



浙江世寶股份有限公司

ZHEJIANG SHIBAO COMPANY LIMITED*

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

Stock Code: 8331



First
Quarterly Report
2008

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

HIGHLIGHTS

	Unaudited For the three months ended 31 March		Change
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>	
Revenue	61,750	44,459	38.9%
Gross profit	23,596	18,254	29.3%
Gross profit margin (%)	38.2%	41.1%	
Profit for the period	10,327	7,140	44.6%
Profit attributable to shareholders	10,188	6,985	45.9%
Earnings per share (RMB)	0.04	0.03	33.3%



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 2008, together with the comparative figures for the corresponding periods in 2007. The condensed consolidated quarterly report have not been audited, but have been reviewed by the Company's audit committee.

Condensed Consolidated Income Statements

		Unaudited For the three months ended 31 March	
	Note	2008 RMB'000	2007 RMB'000
Revenue	3	61,750	44,459
Cost of sales		(38,154)	(26,205)
Gross profit		23,596	18,254
Other income and gains		1,106	775
Selling and distribution costs		(3,393)	(2,485)
Administrative expenses		(6,629)	(5,822)
Other expenses		(318)	(762)

Condensed Consolidated Income Statements (continued)

		Unaudited	
		For the three months ended 31 March	
		2008	2007
		RMB'000	RMB'000
	Note		
Finance costs	5	(69)	(34)
Share of profit/(loss) of an associate		48	(172)
Profit before tax	6	14,341	9,754
Tax	7	(4,014)	(2,614)
Profit for the period		<u>10,327</u>	<u>7,140</u>
Attributable to:			
Equity holders of the parent	8	10,188	6,985
Minority interests		139	155
		<u>10,327</u>	<u>7,140</u>
		RMB	RMB
Earnings per share			
(Basic, attributable to ordinary equity holders of the parent)	9	<u>0.04</u>	<u>0.03</u>



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 "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 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 2007, except for the adoption of new and revised IFRSs and the accounting policies adopted for new transactions, noted below. Adoption of the new and revised IFRSs did not have any material effect on the accounting policies and calculations in the financial statements of the Group.

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

IFRIC – Int 11	IFRS 2 – Group and Treasury Share Transactions ¹
IFRIC – Int 12	Service Concession Arrangements ²
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ²

¹ Effective for accounting periods beginning on or after 1 March 2007.

² Effective for accounting periods beginning on or after 1 January 2008.

Impact of Issued But Not Yet Effective IFRSs

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

IAS 27 (revised)	Consolidated and separate financial statements ¹
IFRS 3 (revised)	Business combinations ¹
IAS 32 and IAS 1 Amendment	Puttable financial instruments and obligations arising on liquidation ²
IAS 1 (revised)	Presentation of financial statements ²
IAS 23 (revised)	Borrowing costs ²
IFRS 2 Amendment	Share-based payment: Vesting conditions and cancellations ²
IFRS 8	Operating segments ²
IFRIC – Int 13	Customer loyalty programmes ³

¹ Effective for accounting periods beginning on or after 1 July 2009.

² Effective for accounting periods beginning on or after 1 January 2009.

³ Effective for accounting periods beginning on or after 1 July 2008.

Except as stated above, the Group expects that the adoption of the IFRSs listed above will not have any significant impact on the Group's quarterly results which have adopted the above IFRSs for the first time.



3. Revenue

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

4. Segment information

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

5. Finance costs

Finance costs for the three months ended 31 March 2008 were approximately RMB69,000 (2007: RMB34,000), which mainly included interest expenses for bank and other borrowings.

6. Profit before tax

	Unaudited For the three months ended 31 March	
	2008 RMB'000	2007 RMB'000
Staff costs (including directors', supervisors' and senior executives' remuneration):		
Salaries and other staff costs	5,167	3,463
Retirement costs - defined contribution fund	622	447
Total staff costs	5,789	3,910
Interest expenses	69	34
Bank charges and other finance costs	—	—
Total finance costs	69	34
Costs of inventories sold	20,119	13,088
Depreciation	3,529	2,646
Amortisation of land use rights	151	116
Amortisation of intangible assets	8	5
Amortisation of deferred income	(254)	(254)
Research and development costs	1,308	1,078
Foreign exchange differences, net	104	730
Auditors' remuneration	300	299



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 2008 (2007: Nil).

