

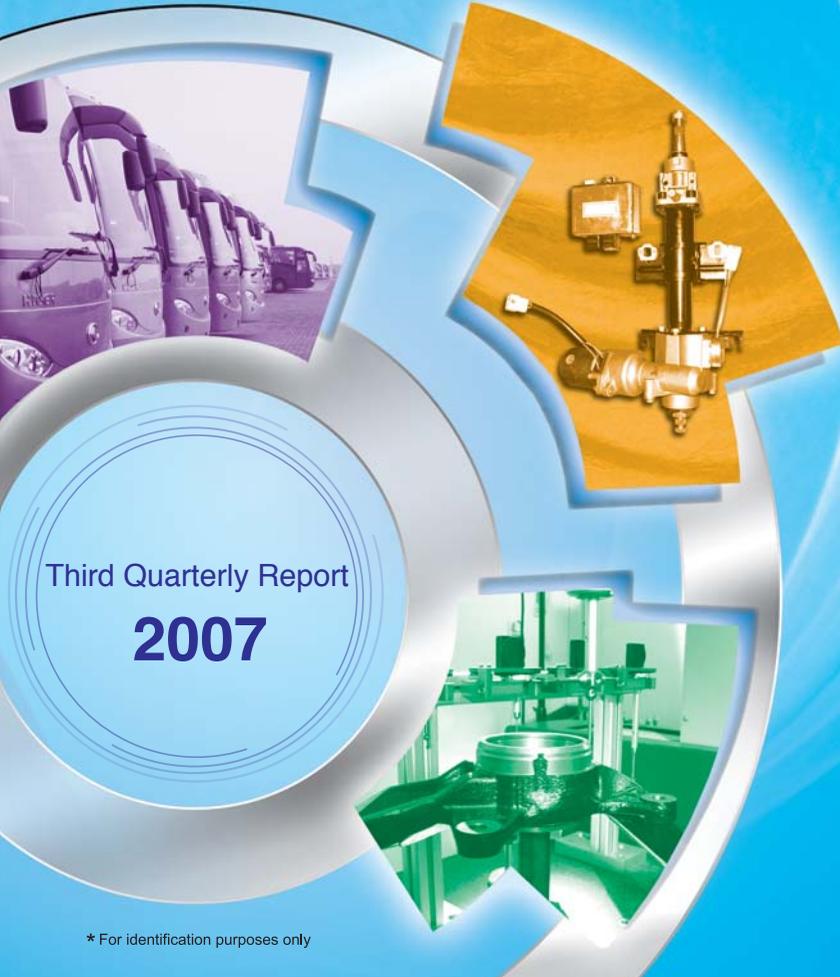


# 浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED\*

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

Stock Code: 8331



Third 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.

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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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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.*

## HIGHLIGHTS

	Unaudited For the nine months ended 30 September		Change
	2007 RMB'000	2006 RMB'000	
Revenue	156,986	104,341	+50.5%
Gross profit	62,844	45,949	+36.8%
Gross profit margin (%)	40%	44%	-4.0%
Profit for the period	25,298	21,655	+16.8%
Profit attributable to shareholders	24,841	21,234	+17.0%
Earnings per share (RMB) <sup>1</sup>	0.09	0.10	-10.0%

Note:

- 1 The decline was due to the dilution in earnings per share as a result of additional shares issued for listing in May 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 2007, together with the comparative figures for the corresponding periods in 2006. The condensed consolidated quarterly financial statements have not been audited, but have been reviewed by the Company's audit committee.

