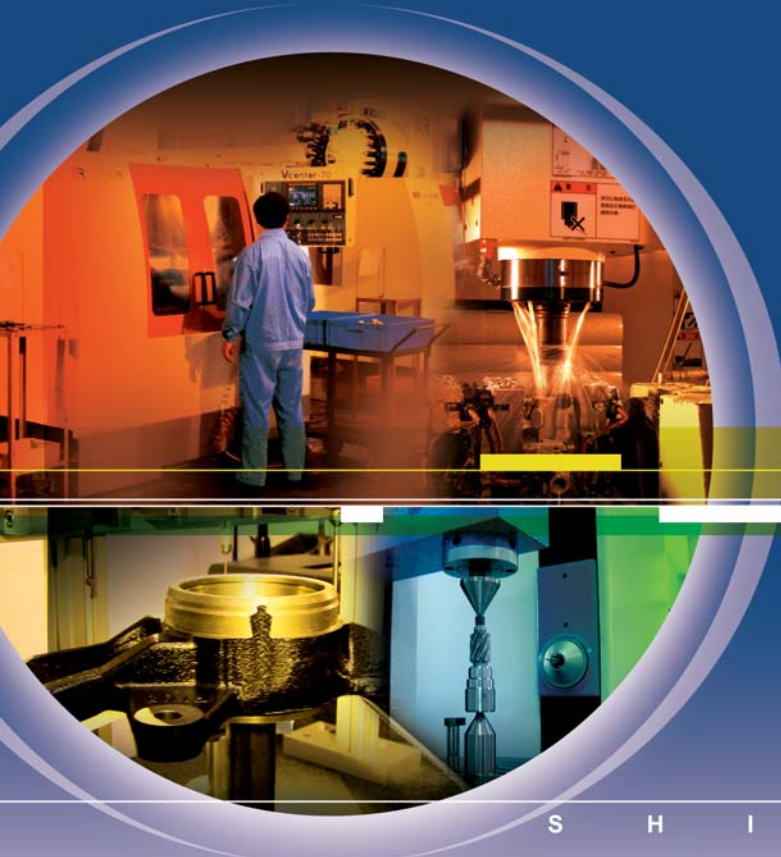


浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 8331



S H I B A O

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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 high market volatility than securities traded on the Main Board of the Stock Exchange 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, 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 of 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 report 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 report misleading; and (iii) 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

- Turnover for the nine months ended 30 September 2006 amounted to approximately RMB104,341,000, an increase of approximately 4.7% over the corresponding period in 2005.
- Net profit attributable to shareholders for the nine months ended 30 September 2006 amounted to approximately RMB21,234,000 comparing with a net profit of approximately RMB24,734,000 for the corresponding period in 2005.
- Earnings per share for the nine months ended 30 September 2006 is RMB0.10 compared to RMB 0.14 for the corresponding period in 2005.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2006.

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 2006, together with the comparative figures for the corresponding periods in 2005. The condensed consolidated quarterly financial results have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statements

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	Note	Unaudited		Unaudited	
		For the three months ended 30 September		For the nine months ended 30 September	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	4	27,330	20,919	104,341	99,665
Cost of sales		(15,128)	(10,835)	(58,392)	(53,474)
Gross profit		12,202	10,084	45,949	46,191
Other revenue		817	446	1,918	811
Selling and distribution costs		(1,583)	(848)	(6,301)	(4,398)
Administration expenses		(2,618)	(2,540)	(10,324)	(10,687)
Other operating expenses		(233)	(221)	(319)	(245)

Condensed Consolidated Income Statements *(continued)*

		Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	Note	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Profit from operations	5	8,585	6,921	30,923	31,672
Finance costs	6	(1,330)	(1,017)	(3,759)	(2,884)
Share of results in an associate		(220)	—	(499)	—
Profit before taxation		7,035	5,904	26,665	28,788
Taxation	7	(1,002)	(295)	(5,010)	(3,675)
Net profit for the period		6,033	5,609	21,655	25,113
Net profit attributable to shareholders	8	5,895	5,477	21,234	24,734
Minority interests		138	132	421	379
		6,033	5,609	21,655	25,113
2005 final dividend	9	—	—	15,000	—
		RMB	RMB	RMB	RMB
Earnings per share (Basic)	10	0.02	0.03	0.10	0.14

Notes to the Quarterly Financial Statements

1. General

The Company is a joint stock limited company incorporated 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 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.