Siping Steering Gear Co., Ltd. ("Siping Steering"), a subsidiary of the Company, re-registered as a Sino-foreign co-operative joint venture on 17 June 2004. Pursuant to a document numbered "Guo Shui Fa (2003) No. 60" dated 28 May 2003 issued by the State Tax Bureau and an approval document numbered "Si Ping Guo Shui Jing Kai No.001" issued by Siping Economic Development Zone State Tax Branch on 24 January 2004, effective from 17 June 2004, Siping Steering was exempt from corporate income tax of the PRC for years ended 31 December 2004 and 2005 and is entitled to a 50% reduction from corporate income tax for the following three years. For the three months ended 31 March 2008, Siping Steering was subject to corporate income tax at the rate of 15%.

Save as disclosed above, commencing from 1 January 2008, the Company and its subsidiaries shall determine and pay the corporate income tax pursuant to the New Corporate Income Tax Law of the PRC ("New Corporate Income Tax Law") passed by the National People's Congress on 16 March 2007. Under the New Corporate Income Tax Law, the applicable tax rate of corporate income tax was adjusted to 25% commencing from 2008 (2007: 33%).

8. Profit attributable to equity holders of the parent

For the three months ended 31 March 2008, profit attributable to the equity holders of the parent was approximately RMB10,188,000 (2007: RMB6,985,000).

9. Earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2008 is based on the profit attributable to ordinary equity holders of the parent for the period of approximately RMB 10,188,000 (2007: RMB6,985,000), and on the weighted average number of 262,657,855 ordinary shares in issue for the period (2007: 262,657,855 shares).

Diluted earnings per share for the three months ended 31 March 2008 have not been calculated as no diluting instrument existed during those periods.

10. Reserves

	Unaudited				
	Share premium RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
As at 1 January 2007	21,144	47,604	5,736	10,063	84,547
Profit for the period	—	—	—	6,985	6,985
As at 31 March 2007	<u>21,144</u>	<u>47,604</u>	<u>5,736</u>	<u>17,048</u>	<u>91,532</u>
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	<u>21,144</u>	<u>52,251</u>	<u>5,736</u>	<u>40,712</u>	<u>119,843</u>



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating results

For the three months ended 31 March 2008, the Group recorded a revenue of approximately RMB61,750,000, representing an increase of approximately 38.9% over the corresponding period in 2007. Profit attributable to shareholders was approximately RMB10,188,000, representing an increase of approximately 45.9% over the corresponding period in 2007.

During the period under review, there has been significant growth in the Group's revenue, mainly due to the significant increase in the sales of rack-and-pinion steering gear products, at the same time, sales of power recirculating ball steering gear also maintained to grow steadily, thereby causing the overall sales of the Company to grow, consolidating and expanding market share. The Group's overall gross profit also increased by approximately 29.3% over the corresponding period in 2007.

During the period under review, the Group's gross profit margin was approximately 38.2% (corresponding period in 2007: approximately 41.1%). The adverse impact on gross profit margin was mainly due to the increase in the prices of raw materials. At the same time, the maturing M6 sedan market and the price cutting factor also led to a slight decline in the gross profit margin of M6 steering knuckles.

During the period under review, selling expenses increased by approximately RMB908,000 over the corresponding period in 2007. The main reason has been the increase in the sales amount in the first quarter of 2008, leading to an increase in transportation costs and other selling expenses.

During the period under review, the Group's administrative expenses increased by approximately RMB807,000 over the corresponding period in 2007, which was mainly due to the increase in the research and development expenses and the increase in labor costs.

During the period under review, the ratio of the Group's sales expenses and administrative expenses to revenue decreased compared to those in the corresponding period in 2007 respectively, which demonstrated the decreasing trend in the costs after achieving the scale of operations by the Group.

During the period under review, exchange losses recorded amounted to approximately RMB104,000. Exchange losses were due to the appreciation of Renminbi over Hong Kong dollars, thereby resulted in exchange losses in the net proceeds of Hong Kong dollars from the placing of H Shares.

In view of the above, for the three months ended 31 March 2008, the Group has a profit after tax of approximately RMB10,327,000, representing an increase of approximately 44.6% over approximately RMB7,140,000 in the corresponding period last year.

Marketing and new products

For the three months ended 31 March 2008, the Group has two rack-and-pinion steering gear new products qualified in small batch assembly by automakers and one rack-and-pinion steering gear new product passed road testing.