### Condensed Consolidated Income Statements

	Note	Unaudited		Unaudited	
		For the three months		For the nine months	
		ended 30 September		ended 30 September	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3	56,175	27,330	156,986	104,341
Cost of sales		(33,997)	(15,128)	(94,142)	(58,392)
Gross profit		22,178	12,202	62,844	45,949
Other income		450	817	2,302	1,918
Selling and distribution costs		(4,317)	(1,583)	(10,032)	(6,301)
Administrative expenses		(7,129)	(2,618)	(18,264)	(10,324)
Other expenses		(403)	(233)	(2,120)	(319)

## Condensed Consolidated Income Statements (continued)

	Note	Unaudited		Unaudited	
		For the three months ended 30 September		For the nine months ended 30 September	
		2007	2006	2007	2006
		RMB'000	RMB'000	RMB'000	RMB'000
Profit from operations	5	10,779	8,585	34,730	30,923
Finance costs	6	(34)	(1,330)	(102)	(3,759)
Share of losses of an associate		(173)	(220)	(360)	(499)
Profit before taxation		10,572	7,035	34,268	26,665
Income tax expenses	7	(2,920)	(1,002)	(8,970)	(5,010)
Profit for the period		<u>7,652</u>	<u>6,033</u>	<u>25,298</u>	<u>21,655</u>
Attributable to					
Equity holders of the parent	8	7,522	5,895	24,841	21,234
Minority interests		130	138	457	421
		<u>7,652</u>	<u>6,033</u>	<u>25,298</u>	<u>21,655</u>
		RMB	RMB	RMB	RMB
Earnings per share					
(Basic, attributable to ordinary equity holders of the parent)	9	<u>0.03</u>	<u>0.02</u>	<u>0.09</u>	<u>0.10</u>



## Notes to the Quarterly Financial Statements

### 1. General

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

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

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

### 2. Accounting policies

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

The accounting policies and basis of preparation adopted in the preparation of the consolidated quarterly financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except for the adoption of new and revised standards and interpretations and the accounting policies adopted for new transactions, noted below. Adoption of the new and revised standards and interpretations did not have any effect on the financial position or performance of the Group.

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

*IAS 1 Amendment*

*Capital Disclosures*

The Group adopted IAS 1 Amendment as of 1 January 2007, which requires an entity to disclose qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

*IFRS 7*

*Financial Instruments: Disclosures*

The Group adopted IFRS 7 as of 1 January 2007, which requires disclosures that enable users of the financial statements to evaluate the significance of an entity's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

*IFRIC - Int 8*

*Scope of IFRS 2*

The Group adopted IFRIC – Int 8 as of 1 January 2007, which requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

*IFRIC - Int 9*

*Reassessment of Embedded Derivatives*

The Group adopted IFRIC – Int 9 as of 1 January 2007, which requires that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

*IFRIC - Int 10*

*Interim Financial Reporting and Impairment*

The Group adopted IFRIC – Int 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.



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

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

IFRS 8	Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
IFRIC – Int 11	Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007)
IFRIC – Int 12	Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008)
IFRIC – Int 13	Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008)
IFRIC – Int 14	IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2008)
IAS 23 (revised)	Borrowing costs (effective for accounting periods beginning on or after 1 January 2009)

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. This standard will supersede IAS 14 Segment Reporting.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

### 3. Revenue

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

### 4. Segment information

The Group's revenue and profit were mainly derived from the sale of automotive steering 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. Profit from operations

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Staff costs (including directors', supervisors' and senior executives' remuneration):				
Salaries and other staff costs	7,026	3,734	16,034	12,157
Retirement costs				
- defined contribution fund	231	137	1,004	821
<b>Total staff costs</b>	<b>7,257</b>	<b>3,871</b>	<b>17,038</b>	<b>12,978</b>
Interest expenses	34	817	102	2,568
Bank charges and other finance costs	—	513	—	1,191
<b>Total finance costs</b>	<b>34</b>	<b>1,330</b>	<b>102</b>	<b>3,759</b>
Costs of inventories sold	24,472	12,870	62,737	38,667
Depreciation	2,936	2,781	8,826	7,368
Amortisation of land use rights	67	96	369	311
Amortisation of intangible assets	3	—	16	—
Amortisation of deferred income	(253)	(268)	(762)	(762)
Research and development costs	1,020	218	2,862	1,186
Foreign exchange differences, net	274	—	1,734	—
Provision for bad and doubtful debts	—	353	—	468
Reversal of provision for bad and doubtful debts	—	(1,533)	(182)	(2,888)
Provision for inventory obsolescence	—	—	—	185
Reversal of provision against obsolescent inventory	—	(158)	—	(158)
(Gain)/Loss on disposal of property, plant and equipment	13	310	(126)	269
Auditors' remuneration	338	331	1,013	910
	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

## 6. Finance costs

Finance costs for the three months and nine months ended 30 September 2007 were approximately RMB34,000 and RMB102,000 (Corresponding period in 2006: approximately RMB1,330,000 and RMB3,759,000) respectively, which mainly included interest expenses for bank and other borrowings.