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2. Basis of preparation and principal accounting policies

The quarterly financial results have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

The quarterly financial results have been prepared in accordance with the same accounting policies adopted in the Accountants' Report of the Company ("the Accountants' Report") included in the Company's prospectus dated 4 May 2006 (the "Prospectus"). The quarterly financial results should be read in conjunction with the Accountants' Report.

The quarterly financial results contain condensed consolidated income statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in performance of the Group since the issuance of Accountants' Report.

The quarterly financial results and notes thereon do not include all of the information required for full set of financial statements.



3. 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 during the period under review in the quarterly financial results. Unless otherwise stated, these IFRSs are effective for periods beginning on or after 1 January 2007:

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures

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.

The Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statement in the period of initial application.

4. Turnover

Turnover represents amounts received and receivable for goods sold to external customers net of sales taxes and returns during the period.

5. Profit from operations

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest expenses	817	996	2,568	2,834
Exchange loss	511	8	1,042	8
Bank charges and other finance costs	2	13	149	42
Total finance costs	1,330	1,017	3,759	2,884
Depreciation of property, plant and equipment	2,781	1,397	7,368	4,871
Amortisation of land use rights	96	45	311	288
Amortisation of deferred income	(268)	(323)	(762)	(657)
Research and development costs	218	644	1,186	896
Provision for bad and doubtful debts	353	—	468	849
Reversal of provision for bad and doubtful debts	(1,533)	—	(2,888)	—
Provision for inventory obsolescence	—	—	185	—
Reversal of provision against obsolescent inventory	(158)	—	(158)	(57)
Loss on disposal of property, plant and equipment	310	288	269	140
Auditors' remuneration	331	19	910	79
Staff costs (including directors', supervisors' and senior executives' emoluments):				
Salaries and other staff costs	3,734	2,499	12,157	10,838
Retirement costs - defined contribution fund	137	314	821	896



6. Finance costs

Finance costs for the three months and nine months ended 30 September 2006 were RMB1,330,000 and RMB3,759,000 (Corresponding period in 2005: RMB1,017,000 and RMB2,884,000) respectively, which mainly included interest expenses for bank and other borrowings and exchange loss.

7. Taxation

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

Siping Steering Gear Co., Ltd. ("Siping Steering"), a subsidiary of the Company, 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 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 of the PRC at the rate of 33% during the period.

8. Net profit

For the three months and nine months ended 30 September 2006, our Group reported net profit attributable to shareholders of RMB5,895,000 and RMB21,234,000 (Corresponding period in 2005: RMB5,477,000 and RMB24,734,000) respectively.

9. Dividend

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
2005 final dividend	—	—	15,000	—

10. Earnings per share

For the three months and nine months ended 30 September 2006, basic earnings per share were calculated based on net profits attributable to the Group's shareholders of RMB5,895,000 and RMB21,234,000 (Corresponding period in 2005: RMB5,477,000 and RMB24,734,000) respectively, and on the weighted average total number of 262,657,855 shares and 222,191,322 shares (Corresponding period in 2005: 175,943,855 shares and 175,943,855 shares) respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2005 and 2006 have not been calculated as no diluting instrument existed during these periods.

11. Reserves

	Share premium reserve	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Other reserve	Accumulated losses/ profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2005	—	—	10,983	23,379	5,736	(18,629)	21,469
Net profit for the period	—	—	—	—	—	24,734	24,734
Transfer to reserves	—	—	—	—	—	—	—
Proposed final dividend	—	—	—	—	—	—	—
As at 30 September 2005	—	—	10,983	23,379	5,736	6,105	46,203
As at 1 January 2006	—	—	15,526	28,150	5,736	(5,471)	43,941
Investment in subsidiaries	—	389	—	—	—	—	389
Net profit for the period	—	—	—	—	—	21,234	21,234
Premium from issue of H Shares	47,767	—	—	—	—	—	47,767
Share issue expenses	(26,623)	—	—	—	—	—	(26,623)
As at 30 September 2006	21,144	389	15,526	28,150	5,736	15,763	86,708

Note:

(a) **Basis for appropriation to reserves**

Appropriation to statutory surplus reserve and statutory public welfare fund have been calculated based on the net profits in the financial statement prepared under the PRC GAAP.

