



## 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 2010**

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

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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 (“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: (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 purpose only*

## **SUMMARY**

- Revenue for the three months ended 31 March 2010 amounted to approximately RMB115,962,000, an increase of approximately 75.9% compared with approximately RMB65,925,000 for the corresponding period in 2009.
- Profit for the three months ended 31 March 2010 amounted to approximately RMB23,174,000, an increase of approximately 121.0% compared with approximately RMB10,486,000 for the corresponding period in 2009.
- Profit attributable to owners of the Company for the three months ended 31 March 2010 amounted to approximately RMB22,954,000, an increase of approximately 122.7% compared with approximately RMB10,305,000 for the corresponding period in 2009.
- Earnings per share for the three months ended 31 March 2010 was RMB0.0874, an increase of approximately 123.0% compared with RMB0.0392 for the corresponding period in 2009.
- The Board did not recommend the payment of an interim dividend for the three months ended 31 March 2010.

## 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 2010, together with the comparative figures for the corresponding periods in 2009. The condensed consolidated quarterly results have not been audited, but have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<b>Unaudited</b>	
		<b>For the three months</b>	
		<b>ended 31 March</b>	
		<b>2010</b>	<b>2009</b>
	Note	<b>RMB’000</b>	<b>RMB’000</b>
Revenue	3	<b>115,962</b>	65,925
Cost of sales		<b>(71,840)</b>	(43,544)
		-----	-----
Gross profit		<b>44,122</b>	22,381
Other income and gains		<b>264</b>	1,227
Selling and distribution costs		<b>(6,404)</b>	(3,210)
Administrative expenses		<b>(9,658)</b>	(6,769)
Other expenses		<b>(423)</b>	(43)
Finance costs	5	<b>(64)</b>	(64)
Share of losses			
of an associate		<b>(246)</b>	(406)
		-----	-----

**CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME (CONTINUED)**

		<b>Unaudited</b>	
		<b>For the three months</b>	
		<b>ended 31 March</b>	
		<b>2010</b>	<b>2009</b>
	Note	<b>RMB'000</b>	<b>RMB'000</b>
Profit before tax	6	<b>27,591</b>	13,116
Income tax expense	7	<b>(4,417)</b>	(2,630)
		-----	-----
Profit for the period and total comprehensive income		<b>23,174</b>	10,486
		=====	=====
Total profit and comprehensive income attributable to:			
Owners of the Company	8	<b>22,954</b>	10,305
Minority interests		<b>220</b>	181
		-----	-----
		<b>23,174</b>	10,486
		=====	=====
		<b>RMB</b>	<b>RMB</b>
Earnings per share attributable to ordinary equity holders of the Company:			
Basic	9	<b>0.0874</b>	0.0392
		=====	=====

## **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 were listed on GEM of 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 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 in the consolidated quarterly results.

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

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 quarterly results and there have been no significant changes to the accounting policies applied in the quarterly results.

### **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 in Mainland China. 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 operating segmental analysis by business activities or geographical information is presented.

### **5. Finance costs**

Finance costs for the three months ended 31 March 2010 were approximately RMB64,000 (corresponding period in 2009: approximately RMB64,000), which was mainly composed of interest expenses for other borrowings.

## 6. Profit before tax

	<b>Unaudited</b>	
	<b>For the three months</b>	
	<b>ended 31 March</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Staff costs (including directors' and supervisors' remuneration):		
Salaries and other staff costs	<b>11,502</b>	6,938
Retirement costs		
- defined contribution fund	<b>720</b>	586
	-----	-----
Total staff costs	<b>12,222</b>	7,524
	-----	-----
Interest expenses	<b>64</b>	64
	-----	-----
Total finance costs	<b>64</b>	64
	-----	-----
Amortisation of other intangible assets	<b>23</b>	22
Amortisation of prepaid land		
lease payments	<b>151</b>	151
Auditors' remuneration	<b>275</b>	275
Costs of inventories sold	<b>53,623</b>	32,212
Depreciation	<b>5,000</b>	4,254
Foreign exchange differences, net	—	1
Research and development costs	<b>2,023</b>	2,041
Amortisation of deferred income	<b>(351)</b>	(272)
Bank interest income	<b>(36)</b>	(150)
Gain on disposal of		
property, plant and equipment	—	(67)
	=====	=====



## 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 three months ended 31 March 2010 (2009: Nil).

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

	Note	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 Automobile Steering Gear System Co., Ltd. ("Hangzhou New Shibao")	(a)	25%	25%
Jilin Shibao Machinery 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 New High 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. Profit attributable to owners of the Company

For the three months ended 31 March 2010, profit attributable to owners of the Company were approximately RMB22,954,000 (corresponding period in 2009: approximately RMB10,305,000).

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

The calculation of the basic earnings per share for the three months ended 31 March 2010 is based on the profit attributable to ordinary equity holders of the Company of approximately RMB22,954,000 (corresponding period in 2009: approximately RMB10,305,000), and the weighted average number of 262,657,855 ordinary shares in issue (corresponding period in 2009: 262,657,855 shares).

Diluted earnings per share for the three months ended 31 March 2010 is not calculated as no diluting event existed during the period.

