



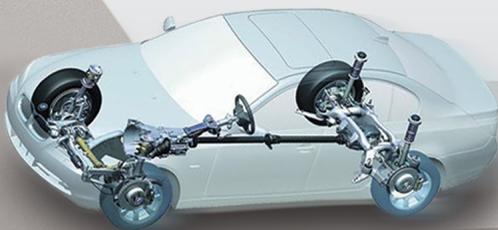
浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 8331

Shibao
steering the future



2010

Third Quarterly Report

* For identification purposes only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Zhejiang Shibao Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Zhejiang Shibao Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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

- Revenue for the nine months ended 30 September 2010 amounted to approximately RMB402,486,000, an increase of approximately 53.3% compared with approximately RMB262,627,000 for the corresponding period in 2009.
- Profit for the nine months ended 30 September 2010 amounted to approximately RMB80,022,000, an increase of approximately 67.6% compared with approximately RMB47,755,000 for the corresponding period in 2009.
- Profit attributable to owners of the Company for the nine months ended 30 September 2010 amounted to approximately RMB79,275,000, an increase of approximately 68.0% compared with approximately RMB47,176,000 for the corresponding period in 2009.
- Basic earnings per share for the nine months ended 30 September 2010 was RMB0.3018, an increase of approximately 68.0% compared with RMB0.1796 for the corresponding period in 2009.
- The Board did not recommend the payment of an interim dividend for the nine months ended 30 September 2010.

UNAUDITED QUARTERLY RESULTS

The board of directors (the "Board") of Zhejiang Shibao Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2010, together with the comparative figures for the corresponding periods in 2009. The consolidated quarterly results have not been audited, but have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited		Unaudited	
		For the three months		For the nine months	
		ended 30 September		ended 30 September	
	Notes	2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3	134,313	110,129	402,486	262,627
Cost of sales		(84,094)	(65,354)	(253,273)	(166,819)
Gross profit		50,219	44,775	149,213	95,808
Other income and gains		1,011	697	2,363	2,692
Selling and distribution costs		(8,225)	(7,217)	(25,979)	(16,731)
Administrative expenses		(12,369)	(10,379)	(31,671)	(24,284)
Other expenses		(255)	(41)	(678)	(186)
Finance costs	5	(461)	(64)	(743)	(191)
Share of profit/(losses) of an associate		442	241	335	(308)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONTINUED)

	Notes	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Profit before taxation	6	30,362	28,012	92,840	56,800
Income Tax	7	(4,097)	(4,548)	(12,818)	(9,045)
Profit for the period and total comprehensive income		26,265	23,464	80,022	47,755
Total profit and comprehensive income attributable to:					
Owners of the Company		26,016	23,256	79,275	47,176
Minority interests		249	208	747	579
		26,265	23,464	80,022	47,755
		RMB	RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company:	8				
Basic		0.0990	0.0885	0.3018	0.1796

NOTES

1. General

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

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

The accounting policies and basis of preparation adopted in the preparation of the consolidated quarterly results are the same as those used in the annual financial statements for the year ended 31 December 2009, except for the adoption of new and revised IFRSs and the accounting policies adopted for new transactions, noted below.

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

IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards
IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 Amendment	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRIC 17	Distributions of Non-cash Assets to Owners
Amendments to IFRS 5 included in Improvements to IFRSs issued in October 2008	Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary

Apart from the above, the Group has adopted Improvements to IFRSs 2009 issued by IASB which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 38 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

The adoption of these new and revised IFRSs has had no financial effect on the financial statements and there have been no significant changes to the accounting policies applied in the financial statements of the Group.

3. Revenue

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

4. Segment information

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

5. Finance costs

Finance costs for the three months and nine months ended 30 September 2010 were approximately RMB461,000 and RMB743,000 (corresponding period in 2009: approximately RMB64,000 and RMB191,000) respectively, which was mainly composed of interest expenses for short-term bank loan and other borrowings.

6. Profit before tax

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Staff costs (including directors' and supervisors' remuneration):				
Salaries and other staff costs	12,743	8,246	36,036	22,484
Retirement costs - defined contribution fund	400	1,016	2,308	2,283
Total staff costs	13,143	9,262	38,344	24,767
Interest expenses	461	64	743	191
Total finance costs	461	64	743	191
Costs of inventories sold	47,156	46,124	175,034	126,471
Depreciation	5,620	4,768	15,618	13,305
Amortisation of prepaid land lease payments	151	151	453	453
Amortisation of other intangible assets	23	23	68	66
Amortisation of deferred income	(353)	(283)	(1,009)	(827)
Research and development costs	6,472	2,252	12,485	6,163
Auditor's remuneration	300	340	900	890
Interest income	(46)	(35)	(644)	(276)
(Gain)/loss on disposal of property, plant and equipment	(12)	43	(17)	(21)
Write-back for impairment of trade receivables	—	—	—	(391)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

7. Income tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the nine months ended 30 September 2010 (2009: Nil).

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

	Notes	2010	2009
The Company	(a)	25%	25%
Hangzhou Shibao Auto Steering Gear Sales Co., Ltd. ("Hangzhou Shibao")	(b)	15%	15%
Siping Steering Gear Co., Ltd. ("Siping Steering")	(b)	15%	15%
Hangzhou New Shibao Steering Gear Co., Ltd. ("Hangzhou New Shibao")	(a)	25%	25%
Jilin Shibao Machinery Manufacturing Co., Ltd. ("Jilin Shibao")	(a)	25%	25%

(a) The Company, Hangzhou New Shibao and Jilin Shibao are subject to a corporate income tax rate of 25% in 2010.