## 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 nine months ended 30 September 2007 (2006: Nil).

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 exempt from corporate income tax of the PRC for years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years. For the nine months ended 30 September 2007, Siping Steering was subject to corporate income tax at the rate of 15%.

The Company and other subsidiaries were subject to PRC income tax at the rate of 33% during the period (2006: 33%).



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

For the three months and nine months ended 30 September 2007, profit attributable to the equity holders of the parent were approximately RMB7,522,000 and RMB24,841,000 (Corresponding period in 2006: approximately RMB5,895,000 and RMB21,234,000) respectively.

#### 9. Earnings per share

For the three months and nine months ended 30 September 2007, basic earnings per share were calculated based on profits attributable to the Group's shareholders of approximately RMB7,522,000 and RMB24,841,000 (Corresponding period in 2006: approximately RMB5,895,000 and RMB21,234,000) respectively, and on the weighted average total number of 262,657,855 shares and 262,657,855 shares (Corresponding period in 2006: 262,657,855 shares and 222,191,322 shares) respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2007 and 2006 have not been calculated as no diluting instrument existed during those periods.

## 10. Reserves

	Unaudited						
	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Other reserve RMB'000	Accumulated (losses)/ profits RMB'000	Total RMB'000
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	<u>21,144</u>	<u>389</u>	<u>15,526</u>	<u>28,150</u>	<u>5,736</u>	<u>15,763</u>	<u>86,708</u>
As at 1 January 2007	21,144	—	47,604	—	5,736	10,063	84,547
Profit for the period	—	—	—	—	—	24,841	24,841
As at 30 September 2007	<u>21,144</u>	<u>—</u>	<u>47,604</u>	<u>—</u>	<u>5,736</u>	<u>34,904</u>	<u>109,388</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### *Operating result*

For the nine months ended 30 September 2007, the Group recorded a revenue of approximately RMB156,986,000, representing an increase of approximately 50.5% over the corresponding period in 2006. Profit attributable to shareholders was approximately RMB24,841,000, representing an increase of approximately 17% over the corresponding period in 2006.

During the period under review, there has been significant growth in the Group's revenue, mainly due to the revenue generated from the Company's development of new customers in 2006. Sales of power recirculating ball steering gear products grew considerably, at the same time, sales of rack-and-pinion steering gear grew steadily, thereby causing the overall sales of the Company to grow significantly and consolidating market share. The Group's overall gross profit also increased by approximately 36.8% over the corresponding period in 2006.

During the period under review, the Group's gross profit margin was approximately 40% (corresponding period in 2006: approximately 44%). The adverse impact on gross profit margin was mainly due to the decline in the selling price of power recirculating ball steering gear products. At the same time, the maturing M6 sedan market and the price cutting factor also led to a slight decline in the gross profit margin of M6 steering knuckles.

During the period under review, selling and distribution costs increased by approximately RMB3,731,000. The main reason has been an increase in the sales amount in the first three quarters of 2007, leading to an increase in transportation costs and other selling expenses. During the period, the Group promoted the “Shibao” brandname through appointment of distributors in over twenty major provinces in the PRC and by leveraging on advertisements, in order to explore new automobile ancillary markets and spare parts reparation and retail markets.

