



# 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



First  
Quarterly Report  
**2007**

## 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.

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*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 three months ended 31 March 2007 amounted to approximately RMB44,459,000, an increase of approximately 25% over 2006.
- Profit for the three months ended 31 March 2007 amounted to approximately RMB7,140,000 compared with approximately RMB6,532,000 for the corresponding period in 2006, representing an increase of approximately 9%.
- Profit attributable to shareholders for the three months ended 31 March 2007 amounted to approximately RMB6,985,000 compared with approximately RMB6,387,000 for the corresponding period in 2006, representing an increase of approximately 9%.
- Earnings per share for the three months ended 31 March 2007 is approximately RMB0.03 compared to approximately RMB0.04 for the corresponding period in 2006, representing a decrease of approximately 25%.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007.



## 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 ended 31 March 2007, together with the comparative figures for the corresponding period in 2006. The condensed consolidated quarterly financial results have not been audited, but have been reviewed by the Company's audit committee.

## Condensed Consolidated Income Statements

|   |      | Unaudited<br>For the three months<br>ended 31 March |                 |
|---|------|---|-----------------|
|   | Note | 2007<br>RMB'000                                     | 2006<br>RMB'000 |
| Revenue   | 4    | 44,459  | 35,636          |
| Cost of sales   |      | (26,205)  | (19,911)        |
| Gross Profit  |      | 18,254  | 15,725          |
| Other income  |      | 775   | 427             |
| Selling and distribution costs                                  |      | (2,485)   | (2,331)         |
| Administrative expenses   |      | (5,822)   | (3,944)         |
| Other expenses  |      | (762)   | (19)            |
| Operating profit  |      | 9,960   | 9,858           |
| Finance costs   | 5    | (34)  | (901)           |
| Share of losses of<br>an associate                              |      | (172)   | (245)           |
| Profit before tax   | 6    | 9,754   | 8,712           |
| Income tax expenses   | 7    | (2,614)   | (2,180)         |
| Profit for the period   |      | 7,140   | 6,532           |
| Attributable to   |      |   |                 |
| Equity holders of the parent                                    | 8    | 6,985   | 6,387           |
| Minority interests  |      | 155   | 145             |
|   |      | 7,140   | 6,532           |
|   |      | RMB   | RMB             |
| Earnings per share  |      |   |                 |
| Basic, attributable to ordinary<br>equity holders of the parent | 9    | 0.03  | 0.04            |



## 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.

### 2. 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") and the requirements of the International Financial Reporting Standards.

The accounting policies and methods of computation used in the preparation of these quarterly consolidated financial statements are consistent with those used in the financial statements of the Group for the year ended 31 December 2006.

### 3. Segment information

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

### 4. Revenue

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

5. Finance costs

Finance costs for the three months ended 31 March 2007 were approximately RMB34,000 (2006: approximately RMB901,000) respectively, which mainly included interest expenses for bank and other borrowings.

6. Profit before tax

|   | Unaudited<br>For the three months ended 31 March |                 |
|---|--|-----------------|
|   | 2007<br>RMB'000                                  | 2006<br>RMB'000 |
| Staff costs (including directors', supervisors' and senior executives' remuneration): |  |                 |
| Salaries and other staff costs  | 3,463  | 3,145           |
|   | 447  | 359             |
| Total staff costs   | 3,910  | 3,504           |
| Interest expenses   | 34   | 842             |
| Bank charges and other finance costs  | —  | 59              |
| Total finance costs   | 34   | 901             |
| Costs of inventories sold   | 13,088   | 11,213          |
| Depreciation of property, plant and equipment   | 2,646  | 2,402           |
| Amortisation of land use rights   | 116  | 109             |
| Amortisation of intangible assets   | 5  | —               |
| Amortisation of deferred income   | (254)  | (263)           |
| Research and development costs  | 1,078  | 424             |
| Foreign exchange loss   | 730  | 135             |
| Gain on disposal of property, plant and equipment                                     | —  | (53)            |
| Auditors' remuneration  | 299  | 340             |



## 7. Income tax expense

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. Siping Steering was subject to corporate income tax at the rate of 15% for the three months ended 31 March 2007.

DHB-Shibao is registered as a Sino-foreign co-operative joint venture on 22 May 2006. Pursuant to a document numbered "Hang Guo Shui Kai Fa (2006) No.249" dated 19 October 2006 issued by the Hangzhou State Tax Bureau, DHB-Shibao is exempt from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. DHB-Shibao was in a tax loss position for the three months ended 31 March 2007.

The Company and other subsidiaries were subject to corporate income tax at the rate of 33% during the period.





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

For the three months ended 31 March 2007, our Group reported profit attributable to equity holders of the parent of approximately RMB6,985,000 (2006: approximately RMB6,387,000).