(b) Both Hangzhou Shibao and Siping Steering have obtained approval certificate from the relevant tax authorities as High-New Technology Enterprises. Consequently, Hangzhou Shibao and Siping Steering are each subject to a corporate income tax rate of 15% for the year ended 31 December 2010.

8. Earnings per share attributable to ordinary equity holders of the Company

The calculation of the basic earnings per share is based on the profit of the three months and nine months ended 30 September 2010 attributable to ordinary equity holders of the Company of approximately RMB26,016,000 and RMB79,275,000 (corresponding period in 2009: approximately RMB23,256,000 and RMB47,176,000) respectively, and the weighted average total number of 262,657,855 shares and 262,657,855 shares (corresponding period in 2009: 262,657,855 shares and 262,657,855 shares) respectively.

Diluted earnings per share for the three months and nine months ended 30 September 2010 and 2009 have not been calculated as no diluting event existed during those periods.

9. Reserves

	Unaudited				
	Share premium RMB'000	Statutory surplus reserve RMB'000	Reserve arising from acquisition of minority interests RMB'000	Accumulated profit RMB'000	Total RMB'000
As at 1 January 2010	21,144	69,234	5,736	89,252	185,366
Profit for the period	—	—	—	79,275	79,275
As at 30 September 2010	<u>21,144</u>	<u>69,234</u>	<u>5,736</u>	<u>168,527</u>	<u>264,641</u>
As at 1 January 2009	21,144	58,622	5,736	51,897	137,399
Profit for the period	—	—	—	47,176	47,176
As at 30 September 2009	<u>21,144</u>	<u>58,622</u>	<u>5,736</u>	<u>99,073</u>	<u>184,575</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating result

For the nine months ended 30 September 2010, the Group recorded a revenue of approximately RMB402,486,000, representing an increase of approximately 53.3% over the corresponding period in 2009. Profit attributable to owners of the Company was approximately RMB79,275,000, representing an increase of approximately 68.0% over the corresponding period in 2009.

During the period under review, the Group's revenue continued to grow, and the overall gross profit increased by 55.7% over the corresponding period in 2009. The increase in the Group's revenue was mainly due to a continuous increase in the sales of passenger car steering products as a result of the commencement of production of such new products that the Group has invested in the recent years.

The Group's gross profit margin was approximately 37.1% (corresponding period in 2009: approximately 36.5%). The increase in the gross profit margin was mainly due to a reduction in the manufacturing costs as a consequence of volume production of passenger car steering products.

During the period under review, selling and distribution costs increased by approximately RMB9,248,000 over the corresponding period in 2009. Increase in selling and distribution costs was mainly due to an increase in transportation costs, warehouse costs and other sales expenses resulting from an increase in sales volume and the exploration of new markets.

During the period under review, the Group's administrative expenses increased by approximately RMB7,387,000 over the corresponding period in 2009. However, the ratio of administrative expenses to revenue dropped slightly as compared to the corresponding period in 2009. The increase in administrative expenses was mainly due to an increase in staff costs and research and development costs.

In view of the above, for the nine months ended 30 September 2010, the Group has a profit after tax of approximately RMB80,022,000, representing an increase of approximately 67.6% compared with approximately RMB47,755,000 for the corresponding period last year.

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

Marketing and new products

During the period under review, precious castings produced by Jilin Shibao has been used in one type of the Group's commercial vehicle steering gear (RBS) for trial run and received sound feedback from the OEM clients.

During the period under review, the Group secured two new projects of developing passenger car hydraulic power steering gear (HPS), whilst other two types of HPS have started volume production.

Production facilities

During the period under review, installation and testing of a brand new and more advanced passenger car hydraulic power steering gear (HPS) assembly line was completed in Hangzhou Shibao. As a result, annual production capacity of the Group's HPS assembly has increased by 250,000 units/sets.

During the period under review, production capacity increasing plan for passenger car steering knuckle was nearly completed in Siping Steering. Annual production capacity of the Group's passenger car steering knuckle assembly is expected to be increased by 100% at the end of this year, thus to meet the increasing demand from FAW-CAR completely.

