



# Zhejiang Shibao Company Limited\*

## 浙江世寶股份有限公司

*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
*(Stock Code: 8331)*

### **ANNOUNCEMENT OF FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2009**

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

*\* For identification purposes*

## SUMMARY

- Revenue for the three months ended 31 March 2009 amounted to approximately RMB65,925,000, an increase of approximately 6.8% compared with approximately RMB61,750,000 for the corresponding period in 2008.
- Profit for the three months ended 31 March 2009 amounted to approximately RMB10,486,000, an increase of approximately 1.5% compared with approximately RMB10,327,000 for the corresponding period in 2008.
- Profit attributable to shareholders for the three months ended 31 March 2009 amounted to approximately RMB10,305,000, an increase of approximately 1.1% compared with approximately RMB10,188,000 for the corresponding period in 2008.
- Earnings per share for the three months ended 31 March 2009 was RMB0.0392, an increase of approximately 1.0% compared with RMB0.0388 for the corresponding period in 2008.
- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009.

# UNAUDITED QUARTERLY RESULTS

The board of directors (the “Board”) of Zhejiang Shibao Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2009, together with the comparative figures for the corresponding periods in 2008. The condensed consolidated quarterly report has not been audited, but has been reviewed by the Company’s audit committee.

## Condensed Consolidated Income Statement

|                                |             | Unaudited            |                |
|--------------------------------|-------------|----------------------|----------------|
|                                |             | For the three months |                |
|                                |             | ended 31 March       |                |
|                                |             | 2009                 | 2008           |
|                                | <i>Note</i> | <i>RMB'000</i>       | <i>RMB'000</i> |
| Revenue                        | 3           | <b>65,925</b>        | 61,750         |
| Cost of sales                  |             | <b>(43,544)</b>      | (38,154)       |
|                                |             | -----                | -----          |
| Gross profit                   |             | <b>22,381</b>        | 23,596         |
| Other income and gains         |             | <b>1,227</b>         | 1,106          |
| Selling and distribution costs |             | <b>(3,210)</b>       | (3,393)        |
| Administrative expenses        |             | <b>(6,769)</b>       | (6,629)        |
| Other expenses                 |             | <b>(43)</b>          | (318)          |

## Condensed Consolidated Income Statement *(continued)*

|  |             | <b>Unaudited</b>            |                |
|--|-------------|-----------------------------|----------------|
|  |             | <b>For the three months</b> |                |
|  |             | <b>ended 31 March</b>       |                |
|  |             | <b>2009</b>                 | 2008           |
|  | <i>Note</i> | <b>RMB'000</b>              | <i>RMB'000</i> |
| Finance costs  | 5           | <b>(64)</b>                 | (69)           |
| Share of (loss)/profit of an associate                                   |             | <b>(406)</b>                | 48             |
|  |             | -----                       | -----          |
| Profit before tax  | 6           | <b>13,116</b>               | 14,341         |
| Tax  | 7           | <b>(2,630)</b>              | (4,014)        |
|  |             | -----                       | -----          |
| Profit for the period  |             | <b>10,486</b>               | 10,327         |
|  |             | =====                       | =====          |
| Attributable to:   |             |                             |                |
| Equity holders of the parent   | 8           | <b>10,305</b>               | 10,188         |
| Minority interests   |             | <b>181</b>                  | 139            |
|  |             | -----                       | -----          |
|  |             | <b>10,486</b>               | 10,327         |
|  |             | =====                       | =====          |
|  |             | <b>RMB</b>                  | RMB            |
| Earnings per share attributable to ordinary equity holders of the parent |             |                             |                |
| Basic  | 9           | <b>0.0392</b>               | 0.0388         |
|  |             | =====                       | =====          |

# 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 The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange") on 16 May 2006 (the "Listing").