## 9. Earnings per share

For the three months ended 31 March 2007, basic earnings per share were calculated based on profits attributable to the Group's shareholders of approximately RMB6,985,000 (2006: approximately RMB6,387,000), and on the weighted average total number of 262,657,855 shares (2006: 175,943,855 shares).

Diluted earnings per share for the three months ended 31 March 2007 have not been calculated as no diluting instrument existed during the period.



10. Reserves

|                       | Unaudited                              |  |  |                             |  | Total<br>RMB'000 |
|-----------------------|--|--|--|-----------------------------|--|------------------|
|                       | Share<br>premium<br>reserve<br>RMB'000 | Statutory<br>surplus<br>reserve<br>RMB'000 | Statutory<br>public<br>welfare fund<br>RMB'000 | Other<br>reserve<br>RMB'000 | Accumulated<br>(losses)/<br>profits<br>RMB'000 |                  |
| As at 1 January 2006  | —                                      | 15,526                                     | 28,150   | 5,736                       | (5,471)  | 43,941           |
| Profit for the period | —                                      | —  | —  | —                           | 6,387  | 6,387            |
| As at 31 March 2006   | —                                      | 15,526                                     | 28,150   | 5,736                       | 916  | 50,328           |
| As at 1 January 2007  | 21,144                                 | 47,604                                     | —  | 5,736                       | 10,063   | 84,547           |
| Profit for the period | —                                      | —  | —  | —                           | 6,985  | 6,985            |
| As at 31 March 2007   | 21,144                                 | 47,604                                     | —  | 5,736                       | 17,048   | 91,532           |

## MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

### Operating result

For the three months ended 31 March 2007, the Group recorded a revenue of approximately RMB44,459,000, representing an increase of approximately 25% as compared with the corresponding period in 2006. Profit attributable to shareholders amounted to approximately RMB6,985,000, which was approximately 9% higher than that in the corresponding period in 2006.

For the three months ended 31 March 2007, the Group recorded a relatively high increase in its revenue, mainly attributable to the development of new markets for its old products last year. Besides, the production of a new product, the sedans power rack-and-pinion steering gears, has commenced and contributed to the increase in the Group's turnover. Therefore, Group recorded improved growth in its sale and expanded its market share. The total gross profit of the Group increased by approximately 16% over that in the corresponding period in 2006.

The gross profit margin of the Group during the period under review was 41% (Corresponding period in 2006: approximately 44%). The gross profit margin of the Group was adversely affected by the decrease in the selling price of power recirculating ball steering gears. Meanwhile, for the three months ended 31 March 2007, the gross profit margin of M6 steering knuckles slightly decrease due to the maturity in M6 sedans market and the increased pricing pressure.



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

The commencement of the construction of the facility of Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao") and the use of some new production equipment during the period under review led to an increase of approximately RMB244,000 in depreciation for the three months ended 31 March 2007. Accordingly, as compared to the corresponding period in 2006, this adversely affected the profit of the Group for the three months ended 31 March 2007.

Operation of DHB-Shibao Steering Co., Ltd. ("DHB-Shibao") as planned has resulted in the significant increase in administrative expenses compared with the corresponding period in 2006 (DHB-Shibao established in July 2006). The administrative expenses increased approximately RMB1,878,000 compared with same period in 2006, thus has adverse effect on the Group's profits for the three months ended 31 March 2007.

For the three months ended 31 March 2007, the selling expense increased by approximately RMB154,000 comparing with the same period in 2006. During the period, the Group explored new automotive accessories and the markets for repair and parts by appointing distributors in more than 20 major provinces in the PRC and promoted the brand of "Shibao" by advertisement.

Foreign exchange loss of approximately RMB730,000 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.



## Research and development

After the electronic power steering system for economical sedans ancillary equipments developed by Hangzhou Shibao was included in the special high-tech industrialization project of the State Development and Reform Commission, Hangzhou Shibao and 中國第一汽車集團公司技術中心 entered into the first HEV electronic power steering system technology development contract on 8 March 2007. This new steering system can be applied to mid- to high-end sedans using new energy, and has broadened the usage of power steering gears with a great market prospect.

## HUMAN RESOURCES

The Company had a total of 930 employees as at 31 March 2007. For the three months ended 31 March 2007, total salaries and welfares of the employees amounted to approximately RMB3,910,000 (2006: approximately RMB3,504,000). The Group provided attractive remuneration benefits to employees in accordance with market practice, and provided retirement benefits in accordance with the related laws of the PRC.