(b) **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.

(c) **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 the 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.



(d) **Distributable reserve**

The amount which the Company and its subsidiaries 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 the PRC GAAP. These profits differ from those that are reflected in the quarterly financial statements, which are prepared in accordance with IFRS.

Upon listing of the Company's H Shares on the GEM, the Company is required to distribute dividends based on the lower of the Group's profits determined under the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating result

For the nine months ended 30 September 2006, the Group recorded a revenue of approximately RMB104,341,000, representing an increase of approximately 4.7% as compared with the corresponding period in 2005. Profit attributable to shareholders amounted to approximately RMB21,234,000, which was approximately 14.2% lower than that in the corresponding period in 2005.

From July to September 2006, the Group recorded a revenue of approximately RMB27,330,000, representing an increase of approximately 30.6% as compared with the corresponding period in 2005.

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The gross profit margin of the Group during the period under review was 44.0% (Corresponding period in 2005: 46.3%), similar to the gross profit margin for the whole year of 2005. The gross profit margin of the Group was adversely affected by the decrease in selling price of power recirculating ball steering gears. However, during the nine months ended 30 September 2006, the gross profit margin of M6 steering knuckles improved substantially due to the replacement of imported major raw materials by local supply with lower cost.

There is no change in the business and geographical segments during the period under review.

The new Hangzhou plant and the production facilities were completed during the period under review. The plant and the facilities are mainly used in the production and development of the Group's new product lines such as electronic power steering gear ("EPS"). The investment was the main reason for an increase of approximately RMB2,497,000 in depreciation for the nine months ended 30 September 2006. In addition, the Group allocated more resources to research and development.

Research and development expenses increased by approximately 32.4% for the nine months ended 30 September 2006 over the previous year as a result of additional advanced testing facilities acquired and an increase in the number of research and development staff. Therefore, as compared with the same period in 2005, the Group's profit reduced for the nine months ended 30 September 2006.

For the nine months ended 30 September 2006, the selling expense increased by approximately RMB1,903,000 comparing with the same period in 2005. During the period, the Group explored new automotive accessories and parts repair and retail markets by appointing agents in more than 10 major provinces in the PRC and promoted the brand of "Shibao" by advertising.

Foreign exchange loss of approximately RMB1,042,000 was recorded in the period under review. The exchange loss was attributed to the appreciation of the RMB against Hong Kong Dollars on the net proceeds from the placing of H Shares. The net proceeds of approximately RMB45,144,000 have been utilized as shown in the Prospectus under the section headed "Statement on the use of proceeds" and the balance in Hong Kong dollars will be translated into RMB according to the relevant regulations of the PRC.

Marketing and new product

As at 30 September 2006, the Group continued the expansion of the sales network and successfully appointed agents to explore the automobile parts repair and retail market in more than 10 provinces in the PRC.

The Group also explored other products and services in relation to components for automobiles. Siping Steering was nominated by FAW-Volkswagen Automotive Co., Ltd as qualified supplier for the bracket of vent-pipe and enforced gas spring board of certain sedans. It is expected that the bracket of vent-pipe will be supplied in bulk to FAW-Volkswagen Automotive Co., Ltd. by early 2007 so as to enter the purchasing network of FAW-Volkswagen Automotive Co., Ltd.

Production facilities

The Group is expanding its production facilities. Siping Steering has completed a new plant with a floor area of approximately 9,650 square meters. Production equipment will be relocated to the new plant by stages. It is expected that the construction of new production capability will be completed in the second quarter next year and the production capability for the steering knuckles of the Group will be expanded.

Research and development

In addition to the disclosure in the Prospectus, the Group's EPS product has been included in the State High and New Technology Development Project Programme (國家高新技術發展項目計劃). The project is a project undertaken by an enterprise in the automotive steering gear industry of the PRC included in the State High and New Technology Development Project Programme and will be supported by the state's related policy and funds. The project received a reply letter from the General Office of the National Development and Reform Commission granting a subsidy in the sum of RMB4,500,000 for technology development relating to industrial projects of information industry key technologies in September 2006. Meanwhile, the project will receive a certain proportion of funding from the provincial government. In addition, the Group also participated in the bid for the development of new model brushless motor small-gear EPS project held by Science and Technology Department of Zhejiang province and won the bid. The project will also be supported by project funds.