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

## 2. Accounting policies

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

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

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

|                                |   |
|--------------------------------|---|
| IFRS1 and IAS 27<br>Amendments | Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| IFRS 2 Amendments              | Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations   |
| IFRS 3 (Revised)               | Business Combination  |
| IFRS 8                         | Operating Segments  |
| IAS 1 (Revised)                | Presentation of financial statements  |
| IAS 23 (Revised)               | Borrowing costs   |
| IAS 32 and IAS 1<br>Amendments | Amendments to IAS32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation              |
| IFRIC – Int 13                 | Customer Loyalty Programmes   |
| IFRIC – Int 15                 | Agreements for the Construction of Real Estate  |
| IFRIC – Int 16                 | Hedges of a Net Investment in a Foreign Operation   |

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

The Group has not applied the following new interpretations and amendments to IFRSs, which have been issued but are not yet effective, to these consolidated quarterly results.

|                  |   |
|------------------|---|
| IAS 27 (Revised) | Consolidate and Separate Financial Statement <sup>1</sup>   |
| IAS 39 Amendment | Amendment to IAS39 Financial Instruments: Recognition and Measurement - Eligible Hedged Item <sup>1</sup> |
| IFRIC – Int 17   | Distribution of Non-cash Assets to Owners <sup>1</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

Apart from the above, the Group expects that these new interpretations and amendments to IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### **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 ended 31 March 2009 were approximately RMB64,000 (2008: RMB69,000), which were mainly composed of interest expenses for bank loans and other borrowings.



## 6. Profit before tax

|   | <b>Unaudited</b>            |         |
|---|-----------------------------|---------|
|   | <b>For the three months</b> |         |
|   | <b>ended 31 March</b>       |         |
|   | <b>2009</b>                 | 2008    |
|   | <b>RMB'000</b>              | RMB'000 |
| Staff costs (including directors' and supervisors' remuneration): |                             |         |
| Salaries and other staff costs                                    | <b>6,938</b>                | 5,167   |
| Retirement costs - defined contribution fund                      | <b>586</b>                  | 622     |
|   | -----                       | -----   |
| Total staff costs   | <b>7,524</b>                | 5,789   |
|   | -----                       | -----   |
| Interest expenses   | <b>64</b>                   | 69      |
| Bank charges and other finance costs                              | —                           | —       |
|   | -----                       | -----   |
| Total finance costs   | <b>64</b>                   | 69      |
|   | -----                       | -----   |
| Costs of inventories sold   | <b>32,212</b>               | 20,119  |
| Depreciation  | <b>4,254</b>                | 3,529   |
| Amortisation of prepaid land lease payments                       | <b>151</b>                  | 151     |
| Amortisation of other intangible assets                           | <b>22</b>                   | 8       |
| Amortisation of deferred income                                   | <b>(272)</b>                | (254)   |
| Research and development costs                                    | <b>2,041</b>                | 1,308   |
| Foreign exchange differences, net                                 | <b>1</b>                    | 104     |
| Auditors' remuneration  | <b>275</b>                  | 300     |
| Bank interest income  | <b>(150)</b>                | (187)   |
| Gain on disposal of items of property, plant and equipment        | <b>(67)</b>                 | —       |
|   | =====                       | =====   |

## 7. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the three months ended 31 March 2009 (2008: 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 | 2009 | 2008  |
|--|-------|------|-------|
| The Company  | (a)   | 25%  | 25%   |
| Hangzhou Shibao Steering Gear Co., Ltd.<br>("Hangzhou Shibao")         | (b)   | 15%  | 15%   |
| Siping Steering Gear Co., Ltd.<br>("Siping Steering")                  | (a)   | 25%  | 12.5% |
| Hangzhou New Shibao Steering Gear Co., Ltd.<br>("Hangzhou New Shibao") | (a)   | 25%  | 25%   |
| Jilin Shibao Machinery Co., Ltd.<br>("Jilin Shibao")                   | (a)   | 25%  | 25%   |

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

(b) Hangzhou Shibao obtained approval certificate from the relevant tax authorities as a High-New Technology Enterprise. Consequently, Hangzhou Shibao is subject to a corporate income tax rate of 15% with effect for the year ended 31 December 2008.