During the period under review, administrative expenses increased by 76.9% over the corresponding period in 2006, which was mainly due to the significant increase in the expenses paid to the intermediaries after listing when compared with the corresponding period in 2006, while such expenses was less in the corresponding period of last year. In 2007, the operations of DHB-Shibao and the increment over the salaries of the management have led to a significant increase in labor costs over the corresponding period in 2006. As increased investments continued in research and development, research and development expenses increased by approximately RMB1,676,000, which has caused adverse impact on the Group’s profits for the nine months ended 30 September 2007.

During the period under review, finance costs decreased by approximately RMB3,657,000 as compared with the corresponding period in 2006, which was mainly due to the Company’s repayment of a large part of the bank loans in 2006.



During the period under review, exchange losses recorded amounted to approximately RMB1,734,000. Exchange losses were due to the appreciation of Renminbi over HK dollars, thereby resulted in net exchange losses in the proceeds of HK dollars from the placing of H Shares.

In view of the above, for the nine months ended 30 September 2007, the Group has a profit after tax of approximately RMB25,298,000, representing an increase of approximately 16.8% over approximately RMB21,655,000 last year.

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

#### *Marketing and new products*

Zhejiang Shibao Company Limited was appraised as “The Fourth Session Hundred Best Automobile Components Suppliers in the PRC” by China Autonews.

In September, the Company participated in the Tianjin High and New Technology Exhibition organised by the Society of Automotive Engineers of China.

The Company developed 8067F type power recirculating ball steering gear product as an ancillary part of chassis for the 6.6 – 7 meter medium size trucks of Jianghuai Automobile Company, and completed all the ancillary process. The Company has commenced mass production of this product.

The Company developed the rack-and-pinion steering gear as an ancillary part in relation to the domestic production of MAZDA C301 sedans by FAW Car Co., Ltd.. The first round of prototype testing has been completed with the second round of complete car testing in progress. This is to be followed by 30,000 kilometers road testing.

The making of the ancillary setting of the electronic power steering gear ("EPS") for the QQS11 model of the Qirui Automobile Factory is proceeding, and the compatibility testing of its operation functions has been completed. 15,000 kilometers road testing is to follow prior to the overall assembly of complete cars.

#### *Research and development*

The Company is currently developing power recirculating ball steering gears as an ancillary for heavy duty trucks and super-large passenger vehicles.

The Company has basically completed the development of a new type of gear-assisted EPS as an ancillary part for medium-high class sedans and hibrid sedans with engines of over 2.0 litres.

The Company is currently undergoing research and development of small gear-assisted EPS as an ancillary part for medium class sedans with engines of 1.5-2.0 liters. The Company's target is that the EPS will form a number of species and transmission methods of power steering gear for mini-type vehicles, economic sedans, medium and high class sedans.

#### *Preparations before production of new products*

In order to establish production capacity for domestic mass production of the rack-and-pinion steering gear for MAZDA C301 sedans, the Company has recently imported three items of advanced specialised equipment and five items of domestic processing center and ancillary part of the standard processing equipment, which are being ordered and delivered for installation and testing.



Installation of the production facilities for EPS is proceeding, and a component assembly line is being installed and tested. The Company has also imported key processing and testing equipments, such as a set of state of the art automobile gear operation function testing system, a spiral hard gear face high speed hobbing machine, a cutting processing center with five items of axel and a domestic high efficiency gear grinder.

#### *Human resources*

As at 30 September 2007, the Group employed a total of 920 employees. The Group provided substantial remuneration benefits to employees, and provided retirement benefits in accordance with the related laws of the PRC.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

For the nine months ended 30 September 2007, the Company has not incurred any material acquisition and disposal.

## **OUTLOOK**

There has been significant growth in the third quarter sales results compared with the corresponding period last year. The rack-and-pinion new products have been put into production, and can satisfy the needs for the continued development of different sedan models. They will be sold in more markets and generate more contributions to these markets.

Electronic power steering gear ("EPS") is a high technology product at state level, and a small quantity of EPS will be launched in the market for trial by the end of this year.