The EPS project has been chosen as a finalist of the "China Automotive Self-innovation Achievement Grand Ceremony" (中國汽車自主創新成果大典) sponsored and published by China Automotive News for its achievement in introduction, digestion, absorption and reinnovation.

Human resources

As at 30 September 2006, the Group employed a total of 872 employees.

For the nine months ended 30 September 2006, total amount of staff salaries and welfare amounted to approximately RMB12,157,000 (corresponding period in 2005: RMB10,838,000). The Group offers competitive remuneration packages to employees in accordance with the market practice and provides retirement benefits according to relevant regulations of the PRC.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 September 2006, the Group had cash and cash equivalents of approximately RMB101,760,000 in comparison with approximately RMB37,361,000 as at 31 December 2005.

On 11 May 2006, 86,714,000 H Shares of RMB 1 each were placed by the Company at HK\$1.5 each to raise approximately HK\$130,000,000 in cash (approximately equivalent to RMB135,000,000).

Net current assets as at 30 September 2006 was approximately RMB178,366,000 (31 December 2005: RMB73,062,000). The total loans and borrowings were reduced by RMB41,820,000 to RMB20,830,000 as at 30 September 2006, of which RMB15,000,000 (31 December 2005: RMB56,820,000) is repayable within one year.

Non-current liabilities as at 30 September 2006 was approximately RMB8,810,000 (31 December 2005: RMB9,678,000).

Gearing ratio

Gearing ratio of the Group, being the ratio of total borrowings to total assets, reduced to 4.7% as at 30 September 2006 from 16.5% as at 31 December 2005. Decrease in the gearing ratio was mainly attributable to the placing of H Shares in cash and the repayment of loans during the period under review.

Liquidity ratios

As a result of placing of H Shares, current ratio of the Group improved from 1.6 as at 31 December 2005 to 3.2 as at 30 September 2006. Quick ratio of the Group also improved from 1.3 as at 31 December 2005 to 2.7 as at 30 September 2006.

OUTLOOK

Due to the pressure caused by price reductions in product procurements by the major ancillary customers, the Directors expect that the selling price of the existing products may be reduced further, thereby causing the Group's gross profit margin to drop.

The Group has sent relevant management and technical personnel to DHB Componentes Automotivos S.A. in Brazil for training. This facilitates the Group to speed up the progress in supplying system modules of steer gear systems. It is expected that the oil pump products will contribute to the growth of the Group's turnover and profits.

In early September 2006, the Group entered into an "agreement in respect of the development of power rack-and-pinion steering gears" for sedans with a professional foreign trade import and export company with an opportunity to export power rack-and-pinion steering gears in bulk. The Group will proceed with the design and manufacture based on the steering gear samples provided by the client and in accordance with the relevant technical and test standards. Upon examination and acceptance by the client, the client undertakes to place not less than 30,000 sets in its first order and the total quantity ordered shall not be less than 100,000 sets over the next three years. Meanwhile, the assurance that the Group can export and collect proceeds overseas for its sales provides effective export sales contracts for the Group. Initial deposit for trial production from the entity placing the order has been received. This agreement has created a favourable environment for the Group to explore the international automotive components and parts market, thus diversifying channels for the sales of its rack-and-pinion steering gears.



INTERIM DIVIDEND

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2006 (2005: Nil). However, the Board recommends an appropriate increase in the percentage of distributable profit for the payment of final dividend. The actual dividend payment proposal will be submitted to the general meeting to be convened at the end of the year for approval.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As of 30 September 2006, the interests and short positions of each Director, supervisors 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 and Divisions 7 and 8 of Part XV of the SFO, 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 of the Company's total issued share capital
Mr. Zhang Shi Quan (Mr. Zhang)	Interest in a controlled corporation	165,387,223	94.00%	62.97%

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

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

Name of Directors	Capacity	Amount of registered capital contributed	Approximate percentage of 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	Amount of registered capital contributed	Approximate percentage of 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 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.
- (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 Automotive Parts Co., Ltd. ("Jilin Shibao"), an associated corporation of the Company:

Name of Director	Capacity	Amount of registered capital contributed	Approximate percentage of the registered capital of Jilin Shibao
Mr. Zhang	Interest in a controlled corporation	RMB19,000,000	95%
Ms. Zhang Mei Jun	Beneficial Owner	RMB1,000,000	5%

Note: Jilin Shibao, a subsidiary of the Zhejiang Shibao Holding, the ultimate holding company of the Company, is owned as to 95% 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 95% interest directly held by Zhejiang Shibao Holding in Jilin Shibao.