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

For the three months ended 31 March 2009, profit attributable to the equity holders of the parent was approximately RMB10,305,000 (2008: RMB10,188,000).

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

The calculation of the basic earnings per share is based on the profit for the three months ended 31 March 2009 attributable to ordinary equity holders of the parent of RMB10,305,000 in 2009 (2008: RMB10,188,000), and the weighted average number of 262,657,855 ordinary shares in issue (2008: 262,657,855).

Diluted earnings per share for the three months ended 31 March 2009 have not been disclosed as no diluting events existed during the period.

## 10. Reserves

|                       | <b>Unaudited</b>             |                            |                 |                    |                |
|-----------------------|------------------------------|----------------------------|-----------------|--------------------|----------------|
|                       | <b>Reserve</b>               |                            |                 |                    |                |
|                       | <b>arising from</b>          |                            |                 |                    |                |
|                       | <b>Statutory acquisition</b> |                            |                 |                    |                |
|                       | <b>Share</b>                 | <b>surplus of minority</b> |                 | <b>Accumulated</b> |                |
|                       | <b>premium</b>               | <b>reserve</b>             | <b>interest</b> | <b>profits</b>     | <b>Total</b>   |
|                       | <i>RMB'000</i>               | <i>RMB'000</i>             | <i>RMB'000</i>  | <i>RMB'000</i>     | <i>RMB'000</i> |
| As at 1 January 2008  | 21,144                       | 52,251                     | 5,736           | 30,524             | 109,655        |
| Profit for the period | —                            | —                          | —               | 10,188             | 10,188         |
|                       | -----                        | -----                      | -----           | -----              | -----          |
| As at 31 March 2008   | 21,144                       | 52,251                     | 5,736           | 40,712             | 119,843        |
|                       | =====                        | =====                      | =====           | =====              | =====          |
| As at 1 January 2009  | 21,144                       | 58,622                     | 5,736           | 51,897             | 137,399        |
| Profit for the period | —                            | —                          | —               | 10,305             | 10,305         |
|                       | -----                        | -----                      | -----           | -----              | -----          |
| As at 31 March 2009   | 21,144                       | 58,622                     | 5,736           | 62,202             | 147,704        |
|                       | =====                        | =====                      | =====           | =====              | =====          |

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

#### **Operating results**

For the three months ended 31 March 2009, the Group recorded a revenue of approximately RMB65,925,000, representing an increase of approximately 6.8% over the corresponding period in 2008. Profit attributable to shareholders was approximately RMB10,305,000, representing an increase of approximately 1.1% over the corresponding period in 2008.

During the period under review, the Group's revenue continued to grow. Although the sales of recirculating ball steering gear decreased, the sales of rack-and-pinion steering gear continued to grow, thereby resulting in the growth of overall Company sales. During the period under review, the Group's overall gross profit decreased by approximately 5.1% over the corresponding period in 2008. This was mainly due to the increase in the unit cost of recirculating ball steering gear products as its production reduced during the period. The production of recirculating ball steering gear products of the Group is now increasing. Therefore the Group considers the aforementioned adverse impact on overall gross profit to be temporary.

During the period under review, the Group's gross profit margin was approximately 33.9% (corresponding period in 2008: approximately 38.2%). The reduction of the gross profit margin was mainly due to the decrease in profit margin of recirculating ball steering gear products as its production declined.

During the period under review, selling and distribution costs decreased by approximately RMB183,000 over the corresponding period in 2008. The main reason was a decrease in transportation costs.

During the period under review, the Group's administrative expenses increased by approximately RMB140,000 over the corresponding period in 2008, which was mainly due to an increase in research and development expenses.