## OUTLOOK

Demand for the Group's recirculating ball steering gears is expected to grow in line with the commercial vehicles markets of the PRC this year. In light of the prospective production of power rack-and-pinion steering gears, the maturity in production ability and the mass production of Chery Automobile Co., Ltd.'s sedans ancillary equipments, power rack-and-pinion steering gears, it is expected that the sales will increase correspondingly. The Group plans to speed up the research and development of electronic power steering gear ("EPS"), provide specimens to clients and arrange small-amount production of EPS in the second half year. Besides, the Group remains the sole M6 steering knuckles supplier to one of the sedans model and the sales of will M6 steering knuckles grow in line with MAZDA M6 sedans. The Directors believe that the Group's outlook is positive in view of the current development trend of the vehicles market of the PRC.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007 (2006: Nil).

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

As of 31 March 2007, 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 interests or short positions 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<br>(Mr. Zhang) | Interest in 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 of the Company 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 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") (note (2)), an associated corporation of the Company:

| Name of Director  | Capacity                             | Contribution in the registered capital | Approximate percentage in the registered capital of Jilin Shibao |
|-------------------|--------------------------------------|--|--|
| Mr. Zhang         | Interest in a controlled corporation | RMB 19,000,000                         | 95%  |
| Ms. Zhang Mei Jun | Beneficial Owner                     | RMB 1,000,000                          | 5%   |

*Notes:*

- (1) 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.
- (2) Jilin Shibao has formally deregistered on 15 January 2007.

- (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                             | 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.



- (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                             | 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.

Save as disclosed above, as at 31 March 2007, 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 FOR PURCHASE OF SHARES OR DEBENTURES

None of the Company, its ultimate holding company or any subsidiaries of its ultimate holding company has entered into any arrangement, allowing Directors of the Company to benefit from the purchase of the shares or debentures of the Company or any other legal person entities, and none of the Directors, Supervisors and Chief Executive or their respectively spouse or children under 18 was granted any rights to subscribe any shares or debentures of the Company during the period under review.



## SUBSTANTIAL SHAREHOLDERS

As of 31 March 2007, so far as is known to the Directors or 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 Shareholders                          | 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%   |
| Manulife Asset Management (Hong Kong) limited | Investment manager                   | 5,200,000 H Shares          | 6.00%  | 1.98%  |

| 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 |
|---|--------------------------------------|----------------------------|--|--|
| Deutsche Bank Aktiengesellschaft                | Investment manager                   | 5,476,000 H Shares         | 6.32%  | 2.08%  |
| Galaxy China Opportunities Fund                 | Beneficial Owner                     | 5,626,000 H Shares         | 6.49%  | 2.14%  |
| United Overseas Bank Limited (Note 2)           | Interest in a controlled corporation | 11,134,000 H Shares        | 12.84%   | 4.24%  |
| UOB Asset Management Limited (Note 2)           | Investment manager                   | 11,134,000 H Shares        | 12.84%   | 4.24%  |
| The Hamon Investment Group Pte Limited (Note 3) | Interest in a controlled corporation | 5,720,000 H Shares         | 6.60%  | 2.18%  |
| Hamon Asset Management Limited (Note 3)         | Investment manager                   | 5,720,000 H Shares         | 6.60%  | 2.18%  |



Notes:

- (1) As at 31 March 2007, 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) The 11,134,000 Shares are held by UOB Asset Management Limited. United Overseas Bank Limited holds 100% interest in UOB Asset Management Limited and is therefore deemed to be interested in all of these H shares held by UOB Asset Management Limited.
- (3) The 5,720,000 Shares are held by Hamon Asset Management Limited. The Hamon Investment Group Pte Limited holds 100% interest in Hamon Asset Management Limited and is therefore deemed to be interested in all of these H shares held by Hamon Asset Management Limited.

Save as disclosed above, as at 31 March 2007, 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 to be kept under section 336 of the SFO.





## INTEREST OF COMPLIANCE ADVISER

As at 31 March 2007, 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 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 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 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.



## CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has promulgated the Code on Corporate Governance Practices, to be effective for accounting periods commencing on or after 1 January 2005, details of which are set out in Appendix 15 of “Code on Corporate Governance Practices” of the GEM Listing Rules. The Company has been in compliance with the Code on Corporate Governance Practices since its listing date up to the period ended 31 March 2007, except for the following:

Pursuant to Rule A.2.1 of the Code on Corporate Governance Practices, the roles of the chairman and the chief executive should be separated, and should not be undertaken by the same individual. Mr. Zhang Shi Quan was the Company’s Chairman and General Manager during the period under review. Mr. Zhang Shi Quan was the founder of the Group, overlooking the overall strategic plans, business development and new product marketing strategies. In view of the business nature of the Company, the Board considered that the present management structure and its implementation were effective to respond to market changes and implementation of strategic plans. The Board will review the efficiency of such management arrangement from time to time.

## 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 three months ended 31 March 2007 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.

## COMPETING INTERESTS

None of the Directors, the substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) of the Company 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 31 March 2007, 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 31 March 2007, 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  
11 May 2007

*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.*