Research and development

During the period under review, the Group has one of its passenger car hydraulic steering gear (HPS) technologies been issued certificate of patent of invention by the State Intellectual Property Office.

Human resources

As at 30 September 2010, the Group employed a total of 1,454 employees. For the nine months ended 30 September 2010, total staff salaries and welfare costs amounted to approximately RMB38,344,000 (corresponding period in 2009: approximately RMB24,767,000). The Group provided substantial remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS

As at 30 September 2010, the Group did not have any material acquisition and disposal concerning subsidiaries and associated companies.

OTHER MATTERS

In October 2010, the Company signed an agreement with Beijing Autonic Technologies Co., Ltd. ("Autonic Tech") regarding stock acquisition and acquired 70% of the shares of Autonic Tech with cash payment of RMB7 million. The registration capital of Autonic Tech is RMB10 million. The remaining 30% of the shares of Autonic Tech are held by two individuals whom representing the team of Autonic Tech.

Autonic Tech is a limited liability company registered in Beijing. It is mainly engaged in the development of electronic technologies of automotive electric power steering system (EPS) and manufacturing and sales of the ECU related electronic units. The Company believes that after the acquisition, it can enhance the Group's follow-up R&D ability of EPS electronic technologies, therefore to further consolidate the Group's leading position in the development and manufacturing of automotive EPS in China. The products of Autonic Tech will mainly be supplied to the Group and used in the Group's EPS assembly for the time being.

In October 2010, the Company reached an agreement with Mr. Wang Chao Jiu and his team regarding technologies investment into Hangzhou New Shibao and the appointment of Mr. Wang as the general manager of Hangzhou New Shibao. Mr. Wang had carried out research and development as well as manufacturing of automotive electric power steering system (EPS) in a renowned auto factory in Japan for many years. Hangzhou New Shibao will mainly be engaged in the industrialization of EPS products.

FOREIGN CURRENCY EXPOSURE

During the nine months ended 30 September 2010, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk. No hedge arrangement has been entered into by the Group.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the nine months ended 30 September 2010 (2009: Nil).

TRANSFER OF LISTING TO THE MAIN BOARD

On 24 March 2010, the Group has submitted the application for transfer of listing from GEM to the main board to the CSRC. During the period under review, the Group has received feedback from and submitted the reply report to the CSRC. The Group will immediately start the application to the Stock Exchange after the granting of the relevant approval by CSRC.

OUTLOOK

China auto industry was growing healthy and continuously during the past three quarters of 2010, with speed of such growth slowed down to stable and smooth. During the period, the Chinese government launched a series of policies to support the development of industrialization of green-energy vehicles. These policies are expected to have positive impact on the industrialization progress of the Group's electric power steering (EPS). Meanwhile, the Group has more new types of passenger car hydraulic steering gear (HPS) entered into the market. It is expected that the Group's market share in the local automaker self-made passenger car market will be increased year by year in the future.

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

As at 30 September 2010, the interests and short positions of each Director, Supervisor and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

(7) Long positions in H Shares of the Company:

Name of Director	Capacity	Number of H Shares	Approximate percentage of shareholding in the same class of shares	Approximate percentage in the Company's total issued share capital
Mr. Zhang Bao Yi	Interest of spouse	94,000	0.11%	0.04%

Note: The above shares are owned by Mrs. Wang Qun (the spouse of Mr. Zhang Bao Yi). Mr. Zhang Bao Yi is taken or deemed to be interested in the entire 94,000 shares of H Share held by his spouse in the Company.

Save as disclosed above, as at 30 September 2010, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company who had or was deemed to have any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the 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 spouses or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.

SHARE OPTION SCHEMES

As at 30 September 2010, the Company has not implemented any share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, 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 <i>(Note)</i>	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang <i>(Note)</i>	Interest in a controlled corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang <i>(Note)</i>	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Gu Wei Rong	Beneficial owner	4,432,000 H Shares	5.11%	1.69%

Note: As at 30 September 2010, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its associated corporations". Mrs Zhang, as the spouse of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Save as disclosed above, as at 30 September 2010, 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

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

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. Chau Kam Wing, Donald, Mr. Chen Guo Feng and Ms. Zhang Mei Jun. Mr. Chau Kam Wing, Donald and Mr. Chen Guo Feng are independent non-executive Directors and Ms. Zhang Mei Jun is non-executive Director. The chairman of the audit committee is Mr. Chau Kam Wing, Donald.

The Company's quarterly results for the nine months ended 30 September 2010 have been reviewed by the audit committee.

BOARD PRACTICES AND PROCEDURES

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

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

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

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

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

Hangzhou, Zhejiang, the PRC
8 November 2010

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 executive Directors, Mr. Zhang Shi Zhong, Ms. Zhang Mei Jun and Mr. Lou Run Zheng as non-executive Directors, and Mr. Zhao Chun Zhi, Mr. Chen Guo Feng and Mr. Chau Kam Wing, Donald as independent non-executive Directors.