In view of the above, for the three months ended 31 March 2009, the Group has a profit after tax of approximately RMB10,486,000, representing an increase of approximately 1.5% over approximately RMB10,327,000 from the corresponding period last year.

### **Marketing and new products**

During the period under review, the power rack-and-pinion steering gear product developed by the Group for FAW Car Mazda M6 localisation project has passed its road test and a small batch has been supplied. Several new rack-and-pinion steering gear products developed by the Group for customers including JAC and others also have passed their road test.

### **Research and development**

During the period under review, NCAC of PRC issued a "Computer Software Copyright Registration Certificate" for the controlling software V5.0 used in automotive electric power steering (EPS) that was independently developed by Hangzhou Shibao. Controlling software is the core technology of electric power steering (EPS). Successful development of the controlling software is a milestone for the Group in entering into the automobile electronic area. The certificate indicates that the Group owns the intellectual property in both the mechanical and electronic core technologies of electric power steering (EPS).

## **Human resources**

As at 31 March 2009, the Group employed a total of 1,000 employees. For the three months ended 31 March 2009, staff salaries and welfare costs were approximately RMB7,524,000 in total (corresponding period in 2008: approximately RMB5,789,000). The Group provided substantial remuneration benefits to its employees in accordance with market practices, and provided retirement benefits in accordance with the relevant laws of the PRC.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

As at 31 March 2009, the Group has no material acquisition and disposal of subsidiaries and associated companies.

## **OUTLOOK**

Although affected by the financial crisis, the PRC automotive market is likely to grow continuously and steadily in the long term due to continuous growth of the economy and a series of supporting policies. During the period under review, the PRC was the only major automotive market that continued to grow. The PRC is also the fastest growing and most important automotive market in the world.

During this year, the Group's new rack-and-pinion steering gear products are scheduled to start production. It is expected that the business from rack-and-pinion steering gears will take a larger percentage in the Group's overall business, and become an important source for the continuous growth of the Group's overall business.

## **FOREIGN CURRENCY EXPOSURE**

During the three months ended 31 March 2009, 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 with the exception of the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The majority of the proceeds have been converted into Renminbi. No hedge arrangement has been entered into by the Group.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2009 (2008: Nil).

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

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

| <b>Name of Director</b>             | <b>Capacity</b>                      | <b>Number of Domestic Shares</b> | <b>Approximate percentage of shareholding in the same class of Shares</b> | <b>Approximate percentage in the Company's total issued share capital</b> |
|-------------------------------------|--------------------------------------|----------------------------------|---|---|
| Mr. Zhang Shi Quan<br>("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, the ultimate holding company, 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:

| <b>Name of Director</b> | <b>Capacity</b>  | <b>Contribution in the registered capital</b> | <b>Approximate percentage in the registered capital of Zhejiang Shibao Holding</b> |
|-------------------------|------------------|---|--|
| 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 respectively 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 <i>(Note 1)</i>                      | RMB400,000                             | 1%  |
|                  | Interest in a controlled corporation <i>(Note 2)</i> | RMB39,600,000                          | 99%   |

*Notes:*

- (1) Hangzhou Shibao, a subsidiary of the Company, is owned as to 99% by the Company and as to 1% by Mrs. Zhang Hai Qin (“Mrs. Zhang”), the spouse of Mr. Zhang, respectively. 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:

| <b>Name of Director</b> | <b>Capacity</b>                      | <b>Contribution in the registered capital</b> | <b>Approximate percentage in the registered capital of Jilin Shibao Automation</b> |
|-------------------------|--------------------------------------|---|--|
| 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 Jinlin 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 Changchun Shili |            |
|------------------|--------------------------------------|-------------------------------------|------------|
|                  |                                      | registered capital                  | 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:

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

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

Save as disclosed above, as at 31 March 2009, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company who had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the 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 of 31 March 2009, the Company has not implemented any share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As of 31 March 2009, so far as is known to the Directors, Supervisors and Chief Executive of the Company, the following persons (other than the Directors, Supervisors and Chief Executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company:

| Name of Shareholder                       | Capacity                             | Number and class of Shares  | Approximate percentage of shareholding in the same class of Shares | Approximate percentage in the Company's total issued share capital |
|---|--------------------------------------|-----------------------------|--|--|
| Zhejiang Shibao Holding ( <i>Note 1</i> ) | Beneficial owner                     | 165,387,223 Domestic Shares | 94.00%   | 62.97%   |
| Mr. Zhang ( <i>Note 1</i> )               | Interest in a controlled Corporation | 165,387,223 Domestic Shares | 94.00%   | 62.97%   |
| Mrs. Zhang ( <i>Note 1</i> )              | Interest of spouse                   | 165,387,223 Domestic Shares | 94.00%   | 62.97%   |
| Mr. Fang Zhen Chun                        | Beneficial owner                     | 36,076,000 H Shares         | 41.60%   | 13.73%   |

*Note:*

- (1) As at 31 March 2009, Zhejiang Shibao Holding owned 165,387,223 Domestic Shares of the Company. As Mr. Zhang holds 40% interest in the registered capital of Zhejiang Shibao Holding, Mr. Zhang is deemed to be interested in all of the 165,387,223 Domestic Shares of the Company held by Zhejiang Shibao Holding. Mr. Zhang's indirect interest in these 165,387,223 Domestic Shares of the Company are also disclosed in the paragraph headed "Disclosure of the interests and short positions of Directors, Supervisors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its associated corporations". Mrs. Zhang, as the spouse of Mr. Zhang, is deemed to be interested in all of these Domestic Shares which Mr. Zhang is taken or deemed to have interest in. These Domestic Shares represent the same interest and therefore duplicate amongst Zhejiang Shibao Holding, Mr. Zhang and Mrs. Zhang.

Save as disclosed above, as at 31 March 2009, the 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 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.

## **COMPLIANCE ADVISER**

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

None of Evolution, its directors, employees nor their respective associates (as referred to in Note 3 to Rule 6A.31 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other member of the Group (including share options and the other rights to subscribe the Company’s securities) as at 31 March 2009.

The Board takes this opportunity to express on behalf of the Company great appreciation and gratitude to Evolution for its professional services and advice to the Board in the past.

## **AUDIT COMMITTEE**

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

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

The Company's quarterly report for the three months ended 31 March 2009 has 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 was the Group's founder, responsible for overseeing the overall strategic planning, business development and sales and marketing strategies of new products. In view of the nature of the Company's business, the Board considers that the current management structure arrangement is considerably effective in responding to market changes and finalisation of strategic plans. The Board will review the efficiency of this management structure arrangement from time to time.

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

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

## **PRE-EMPTIVE RIGHTS**

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

## **PUBLIC FLOAT**

As at the date of this announcement, the Company is not 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. This shortfall in the prescribed minimum percentage of public float arose purely from an increase in shareholding of the Company by Mr. Fang, which is a connected person merely because he is a substantial shareholder of the Company. Mr. Fang, an independent individual investor, is not the controlling or single largest shareholder of the Company nor does he have any representation on the board of the Company. Furthermore, he has not been involved in the management of the Company and has no business relationship with the Company at any time.

The Company will continue to pay close attention to the level of public float of the shares of the Company and would strive to restore the public float of the Company to at least 25% of the total issued share capital of the Company as soon as practicable. Further announcement will be made when the public float meets the required level.

By order of the Board

**Zhejiang Shibao Company Limited**

Zhang Shi Quan

*Chairman*

Hangzhou, Zhejiang, the PRC

8 May 2009

*As at the date of this announcement, 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*

*This announcement will remain on the “Latest Company Announcements” of the GEM website (<http://www.hkgem.com>) for at least 7 (seven) days from the date of its posting.*