## 10. Reserves

	<u>Unaudited</u>				
	Reserve arising from				
	Share premium	Statutory surplus reserve	acquisition of minority interest	Accumulated profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2010	21,144	69,234	5,736	89,252	185,366
Profit for the period	—	—	—	22,954	22,954
	.....	.....	.....	.....	.....
As at 31 March 2010	<b>21,144</b>	<b>69,234</b>	<b>5,736</b>	<b>112,206</b>	<b>208,320</b>
	=====	=====	=====	=====	=====
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 result**

For the three months ended 31 March 2010, the Group recorded a revenue of approximately RMB115,962,000, representing a large increase of approximately 75.9% over the corresponding period in 2009. Profit attributable to owners of the Company was approximately RMB22,954,000, representing a large increase of approximately 122.7% over the corresponding period in 2009.

During the period under review, the Group's revenue increased substantially, and the overall gross profit increased by approximately 97.1% 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 putting in market continuously of such new products that the Group has invested in recent years.

The Group's gross profit margin was approximately 38.0% (corresponding period in 2009: approximately 33.9%). 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 RMB3,194,000 over the corresponding period in 2009. The increase in selling and distribution costs was mainly due to an increase in transportation 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 RMB2,889,000 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 legal service and other agent service expenses for the main board transfer listing application.

In view of the above, for the three months ended 31 March 2010, the Group has a profit after tax of approximately RMB23,174,000, representing a large increase of approximately 121.0% compared with approximately RMB10,486,000 for the corresponding period last year.

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

### **Marketing and new products**

During the period under review, the Group has two new passenger car steering gear products completed the product development and test, and small volume production has been commenced.

### **Production facilities**

The Group has started its five year capacity increase plan. Purchase contract for a brand new and more advanced passenger car steering gear assembly line has been signed. This assembly line is scheduled to be arrived and installed in our plant this June.

Jilin Shibao is expected to start initial trial production this June.

## **Research and development**

The Group's has started the preparation of establishing a new electric power steering (EPS) plant. The new EPS plant is planned to start operation by the end of this year.

## **Human resources**

As at 31 March 2010, the Group employed a total of 1,276 employees. For the three months ended 31 March 2010, total staff salaries and welfare costs amounted to approximately RMB12,222,000 (corresponding period in 2009: approximately RMB7,524,000). The Group provided remuneration benefits to employees in accordance with market practices, and provided retirement benefits in accordance with the related laws of the PRC.

## **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 and has received formal acceptance notice from the CSRC. The Group will immediately start the application to the Exchange after the granting of the relevant approval by the CSRC.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

As at 31 March 2010, the Group did not have any material acquisitions and disposals concerning subsidiaries and associated companies.

## **FOREIGN CURRENCY EXPOSURE**

For the three months ended 31 March 2010, both the sales and purchases of the Group were principally denominated in Renminbi. The Group was not subject to significant exposure to 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 three months ended 31 March 2010 (2009: Nil).

## **OUTLOOK**

The rapid growth of production and sales volume of automobiles of last year is continued in the first quarter of 2010 with different categories of vehicles all grew fast. Among these, production and sales volume of commercial vehicles hit the historical high whilst local-brand passenger car market kept stable. The continuing growth of China's economy will keep driving the domestic consumption of automobiles. China's GDP per capita reached US dollar 3,000, which will bring the demand for second and better automobiles. The Group continued to increase its technology and manufacturing capacity and invest in new products and markets in the area of steering products for medium-high end local-brand passenger cars. It is expected that the Group's business will keep growing rapidly together with the China auto industry this year.

## 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 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 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 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	Approximate percentage in the registered capital of	
		Contribution in the Zhejiang Shibao registered capital	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:

<b>Name of Director</b>	<b>Capacity</b>	<b>Contribution in the registered capital</b>	<b>Approximate percentage in the registered capital of Hangzhou Shibao</b>
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 is a subsidiary of the Company which is owned as to 99% by the Company and as to 1% by Ms. 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:

<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 Jilin Shibao Automation. 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 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% 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.

- (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% 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 100% interest directly held by Zhejiang Shibao Holding in Anhui Shibao.

Save as disclosed above, as at 31 March 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 the underlying shares or debentures of the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the 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 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 31 March 2010, the Company has not implemented any share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As of 31 March 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:

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number and class of shares</b>	<b>Approximate percentage of shareholding in same class of shares</b>	<b>Approximate percentage in the Company's total issued share capital</b>
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. Fang Zhen Chun	Beneficial owner	18,852,000 H Shares	21.74%	7.18%
Mr. Gu Wei Rong	Beneficial owner	4,432,000 H Shares	5.11%	1.69%

*Note:* As at 31 March 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 31 March 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**

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 competes or might compete with the business of the Group, or had any other conflicts of interest with the Group during the period under review.

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

The Company's quarterly results for the three months ended 31 March 2010 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 had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and the Company's 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 which states 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, responsible for overall strategic planning and development, new business investment, and merger and acquisition. 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 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 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  
10 May 2010

*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 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.*

*This announcement will remain on the "Latest Company Announcement" page of GEM website at <http://www.hkgem.com> for at least 7 days from its date of publication.*