Meanwhile, the Company continues to increase the productivity of the bottleneck process of former key product, i.e., the power recirculating ball steering gear product, so as to enhance the output, and realise equilibrium production. The Company continues to upgrade and implement TPS on-site management and continues to adopt measures to increase marketing efforts, to enhance market share, and to capture opportunities in the rapidly developing automobile market in the PRC. We believe that the Company will maintain its leading position in the industry. In the fourth quarter, we also believe that the the Group's sales is expected to continue to grow as was the situation in the corresponding period last year.

## FOREIGN CURRENCY EXPOSURE

During the nine months ended 30 September 2007, both the sales and purchases of the Group were mainly denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk apart from the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The proceeds will be converted into Renminbi as soon as practicable. No hedge arrangement has been entered into by the Group.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2007 (2006: Nil).



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

As at 30 September 2007, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

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

*Note:* Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding Group Co., Ltd ("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 Director	Capacity	Contribution in the registered capital	Approximate percentage in the registered capital of Zhejiang Shibao Holding
Mr. Zhang	Beneficial owner	RMB20,000,000	40%
Mr. Zhang Bao Yi	Beneficial owner	RMB10,000,000	20%
Mr. Tang Hao Han	Beneficial owner	RMB10,000,000	20%
Ms Zhang Lan Jun	Beneficial owner	RMB7,500,000	15%
Mr. Zhang Shi Zhong	Beneficial owner	RMB2,500,000	5%

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



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

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

Notes:

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

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

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

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



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

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

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

Save as disclosed above, as at 30 September 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 Division 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Stock Exchange.

## ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

## SHARE OPTION SCHEMES

During the nine months ended 30 September 2007, the Company has not implemented any share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As of 30 September 2007, so far as is known to the Directors, Supervisors and Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:



Long position in shares of the Company:

Name of Shareholder	Capacity	Number and class of Shares	Approximate percentage of shareholding in same class of Shares	Approximate percentage in the Company's total issued share capital
Zhejiang Shibao Holding (Note 1)	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang (Note 1)	Interest in a controlled corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang (Note 1)	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	5,074,000 H Shares	5.85%	1.93%
Galaxy China Opportunities Fund	Beneficial owner	5,074,000 H Shares	5.85%	1.93%

*Notes:*

- (1) As at 30 September 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 "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures". Mrs Zhang, as the spouse of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Save as disclosed above, as at 30 September 2007, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under section 336 of the SFO.



## COMPETING INTERESTS

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

## INTEREST OF COMPLIANCE ADVISER

As at 30 September 2007, as updated and notified by Evolution Watterson Securities Limited (the "Compliance Adviser"), the compliance adviser of the Company during the period from 1 August 2007 to 30 September 2007, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6A.31 of the GEM Listing Rules) had any interest in the Company's securities, including share options and the other rights to subscribe the Company's securities.

Pursuant to the announcement dated 30 July 2007, the Compliance Advisor was appointed as the compliance adviser to the Company in replacement of Anglo Chinese Corporate Finance, Limited with effect from 1 August 2007. The term of service of the Compliance Advisor shall last until the date on which the Company complies with Rule 6A.19 of the GEM Listing Rules in respect of its financial results for the year ending 31 December 2008.

## 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 financial statements for the nine months ended 30 September 2007 have been reviewed by the audit committee.



## BOARD PRACTICES AND PROCEDURES

During the period from the date of Listing to 30 September 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.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period from the date of listing to 30 September 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. After making specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has promulgated the Code on Corporate Governance Practice as set out in Appendix 15 to the GEM Listing Rules (the "CCGP"), which is effective for the accounting period commencing on or after 1 January 2005. The Company had complied with the CCGP during the period from the date of listing to 30 September 2007 except the following deviations:

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

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

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

## **PRE-EMPTIVE RIGHTS**

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



## SUFFICIENT PUBLIC FLOAT

The Company has maintained sufficient public float during the period from the date of listing to 30 September 2007.

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

Hangzhou, Zhejiang, the PRC  
9 November 2007

*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. Bao Zhi Chao, Mr. Chen Guo feng and Mr. Lui Wing Hong, Edward as the independent non-executive Directors.*