- (5) 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	Amount of registered capital contributed	Approximate percentage of 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.

- (6) 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	Amount of registered capital contributed	Approximate percentage of 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.

Save as disclosed above, as at 30 June 2006, 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 Divisions 7 & 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 TO PURCHASE SHARES OR DEBENTURES

At no time during the period 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 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.

SUBSTANTIAL SHAREHOLDERS

As of 30 September 2006, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors, chief executives and supervisors 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 Shareholders	Capacity	Number and class of shares	Approximate percentage of shareholding in the same class of shares	Approximate percentage of 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%
Manulife Asset Management (Hong Kong) Ltd	Investment manager	6,054,000 H Shares	6.98%	2.30%
Atlantis Investment Management Ltd	Investment manager	13,178,000 H Shares	15.2%	5.02%

Name of Shareholders	Capacity	Number and class of shares	Approximate percentage of shareholding in the same class of shares	Approximate percentage of the Company's total issued share capital
Acru Asset Management International Limited <i>(note 2)</i>	Investment manager	6,760,000 H Shares	7.80%	2.57%
Acru Asset Management Limited <i>(note 2)</i>	Investment manager	6,760,000 H Shares	7.80%	2.57%
Acru China+Absolute Return Fund Limited <i>(note 2)</i>	Person having a security interest in shares	6,760,000 H Shares	7.80%	2.57%
Chan Lee Wang <i>(note 2)</i>	Investment manager	6,760,000 H Shares	7.80%	2.57%
Lau Hing Sang <i>(note 2)</i>	Investment manager	6,760,000 H Shares	7.80%	2.57%
Deutsche Bank Aktiengesellschaft	Investment manager	5,476,000 H Shares	6.32%	2.08%
Galaxy China Opportunities Fund	Investment manager	5,476,000 H Shares	6.32%	2.08%

Notes:

- (1) As at 30 September 2006, 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 "Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares". Mrs. Zhang, as the wife 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.
- (2) Acru China+Absolute Return Fund Limited or its directors follow direction of Acru Asset Management International Limited. Chan Lee Wang and Lau Hing Sang are the controllers of both Acru Asset Management International Limited and Acru Asset Management Limited. Accordingly, these H Shares represent the same interest and therefore duplicate amongst Acru China+Absolute Return Fund Limited, Acru Asset Management International Limited, Acru Asset Management Limited, Chan Lee Wang and Lau Hing Sang.

Save as disclosed above, as at 30 September 2006, Directors are not aware of any other person (other than the Directors, chief executive and supervisors 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 required to be kept under section 336 of the SFO.

INTEREST OF COMPLIANCE ADVISER

As at 30 September 2006, as updated and notified by Anglo Chinese Corporate Finance, Limited (the "Compliance Adviser"), the compliance adviser of the Company, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the Company's securities, including share options and the other rights to subscribe for the Company's securities.

Pursuant to the compliance adviser agreement dated 3 May 2006 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 the date when the shares of the Company are listed on the GEM, until the earlier of the date on which the Company complies with Rule 18.03 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Since the commencement of listing in 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.

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 2006 except the following deviations:

Under provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang held the positions of chairman and general manager of the Company during the period under review. Mr. Zhang is the founder of the Group 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 response to the changes of the market and the implementation of strategic plans. The Board will review the effectiveness of this management arrangement from time to time.

The Board is in the progress of assessing the effect of the implementation of the CCGP and will include a report on corporate governance practices in the annual report.

AUDIT COMMITTEE

The 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 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 2006 have been reviewed by the audit committee.

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.

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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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period from the Listing to 30 September 2006, 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. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

BOARD PRACTICES AND PROCEDURES

During the period from the date of listing to 30 September 2006, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

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

Hangzhou, Zhejiang, the PRC

8 November 2006

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