Human resources

As at 31 March 2008, the Group employed a total of 998 employees. For the three months ended 31 March 2008, total staff salaries and welfare costs was approximately RMB5,789,000 (corresponding period in 2007 was approximately RMB3,910,000). 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 31 March 2008, the Group has no material acquisition and disposal of subsidiaries and associated companies.

OUTLOOK

There has been significant growth in both sales results and profit after tax of the first quarter of 2008 compared with the corresponding period in 2007, which has been benefited from the growth in the business of rack-and-pinion gear new products. It is expected the rack-and-pinion gear new products will occupy more markets in the year, and will generate more contributions to the sales results of the Group.

FOREIGN CURRENCY EXPOSURE

During the three months ended 31 March 2008, both the sales and purchases of the Group were mainly denominated in Renminbi. The Group was not subject to significant exposure in foreign currency risk apart from the exposure on the balance of net proceeds from the placing of H Shares which are in Hong Kong dollars. The proceeds balance will be converted into Renminbi as soon as practicable. No hedge arrangement has been entered into by the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2008 (2007: 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 2008, 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, 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:

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 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 (Note 1)	RMB400,000	1%
	Interest in a controlled corporation (Note 2)	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:

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

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



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

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

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

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



Save as disclosed above, as at 31 March 2008, the Directors are not aware of any Director, Supervisor and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any associated corporation (within the meaning of SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Division 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, Supervisors or Chief Executive of the Company to be notified to the Company and the Stock Exchange.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

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

SHARE OPTION SCHEMES

As of 31 March 2008, the Company has not implemented any share option scheme.

SUBSTANTIAL SHAREHOLDERS

As of 31 March 2008, 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 (Note 1)	Beneficial owner	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Zhang (Note 1)	Interest in a controlled Corporation	165,387,223 Domestic Shares	94.00%	62.97%
Mrs. Zhang (Note 1)	Interest of spouse	165,387,223 Domestic Shares	94.00%	62.97%
Mr. Fang Zheng Chun	Beneficial owner	27,120,000 H Shares	31.28%	10.33%



Note:

- (1) As at 31 March 2008, 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 2008, Directors are not aware of any other person (other than the Directors, Supervisors and Chief Executives of the Company as disclosed above) who had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register to be kept under section 336 of the SFO.

COMPETING INTERESTS

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

INTEREST OF COMPLIANCE ADVISER

As at 31 March 2008, as updated and notified by Evolution Watterson Securities Limited (the "Compliance Adviser"), the compliance adviser of the Company, none of the Compliance Adviser, its directors, its employees or associates (as referred to in Note 3 to Rule 6A.31 of the GEM Listing Rules) had any interest in the Company's securities, including share options and the other rights to subscribe the Company's securities.

Pursuant to the Compliance Adviser Agreement dated 5 July 2007 entered into between the Company and the Compliance Adviser, the Compliance Adviser received and will receive advisory fees in acting as the compliance adviser to the Company with effect from 1 August 2007. The term of service of the Compliance Adviser shall last until the earlier of the date on which the Company complies with Rule 6A.19 of the GEM Listing Rules in respect of the financial results for the financial year ending 31 December 2008 or the date on which the appointment of the Compliance Adviser is terminated pursuant to the terms thereof.

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 2008 have been reviewed by the audit committee.

BOARD PRACTICES AND PROCEDURES

During the period from the date of Listing to 31 March 2008, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES

TRANSACTIONS BY DIRECTORS

During the period from the date of Listing to 31 March 2008, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. After making specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has promulgated the Code on Corporate Governance Practice as set out in Appendix 15 to the GEM Listing Rules (the "CCGP"), which is effective for the accounting period commencing on or after 1 January 2005. The Company had complied with the CCGP during the period from the date of Listing to 31 March 2008 except the following deviations:

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S 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 right under the Articles of Association and the laws of the PRC, the place of jurisdiction where the Company was established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.



SUFFICIENT PUBLIC FLOAT

The Company has maintained sufficient public float during the period from the date of Listing to 31 March 2008.

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

Hangzhou, Zhejiang, the PRC
9 May 2008

As at the date of this report, the Board comprises Mr. Zhang Shi Quan, Mr. Zhang Bao Yi, Mr. Tang Hao Han, Mr. Zhu Jie Rong and Ms. Zhang Lan Jun as the executive Directors, Mr. Zhang Shi Zhong, Ms. Zhang Mei Jun and Mr. Gu Qun as the non-executive Directors, and Mr. Bao Zhi Chao, Mr. Chen Guo Feng and Mr. Lui Wing Hong, Edward as the independent non-executive Directors.